Status: This is the original version (as it was originally enacted).

SCHEDULES

SCHEDULE 4

Section 80

ACCOUNTING PRACTICE AND RELATED MATTERS

PART 1

BAD DEBTS AND RELATED MATTERS

ICTA

1 In section 74 of ICTA (general rules as to deductions not allowable), omit subsection (1)(j) and subsection (2) (bad debts and related matters).

2 Before section 89 of ICTA insert—

"**Restriction of deductions in respect of certain debts**

(1) This section applies to debts to which the following provisions do not apply—

(a) Chapter 2 of Part 4 of the Finance Act 1996 (loan relationships, etc);

(b) Schedule 26 to the Finance Act 2002 (derivative contracts);

(c) Schedule 29 to that Act (intangible fixed assets).

(2) In calculating the profits of a company's trade for the purposes of corporation tax, no deduction is allowed in respect of a debt owed to the company, except—

(a) by way of impairment loss, or

(b) to the extent that the debt is released wholly and exclusively for the purposes of that trade as part of a statutory insolvency arrangement.

(3) In this section "debt" includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

(4) In this section "trade" has the meaning given by section 6(4).".

3 (1) Section 89 of ICTA (debts proving to be irrecoverable after discontinuance etc) is amended as follows.

(2) In that section as it had effect before ITTOIA 2005—

(a) make the existing provision subsection (1),

(b) for "deduction allowed in respect of them under section 74(j)" substitute "relevant deduction in respect of them", and

(c) at the end add—

"(2) In this section "debt" includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

The references to a debt being irrecoverable shall be read accordingly.

(3) For the purposes of this section “relevant deduction”, in relation to a debt, means a deduction made for tax purposes in respect of an impairment loss or release.”.

(3) In that section as substituted by ITTOIA 2005—

(a) in subsection (3), for the words from “deduction allowed” to “ITTOIA 2005” substitute “relevant deduction in respect of them”, and

(b) after that subsection add—

“(4) In this section “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

The references to a debt being irrecoverable shall be read accordingly.

(5) For the purposes of this section “relevant deduction”, in relation to a debt, means a deduction made for tax purposes in respect of an impairment loss or release.”.

4 (1) Section 94 of ICTA (debts deducted and subsequently released) is amended as follows.

(2) In subsection (1) for “relevant arrangement or compromise” substitute “statutory insolvency arrangement”.

(3) Omit subsection (2).

5 (1) Section 103 of ICTA (receipts after discontinuance) is amended as follows.

(2) In subsection (4)(b) for “relevant arrangement or compromise” substitute “statutory insolvency arrangement”.

(3) Omit subsection (4A).

(4) In subsection (5) as it had effect before ITTOIA 2005 for “a deduction has been allowed in respect of that sum under section 74(j)” substitute “a deduction has been made for tax purposes in respect of an impairment loss or a release of liability”.

(5) In subsection (5) as amended by ITTOIA 2005 for “a deduction has been allowed in respect of that sum under section 74(j) or section 35 of ITTOIA 2005” substitute “a deduction has been made for tax purposes in respect of an impairment loss or a release of liability”.

6 (1) Section 109A of ICTA (relief for post-cessation expenditure) is amended as follows.

(2) In subsection (4) for “relevant arrangement or compromise (within the meaning of section 74)” substitute “statutory insolvency arrangement”.

(3) After subsection (4A) insert—

“(4B) In subsections (4) and (4A) “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

The references to a debt being bad shall be read accordingly.”.

7 In section 799 of ICTA (double taxation relief: computation of underlying loss), in subsection (6)(b) after “bad debts” insert “, impairment losses”.

8 In section 834(1) of ICTA (interpretation of the Corporation Tax Acts), at the appropriate place insert—

““statutory insolvency arrangement” means—

(a) a voluntary arrangement that has taken effect under or as a result of the Insolvency Act 1986, Schedule 4 or 5 to the Bankruptcy (Scotland) Act 1985 or the Insolvency (Northern Ireland) Order 1989,

(b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985 or Article 418 of the Companies (Northern Ireland) Order 1986, or

(c) any arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) above that has taken effect under or by virtue of the law of a country or territory outside the United Kingdom;”.

