

2013 No. 3209

CAPITAL GAINS TAX

CORPORATION TAX

INCOME TAX

STAMP DUTY

STAMP DUTY RESERVE TAX

The Taxation of Regulatory Capital Securities Regulations 2013

Made - - - - *18th December 2013*

Coming into force - - *1st January 2014*

The Treasury make the following Regulations in exercise of the powers conferred by section 221 of the Finance Act 2012(a).

A draft of this instrument was laid before and approved by a resolution of the House of Commons in accordance with section 221(6) of the Finance Act 2012.

Citation, commencement and effect

1.—(1) These Regulations may be cited as the Taxation of Regulatory Capital Securities Regulations 2013 and shall come into force on 1st January 2014.

(2) These Regulations have effect—

- (a) for the purposes of income tax, for payments made on or after 1st January 2014;
- (b) for the purposes of corporation tax, for accounting periods beginning on or after that date (this is subject to paragraph (3) and regulation 11);
- (c) for the purposes of capital gains tax, in relation to disposals made on or after that date;
- (d) for the purposes of stamp duty, in relation to instruments executed on or after that date;
- (e) for the purposes of stamp duty reserve tax—
 - (i) in the case of agreements to transfer securities which are not conditional, in relation to agreements made on or after that date, and
 - (ii) in the case of agreements to transfer securities which are conditional, in relation to agreements where the condition is satisfied on or after that date.

(3) For the purposes of paragraph (2)(b), an accounting period beginning before and ending on or after 1st January 2014 is to be treated for the purposes of these Regulations as if so much of the period as falls before that date, and so much of the period as falls on or after that date, were separate accounting periods.

Regulatory capital securities

2.—(1) For the purposes of these Regulations, “regulatory capital security” means a security which qualifies, or has qualified, as—

- (a) an Additional Tier 1 instrument and forms, or formed, a component of Additional Tier 1 capital for the purposes of CRR, or
- (b) a Tier 2 instrument and forms, or formed, a component of Tier 2 capital for the purposes of CRR.

(2) In paragraph (1), “security” does not include shares other than deferred shares issued by a building society within paragraph (1)(a).

(3) For the purposes of this regulation—

“Additional Tier 1 instrument” means a security which qualifies as an Additional Tier 1 instrument under Article 52 of CRR,

“building society” and “deferred shares” have the same meanings as in the Building Societies Act 1986(a),

“Tier 2 instrument” means a security which qualifies as a Tier 2 instrument under Article 63 of CRR.

(4) In these Regulations, “CRR” means the Commission Regulation (EU) No 575/2013(b) (as amended from time to time).

Regulatory capital securities treated as loan relationships

3.—(1) For the purposes of the Corporation Tax Acts, a regulatory capital security represents a loan relationship.

(2) But in relation to the issuer of a regulatory capital security and any connected creditor—

- (a) sections 415, 416 and 585 of CTA 2009 (loan relationships with embedded derivatives) do not apply in relation to the security,
- (b) the credits and debits to be brought into account in respect of the security are determined as if fair value accounting were not generally accepted accounting practice in relation to the security or part of the security (including a hedged component), and
- (c) no credit or debit is to be brought into account under Part 5 of CTA 2009—
 - (i) in respect of the principal amount of the security being written down on a permanent or temporary basis or the security being converted to a Common Equity Tier 1 instrument in accordance with any regulatory requirements or the provisions governing the security, or
 - (ii) in respect of the principal amount of the security being written up, following a write down of the principal amount on a temporary basis, in accordance with any regulatory requirements or the provisions governing the security.

(3) Paragraph (2) applies for the purposes of determining the profits and losses to be recognised in determining the carrying value of a regulatory capital security for the purposes of section 317 of CTA 2009 as it applies for the purposes of determining the credits and debits to be brought into account under Part 5 of CTA 2009.

(4) In this regulation—

(a) 1986 c. 53; section 109 was amended by paragraph 8 of Schedule 12 to the Finance Act 1988 (c. 39); see also section 119 for the definitions of “building society” and “deferred shares”.

(b) OJ L 176/1, 27.6.13.

