

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 7: Derivative contracts

Overview

Chapter 4: Further provision about credits and debits to be brought into account

Section 613: Introduction to sections 614 and 615

1659. This section sets out when sections 614 and 615 apply. It is based on paragraph 50A(1) and (1A) of Schedule 26 to FA 2002 and paragraph 7(6) of Schedule 6 to F(No 2)A 2005.
1660. A company may decide to apply a different set of standards to the presentation of the company's results. Regulatory rules may also require that a company switches to a different set of standards. If there is such a change of accounting policy, the value of the company's assets and liabilities at the start of the first period of account to which the change applies are restated in accordance with the standards adopted.
1661. This section applies only if the change is from an accounting policy that "accords with the law and practice applicable" in relation to the earlier period to another such policy in relation to the next. The law and practice in question is that provided in particular by the Companies Acts and the Accounting Standards Board (or their equivalents in its country of residence if the company is non-UK resident but within the charge to corporation tax in respect of a derivative contract).
1662. **Sections 614** and **615** prescribe the credit or debit to be brought into account on a change of accounting policy, according to whether the value of the company's assets and liabilities increases or decreases on the change.
1663. **Subsection (4)** treats a particular situation as a change of accounting policy although there is no change in the actual accounting policy used by the company from one period to the next. International accounting standards and new UK generally accepted accounting practice require a company, in certain circumstances, to divide a loan relationship between rights and liabilities under a loan relationship and rights and liabilities under one or more derivative financial instruments or equity instruments (see section 585(1)).
1664. **Section 416** allows a company subject to old UK generally accepted accounting practice (which does not permit it to divide a loan relationship in that way) to elect that a loan relationship is treated as divided as mentioned in section 415(1) (the equivalent for loan relationships of section 585(1)), if division would be permitted under new UK generally accepted accounting practice or international accounting standards. Section 416 applies an election made under it for the purposes of this Part as well as for Part 5.

*These notes refer to the Corporation Tax Act 2009
(c.4) which received Royal Assent on 26 March 2009*

1665. The result of such an election is a change in accounting policy for the purposes of sections 614 and 615, but only in relation to all the derivative financial instruments or equity instruments in the company's affected loan relationships. This rule applies from the date the election has effect. Broadly, the election has effect from the beginning of the period of account in which the first loan relationship is acquired to which an election can apply.