



Corporation Tax Act 2010

2010 CHAPTER 4

PART 12

REAL ESTATE INVESTMENT TRUSTS

CHAPTER 5

ASSETS ETC

Profits: financing-cost ratio

543 Profit: financing-cost ratio

- (1) This section applies to a UK REIT if the result of the calculation in subsection (2) is less than 1.25 for an accounting period [^{F1}(unless it is nil or a negative amount)] .
- (2) The calculation is—

$$\frac{PP}{PFC}$$

where—

PP is the UK REIT's property profits for the accounting period (see section 544(1)), and

PFC is the UK REIT's property financing costs for the accounting period (see section 544(3)).

[^{F2}(3) The excess is charged to corporation tax in relation to the accounting period under the charge to corporation tax on income.

- (3A) “The excess” means—
- (a) the amount equal to—
- (i) PFC, minus

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- (ii) the property financing costs which would cause the calculation in subsection (2) to equal 1.25 for the accounting period, or
- (b) if less, the amount equal to 20% of PP.]
- (4) The excess is treated as profits of residual business—
 - (a) in the case of a group UK REIT, of the principal company of the group, and
 - (b) in the case of a company UK REIT, of the company.
- (5) Accordingly it is charged to corporation tax at the rate mentioned in section 534(3) (rate at which profits of residual business are charged).
- (6) No loss, deficit, expense or allowance may be set off against the excess.
- (7) The Commissioners for Her Majesty's Revenue and Customs may waive a charge to corporation tax under this section in respect of an accounting period if they think that—
 - (a) the company was in severe financial difficulties at a time in the accounting period,
 - (b) the result of the calculation in subsection (2) is less than 1.25 in respect of the accounting period because of circumstances that arose unexpectedly, and
 - (c) in those circumstances the company could not reasonably have taken action to avoid the result being less than 1.25.
- (8) The Treasury may make regulations which specify criteria to be applied by the Commissioners in determining whether to waive a charge under subsection (7).

Textual Amendments

- F1** Words in s. 543(1) inserted (with effect in accordance with Sch. 4 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 4 para. 40\(2\)](#)
- F2** S. 543(3)(3A) substituted for s. 543(3) (with effect in accordance with Sch. 4 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 4 para. 40\(3\)](#)

544 Meaning of “property profits” and “property financing costs”

- (1) For the purposes of section 543 “property profits” for an accounting period means—
 - (a) in the case of a group UK REIT, the sum of the profits of property rental business of members of the group that arise in the period, as shown in the financial statement under section 532(2)(b), and
 - (b) in the case of a company UK REIT, the amount of the profits of the company's property rental business (calculated in accordance with section 599) that arise in the period.
- (2) References in subsection (1) to a company's profits are to its profits before the offset of—
 - (a) capital allowances,
 - (b) losses from a previous accounting period, and
 - (c) amounts taken into account as a result of section 599(3).
- (3) For the purposes of section 543 “property financing costs” for an accounting period means—
 - (a) in the case of a group UK REIT, the amount of the financing costs incurred in respect of property rental business of members of the group, excluding

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- financing costs owed by one member of the group to another, as shown in the financial statement under section 532(2)(a), and
- (b) in the case of a company UK REIT, the amount of the financing costs incurred in the period in respect of the company's property rental business.
- (4) In subsection (3) “financing costs” means the cost of debt finance.
- (5) In calculating the costs of debt finance in relation to an accounting period the matters to be taken into account ^{F3}are—
- (a) interest payable on borrowing,
 - (b) amortisation of discounts relating to borrowing,
 - (c) amortisation of premiums relating to borrowing,
 - (d) the financing expense implicit in payments made under finance leases, and
 - (e) alternative finance return (as defined in sections 511 to 513 of CTA 2009).]
- ^{F4}(6) The Treasury may by regulations amend the list of matters in subsection (5) by inserting, omitting or amending a description of a matter.]

Textual Amendments

- F3** Words in s. 544(5) substituted (with effect in accordance with Sch. 4 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 4 para. 41\(2\)](#)
- F4** S. 544(6) inserted (with effect in accordance with Sch. 4 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 4 para. 41\(3\)](#)

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