

SCHEDULES

SCHEDULE 14

Section 104.

LOAN RELATIONSHIPS: MINOR AND CONSEQUENTIAL AMENDMENTS

The Taxes Management Act 1970 (c. 9)

- 1 (1) In subsection (4A) of section 87A of the Taxes Management Act 1970 (interest on overdue corporation tax)—
- (a) in paragraph (a), for the words from “a relievable amount” to the end of the paragraph there shall be substituted “a non-trading deficit on the company’s loan relationships,”; and
 - (b) in paragraph (b), for the words from “subsection (5)” to “subsection (10) of that section” there shall be substituted “section 83(2)(c) of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act the whole or part of the deficit for the later period is set off against profits”.
- (2) In subsection (4B) of that section, for the words “section 131(5) or (6) of the Finance Act 1993”, in each place where they occur, there shall be substituted “section 83(2) (c) of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act”.

The Inheritance Tax Act 1984 (c. 51)

- 2 (1) In section 174(1)(b) of the Inheritance Tax Act 1984 (unpaid tax relating to deep discount securities deemed to be transferred on death), for the words from “paragraph 4” onwards there shall be substituted “Schedule 13 to the Finance Act 1996 (discounted securities) on a transfer which is treated as taking place by virtue of paragraph 4(2) of that Schedule.”
- (2) This paragraph applies in relation to deaths on or after 6th April 1996.

The Airports Act 1986 (c. 31)

- 3 In section 77 of the Airports Act 1986 (taxation provisions), for subsection (3) there shall be substituted the following subsection—
- “(3) For the purposes of Part VI of the Income and Corporation Taxes Act 1988 (company distributions) and Chapter II of Part IV of the Finance Act 1996 (loan relationships), any debentures of the company issued in pursuance of section 4 shall be treated as having been issued for new consideration equal to the principal sum payable under the debenture.”

The Gas Act 1986 (c. 44)

- 4 In section 60 of the Gas Act 1986 (taxation provisions), for subsection (3) there shall be substituted the following subsection—

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“(3) For the purposes of Part VI of the Income and Corporation Taxes Act 1988 (company distributions) and Chapter II of Part IV of the Finance Act 1996 (loan relationships), any debentures issued in pursuance of section 51 above shall be treated as having been issued for new consideration equal to the principal sum payable under the debenture.”

The Taxes Act 1988

5 In section 18 of the Taxes Act 1988 (Schedule D), the following subsection shall be inserted after subsection (3)—

“(3A) For the purposes of corporation tax subsection (3) above shall have effect as if the following Case were substituted for Cases III and IV, that is to say—

“Case III:	<p>tax in respect of—</p> <ul style="list-style-type: none"> (a) profits and gains which, as profits and gains arising from loan relationships, are to be treated as chargeable under this Case by virtue of Chapter II of Part IV of the Finance Act 1996; (b) any annuity or other annual payment which— <ul style="list-style-type: none"> (i) is payable (whether inside or outside the United Kingdom and whether annually or at shorter or longer intervals) in respect of anything other than a loan relationship; and (ii) is not a payment chargeable under Schedule A; (c) any discount arising otherwise than in respect of a loan relationship;”
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and as if Case V did not include tax in respect of any income falling within paragraph (a) of the substituted Case III.”

6 In section 56 of that Act (transactions in deposits with or without certificates or in debts), after subsection (4) there shall be inserted the following subsections—

“(4A) This section and section 56A shall not apply for the purposes of corporation tax except in relation to rights in existence before 1st April 1996.

(4B) For the purposes of corporation tax, where any profits or gains arising from the disposal or exercise of a right in existence before 1st April 1996 are, or (if there were any) would be, chargeable under this section, nothing in Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall require any amount relating to that disposal, or to the exercise of that right, to be brought into account for the purposes of that Chapter.”

7 In section 70(3) of that Act (extension of Cases IV and V of Schedule D to non-resident companies), for “Cases IV and V” there shall be substituted “Cases III and V”.

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- 8 In section 75 of that Act (expenses of management), after subsection (1) there shall be inserted the following subsection—
- “(1A) The expenses of management of a company shall not include any expenses in relation to which a debit falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in computing the amount from which sums disbursed as expenses of management are deductible.”
- 9 In section 77 of that Act (incidental costs of obtaining loan finance), after subsection (7) there shall be inserted the following subsection—
- “(8) This section shall not apply for the purposes of corporation tax.”
- 10 (1) Section 78 of that Act (discounted bills of exchange) shall cease to have effect except in relation to bills of exchange drawn before 1st April 1996.
- (2) Where any bill so drawn is paid on or after 1st April 1996—
- (a) the amount which subsection (2) of that section provides to be treated as a deduction against total profits and as a charge on income shall (instead of being so treated) be brought into account for the purposes of this Chapter as a non-trading debit; and
- (b) that amount shall be the only amount brought into account for the purposes of this Chapter in respect of the discount in question.
- 11 (1) In section 209 of that Act (meaning of “distribution”), after subsection (3) there shall be inserted the following subsection—
- “(3A) Where any security of a company is issued at a premium representing new consideration—
- (a) the references in subsection (2)(d), (da) and (e) above to so much of any distribution as represents, or is an amount representing, the principal secured by a security shall be construed, in relation to a distribution in respect of the security issued at a premium, as references to the aggregate of—
- (i) so much of the distribution as represents, or is an amount representing, that principal, and
- (ii) so much of it as represents, or is an amount representing, the premium;
- and
- (b) the reference in subsection (2)(d) above to so much of any distribution as represents a reasonable commercial return for the use of the principal secured by a security shall be construed, in relation to a distribution in respect of the security issued at a premium, as a reference to the aggregate of—
- (i) so much of the distribution as represents a reasonable commercial return for the use of that principal, and
- (ii) so much of it as (when regard is had to the extent to which distributions represent the premium) represents a reasonable commercial return for the use of the premium.”
- (2) Sub-paragraph (1) above does not apply to distributions made before 1st April 1996.
- 12 (1) In subsection (2) of section 242 of that Act (set off of losses against surplus franked investment income), for paragraph (f) there shall be substituted—

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- “(f) the setting of amounts against profits in pursuance of a claim under section 83 of the Finance Act 1996 (non-trading deficits on loan relationships) or paragraph 4 of Schedule 11 to that Act (deficits of insurance companies).”
- (2) In subsection (8) of that section, for paragraph (e) there shall be substituted the following paragraph—
- “(e) if and so far as the purpose for which the claim is made is the setting of an amount against profits in pursuance of a claim under—
- (i) section 83 of the Finance Act 1996 (non-trading deficits on loan relationships), or
- (ii) paragraph 4 of Schedule 11 to that Act (deficits of insurance companies),
- the time limit that by virtue of subsection (6) of that section or sub-paragraph (15) of that paragraph would be applicable to such a claim.”
- 13 (1) In subsection (4) of section 247 of that Act (payments between companies), for “for corporation tax charges on income of the payer company” there shall be substituted “deductible payments in relation to the payer company for the purposes of corporation tax”.
- (2) After that subsection there shall be inserted the following subsection—
- “(4A) The reference in subsection (4) above to a payment which is a deductible payment in relation to a company for the purposes of corporation tax is a reference to any payment which is—
- (a) a charge on income of that company for those purposes; or
- (b) a payment of interest in relation to which a debit falls to be brought into account in the case of that company for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).”
- 14 (1) In subsection (2)(b) of section 337 of that Act (deduction of yearly interest etc. in computing income), for “yearly interest, annuity or other annual payment” there shall be substituted “annuity or other annual payment which is not interest”.
- (2) Subsection (3) of that section (deduction of yearly interest payable to a bank) shall cease to have effect.
- 15 After section 337 of that Act there shall be inserted the following section—
- “337A Interest payable by companies**
- No deduction shall be made in respect of interest in computing a company’s income from any source except in accordance with Chapter II of Part IV of the Finance Act 1996 (loan relationships).”
- 16 (1) Section 338 of that Act (charges on income) shall be amended as follows.
- (2) In subsection (3)—
- (a) in paragraph (a), for the words from “any yearly interest” to “annual payment” there shall be substituted “any annuity or annual payment payable otherwise than in respect of any of the company’s loan relationships”; and
- (b) the words from “and” at the end of paragraph (a) to the end of the subsection shall be omitted.

