



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER II

LOAN RELATIONSHIPS

Modifications etc. (not altering text)

- C1** Pt. 4 Ch. 2 modified (29.4.1996) by 1986 c. 44, s. 60(3) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 4 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1988 c. 1, s. 730A(6) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 37 (with savings in Pt. 4 Ch. 2) and as further substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by 2002 c. 23, s. 82(1), Sch. 25 Pt. 2 para. 52(3))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1988 c. 1, s. 768B(10) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 39(1) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1988 c. 1, s. 786C(9) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 40 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1988 c. 35, s. 11(7) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 55 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1988 c. 1, s. 477A(3)(a) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 28(1) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (29.4.1996) by 1986 c. 31, s. 77(3) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 3 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 modified (24.7.1996) by 1996 c. 55, s. 135, Sch. 7 para. 11(2)
- Pt. 4 Ch. 2 modified (27.7.1999 with effect as mentioned in s. 100(2)(3) of 1999 c. 16) by 1988 c. 1, s. 494AA(5) (as inserted (27.7.1999 with effect as mentioned in s. 100(2)(3) of the amending Act) by 1999 c. 16, s. 100(1))
- Pt. 4 Ch. 2 modified (15.1.2001) by 2000 c. 38, s. 250, Sch. 26 paras. 7(2); S.I. 2000/3376, art. 2
- Pt. 4 Ch. 2 modified (15.1.2001) by 2000 c. 38, s. 250, Sch. 26 paras. 17(2); S.I. 2000/3376, art. 2
- Pt. 4 Ch. 2 modified (15.1.2001) by 2000 c. 38, s. 250, Sch. 26 paras. 29(2); S.I. 2000/3376, art. 2

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- Pt. 4 Ch. 2 modified (24.7.2002 with effect as mentioned in s. 71(2)(4) of the amending Act) by Finance Act 2002 (c. 23), s. 71(3)
- Pt. 4 Ch. 2 modified (24.7.2002 with effect as mentioned in s. 79(3) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 494(2ZA) (as inserted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by Finance Act 2002 (c. 23), s. 79(2), Sch. 23 Pt. 2 para. 17(7) (with Sch. 23 para. 25))
- Pt. 4 Ch. 2 modified (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 730A(6B) (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 52(4))
- Pt. 4 Ch. 2 modified (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 842(1AB) (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 56(4))
- Pt. 4 Ch. 2 modified (24.7.2002) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 3 para. 64
- Pt. 4 Ch. 2 modified (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by Finance Act 2002 (c. 23), s. 83(1), Sch. 26 Pt. 4 para. 19(4)
- Pt. 4 Ch. 2 modified (1.10.2002 with effect in relation to accounting periods beginning on or after that date) by The Exchange Gains and Losses (Bringing into Account Gains or Losses) Regulations 2002 (S.I. 2002/1970), regs. 1(2), 6, 7, 13
- C2** Pt. 4 Ch. 2 applied (29.4.1996) by 1988 c. 1, s. 434A(2A) (as inserted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 23(2) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 applied (29.4.1996) by 1993 c. 34, s. 130(1) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 69 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 applied (29.4.1996) by 1994 c. 9, s. 160(2) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 75 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 applied (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 510A(6A) (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 49(4))
- C3** Pt. 4 Ch. 2 restricted (29.4.1996) by 1988 c. 1, s. 475(2)(b) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 27(1) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 restricted (29.4.1996) by 1988 c. 1, s. 487(1)(b) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 31(1) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 restricted (29.4.1996) by 1988 c. 1, s. 487(3A) (as inserted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 31(3) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 restricted (29.4.1996) by 1988 c. 1, s. 494(2) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 32(2) (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 restricted (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 582(3A) (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 50)
- Pt. 4 Ch. 2 restricted (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by Income and Corporation Taxes Act 1988 (c.1), s. 787(1A) (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 53(2))
- C4** Pt. 4 Ch. 2 excluded (29.4.1996) by 1988 c. 1, s. 56(4B) (as inserted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 6 (with savings in Pt. 4 Ch. 2))
- Pt. 4 Ch. 2 excluded (29.4.1996) by 1988 c. 1, s. 468L(5) (as substituted (29.4.1996) by 1996 c. 8, s. 104, Sch. 14 para. 26 (with savings in Pt. 4 Ch. 2))
- C5** Pt. 4 Ch. 2 modified (24.2.2003) by Proceeds of Crime Act 2002 (c. 29), s. 458(1), Sch. 10 para. 9 (with Sch. 10 para. 10); S.I. 2003/120, art. 2, Sch. (with arts. 34) (as amended (20.2.2003) by S.I. 2003/333, art. 14)
- C6** Pt. 4 Ch. 2 restricted (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by Finance Act 2002 (c. 23), s. 83(1), Sch. 26 Pt. 9 para. 48(4)Pt. 4 Ch. 2 (as amended (with effect in accordance with s. 52(3) of the amending Act) by Finance Act 2004 (c. 12), Sch. 10 para. 64)
- C7** Pt. 4 Ch. 2 applied (with modifications) (5.10.2004) by Energy Act 2004 (c. 20), s. 198(2), Sch. 9 para. 11 (with s. 38(2)); S.I. 2004/2575, art. 2(1), Sch. 1

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- C8** Pt. 4 Ch. 2 applied (with modifications) (5.10.2004) by [Energy Act 2004 \(c. 20\)](#), s. 198(2), [Sch. 9 para. 23](#) (with s. 38(2)); S.I. 2004/2575, art. 2(1), Sch. 1
- C9** Pt. 4 Ch. 2 modified (with effect in accordance with s. 56(1)-(3)(5) of the amending Act) by [Finance Act 2005 \(c. 7\)](#), s. [56\(4\)\(b\)](#)
- C10** Pt. 4 Ch. 2 modified (with effect in accordance with s. 56 of the amending Act) by [Finance Act 2005 \(c. 7\)](#), s. [50](#)
- C11** Pt. 4 Ch. 2 modified (E.W.S.) (8.6.2005) by [Railways Act 2005 \(c. 14\)](#), s. 60(2), [Sch. 10 para. 7](#); S.I. 2005/1444, art. 2(1), Sch. 1
- C12** Pt. 4 Ch. 2 modified (E.W.S.) (8.6.2005) by [Railways Act 2005 \(c. 14\)](#), s. 60(2), [Sch. 10 para. 18](#); S.I. 2005/1444, art. 2(1), Sch. 1
- C13** Pt. 4 Ch. 2 modified (20.7.2005) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 14\(5\)-\(7\)](#)
- C14** Pt. 4 Ch. 2 modified (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Pension Protection Fund \(Tax\) \(2005-06\) Regulations 2005 \(S.I. 2005/1907\)](#), regs. 1(1), [12](#)
- C15** Pt. 4 Ch. 2 modified by 1988 c. 1, s. 774B(5)(a) (as inserted (with effect in accordance with Sch. 6 para. 6(2)-(7) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 6\(1\)](#))

Introductory provisions

80 Taxation of loan relationships.

- (1) For the purposes of corporation tax all profits and gains arising to a company from its loan relationships shall be chargeable to tax as income in accordance with this Chapter.
- (2) To the extent that a company is a party to a loan relationship for the purposes of a trade carried on by the company, profits and gains arising from the relationship shall be brought into account in computing the [^{F1}profits] of the trade.
- (3) Profits and gains arising from a loan relationship of a company that are not brought into account under subsection (2) above shall be brought into account as profits and gains chargeable to tax under Case III of Schedule D.
- (4) This Chapter shall also have effect for the purposes of corporation tax for determining how any deficit on a company's loan relationships is to be brought into account in any case, including a case where none of the company's loan relationships falls by virtue of this Chapter to be regarded as a source of income.
- (5) Subject to any express provision to the contrary, the amounts which in the case of any company are brought into account in accordance with this Chapter as respects any matter shall be the only amounts brought into account for the purposes of corporation tax as respects that matter.

Textual Amendments

- F1** Words in s. 80(2) substituted (31.7.1998) by [1998 c. 36](#), s. 46(3)(a), [Sch. 7 para. 11](#)

Modifications etc. (not altering text)

- C16** S. 80(5) excluded (29.4.1996) by [1988 c. 1](#), s. [400\(9A\)](#) (as inserted 29.4.1996) by [1996 c. 8](#), s. 104, [Sch. 14 para. 19](#) (with savings in Pt. 4 Ch. 2)
- S. 80(5) excluded (29.4.1996) by [1988 c. 1](#), s. [795\(4\)](#) (as inserted (29.4.1996) by [1996 c. 8](#), s. 104, [Sch. 14 para. 41](#) (with savings in Pt. 4 Ch. 2))
- S. 80(5) excluded (29.4.1996) by [1998 c. 1](#), s. [811\(3\)](#) (as inserted (29.4.1996) by [1996 c. 8](#), s. 104, [Sch. 14 para. 47](#) (with savings in Pt. 4 Ch. 2))

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S. 80(5) excluded (29.4.1996) by 1988 c. 1, s. 116(16) (as inserted (29.4.1996) by 1996 c. 8, s. 104, **Sch. 14 para. 60(4)** (with savings in Pt. 4 Ch. 2))

S. 80(5) excluded (29.4.1996) by 1988 c. 1, s. 798(3A) (as inserted (29.4.1996) by 1996 c. 8, s. 104, **Sch. 14 para. 44(2)** (with savings in Pt. 4 Ch. 2))

S. 80(5) excluded (31.7.1998 with effect as mentioned in s. 103(2)(3) of 1998 c. 36) by 1988 c. 1, s. 798A(4) (as inserted (31.7.1998 with effect as mentioned in s. 103(2)(3) of the amending Act) by 1998 c. 36, s. 104)

S. 80(5) excluded (24.7.2002 with effect as mentioned in s. 82(2) of Finance Act 2002) by **Income and Corporation Taxes Act 1988 (c. 1), s. 582(3A)** (as inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by **Finance Act 2002 (c. 23), s. 82(1), Sch. 25 Pt. 2 para. 50**)

81 Meaning of “loan relationship” etc.

- (1) Subject to the following provisions of this section, a company has a loan relationship for the purposes of the Corporation Tax Acts wherever—
 - (a) the company stands (whether by reference to a security or otherwise) in the position of a creditor or debtor as respects any money debt; and
 - (b) that debt is one arising from a transaction for the lending of money;
 and references to a loan relationship and to a company’s being a party to a loan relationship shall be construed accordingly.
- (2) For the purposes of this Chapter a money debt is a debt [^{F2}which is, or has at any time been, one that falls, or that may at the option of the debtor or of the creditor fall,] to be settled—
 - (a) by the payment of money; ^{F3} ...
 - (b) by the transfer of a right to settlement under a debt which is itself a money debt [^{F4}, or
 - (c) by the issue or transfer of any shares in any company,]
 [^{F5}disregarding any other option exercisable by either party.]
- (3) Subject to subsection (4) below, where an instrument is issued by any person for the purpose of representing security for, or the rights of a creditor in respect of, any money debt, then (whatever the circumstances of the issue of the instrument) that debt shall be taken for the purposes of this Chapter to be a debt arising from a transaction for the lending of money.
- (4) For the purposes of this Chapter a debt shall not be taken to arise from a transaction for the lending of money to the extent that it is a debt arising from rights conferred by shares in a company.
- (5) For the purposes of this Chapter—
 - (a) references to payments or interest under a loan relationship are references to payments or interest made or payable in pursuance of any of the rights or liabilities under that relationship; and
 - (b) references to rights or liabilities under a loan relationship are references to any of the rights or liabilities under the agreement or arrangements by virtue of which that relationship subsists;
 and those rights or liabilities shall be taken to include the rights or liabilities attached to any security which, being a security issued in relation to the money debt in question, is a security representing that relationship.

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(6) In this Chapter “money” includes money expressed in a currency other than sterling.

