HMRC - CFM95620 - x-Interest: Disregarded Periods

TIOPA/S382(6)-(9)

The object of the calculations is to arrive at an aggregate tax-interest figure for a particular period of account for a worldwide group. As a result, only amounts from a relevant accounting period that are attributable to the group’s period of account are included in the tax-interest of the company for the period of account. A ‘relevant accounting period is defined in S490 as one that falls wholly or partly within a period of account of the worldwide group.

It is therefore necessary to adjust for any

Fall outside the group’s period of account.

Relate to a time during which the company was not a member of the group.

Where either of these circumstances apply, the amounts to be included in tax-interest are reduced on a just and reasonable basis to exclude these periods. This can result in a reduction to nil.

This corresponds to the same issue of disregarded periods addressed in relation to the calculation of tax-EBITDA.

Example

A company has an accounting period for the year ended 31 December 2017. It is a member of a group that has a period of account for the year ended 31 March 2018. Only the amounts attributable to the last nine months of the accounting period for the company will be included in calculating the adjusted corporation tax earnings for the group’s period of account.

Example

A company prepares accounts for a twelve month period ending 31 December 2018 and these accounts show a tax-interest expense amount of £240,000 which accrues evenly over the period. The company only became a member of the group on 1 June 2018 however meaning that the period 1 January to 31 May would be a disregarded period. The tax-interest expense amount should therefore be reduced by £100,000 (£240,000 x 5/12) as this refers to the disregarded period leaving an expense amount of £140,000.

Meaning of just and reasonable basis

What ‘just and reasonable basis’ means in practice will depend on the particular facts and circumstances.

It should be noted that the concept of adjusted corporation tax earnings is based on the amounts that are brought into account for tax. Therefore it would be expected that significant consideration will be given to when an item would typically be brought into account for tax purposes.

So in particular consideration should be given to:

The period in which amounts would be recognised in the company’s financial statements if they were drawn up for particular periods.

The period in which amounts would be brought into account by the company if it had a different accounting period.

Ensuring that the amounts are in total fully attributed. In other words, if the accounting period is broken up into a number of periods which do not overlap and which, taken together, completely align with the accounting period in question, the total of the amounts attributed to those periods must equal the amount being attributed.

Example

A company has a consistent level of borrowing costs throughout an accounting period. As a result, a simple time apportionment is likely to be appropriate for attributing the interest costs on the company’s borrowing to a part of an accounting period.

Example

A company makes a large acquisition part way through an accounting period, which is funded through the issue of a new bond which carries a fixed interest coupon. As a result, time apportioning the borrowings across the whole of the accounting period may not be appropriate. It is likely that apportioning the interest over the period from when the loan was taken out will be more appropriate.

Example

A company has accrued interest payable on a loan to a connected company that was not paid within 12 months and hence was deferred under the {late paid interest rules}. The deduction for the late paid interest would be attributable to the part of the period in which the interest was paid.

Administration

Where there is an enquiry into the Corporate Interest Restriction figures which involves a dispute over the just and reasonable basis, HMRC may make a determination of the just and reasonable basis to be used as part of process of closing the enquiry. The may appeal against the determination on the basis that the attribution is not just and reasonable.

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