

# **FINANCE ACT 2012**

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## **EXPLANATORY NOTES**

### **INTRODUCTION**

#### ***Section 31 Schedule 5: Tax Treatment of Financing Costs and Income***

##### **Background Note**

26. Finance Act 2009 (FA) 2009 introduced a package of changes to the taxation of companies on their foreign profits. This package included the introduction of a measure to restrict the interest and other finance expenses that can be deducted in computing the corporation tax payable by UK members of a worldwide group of companies.
27. The debt cap rules introduced as Schedule 15 to FA 2009 have now been rewritten as Part 7 of TIOPA 2010. They broadly operate by requiring UK groups to compare their UK financing costs, as calculated under the Schedule, with the finance costs of their worldwide group. If the UK costs exceed the worldwide costs then the UK companies do not get any relief for the excess.
28. Discussions with industry have identified that some amendments to the debt cap rules would be needed. A number of changes were made in Finance (No.3) Act 2010 but further issues have since arisen.
29. The current Schedule incorporates a small number of changes that arose from consultation with groups and their representatives.