Textual Amendments

- F2** Words in s. 81(2) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 2\(2\)\(a\)](#)
- F3** Word in s. 81(2) repealed (with effect in accordance with Sch. 6 para. 10(3) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 10\(2\)\(a\)](#), [Sch. 26 Pt. 3\(12\)](#)
- F4** S. 81(2)(c) and word inserted (with effect in accordance with Sch. 6 para. 10(3) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 10\(2\)\(b\)](#)
- F5** Words in s. 81(2) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 2\(2\)\(b\)](#)

Taxation of profits and gains and relief for deficits

82 Method of bringing amounts into account.

- (1) For the purposes of corporation tax—
- (a) the profits and gains arising from the loan relationships of a company, and
 - (b) any deficit on a company’s loan relationships,
- shall be computed in accordance with this section using the credits and debits given for the accounting period in question by the following provisions of this Chapter.
- (2) To the extent that, in any accounting period, a loan relationship of a company is one to which it is a party for the purposes of a trade carried on by it, the credits and debits given in respect of that relationship for that period shall be treated (according to whether they are credits or debits) either—
- (a) as receipts of that trade falling to be brought into account in computing the [^{F6}profits] of that trade for that period; or
 - (b) as expenses of that trade which are deductible in computing those profits and gains.
- (3) Where for any accounting period there are, in respect of the loan relationships of a company, both—
- (a) credits that are not brought into account under subsection (2) above (“non-trading credits”), and
 - (b) debits that are not so brought into account (“non-trading debits”),
- the aggregate of the non-trading debits shall be subtracted from the aggregate of the non-trading credits to give the amount to be brought into account under subsection (4) below.
- (4) That amount is the amount which for any accounting period is to be taken (according to whether the aggregate of the non-trading credits or the aggregate of the non-trading debits is the greater) to be either—
- (a) the amount of the company’s profits and gains for that period that are chargeable under Case III of Schedule D as profits and gains arising from the company’s loan relationships; or
 - (b) the amount of the company’s non-trading deficit for that period on its loan relationships.

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- (5) Where for any accounting period a company has non-trading credits but no non-trading debits in respect of its loan relationships, the aggregate amount of the credits shall be the amount of the company’s profits and gains for that period that are chargeable under Case III of Schedule D as profits and gains arising from those relationships.
- (6) Where for any accounting period a company has non-trading debits but no non-trading credits in respect of its loan relationships, that company shall have a non-trading deficit on its loan relationships for that period equal to the aggregate of the debits.
- (7) Subsection (2) above, so far as it provides for any amount to be deductible as mentioned in paragraph (b) of that subsection, shall have effect notwithstanding anything in section 74 of the Taxes Act 1988 (allowable deductions).

Textual Amendments
F6 Words in s. 82(2)(a) substituted (31.7.1998) by 1998 c. 36, s. 46(3)(a), Sch. 7 para. 11

83 Non-trading deficit on loan relationships.

- (1) This section applies for the purposes of corporation tax where for any accounting period (“the deficit period”) there is a non-trading deficit on a company’s loan relationships.
- (2) The company may make a claim for the whole or any part of the deficit [^{F7}(to the extent that it is not surrendered as group relief by virtue of section 403 of the Taxes Act 1988)] to be treated in any of the following ways, that is to say—
 - (a) to be set off against any profits of the company (of whatever description) for the deficit period; [^{F8}or]
 - (b) ^{F9}
 - (c) to be carried back to be set off against profits for earlier accounting periods; ^{F10}
 - (d) ^{F11}
- [^{F12}(3A) So much of the deficit for the deficit period as is not—
 - (a) surrendered as group relief by virtue of section 403 of the Taxes Act 1988, or
 - (b) treated in any of the ways specified in subsection (2) above,
 shall be carried forward and set against non-trading profits of the company for succeeding accounting periods.]
- (4) ^{F13}
- (5) No part of any non-trading deficit of a company established for charitable purposes only shall be set off against the profits of that or any other company in pursuance of a claim under subsection (2) above.
- (6) A claim under subsection (2) above must be made within the period of two years immediately following the end of the relevant period, or within such further period as the Board may allow.
- (7) In subsection (6) above “the relevant period”—
 - (a) in relation to a claim under subsection (2)(a), ^{F14} . . . or (c) above, means the deficit period; ^{F15} . . .

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(b) ^{F15}

(8) Different claims may be made under subsection (2) above as respects different parts of a non-trading deficit for any period, but no claim may be made as respects any part of a deficit to which another claim made under that subsection relates.

(9) Schedule 8 to this Act (which makes provision about what happens where a claim is made under [^{F16}subsection (2)(a) or (c) above or where subsection (3A) above has effect]) shall have effect.

Textual Amendments

- F7** Words in s. 83(2) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 3\(2\)](#)
- F8** Word in s. 83(2)(a) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 3\(3\)](#)
- F9** S. 83(2)(b) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), ss. 82\(1\), 141, Sch. 25 Pt. 1 para. 3\(4\), Sch. 40 Pt. 3\(12\)](#)
- F10** Word in s. 83(2)(c) repealed (24.7.2002 with effect in accordance with s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), s. 141, Sch. 40 Pt. 3\(12\)](#)
- F11** S. 83(2)(d) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), ss. 82\(1\), 141, Sch. 25 Pt. 1 para. 3\(5\), Sch. 40 Pt. 3\(12\)](#)
- F12** S. 83(3A) substituted for s. 83(3) (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 3\(6\)](#)
- F13** S. 83(4) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), ss. 82\(1\), 141, Sch. 25 Pt. 1 para. 3\(7\), Sch. 40 Pt. 3\(12\)](#)
- F14** Word in s. 83(7)(a) repealed (24.7.2002 with effect in accordance with s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), s. 141, Sch. 40 Pt. 3\(12\)](#)
- F15** S. 83(7)(b) and preceding word repealed (24.7.2002 with effect in accordance with s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), s. 141, Sch. 40 Pt. 3\(12\)](#)
- F16** Words in s. 83(9) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 3\(8\)](#)

Computational provisions etc.

84 Debits and credits brought into account.

(1) The credits and debits to be brought into account in the case of any company in respect of its loan relationships shall be the sums which, ^{F17}... when taken together, fairly represent, for the accounting period in question—

- (a) all profits, gains and losses of the company, including those of a capital nature, which (disregarding interest and any charges or expenses) arise to the company from its loan relationships and related transactions; and
- (b) all interest under the company's loan relationship and all charges and expenses incurred by the company under or for the purposes of its loan relationships and related transactions.

^{F18}(2)

(3) The reference in subsection (1)(b) above to charges and expenses incurred for the purposes of a company's loan relationships and related transactions does not include a reference to any charges or expenses other than those incurred directly—

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- (a) in bringing any of those relationships into existence;
- (b) in entering into or giving effect to any of those transactions;
- (c) in making payments under any of those relationships or in pursuance of any of those transactions; or
- (d) in taking steps for ensuring the receipt of payments under any of those relationships or in accordance with any of those transactions.

(4) Where—

- (a) any charges or expenses are incurred by a company for purposes connected—
 - (i) with entering into a loan relationship or related transaction, or
 - (ii) with giving effect to any obligation that might arise under a loan relationship or related transaction,
- (b) at the time when the charges or expenses are incurred, the relationship or transaction is one into which the company may enter but has not entered, and
- (c) if that relationship or transaction had been entered into by that company, the charges or expenses would be charges or expenses incurred as mentioned in subsection (3) above,

those charges or expenses shall be treated for the purposes of this Chapter as charges or expenses in relation to which debits may be brought into account in accordance with subsection (1)(b) above to the same extent as if the relationship or transaction had been entered into.

^{F19}(4A)

- (5) [^{F20}In this Chapter]“related transaction”, in relation to a loan relationship, means any disposal or acquisition (in whole or in part) of rights or liabilities under that relationship.
- (6) The cases where there shall be taken [^{F21}for the purposes of subsection (5) above] to be a disposal and acquisition of rights or liabilities under a loan relationship shall include those where such rights or liabilities are transferred or extinguished by any sale, gift, exchange, surrender, redemption or release.

[^{F22}(7) Schedule 9 to this Act contains further provisions as to the debits and credits to be brought into account for the purposes of this Chapter.]

Textual Amendments

- F17** Words in s. 84(1) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 1\(2\), Sch. 42 Pt. 2\(6\)](#)
- F18** S. 84(2) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 1\(3\), Sch. 42 Pt. 2\(6\)](#)
- F19** S. 84(4A) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 1\(3\), Sch. 42 Pt. 2\(6\)](#)
- F20** Words in s. 84(5) substituted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 79\(2\), Sch. 23 Pt. 1 para. 2\(2\)](#) (with [Sch. 23 Pt. 3 para. 25](#))
- F21** Words in s. 84(6) substituted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 79\(2\), Sch. 23 Pt. 1 para. 2\(3\)](#) (with [Sch. 23 Pt. 3 para. 25](#))
- F22** S. 84(7) substituted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 1\(4\)](#)

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

[^{F23}84A Exchange gains and losses from loan relationships

(1) The reference in section 84(1)(a) above to the profits, gains and losses arising to a company from its loan relationships and related transactions includes a reference to exchange gains and losses arising to the company from its loan relationships.

(2) Subsection (1) above is subject to the following provisions of this section.

[^{F24}(3) Subsection (1) does not apply to an exchange gain or loss of a company to the extent that it arises—

- (a) in relation to an asset or liability representing a loan relationship of the company, or
- (b) as a result of the translation from one currency to another of the profit or loss of part of the company's business,

and is recognised in the company's statement of recognised gains and losses or statement of changes in equity.

(3A) Subsection (1) does not apply to so much of an exchange gain or loss arising to a company in relation to an asset or liability representing a loan relationship of the company as falls within a description prescribed for the purpose in regulations made by the Treasury.]

^{F25}(4)

^{F25}(5)

^{F25}(6)

^{F25}(7)

(8) The Treasury may by regulations make provision for or in connection with bringing into account in prescribed circumstances amounts in relation to which subsection (3) [^{F26}or (3A)] above does not, by virtue of subsection (3) above, have effect.

(9) The reference in subsection (8) above to bringing amounts into account is a reference to bringing amounts into account—

- (a) for the purposes of this Chapter, as credits or debits in respect of the loan relationships of the company concerned; or
- (b) for the purposes of the Taxation of Chargeable Gains Act 1992.

(10) Any power to make regulations under this section includes power to make different provision for different cases.][^{F27}and power to make provision subject to an election or to other prescribed conditions]

Textual Amendments

F23 S. 84A inserted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 79(2), [Sch. 23 paras. 3, 26\(5\)](#) (with [Sch. 23 para. 25](#))

F24 S. 84A(3)(3A) substituted for s. 84A(3) (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 2\(2\)](#)

F25 Ss. 84A(4)-(7) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 2\(3\)](#), [Sch. 42 Pt. 2\(6\)](#)

F26 Words in s. 84A(8) inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 2\(4\)](#)

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

F27 Words in s. 84A(10) added (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 2\(5\)](#)

[^{F28}85A Computation in accordance with generally accepted accounting practice

- (1) Subject to the provisions of this Chapter [^{F29}(including, in particular, section 84(1))], the amounts to be brought into account by a company for any period for the purposes of this Chapter are those that, in accordance with generally accepted accounting practice, are recognised in determining the company's profit or loss for the period.
- (2) If a company does not draw up accounts in accordance with generally accepted accounting practice ("correct accounts")—
 - (a) the provisions of this Chapter apply as if correct accounts had been drawn up, and
 - (b) the amounts referred to in this Chapter as being recognised for accounting purposes are those that would have been recognised if correct accounts had been drawn up.
- (3) If a company draws up accounts that rely to any extent on amounts derived from an earlier period of account for which the company did not draw up correct accounts, the amounts referred to in this Chapter as being recognised for accounting purposes in the later period are those that would have been recognised if correct accounts had been drawn up for the earlier period.
- (4) The provisions of subsections (2) and (3) apply where the company does not draw up accounts at all as well as where it draws up accounts that are not correct.

Textual Amendments

- F28** Ss. 85A, 85B substituted for ss. 85, 86 (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 3](#)
- F29** Words in s. 85A(1) inserted (19.7.2006) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 11\(2\)](#)

85B Amounts recognised in determining company's profit or loss

- (1) Any reference in this Chapter to an amount being recognised in determining a company's profit or loss for a period is to an amount being recognised for accounting purposes—
 - (a) in the company's profit and loss account [^{F30}or income statement],
 - (b) in the company's statement of recognised gains and losses or statement of changes in equity, or
 - (c) in any other statement of items brought into account in computing the company's profits and losses for that period.
- [^{F31}(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in subsection (1) shall be brought into account for the purposes of this Chapter in computing the company's profits and losses for the period to which the statement relates. This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.]
- (3) The Treasury may by regulations—

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- (a) make provision excluding from subsection (1) [^{F32}or (2)] amounts of a prescribed description, and
 - (b) make provision for or in connection with bringing into account in prescribed circumstances amounts in relation to which [^{F33}that subsection] does not have effect by virtue of regulations under paragraph (a) above.
- (4) The regulations may provide that subsection (1) [^{F34}or (2)] does not apply to prescribed amounts in a period of account to the extent that they derive from or otherwise relate to amounts brought into account in a prescribed manner in a previous period of account.
- (5) The power to make regulations under this section includes—
- (a) power to make different provision for different cases; and
 - (b) power to make provision subject to an election or to other prescribed conditions.
- (6) The power to make regulations under this section does not apply to exchange gains or losses (but see section 84A(3A) and (8) to (10)).]