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- (3) In subsection (4), paragraphs (b) and (c) shall be omitted.
- (4) In subsection (5)(a), the words “, not being interest,” shall be omitted.
- (5) Subsection (6) shall cease to have effect.
- 17 Sections 338A, 340 and 341 of that Act (charges on income to include certain loans to buy land, provisions relating to interest payable to non-residents and provisions relating to payments between related companies) shall cease to have effect.
- 18 In section 349(2) of that Act (deductions from interest payments), after “Schedule D” there shall be inserted “(as that Schedule has effect apart from the modification made for the purposes of corporation tax by section 18(3A))”.
- 19 In section 400 of that Act (writing-off of government investment), after subsection (9) of that section there shall be inserted the following subsection—
- “(9A) Nothing in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act) shall be construed as preventing this section from applying where a government investment in a body corporate is written off by the extinguishment, in whole or in part, of any liability under a loan relationship.”
- 20 (1) In section 401 of that Act (relief for pre-trading expenditure), after subsection (1) there shall be inserted the following subsections—
- “(1AA) Subsection (1) above shall not apply to any expenditure in relation to which any debit falls, or (but for subsection (1AB) below) would fall, to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).
- (1AB) Where, in the case of any company—
- (a) a non-trading debit is given for any accounting period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships), and
- (b) an election for the purposes of this section is made by that company with respect to that debit within the period of 2 years beginning with the end of that accounting period,
- that debit shall not be brought into account for the purposes of that Chapter as a non-trading debit for that period, but subsection (1AC) below shall apply instead.
- (1AC) If a company—
- (a) begins to carry on a trade within the period of seven years after the end of the accounting period for which a non-trading debit is given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships),
- (b) that debit is such that, if it had been given for the accounting period in which the company begins to carry on that trade, it would have been brought into account by reference to that trade in accordance with section 82(2) of that Act (trading debits and credits), and
- (c) an election is or has been made with respect to that debit under subsection (1AB) above,

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that debit shall be treated for the purposes of that Chapter as if it were a debit for the accounting period in which the company begins to carry on the trade and shall be brought into account for that period in accordance with section 82(2) of that Act.”

- (2) Subsection (1A) of that section shall cease to have effect.
- 21 (1) In subsection (6) of section 404 of that Act (dual resident trading companies treated as investing companies)—
- (a) in paragraph (a), after sub-paragraph (i) there shall be inserted the following sub-paragraph—
 - “(ia) making payments in relation to which, being payments under loan relationships, any debits fall to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996;”
 - (b) in paragraph (c)(i), for “amount” there shall be substituted “aggregate of the debits relating to interest on the company’s debtor relationships that fall to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 and the amounts”;
 - (c) in paragraph (c)(ii), for “those charges include” there shall be substituted “that aggregate includes”; and
 - (d) in paragraph (c)(iii), for “the paying of those charges” there shall be substituted “the payment by the company of interest under its debtor relationships and of amounts treated as charges on income”.
- (2) After that subsection there shall be inserted the following subsection—
- “(7) In this section “debtor relationship” has the same meaning as in Chapter II of Part IV of the Finance Act 1996.”
- 22 (1) In subsection (1)(b) of section 407 of that Act (relationship between group relief and other relief), after “338(1)” there shall be inserted “of this Act or by virtue of section 83 of, or paragraph 4 of Schedule 11 to, the Finance Act 1996 (non-trading deficits)”.
- (2) In subsection (2) of that section, for paragraph (c) and the words after that paragraph there shall be substituted the following paragraph—
- “(c) relief in pursuance of a claim under section 83(2) of, or paragraph 4 of Schedule 11 to, the Finance Act 1996 (non-trading deficits) in respect of any deficit for a deficit period after the accounting period the profits of which are being computed.”
- 23 (1) Where this Chapter has effect in relation to any accounting period in relation to which section 434A of that Act (computation of losses and limitation on relief) has effect without any of the amendments made by paragraph 2 of Schedule 31 to this Act, subsection (2) of that section of that Act shall have effect in relation to that period with the following amendments, that is to say—
- (a) in paragraph (b), for “amount of interest and annuities treated as charges” there shall be substituted “aggregate amount treated as a charge”, and at the end there shall be inserted “and”; and
 - (b) after that paragraph there shall be inserted the following paragraph—
 - “(c) any relevant non-trading deficit for that period on the company’s debtor relationships.”

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(2) After that subsection there shall be inserted the following subsection—

“(2A) The reference in subsection (2)(c) above to a relevant non-trading deficit for any period on a company’s debtor relationships is a reference to the non-trading deficit on the company’s loan relationships which would be produced by any separate computation made under paragraph 2 of Schedule 11 to the Finance Act 1996 for the company’s basic life assurance and general annuity business if credits and debits given in respect of the company’s creditor relationships (within the meaning of Chapter II of Part IV of that Act) were disregarded.”

(3) In subsection (3) of that section (losses not allowable against policy holders' share of relevant profits), for the words from “under” to the end of paragraph (b) there shall be substituted—

“(a) under Chapter II (loss relief) or Chapter IV (group relief) of Part X, or

(b) in respect of any amount representing a non-trading deficit on the company’s loan relationships that has been computed otherwise than by reference to debits and credits referable to that business.”

24 Where this Chapter has effect in relation to any accounting period in relation to which section 434B of that Act (treatment of interest and annuities in the case of insurance companies) has effect without the amendments made by section 165 of this Act, that section of that Act shall have effect in relation to that period as if the words “interest or”, in each place where they occur, were omitted.

25 In section 440 of that Act (transfer of assets between categories of business of insurance companies), after subsection (2) there shall be inserted the following subsection—

“(2A) Where under subsection (1) or (2) above there is a deemed disposal and re-acquisition of any asset representing a loan relationship of a company, any authorised accounting method used as respects that asset for the purposes of Chapter II of Part IV of the Finance Act 1996 shall be applied as respects that asset as if the asset that is deemed to be disposed of and the asset that is deemed to be re-acquired were different assets.”

26 In section 468L(5) of that Act (interest distributions), for the words from the beginning to “complied with” there shall be substituted “Nothing in subsection (2) above or Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall require any amount relating to an interest distribution to be brought into account for the purposes of that Chapter otherwise than by virtue of paragraph 4(4) of Schedule 10 to that Act; but the interest distributions of an authorised unit trust for a distribution period”.

27 (1) In subsection (2) of section 475 of that Act (relief in relation to tax free Treasury securities in respect of borrowed money), for paragraph (b) there shall be substituted the following paragraph—

“(b) shall not be brought into account by way of any debit given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).”

(2) In subsection (4) of that section, for the words from “and is not” onwards there shall be substituted “or to be brought into account by way of a debit given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).”

