



# Corporation Tax Act 2009

## 2009 CHAPTER 4

### PART 7

#### DERIVATIVE CONTRACTS

#### CHAPTER 7

##### CHARGEABLE GAINS ARISING IN RELATION TO DERIVATIVE CONTRACTS

##### *Issuers of securities with embedded derivatives: deemed options*

#### **652 Introduction to sections 653 to 655**

- (1) Sections 653 to 655 apply to a derivative contract of a company for an accounting period if each of conditions A to E is met.
- (2) Condition A is that the derivative contract is a relevant contract to which the company is treated as a party under section 585(2) (loan relationships with embedded derivatives) because of a debtor relationship of the company.
- (3) Condition B is that the derivative contract is treated as an option by section 585(3) (contract treated as option, future or contract for differences).
- (4) Condition C is that the underlying subject matter of the derivative contract is shares.
- (5) Condition D is that at the time when the company became a party to the debtor relationship—
  - (a) it was not carrying on a banking business or a business as a securities house, or
  - (b) if it was carrying on such a business, it did not become a party to the debtor relationship in the ordinary course of that business.
- (6) Condition E is that the company is not an excluded body.

---

*Changes to legislation:* There are outstanding changes not yet made by the legislation.gov.uk editorial team to Corporation Tax Act 2009. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes

---

- (7) In this section “option” is to be construed as if section 580(2) and (3) (meaning of “option”) were omitted.

### 653 Shares issued or transferred as a result of exercise of deemed option

- (1) Subsections (2) and (3) apply if—
- (a) the option mentioned in section 652(3) is exercised at any time in the accounting period, and
  - (b) shares are issued or transferred in fulfilment of the obligations under the option (“the relevant disposal”).
- (2) Section 144(2) of TCGA 1992 (exercise of options) applies to the relevant disposal as if the [<sup>F1</sup>tax-adjusted carrying value] of the option at the time the company became a party to the debtor relationship mentioned in section 652(2) were the consideration for the grant of the option.
- (3) So far as it would otherwise apply, section 17(1) of TCGA 1992 (deemed market value consideration) does not apply to the relevant disposal.

#### Textual Amendments

- F1** Words in s. 653(2) substituted (with effect in accordance with Sch. 7 Pt. 6 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), Sch. 7 para. 81

### 654 Payment instead of disposal on exercise of deemed option

- (1) Subsection (2) applies if—
- (a) the option mentioned in section 652(3) is exercised at any time in the accounting period,
  - (b) no shares are issued or transferred in fulfilment of the obligations under the option, and
  - (c) an amount is paid in fulfilment of those obligations.
- (2) If —
- (a) CV exceeds X, a chargeable gain equal to the amount of the excess is treated as accruing to the company in the accounting period,
  - (b) X exceeds CV, an allowable loss equal to the amount of the excess is treated as accruing to the company in the accounting period.
- (3) In this section—
- “CV” means—
- (a) if the company was a party to the debtor relationship mentioned in section 652(2) at the time it was created, the [<sup>F2</sup>tax-adjusted carrying value] of the option at that time, or
  - (b) if the company became a party to that relationship at a later time, the [<sup>F2</sup>tax-adjusted carrying value] of the option at that time,
- “X” means the amount paid by the debtor in fulfilment of the obligations under the debtor relationship reduced (but not below nil) by the fair value of the host contract at the date on which the option is exercised, and

---

*Changes to legislation:* There are outstanding changes not yet made by the legislation.gov.uk editorial team to Corporation Tax Act 2009. Any changes that have already been made by the team appear in the content and are referenced with annotations. (See end of Document for details) [View outstanding changes](#)

---

“the host contract” means the loan relationship to which the company is treated as a party under section 415(2) (loan relationships with embedded derivatives) because of the debtor relationship.

#### Textual Amendments

- F2** Words in s. 654(3) substituted (with effect in accordance with Sch. 7 Pt. 6 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 7 para. 82](#)

### **655 Ceasing to be party to debtor relationship when deemed option not exercised**

- (1) Subsection (2) applies if the company ceases to be a party to the debtor relationship mentioned in section 652(2) at a time when the option mentioned in section 652(3) has not been exercised.
- (2) The company is treated for the purposes of corporation tax on chargeable gains—
  - (a) as having acquired an asset for consideration of an amount equal to Y, and
  - (b) as having disposed of that asset for consideration of an amount equal to CV.
- (3) In this section—
  - “CV” has the same meaning as in section 654,
  - “Y” means—
    - (a) if the company ceases to be a party to the debtor relationship as a result of the redemption or repayment of the liability representing that relationship, the amount paid by the company, or
    - (b) otherwise, the consideration given by the company on its ceasing to be a party to that relationship,

in either case reduced (but not below nil) by the fair value of the host contract at the date on which it so ceases, and

“the host contract” has the same meaning as in section 654.

**Changes to legislation:**

There are outstanding changes not yet made by the legislation.gov.uk editorial team to Corporation Tax Act 2009. Any changes that have already been made by the team appear in the content and are referenced with annotations.

[View outstanding changes](#)

**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

- Blanket amendment words substituted by [S.I. 2011/1043 art. 34](#)

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 322(2A)(zb) inserted by [2016 c. 24 s. 73\(5\)](#)
- s. 934(1A)(1B) inserted by [2023 c. 30 Sch. 2 para. 12\(2\)](#)
- s. 962(3A) inserted by [2023 c. 30 Sch. 2 para. 12\(5\)\(b\)](#)
- s. 962A(3A) inserted by [2023 c. 30 Sch. 2 para. 12\(6\)\(b\)](#)
- s. 963(1A) inserted by [2023 c. 30 Sch. 2 para. 12\(7\)\(a\)](#)
- s. 1058B(5)(ea) inserted by [2023 c. 20 Sch. para. 57](#)
- s. 1094(2A)-(2C) inserted by [2012 c. 14 Sch. 3 para. 13\(3\)](#)
- s. 1106(4A)-(4C) inserted by [2012 c. 14 Sch. 3 para. 14\(3\)](#)
- s. 1138A applied by [S.I. 2024/348 reg. 3](#)