Textual Amendments

- F28** Ss. 85A, 85B substituted for ss. 85, 86 (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 3](#)
- F30** Words in s. 85B(1)(a) inserted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 26\(2\)](#)
- F31** S. 85B(2) substituted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 26\(3\)](#)
- F32** Words in s. 85B(3)(a) inserted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 26\(4\)\(a\)](#)
- F33** Words in s. 85B(3)(b) substituted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 26\(4\)\(b\)](#)
- F34** Words in s. 85B(4) inserted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 26\(5\)](#)

Modifications etc. (not altering text)

- C17** S. 85B(1) modified (with effect in accordance with reg. 1 of the amending S.I.) by [The Loan Relationships and Derivative Contracts \(Exchange Gains and Losses using Fair Value Accounting\) Regulations 2005 \(S.I. 2005/3422\)](#), [regs. 1, 9\(5\)](#)

[^{F35}85C Amounts not fully recognised for accounting purposes

- (1) This section applies if—
- (a) a company is, or is treated as being, a party to a creditor relationship in any period,
 - (b) an amount is not fully recognised for the period in respect of the creditor relationship,
 - (c) the company is, or is treated as being, a party to a debtor relationship in the period or [^{F36}an amount (a “relevant capital contribution”) has at any time been contributed to the company which forms part of its capital (whether share or other capital)] for the period,
 - (d) an amount is not fully recognised for the period in respect of the debtor relationship or [^{F37}relevant capital contribution], and
 - (e) the amounts are not fully recognised as mentioned in paragraphs (b) and (d) as a result of the application of generally accepted accounting practice in relation to the creditor relationship and the debtor relationship or [^{F37}relevant capital contribution].

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- (2) For the purposes of subsection (1) an amount is not fully recognised for the period in respect of any loan relationship [^{F38}of the company or any relevant capital contribution made to the company] if—
- (a) no amount in respect of the relationship [^{F39}or contribution] is recognised in determining its profit or loss for the period, or
 - (b) an amount in respect of only part of the relationship [^{F39}or contribution] is recognised in determining its profit or loss for the period.
- (3) In determining the credits and debits to be brought into account by the company in respect of the creditor relationship for the period for the purposes of this Chapter, the applicable assumption (see subsection (6)) must be made.
- (4) In any case where the condition in subsection (1)(c) is met by reference to a debtor relationship of the company, in determining the credits and debits to be brought into account by the company in respect of that relationship for the period for the purposes of this Chapter, the applicable assumption must be made.
- (5) But the amount of any debits to be brought into account by the company for any period for the purposes of this Chapter as a result of subsection (4) must not exceed the amount of any credits to be brought into account by the company for the period as a result of subsection (3).
- (6) For the purposes of this section, in relation to any loan relationship, the applicable assumption is the assumption that an amount in respect of the whole of the relationship is recognised in determining the company's profit or loss for the period.
- (7) In any case where—
- (a) apart from this section any credits or debits are brought into account by the company in respect of any loan relationship for the period for the purposes of this Chapter, and
 - (b) the relationship is one to which this section applies,
- the credits and debits to be so brought into account as a result of this section must be determined on the same basis of accounting on which the credits or debits mentioned in paragraph (a) were determined.
- (8) In any other case, the credits and debits to be so brought into account as a result of this section must be determined on the amortised cost basis of accounting.]

Textual Amendments

- F35** S. 85C inserted (with effect in accordance with Sch. 6 para. 12(2)(3) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 12\(1\)](#)
- F36** Words in s. 85C(1)(c) substituted (with effect in accordance with Sch. 5 para. 11(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 11\(2\)\(a\)](#)
- F37** Words in s. 85C(1)(d)(e) substituted (with effect in accordance with Sch. 5 para. 11(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 11\(2\)\(b\)](#)
- F38** Words in s. 85C(2) substituted (with effect in accordance with Sch. 5 para. 11(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 11\(3\)\(a\)](#)
- F39** Words in s. 85C(2) substituted (with effect in accordance with Sch. 5 para. 11(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 11\(3\)\(b\)](#)

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87 Accounting method where parties have a connection.

- (1) This section applies in the case of a loan relationship of a company where for any accounting period there is a connection between the company and—
- (a) in the case of a debtor relationship of the company, a person standing in the position of a creditor as respects the debt in question; or
 - (b) in the case of a creditor relationship of the company, a person standing in the position of a debtor as respects that debt.

[^{F40}(2) Where this section applies the debits and credits to be brought into account for the purposes of this Chapter as respects the loan relationship must be determined on an amortised cost basis of accounting.

(2A) The provisions of subsections (2B) and (2C) apply where subsection (2) applies, or ceases to apply, with the result that there is a change of basis of accounting for a loan relationship as between one accounting period of a company and the next.

(2B) Where for an accounting period (“the relevant period”) a company brings into account debits or credits determined in accordance with an amortised cost basis of accounting, having used a fair value basis of accounting for the immediately previous accounting period (“the previous period”)—

- (a) any amount by which the fair value of the relevant asset or liability at the end of the previous period (“A”) exceeds the cost of the asset or liability that would be given at that time on an amortised cost basis of accounting (“B”) shall be brought into account for the purposes of this Chapter as a debit (in the case of an asset) or credit (in the case of a liability) for the relevant period, and
- (b) any amount by which B exceeds A shall be brought into account for the purposes of this Chapter as a credit (in the case of an asset) or debit (in the case of a liability) for that period.

(2C) Where for an accounting period (“the relevant period”) a company brings into account debits or credits determined on the basis of fair value accounting, having used an amortised cost basis of accounting for the immediately previous accounting period (“the previous period”)—

- (a) any amount by which the fair value of the relevant asset or liability immediately before the relevant period (“C”) exceeds the cost of the asset or liability that would be given at that time on an amortised cost basis of accounting (“D”) shall be brought into account for the purposes of this Chapter as a credit (in the case of an asset) or debit (in the case of a liability) for the relevant period, and
- (b) any amount by which D exceeds C shall be brought into account for the purposes of this Chapter as a debit (in the case of an asset) or credit (in the case of a liability) for that period.]

(3) For the purposes of this section there is a connection between a company and another person for an accounting period if (subject to subsection (4) and section 88 below)—

- (a) the other person is a company and there is a time in that period ^{F41} . . . when one of the companies has had control of the other; [^{F42}or]
- (b) the other person is a company and there is a time in that period ^{F43} . . . when both the companies have been under the control of the same person; or
- (c) ^{F44}

(4) Two companies which have at any time been under the control of the same person shall not, by virtue of that fact, be taken for the purposes of this section to be companies

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between whom there is a connection if the person was the Crown, a Minister of the Crown, a government department, a Northern Ireland department, a foreign sovereign power or an international organisation.

- (5) The references in subsection (1) above to a person who stands in the position of a creditor or debtor as respects a loan relationship include references to a person who indirectly stands in that position by reference to a series of loan relationships [^{F45}or money debts which would be loan relationships if a company directly stood in the position of creditor or debtor].

[^{F46}(5A) Where a trade, profession or business is carried on by two or more persons in partnership (“the firm”) and the firm stands in the position of a creditor or debtor as respects a money debt, any question—

- (a) whether there is for the purposes of this Chapter a connection, within the meaning of this section, between any two companies for an accounting period in the case of a loan relationship, or
- (b) to what extent any amount is to be treated under this Chapter in any particular way as a result of there being, or not being, such a connection,

shall be determined as if to the extent of his appropriate share each of the partners separately, instead of the firm, stood in the position of a creditor or, as the case may be, debtor as respects the money debt.

The reference in the words following paragraph (b) above to partners does not include a reference to the general partner of a limited partnership which is a collective investment scheme within the meaning of section 235 of the Financial Services and Markets Act 2000.

- (5B) For the purposes of subsection (5A) above, a partner’s “appropriate share” is the share that would be apportioned to him if an apportionment were made in the shares in which any profit or loss computed in accordance with subsection (1) of section 114 of the Taxes Act 1988 for the accounting period in question would be apportioned between the partners under subsection (2) of that section.]

- (6) ^{F47}
- (7) ^{F47}
- (8) ^{F47}

Textual Amendments

- F40** S. 87(2)-(2C) substituted for s. 87(2) (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 4](#)
- F41** Words in s. 87(3)(a) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\)](#), ss. 82(1), 141, [Sch. 25 Pt. 1 para. 7\(2\)\(a\)](#), [Sch. 40 Pt. 3\(12\)](#)
- F42** Word in s. 87(3)(a) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 7\(2\)\(b\)](#)
- F43** Words in s. 87(3)(b) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\)](#), ss. 82(1), 141, [Sch. 25 Pt. 1 para. 7\(3\)](#), [Sch. 40 Pt. 3\(12\)](#)
- F44** S. 87(3)(c) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\)](#), ss. 82(1), 141, [Sch. 25 Pt. 1 para. 7\(4\)](#), [Sch. 40 Pt. 3\(12\)](#)
- F45** Words in s. 87(5) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 7\(5\)](#)

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- F46** S. 87(5A)(5B) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 7\(6\)](#)
- F47** S. 87(6)-(8) repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), ss. 82\(1\), 141, Sch. 25 Pt. 1 para. 7\(7\), Sch. 40 Pt. 3\(12\)](#)

Modifications etc. (not altering text)

- C18** S. 87(3) applied (24.7.2002) by [Finance Act 2002 \(c. 23\), s. 73\(8\)](#)
- C19** S. 87(3)(4) applied (with modifications) (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 83\(1\), Sch. 26 Pt. 2 paras. 6\(9\), 7\(8\) \(with Sch. 26 Pt. 2 para. 10\(2\)\)](#)
- S. 87(3)(4) applied (with modifications) (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 83\(1\), Sch. 26 Pt. 6 para. 26\(6\)](#)

[^{F48}87A Meaning of “control” in section 87

- (1) For the purposes of section 87 above, “control”, in relation to a company, means the power of a person to secure—
- (a) by means of the holding of shares or the possession of voting power in or in relation to the company or any other company, or
 - (b) by virtue of any powers conferred by the articles of association or other document regulating the company or any other company,
- that the affairs of the company are conducted in accordance with his wishes.
- (2) There shall be left out of account for the purposes of this section—
- (a) any shares held by a company, and
 - (b) any voting power or other powers arising from shares held by a company,
- if a profit on a sale of the shares would be treated as a trading receipt of a trade carried on by the company and the shares are not^{F49} ... assets of an insurance company’s long-term insurance fund^{F50}
- (3) Where section 114 of the Taxes Act 1988 (partnerships involving companies: special rules for computing profits and losses) applies in relation to a partnership, any property, rights or powers held or exercisable for the purposes of the partnership shall be treated for the purposes of this section, as respects any time in an accounting period of the partnership, as if—
- (a) the property, rights or powers had been apportioned between, and were held or exercisable by, the partners severally, and
 - (b) the apportionment had been in the shares in which the profit or loss of the accounting period of the partnership would be apportioned between the partners under subsection (2) of that section,

but taking the references in paragraphs (a) and (b) above to partners as not including a reference to the general partner of a limited partnership which is a collective investment scheme within the meaning of section 235 of the Financial Services and Markets Act 2000.]