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- 28 (1) In subsection (3) of section 477A of that Act (building societies: regulations for deducting tax), for paragraph (a) there shall be substituted the following paragraphs—
- “(a) liability to pay the dividends or interest shall be treated for the purposes of Chapter II of Part IV of the Finance Act 1996 as a liability arising under a loan relationship of the building society;
 - (aa) if the dividends or interest are payable to a company, they shall be treated for those purposes as payable to that company in pursuance of a right arising under a loan relationship of that company;”.
- (2) Subsections (3A) to (3C) of that section shall cease to have effect.
- 29 Sections 484 and 485 of that Act (savings banks: exemption from tax) shall cease to have effect.
- 30 In section 486 of that Act (industrial and provident societies)—
- (a) in subsection (1), for the words from “and, subject to subsection (7)” onwards there shall be substituted “but interest payable by such a society (whether as share interest or loan interest) shall be treated for the purposes of corporation tax as interest under a loan relationship of the society.”; and
 - (b) in subsection (7), for the words from “not be deductible” onwards there shall be substituted “not be brought into account in that period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).”
- 31 (1) In subsection (1) of section 487 of that Act (credit unions), for paragraph (b) there shall be substituted the following paragraph—
- “(b) no credits shall be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of any loan relationship of a credit union as respects which a member of the union stands in the position of a debtor as respects the debt in question.”
- (2) In subsection (3) of that section—
- (a) for “No share interest, loan interest or annuity or other annual payment” there shall be substituted “An annuity or other annual payment (not being a payment of share interest or loan interest) which is”; and
 - (b) after “shall” there shall be inserted “not”.
- (3) After that subsection there shall be inserted the following subsection—
- “(3A) No debits shall be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of any loan relationship of a credit union as respects which a member of the union stands in the position of a creditor as respects the debt in question.”
- 32 (1) In subsection (1) of section 494 of that Act (charges on income and ring fence profits), after “Section 338” there shall be inserted “of this Act and Chapter II of Part IV of the Finance Act 1996 (loan relationships)”.
- (2) For the first sentence of subsection (2) of that section there shall be substituted the following—
- “(2) Debits shall not be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of any loan relationship of a company

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in any manner that results in a reduction of what would otherwise be the company's ring fence profits except—

- (a) to the extent that the loan relationship is in respect of money borrowed by the company which has been—
 - (i) used to meet expenditure incurred by the company in carrying on oil extraction activities or in acquiring oil rights otherwise than from a connected person; or
 - (ii) appropriated to meeting expenditure to be so incurred by the company;
- (b) in the case of debits falling to be brought into account by virtue of subsection (4) of section 84 of that Act in respect of a loan relationship that has not been entered into, to the extent that the relationship would have been one entered into for the purpose of borrowing money to be used or appropriated as mentioned in paragraph (a) above;
- (c) in the case of debits in respect of a loan relationship deemed to exist for the purposes of section 100 of that Act, to the extent that the payment of interest under that relationship is expenditure incurred as mentioned in sub-paragraph (i) of paragraph (a) above; and
- (d) in the case of debits in respect of a debtor relationship of the company which is a creditor relationship of a company associated with the company, to the extent that (subject always to paragraph (a) above) the debit does not exceed what, having regard to—
 - (i) all the terms on which the money was borrowed, and
 - (ii) the standing of the borrower,would be the debit representing a reasonable commercial rate of return on the money borrowed.

In this subsection “debtor relationship” and “creditor relationship” have the same meanings as in Chapter II of Part IV of the Finance Act 1996, and references to a loan relationship, in relation to the borrowing of money, do not include references to any loan relationship deemed to exist for the purposes of section 100 of that Act.”

(3) After subsection (2) of that section there shall be inserted the following subsection—

“(2A) Where any debit—

- (a) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of any loan relationship of a company, but
- (b) in accordance with subsection (2) above cannot be brought into account in a manner that results in any reduction of what would otherwise be the company's ring fence profits,

then (notwithstanding anything in section 82(2) of that Act) that debit shall be brought into account for those purposes as a non-trading debit.”

(4) For subsection (4) of that section (charges on income), there shall be substituted the following subsections—

“(4) Subsection (7) of section 403 shall have effect as if the reference in that subsection to the profits of the surrendering company for an accounting

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period did not include the relevant part of the company's ring fence profits for that period.

(5) For the purposes of subsection (4) above the relevant part of a company's ring fence profits for an accounting period are—

(a) if for that period—

(i) there are no charges on income paid by the company that are allowable under section 338, or

(ii) the only charges on income so allowable are charges to which subsection (3) above applies,

all the company's ring fence profits; and

(b) in any other case, so much of its ring fence profits as exceeds the amount of the charges on income paid by the company as are so allowable for that period and are not charges to which subsection (3) above applies.”

33 In section 587A of that Act (extra return on new issues of securities), in subsection (1), after paragraph (e) there shall be inserted the following—

“but this section shall not apply for the purposes of corporation tax, except where the issue of the new securities was before 1st April 1996.”

34 In section 614 of that Act (exemptions and reliefs in respect of income from certain pension funds etc.), after subsection (2) of that section there shall be inserted the following subsection—

“(2A) The reference in subsection (2) above to interest on sums forming part of a fund include references to any amount which is treated as income by virtue of paragraph 1 of Schedule 13 to the Finance Act 1996 (relevant discounted securities) and derives from any investment forming part of that fund.”

35 In section 687(3) of that Act (payments under discretionary trusts), after paragraph (j) there shall be inserted the following paragraph—

“(k) the amount of any tax on an amount which is treated as income of the trustees by virtue of paragraph 1 of Schedule 13 to the Finance Act 1996 and is charged to tax at the rate applicable to trusts by virtue of paragraph 6 of that Schedule.”

36 In section 710 of that Act (interpretation of sections 711 to 728), after subsection (1) there shall be inserted the following subsection—

“(1A) Sections 711 to 728 shall not apply for the purposes of corporation tax except as respects transfers of securities taking place before 1st April 1996.”

37 In section 730A of that Act (treatment of price differential on repos) the following subsections shall be substituted for subsection (6)—

“(6) For the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships)—

(a) interest deemed by virtue of subsection (2) above to be paid or received by any company shall be deemed to be interest under a loan relationship; and

(b) the debits and credits falling to be brought into account for the purposes of that Chapter so far as they relate to the deemed interest shall be those given by the use in relation to the deemed interest of an authorised accruals basis of accounting.

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- (6A) Any question whether debits or credits brought into account in accordance with subsection (6) above in relation to any company—
- (a) are to be brought into account under section 82(2) of the Finance Act 1996 (trading loan relationships), or
 - (b) are to be treated as non-trading debits or credits,
- shall be determined (subject to Schedule 11 to that Act (insurance companies)) according to the extent (if any) to which the company is a party to the repurchase in the course of activities forming an integral part of a trade carried on by the company.”
- 38 In section 737(5A) of that Act (relief in respect of manufactured dividends), after “a manufactured dividend” there shall be inserted “that is not manufactured interest to which section 97 of the Finance Act 1996 applies”.
- 39 (1) For subsections (10) and (11) of section 768B of that Act (change in ownership of investment companies), there shall be substituted the following subsection—
- “(10) Part IV of Schedule 28A shall have effect for the purpose of restricting, in a case where this section applies, the debits to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in respect of the company’s loan relationships.”
- (2) In subsection (13) of that section (modified application of section 768(6)), after “company’s total profits” there shall be inserted “, or the debits to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in the case of a company in respect of its loan relationships,”.
- 40 For subsections (9) and (10) of section 768C of that Act there shall be substituted the following subsection—
- “(9) Part IV of Schedule 28A shall have effect for the purpose of restricting, in a case where this section applies, the debits to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in respect of the relevant company’s loan relationships.”
- 41 In section 795 of that Act (computation of income subject to foreign tax), after subsection (3) there shall be inserted the following subsection—
- “(4) Subsections (2) and (3) above have effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).”
- 42 (1) In section 797 of that Act (limits on credit for foreign tax in the case of corporation tax), after subsection (3) there shall be inserted the following subsections—
- “(3A) Where, in a case to which section 797A does not apply, a company has a non-trading deficit on its loan relationships for the relevant accounting period, then for the purposes of subsection (3) above that deficit shall be treated, to the extent that it is an amount to which a claim under—
- (a) subsection (2)(a) of section 83 of the Finance Act 1996 (deficit set against current year profits), or
 - (b) paragraph 4(2) of Schedule 11 to that Act (set-off of deficits in the case of insurance companies),

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relates, as an amount that can in that period be set against profits of any description but can be allocated in accordance with subsection (3) above only to the profits against which it is set off in pursuance of the claim.

