

2001 No. 391

INCOME TAX

**The Investment Trusts (Approval of Accounting Methods
for Creditor Relationships) Order 2001**

<i>Made</i> - - - - -	<i>14th February 2001</i>
<i>Laid before the House of Commons</i>	<i>14th February 2001</i>
<i>Coming into force</i> - - - - -	<i>7th March 2001</i>

Whereas it appears to the Treasury that the accounting methods referred to in Article 3 of this Order as “the main method” and “the simple method” are recognised by normal accounting practice for use in the case of investment trusts:

Now, therefore the Treasury, in exercise of the powers conferred on them by paragraphs 1 and 9(1) of Schedule 10 to the Finance Act 1996(a), hereby make the following Order:

Citation, commencement and effect

1. This Order may be cited as the Investment Trusts (Approval of Accounting Methods for Creditor Relationships) Order 2001 and shall come into force on 7th March 2001, but shall have effect in relation to accounting periods of investment trusts ending after 31st March 1996.

Interpretation

2.—(1) In this Order—

“Chapter II” means Chapter II of Part IV of the Finance Act 1996;

“creditor relationship” has the same meaning as in section 103(1);

“investment trust” has the meaning given by section 842 of the Taxes Act(b);

“statutory accounts” shall be construed in accordance with section 86(8);

“the Taxes Act” means the Income and Corporation Taxes Act 1988.

(2) References in this Order to a section, or a Schedule, without more, are references to that section of, or that Schedule to, the Finance Act 1996.

(a) 1996 c. 8.

(b) 1988 c. 1; section 842 was amended by section 117(1) and (4) of the Finance Act 1988 (c. 39), section 55 of the Finance Act 1990 (c. 29), paragraphs 14(1) and (55) of Schedule 10 to the Taxation of Chargeable Gains Act 1992 (c. 12), paragraph 8 of Schedule 17 to the Finance Act 1994 (c. 9) and paragraph 2 of Schedule 30, and paragraph 7 of Schedule 38, to the Finance Act 1996 (c. 8).

Approval of the use of accounting methods

3. The accounting methods that are approved for use for the creditor relationships of investment trusts for the purposes of paragraph 1 of Schedule 10 are—

- (a) the method (“the main method”) contained in a Statement of Recommended Practice issued by the Association of Investment Trust Companies bearing the date December 1995 (“the Statement”)(a), as modified by article 4 of this Order;
- (b) the method contained in the Statement as varied by a Guidance Note issued by that Association on 8th January 1997 (“the simple method”)(a), and as modified by article 4.

Modifications of the main method and the simple method

4.—(1) The main method and the simple method shall be modified as follows.

(2) For paragraph R604 in the Statement there shall be substituted the following paragraph—

“R604 An ITC shall be under an obligation—

- (a) to make proper provision for allocating payments under a creditor relationship to accounting periods (and that expression has the same meaning as in sub-section (3) of section 85 of the Finance Act 1996, on the assumption that the words “loan relationship” in that sub-section were replaced with the words “creditor relationship”), and
- (b) not to make any provision (other than provision comprised in authorised arrangements for bad debt, within the meaning in section 85(5)(a) of the Finance Act 1996) that gives debits by reference to the valuation at different times of any asset representing a creditor relationship (within the meaning in section 103(1) of the Finance Act 1996).”

(3) Paragraph R606 in the Statement shall be omitted.

(4) In this Order, “the modified main method” and “the modified simple method” mean the main method, and the simple method, as so modified, respectively.

Purposes for which accounting methods are approved

5.—(1) This article has effect for the purpose of determining which of the accounting methods approved under article 3 is to be used as respects the creditor relationships of an investment trust.

(2) The same method shall be used as respects all creditor relationships of an investment trust for any single accounting period.

(3) The modified main method shall be used for any accounting period where—

- (a) the investment trust uses the main method or the modified main method for the purposes of its statutory accounts for that accounting period;
- (b) the investment trust has in an earlier accounting period (not being an accounting period described in paragraph (4)) used the modified main method as an authorised accounting method for the purposes of Chapter II; or
- (c) the investment trust has, at any time during the accounting period referred to in the words preceding sub-paragraph (a), held—
 - (i) a relevant discounted security within the meaning of Schedule 13; or
 - (ii) a security to which section 717 of the Taxes Act(b) applies.

(a) See the Explanatory Note for details of where the Statement and Guidance Note can be obtained.

(b) 1988 c. 1; section 717 was amended by paragraph 35 of Schedule 20 to the Finance Act 1996 (c. 8).

- (4) The accounting period described in this paragraph is one—
- (a) which ended before the coming into force of this Order; and
 - (b) during which the investment trust did not at any time hold any of the securities referred to in paragraph (3)(c)(i) or (ii).

Greg Pope
Jim Dowd

14th February 2001

Two of the Lords Commissioners of Her Majesty's Treasury

EXPLANATORY NOTE

(This note is not part of the Order)

This Order approves the use of two accounting methods for the creditor relationships of investment trusts, for the purposes of paragraph 1 of Schedule 10 to the Finance Act 1996.

The first such method is that contained in a Statement of Recommended Practice issued by the Association of Investment Trusts, with the modifications provided for by the Order. The Statement has the title “Statement of Recommended Practice: Financial Statements of investment trust companies”, bears the date December 1995 and is published by The Association of Investment Trust Companies, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY.

The second such method is the method contained in that Statement, as varied by a Guidance Note issued by the Association of Investment Trusts on 8th January 1997, with the same modifications. The Guidance Note has the same title as the Statement, with the sub-title “Recognition of Income” and is published by the same Association.

Article 1 provides for citation, commencement and effect.

Article 2 provides for interpretation.

Article 3 approves the use of the two accounting methods referred to above, as modified by Article 4.

Article 4 prescribes technical modifications to the accounting methods.

Article 5 prescribes the purposes for which the accounting methods are approved.

Paragraph 1(4) of Schedule 10 to the Finance Act 1996 confers the power to make the retrospective provision made by Article 1 of the Order.

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