Textual Amendments

- F48** S. 87A inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 8](#)
- F49** Words in s. 87A(2) repealed (with effect in accordance with Sch. 10 para. 17(2) of the amending Act) by [Finance Act 2007 \(c. 11\), Sch. 10 para. 14\(6\)\(a\), Sch. 27 Pt. 2\(10\)](#)

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

F50 Words in s. 87A(2) repealed (with effect in accordance with Sch. 10 para. 17(2) of the amending Act) by Finance Act 2007 (c. 11), Sch. 10 para. 14(6)(a), **Sch. 27 Pt. 2(10)**

Modifications etc. (not altering text)

C20 S. 87A applied (with modifications) (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by Finance Act 2002 (c. 23), s. 83(1), **Sch. 26 Pt. 2 paras. 6(9), 7(8)** (with Sch. 26 Pt. 2 para. 10(2))

S. 87A applied (with modifications) (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by Finance Act 2002 (c. 23), s. 83(1), **Sch. 26 Pt. 6 para. 26(6)**

88 Exemption from section 87 in certain cases.

- (1) Subject to subsection (5) below, where a creditor relationship of a company is one to which that company is a party in any accounting period in exempt circumstances, any connection for that accounting period between the company and a person who stands in the position of a debtor as respects the debt shall be disregarded for the purposes of section 87 above.
- (2) A company having a creditor relationship in any accounting period shall, for that period, be taken for the purposes of this section to be a party to that relationship in exempt circumstances if—
 - (a) the company, in the course of carrying on any activities forming an integral part of a trade carried on by that company in that period, disposes of or acquires assets representing creditor relationships;
 - ^{F51}(b)
 - (c) the asset representing the creditor relationship in question was acquired in the course of those activities;
 - (d) that asset is either—
 - (i) listed on a recognised stock exchange at the end of that period; or
 - (ii) a security the redemption of which must occur within twelve months of its issue;
 - (e) there is a time in that period when assets of the same kind as the asset representing the loan relationship in question are in the beneficial ownership of persons other than the company; and
 - (f) there is not more than three months, in aggregate, in that accounting period during which the equivalent of 30 per cent. or more of the assets of that kind is in the beneficial ownership of connected persons.
- (3) An insurance company carrying on basic life assurance and general annuity business and having a creditor relationship in any accounting period shall, for that period, be taken for the purposes of this section to be a party to that relationship in exempt circumstances if—
 - (a) assets of the company representing any of its creditor relationships are linked for that period to its basic life assurance and general annuity business;
 - ^{F52}(b)
 - (c) the asset representing the creditor relationship in question is so linked;
 - (d) that asset is either—
 - (i) listed on a recognised stock exchange at the end of that period; or
 - (ii) a security the redemption of which must occur within twelve months of its issue;

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- (e) there is a time in that period when assets of the same kind as the asset representing the creditor relationship in question are in the beneficial ownership of persons other than the company; and
 - (f) there is not more than three months, in aggregate, in that accounting period during which the equivalent of 30 per cent. or more of the assets of that kind is in the beneficial ownership of connected persons.
- (4) For the purposes of subsections (2) and (3) above—
- (a) assets shall be taken to be of the same kind where they are treated as being of the same kind by the practice of any recognised stock exchange, or would be so treated if dealt with on such a stock exchange; and
 - (b) a connected person has the beneficial ownership of an asset wherever there is, or (apart from this section) would be, a connection (within the meaning of section 87 above) between—
 - (i) the person who has the beneficial ownership of the asset, and
 - (ii) a person who stands in the position of a debtor as respects the money debt by reference to which any loan relationship represented by that asset subsists.
- (5) Where for any accounting period—
- (a) subsection (1) above has effect in the case of a creditor relationship of a company, and
 - (b) the person who stands in the position of a debtor as respects the debt in question is also a company,
- that subsection shall not apply for determining, for the purposes of so much of section 87 above as relates to the corresponding debtor relationship, whether there is a connection between the two companies.
- (6) Subsection (5) of section 87 above shall apply for the purposes of this section as it applies for the purposes of that section.

^{F53}(7)

Textual Amendments

- F51** S. 88(2)(b) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 5](#), [Sch. 42 Pt. 2\(6\)](#)
- F52** S. 88(3)(b) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 5](#), [Sch. 42 Pt. 2\(6\)](#)
- F53** S. 88(7) repealed (with effect in accordance with Sch. 10 para. 17(2) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 10 para. 14\(6\)\(b\)](#), [Sch. 27 Pt. 2\(10\)](#)

^{F54}88A Accounting method where rate of interest is reset

- (1) This section applies where—
- (a) the conditions in subsections (2) and (3) below are satisfied in relation to an asset representing a creditor relationship of a company; and
 - (b) the object, or one of the main objects, of the company entering into or becoming a party to the creditor relationship was the securing, whether for itself or any other person, of a tax advantage (within the meaning of ^{F55} given by section 840ZA] of the Taxes Act 1988).

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (2) The first condition is that there is or has at any time been a change in—
 - (a) the rate of interest payable in the case of the asset;
 - (b) the amount payable to discharge the debt; or
 - (c) the time at which any payments under the asset (whether of interest or otherwise) fall due.
- (3) The second condition is that the difference between—
 - (a) the fair value of the asset immediately after the change, and
 - (b) the issue price of the asset,
 is equal to at least 5 per cent of the issue price of the asset.
- (4) On and after the day on which the conditions in subsections (2) and (3) above become satisfied in the case of an asset, [^{F56}the debits and credits to be brought into account for the purposes of this Chapter as respects the loan relationship must be determined on the basis of fair value accounting] .
- ^{F57}(5)
- (6) In determining the fair value of an asset for any purpose of this section it shall be assumed that all amounts payable by the debtor will be paid in full as they fall due.]

Textual Amendments

F54 S. 88A inserted (24.7.2002 with effect as mentioned in s. 71(2)(4) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 71\(1\)](#)

F55 Words in s. 88A(1)(b) substituted (6.4.2007) by [Income Tax Act 2007 \(c. 3\), s. 1034\(1\), Sch. 1 para. 372](#) (with Sch. 2)

F56 Words in s. 88A(4) substituted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 6\(2\)](#)

F57 S. 88A(5) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 6\(3\), Sch. 42 Pt. 2\(6\)](#)

89 Inconsistent application of accounting methods.

^{F58}

Textual Amendments

F58 S. 89 repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\), ss. 82\(1\), 141, Sch. 25 Pt. 1 para. 9, Sch. 40 Pt. 3\(12\)](#)

^{F59}**90 Changes of accounting method.**

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Textual Amendments

F59 S. 90 repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\), Sch. 10 para. 7, Sch. 42 Pt. 2\(6\)](#)

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

[^{F60}90A Change of accounting basis applicable to assets or liabilities

- (1) The Treasury may by regulations provide that where in accordance with generally accepted accounting practice assets or liabilities of a company that were previously dealt with for accounting purposes on an amortised cost basis of accounting are required to be dealt with for accounting purposes on the basis of fair value accounting, the debits or credits to be brought into account for the purposes of this Chapter shall continue to be determined on an amortised cost basis of accounting.
- (2) The power to make regulations under this section includes power—
 - (a) to make different provision for different cases;
 - (b) to make such consequential, supplementary, incidental or transitional provision, or savings, as appear to the Treasury to be necessary or expedient; and
 - (c) to make provision subject to an election or to other prescribed conditions.]

Textual Amendments

F60 S. 90A inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 8](#)

91 Payments subject to deduction of tax.

^{F61}

Textual Amendments

F61 S. 91 repealed (24.7.2002 with effect as mentioned in s. 82(2) of the repealing Act) by [Finance Act 2002 \(c. 23\)](#), ss. 82(1), 141, [Sch. 25 Pt. 1 para. 11](#), [Sch. 40 Pt. 3\(12\)](#)

[^{F62}Shares treated as loan relationships]

Textual Amendments

F62 S. 91A and cross-heading inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(1\)\(2\)](#)

[^{F62}91A Shares subject to outstanding third party obligations

- (1) This section applies for the purposes of corporation tax in relation to [^{F63}the times in a company's accounting period during which] —
 - (a) that company (“the investing company”) holds a share in another company (“the issuing company”),
 - (b) the share is subject to outstanding third party obligations (see subsection (5)), and
 - (c) the share is an interest-like investment (see subsections (7) and (8)).
- (2) This Chapter shall have effect for the accounting period of the investing company in accordance with subsection (3) below as if [^{F64}during those times] —

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (a) the share were rights under a creditor relationship of that company, and
 - (b) any distribution in respect of the share were not a distribution falling within section 209(2)(a) or (b) of the Taxes Act 1988.
- (3) The debits and credits to be brought into account by the investing company for the purposes of this Chapter as respects the share must be determined on the basis of fair value accounting.
- (4) [^{F65}In determining those debits and credits there are to be left out of account amounts] in respect of any transaction (or series of transactions) which (apart from the assumption in subsection (8)(b) below) would have the effect of causing the condition in paragraph (a) or (b) of subsection (7) below not to be satisfied.
- (5) For the purposes of this section, the cases where a share is subject to outstanding third party obligations are those cases where—
- (a) the share is subject to [^{F66}, or will or might under any relevant arrangements be subject to,] obligations of any description in subsection (6) below,
 - (b) the obligations are obligations of a person other than the investing company [^{F67}or are obligations of the investing company which, under any relevant arrangements, will or might be discharged directly or indirectly by any other person] , and
 - (c) the obligations are yet to be discharged,
- and where a share is subject to any such obligations, they are for the purposes of this section the “third party obligations” in the case of that share.
- [For the purposes of subsection (5) above—
- ^{F68}(5A) (a) “arrangements” includes any agreement or understanding (whether or not legally enforceable),
- (b) arrangements are “relevant” if they were entered into at any time on or before the share was issued.]
- (6) The descriptions of obligation are—
- (a) an obligation to meet unpaid calls on the share;
 - (b) an obligation (not falling within paragraph (a) above) to make a contribution to the capital of the issuing company that could affect the value of the share.
- (7) In this section “interest-like investment” means a share whose nature is such that the fair value of the share—
- (a) is likely to increase at a rate which represents a return on an investment of money at a commercial rate of interest (see section 103(3A)), and
 - (b) is unlikely to deviate to a substantial extent from that rate of increase.
- Fluctuations in value resulting from changes in exchange rates are to be left out of account for the purposes of paragraph (b) above.
- (8) For the purposes of subsection (7) above, it shall be assumed—
- (a) that any third party obligations will be met in the amounts, and at the time, at which they are due, and
 - (b) that no transaction (or series of transactions) intended to cause the condition in paragraph (a) or (b) of that subsection not to be satisfied will be entered into.
- (9) For the purposes of this section, the fair value of a share that is subject to outstanding third party obligations must include the fair value of the obligations.

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (10) For the purposes of this section a company shall be treated as continuing to hold a share notwithstanding that the share has been transferred to another person—
- (a) under a repo or stock lending arrangement, or
 - (b) under a transaction which is treated by section 26 of the Taxation of Chargeable Gains Act 1992 as not involving any disposal.

[In this section “share” does not include a share in a building society.]]
F69(11)

Textual Amendments

- F63** Words in s. 91A(1) substituted (with effect in accordance with Sch. 6 para. 13(6)-(8) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 13\(2\)](#)
- F64** Words in s. 91A(2) inserted (with effect in accordance with Sch. 6 para. 13(6)-(8) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 13\(3\)](#)
- F65** Words in s. 91A(4) substituted (with effect in accordance with Sch. 5 para. 12(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 12\(2\)](#)
- F66** Words in s. 91A(5)(a) inserted (with effect in accordance with Sch. 6 para. 13(6)-(8) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 13\(4\)\(a\)](#)
- F67** Words in s. 91A(5)(b) inserted (with effect in accordance with Sch. 6 para. 13(6)-(8) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 13\(4\)\(b\)](#)
- F68** S. 91A(5A) inserted (with effect in accordance with Sch. 6 para. 13(6)-(8) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 13\(5\)](#)
- F69** S. 91A(11) inserted (with effect in accordance with Sch. 5 para. 12(6) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 12\(3\)](#)

[^{F70}91B Non-qualifying shares

- (1) This section applies for the purposes of corporation tax in relation to [^{F71}the times in a company’s accounting period during which] —
- (a) the company (“the investing company”) holds a share in another company (“the issuing company”),
 - (b) the share is not one which, by virtue of paragraph 4 of Schedule 10 to this Act (holdings in unit trusts and offshore funds), falls to be treated for that accounting period as if it were rights under a creditor relationship of the investing company, and
 - (c) the share is a non-qualifying share (see subsection (6)),
- and [^{F72}, during those times, section 91A above does not apply] in relation to the investing company in the case of that share.
- (2) This Chapter shall have effect for that accounting period in accordance with subsection (3) below as if [^{F73}during those times] —
- (a) the share were rights under a creditor relationship of the investing company, and
 - (b) any distribution in respect of the share were not a distribution falling within section 209(2)(a) or (b) of the Taxes Act 1988.
- (3) The debits and credits to be brought into account by the investing company for the purposes of this Chapter as respects the share must be determined on the basis of fair value accounting.