(3B) For the purposes of subsection (3) above, where—

- (a) section 797A does not apply in the case of any company, and
- (b) any amount is carried forward to the relevant accounting period in pursuance of a claim under subsection (2)(d) of section 83 of the Finance Act 1996 or in accordance with subsection (3) of that section,

then that amount must be allocated to non-trading profits of the company for that period (so far as they are sufficient for the purpose) and cannot be allocated to any other profits.”

(2) After subsection (5) of that section there shall be inserted the following subsection—

“(6) In this section “non-trading profits” has the same meaning as in paragraph 4 of Schedule 8 to the Finance Act 1996.”

43

After section 797 of that Act there shall be inserted the following section—

“797A Foreign tax on interest brought into account as a non-trading credit

(1) This section applies for the purposes of any arrangements where, in the case of any company—

- (a) any non-trading credit relating to an amount of interest is brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) for any accounting period (“the applicable accounting period”); and
- (b) there is in respect of that amount an amount of foreign tax for which, under the arrangements, credit is allowable against United Kingdom tax computed by reference to that interest.

(2) It shall be assumed that tax chargeable under paragraph (a) of Case III of Schedule D on the profits and gains arising for the applicable accounting period from the company’s loan relationships falls to be computed on the actual amount of its non-trading credits for that period, and without any deduction in respect of non-trading debits.

(3) Section 797(3) shall have effect (subject to subsection (7) below) as if—

- (a) there were for the applicable accounting period an amount equal to the adjusted amount of the non-trading debits falling to be brought into account by being set against profits of the company for that period of any description; and
- (b) different parts of that amount might be set against different profits.

(4) For the purposes of this section, the adjusted amount of a company’s non-trading debits for any accounting period is the amount equal, in the case of that company, to the aggregate of the non-trading debits given for that period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) less the aggregate of the amounts specified in subsection (5) below.

(5) Those amounts are—

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- (a) so much of any non-trading deficit for the applicable accounting period as is an amount to which a claim under subsection (2)(b), (c) or (d) of section 83 of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act (group relief and transfer to previous or subsequent period of deficits) relates;
 - (b) so much of any non-trading deficit for that period as falls to be carried forward to a subsequent period in accordance with subsection (3) of that section or paragraph 4(4) of that Schedule; and
 - (c) any amount carried forward to the applicable accounting period in pursuance of a claim under section 83(2)(d) of that Act.
 - (6) Section 797(3) shall have effect as if any amount specified in subsection (5) (c) above were an amount capable of being allocated only to any non-trading profits of the company.
 - (7) Where—
 - (a) the company has a non-trading deficit for the applicable accounting period,
 - (b) the amount of that deficit exceeds the aggregate of the amounts specified in subsection (5) above, and
 - (c) in pursuance of a claim under—
 - (i) subsection (2)(a) of section 83 of the Finance Act 1996 (deficit set against current year profits), or
 - (ii) paragraph 4(2) of Schedule 11 to that Act (set-off of deficits in the case of insurance companies),the excess falls to be set off against profits of any description,section 797(3) shall have effect as if non-trading debits of the company which in aggregate are equal to the amount of the excess were required to be allocated to the profits against which they are set off in pursuance of the claim.
 - (8) In this section “non-trading profits” has the same meaning as in paragraph 4 of Schedule 8 to the Finance Act 1996.”
- 44 (1) In section 798 of that Act (interest on certain overseas loans), after subsection (2) there shall be inserted the following subsection—
- “(2A) For the purposes of corporation tax, this section shall apply only where the expenditure referred to in subsection (1)(b) above falls, in the case of the lender, to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in accordance with section 82(2) of that Act (trading debits and credits).”
- (2) After subsection (3) of that section (deemed increase of interest) there shall be inserted the following subsection—
- “(3A) Subsection (3) above has effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).”
- 45 In section 807 of that Act (sale of securities with or without accrued interest), after subsection (5) there shall be inserted the following subsection—

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“(6) This section does not apply for the purposes of corporation tax.”

46 After section 807 of that Act there shall be inserted the following section—

“807A Disposals and acquisitions of company loan relationships with or without interest

(1) This Part shall have effect for the purposes of corporation tax in relation to any company as if tax falling within subsection (2) below were to be disregarded.

(2) Tax falls within this subsection in relation to a company to the extent that it is—

- (a) tax under the law of a territory outside the United Kingdom; and
- (b) is attributable, on a just and reasonable apportionment, to interest accruing under a loan relationship at a time when the company is not a party to the relationship.

(3) Subject to subsections (1), (4) and (5) of this section, where—

- (a) any non-trading credit relating to an amount of interest under a loan relationship is brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in the case of any company,
- (b) that amount falls, as a result of any related transaction, to be paid to a person other than the company, and
- (c) had the company been entitled, at the time of that transaction, to receive a payment of an amount of interest equal to the amount of interest to which the non-trading credit relates, the company would have been liable in respect of the amount of interest received to an amount of tax under the law of a territory outside the United Kingdom,

credit for that amount of tax shall be allowable under section 790(4) as if that amount of tax were an amount of tax paid under the law of that territory in respect of the amount of interest to which the non-trading credit relates.

(4) Subsection (3) above does not apply in the case of a credit brought into account in accordance with paragraph 1(2) of Schedule 11 to the Finance Act 1996 (the I minus E basis).

(5) The Treasury may by regulations provide for subsection (3) above to apply—

- (a) in the case of trading credits, as well as in the case of non-trading credits;
- (b) in the case of any credit (“an insurance credit”) in the case of which, by virtue of subsection (4) above, it would not otherwise apply.

(6) Regulations under subsection (5) above may—

- (a) provide for subsection (3) above to apply in the case of a trading credit or an insurance credit only if the circumstances are such as may be described in the regulations;
- (b) provide for subsection (3) above to apply, in cases where it applies by virtue of any such regulations, subject to such exceptions, adaptations or other modifications as may be specified in the regulations;