“Common Equity Tier 1 instrument” means a capital instrument which qualifies as a Common Equity Tier 1 instrument under Article 28 or 29 of CRR,

“connected creditor” means a company standing in the position of creditor as respects a regulatory capital security where the creditor relationship is a connected companies relationship for the purposes of Part 5 of CTA 2009,

“fair value accounting” have the same meanings as in Part 5 of CTA 2009.

Regulatory capital securities treated as normal commercial loans

4. For the purposes of sections 158(1)(b) and 159(4)(b) of CTA 2010 and section 117(1)(a) of TCGA 1992, a regulatory capital security represents a normal commercial loan.

Treatment of payments

5.—(1) A payment in respect of a regulatory capital security is—

- (a) not a distribution for the purposes of the Tax Acts, but
- (b) is income chargeable under Chapter 2 of Part 4 of ITTOIA 2005(a) (interest) for the purposes of income tax.

(2) In paragraph (1), “payment” does not include a repayment of the principal amount of the security.

Exception from duty to deduct income tax

6. The duty to deduct a sum representing income tax under section 874 (duty to deduct from certain payments of yearly interest) or section 889 (payments in respect of building society securities) of ITA 2007(b) does not apply to a payment in respect of a regulatory capital security.

Exemption from stamp duties

7. A transfer of a regulatory capital security is exempt from all stamp duties.

Anti-avoidance

8.—(1) Regulations 3 to 7 do not apply in the case of a regulatory capital security if there are arrangements the main purpose, or one of the main purposes, of which is to obtain a tax advantage for any person as a result of the application of these Regulations in respect of that security.

(2) In paragraph (1), “tax advantage” has the meaning given in section 1139 of CTA 2010.

Duty to deduct from payments in respect of regulatory capital security

9. The following sections of ITA 2007 do not apply to a payment in respect of a regulatory capital security—

- (a) section 878 (interest paid by banks), and
- (b) section 885 (authorised persons dealing in financial instruments).

Amendment of the Loan Relationship and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004

10.—(1) The Loan Relationship and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004(c) are amended as follows.

(a) 2005 c. 5.

(b) 2007 c. 3; sections 874 and 889 were amended by paragraphs 26 and 27 of Schedule 1 to the Finance Act 2008 (c. 9).

(c) S.I. 2004/3256, relevantly amended by S.I. 2005/2012, 2005/3374, 2006/3236 and 2013/2781.

- (2) In regulation 2(1)—
 - (a) omit the definition of “Additional Tier 1 instrument”, and
 - (b) in the appropriate place insert—
 - ““regulatory capital security” has the meaning given in regulation 2 of the Taxation of Regulatory Capital Securities Regulations 2013;”.
- (3) In regulations 3(5)(c) and 4(4A)(c) for “an Additional Tier 1 instrument” substitute “a regulatory capital security”.
- (4) In regulation 6, in paragraphs (5A) and (5C)—
 - (a) at the end of sub-paragraph (a), in both cases, omit “or”, and
 - (b) at the end of both paragraphs insert—
 - “, or
 - (c) where the hedged item is a regulatory capital security in relation to which the company uses fair value accounting.”.

Transitional provisions

11.—(1) This regulation applies for the purposes of corporation tax in relation to the first accounting period beginning, or treated as beginning, on or after 1st January 2014 in respect of a security—

- (a) issued before that date,
- (b) to which Part 5 of CTA 2009 applied in the accounting period ending, or treated as ending, on 31st December 2013, and
- (c) which is a regulatory capital security for the purposes of these Regulations.

(2) In this regulation—

- (a) an accounting period ending, or treated as ending, on 31st December 2013 is referred to as “the earlier period”, and
- (b) an accounting period beginning, or treated as beginning, on 1st January 2014 is referred to as “the later period”.

(3) If there is an increase in the carrying value of a security which is an asset of the company between—

- (a) the end of the earlier period, and
- (b) the beginning of the later period,

a credit equal to the increase must be brought into account for the purposes of Part 5 of CTA 2009 in the later period.