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (4) In any case where Condition 1 in section 91C below is satisfied, [^{F74}in determining those debits and credits there are to be left out of account amounts] in respect of any transaction (or series of transactions) which (apart from the assumption in subsection (6) of section 91C below) would have the effect of causing the condition in paragraph (a) or (b) of subsection (1) of that section not to be satisfied.
- (5) In any case where Condition 3 in section 91E below is satisfied—
- (a) debits and credits shall be brought into account for the purposes of Schedule 26 to the Finance Act 2002 (derivative contracts) by the investing company in respect of any associated transaction falling within section 91E below as if it were, or were a transaction in respect of, a derivative contract (if that is not in fact the case), and
 - (b) those debits and credits shall be determined on the basis of fair value accounting.
- (6) A share is a non-qualifying share for the purposes of this section if—
- (a) it is not one where section 95 of the Taxes Act 1988 (dealers etc) applies in relation to distributions in respect of the share, and
 - (b) one or more of the Conditions in sections 91C to 91E below is satisfied.
- (7) Subsection (10) of section 91A above (company treated as holding a share) also applies for the purposes of this section.

[In this section “share” does not include a share in a building society.]
^{F75}(8)

Textual Amendments

- F70** S. 91B inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(3\)](#)
- F71** Words in s. 91B(1) substituted (with effect in accordance with Sch. 6 para. 14(4)(5) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 14\(2\)\(a\)](#)
- F72** Words in s. 91B(1) substituted (with effect in accordance with Sch. 6 para. 14(4)(5) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 14\(2\)\(b\)](#)
- F73** Words in s. 91B(2) inserted (with effect in accordance with Sch. 6 para. 14(4)(5) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 14\(3\)](#)
- F74** Words in s. 91B(4) substituted (with effect in accordance with Sch. 5 para. 13(4)(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 13\(2\)](#)
- F75** S. 91B(8) inserted (with effect in accordance with Sch. 5 para. 13(6) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 5 para. 13\(3\)](#)

[^{F76}91C Condition 1 for section 91B(6)(b)]

- (1) Condition 1 is that the assets of the issuing company are of such a nature that the fair value of the share—
- (a) is likely to increase at a rate which represents a return on an investment of money at a commercial rate of interest, and
 - (b) is unlikely to deviate to a substantial extent from that rate of increase.

Fluctuations in value resulting from changes in exchange rates are to be left out of account for the purposes of paragraph (b) above.

Status: Point in time view as at 01/10/2007.

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- (2) But Condition 1 is not satisfied if the whole or substantially the whole by fair value of the assets of the issuing company are income producing.
- (3) The assets which, for the purposes of this section, are “income producing” are—
- (a) any share as respects which the conditions in section 91A(1) above are satisfied;
 - (b) any share as respects which Condition 1 above is satisfied or would, apart from subsection (2) above, be satisfied;
 - (c) any share as respects which Condition 2 in section 91D below is satisfied or would, apart from subsection (1)(c) of that section (excepted shares), be satisfied;
 - (d) any share as respects which Condition 3 in section 91E below is satisfied;
 - (e) any asset of a description specified in any paragraph of paragraph 8(2) of Schedule 10 to this Act (qualifying investments in relation to a unit trust scheme or an offshore fund);
 - ^[F77](f) rights under a creditor repo within the meaning of paragraph 7 of Schedule 13 to the Finance Act 2007;]
 - (g) any share in a company the whole or substantially the whole by fair value of whose assets are assets within paragraphs (a) to (f) above.
- (4) The Treasury may by regulations amend this section for the purpose of adding to the assets which are income producing.
- (5) The provision that may be made by regulations under this section includes provision for the regulations to have effect in relation to accounting periods (whenever beginning) which end on or after the day on which the regulations come into force.
- (6) For the purposes of subsection (1) above, it shall be assumed that no transaction (or series of transactions) intended to cause the condition in paragraph (a) or (b) of that subsection not to be satisfied will be entered into by the investing company.
- (7) This section shall be construed as one with section 91B above.

Textual Amendments

- F76** Ss. 91C-91E inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(4\)](#)
- F77** [S. 91C\(3\)\(f\)](#) substituted (with effect in accordance with art. 3 of the commencing S.I.) by [Finance Act 2007 \(c. 11\)](#), s. 47(4), [Sch. 14 para. 15](#); S.I. 2007/2483, art. 3

91D Condition 2 for section 91B(6)(b)

- (1) Condition 2 is that the share—
- (a) is redeemable (see subsection (2)),
 - (b) is designed to produce a return which equates, in substance, to the return on an investment of money at a commercial rate of interest, and
 - (c) is not an excepted share (see subsection (3)).

^[F78](2) For the purposes of this section, a share is to be regarded as redeemable if (and only if)—

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- (a) it is redeemable as a result of its terms of issue (or any collateral arrangements) requiring redemption, entitling the holder to require redemption or entitling the issuer to redeem, or
- (b) there are arrangements which will or might entitle the investing company to qualifying redemption amounts.]

[For the purposes of subsection (2) above—

^{F79}(2A) “arrangements” includes any agreement or understanding (whether or not legally enforceable and whether or not forming part of the terms of issue of the share), and

“qualifying redemption amounts” means amounts which, when taken together, are the same, or are substantially the same, as an amount that might be payable on the redemption of the share.]

- (3) A share is an “excepted share” for the purposes of this section if—
 - (a) it is a qualifying publicly issued share (see subsections (4) and (5)),
 - (b) it is a share that mirrors a public issue (see subsections (6) to (8)), or
 - (c) the investing company's purpose in acquiring the share is not an unallowable purpose (see subsection (9)).
- (4) A share is a “qualifying publicly issued share” for the purposes of this section if—
 - (a) it was issued by a company as part of an issue of shares to independent persons, and
 - (b) less than 10% of the shares in that issue are held by the investing company or persons connected with it.
- (5) But a share is not a qualifying publicly issued share for those purposes if the investing company's purpose in acquiring the share is an unallowable purpose by virtue of subsection (9)(a) below.
- (6) The cases where a share mirrors a public issue are those set out in subsections (7) and (8) below.
- (7) Case 1 is where—
 - (a) a company (company A) issues shares (the public issue) to independent persons,
 - (b) within [^{F80}7 days] of that issue, one or more other companies (companies BB) issue shares (the mirroring shares) to company A on the same, or substantially the same, terms as the public issue,
 - (c) company A and companies BB are associated companies (see subsection (11)), and
 - (d) the total nominal value of the mirroring shares does not exceed the nominal value of the public issue,
 and in any such case the mirroring shares are shares that mirror a public issue.
- (8) Case 2 is where, in the circumstances of Case 1,—
 - (a) within [^{F81}7 days] of the public issue, one or more other companies (companies CC) issue shares (the second-level mirroring shares) to one or more of companies BB on the same, or substantially the same, terms as the public issue,
 - (b) company A, companies BB and companies CC are associated companies, and

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- (c) the total nominal value of the second-level mirroring shares does not exceed the nominal value of the public issue,
and in any such case the second-level mirroring shares are also shares that mirror a public issue.
- (9) For the purposes of this section, a share is acquired by the investing company for an unallowable purpose if the purpose, or one of the main purposes, for which the company holds the share is—
- (a) the purpose of circumventing section 95 of the Taxes Act 1988 (see subsection (10)), or
 - (b) any other purpose which is a tax avoidance purpose (see subsection (11)).
- (10) The purpose, or one of the main purposes, for which the investing company holds a share shall, in particular, be taken to be the purpose of circumventing section 95 of the Taxes Act 1988 (taxation of dealers in respect of distributions etc) if the investing company was an associated company of a bank (see subsection (11)) at the time when the investing company acquired the share, unless the investing company shows that—
- (a) immediately before that time, some or all of its business consisted in making and holding investments, and
 - (b) it acquired the share in the ordinary course of that business.
- (11) In this section—
- “associated company”, in relation to any other company, means a company which, within the meaning given by section 413(3)(a) of the Taxes Act 1988, is a member of the same group of companies as that other company;
 - “bank” has the meaning given by section 840A of the Taxes Act 1988;
 - “independent person”, in relation to a company, means a person who is not connected with the company;
 - “tax advantage” has the meaning given by [^{F82}section 840ZA] of the Taxes Act 1988;
 - “tax avoidance purpose”, in the case of any company, means any purpose that consists in securing a tax advantage (whether for the company or any other person).
- (12) Section 839 of the Taxes Act 1988 (connected persons) applies for the purposes of this section.
- (13) This section is to be construed as one with section 91B above.

Textual Amendments

- F76** Ss. 91C-91E inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(4\)](#)
- F78** S. 91D(2) substituted (with effect in accordance with Sch. 6 para. 15(6)-(9) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 15\(2\)](#)
- F79** S. 91D(2A) inserted (with effect in accordance with Sch. 6 para. 15(6)-(9) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 15\(3\)](#)
- F80** Words in s. 91D(7) substituted (with effect in accordance with Sch. 6 para. 15(10) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 15\(4\)](#)
- F81** Words in s. 91D(8) substituted (with effect in accordance with Sch. 6 para. 15(10) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 15\(5\)](#)

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

F82 Words in s. 91D(11) substituted (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), [Sch. 1 para. 373](#) (with [Sch. 2](#))

91E Condition 3 for section 91B(6)(b)

- (1) Condition 3 is that there is a scheme or arrangement under which the share and one or more associated transactions are together designed to produce a return which equates, in substance, to the return on an investment of money at a commercial rate of interest.
- (2) But Condition 3 is not satisfied if—
 - (a) Condition 1 in section 91C above is satisfied as respects the share or would, apart from subsection (2) of that section (income producing assets), be so satisfied, or
 - (b) Condition 2 in section 91D above is satisfied as respects the share or would, apart from subsection (1)(c) of that section (excepted shares), be so satisfied.
- (3) In this section “associated transaction” includes entering into, or acquiring rights or liabilities under, any of the following—
 - (a) a derivative contract;
 - (b) a contract that would be a derivative contract, apart from paragraph 4(2B) of Schedule 26 to the Finance Act 2002 (trades etc: hedging relationships with shares);
 - (c) a contract having a similar effect to—
 - (i) a derivative contract, or
 - (ii) a contract falling within paragraph (b) above;
 - (d) a contract of insurance or indemnity.
- (4) This section is to be construed as one with section 91B above.]

Textual Amendments

F76 Ss. 91C-91E inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(4\)](#)

[^{F83}91F Power to add, vary or remove Conditions for section 91B(6)(b)

- (1) The Treasury may by regulations amend this Chapter so as to add, vary or remove Conditions for the purposes of section 91B(6)(b) above.
- (2) Where the Treasury so add, vary or remove a Condition, they may also by regulations amend any of the following enactments—
 - (a) this Chapter,
 - (b) Chapters 1 to 3 of Part 6 of the Taxes Act 1988 (company distributions),
 - (c) Part 18 of the Taxes Act 1988 (double taxation relief),
 - (d) the Taxation of Chargeable Gains Act 1992,
 - (e) Schedule 26 to the Finance Act 2002 (derivative contracts),
 so as to make provision for or in connection with taxation in the case of any asset or transaction that is or was mentioned in the Condition.
- (3) The power to make regulations under this section includes power—

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (a) to make different provision for different cases, and
- (b) to make such consequential, supplementary, incidental or transitional provisions, or savings, as appear to the Treasury to be necessary or expedient (including provision amending any enactment or any instrument made under an enactment).]

