

Status: Point in time view as at 06/04/2007.

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

SCHEDULES

SCHEDULE 4

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

“88D(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.

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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 F1

Textual Amendments

F1 Sch. 4 para. 6 repealed (retrospectively) by Finance (No. 2) Act 2005 (c. 22), Sch. 6 para. 4(1)(6), Sch. 11 Pt. 2(6)

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

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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;”.

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