

# CORPORATION TAX ACT 2009

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### **Part 5: Loan Relationships**

##### **Overview**

#### **Chapter 18: General and supplementary provisions**

##### **Overview**

1324. This Chapter explains when companies are connected for the purposes of Parts 5 and 6 as well as providing definitions of “control”, “major interest” and other expressions used in those Parts.

#### **Section 466: Companies connected for an accounting period**

1325. This section explains when two companies are connected for an accounting period for the purposes of any provisions that apply it. It is based on sections 87(3) and (4) and 87A(1) of FA 1996.

#### **Section 467: Connections where partnerships are involved**

1326. This section explains when loan relationships are taken to be between connected companies in the case of debts owed by or to a partnership. It is based on section 87(5A) and (5B) of FA 1996.

1327. *Subsection (4)* adopts the language (“in accordance with the firm’s profit-sharing arrangements”) of section 1262 in Part 17 (partnerships) which rewrites section 114(2) of ICTA.

#### **Section 468: Connection between companies to be ignored in some circumstances**

1328. This section provides that a connection between a company in a creditor relationship and the company in the debtor relationship is ignored in certain circumstances. It is based on section 88(1), (5) and (6) of FA 1996. The circumstances are set out in sections 469 and 471. The section also provides that a company is treated for these purposes as being in a debtor relationship when the debt is “dog-legged” through intermediaries.

1329. Section 88(1) and (5) of FA 1996 refer to persons standing in a debtor relationship. “Persons” here has been rewritten as applying to companies only. See *Change 56* in Annex 1.

#### **Section 469: Creditors who are financial traders**

1330. This section sets out the circumstances under which connectedness between a company in a creditor relationship and one in a debtor relationship is ignored under section 468. It is based on section 88(2) and (3) of FA 1996. The section allows financial traders

who buy and sell debt of connected companies in the same way that they buy and sell debt of non-connected companies to be exempt from the connectedness rules.

1331. Section 88(2)(f) of FA 1996 provides the condition that, for a three month period, the equivalent of 30% or more of the assets should not be in the beneficial ownership of “connected persons”. This has been rewritten as “connected companies”. See *Change 56* in Annex 1.

***Section 470: Section 469: supplementary provisions***

1332. This section explains terms used in the preceding section. It is based on section 88(4) of FA 1996.
1333. “Person” in section 88(4) has been rewritten as “company” only. See *Change 56* in Annex 1.

***Section 471: Creditors who are insurance companies carrying on BLAGAB***

1334. This section stops the connectedness rules from applying to insurance companies carrying on basic life assurance and general annuity business where certain conditions are met. It is based on section 88(3) of FA 1996.

***Section 472: Meaning of “control”***

1335. This section explains the meaning of control for the purposes of any provisions that apply it, for example section 466. It is based on section 87A(1) to (3) of FA 1996.
1336. *Subsection (6)(b)* adopts the language (“in accordance with the firm’s profit-sharing arrangements”) of section 1262 in Part 17 (partnerships) which rewrites section 114(2) of ICTA.

***Section 473: Meaning of “major interest”***

1337. This section gives the meaning of “major interest”. It is based on paragraphs 2(7), 17(10) and 20(1), (3) and (8) to (10) of Schedule 9 to FA 1996.

***Section 474: Treatment of connected companies and partnerships for section 473***

1338. This section explains how the rule in section 473(2) (meaning of “major interest”) on rights and powers is applied to partnerships with company members. It is based on paragraph 20(4) to (7) of Schedule 9 to FA 1996.

***Section 475: Meaning of expressions relating to exchange gains and losses***

1339. This section explains what is meant by a company’s exchange gains and losses and gives the Treasury powers to make regulations as to how such gains and losses are to be calculated where fair value accounting is used. It is based on section 103(1A) to (1B) of FA 1996.
1340. *Subsection (3)* does not rewrite section 103(1AA)(b) of FA 1996 (“any other profit or gains or losses”) because the regulations are in respect of the manner in which exchange gains and losses in section 103(1A)(a) are to be calculated and a reference to other profits and losses is superfluous.

***Section 476: Other definitions***

1341. This section gives a number of definitions used in this Part. It is based on section 103(1) and (4) of FA 1996.