



# Corporation Tax Act 2010

## 2010 CHAPTER 4

### PART 14

#### CHANGE IN COMPANY OWNERSHIP

### CHAPTER 3

#### COMPANY WITH INVESTMENT BUSINESS: RESTRICTIONS ON RELIEF: GENERAL PROVISION

#### *Introduction*

#### **677 Introduction to Chapter**

- (1) This Chapter applies if—
  - (a) there is a change in the ownership of a company with investment business (“the company”), and
  - (b) condition A, B or C is met.
- (2) Condition A is that after the change in ownership there is a significant increase in the amount of the company's capital (see sections 688 to 691).
- (3) Condition B is that within the period of [<sup>F18</sup>] years beginning 3 years before the change in ownership there is a major change in the nature or conduct of the business carried on by the company.
- (4) Condition C is that the change in ownership occurs at any time after the scale of the activities in the business carried on by the company has become small or negligible and before any significant revival of the business.
- (5) In subsection (3) “major change in the nature or conduct of a business” includes a major change in the nature of the investments held by the company, even if the change is the result of a gradual process which began before the period of [<sup>F28</sup>] years mentioned in that subsection.

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(6) In this Chapter—

“the change in ownership” means the change in ownership mentioned in subsection (1), and

“the company” has the same meaning as in this section.

#### **Textual Amendments**

- F1** Word in s. 677(3) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 80(2)** (with Sch. 4 para. 80(4))
- F2** Word in s. 677(5) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 80(3)** (with Sch. 4 para. 80(4))

*Notional split of accounting period in which change in ownership occurs*

### **678 Notional split of accounting period in which change in ownership occurs**

- (1) This section applies for the purposes of this Chapter.
- (2) The accounting period in which the change in ownership occurs (“the actual accounting period”) is treated as two separate accounting periods (“notional accounting periods”), the first ending with the change and the second consisting of the remainder of the period.
- (3) The amounts for the actual accounting period in column 1 of the table in section 685(2) are apportioned to the two notional accounting periods in accordance with section 685.
- (4) In this Chapter “the actual accounting period” and “notional accounting periods” have the same meaning as in this section.

*Restrictions on relief*

### **679 Restriction on debits to be brought into account**

- (1) This section has effect for the purpose of restricting the debits to be brought into account for the purposes of Part 5 of CTA 2009 (loan relationships) in respect of the company's loan relationships.
- (2) The debits to be brought into account for the purposes of Part 5 of CTA 2009 for—
  - (a) the accounting period beginning immediately after the change in ownership, or
  - (b) any subsequent accounting period,
 do not include relevant non-trading debits so far as amount A exceeds amount B.
- (3) Amount A is the sum of—
  - (a) the amount of those relevant non-trading debits, and
  - (b) the amount of any relevant non-trading debits which have been brought into account for the purposes of that Part for any previous accounting period ending after the change in ownership.
- (4) Amount B is the amount of the taxable total profits of the accounting period ending with the change in ownership.

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(5) For the meaning of “relevant non-trading debit”, see section 730.

### **680 Restriction on the carry forward of non-trading deficit from loan relationships**

- (1) This section has effect for the purpose of restricting the carry forward of a non-trading deficit from the company's loan relationships under Part 5 of CTA 2009 (loan relationships).
- (2) Subsection (3) applies if the non-trading deficit in column 1 of row 4 of the table in section 685(2) is apportioned in accordance with section 685(2) to the first notional accounting period.
- (3) None of that non-trading deficit may be carried forward to—
  - (a) the accounting period beginning immediately after the change in ownership, or
  - (b) any subsequent accounting period.

### **681 Restriction on relief for non-trading loss on intangible fixed assets**

- (1) This section has effect for the purpose of restricting relief under section 753 of CTA 2009 (treatment of non-trading losses) in respect of a non-trading loss on intangible fixed assets.
- (2) Relief under section 753 of CTA 2009 against the total profits of the same accounting period is available only in relation to each of the notional accounting periods considered separately.
- (3) A non-trading loss on intangible fixed assets for an accounting period beginning before the change in ownership may not be—
  - (a) carried forward under section 753(3) of that Act to an accounting period ending after the change in ownership, or
  - (b) treated under that section as if it were a non-trading [<sup>F3</sup>loss on intangible fixed assets for] that period.

