

SCHEDULES

SCHEDULE 14

Section 41

INDEX-LINKED GILT-EDGED SECURITIES

Amendments of Chapter 12 of Part 5 of CTA 2009

- 1 Chapter 12 of Part 5 of CTA 2009 (loan relationships: special rules for particular kinds of securities) is amended as follows.
- 2 In section 398(2) (overview of Chapter), for paragraph (a) substitute—
 - (a) sections 399 to 400C (index-linked gilt-edged securities),
 - (aa) sections 401 to 405 (other gilt-edged securities)."
- 3 For the heading before section 399 substitute—

“Index-linked gilt-edged securities”.
- 4 (1) Section 399 (index-linked gilt-edged securities: basic rules) is amended as follows.
 - (2) For the heading substitute “**Basic rules**”.
 - (3) For subsection (3) substitute—

“(3) For provision requiring adjustments to be made to amounts determined under subsection (2), see sections 400 to 400C (adjustments for changes in index).”
 - (4) In subsection (4), for “section 400” substitute “sections 400 to 400C”.
- 5 (1) Section 400 (index-linked gilt-edged securities: adjustments for changes in index) is amended as follows.
 - (2) For the heading substitute “**Adjustments for changes in index**”.
 - (3) In subsection (1)(a)—
 - (a) for “the amounts” substitute “an amount”, and
 - (b) for “fall” substitute “falls”.
 - (4) After subsection (2) insert—

“(2A) Subsection (2) is subject to sections 400A to 400C (relevant hedging schemes).”
- 6 After section 400 insert—

“400A Adjustments for changes in index: relevant hedging schemes

 - (1) This section applies where—
 - (a) section 400 applies in relation to an amount to be brought into account for an accounting period of a company (“company A”) in respect of a security, and

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- (b) conditions 1 to 3 are met.
- (2) Condition 1 is that company A is a party to a relevant hedging scheme at any time in the accounting period.
- (3) Condition 2 is that there is an increase in the retail prices index between the times mentioned in subsection (1) of section 400.
- (4) Condition 3 is that the index-linked capital return on the security in the accounting period, or a proportion of it, is hedged.
- (5) Where this section applies, any increase in the carrying value of the security at the earlier of the times mentioned in subsection (1) of section 400 that would, apart from this section, be made under subsection (2) of that section is reduced—
- (a) in a case in which the index-linked capital return on the security in the accounting period is wholly hedged, to nil, and
 - (b) in a case in which only a proportion of that return is hedged, by the same proportion.
- (6) For the purposes of this section “a relevant hedging scheme” means a scheme the purpose, or one of the main purposes, of any party to which, on entering into the scheme, is to secure that the index-linked capital return on the security, or a proportion of it, is hedged.
- (7) For the purposes of this section the “index-linked capital return” of the security is so much of the return on the security as—
- (a) would, disregarding section 400, result in an increase in the carrying value of the security between the times mentioned in subsection (1) of that section, and
 - (b) is attributable to an increase in the retail prices index.
- (8) For the purposes of this section the index-linked capital return on the security, or any proportion of that return, is “hedged” if (whether because of the operation of a swap or otherwise) the pre-tax economic profit or loss made by the relevant group or company in the accounting period is unaffected by it.
- (9) In subsection (8) “the relevant group or company” means—
- (a) company A and every other company that is at any time in the accounting period—
 - (i) associated with company A, and
 - (ii) a party to the relevant hedging scheme, or
 - (b) if there is no such other company, company A.
- (10) In this section “scheme” includes any scheme, arrangements or understanding of any kind whatever, whether or not legally enforceable, involving a single transaction or two or more transactions.

400B Interpretation of section 400A: economic profits and losses

- (1) A reference in section 400A to an “economic” profit or loss made by any person in a period is to a profit or loss made by that person in that period,

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computed taking into account unrealised (as well as realised) profits and losses.

- (2) For the purposes of section 400A an economic profit or loss is made by a group of companies if it is made by the members of the group considered together.
- (3) In determining for the purposes of section 400A the amount of an economic profit or loss made by a group of companies in any period, the economic profits and losses of each member of the group are to be computed over that period (whether or not that period is an accounting period of the member).
- (4) A reference in section 400A to a “pre-tax” economic profit or loss is a reference to an economic profit or loss determined disregarding any gain or loss made as a result of the operation of any provision of the Corporation Tax Acts.

400C Meaning of “associated with”

- (1) For the purposes of section 400A, a company (“company B”) is associated with company A at a time (“the relevant time”) during an accounting period of company A (“the accounting period”) if any of the following five conditions is met.
- (2) The first condition is that the financial results of company A and company B, for a period that includes the relevant time, meet the consolidation condition.
- (3) The second condition is that there is a connection between company A and company B for the accounting period.
- (4) The third condition is that, at the relevant time, company A has a major interest in company B or company B has a major interest in company A.
- (5) The fourth condition is that—
 - (a) the financial results of company A and a third company, for a period that includes the relevant time, meet the consolidation condition, and
 - (b) at the relevant time the third company has a major interest in company B.
- (6) The fifth condition is that—
 - (a) there is a connection between company A and a third company for the accounting period, and
 - (b) at the relevant time the third company has a major interest in company B.
- (7) In this paragraph the financial results of any two companies for any period meet “the consolidation condition” if—
 - (a) they are required to be comprised in group accounts prepared under section 399 of the Companies Act 2006 (duty of certain parent companies to prepare group accounts), or
 - (b) they would be required to be comprised in such accounts but for the application of an exemption mentioned in subsection (3) of that section.

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(8) Section 466 (companies connected for an accounting period) applies for the purposes of this section.

(9) In this section “scheme” includes any scheme, arrangements or understanding of any kind whatever, whether or not legally enforceable, involving a single transaction or two or more transactions.

Other gilt-edged securities”.

Consequential amendment

7 In section 317(5)(g) of CTA 2009 (carrying value), for “and 400” substitute “to 400C”.

Commencement

8 The amendments made by this Schedule have effect in relation to adjustments made under section 400(2) of CTA 2009 in respect of increases in the retail prices index over periods beginning on or after 9 December 2009.

Transitional provision

- 9 (1) This paragraph applies in relation to an accounting period of a company beginning before 9 December 2009 if, apart from this paragraph—
- (a) an amount to be brought into account for the purposes of Part 5 of CTA 2009 in respect of an index-linked gilt-edged security falls to be determined by reference to its value at two different times, and
 - (b) the earlier time is before 9 December 2009 and the later time is on or after that date.
- (2) Instead of bringing into account the amount determined as mentioned in subparagraph (1)(a), the company is to bring into account the amounts that it would have brought into account for—
- (a) that part of the accounting period that falls before 9 December 2009, and
 - (b) that part of the accounting period that falls on or after that date,
- had those parts been separate periods of account (and so separate accounting periods).