

## SCHEDULES

### SCHEDULE 13

Section 83.

#### LOAN RELATIONSHIPS: AMENDMENT OF TRANSITIONAL PROVISIONS

##### *Introductory*

- 1 Schedule 15 to the Finance Act 1996 (transitional provisions and savings for loan relationships) shall be amended as follows.

##### *Transitional rules for transitional accounting periods*

- 2 In paragraph 3 (basic transitional rules for transitional accounting periods), after sub-paragraph (5) there shall be inserted the following sub-paragraph—

“(5A) Where—

- (a) sub-paragraph (5) above applies for determining the closing value of a continuing loan relationship of a company for a transitional accounting period ending on or after 14th November 1996, and
- (b) an opening valuation of that relationship falls to be made, as at the beginning of the immediately following accounting period, for the purpose of bringing amounts into account in that company’s case on a mark to market basis of accounting,

the opening value given by that opening valuation shall be taken to be the same as the closing value given in accordance with that sub-paragraph.”

##### *Opening valuations as at 1st April 1996*

- 3 After paragraph 3 there shall be inserted the following paragraph—

*“Adjustment of opening value where new accounting basis adopted as from an accounting period beginning on 1st April 1996*

- 3A (1) This paragraph applies in the case of a continuing loan relationship of a company where—
- (a) the company’s first relevant accounting period begins on 1st April 1996;
  - (b) in that period amounts are brought into account for the purposes of this Chapter in respect of the relationship on a mark to market basis of accounting;
  - (c) amounts falling to be brought into account in respect of the relationship for the purposes of corporation tax in the accounting period ending with 31st March 1996 were or (if there had been any) would have been so brought into account otherwise than on a mark to market basis of accounting; and

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(d) an opening valuation of the relationship falls to be made, as at the beginning of the accounting period immediately following the first relevant accounting period, for the purpose of bringing amounts into account on a mark to market basis of accounting.

(2) Where this paragraph applies in the case of a continuing loan relationship of a company, the opening valuation mentioned in sub-paragraph (1) (d) above shall be made disregarding any amount of interest that has accrued in the company's first relevant accounting period or in any of its accounting periods preceding that period."

*Adjustments in the case of pre-commencement trading relationships*

4 In paragraph 5 (pre-commencement trading relationships), after sub-paragraph (4) there shall be inserted the following sub-paragraphs—

“(4A) In sub-paragraph (4) above the reference, in relation to a creditor relationship, to the amount deductible as representing the cost of a company's becoming a party to the relationship shall not, except where sub-paragraph (4B) or (4C) below applies, include a reference to so much of that amount as would represent the cost of acquiring any right to accrued interest under the loan relationship.

(4B) This sub-paragraph applies where—

- (a) the company became a party to the relationship before the beginning of its first relevant accounting period,
- (b) interest accruing under the relationship before the company became a party to it was paid to the company after it became a party to it but before the beginning of the company's first relevant accounting period, and
- (c) the interest under the relationship which, in the case of that company, has been brought into account for the purposes of corporation tax has included interest accruing under the relationship before the company became a party to it but paid afterwards.

(4C) This sub-paragraph applies where—

- (a) the company became a party to the loan relationship in a transitional accounting period, and
- (b) in the case of that company, interest under the relationship which—
  - (i) accrued before the company became a party to the relationship, but
  - (ii) became due and payable afterwards,

is brought into account for the purposes of this Chapter in accordance with an authorised mark to market basis of accounting.”

*Chargeable assets held after commencement*

5 In paragraph 8 (transitional provision for chargeable assets held after commencement), after sub-paragraph (5) there shall be inserted the following sub-paragraph—

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

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“(5A) In any case where the relevant event has not occurred before 14th November 1996, the deemed chargeable gain or deemed allowable loss falling to be brought into account in accordance with sub-paragraph (3) above shall be computed without any account being taken of the provisions of section 119(6) and (7) of the 1992 Act (transfer of securities with or without accrued interest).”

*Adjustments in the case of chargeable assets*

6 In paragraph 11 (adjustments in the case of chargeable assets), for sub-paragraphs (2) to (4) there shall be substituted the following sub-paragraphs—

“(2) Those amounts are—

- (a) the notional closing value of the relationship as at 31st March 1996; and
- (b) the amount which would be taken on a computation made—
  - (i) in accordance with an authorised accruals basis of accounting, and
  - (ii) on the assumption that such a basis of accounting had always been used as respects that relationship,to represent the accrued value of the loan relationship in question on 1st April 1996.

(3) Where there is a difference between the amounts mentioned in sub-paragraph (2) above, that difference shall be brought into account—

- (a) where the amount mentioned in paragraph (a) of that sub-paragraph is the smaller, as a credit given for the purposes of this Chapter for the accounting period in which the company ceases to be a party to the relationship; and
- (b) in any other case, as a debit so given.”

*Commencement of Schedule*

7 (1) Subject to sub-paragraph (2) below, this Schedule has effect for the purpose of determining the credits and debits to be brought into account in any accounting period ending on or after 14th November 1996.

(2) Paragraphs 4 and 6 above do not apply in the case of a loan relationship to which the company in question has ceased to be a party before 14th November 1996 unless—

- (a) that company ceased to be a party to the relationship as a result of being directly or indirectly replaced as a party to that relationship by another company, and
- (b) the transaction, or series of transactions, by virtue of which the replacement took place fell within any of paragraphs (a) to (d) of paragraph 12(1) of Schedule 9 to the Finance Act 1996 (continuity of treatment in the case of groups and certain transfers of insurance business).

(3) A credit or debit a fraction of which falls to be brought into account under paragraph 6(4) of Schedule 15 to the Finance Act 1996 (election as to adjustments) in an accounting period ending on or after 14th November 1996 shall be determined, for the purposes mentioned in sub-paragraph (1) above, without applying sub-paragraph (2) above in relation to the relevant assumption.