#### **Textual Amendments**

- F3** Words in s. 681(3)(b) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 81(2)**

### **682 Restriction on the deduction of expenses of management**

- (1) This section has effect for the purpose of restricting deductions for expenses of management.
- (2) Any amounts which—
  - (a) are, or are treated as, expenses of management referable to the actual accounting period, and
  - (b) are apportioned to either of the two notional accounting periods in accordance with section 685,

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are treated for the purposes of Chapter 2 of Part 16 of CTA 2009 (companies with investment business) as expenses of management referable to that notional accounting period.

- (3) Any allowances which are apportioned to either of the notional accounting periods in accordance with section 685 are treated for the purposes of [F4sections 253 and 270HE] of CAA 2001 and section 1233 of CTA 2009 (companies with investment business: excess capital allowances) as falling to be made in that notional accounting period.
- (4) In calculating the taxable total profits of an accounting period of the company ending after the change in ownership, no deduction may be made under section 1219 of CTA 2009 (expenses of management of a company's investment business) by reference to—
  - (a) expenses of management deductible for an accounting period beginning before the change, or
  - (b) allowances falling to be made for such an accounting period.

#### **Textual Amendments**

- F4** Words in s. 682(3) substituted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), regs. 1, **9(2)**

### **683 Disallowance of UK property business losses**

- (1) This section has effect for the purpose of restricting relief under sections 62 and 63 for a loss made by the company in a UK property business before the change in ownership.
- (2) Relief under section 62(3) is available only in relation to each of the notional accounting periods considered separately.
- (3) A loss made in an accounting period beginning before the change in ownership may not be—
  - (a) carried forward under section 62(5)(a) or 63(3)(a) to an accounting period ending after the change in ownership, or
  - (b) treated in relation to that accounting period as mentioned in section 62(5)(b) or 63(3)(b).

### **684 Disallowance of overseas property business losses**

- (1) This section has effect for the purpose of restricting relief under section 66 for a loss made by the company in an overseas property business before the change in ownership.
- (2) A loss in the business made in an accounting period beginning before the change in ownership may not be used under section 66(3) to reduce the profits of the business of an accounting period ending after the change in ownership.

#### *Apportionment of amounts*

### **685 Apportionment of amounts**

- (1) This section applies for the purposes of this Chapter, but subsection (2) is subject to subsection (3).

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- (2) Any amount for the actual accounting period in column 1 of the following table is to be apportioned to the two notional accounting periods in accordance with the corresponding method of apportionment in column 2 of the table.

<b>Row</b>	<b>1. Amount to be apportioned</b>	<b>2. Method of apportionment</b>
1	The amount for the actual accounting period of any adjusted non-trading profits from the company's loan relationships (see section 686(2)).	Apportion the amount in column 1 on a time basis according to the respective lengths of the two notional accounting periods.
2	The amount for the actual accounting period of any adjusted non-trading deficit from the company's loan relationships (see section 686(3)).	Apportion the amount in column 1 on a time basis according to the respective lengths of the two notional accounting periods.
3	The amount of any non-trading debit that falls to be brought into account for the actual accounting period for the purposes of Part 5 of CTA 2009 (loan relationships) in respect of any debtor relationship of the company.	(1) If condition A in section 686(4) is met, apportion the amount in column 1 by reference to the time of accrual of the amount to which the debit relates. (2) If condition B in section 686(5) is met, apportion the amount in column 1 to the first notional accounting period.
4	The amount of any non-trading deficit carried forward to the actual accounting period under section 457(1) [ <sup>F5</sup> , 463G(6) or 463H(4) of CTA 2009.]	Apportion the whole of the amount in column 1 to the first notional accounting period.
5	The amount of any non-trading credits or debits in respect of intangible fixed assets that fall to be brought into account for the actual accounting period under section 751 of CTA 2009 (non-trading gains and losses), but excluding any amount within column 1 of row 6.	Apportion to each notional accounting period the credits or debits that would fall to be brought into account in that period if it were a period of account for which accounts were drawn up in accordance with generally accepted accounting practice.
6	The amount of any non-trading loss on intangible fixed assets carried forward to the actual accounting period under section 753(3) of CTA 2009 and treated under that section as if it were a non-trading [ <sup>F6</sup> loss on intangible fixed assets for] that period.	Apportion the whole of the amount in column 1 to the first notional accounting period.
7	The amount of any expenses of management referable to the actual accounting period within the meaning of Chapter 2 of Part 16 of CTA 2009 (companies	Apportion to each notional accounting period the amounts that would fall to be brought into account in that period as an amount in column 1 if it were a period of account for which accounts were drawn up in

