
Status: Point in time view as at 07/04/2005. This version of this provision has been superseded.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005, Paragraph 10. (See end of Document for details)

SCHEDULES

SCHEDULE 4

ACCOUNTING PRACTICE AND RELATED MATTERS

PART 1

BAD DEBTS AND RELATED MATTERS

FA 1996

- 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

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- (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.

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