FA 1996

9 (1) Section 100 of FA 1996 (interest, and exchange gains and losses, on debts etc not arising from the lending of money) is amended as follows.

(2) For the heading substitute “**Money debts etc not arising from the lending of money**”.

(3) In subsection (1)(c) (money debts to which the section applies), after sub-paragraph (ii) insert—

“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;”.

(4) In subsection (2) for paragraphs (a) and (b) substitute—

“(a) this Chapter has effect in relation to the matters mentioned in subsection (1)(c) above 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;”.

(5) After subsection (13) add—

“(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).”.

10 (1) In Schedule 9 to FA 1996 (loan relationships: special computational provisions), before paragraph 5 insert—

"Deemed release of liability on impaired debt becoming held by connected company

4A (1) This paragraph applies—

(a) in the case specified in sub-paragraph (2), subject to the exception in sub-paragraph (3); and

(b) in the case specified in sub-paragraph (4).

(2) The first case is where—

(a) a company ("the debtor company") is party as debtor to a loan relationship,

(b) another company ("the creditor company") becomes party as creditor to the loan relationship,

(c) the debtor company and the creditor company—

(i) are connected immediately before the latter becomes party to the loan relationship, or

(ii) become connected as a result of its doing so, and

(d) the amount remaining payable under the debtor relationship at the time the creditor company becomes party to the loan relationship exceeds the amount or value of any consideration given by the creditor company for its rights under the loan relationship.

(3) The exception to the first case is where—

(a) the creditor company acquires its rights under the loan relationship under an arm's length transaction,

(b) there was no connection between the creditor company and the person from whom it acquired the asset in the period of account in which it acquired those rights, and

(c) there had been no connection between the creditor company and the debtor company at any time in the period—

(i) beginning four years before the date on which the creditor company acquired those rights, and

(ii) ending twelve months before that date.

(4) The second case is where—

(a) a company ("the debtor company") is party as debtor to a loan relationship,

(b) another company ("the creditor company") that—

(i) is party to the loan relationship as creditor, and

(ii) is not connected with the debtor company,

becomes connected with the debtor company, and

(c) the amount remaining payable under the debtor relationship at the time the companies become connected exceeds its value.

Its "value" means the amount that would have been its carrying value in the accounts of the creditor company if a period of account had ended immediately before the companies became connected.

(5) Where this paragraph applies there is deemed to be a release by the creditor company of its rights under the loan relationship.

(6) In the first case the release is deemed to be of the amount of the excess referred to in sub-paragraph (2)(d) and to take place when the creditor company acquires its rights under the loan relationship.

(7) In the second case the release is deemed to be of the amount of the excess referred to in sub-paragraph (4)(c) and to take place when the creditor company becomes connected with the debtor company.".

(2) The amendment in sub-paragraph (1) has effect where the deemed release occurs on or after 16th March 2005.

11 (1) Paragraph 5 of Schedule 9 to FA 1996 (release of liability under debtor relationship) is amended as follows.

(2) In the heading, at the end add ": *cases in which credit need not be brought into account*".

(3) In sub-paragraph (3) for "four" substitute "five".

(4) In sub-paragraph (4) for "relevant arrangement or compromise within the meaning given by section 74(2) of the Taxes Act 1988" substitute "statutory insolvency arrangement".

(5) In sub-paragraph (5) at the end add—

"This condition does not apply in the case of a credit required to be brought into account by virtue of paragraph 4A (deemed release on impaired debt becoming held by connected company).".

(6) After sub-paragraph (7) insert—

"(8) Condition 5 is that the release is in consideration of, or of any entitlement to, shares forming part of the ordinary share capital of the debtor company.".

12 After paragraph 5 of Schedule 9 to FA 1996 insert—

"Release of liability under creditor relationship: application of provisions relating to impairment losses

5ZA The provisions of—

(a) paragraph 5A (impairment losses and consortium relief), and

(b) paragraphs 6, 6A and 6C (restrictions on bringing impairment losses into account),

apply in relation to a debit in respect of a release by a company of liability under a creditor relationship of the company as they apply in relation to an impairment loss.".