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	with investment business) (but see section 686(6)).	accordance with generally accepted accounting practice.
8	The amount of any excess carried forward under section 1223 of CTA 2009 (expenses of management carried forward) to the actual accounting period.	Apportion the whole of the amount in column 1 to the first notional accounting period.
9	The amount of any allowances falling to be made for the actual accounting period as a result of section 253 of CAA 2001 which would (but for this Chapter) be added to the expenses of management for the period because of section 1233 of CTA 2009 (excess capital allowances).	Apportion the amount in column 1 on a time basis according to the respective lengths of the two notional accounting periods.
10	Any other amounts by reference to which the profits or losses of the actual accounting period would (but for this Chapter) be calculated.	Apportion the amount in column 1 on a time basis according to the respective lengths of the two notional accounting periods.

(3) If any method of apportionment in column 2 of the table in subsection (2) would work unjustly or unreasonably in any case, such other method is to be used as is just and reasonable.

(4) For the meaning of certain expressions used in this section, see section 686.

#### **Textual Amendments**

- F5** Words in s. 685(2) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 82(2)** (with Sch. 4 para. 82(4))
- F6** Words in s. 685(2) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 82(3)** (with Sch. 4 para. 82(4))

### **686 Meaning of certain expressions in section 685**

- (1) This section applies for the purposes of the table in section 685(2).
- (2) For the purposes of column 1 of row 1 of the table, the amount for the actual accounting period of any adjusted non-trading profits from the company's loan relationships is the amount which would be the amount of the profits from those relationships chargeable under section 299 of CTA 2009 (charge to tax on non-trading profits) if, in calculating that amount, amounts for that period within column 1 of row 3 or 4 of the table were disregarded.
- (3) For the purposes of column 1 of row 2 of the table, the amount for the actual accounting period of any adjusted non-trading deficit from the company's loan relationships is the amount which would be the amount of the non-trading deficit from those relationships if, in calculating that amount, amounts for that period within column 1 of row 3 or 4 of the table were disregarded.
- (4) Condition A is that —

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- (a) the amount in column 1 of row 3 of the table is determined on an amortised cost basis of accounting, and
  - (b) none of the following provisions applies—
    - (i) section 373 of CTA 2009 (late interest treated as not accruing until paid in some cases),
    - (ii) section 407 of that Act (postponement until redemption of debits for connected companies' deeply discounted securities), or
    - (iii) section 409 of that Act (postponement until redemption of debits for close companies' deeply discounted securities).
- (5) Condition B is that —
- (a) the amount in column 1 of row 3 of the table is determined on an amortised cost basis of accounting, and
  - (b) any of the provisions mentioned in subsection (4)(b) applies.
- (6) The expenses of management mentioned in column 1 of row 7 of the table do not include any expenses for which a deduction under section 1219 of CTA 2009 (expenses of management of a company's investment business) would be disallowed because of subsection (3)(b) of that section.

*Adjustment to balancing charges if relief is restricted*

**687 Adjustment to balancing charges if relief is restricted**

- (1) This section applies if condition A or B is met.
- (2) Condition A is that the debits to be brought into account for the purposes of Part 5 of CTA 2009 (loan relationships) in the case of the company in respect of its loan relationships are restricted because of section 679.
- (3) Condition B is that deductions from the company's total profits are restricted because of section 680 or 682.
- (4) In applying the provisions of CAA 2001 about balancing charges to the company by reference to any event after the change in ownership, there is to be disregarded any allowance falling to be made in taxing the company's trade for any accounting period beginning before the change in ownership.

