These notes refer to the Corporation Tax Act 2009 (c.4) which received Royal Assent on 26 March 2009

CORPORATION TAX ACT 2009

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 5: Loan Relationships

Overview

Chapter 5: Connected companies relationships: introduction and general

Overview

1126. Connected companies loan relationships are subject to special rules under this Part. The Chapter explains what is meant by such a relationship, the accounting rules to apply to that relationship and what happens when a company begins or ceases to be a connected company.

Section 348: Introduction: meaning of "connected companies relationship"

1127. This section provides the meaning of "connected companies relationship". It is based on section 87(1), (3) and (5) of FA 1996.

1128. "Person" in section 87(1), (3) and (5) of FA 1996 has been rewritten as "company". See *Change 56* in Annex 1.

1129. Section 87(5) deals with intermediaries between two connected companies through which a loan is "dog-legged". Such intermediaries may be individuals. This has been rewritten in this section by treating debtor and creditor relationships separately. Paragraph (b) of *subsections (2) and (4)* is necessary because loans between individuals do not fall into the definition of a loan relationship in section 81(1) of FA 1996.

1130. *Subsection (6)* brings out more clearly than in the source legislation (section 87(3) of FA 1996) that where there is a connection at any time in an accounting period there is a connected companies relationship for the whole of the period.

Section 349: Application of amortised cost basis to connected companies relationships

1131. This section provides that where a loan relationship is a "connected companies relationship" (the parties to a loan relationship are connected) both parties must use the same basis of accounting – the amortised cost basis rather than the fair value basis. It is based on section 87(1) and (2) of FA 1996. The same basis of accounting ensures both that the value of the loan cannot be artificially depressed and that debits in the one company are matched by credits in the other.

1132. In *subsection (2)* "for the period" has been added for clarification. The words do not appear in section 87(2) which this subsection rewrites.

1133. *Subsection (3)* makes the requirement for amortised cost basis subject to section 454 (reset bonds) which requires fair value accounting to apply. See *Change 57* in Annex 1.

Section 350: Companies beginning to be connected

1134. This section provides the rule to be applied when companies begin to be connected under section 348 and this involves a change in accounting basis from fair value accounting to the amortised cost basis. It is based on section 87(2A) and (2B) of FA 1996.

Section 351: Companies ceasing to be connected

1135. This section provides the rule to be applied when companies cease to be connected under section 348 and this involves a change in accounting basis from the amortised cost basis to fair value accounting. It is based on section 87(2A) and (2C) of FA 1996.

Section 352: Disregard of related transactions

1136. This section provides that credits and debits in respect of related transactions are only brought into account where they do not create greater deductions or smaller credits than would have been the case if the transactions had not taken place. The section is based on paragraph 6(1), (2) and (6) to (8) of Schedule 9 to FA 1996.