13 (1) Paragraph 6 of Schedule 9 to FA 1996 (impairment losses where parties have a connection) is amended as follows.

(2) In sub-paragraph (2) for "sub-paragraphs (3) to (6) and paragraphs 6A and 6B" substitute "sub-paragraph (3) (and the provisions mentioned there) and sub-paragraph (6)".

(3) In sub-paragraph (3) for paragraphs (a) to (c) substitute—

“(a) sub-paragraph (4) below, or

(b) paragraph 6A.”.

(4) For sub-paragraphs (6) and (7) substitute—

“(6) Where in any period a related transaction takes place in relation to the loan relationship—

(a) the debits brought into account for that period in respect of the relationship must not be more than they would have been if the transaction had not taken place, and

(b) the credits brought into account for that period in respect of the relationship must not be less than they would have been if the transaction had not taken place.

(7) In determining for the purposes of sub-paragraph (6) the debits and credits that would have been brought into account if the related transaction had not taken place, no account shall be taken of any amounts that would have accrued at times after the transaction took place.”.

(5) The amendments in this paragraph have effect in relation to any related transaction taking place on or after 2nd December 2004.

14 Omit paragraph 6B of Schedule 9 to FA 1996 (impairment losses: companies becoming connected).

15 In paragraph 6C of Schedule 9 to FA 1996—

(a) in sub-paragraph (1), for “sub-paragraphs (2) and (3) below shall apply” substitute “sub-paragraph (3) applies”, and

(b) omit sub-paragraph (2).

16 After paragraph 6C of Schedule 9 to FA 1996 insert—

“Restriction on bringing into account debits resulting from revaluation

6D (1) No debit shall be brought into account for the purposes of this Chapter as a result of the revaluation of an asset representing a creditor relationship of a company, except—

(a) an impairment loss, or

(b) a debit resulting from a release by the company of any liability under the relationship.

(2) No credit may be brought into account for the purposes of this Chapter in respect of the reversal of—

(a) a debit disallowed by sub-paragraph (1),

(b) a debit that in a period of account beginning before 1st January 2005 was disallowed for tax purposes—

(i) because of the assumption required by paragraph 5(1) above, or

(ii) because the exceptions in section 74(1)(j) of the Taxes Act 1988 did not apply.

(3) The reference in sub-paragraph (1) to revaluation of an asset includes any case where a provision or allowance is made by the company

reducing the carrying value of the asset or of a group of assets including the asset in question.

(4) This paragraph does not affect the debits to be brought into account in respect of exchange gains or losses.

(5) This paragraph does not apply if fair value accounting is used.".

17 (1) The following provisions of Schedule 9 to FA 1996 shall cease to have effect—

(a) paragraph 8 (restriction on writing off overseas sovereign debt etc.);

(b) paragraph 9 (restriction on bringing into account losses on overseas sovereign debt etc.).

(2) Where at the end of the last period of account of a company before sub-paragraph (1)(a) has effect—

(a) the company is one to which a relevant overseas debt (within the meaning of paragraph 8) is owed, and

(b) the effect of that paragraph (or a corresponding earlier enactment) having applied is that the aggregate amount of the debits (less any credits) brought into account by the company for tax purposes in respect of the loan relationship over the period for which the company has been party to it is less than would otherwise have been the case,

the balance may be brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 (loan relationships) as a debit in the company's next period of account.

(3) Where at the end of the last period of account of a company before sub-paragraph (1)(b) has effect—

(a) the company has ceased to be a party to a loan relationship, and

(b) the effect of paragraph 9 (or a corresponding earlier enactment) is that part of the loss arising has not been brought into account for tax purposes,

nothing in this paragraph prevents any debit that could have been brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 (loan relationships) under paragraph 9(4) and (5) in a subsequent period of account from being so brought into account.

FA 1997

18 (1) Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans) is amended as follows.

(2) In paragraph 9(7) (relief for bad debts etc: cumulative accountancy rental excess), for the definition of "bad debt deduction" substitute—

""bad debt deduction", in relation to a period of account, means the aggregate of any deductions falling to be made for accounting purposes for that period by way of impairment loss in respect of rents from the lease of the asset;".