Textual Amendments

F83 S. 91F inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), **Sch. 7 para. 10(5)**

[^{F84}91G Shares beginning or ceasing to be subject to section 91A or 91B

- (1) Where at any time on or after 16th March 2005 the conditions in section 91A(1) or 91B(1) above become satisfied in the case of any share, otherwise than in the circumstances described in subsection (3) below, the investing company shall be deemed for the purposes of the Taxation of Chargeable Gains Act 1992—
 - (a) to have disposed of the share immediately before that time for a consideration of an amount equal to its fair value at that time, and
 - (b) to have immediately reacquired it for a consideration of the same amount.
- (2) Where at any time the conditions in section 91A(1) or 91B(1) above cease to be satisfied in the case of any share, the investing company shall be deemed for the purposes of the Taxation of Chargeable Gains Act 1992 and of this Chapter—
 - (a) to have disposed of the share immediately before that time for a consideration of an amount equal to its fair value at that time, and
 - (b) to have immediately reacquired it for a consideration of the same amount.
- (3) In any case where—
 - (a) a share is held by a company both—
 - (i) at the end of 15th March 2005, and
 - (ii) at the beginning of 16th March 2005, and
 - (b) the conditions in section 91A(1) or 91B(1) above are satisfied in relation to that share at the beginning of 16th March 2005,subsection (4) below applies.
- (4) In any such case, section 116 of the Taxation of Chargeable Gains Act 1992 (reorganisations etc involving qualifying corporate bonds) shall have effect in accordance with—
 - (a) the assumptions in subsections (5) and (6) below, and
 - (b) the provisions of subsections (7) and (8) below.
- (5) The first of the assumptions is that the share became an asset representing a creditor relationship of the company (and, accordingly, a qualifying corporate bond) in consequence of the occurrence on 16th March 2005 of a transaction such as is mentioned in section 116(1) of the Taxation of Chargeable Gains Act 1992.
- (6) The remaining assumptions are that, in relation to the transaction deemed to have occurred as mentioned in subsection (5) above,—

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (a) the share immediately before 16th March 2005 shall be assumed to be the old asset for the purposes of section 116 of the Taxation of Chargeable Gains Act 1992, and
 - (b) the asset representing a creditor relationship immediately after the beginning of 16th March 2005 shall be assumed for those purposes to be the new asset.
- (7) Where—
- (a) subsection (3) above has effect in the case of any share, but
 - (b) the conditions in section 91A(1) or 91B(1) above cease to be satisfied in the case of the share at any time on or before 31st December 2005,
- subsection (8) below applies.
- (8) In any such case—
- (a) the deemed disposal of the share at that time by virtue of subsection (2)(a) above shall not be regarded as a disposal for the purposes of subsection (10) (b) or (c) of section 116 of the Taxation of Chargeable Gains Act 1992, but
 - (b) the share shall continue to be the new asset for the purposes of that section.]

Textual Amendments

- F84** S. 91G inserted (with effect in accordance with Sch. 7 para. 10(7) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 10\(6\)](#)

Special cases

^{F85}92 Convertible securities etc: creditor relationships

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Textual Amendments

- F85** S. 92 repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 9](#), [Sch. 42 Pt. 2\(6\)](#)

Modifications etc. (not altering text)

- C21** S. 92 modified (27.7.1999) by [1999 c. 16, s. 65\(9\)](#)

^{F86}92A Convertible securities etc: debtor relationships

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Textual Amendments

- F86** S. 92A repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 10](#), [Sch. 42 Pt. 2\(6\)](#)

^{F87}93 Relationships linked to the value of chargeable assets.

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Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

Textual Amendments

F87 S. 93 repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004](#) (c. 12), Sch. 10 para. 11, [Sch. 42 Pt. 2\(6\)](#)

^{F88}93A Relationships linked to the value of chargeable assets: guaranteed returns

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Textual Amendments

F88 S. 93A repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004](#) (c. 12), Sch. 10 para. 11, [Sch. 42 Pt. 2\(6\)](#)

^{F89}93B Loan relationships ceasing to be within section 93

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Textual Amendments

F89 S. 93B repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004](#) (c. 12), Sch. 10 para. 11, [Sch. 42 Pt. 2\(6\)](#)

[^{F90}93C Creditor relationships and benefit derived by connected persons

- (1) This section applies in the case of any loan relationship which is a creditor relationship of a company (“company C”) if—
 - (a) the return to company C from the relationship is less than a return (a “commercial return”) on an investment of money at a commercial rate of interest,
 - (b) another company (“company P”) that is connected with company C directly or indirectly derives any benefit as a result of any arrangements made in consequence of, or otherwise in connection with, the relationship, and
 - (c) that benefit is designed to represent some or all of the amount by which the return to company C from the relationship is less than a commercial return.
- (2) The credits to be brought into account by company C in respect of the relationship for the purposes of this Chapter must be determined on the basis of fair value accounting.
- (3) The fair value of company C’s rights under the relationship must include the fair value of the benefit which is derived by company P as a result of the arrangements.
- (4) Section 839 of the Taxes Act 1988 (connected persons) applies for the purposes of this section.
- (5) In this section—
 - “arrangements” includes any agreement or understanding (whether or not legally enforceable);
 - “benefit” includes value in any form.

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

- (6) In determining for the purposes of subsection (1)(a) the return to company C from the relationship, any benefit which company C derives directly or indirectly from the benefit derived by company P as mentioned in subsection (1)(b) is to be disregarded.]

Textual Amendments

F90 S. 93C inserted (with effect in accordance with Sch. 6 para. 16(2)(3) of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 6 para. 16\(1\)](#)

94 Indexed gilt-edged securities.

- [^{F91}[^{F92}(1) In the case of a loan relationship represented by an index-linked gilt-edged security—
- (a) the amounts to be brought into account for the purposes of this Chapter must be determined using fair value accounting, and
 - (b) the following adjustment shall be made in computing those amounts.
- (2) The adjustment shall be made wherever—
- (a) those amounts fall to be determined by reference to the value of the security at two different times, and
 - (b) there is a change in the retail prices index between those times.
- (3) The adjustment is made to the carrying value of the security at the earlier time and is to increase or, as the case may be, reduce it by the same percentage as the percentage increase or reduction in the retail prices index between the earlier and the later time.]
- (4) The Treasury may, in relation to any description of index-linked gilt-edged securities, by order provide that—
- (a) there are to be no adjustments under this section; or
 - (b) that an adjustment specified in the order (instead of the adjustment specified in subsection (3) above) is to be the adjustment for which this section provides.
- (5) An order under subsection (4) above—
- (a) shall not have effect in relation to any gilt-edged security issued before the making of the order; but
 - (b) may make different provision for different descriptions of securities.
- (6) For the purposes of this section the percentage increase or reduction in the retail prices index between any two times shall be determined by reference to the difference between—
- (a) that index for the month in which the earlier time falls; and
 - (b) that index for the month in which the later time falls
- [^{F93}except that where the earlier time falls at the beginning of an accounting period which begins with the first day of a month, the index for the previous month shall be used for the purposes of paragraph (a) above.]
- (7) In this section “index-linked gilt-edged securities” means any gilt-edged securities the amounts of the payments under which are determined wholly or partly by reference to the retail prices index.]

Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

Textual Amendments

- F91** S. 94 repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 12](#), [Sch. 42 Pt. 2\(6\)](#)
- F92** S. 94(1)-(3) substituted for s. 94(1)-(3A) (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 27\(3\)](#)
- F93** Words in s. 94(6) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 12\(3\)](#)

Modifications etc. (not altering text)

- C22** S. 94 restored (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 27\(1\)](#)

[^{F94}94A Loan relationships with embedded derivatives

- (1) This section applies where a company [^{F95}in accordance with generally accepted accounting practice treats] the rights and liabilities under a loan relationship to which it is party (whether as debtor or creditor) as divided between—
- rights and liabilities under a loan relationship (the “host contract”), and
 - rights and liabilities under one or more derivative financial instruments or equity instruments (“embedded derivatives”).
- (2) The company shall be treated—
- for the purposes of this Chapter as party to a loan relationship whose rights and liabilities consist only of the rights and liabilities of the host contract, and
 - for the purposes of Schedule 26 to the Finance Act 2002 (derivative contracts) as—
 - party to a relevant contract within the meaning of that Schedule whose rights and liabilities consist only of those of the embedded derivative, or
 - if there is more than one embedded derivative, party to relevant contracts within the meaning of that Schedule each of whose rights and liabilities consist only of those of one of the embedded derivatives.
- (3) Each relevant contract to which the company is treated as party under subsection (2)(b) shall be treated for the purposes of that Schedule as an option, a future or a contract for differences according to whether the rights and liabilities of the embedded derivative would be of that character if contained in a separate contract.]

Textual Amendments

- F94** S. 94A inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 13](#)
- F95** Words in s. 94A(1) substituted (7.4.2005) by [Finance Act 2005 \(c. 7\)](#), [Sch. 4 para. 28\(2\)](#)

^{F96}95 Gilt strips.

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Status: Point in time view as at 01/10/2007.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, Chapter II. (See end of Document for details)

Textual Amendments

F96 Word in s. 95(1) substituted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 14](#)

96 Special rules for certain other gilts.

- (1) This section applies as respects any loan relationship of a company if—
- (a) it is represented by a security of any of the following descriptions—
 - (i) 3½% Funding Stock 1999-2004; or
 - (ii) 5½% Treasury Stock 2008-2012;
 and
 - (b) it is one to which the company is a party otherwise than in the course of activities that form an integral part of a trade carried on by the company.
- (2) The amounts falling for any accounting period to be brought into account for the purposes of this Chapter in respect of a loan relationship to which this section applies shall be confined to amounts relating to interest.

^{F97}(3)

Textual Amendments

F97 S. 96(3) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 15](#), [Sch. 42 Pt. 2\(6\)](#)

97 Manufactured interest.

- (1) [^{F98}For the purposes of the Corporation Tax Acts, a company has a relationship to which this section applies in any case where—
- (a) any amount (“manufactured interest”) is payable by or on behalf of, or to, [^{F99}the company] under any contract or arrangements relating to the transfer of an asset representing a loan relationship; and
 - (b) that amount is, or (when paid) will fall to be treated as, representative of interest under [^{F100}that loan relationship] (“the real interest”).

[^{F101}and references to a relationship to which this section applies, and to a company’s being party to such a relationship, shall be construed accordingly]

- [^{F102}(2) Where a company has a relationship to which this section applies—
- (a) this Chapter shall have effect in relation to the company and the manufactured interest under the relationship—
 - (i) as it would have effect if the manufactured interest were interest payable on a loan by, or (as the case may be) to, the company and were accordingly interest under a loan relationship to which the company is a party, and
 - (ii) where that company is the company to which the manufactured interest is payable, as if that relationship were the one under which the real interest is payable, ^{F103}...

^{F104}(b)

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and, subject to [^{F105}paragraph (a)(ii)] above, references in the Corporation Tax Acts to a loan relationship accordingly include a reference to a relationship to which this section applies.]

[^{F106}(2A) Where a company—

- (a) has a relationship to which this section applies, but
- (b) enters into a related transaction in respect of the right to receive manufactured interest,

then, for the purpose of bringing credits into account by virtue of subsection (2) above in respect of that or any other related transaction, the company shall continue to be treated as having a relationship to which this section applies even though the manufactured interest is not payable to the company.]

^{F107}(3)

^{F107}(3A)

[^{F108}(4) See [^{F109}section 736B(2) of the Taxes Act 1988 for a case] in which there is deemed to be a payment of an amount representative of interest for the purposes of this section.]

[^{F110}(4A) Where, for the purposes of section 736B of the Taxes Act 1988, a company is the borrower under a stock lending arrangement, then (pursuant to subsection (2A) of that section (which precludes deductions or group relief for the borrower)) no debits are to be brought into account for the purposes of this Chapter by that company in respect of the deemed representative payment under that section which is treated under [^{F111}subsection (2) of that section] above as if it had in fact been made.]

[^{F112}(4B) This section is subject to Schedule 13 to the Finance Act 2007 (sale and repurchase of securities).]

[^{F113}(5) This section does not apply where the manufactured interest is treated by virtue of paragraph 5(2)(c) or (4)(c) of Schedule 23A to the Taxes Act 1988 (manufactured interest passing through the market) as not being income of the person who receives it.]

