

2008 No. 1821

INCOME TAX

**The Alternative Finance Arrangements (Community Investment
Tax Relief) Order 2008**

Made - - - - *9th July 2008*

Coming into force - - *10th July 2008*

The Treasury make the following Order in exercise of the powers conferred by section 98 of the Finance Act 2006(a).

In accordance with section 98(3) of that Act, a draft of this instrument was laid before the House of Commons and approved by a resolution of that House.

Citation and commencement

1. This Order may be cited as the Alternative Finance Arrangements (Community Investment Tax Relief) Order 2008 and shall come into force on 10th July 2008.

Amendment to the Finance Act 2005

2. After section 54 of the Finance Act 2005(b) insert—

**“Treatment of section 47, 49 and 49A arrangements as loans: Community Investment
Tax Relief**

54A.—(1) This section has effect for the purposes of the following enactments (“the specified enactments”)—

- (a) Schedule 16 to FA 2002,
- (b) Part 7 of ITA 2007,
- (c) regulations made under or having effect as if made under paragraph 4 of Schedule 16 to FA 2002(c), and
- (d) regulations made under section 340 or 341 of ITA 2007.

(2) The specified enactments have effect as if—

- (a) references to a loan included references to arrangements falling within section 47, 49 or 49A, and

(a) 2006 c. 25.
(b) 2005 c. 7. In Chapter 5 of Part 2 of that Act, section 47 was amended by section 96(2) of the Finance Act 2006; section 49 was amended by section 95(2) of the Finance Act 2006; and section 49A was inserted by section 95(3) of the Finance Act 2006 and amended by section 54 of the Finance Act 2007 (c.11).
(c) Paragraph 4 of Schedule 16 to the Finance Act 2002 (c. 23) was substituted for paragraphs 4 to 7, by section 1027 and paragraphs 414 and 419(1), (4) of Schedule 1 to the Income Tax Act 2007 (c. 3).

- (b) references to interest included references to alternative finance return or profit share return.

(3) Where arrangements fall within section 47, the specified enactments have effect in relation to those arrangements as if—

- (a) X is treated as making a loan to Y equal to the purchase price paid by X for the asset,
- (b) if the arrangements provide that X will transfer ownership of the asset to Y in instalments—
 - (i) references to the loan being drawn down over a period of time include references to the asset being transferred to Y in instalments,
 - (ii) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is transferred to Y, and
 - (iii) references to the amount drawn down at a given date include references to the value of the instalments transferred at that date,
- (c) in calculating the amount of capital outstanding on the loan each payment of the sale price (or part thereof), less any amount of alternative finance return included within each payment, is treated as a repayment of the loan capital,
- (d) references to the beneficial owner of the loan include references to the person beneficially entitled to payment of the sale price,
- (e) references to the disposal of the whole or any part of the loan include references to the disposal of the right to receive payment of the whole or any part of the outstanding sale price.

(4) If arrangements which fall within section 47 are, pursuant to the application of this section, qualifying investments under Part 3 of Schedule 16 to FA 2002 or Chapter 3 of Part 7 of ITA 2007, paragraph 35 of Schedule 16 to FA 2002 or section 366 of ITA 2007 has effect in relation to that arrangement as if sub-paragraph (1)(f) or subsection (1)(f) were omitted.

(5) Where arrangements fall within section 49, the specified enactments have effect in relation to the arrangements as if—

- (a) the depositor is treated as making a loan to the financial institution equal to the money deposited,
- (b) if the arrangements provide that the depositor will deposit a sum of money with the financial institution in instalments—
 - (i) references to the loan being drawn down over a period of time include references to the depositor depositing a sum of money to the financial institution in instalments,
 - (ii) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is deposited with the financial institution, and
 - (iii) references to the amount of an investment drawn down at a given date include references to the value of the instalments deposited with the financial institution at that date,
- (c) the capital outstanding on the loan is equal to the balance of the repayable deposit and references to any repayment of the loan include references to any repayment of the deposit,
- (d) references to the beneficial owner of the loan include references to the person beneficially entitled to repayment of the deposit,
- (e) references to the disposal of the whole or any part of the loan include references to the disposal of the right to receive repayment of the whole or any part of the deposit.

(6) Where arrangements fall within section 49A, the specified enactments have effect in relation to the arrangements as if—

- (a) the principal is treated as making a loan to the agent equal to the money provided by the principal to the agent,
- (b) if the arrangements provide that the principal will provide a sum of money to the agent in instalments—
 - (i) references to the loan being drawn down over a period of time include references to the principal providing a sum of money to the agent in instalments,
 - (ii) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is provided to the agent, and
 - (iii) references to the amount of an investment drawn down at a given date include references to the value of the instalments provided to the agent at that date,
- (c) the capital outstanding on the loan is equal to the balance of the repayable money provided to the agent and references to any repayment of the loan include references to any repayment of the money provided to the agent,
- (d) references to the beneficial owner of the loan include references to the person beneficially entitled to repayment of the money provided to the agent,
- (e) references to the disposal of the whole or any part of the loan include references to the disposal of the right to receive repayment of the whole or any part of the money provided to the agent.”.

Alan Campbell
Claire Ward

9th July 2008

Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Order)

This Order amends Chapter 5 of Part 2 of the Finance Act 2005 in order to allow alternative finance arrangements that fall within section 47, 49 or 49A of the Finance Act 2005 to be treated as loans for the purposes of Community Investment Tax Relief (CITR).

Article 1 provides for the citation and commencement of this Order.

Article 2 inserts a new section 54A into the Finance Act 2005 which applies for the purposes of Schedule 16 to Finance Act 2002 (FA 2002), Part 7 of Income Tax Act 2007 (ITA 2007), regulations made under or having effect as if made under paragraph 4 of Schedule 16 to FA 2002 and regulations made under section 340 or 341 of ITA 2007 (collectively referred to below as the specified enactments).

New section 54A(2)(a) and (b) provides that the specified enactments have effect as if references to a loan included references to arrangements falling within section 47, 49 or 49A of the Finance Act 2005 and references to interest included references to alternative finance return or profit share return.

New section 54A(3) sets out how references to the mechanics of a loan in the specified enactments are equated to the mechanics of a section 47 arrangement.

New section 54A(4) excludes a section 47 arrangement which is, by virtue of new section 54A, a qualifying investment under the specified enactments, from paragraph 35(1)(f) of Schedule 16 to FA 2002 and section 366(1)(f) of ITA 2007 which would otherwise treat the investor as receiving value under the specified enactments.

New section 54A(5) sets out how references to the mechanics of a loan in the specified enactments are equated to the mechanics of a section 49 arrangement.

New section 54A(6) sets out how references to the mechanics of a loan in the specified enactments are equated to the mechanics of a section 49A arrangement.

A full regulatory impact assessment has not been produced for this instrument as no impact on the private or voluntary sectors is foreseen.

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