(3) In paragraph 10(7) (relief for bad debts etc: cumulative normal rental excess), for the definition of "bad debt deduction" substitute—

""bad debt deduction", in relation to a period of account, means the aggregate of any deductions falling to be made for accounting purposes for that period by way of impairment loss in respect of rents from the lease of the asset;”.

Schedule 26 to FA 2002

19 In paragraph 22(5) of Schedule 26 to FA 2002 (derivative contracts release of liability) for “relevant arrangement or compromise within the meaning given by section 74(2) of the Taxes Act 1988” substitute “statutory insolvency arrangement”.

Schedule 29 to FA 2002

20 (1) In Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets), paragraph 115 (bad debts etc) is amended as follows.

(2) For sub-paragraph (1) substitute—

“(1) No debit may be brought into account for the purposes of this Schedule in respect of a debt owed to the company, except—
(a) by way of impairment loss, or
(b) to the extent that the debt is released as part of a statutory insolvency arrangement.”.

(3) Omit sub-paragraph (2).

(4) In sub-paragraph (3) for “sub-paragraph (1)(c)” substitute “sub-paragraph (1)(b)”.

(5) After sub-paragraph (5) insert—

“(6) In this paragraph “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.”.

PART 2

OTHER PROVISIONS CONNECTED WITH ACCOUNTING PRACTICE

ICTA

21 In section 43A of ICTA (rent factoring: meaning of “finance agreement”), in subsection (3) (reference to consolidated group accounts), omit paragraphs (a) and (b) and the word “and” preceding paragraph (a).

22 In section 75A(10) of ICTA (accounting period to which expenses of management are referable)—
(a) in paragraph (a) after “profit and loss account” insert “or income statement”, and
(b) in paragraph (b), after “gains and losses” insert “, statement of changes in equity”.

23 In section 501A of ICTA (supplementary charge in respect of ring-fence trades), in subsection (10) (reference to group accounts) for paragraph (b) substitute—
“(b) are drawn up in accordance with generally accepted accounting practice.”.

24 (1) Section 747A of ICTA (special rule requiring chargeable profits of controlled foreign companies to be computed in currency of accounts of company's first relevant accounting period) shall cease to have effect.

(2) This amendment has effect in relation to accounting periods beginning on or after 16th March 2005.

25 Section 836A of ICTA (meaning of generally accepted accounting practice) shall cease to have effect.

FA 1996

26 (1) Section 85B of FA 1996 (loan relationships: amounts recognised in determining company's profit or loss) is amended as follows.

(2) In subsection (1)(a) after "profit and loss account" insert "or income statement".

(3) For subsection (2) substitute—

"(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.".

(4) In subsection (3)—
(a) in paragraph (a) after "subsection (1)" insert "or (2)", and
(b) in paragraph (b) for "subsection (1)" substitute "that subsection".

(5) In subsection (4) after "subsection (1)" insert "or (2)".

27 (1) Section 94 of FA 1996 (loan relationships: treatment of indexed gilt-edged securities) shall be deemed not to have been repealed by paragraph 12 of Schedule 10 to FA 2004.

Paragraph 12(3) of Schedule 25 to FA 2002 (which amended that section) shall also be deemed not to have been repealed by Division (6) of Part 2 of Schedule 42 to FA 2004.

(2) That section is, instead, amended as follows.

(3) For subsections (1) to (3A) substitute—

"(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.”.

28 (1) Section 94A of FA 1996 (loan relationships with embedded derivatives) is amended as follows.

(2) In subsection (1) for “is permitted or required in accordance with generally accepted accounting practice to treat” substitute “in accordance with generally accepted accounting practice treats”.

(3) Where—

(a) immediately before the end of its last period of account beginning before 1st January 2005 a company holds one or more assets to which section 92 or 93 of FA 1996 applies, and

(b) section 94A of FA 1996 does not otherwise apply in relation to those assets in the company’s first period of account beginning on or after 1st January 2005,

the company may elect that section 94A shall apply in relation to those assets.

(4) Any such election—

(a) must be made to the Inland Revenue in writing on or before 31st July 2005,

(b) must apply to all the assets held by the company as mentioned in sub-paragraph (3), and

(c) is irrevocable.