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- (c) make different provision for different cases; and
 - (d) contain such incidental, supplemental, consequential and transitional provision as the Treasury think fit.
- (7) In this section—
 - “related transaction” has the same meaning as in section 84 of the Finance Act 1996; and
 - “trading credit” means any credit falling to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in accordance with section 82(2) of that Act.”
- 47 In section 811 of that Act (deduction of foreign tax where no credit available), after subsection (2) there shall be inserted the following subsection—
 - “(3) This section has effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).”
- 48 (1) In subsection (7C) of section 826 of that Act (interest on tax overpaid)—
 - (a) in paragraph (a), for the words from “a relievable amount” to the end of the paragraph there shall be substituted “a non-trading deficit on the company’s loan relationships,”;
 - (b) in paragraph (b), for the words from “subsection (5)” to “subsection (10) of that section” there shall be substituted “section 83(2)(c) of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act the whole or part of the deficit for the later period is set off against profits”; and
 - (c) in the words after paragraph (c), for “subsection (5) or (6) (as the case may be) of that section” there shall be substituted “section 83(2)(c) of that Act or, as the case may be, paragraph 4(3) of Schedule 11 to that Act”.
- (2) In subsection (7CA) of that section, for the words “section 131(5) or (6) of the Finance Act 1993”, in each place where they occur, there shall be substituted “section 83(2)(c) of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act”.
- 49 In subsection (1) of section 834 of that Act (definitions for the purposes of the Corporation Tax Acts), after the definition of “group relief” there shall be inserted the following definitions—
 - ““loan relationship” has the same meaning as it has for the purposes of Chapter II of Part IV of the Finance Act 1996;
 - “non-trading deficit”, in relation to a company’s loan relationships, shall be construed in accordance with section 82 of the Finance Act 1996.”
- 50 Schedule 4 to that Act (deep discount securities) shall cease to have effect.
- 51 In paragraph 5B(2) of Schedule 19AC to that Act (overseas life companies), the following paragraph shall be inserted after paragraph (d)—
 - “(e) the setting of amounts against profits under, or in pursuance of a claim under, paragraph 4 of Schedule 11 to the Finance Act 1996 (loan relationships of insurance companies).”
- 52 (1) Schedule 23A to that Act (manufactured payments) shall be amended as follows.

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- (2) In paragraph 3 (manufactured interest on UK securities), after sub-paragraph (4) there shall be inserted the following sub-paragraph—
- “(5) Without prejudice to section 97 of the Finance Act 1996 (manufactured interest), the references in this paragraph to all the purposes of the Tax Acts do not include the purposes of Chapter II of Part IV of that Act (loan relationships).”
- (3) In paragraph 3A(3) (gilt-edged securities)—
- (a) for “Sub-paragraph (4)” there shall be substituted “Sub-paragraphs (4) and (5)”; and
- (b) for “it applies” there shall be substituted “they apply”.
- (4) In paragraph 4 (manufactured interest on overseas dividends), after sub-paragraph (8) there shall be inserted the following sub-paragraph—
- “(9) Without prejudice to section 97 of the Finance Act 1996 (manufactured interest), the references in this paragraph to all the purposes of the Tax Acts do not include the purposes of Chapter II of Part IV of that Act (loan relationships).”
- (5) In paragraph 5 (dividends and interest passing through the market), in sub-paragraphs (2)(b) and (4)(b), at the end there shall be inserted, in each case, “and shall also be treated, in the case of interest the recipient of which is a company, as if for the purposes of Chapter II of Part IV of the Finance Act 1996 it were interest under a loan relationship to which the company is a party”.
- (6) In paragraph 6 (unapproved manufactured payments), sub-paragraphs (3), (4), (6) and (7) shall cease to have effect.
- (7) In paragraph 7 (irregular manufactured payments), after sub-paragraph (1) there shall be inserted the following sub-paragraph—
- “(1A) Sub-paragraph (1) above does not apply in the case of the amount of any manufactured interest or manufactured overseas dividend which falls in accordance with section 97 of the Finance Act 1996 to be treated for the purposes of Chapter II of Part IV of that Act as interest under a loan relationship.”
- 53 In Schedule 26 to that Act (controlled foreign companies), in paragraph 1(3), the word “and” shall be inserted at the end of paragraph (e), and after that paragraph there shall be inserted the following paragraph—
- “(f) any non-trading deficit on its loan relationships.”
- 54 (1) In paragraph 6 of Schedule 28A to that Act (amounts in issue for the purposes of section 768B of that Act), after sub-paragraph (d) there shall be inserted the following sub-paragraphs—
- “(da) the amount (if any) of the adjusted Case III profits and gains or non-trading deficit of the company for that accounting period;
- (db) the amount of any non-trading debit (other than one within sub-paragraph (dc) or (dd) below) that falls to be brought into account for that accounting period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in respect of any debtor relationship of the company;

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- (dc) the amount of any non-trading debit given for that accounting period by section 83(3) of the Finance Act 1996 (carried forward deficit not set off against profits);
- (dd) the amount of any non-trading debit given for that accounting period by paragraph 13 of Schedule 15 to the Finance Act 1996 (transitional adjustment for past interest) in respect of any debtor relationship of the company;”.

(2) In Part II of that Schedule, after paragraph 6 there shall be inserted the following paragraph—

- “6A For the purposes of paragraph 6(da) above, the amount for any accounting period of the adjusted Case III profits and gains or non-trading deficit of a company is the amount which, as the case may be, would be—
- (a) the amount of the profits and gains chargeable under Case III of Schedule D as profits and gains arising from the company’s loan relationships, or
 - (b) the amount of the company’s non-trading deficit on those relationships for that period,
- if, in computing that amount, amounts for that period falling within paragraph 6(db) to (dd) above were disregarded.”

(3) In paragraph 7(1) of that Schedule (apportionment for the purposes of section 768B)

- (a) in paragraph (b), after “in paragraph 6(c) above,” there shall be inserted “or in the case of the non-trading debit mentioned in paragraph 6(dc) above;”;
- (b) in paragraph (c), after “6(d)” there shall be inserted “, (da)”;
- (c) after paragraph (c) there shall be inserted the following paragraphs—
 - “(d) in the case of any such debit as—
 - (i) is mentioned in paragraph 6(db) above,
 - (ii) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting, and
 - (iii) so falls to be brought into account otherwise than on the assumption, specified in paragraph 2(2) of Schedule 9 to that Act, that the interest to which it relates does not accrue until it is paid,by reference to the time of accrual of the amount to which the debit relates;
- (e) in the case of any such debit as—
 - (i) is mentioned in paragraph 6(db) above,
 - (ii) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting, and
 - (iii) so falls to be brought into account on the assumption mentioned in paragraph (d)(iii) above,by apportioning the whole amount of the debit to the first part of the accounting period being divided;

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- (f) in the case of any such debit as is mentioned in paragraph 6(dd) above, by apportioning the whole amount of the debit to the first part of the accounting period being divided.”

- (4) For Part IV of that Schedule (excess overdue interest) there shall be substituted the following Part—

“PART IV

DISALLOWED DEBITS

- 9 (1) This paragraph has effect in a case to which section 768B applies for determining the debits to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) for—
- (a) the accounting period beginning immediately after the change in the ownership of the company; and
 - (b) any subsequent accounting period.
- (2) The debits so brought into account shall not include the debits falling within paragraph 11 below to the extent (if at all) that the aggregate of—
- (a) the amount of those debits, and
 - (b) the amount of any debits falling within that paragraph which have been brought into account for the purposes of that Chapter for any previous accounting period ending after the change in the ownership,
- exceeds the profits for the accounting period ending with the change in the ownership.
- (3) The reference in sub-paragraph (2) above to the profits is a reference to profits after making all deductions and giving all reliefs that for the purposes of corporation tax are made or given against the profits, including deductions and reliefs which under any provision are treated as reducing them for those purposes.
- 10 (1) This paragraph has effect in a case to which section 768C applies for determining the debits to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) for—
- (a) the accounting period beginning immediately after the change in the ownership of the relevant company; and
 - (b) any subsequent accounting period.
- (2) The debits so brought into account for any such accounting period shall not include the debits falling within paragraph 11 below to the extent (if at all) that the amount of those debits exceeds the modified total profits for the accounting period.
- (3) The reference in sub-paragraph (2) above to the modified total profits for an accounting period is a reference to the total profits for that period—
- (a) reduced, if that period is the period in which the relevant gain accrues, by an amount equal to the amount of the total profits for that period which represents the relevant gain; and
 - (b) after making all deductions and giving all reliefs that for the purposes of corporation tax are made or given against

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the profits, including deductions and reliefs which under any provision are treated as reducing them for those purposes, other than any reduction by virtue of paragraph 1(2) of Schedule 8 to the Finance Act 1996.

