

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

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 7: Derivative contracts

Overview

Chapter 7: Chargeable gains arising in relation to derivative contracts

Overview

Section 654: Payment instead of disposal on exercise of deemed option

1807. This section provides for a chargeable gain or allowable loss in the same circumstances as those applying in section 653, except that an amount is paid in fulfilment of the company's obligations under the debtor relationship (and there is no issue or transfer of shares). It is based on paragraphs 12(1) and (11B) and 45J(3), (6), (7), (8) and (9B) of Schedule 26 to FA 2002.
1808. In a number of circumstances it may suit one or other or both parties to a debtor relationship containing an option for the issue or transfer of shares not to go ahead when the option is exercised. Instead the matter is settled by a monetary payment. Such a cash settlement would fall foul of the limiting conditions in the definition of an "option" in section 580, so those conditions are disappplied for the purposes of the present section by section 652.
1809. There is a chargeable gain if the carrying value of the derivative contract at the time the company became a party to the debtor relationship exceeds the amount paid in fulfilment of the company's obligations under the debtor relationship. For this purpose that amount is first reduced, but not below nil, by the fair value of the host contract at the time the option is exercised. But if that amount (as so reduced) exceeds that carrying value, an allowable loss arises. The gain or loss, as the case may be, is the amount of the excess.