29 In section 103 of FA 1996 (interpretation), after subsection (1A) (meaning of “exchange gains or losses”) insert—

“(1AA) In a case where fair value accounting is used the valuation referred to in subsection (1A) is the valuation that would be given by an amortised cost basis of accounting.”.

30 In Schedule 9 to FA 1996 (loan relationships: special computational provisions), after paragraph 14 (debits and credits treated as relating to capital expenditure) insert—

“Debits and credits recognised in equity or shareholders' funds

14A Where in accordance with generally accepted accounting practice a debit or credit for a period in respect of a loan relationship of a company—

(a) is recognised in equity or shareholders' funds, and

(b) is not recognised in any of the statements mentioned in section 85B(1),

the debit or credit shall be brought into account for that period for the purposes of this Chapter in the same way as a debit or credit that, in accordance with generally accepted accounting practice, is brought into account in determining the company’s profit or loss for that period.”.

31 (1) Paragraph 19A of Schedule 9 to FA 1996 (loan relationships: adjustment on change of accounting policy) is amended as follows.

(2) In sub-paragraph (4), after “means” insert “, subject to sub-paragraph (4B),”.

(3) After that sub-paragraph insert—

"(4A) For the purposes of this paragraph the "carrying value" of an asset or liability includes amounts recognised for accounting purposes in relation to the loan relationship in respect of—

(a) accrued amounts;

(b) amounts paid or received in advance;

(c) impairment losses (including provisions for bad or doubtful debts).

(4B) In determining the profits, gains and losses to be recognised in determining the carrying value of the asset or liability for the purposes of this paragraph, the following provisions—

(a) section 87(2) (accounting method where parties have a connection),

(b) section 88A(4) (accounting method where rate of interest is reset),

(c) section 94 (loan relationships: treatment of indexed gilt-edged securities),

(d) section 94A(2) (loan relationships with embedded derivatives),

(e) section 96(2) (special rules for certain gilts),

(f) section 154(6) (FOTRA securities: certain amounts not to be brought into account), and

(g) paragraphs 1, 1A, 2, 6, 12 and 18 of this Schedule (special computational provisions),

apply as they apply for the purposes of determining the credits and debits to be brought into account under this Chapter.

(4C) Where—

(a) a company has ceased to be a party to a loan relationship,

(b) section 103(6) (credits and debits to be brought into account in respect of profits, gains and losses arising in the cessation period) applied to the cessation, and

(c) there is a difference between—

(i) the amount outstanding in respect of the loan relationship at the end of the earlier period, and

(ii) the amount outstanding in respect of the loan relationship at the beginning of the later period,

a debit or credit (as the case may be) corresponding to that difference shall be brought into account for the purposes of this Chapter at the beginning of the later period.

(4D) In sub-paragraph (4C), "the amount outstanding", in respect of a loan relationship, means so much of the amount recognised as deferred income or deferred loss in the company's balance sheet, in accordance with generally accepted accounting practice, in respect of the profits, gains or losses that arose from that relationship or a related transaction in the cessation period (within the meaning of section 103(6)) as has not been represented by credits or debits brought into account under this Chapter.".

(4) In sub-paragraph (5) after "sub-paragraph (3)" insert "or (4C)".

(5) Omit sub-paragraph (6).

FA 1997

32 In Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans), in paragraph 30(1) (interpretation) omit the definitions of "consolidated group accounts", "group of companies" and "member" in relation to a group of companies.

CAA 2001

33 In section 219 of CAA 2001 (finance leases), in subsection (3) (reference to group accounts) for paragraph (b) substitute—

"(b) are drawn up in accordance with generally accepted accounting practice.".

Schedule 26 to FA 2002

34 (1) Paragraph 17B of Schedule 26 to FA 2002 (derivative contracts: amounts recognised in determining company's profit or loss) is amended as follows.

(2) In sub-paragraph (1)(a) after "profit and loss account" insert "or income statement".

(3) For sub-paragraph (2) substitute—

"(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 sub-paragraph (1) shall be brought into account for the purposes of this Schedule 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.".

