HMRC - CFM98320 - Rules: Straddling Period Of Account

F(No.2)A17/Sch10/Para25(4)-(11)

Where a worldwide group draws up financial statements for a period which straddles 1 April 2017 this is referred as a straddling period of account. In this situation the commencement rules apply on the basis that the actual accounts had not been drawn up.

Instead the rules will apply on the basis that the group had drawn up financial statements for two notional periods of accounts as follows:

a period beginning with the start of the actual period for which accounts are drawn up and ending with the 31 March 2017,

a period beginning with 1 April 2017 and ending with end of the actual period for which accounts are drawn up.

The Corporate Interest Restriction rules will then apply for the notional period of account commencing 1 April 2017.

Implications of the notional period of account

Tax-interest and Tax-EBITDA

The group will need to aggregate the amounts of tax-interest and tax-EBITDA for the group for the notional period of account commencing on 1 April 2017.

Where a group has a straddling period of account it is likely that notional period of account commencing 1 April 2017 will not align exactly with the accounting periods of all the UK companies within the group.

In this situation the accounting periods for individual companies in the group are likely to extend beyond the notional period for which the rules are being applied - referred to as disregarded periods. As a result, amounts of tax-interest and tax-EBITDA will need to be adjusted to identify the amounts that are attributable to the notional period of account commencing on 1 April 2017.

Any reduction for the disregarded period in the calculation of tax-interest and tax-EBITDA need to be made on a just and reasonable basis. It is expected that in most cases time apportionment would be a suitable allocation method.

Group figures

In applying the Corporate Interest Restriction rules for the notional period of account commencing 1 April 2017 it will often be necessary to identify the amounts recognised in the consolidated accounts for that period. This will be relevant for:

the calculation of adjusted net group-interest expense for the fixed ratio debt cap under the Fixed Ratio Method; or

the calculation of the qualifying net group-interest expense and group-EBITDA for the group ratio percentage and the group ratio debt cap under the Group Ratio Method.

The commencement rules provide that a simple time apportionment in line with CTA 2010/s1172 should be used by default. However, if a time basis apportionment gives an unjust or unreasonable result, then the figures should be attributed to the periods on a just and reasonable basis. In applying a just and reasonable basis, consideration would need to be given as to the amounts that would be recognised for each notional period had the group prepared financial statements for each period.

Financial statements ignored

Where a group draws up financial statements that are for a period that is longer than 18 months or which are drawn up more than 30 months from the start of the period then these are ignored for the commencement rules. This is in line with the general rules for financial statements.

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