- (4) Where by virtue of sub-paragraph (2) above a debit is to any extent not brought into account for an accounting period, that debit may (to that extent) be brought into account for the next accounting period, but this is subject to the application of sub-paragraphs (1) to (3) above to that next accounting period.
- 11 (1) A debit falls within this paragraph if it is a non-trading debit which—
- (a) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting;
 - (b) so falls to be brought into account on the assumption, specified in sub-paragraph (2) of paragraph 2 of Schedule 9 to that Act, that the interest to which it relates does not accrue until it is paid; and
 - (c) apart from that sub-paragraph, would have fallen to be brought into account for those purposes for an accounting period ending before or with the change in the ownership of the company or, as the case may be, the relevant company.
- (2) The debits that fall within this paragraph also include—
- (a) any non-trading debit given by section 83(3) of the Finance Act 1996 (carried forward deficit from previous period not set off against non-trading profits of current period) for the post-change accounting period;
 - (b) any non-trading debit given by paragraph 13 of Schedule 15 to the Finance Act 1996 (transitional adjustment for past interest) in respect of any debtor relationship of the company or, as the case may be, the relevant company.
- (3) The debits that fall within this paragraph also include any non-trading debit which—
- (a) is not such a debit as is mentioned in sub-paragraph (1) or (2) above;
 - (b) is a debit in respect of a debtor relationship of the company or, as the case may be, the relevant company;
 - (c) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting; and
 - (d) relates to an amount that accrued before the change in the ownership of that company.
- (4) In this paragraph “post-change accounting period” means the accounting period beginning immediately after the change in the ownership of the company or, as the case may be, the relevant company.
- 12 Expressions used both in this Part of this Schedule and in Chapter II of Part IV of the Finance Act 1996 have the same meanings in this Part of this Schedule as in that Chapter.”

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- (5) In paragraph 13(1) of that Schedule (amounts in issue for the purposes of section 768C of that Act), after paragraph (e) there shall be inserted the following paragraphs—
- “(ea) the amount (if any) of the adjusted Case III profits and gains or non-trading deficit of the company for that accounting period;
 - (eb) the amount of any non-trading debit (other than one within paragraph (ec) or (ed) below) that falls to be brought into account for that accounting period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) in respect of any debtor relationship of the company;
 - (ec) the amount of any non-trading debit given for that accounting period by section 83(3) of the Finance Act 1996 (carried forward deficit not set off against profits);
 - (ed) the amount of any non-trading debit given for that accounting period by paragraph 13 of Schedule 15 to the Finance Act 1996 (transitional adjustment for past interest) in respect of any debtor relationship of the company;”.
- (6) In Part V of that Schedule, after paragraph 13 there shall be inserted the following paragraph—
- “13A Paragraph 6A above shall apply for the purposes of paragraph 13(1)(ea) above as it applies for the purposes of paragraph 6(da) above.”
- (7) In paragraph 16(1) of that Schedule (apportionment for the purposes of section 768C) —
- (a) in paragraph (b), after “in paragraph 13(1)(d) above,” there shall be inserted “or in the case of the non-trading debit mentioned in paragraph 13(1)(ec) above,”;
 - (b) in paragraph (c), after “13(1)(e)” there shall be inserted “, (ea)”;
 - (c) after paragraph (c) there shall be inserted the following paragraphs—
 - “(d) in the case of any such debit as—
 - (i) is mentioned in paragraph 13(1)(eb) above,
 - (ii) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting, and
 - (iii) so falls to be brought into account otherwise than on the assumption, specified in paragraph 2(2) of Schedule 9 to that Act, that the interest to which it relates does not accrue until it is paid,
 by reference to the time of accrual of the amount to which the debit relates;
 - (e) in the case of any such debit as—
 - (i) is mentioned in paragraph 13(1)(eb) above,
 - (ii) falls to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in accordance with an authorised accruals basis of accounting, and
 - (iii) so falls to be brought into account on the assumption mentioned in paragraph (d)(iii) above,

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- by apportioning the whole amount of the debit to the first part of the accounting period being divided;
- (f) in the case of any such debit as is mentioned in paragraph 13(1)(ed) above, by apportioning the whole amount of the debit to the first part of the accounting period being divided.”

The British Steel Act 1988 (c. 35)

- 55 In section 11 of the British Steel Act 1988 (taxation provisions), for subsection (7) there shall be substituted the following subsection—

“(7) For the purposes of Part VI of the Income and Corporation Taxes Act 1988 (company distributions) and Chapter II of Part IV of the Finance Act 1996 (loan relationships), any debentures issued in pursuance of section 3 above shall be treated as having been issued for new consideration equal to the principal sum payable under the debenture.”

The Finance Act 1989 (c. 26)

- 56 In section 88(3) of the Finance Act 1989 (relevant profits of company), the following paragraph shall be inserted before paragraph (a)—

“(aa) amounts falling in respect of any non-trading deficits on the company’s loan relationships to be brought into account in that period in accordance with paragraph 4 of Schedule 11 to the Finance Act 1996,”.

- 57 Schedule 11 to that Act (deep gain securities) shall cease to have effect.

The Finance Act 1990 (c. 29)

- 58 Schedule 10 to the Finance Act 1990 (convertible securities) shall cease to have effect.

The Taxation of Chargeable Gains Act 1992 (c. 12)

- 59 In section 108(1) of the Taxation of Chargeable Gains Act 1992 (meaning of relevant securities), after paragraph (a) there shall be inserted the following paragraph—

“(aa) qualifying corporate bonds;”.

- 60 (1) Section 116 of that Act (reorganisations, conversions and reconstructions) shall be amended as follows.

- (2) After subsection (4) there shall be inserted the following subsection—

“(4A) In determining for the purposes of subsections (1) to (4) above, as they apply for the purposes of corporation tax—

- (a) whether sections 127 to 130 would apply in any case, and
(b) what, in a case where they would apply, would constitute the original shares and the new holding,

it shall be assumed that every asset representing a loan relationship of a company is a security within the meaning of section 132.”

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- (3) After subsection (8) there shall be inserted the following subsection—
- “(8A) Where subsection (6) above applies for the purposes of corporation tax in a case where the old asset consists of a qualifying corporate bond, Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall have effect so as to require such debits and credits to be brought into account for the purposes of that Chapter in relation to the relevant transaction as would have been brought into account if the transaction had been a disposal of the old asset at the market value mentioned in that subsection.”
- (4) After subsection (15) there shall be inserted the following subsection—
- “(16) This section has effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).”
- 61 (1) In section 117 of that Act (meaning of “qualifying corporate bond”), before subsection (1) there shall be inserted the following subsection—
- “(A1) For the purposes of corporation tax “qualifying corporate bond” means (subject to sections 117A and 117B below) any asset representing a loan relationship of a company; and for purposes other than those of corporation tax references to a qualifying corporate bond shall be construed in accordance with the following provisions of this section.”
- (2) After subsection (2) of that section there shall be inserted the following subsection—
- “(2AA) For the purposes of this section “corporate bond” also includes any asset which is not included in the definition in subsection (1) above and which is a relevant discounted security for the purposes of Schedule 13 to the Finance Act 1996.”
- (3) After subsection (6A) of that section there shall be inserted the following subsections—
- “(6B) An excluded indexed security issued on or after 6th April 1996 is not a corporate bond for the purposes of this section; and an excluded indexed security issued before that date shall be taken to be such a bond for the purposes of this section only if—
- (a) it would be so taken apart from this subsection; and
- (b) the question whether it should be so taken arises for the purposes of section 116(10).
- (6C) In subsection (6B) above “excluded indexed security” has the same meaning as in Schedule 13 to the Finance Act 1996 (relevant discounted securities).”
- (4) After subsection (8) of that section there shall be inserted the following subsection—
- “(8A) A corporate bond falling within subsection (2AA) above is a qualifying corporate bond whatever its date of issue.”
- 62 After section 117 of that Act there shall be inserted the following sections—