35 After paragraph 25 of Schedule 26 to FA 2002 (debits and credits treated as relating to capital expenditure) insert—

"Debits and credits recognised in equity or shareholders' funds

25A Where in accordance with generally accepted accounting practice a debit or credit for a period in respect of a derivative contract of a company—

(a) is recognised in equity or shareholders' funds, and
(b) is not recognised in any of the statements mentioned in section 85B(1),

the debit or credit shall be brought into account for that period for the purposes of this Chapter in the same way as a debit or credit that, in accordance with generally accepted accounting practice, is brought into account in determining the company's profit or loss for that period.".

36 In paragraphs 38(1) and (3) and 38A(1) and (3) of Schedule 26 to FA 2002, as inserted by Schedule 10 to FA 2004, for "creditor relationship" substitute "derivative contract".

These amendments shall be deemed always to have had effect.

37 In paragraph 54 of Schedule 26 to FA 2002 (derivative contracts: general interpretation), after sub-paragraph (2) (meaning of "exchange gains or losses") insert—

"(2A) In a case where fair value accounting is used the valuation referred to in sub-paragraph (2) is the valuation that would be given by an amortised cost basis of accounting.".

Schedule 29 to FA 2002

38 (1) Paragraph 6 of Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets: reference to consolidated group accounts) is amended as follows.

(2) Omit sub-paragraph (2).

(3) After that sub-paragraph insert—

"(2A) This paragraph does not apply if the consolidated group accounts—

(a) are drawn up using a different accounting framework from that used for the company's individual accounts, and

(b) as a result, are prepared on a basis that, in relation to the matters mentioned in sub-paragraph (1), substantially diverges from the basis used in the company's individual accounts.".

39 In paragraph 8(1) of Schedule 29 to FA 2002 for "a company's profit and loss account" substitute "determining a company's profit or loss".

40 In paragraphs 9(1), 12(1), 14(1), 16(1), 17(1), 26(1)(a), 103(2) and (3)(a) of Schedule 29 to FA 2002, for "the company's profit and loss account" substitute "determining the company's profit or loss".

41 In paragraph 13(1)(a) of Schedule 29 to FA 2002 for "the profit and loss account" substitute "determining the company's profit or loss".

42 In paragraphs 27 and 28 of Schedule 29 to FA 2002 (intangible fixed assets: calculation of tax written down value), for sub-paragraph (3) substitute—

"(3) This paragraph has effect subject to—

paragraph 29 in the case of an asset that has been the subject of a part realisation, and

Part 13A of this Schedule in the case of an asset that has been subject to adjustment on a change of accounting policy.".

43 In paragraph 29 of Schedule 29 to FA 2002 (intangible fixed assets: effect of part realisation), after sub-paragraph (4) insert—

"(5) On a subsequent change of accounting policy affecting the asset, the provisions of Part 13A of this Schedule apply.".

44 In Part 7 of Schedule 29 to FA 2002 (intangible fixed assets: roll-over relief in case of realisation and reinvestment), after paragraph 42 insert—

"References to cost of asset where asset affected by change of accounting policy

42A (1) In the case of an asset to which Part 13A of this Schedule has applied (adjustment on change of accounting policy) the references in this Part to the cost of the asset shall be read as follows.

(2) Where paragraph 116B applied (change of accounting value) the references are unaffected.

(3) Where paragraph 116C or 116D applied (changes involving disaggregation of asset) the references to the cost of the asset shall be read as references to the appropriate proportion of that cost.

The appropriate proportion is determined by applying to the cost of the asset the same fraction as is applied by paragraph 116C(5) or 116D(3), as the case may be, to determine the tax written down value of the asset after the change.

(4) References in this paragraph to paragraphs 116B, 116C and 116D include references to those provisions as applied by paragraph 116E.".

45 For paragraph 116A of Schedule 29 to FA 2002 (intangible fixed assets: adjustment on change of accounting policy) substitute—

"**PART 13A**

ADJUSTMENT ON CHANGE OF ACCOUNTING POLICY

Introduction

116A (1) This Part of this Schedule applies where—

(a) there is a change of accounting policy in drawing up a company's accounts from one period of account ("the earlier period") to the next ("the later period"), and

(b) the approach in each of those periods accords with the law and practice applicable in relation to that period.