Textual Amendments

F98 Words in s. 97(1) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 13\(2\)\(a\)](#)

F99 Words in s. 97(1)(a) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 13\(2\)\(b\)](#)

F100 Words in s. 97(1)(b) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 13\(2\)\(c\)](#)

F101 Words in s. 97(1) added (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 13\(2\)\(d\)](#)

F102 S. 97(2) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 82\(1\), Sch. 25 Pt. 1 para. 13\(3\)](#)

F103 Word in s. 97(2) repealed (with effect in accordance with Sch. 11 Pt. 2(8) Note of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 11 Pt. 2\(8\)](#)

F104 S. 97(2)(b) repealed (with effect in accordance with Sch. 7 para. 11(5) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 11\(2\)\(a\), Sch. 11 Pt. 2\(8\)](#)

F105 Words in s. 97(2) substituted (with effect in accordance with Sch. 7 para. 11(5) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 11\(2\)\(b\)](#)

F106 S. 97(2A) inserted (with effect in accordance with Sch. 7 para. 11(5) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 11\(3\)](#)

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- F107** S. 97(3)(3A) repealed (with effect in accordance with Sch. 7 para. 11(5) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 11(4), **Sch. 11 Pt. 2(8)**
- F108** S. 97(4) substituted (6.4.2007) by Income Tax Act 2007 (c. 3), s. 1034(1), **Sch. 1 para. 374(2)** (with Sch. 2)
- F109** Words in s. 97(4) substituted (with effect in accordance with art. 3 of the commencing S.I.) by Finance Act 2007 (c. 11), s. 47(4), **Sch. 14 para. 16(2)**; S.I. 2007/2483, art. 3
- F110** S. 97(4A) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(6)**
- F111** Words in s. 97(4A) substituted (6.4.2007) by Income Tax Act 2007 (c. 3), s. 1034(1), **Sch. 1 para. 374(3)** (with Sch. 2)
- F112** S. 97(4B) inserted (with effect in accordance with art. 3 of the commencing S.I.) by Finance Act 2007 (c. 11), s. 47(4), **Sch. 14 para. 16(3)**; S.I. 2007/2483, art. 3
- F113** S. 97(5) repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Notes 3, 4, 6 of the amending Act) by 1997 c. 16, s. 113, **Sch. 18 Pt. VI(10)**

98 Collective investment schemes.

The provisions of this Chapter have effect subject to the provisions of Schedule 10 to this Act (which makes special provision in relation to certain collective investment schemes).

99 Insurance companies.

The preceding provisions of this Chapter have effect subject to Schedule 11 to this Act (which makes special provision in relation to certain insurance companies and in relation to corporate members of Lloyd's).

Miscellaneous other provisions

^{F115}100 [^{F114}Money debts etc not arising from the lending of money]

- (1) For the purposes of the Corporation Tax Acts, a company has a relationship to which this section applies in any case where—
- (a) the company stands, or has stood, in the position of a creditor or debtor as respects a money debt;
 - (b) the money debt is not one which arose from a transaction for the lending of money (so that, in consequence of section 81(1)(b) above, there is no loan relationship); and
 - (c) the money debt is one—
 - (i) on which interest is payable to or by the company; or
 - (ii) in relation to which exchange gains or losses arise to the company; [^{F116}or
 - (iii) in respect of which a payment would fall to be brought into account for the purposes of corporation tax as a receipt of a trade, Schedule A business or overseas property business carried on by the company, and in relation to which an impairment loss (or a credit in respect of the reversal of an impairment loss) arises to the company;][^{F117}or
 - (iv) as respects which the conditions in subsection (1A) below (discount etc) are satisfied;]

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and references to a relationship to which this section applies, and to a company's being party to such a relationship, shall be construed accordingly.

[^{F118}(1A) The conditions mentioned in subsection (1)(c)(iv) above are that—

- (a) the company stands in the position of creditor in relation to the money debt;
- (b) the money debt is one from which a discount (whether of an income or capital nature) arises to the company;
- (c) the discount does not fall to be brought into account under section 50 of the Finance Act 2005 by virtue of section 47 of that Act (alternative finance return);
- (d) if the money debt is some or all of the consideration payable for a disposal of property, the money debt (on the assumption that it will be paid in full) does not fall to be brought into account for the purposes of corporation tax as a trading receipt of the company;

[^{F119}(e) if the money debt is some or all of the consideration payable for a disposal of property, the property in question is not an asset representing a loan relationship or a derivative contract the disposal of which is a relevant disposal.]]

[^{F120}(1B) For the purposes of subsection (1A)(e) above “relevant disposal” means—

- (a) a disposal to which paragraph 12 of Schedule 9 applies or would apply but for sub-paragraph (2A) of that paragraph,
- (b) a disposal to which paragraph 28 of Schedule 26 to the Finance Act 2002 applies or would apply but for paragraph 30 of that Schedule,
- (c) a disposal not falling within paragraph (a) or (b) above as respects which the whole of the consideration is brought into account for the purposes of this Chapter or Schedule 26 to the Finance Act 2002.]

(2) Where a company has a relationship to which this section applies—

- [^{F121}(a) this Chapter has effect in relation to the [^{F122}matters mentioned in subsection (1)(c)(i) to (iii) above or subsection (2ZA) below] as it has effect in relation to such matters arising under or in relation to a loan relationship, but
- (b) the only credits or debits to be brought into account for the purposes of this Chapter in respect of the relationship are those relating to those matters;]

and, subject to paragraph above, references in the Corporation Tax Acts to a loan relationship accordingly include a reference to a relationship to which this section applies.

[^{F123}(2ZA) The matters are—

- (a) in the case of a money debt falling within subsection (1)(c)(i) above, profits (but not losses) arising to the company from any related transaction in respect of the right to receive interest;
- (b) in the case of a money debt falling within subsection (1)(c)(iv) above, each of the following—
 - (i) the discount arising to the company from the money debt;
 - (ii) profits (but not losses) arising to the company from any related transaction;
 - (iii) any impairment arising to the company in respect of the discount;
 - (iv) any reversal of any such impairment.

(2ZB) Where a company—

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- (a) has a relationship to which this section applies by virtue of subsection (1)(c) (i) above, but
- (b) enters into a related transaction in respect of the right to receive interest, then, for the purpose of bringing credits into account by virtue of subsection (2ZA)(a) above in respect of that or any other related transaction, the company shall continue to be treated as having a relationship to which this section so applies even though the interest is not payable to the company.]

^{F124}(2A)

- (3) References in this section to interest payable on a money debt include a reference to any amount which, in pursuance of Schedule 28AA to the Taxes Act 1988 (provision not at arm's length), falls to be treated as—
 - (a) interest on a money debt; or
 - (b) interest on an amount which is treated as a money debt;
 and references in the other provisions of this section to a money debt accordingly include a reference to the amount on which that amount so falls to be treated as interest.

[^{F125}(3A) For the purposes of this section, a discount shall, in particular, be taken to arise from a money debt in any case where—

- (a) there is a disposal of property for a consideration some or all of which is money that falls to be paid after the sale;
- (b) the amount or value of the whole consideration exceeds what the purchaser would have paid for the property if he had been required to pay in full at the time of the disposal; and
- (c) some or all of the excess can reasonably be regarded as representing a return on an investment of money at interest (and, accordingly, as being a discount arising from the money debt).

(3B) The credits to be brought into account for the purposes of this Chapter in respect of a discount arising from a money debt must be determined using an amortised cost basis of accounting (see section 103).]

^{F126}(4)

^{F126}(5)

^{F126}(6)

- (7) Any debits or credits which—
 - (a) relate to interest payable under the Tax Acts, and
 - (b) fall to be brought into account by virtue of this section in relation to any company,
 are to be treated as non-trading debits or credits.

^{F127}(8)

- (9) No exchange gains or losses shall be taken to arise for the purposes of this section if the money debt in question—
 - (a) is an amount of tax,
 - (b) is an amount of tax payable under the law of a territory outside the United Kingdom, or

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- (c) is an amount which would, but for any statutory provision or rule of law to the contrary other than section 74(1)(f) or (g) of the Taxes Act 1988, be deductible as an expense in computing profits in accordance with Case I of Schedule D or as an expense of management within section 75 of the Taxes Act 1988, [^{F128}or expenses payable falling to be brought into account in Step 1 of section 76(7) of that Act]

except to the extent that, in the case of a money debt falling within paragraph (b) above, a reduction in respect of the tax there mentioned falls to be made under section 811 of the Taxes Act 1988 (double taxation relief: deduction for foreign tax where no credit allowable).

- (10) For the purposes of this section so far as relating to exchange gains and losses, each of the following shall be treated as a money debt owed to a company—

- (a) any currency held by the company;
- (b) in the case of a company carrying on insurance business, any deferred acquisition costs, within the meaning of Assets item G.II in the Balance Sheet Format set out after paragraph 9 of Schedule 9A to the Companies Act 1985 (form and content of accounts of insurance companies and groups) as read with note (17) of the Notes on the Balance Sheet Format (which follow immediately after that format).

- (11) For the purposes of this section so far as relating to exchange gains and losses, each of the following shall be treated as a money debt owed by a company—

- (a) any provision made by the company for the purposes of its statutory accounts in respect of a liability to which the company may become subject;
- (b) in the case of a company carrying on insurance business—
 - (i) any provision made by the company for unearned premiums, within the meaning of Liabilities item C.1 in the Balance Sheet Format set out after paragraph 9 of Schedule 9A to the Companies Act 1985, as read with note (20) of the Notes on the Balance Sheet Format (which follow immediately after that format);
 - (ii) any provision for unexpired risks, as defined in paragraph 81(1) of that Schedule.

- (12) A provision does not fall within paragraph (a) of subsection (11) above unless—

- (a) the duty to settle the liability in question would (if the company were to become subject to it) be owed for the purposes of a trade, a Schedule A business or an overseas property business (within the meaning of section 70A of the Taxes Act 1988); and
- (b) the provision falls to be taken into account (apart from this Chapter) in computing the profits or losses of the trade, Schedule A business or overseas property business for corporation tax purposes.

^{F129}(13)

- [^{F130}(14) This section does not apply to a debt in respect of which profits, gains or losses (if any) fall to be brought into account under—

- (a) Schedule 26 to the Finance Act 2002 (derivative contracts), or
- (b) Schedule 29 to that Act (gains and losses from intangible fixed assets).]]

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Textual Amendments

- F114** S. 100 heading substituted (7.4.2005) by [Finance Act 2005 \(c. 7\), Sch. 4 para. 9\(2\)](#)
- F115** S. 100 substituted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 79\(2\), Sch. 23 Pt. 1 para. 6](#) (with [Sch. 23 Pt. 3 para. 25](#))
- F116** S. 100(1)(c)(iii) and word inserted (7.4.2005) by [Finance Act 2005 \(c. 7\), Sch. 4 para. 9\(3\)](#)
- F117** S. 100(1)(c)(iv) and word inserted (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(2\)](#)
- F118** S. 100(1A) inserted (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(3\)](#)
- F119** S. 100(1A)(e) substituted (with effect in accordance with Sch. 6 para. 17(4) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 6 para. 17\(2\)](#)
- F120** S. 100(1B) inserted (with effect in accordance with Sch. 6 para. 17(4) of the amending Act) by [Finance Act 2006 \(c. 25\), Sch. 6 para. 17\(3\)](#)
- F121** S. 100(2)(a)(b) substituted (7.4.2005) by [Finance Act 2005 \(c. 7\), Sch. 4 para. 9\(4\)](#)
- F122** Words in s. 100(2)(a) substituted (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(4\)](#)
- F123** S. 100(2ZA)(2ZB) inserted (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(5\)](#)
- F124** S. 100(2A) repealed (with effect in accordance with art. 3 of the commencing S.I.) by [Finance Act 2007 \(c. 11\), s. 47\(4\), Sch. 14 para. 17, Sch. 27 Pt. 2\(14\)](#); S.I. 2007/2483, art. 3
- F125** S. 100(3A)(3B) inserted (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(6\)](#)
- F126** S. 100(4)-(6) repealed (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(7\), Sch. 11 Pt. 2\(8\)](#)
- F127** S. 100(8) repealed (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(7\), Sch. 11 Pt. 2\(8\)](#)
- F128** Words in s. 100(9)(c) added (with effect in accordance with art. 1(2) of the amending S.I.) by [The Finance Act 2004, Sections 38 to 40 and 45 and Schedule 6 \(Consequential Amendment of Enactments\) Order 2004 \(S.I. 2004/2310\), art. 1\(2\), Sch. para. 49](#)
- F129** S. 100(13) repealed (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(8\), Sch. 11 Pt. 2\(8\)](#)
- F130** S. 100(14) added (7.4.2005) by [Finance Act 2005 \(c. 7\), Sch. 4 para. 9\(5\)](#)

Modifications etc. (not altering text)

- C23** S. 100(2) modified (with effect in accordance with Sch. 7 para. 12(9)-(13) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\), Sch. 7 para. 12\(11\)](#)

101 Financial instruments.

- (1) [^{F131}Schedule 26 to the Finance Act 2002 (provisions relating to derivative contracts)] shall not apply to any profit or loss which, [^{F132}in accordance with that Schedule], accrues to a company for any accounting period on [^{F133}a derivative contract] by virtue of which the company is a party to any loan relationship if—
- (a) an amount representing that profit or loss, or
 - (b) an amount representing the profit or loss accruing to that company on that contract,

is brought into account for that period for the purposes of this Chapter.