“117A Assets that are not qualifying corporate bonds for corporation tax purposes

- (1) An asset to which this section applies is not a qualifying corporate bond for the purposes of corporation tax in relation to any disposal of that asset.
- (2) This section applies to any asset representing a loan relationship of a company where—
 - (a) subsection (3) or (4) below applies to the asset; and
 - (b) it is held in exempt circumstances.
- (3) This subsection applies to an asset if—
 - (a) the settlement currency of the debt to which it relates is a currency other than sterling; and
 - (b) that debt is not a debt on a security.
- (4) This subsection applies to an asset if the debt to which it relates is a debt on a security and is in a foreign currency.
- (5) For the purposes of subsection (4) above a debt is a debt in a foreign currency if it is—
 - (a) a debt expressed in a currency other than sterling;
 - (b) a debt the amount of which in sterling falls at any time to be determined by reference to the value at that time of a currency other than sterling; or
 - (c) subject to subsection (6) below, a debt as respects which provision is made for its conversion into, or redemption in, a currency other than sterling.
- (6) A debt is not a debt in a foreign currency for those purposes by reason only that provision is made for its redemption on payment of an amount in a currency other than sterling equal, at the rate prevailing at the date of redemption, to a specified amount in sterling.
- (7) The provisions specified in subsection (8) below, so far as they require a disposal to be treated as a disposal on which neither a gain nor a loss accrues, shall not apply to any disposal of an asset to which this section applies.
- (8) The provisions referred to in subsection (7) above are—
 - (a) sections 139, 140A, 171 and 172 of this Act; and
 - (b) section 486(8) of the Taxes Act.
- (9) Paragraph 3 of Schedule 17 to the Finance Act 1993 shall have effect for construing the reference in subsection (2)(b) above to exempt circumstances as if references to a currency were references to the debt to which the relationship relates.
- (10) In this section “security” includes a debenture that is deemed to be a security for the purposes of section 251 by virtue of subsection (6) of that section.

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117B Holdings in unit trusts and offshore funds excluded from treatment as qualifying corporate bonds

- (1) For the purposes of corporation tax an asset to which this section applies is not a qualifying corporate bond in relation to any disposal of that asset in an accounting period for which that asset falls, under paragraph 4 of Schedule 10 to the Finance Act 1996 (holdings in unit trusts and offshore funds), to be treated as a right under a creditor relationship of a company.
- (2) This section applies to an asset which is comprised in a relevant holding (within the meaning of paragraph 4 of Schedule 10 to the Finance Act 1996) if—
 - (a) it is denominated in a currency other than sterling; and
 - (b) it is held in exempt circumstances.
- (3) For the purposes of this section—
 - (a) a unit in a unit trust scheme, or
 - (b) a right (other than a share in a company) which constitutes a relevant interest in an offshore fund,
 shall be taken to be denominated in a currency other than sterling if the price at which it may be acquired from, or disposed of to, persons concerned in the management of the trust or fund is fixed by those persons in a currency other than sterling.
- (4) For the purposes of this section shares constituting a relevant interest in an offshore fund shall be taken to be denominated in a currency other than sterling if their nominal value is expressed in such a currency.
- (5) The provisions specified in subsection (6) below, so far as they require a disposal to be treated as a disposal on which neither a gain nor a loss accrues, shall not apply to any disposal in relation to which this section applies.
- (6) The provisions referred to in subsection (5) above are—
 - (a) sections 139, 140A, 171 and 172 of this Act; and
 - (b) section 486(8) of the Taxes Act.
- (7) Paragraph 3 of Schedule 17 to the Finance Act 1993 shall have effect for construing the reference in subsection (2)(b) above to exempt circumstances as if references to a currency were references to the asset in question.
- (8) Paragraph 7 of Schedule 10 to the Finance Act 1996 shall apply for construing any reference in this section to a relevant interest in an offshore fund as it applies for the purposes of paragraph 4 of that Schedule.”

63 In section 212 of that Act (annual deemed disposal of holdings of unit trusts), after subsection (2) there shall be inserted the following subsection—

“(2A) Subsection (1) above shall not apply to assets falling by virtue of paragraph 4 of Schedule 10 to the Finance Act 1996 (company holdings in unit trusts) to be treated for the accounting period in question as representing rights under a creditor relationship of the company.”

64 In section 251 of that Act (exclusion for debts that are not debts on a security), after subsection (6) there shall be inserted the following subsections—

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“(7) Where any instrument specified in subsection (8) below is not a security (as defined in section 132), that instrument shall be deemed to be such a security for the purposes of this section, other than the purposes of determining what is or is not an allowable loss in any case.

(8) The instruments mentioned in subsection (7) above are—

- (a) any instrument that would fall to be treated for the purposes of this Act as an asset representing a loan relationship of a company if the provisions of sections 92(4) and 93(4) of the Finance Act 1996 (convertible securities and assets linked to the value of chargeable assets) were disregarded; or
- (b) any instrument which (even apart from those provisions) is not a loan relationship of a company but which would be a relevant discounted security for the purposes of Schedule 13 to that Act if paragraph 3(2)(c) of that Schedule (excluded indexed securities) were omitted.”

65 In section 253(3) of that Act (relief for loans to traders), in the words after paragraph (c), at the beginning there shall be inserted—

“then, to the extent that that amount is not an amount which, in the case of the claimant, falls to be brought into account as a debit given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships),”.

66 (1) In section 254 of that Act (relief for debts on qualifying corporate bonds), in subsection (1)(c), after “bond” there shall be inserted “but is not a relevant discounted security for the purposes of Schedule 13 to the Finance Act 1996”.

(2) After subsection (12) of that section there shall be inserted the following subsection—

“(13) This section does not apply for the purposes of corporation tax.”

The Finance Act 1993 (c. 34)

67 In section 127 of the Finance Act 1993 (accrual of amounts where debts vary), after subsection (1) there shall be inserted the following subsections—

“(1A) For the purposes of this section if, in the case of any debt—

- (a) an amount in respect of any discount or premium relating to that debt is treated, on an accruals basis of accounting, as accruing at any time for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships), or
- (b) any such amount would be treated as so accruing if the authorised method of accounting used for those purposes as respects the loan relationship relating to that debt were an accruals basis of accounting, instead of a mark to market basis,

then, for the purposes of this section, there shall be deemed to be such a variation at that time of the nominal amount of the debt outstanding as is specified in subsection (1B) below.