(2) It applies, in particular, where—

(a) the company prepares accounts for the earlier period in accordance with UK generally accepted accounting practice and for the later period in accordance with international accounting standards, or

(b) the company prepares accounts for the earlier period in accordance with international accounting standards and for the later period in accordance with UK generally accepted accounting practice.

Change of accounting policy involving change of value

116B (1) If as a result of the change of accounting policy there is a difference between—

(a) the accounting value of an intangible fixed asset of the company at the end of the earlier period, and

(b) the accounting value of that asset at the beginning of the later period,

a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.

(2) Any such debit or credit is treated as arising at the beginning of the later period.

(3) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{Accounting Difference} \times \frac{\text{Tax Value}}{\text{Accounting Value}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (1);

Tax Value is the tax written down value of the asset at the end of the earlier period; and

Accounting Value is the accounting value of the asset at the end of that period.

(4) The tax written down value of the asset at the beginning of the later period shall be taken to be the tax written down value of the asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (3).

(5) Subsequently—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (4), together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

(6) This paragraph does not apply to an asset in respect of which an election has been made under paragraph 10 (election for writing down at fixed-rate).

(7) This paragraph has effect subject to—

paragraph 116F (cap on credit to be brought into account on change of accounting policy), and

paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation

116C (1) This paragraph applies where the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period.

(2) If there is a difference between—

(a) the accounting value of the original asset at the end of the earlier period, and

(b) the aggregate accounting value of the resulting assets at the beginning of the later period,

a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.

(3) Any such debit or credit is treated as arising at the beginning of the later period.

(4) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{Accounting Difference} \times \frac{\text{Old Tax Value}}{\text{Old Accounting Value}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (2),

Old Tax Value is the tax written-down value of the original asset at the end of the earlier period, and

Old Accounting Value is the accounting value of that asset at the end of that period.

(5) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\text{Adjusted Old Tax Value} \times \frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

Adjusted Old Tax Value is the tax written down value of the original asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (4),

New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

(6) Subsequently for each resulting asset—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (5) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

(7) This paragraph does not apply if an election under paragraph 10 (election for writing down at fixed-rate)—

(a) has been or is subsequently made in respect of the original asset (see paragraph 116D), or

(b) is subsequently made in respect of any of the resulting assets (see paragraph 116E).

(8) This paragraph has effect subject to—

paragraph 116F (cap on credit to be brought into account on change of accounting policy), and

paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation: original asset subject to fixed rate writing down

116D (1) This paragraph applies where—

(a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period, and

(b) an election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.

(2) That election has effect—

(a) in relation to the original asset, for periods up to and including the earlier period, and

(b) in relation to each of the resulting assets, for the later period and subsequent periods.

(3) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\text{Old Tax Value} \times \frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

Old Tax Value is the tax written down value of the original asset at the end of the earlier period,

New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

(4) Subsequently for each resulting asset—

(a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (3) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and

(b) the tax written down value shall be determined taking account only of subsequent debits and credits.

Change of accounting policy involving disaggregation: election for fixed rate writing down in relation to resulting asset

116E (1) This paragraph applies where—

(a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset ("the original asset") in the earlier period being treated as two or more assets ("the resulting assets") in the later period, and

(b) no election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.

(2) An election under that paragraph may be made in respect of any of the resulting assets, provided it is made within the period during which such an election could have been made in relation to the original asset.

(3) The effect of the election is that—

(a) the original asset is treated as if it had at all material times consisted of as many assets ("notional original assets") as there are resulting assets,

(b) each notional original asset is taken to be the same asset as one of the resulting assets (its "corresponding resulting asset"),

(c) there is attributed to each notional original asset the appropriate proportion, ascertained by reference to its corresponding resulting asset (see sub-paragraph (4)), of every amount falling to be taken into account in relation to the original asset, and

(d) the provisions of this Schedule apply in relation to each of the notional original assets and its corresponding resulting asset accordingly.

(4) The appropriate proportion in relation to each resulting asset is:

$$\frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

New Accounting Value is the accounting value of the asset at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

Cap on credit to be brought into account on change of accounting policy

116F (1) The amount of any credit to be brought into account for tax purposes under paragraph 116B or 116C (assets subject to writing down on accounting basis) is limited to the net aggregate amount of relevant tax debits previously brought into account.