- [^{F134}(1A) This section does not apply where section 94A above applies (treatment of embedded derivatives).]

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- (2) ^{F135}
- (3) ^{F135}
- (4) ^{F135}
- (5) ^{F135}
- (6) ^{F135}

Textual Amendments

- F131** Words in s. 101(1) substituted (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 83(1), [Sch. 27 para. 19\(2\)\(a\)](#)
- F132** Words in s. 101(1) substituted (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 83(1), [Sch. 27 para. 19\(2\)\(b\)](#)
- F133** Words in s. 101(1) substituted (24.7.2002 with effect as mentioned in s. 83(3)(4) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 83(1), [Sch. 27 para. 19\(2\)\(c\)](#)
- F134** S. 101(1A) inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 16](#)
- F135** S. 101(2)-(6) repealed (24.7.2002 with effect as mentioned in s. 83(3)(4) of the repealing Act) by [Finance Act 2002 \(c. 23\)](#), ss. 83(1), 141, [Sch. 27 para. 19\(3\)](#), [Sch. 40 Pt. 3\(13\)](#)

^{F136}**102 Discounted securities: income tax provisions.**

.....

Textual Amendments

- F136** S. 102 repealed (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 487](#), [Sch. 3](#) (with [Sch. 2](#))

Supplemental

103 Interpretation of Chapter.

- (1) In this Chapter—

^{F137}
...

[^{F138}“amortised cost basis of accounting”, in relation to a loan relationship of a company, means a basis of accounting under which an asset or liability representing the loan relationship is shown in the company’s accounts at cost adjusted for cumulative amortisation and any impairment, repayment or release;]

“creditor relationship”, in relation to a company, means any loan relationship of that company in the case of which it stands in the position of a creditor as respects the debt in question;

“debt” includes a debt the amount of which falls to be ascertained by reference to matters which vary from time to time;

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“debtor relationship”, in relation to a company, means any loan relationship of that company in the case of which it stands in the position of a debtor as respects the debt in question;

[^{F139} “derivative contract” has the same meaning as in Schedule 26 to the Finance Act 2002;]

[^{F140} “exchange gain” and “exchange loss” shall be construed in accordance with subsections (1A) [^{F141}, (1AA)] and (1B) below;]

[^{F138} “fair value”, in relation to a loan relationship of a company, means the amount which, at the time as at which the value falls to be determined, is the amount that the company would obtain from or, as the case may be, would have to pay to an independent person for—

- (a) the transfer of all the company’s rights under the relationship ^{F142} ..., and
- (b) the release of all the company’s liabilities under the relationship ^{F142} ...;

“fair value accounting” means a basis of accounting under which assets or liabilities are shown in the company’s balance sheet at their fair value;]

“gilt-edged securities” means any securities which—

- (a) are gilt-edged securities for the purposes of the ^{M1}Taxation of Chargeable Gains Act 1992; or
- (b) will be such securities on the making of any order under paragraph 1 of Schedule 9 to that Act the making of which is anticipated in the prospectus under which they are issued;

[^{F138} “impairment” includes uncollectability;]

[^{F138} “impairment loss” means a debit in respect of the impairment of a financial asset;]

“an independent person” means a knowledgeable and willing party dealing at arm’s length;

“international organisation” means an organisation of which two or more sovereign powers, or the governments of two or more sovereign powers, are members;

“loan” includes any advance of money, and cognate expressions shall be construed accordingly;

“money” shall be construed in accordance with section 81(6) above and subsection (5) below;

“money debt” shall be construed in accordance with section 81(2) above;

“non-trading credit” and “non-trading debit” shall be construed in accordance with section 82(3) above;

[^{F143} “related transaction” shall be construed in accordance with section 84 above (see subsections (5) and (6) of that section);]

“retail prices index” has the same meaning as it has, by virtue of [^{F144}section 989 of the Income Tax Act 2007], in the Income Tax Acts;

“share” [^{F145}(except in sections 91A to 91G)], in relation to a company, means any share in the company under which an entitlement to receive distributions may arise [^{F146}but does not include a share in a building society].

^{F147} ...

[^{F148}(1A) References in this Chapter to exchange gains or exchange losses, in the case of any company, are references respectively to—

- (a) profits or gains, or
- (b) losses,

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which arise as a result of comparing at different times the expression in one currency of the whole or some part of the valuation put by the company in another currency on an asset or liability of the company.

If the result of such a comparison is that neither an exchange gain nor an exchange loss arises, then for the purposes of this Chapter an exchange gain of nil shall be taken to arise in the case of that comparison.

- [^{F149}(1AA) The Treasury may make provision by regulations as to the manner in which—
- (a) exchange gains or losses, and
 - (b) any other profits or gains or losses,
- are to be calculated for the purposes of subsection (1A) in a case where fair value accounting is used by the company.
- Any such regulations may be made so as to apply to periods of account beginning before the regulations are made, but not earlier than the beginning of the calendar year in which they are made.]
- (1B) Any reference in this Chapter to an exchange gain or loss from a loan relationship of a company is a reference to an exchange gain or loss arising to a company in relation to an asset or liability representing a loan relationship of the company.]
- (2) For the purposes of this Chapter a company shall be taken to be a party to a creditor relationship for the purposes of a trade carried on by that company only if it is a party to that relationship in the course of activities forming an integral part of that trade.
- (3) For the purposes of this Chapter, and of so much of any other enactment as contains provision by reference to which amounts fall to be brought into account for the purposes of this Chapter, activities carried on by a company in the course of—
- (a) any mutual trading, ^{F150}...
 - (b) any mutual insurance or other mutual business which is not life assurance business (within the meaning of Chapter I of Part XII of the Taxes Act 1988), [^{F151}or
 - (c) any basic life assurance and general annuity business,]
- shall be deemed not to constitute the whole or any part of a trade.
- [^{F152}(3A) For the purposes of this Chapter, a commercial rate of interest, in the case of a company and any asset, is—
- (a) a rate (“the simple commercial rate”) that is reasonably comparable to the rate that the company could obtain by placing on deposit the money it invested in the asset, or
 - (b) in any case where—
 - (i) the likely rate of increase in the value of the asset is in question, and
 - (ii) that likely rate is a lower rate than the simple commercial rate, and
 - (iii) the difference is a result of an expectation that the company would also obtain a tax advantage as a result of investing in the asset,that lower rate.
- (3B) In subsection (3A) above, “tax advantage” has the meaning given by [^{F153}section 840ZA] of the Taxes Act 1988.]
- (4) If, in any proceedings, any question arises whether a person is an international organisation for the purposes of any provision of this Chapter, a certificate issued by

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or under the authority of the Secretary of State stating any fact relevant to that question shall be conclusive evidence of that fact.

^{F154}(5)

[^{F155}(6) Where—

- (a) a company ceases to be a party to a loan relationship in an accounting period (the “cessation period”),
- (b) profits, gains or losses arise to the company from the loan relationship or a related transaction in that accounting period, and
- (c) the credits or debits brought into account for the purposes of this Chapter for that accounting period do not include credits or debits which represent the whole of those profits, gains or losses,

credits or debits in respect of so much of those profits, gains or losses as are not represented by credits or debits brought into account for the cessation period shall continue to be brought into account under this Chapter over one or more subsequent accounting periods (“post-cessation periods”) as in the case of a loan relationship to which the company is a party in those periods, and subsections (7) and (8) below shall apply.

(7) In any case falling within subsection (6) above, any question—

- (a) whether, in a post-cessation period, the company is to any extent a party to the loan relationship—
 - (i) for the purposes of a trade carried on by it, or
 - (ii) for any other particular purpose or purposes, or
- (b) whether, in a post-cessation period, the loan relationship is to any extent referable to a particular business, or a particular class, category or description of business, carried on by the company,

shall be determined by reference to the circumstances immediately before the company ceased to be a party to the loan relationship instead of the circumstances in the post-cessation period.

(8) In any case falling within subsection (6) above, any question—

- (a) whether the loan relationship has to any extent a particular purpose in a post-cessation period, or
- (b) whether there is a connection between the company and any other person for a post-cessation period,

shall be determined by reference to the circumstances in the cessation period instead of the circumstances in the post-cessation period.]

Textual Amendments

F137 Words in s. 103(1) repealed (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 17\(2\)\(a\)](#), [Sch. 42 Pt. 2\(6\)](#)

F138 Words in s. 103(1) inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [Sch. 10 para. 17\(2\)\(b\)](#)

F139 In s. 103(1) definition of “derivative contract” inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), [Sch. 25 Pt. 1 para. 15](#)

F140 In s. 103(1) definitions of “exchange gain” and “exchange loss” inserted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 79(2), [Sch. 23 Pt. 1 para. 7\(2\)](#) (with [Sch. 23 Pt. 3 para. 25](#))

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- F141** Word in s. 103(1) inserted (retrospective to 7.4.2005) by Finance (No. 2) Act 2005 (c. 22), **Sch. 6 para. 4(4)(6)**
- F142** Words in s. 103(1) repealed (with effect in accordance with Sch. 6 para. 18(3)(4) of the amending Act) by Finance Act 2006 (c. 25), **Sch. 6 para. 18(2), Sch. 26 Pt. 3(12)**
- F143** In s. 103(1) definition of "related transaction" inserted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by Finance Act 2002 (c. 23), s. 79(2), **Sch. 23 Pt. 1 para. 7(2)** (with Sch. 23 Pt. 3 para. 25)
- F144** Words in s. 103(1) substituted (6.4.2007) by Income Tax Act 2007 (c. 3), s. 1034(1), **Sch. 1 para. 375(2)** (with Sch. 2)
- F145** Words in s. 103(1) inserted (with effect in accordance with Sch. 5 para. 14(2) of the amending Act) by Finance Act 2007 (c. 11), **Sch. 5 para. 14(1)**
- F146** In s. 103(1) words in definition of "share" inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 14**
- F147** Words in s. 103(1) repealed (with effect in accordance with s. 52(3) of the amending Act) by Finance Act 2004 (c. 12), **Sch. 10 para. 17(2)(c), Sch. 42 Pt. 2(6)**
- F148** S. 103(1A)(1B) inserted (24.7.2002 with effect as mentioned in s. 79(3) of the amending Act) by Finance Act 2002 (c. 23), s. 79(2), **Sch. 23 Pt. 1 para. 7(3)** (with Sch. 23 Pt. 3 para. 25)
- F149** S. 103(1AA) substituted (20.7.2005) by Finance (No. 2) Act 2005 (c. 22), **Sch. 6 para. 10**
- F150** Word in s. 103(3)(a) repealed (with effect in accordance with Sch. 10 para. 17(2) of the amending Act) by Finance Act 2007 (c. 11), **Sch. 10 para. 6(2), Sch. 27 Pt. 2(10)**
- F151** S. 103(3)(c) and word inserted (with effect in accordance with Sch. 10 para. 17(2) of the amending Act) by Finance Act 2007 (c. 11), **Sch. 10 para. 6(2)**
- F152** S. 103(3A)(3B) inserted (with effect in accordance with Sch. 7 para. 13(2) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), **Sch. 7 para. 13(1)**
- F153** Words in s. 103(3B) substituted (6.4.2007) by Income Tax Act 2007 (c. 3), s. 1034(1), **Sch. 1 para. 375(3)** (with Sch. 2)
- F154** S. 103(5) repealed (with effect in accordance with s. 52(3) of the amending Act) by Finance Act 2004 (c. 12), **Sch. 10 para. 17(3), Sch. 42 Pt. 2(6)**
- F155** S. 103(6)-(8) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 16**

Marginal Citations

M1 1992 c. 12.

104 Minor and consequential amendments.

Schedule 14 to this Act (which, for the purposes of both corporation tax and income tax, makes certain minor and consequential amendments in connection with the provisions of this Chapter) shall have effect.

105 Commencement and transitional provisions.

- (1) Subject to Schedule 15 to this Act, this Chapter has effect—
- for the purposes of corporation tax, in relation to accounting periods ending after 31st March 1996; and
 - so far as it makes provision for the purposes of income tax, in relation to the year 1996-97 and subsequent years of assessment.
- (2) Schedule 15 to this Act (which contains transitional provisions and savings in connection with the coming into force of this Chapter) shall have effect.

Status:

Point in time view as at 01/10/2007.

Changes to legislation:

There are currently no known outstanding effects for the Finance Act 1996, Chapter II.