

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 180 Schedule 20: Controlled Foreign Companies and Foreign Permanent Establishments

Details of the Schedule

Part 1

Controlled Foreign Companies

Chapter 13- The low profit margin exemption

- 273. New section 371MA introduces Chapter 13 which sets out the low profit margin exemption.
- 274. New section 371MB(1) provides that the exemption applies for a CFC's accounting period if the accounting profits are no more than 10 per cent of the CFC's "relevant operating expenditure".
- 275. New subsection (2) provides for the accounting profit for the purpose of the exemption to be the profit before any deduction for interest.
- 276. New subsection (3) defines relevant operating expenditure. This expenditure is the operating expenditure brought into account in determining its accounting profits. The cost of goods purchased is excluded unless they are actually used in the CFC's territory of residence. The cost of any expenditure which gives rise directly or indirectly to income of a related person is also excluded.
- 277. New section 371MC provides an anti-avoidance rule to prevent the exemption from applying where an arrangement is entered into which has a main purpose of securing that the exemption applies for one or more accounting periods of the CFC.