(4) If there is an decrease in the carrying value of such a security between—

- (a) the end of earlier period, and
- (b) the beginning of the later period,

a debit equal to the decrease must be brought into account for the purposes of Part 5 of CTA 2009 in the later period.

(5) If there is an increase in the carrying value of a security which is a liability of the company between—

- (a) the end of the earlier period, and
- (b) the beginning of the later period,

a debit equal to the increase must be brought into account for the purposes of Part 5 of CTA 2009 in the later period.

(6) If there is an decrease in the carrying value of such a security between—

- (a) the end of earlier period, and

(b) the beginning of the later period,
a credit equal to the decrease must be brought into account for the purposes of Part 5 of CTA 2009 in the later period.

(7) But this regulation does not apply so far as any debit or credit as is mentioned in this regulation falls to be brought into account apart from this regulation.

(8) For the purposes of this regulation, where in the earlier period, in accordance with generally accepted accounting practice, the rights and liabilities under a security have been treated as divided between a loan relationship and one or more derivative financial instruments or equity instruments, the reference to the carrying value of the security means the sum of the carrying values for each of those component instruments.

(9) For the purposes of this regulation, “carrying value” must be construed in accordance with section 317 (subject to regulation 3(3) in the later period) and section 702 of CTA 2009.

Repeals

12. The following provisions are repealed—

- (a) in CTA 2010(a)—
 - (i) section 162(1A) (meaning of “normal commercial loan”),
 - (ii) section 164A (loan forming part of tier two capital),
 - (iii) section 1029(1)(ca) (overview), and
 - (iv) section 1032A (payment in respect of tier two capital), and the heading “tier two capital” immediately before that section, and
- (b) in the Finance Act 2013, section 43 (tier two capital).

David Evennett

Karen Bradley

18th December 2013

Two of the Lords Commissioners of Her Majesty’s Treasury

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision in relation to the taxation of new types of regulatory capital security issued to meet the requirements of the Commission Directive (EU) No 36/2013 (OJ L 176/338, 27.6.13) and Commission Regulation (EU) No 575/2013 (OJ L 176/1, 27.6.13) which impose new prudential requirements on financial institutions.

Regulation 1 provides for citation, commencement and effect.

Regulation 2 defines the term “regulatory capital security” by reference to Additional Tier 1 instruments and Tier 2 instruments within Commission Regulation (EU) No 575/2013.

Regulation 3 provides that regulatory capital securities represent loan relationships for the purposes of the Corporation Tax Acts, but this is subject to special rules in respect of the issuer of such securities and, in the case of a connected company, the holder of the security. In those cases, the corporation tax provisions treating an embedded derivative or equity instrument as a separate contract are disapplied, fair value accounting of the security is not permitted for tax purposes and no credits or debits are brought into account in relation to certain conversions, write-downs and subsequent write-ups of the security.

Regulation 4 provides that a regulatory capital security is treated as a normal commercial loan.

(a) Sections 162(1A), 164A, 1029(1)(ca) and 1032A of CTA 2010 were inserted by section 43 of the Finance Act 2013 (c. 29).

Regulation 5 provides that a payment in respect of a regulatory capital security is not a distribution but is income under Chapter 2 of Part 4 of the Income Tax (Trading and Other Income) Act 2005.

Regulation 6 provides a specific exception from the duty to deduct tax from yearly interest in sections 874 and 889 Income Tax Act 2007.

Regulation 7 provides an exemption from stamp duties.

Regulation 8 is an anti-avoidance provision.

Regulation 9 disapply the exceptions from the duty to deduct tax from yearly interest in section 878 (interest paid by banks) and section 885 (authorised persons dealing in financial instruments) of the Income Tax Act 2007.

Regulation 10 makes consequential amendments to the Loan Relationship and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004.

Regulation 11 makes transitional provisions to take account of any change in accounting treatment which is prescribed for existing regulatory capital securities to which these Regulations apply.

Regulation 12 makes consequential repeals.

A Tax Information and Impact Note covering this instrument will be published on the HMRC website at <http://www.hmrc.gov.uk/thelibrary/tiins.htm>.

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