(1B) That variation is—

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- (a) if the amount mentioned in paragraph (a) or (b) of subsection (1A) above relates to a discount, a variation that increases the nominal amount of the debt outstanding by the amount so mentioned; and
 - (b) if the amount so mentioned relates to a premium, a variation that decreases the nominal amount of the debt outstanding by the amount so mentioned.”
- 68 (1) In subsection (2) of section 129 of that Act (non-trading exchange gains), for the words after paragraph (b) there shall be substituted—
- “and the rule in section 130(1) below shall apply.”
- (2) In subsection (4) of that section (non-trading exchange losses), for the words after paragraph (b) there shall be substituted—
- “and the rule in section 130(2) below shall apply.”
- (3) Subsections (5) and (6) of that section (computation of net exchange gains or net exchange losses) shall cease to have effect.
- (4) In subsection (7)(b) of that section (no gain or loss accruing on a right by virtue of a debt to receive income), for “(whether interest, dividend or otherwise)” there shall be substituted “that is not interest falling to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) as interest accruing, or (according to the authorised method of accounting used) becoming due and payable, in an accounting period ending after 31st March 1996”.
- 69 For sections 130 to 133 of that Act (charge to tax of non-trading gains and treatment of losses), there shall be substituted the following section—
- “130 Non-trading gains and losses**
- (1) Where a company is treated by virtue of section 129 above as receiving any amount in an accounting period, that amount shall be brought into account for that accounting period as if it were a non-trading credit falling for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) to be brought into account in respect of a loan relationship of the company.
 - (2) Where a company is treated by virtue of section 129 above as incurring any loss in an accounting period, the amount of the loss shall be brought into account for that accounting period as if it were a non-trading debit falling for the purposes of Chapter II of Part IV of the Finance Act 1996 to be brought into account in respect of a loan relationship of the company.”
- 70 (1) For subsection (4) of section 153 of that Act (qualifying assets and liabilities) there shall be substituted the following subsection—
- “(4) A right to settlement under a qualifying debt is not a qualifying asset where the company having the right holds an asset representing the debt and that asset is—
- (a) an asset to which section 92 of the Finance Act 1996 applies (convertible securities); or
 - (b) an asset representing a loan relationship to which section 93 of that Act (relationships linked to the value of chargeable assets) applies.”
- (2) Subsection (6) of that section shall cease to have effect.

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- 71 In section 154 of that Act (definitions connected with assets), after subsection (12) there shall be inserted the following subsection—
- “(12A) So much of any asset as consists in a right to receive interest as respects which any sums fall to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall be taken to be an asset to which the company became entitled at the following time (instead of the time for which subsection (12) above provides), that is to say—
- (a) where the sums fall to be brought into account for the purposes of that Chapter in accordance with an authorised accruals basis of accounting, the time when the interest is taken for those purposes to have accrued, and
 - (b) where the sums fall to be brought into account for the purposes of that Chapter in accordance with an authorised mark to market basis of accounting, the time when the interest is taken for those purposes to have become due and payable.”
- 72 In section 155 of that Act (definitions connected with liabilities), after subsection (11) there shall be inserted the following subsection—
- “(11A) So much of any liability consisting in a liability to pay interest as respects which debits fall to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall be taken to be a liability to which the company became subject at the following time (instead of at the time for which subsection (11) above provides), that is to say—
- (a) where the debits fall to be brought into account for the purposes of that Chapter in accordance with an authorised accruals basis of accounting, the time when the interest is taken for those purposes to have accrued, and
 - (b) where the debits fall to be brought into account for the purposes of that Chapter in accordance with an authorised mark to market basis of accounting, the time when the interest is taken for those purposes to have become due and payable.”
- 73 (1) For subsections (5) to (9) of section 159 of that Act (basic valuation where accrued income scheme applies) there shall be substituted the following subsection—
- “(5) Where—
- (a) a company becomes entitled, on any transfer by virtue of which it becomes a party to a loan relationship, to a right of settlement under a qualifying debt on a security, and
 - (b) that transfer is a transfer with accrued interest,
- the basic valuation of that right shall be found by taking the consideration for the company’s becoming entitled to the right and then deducting the amount of the accrued interest the right to which is transferred.”
- (2) This paragraph does not apply in relation to transfers before 1st April 1996.
- 74 In section 167 of that Act (orders and regulations relating to exchange gains and losses), after subsection (5) there shall be inserted the following subsections—
- “(5A) Without prejudice to the generality of any power of the Treasury to amend regulations made under this Chapter, every such power shall include power to make such modifications of any regulations so made as the Treasury

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consider appropriate in consequence of the provisions of Chapter II of Part IV of the Finance Act 1996 (loan relationships).

(5B) The power to make any such modifications as are mentioned in subsection (5A) above shall be exercisable so as to apply those modifications in relation to any accounting period of a company ending on or after 1st April 1996.”

The Finance Act 1994 (c. 9)

75 In section 160 of the Finance Act 1994 (treatment of non-trading profits and losses on interest rate and currency contracts), for subsections (2) to (4) there shall be substituted the following subsections—

“(2) Any amount which for the purposes of this section is treated as a non-trading profit of a company for any accounting period shall be brought into account for that accounting period as if it were a non-trading credit falling to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of a loan relationship of the company.

(2A) Any amount which for the purposes of this section is treated as a non-trading loss of a company for any accounting period shall be brought into account for that accounting period as if it were a non-trading debit falling to be brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 in respect of a loan relationship of the company.”

76 (1) In subsection (9) of section 167 of that Act (factors to be taken into account when adjusting transactions not at arm’s length), before the word “and” at the end of paragraph (b) there shall be inserted the following paragraph—

“(ba) in a case where the qualifying contract is a debt contract or option, the amount of the debt by reference to which any loan relationship that would have been involved would have subsisted, and any terms as to repayment, redemption or interest that, in the case of that debt or any asset representing it, would have been involved;”.

(2) In paragraph (c) of that subsection, for “either” there shall be substituted “any such”.

77 In section 173(5)(a) of that Act (references to the purposes of the Chapter), for the words from “subsections (5)” to “losses)” there shall be substituted “Chapter II of Part IV of the Finance Act 1996 (loan relationships), so far as that Chapter is applied by virtue of section 160(2) or (2A) above;”.

78 (1) In subsection (1) of section 177 of that Act (interpretation)—

(a) in the definition of “commencement day”, after the words ““commencement day”” there shall be inserted “—

(a) for the purposes of this Chapter as it has effect in relation to any debt contract or option, means (subject to paragraph 25 of Schedule 15 to the Finance Act 1996) 1st April 1996; and

(b) for all other purposes”;

and

(b) after the definitions of “currency contract” and “currency option” there shall be inserted—

““debt contract” and “debt option” shall be construed in accordance with section 150A above;”.

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- (2) In subsection (2)(a) of that section (time when company becomes entitled to a contract), for “or a currency contract or option,” there shall be substituted “a currency contract or option or a debt contract or option”.

79 For paragraphs 1 and 2 of Schedule 18 to that Act (special provision with respect to financial instruments for insurance companies) there shall be substituted the following paragraphs—

“Application of insurance companies provisions relating to loan relationships

- 1 (1) Part I of Schedule 11 to the Finance Act 1996 (special provision with respect to loan relationships for insurance companies) shall have effect (subject to sub-paragraph (2) below) in relation to qualifying contracts as it has effect in relation to loan relationships which are creditor relationships within the meaning of Chapter II of Part IV of that Act.
- (2) That Part of that Schedule shall have effect in its application in relation to qualifying contracts, as if—
- (a) references to section 82(2) of the Finance Act 1996 were references to section 159 of this Act, and
 - (b) references to credits and debits given by Chapter II of Part IV of that Act in respect of a loan relationship were references, respectively, to the profits and losses deriving from the contract.
- 1A (1) Where the I minus E basis is applied for any accounting period in respect of the life assurance business or capital redemption business of any insurance company, this Chapter shall have effect for that period in relation to contracts and options held for the purposes of that business as if the words in subsection (10) of section 150A from “but references” onwards were omitted.
- (2) Expressions used in sub-paragraph (1) above and in Part I of Schedule 11 to the Finance Act 1996 have the same meanings in this paragraph as in that Part of that Schedule.”