



Corporation Tax Act 2009

2009 CHAPTER 4

PART 7

DERIVATIVE CONTRACTS

CHAPTER 1

INTRODUCTION

Introduction

570 Overview of Part

- (1) This Part is about how profits and losses arising to a company from its derivative contracts are brought into account for corporation tax purposes.
- (2) For the meaning of “derivative contract”, see section 576 and the remainder of Chapter 2.
- (3) For how such profits and losses are calculated and brought into account, see—
 - (a) section 572 (profits and losses to be calculated using credits and debits given by this Part),
 - (b) section 573 (trading credits and debits to be brought into account under Part 3),
 - (c) section 574 (non-trading credits and debits to be brought into account under Part 5), and
 - (d) Chapter 7 (chargeable gains arising in relation to derivative contracts).
- (4) For the priority of this Part for corporation tax purposes, see Chapter 12.
- (5) This Part also contains the following Chapters (which mainly relate to the amounts to be brought into account in respect of derivative contracts)—
 - (a) Chapter 3 (credits and debits to be brought into account: general),

Status: This is the original version (as it was originally enacted).

- (b) Chapter 4 (further provision about credits and debits to be brought into account),
 - (c) Chapter 5 (continuity of treatment on transfers within groups),
 - (d) Chapter 6 (special kinds of company),
 - (e) Chapter 8 (further provision about chargeable gains and derivative contracts),
 - (f) Chapter 9 (European cross-border transfers of business),
 - (g) Chapter 10 (European cross-border mergers),
 - (h) Chapter 11 (tax avoidance), and
 - (i) Chapter 13 (general and supplementary provisions).
- (6) See also section 980 of ITA 2007 (payments under derivative contracts excepted from duty to deduct income tax).

How profits and losses from derivative contracts are dealt with

571 General rule: profits chargeable as income

- (1) The general rule for corporation tax purposes is that all profits arising to a company from its derivative contracts are chargeable to corporation tax as income in accordance with this Part.
- (2) But see Chapter 7, which makes provision for cases in which profits arising to a company from its derivative contracts are chargeable to corporation tax as chargeable gains.

572 Profits and losses to be calculated using credits and debits given by this Part

- (1) Profits and losses arising to a company from its derivative contracts are to be calculated using the credits and debits given by this Part.
- (2) For exceptions to this section, see sections 652 to 658 (issuers of securities with embedded derivatives: deemed options and contracts for differences).

573 Trading credits and debits to be brought into account under Part 3

- (1) This section applies so far as in an accounting period a company is a party to a derivative contract for the purposes of a trade it carries on.
- (2) The credits in respect of the contract for the period are treated as receipts of the trade which are to be brought into account in calculating the profits of the trade for that period.
- (3) The debits in respect of the contract for the period are treated as expenses of the trade which are deductible in calculating those profits.
- (4) So far as subsection (3) provides for any amount to be deductible, it applies despite anything in—
 - (a) section 53 (capital expenditure),
 - (b) section 54 (expenses not wholly and exclusively for trade and unconnected losses), or
 - (c) section 59 (patent royalties).

- (5) For cases in which this section does not apply, see—
- (a) section 616 (disapplication of fair value accounting for certain embedded derivatives), and
 - (b) Chapter 7 (chargeable gains arising in relation to derivative contracts).

574 Non-trading credits and debits to be brought into account under Part 5

- (1) This section applies if, for an accounting period, there are credits or debits in respect of the derivative contracts of a company which are not brought into account in accordance with section 573.
- (2) Those credits or debits—
- (a) are to be treated as non-trading credits or non-trading debits (within the meaning of Part 5 (loan relationships)) for the period, and
 - (b) are accordingly to be brought into account in determining whether the company has non-trading profits or a non-trading deficit from its loan relationships for the period.
- (3) For cases in which this section does not apply, see—
- (a) section 616 (disapplication of fair value accounting for certain embedded derivatives), and
 - (b) Chapter 7 (chargeable gains arising in relation to derivative contracts).