HMRC - CFM97210 - Infrastructure: The Asset Test

TIOPA10/S433(5)-(9)

The second condition required to be met in order for a company to be a qualifying infrastructure company (QIC) is the public infrastructure asset test. This is a test of assets recognised for accounting purposes.

To meet the public infrastructure assets test, all, or all but an insignificant proportion, of the total value of the company’s assets recognised in a balance sheet on each day of an accounting period must derive from:

tangible assets that are related to qualifying infrastructure activities,

service concession arrangements in respect of assets that are related to qualifying infrastructure activities,

financial assets to which the company is a party for the purpose of qualifying infrastructure activities carried on by the company or another associated QIC,

shares in a QIC, and

loan relationships to which the only other party is a QIC.

Value refers to the value of assets as recognised in a balance sheet included within the financial statements of the QIC or the value that would be recognised if financial statements were drawn up on that day.

Tangible assets, or service concession arrangements in respect of assets, are related to qualifying infrastructure activities if those assets are:

public infrastructure assets (infrastructure of the UK or certain buildings within a UK property business) provided by the company;

other tangible assets used in the course of a qualifying infrastructure activity carried on by that company or a by QIC which is a member of the same worldwide group.

Service concession arrangements

Service concession arrangement has the meaning given by international accounting standards (TIOPA10/S494).

IFRIC12 issued in 2006 applies to periods beginning on or after 1 January 2008, to give guidance on the accounting by operators of public-to-private service concession arrangements. A service concession arrangement for these purposes is an arrangement in which the grantor is a government or other public body (for example, an NHS trust) which contracts with a private sector operator to develop (or upgrade), operate and maintain the grantor’s infrastructure assets such as roads, bridges, tunnels, prisons or hospitals. The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangements.

The definition of a service concession arrangement under FRS 102 is closely aligned with the IFRIC 12 concept of service concession arrangement. If a company applies service concession accounting treatment under FRS 102 then this accords with the definition of “service concession arrangements” as interpreted in TIOPA 2010/s494. This also applies to the transition arrangements where a choice is made to continue the existing service concession accounting treatment that was taken out before the transition to FRS. In either case the arrangements would constitute a “service concession arrangements”.

For the purposes of the public infrastructure asset test:

assets deriving from service concession arrangements may be recognised as finance assets or intangible assets on the balance sheet of a QIC;

where a company’s interest in a partnership or other transparent entity is recognised on its balance sheet, this interest may be deemed to fall within the above categories of assets, depending on the nature of the assets recognised on the partnership or transparent entity’s balance sheet (s447);

shares in a decommissioning fund, or loan relationships or other financing arrangements to which a decommissioning fund is party, are ignored (s448).

Where a company recognises no assets whatsoever on its balance sheet for an accounting period (and would not for a balance sheet drawn up on any day of that period), the public infrastructure asset test is considered passed for that period. This also includes situations where a company has assets where it is reasonable to regard the value of the assets as insignificant. For example if a dormant company holds a £10 cash asset it is reasonable to regard this asset as insignificant and as such the company is regarded as meeting the public infrastructure assets test.

Example 1

Company B is a wholly owned subsidiary of Company A. Company B constructed a waste processing facility, commissioned by a local authority and from this provides waste processing services to the local authority. As the infrastructure asset was procured by a relevant public body and Company B’s income and assets relate to a qualifying infrastructure activity then Company B will be able to qualify as a QIC.

Company A’s only assets are shares in Company B, a loan asset recognising a loan to Company B, and also a tangible asset representing land which it has leased to Company B (and upon which Company B has constructed the waste processing facility). As Company A’s shares in Company B are in a QIC then it passes the income and assets test on these shares. . Similarly the loan debtor asset is from Company B and as Company B is a QIC its passes the income and assets test on this loan debtor asset.

This land asset that is held by Company A is used in the course of the qualifying infrastructure activity carried on by Company B. This land asset will also be on the balance sheet of Company A and the worldwide group consolidated accounts. Therefore Company A would pass the public infrastructure asset test with respect to all of its assets. As its income is derived from shares and a loan from Company B, a QIC and the rental income on the land is derived from a qualifying infrastructure activities Company A will also be a QIC.

Meaning of insignificant

The test of insignificance is both an absolute and relative test. Where the value of an asset is insignificant in absolute terms then it should be ignored. Otherwise, assets are ignored if their value represents an insignificant proportion of the total value of the assets which are or would be recognised in the balance sheet of the company on that date.

Whether an amount is insignificant will depend on the particular facts and circumstances. An amount is unlikely to be insignificant if it would be of relevance to shareholders or lenders. Assets are more likely to represent an insignificant proportion of the total, or be insignificant in absolute terms, if their absence would make no difference to the market value of the company, and if it is merely happenstance that the company holds the assets.

Example 2

A group company (Holdco) holds shares and loans in ten companies incorporated as special purpose companies (‘SPCs’) to each hold an investment property. For the purposes of the example, the value of the shares and loans recognised on the balance sheet of Holdco is attributable equally amongst its ten subsidiaries. Nine of the companies are qualifying infrastructure companies, by virtue of holding buildings which are part of a UK property business which are let to unrelated persons on a short term basis. One is not. Holdco would fail the public infrastructure asset test.

Temporary periods

A company will not fail the public infrastructure asset test for an accounting period if it is failed to meet the conditions for an insignificant period. The period would be considered insignificant if the conditions were breached as a result of circumstances which only existed and were only intended to exist for a temporary period of insignificant duration.

Example 3

Just before the beginning of an accounting period, Holdco (from the above example) disposes of the company which was not a qualifying infrastructure company. It distributed the significant proceeds to its shareholders after the first week of the accounting period. Holdco would meet the conditions in the public infrastructure asset test in this period, but for the significant cash balance representing the proceeds of the disposal. As this was only held and intended to be held for an insignificant period, Holdco can still be considered to pass the public infrastructure asset test.

Group elections

The meaning of insignificant for these purposes can be altered by a group infrastructure election.

Circularity

Where one company hold shares and/or debt issued by another company, the first company can only be a QIC if the second company is. If the second company has also lent money to the first company, it can only be a QIC if the first company is. Providing both companies meet any other relevant conditions, HMRC will regard them both as eligible to be QICs.

Example 4

Company B holds a public infrastructure asset on its balance sheet, and carries out a qualifying infrastructure activity. It also makes a loan to its parent, Company A.

Company A’s only assets are shares in, and a loan to Company B.

The loan from Company B to Company A is not insignificant relative to the other assets of Company B and, if Company A was not a QIC, would mean Company B could not qualify as such either.

This apparent circularity is not considered to prevent either company to qualify as QIC, so long as all other conditions necessary to qualify are met and elections to be a QIC are made.

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