This subsection applies despite section 577(3) of CAA 2001.

- (5) But subsection (4) does not apply if the allowance has been given effect to by means of relief against any profits of that accounting period or any subsequent accounting period beginning before the change in ownership.
- (6) For the purposes of subsection (5), it is to be assumed that any loss attributable to any such allowance as is mentioned in subsection (4) is relieved before any loss which is not attributable to such an allowance.

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*Meaning of “significant increase in the amount of a company's capital”*

### 688 Meaning of “significant increase in the amount of a company's capital”

- (1) This section and sections 689 to 691 have effect for determining whether, for the purposes of section 677(2), there is a significant increase in the amount of a company's capital after a change in the ownership of the company.
- (2) There is a significant increase in the amount of a company's capital if amount B—
  - (a) exceeds amount A by at least £1 million, [<sup>F7</sup>, and]
  - [<sup>F7</sup>(b) is at least 125% of amount A.]
- (3) For the meaning of—
  - (a) “amount A” and “amount B”, see sections 689 and 690 respectively, and
  - (b) “amount of capital”, see section 691.

#### Textual Amendments

- F7** S. 688(2)(b) and word substituted (with effect in accordance with s. 37(6) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 37\(2\)](#)

### 689 Amount A

- (1) In section 688, amount A is the lower of—
  - (a) the amount of the company's capital immediately before the change in ownership, and
  - (b) the highest 60 day minimum amount for the pre-change year.
- (2) The highest 60 day minimum amount for the pre-change year is found as follows.
 

*Step 1* Find the daily amounts of the company's capital over the pre-change year.

*Step 2* Take the highest of the daily amounts.

*Step 3* Find out whether there was in the pre-change year a period of at least 60 days in which there was no daily amount lower than the amount taken.

*Step 4* If there was, the amount taken is the highest 60 day minimum amount for the pre-change year. If there was not, take the next highest of the daily amounts and repeat step 3; and so on, until the highest 60 day minimum amount for the pre-change year is found.
- (3) In this section “the pre-change year” means the period of one year ending immediately before the change in ownership.

### 690 Amount B

- (1) In section 688, amount B is the highest 60 day minimum amount for the post-change period.
- (2) The highest 60 day minimum amount for the post-change period is found as follows.
 

*Step 1* Find the daily amounts of the company's capital over the post-change period.

*Step 2* Take the highest of the daily amounts.



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*Step 3* Find out whether there was in the post-change period a period of at least 60 days in which there was no daily amount lower than the amount taken.

*Step 4* If there was, the amount taken is the highest 60 day minimum amount for the post-change period. If there was not, take the next highest of the daily amounts and repeat step 3; and so on, until the highest 60 day minimum amount for the post-change period is found.

- (3) In this section “the post-change period” means the period of [<sup>F8</sup>5] years beginning with the change in ownership.

#### Textual Amendments

- F8** Word in s. 690(3) substituted (with effect in accordance with Sch. 4 para. 190 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 4 para. 83(1)** (with Sch. 4 para. 83(2))

### 691 Meaning of “amount of capital”

- (1) This section applies for the purposes of sections 688 to 690.
- (2) The amount of the capital of a company is the sum of—
- (a) the amount of the paid up share capital of the company,
  - (b) the amount outstanding of any debts incurred by the company which are within section 453(2), and
  - (c) the amount outstanding of any redeemable loan capital issued by the company.
- (3) For the purposes of subsection (2)—
- (a) the amount of the paid up share capital includes any amount in the share premium account of the company, and
  - (b) the amount outstanding of any debts includes the amount of any interest due on the debts.
- (4) Amounts of capital are to be expressed in sterling.
- (5) In this section “share premium account” has the same meaning as in section 610 of the Companies Act 2006.

**Changes to legislation:**

There are currently no known outstanding effects for the Corporation Tax Act 2010, Chapter 3.