(2) Where the credit is to be brought into account under paragraph 116B (change of value), the net aggregate amount of relevant tax debits previously brought into account is:

$$\text{Previous Debits} - \text{Previous Credits}$$

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the asset, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of the asset.

(3) Where the credit is to be brought into account under paragraph 116C (disaggregation), the net aggregate amount of relevant tax debits previously brought into account is:

$$\text{Previous Debits} - \text{Previous Credits}$$

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the original asset at the end of the earlier period, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of that asset.

Exclusion of debits or credits brought into account under other provisions

116G A debit or credit is not required to be brought into account under this Part of this Schedule to the extent that a debit or credit representing the accounting difference in question is brought into account for tax purposes under—

(a) paragraph 12 (reversal of accounting gain),

(b) paragraph 15 (gain on revaluation), or

(c) paragraph 17 (reversal of accounting loss).

Subsequent events affecting asset subject to adjustment under this Part

116H (1) On a further change of accounting policy affecting an intangible fixed asset in relation to which this Part of this Schedule has applied, the preceding provisions of this Part apply again.

(2) On a subsequent part realisation affecting the asset in question, paragraph 29 applies.".

46 (1) Paragraph 134 of Schedule 29 to FA 2002 (intangible fixed assets: references to amounts recognised in profit and loss account) is amended as follows.

(2) In the paragraph heading for "*profit and loss account*" substitute "*determining profit or loss*".

(3) Make the existing provision sub-paragraph (1).

(4) In that sub-paragraph—

(a) in the opening words, for "a company's profit and loss account" substitute "determining a company's profit or loss" and for "include" substitute "are to";

(b) in sub-paragraph (a) after "recognised in" insert "the company's profit and loss account or income statement,"; and

(c) omit the words following paragraph (b).

(5) After that sub-paragraph insert—

"(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 sub-paragraph (1) shall be brought into account for the purposes of this Schedule 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.".

47 In paragraph 143 of Schedule 29 to FA 2002 (intangible fixed assets: index of defined expressions) for "profit and loss account (amounts recognised in)" substitute "profit and loss (amounts recognised in determining)".

ITEPA 2003

48 In Schedule 5 to ITEPA 2003 (enterprise management incentives), in paragraph 59 (index of defined expressions), in the entry relating to the expression "generally accepted accounting practice", for "section 836A of ICTA" substitute "section 50(1) of the Finance Act 2004".

FA 2004

49 In section 50 of FA 2004 (generally accepted accounting practice), for subsections (2) and (3) substitute—

"(2) In the Tax Acts "international accounting standards" has the same meaning as in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.

(3) Where the European Commission has in accordance with that Regulation adopted an international accounting standard with modifications, then as regards matters covered by that standard—

(a) generally accepted accounting practice with respect to IAS accounts shall be regarded as permitting the use of the standard either with or without the modifications, and

(b) accounts prepared on either basis shall be regarded for the purposes of the Tax Acts as prepared in accordance with international accounting standards.".

50 In sections 50(6), 51(6), 52(3) and 54(2) of FA 2004 (periods of account in relation to which the sections have effect), omit paragraph (b) and the word "and" preceding it.

This amendment shall be deemed always to have had effect.

51 In Part 4 of Schedule 10 to FA 2004 (amendments relating to foreign currency accounting), after paragraph 78 insert—

"Transitional provision

79 Where a company carries forward to its first period of account beginning on or after 1st January 2005 an amount by way of—

(a) management expenses brought forward under section 75 of the Taxes Act 1988,

(b) losses brought forward under section 392B or 393 of that Act, or

(c) non-trading deficits on loan relationships brought forward under section 83 of the Finance Act 1996,

that amount shall be translated into sterling using the London closing exchange rate for the last day of the previous period of account.".

Power to make certain regulations with limited retrospective effect

52 (1) This paragraph applies to regulations under any of the following provisions—

(a) section 85B of FA 1996;

(b) paragraph 19B of Schedule 9 to FA 1996;

(c) paragraph 13 or 17C of Schedule 26 to FA 2002.

(2) 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.