HMRC - CFM98330 - Rules: Repeal Of Worldwide Debt Cap

F(No.2)A17/Sch10/Para26

The Corporate Interest Restriction rules replace the existing Worldwide Debt Cap rules. The Worldwide Debt Cap rules therefore cease to have effect for periods of account starting on or after 1 April 2017.

If a worldwide group draws up financial statements for a period that straddles 1 April 2017 then the Worldwide Debt Cap rules will cease to apply on the basis that the group has two notional periods of accounts as follows —

a period of account beginning when the actual period of account starts and ending with the 31 March 2017;

a period beginning with 1 April 2017 and ending when the actual period of account ends.

The Worldwide Debt Cap rules will then apply for the last time for the notional period of accounting ending 31 March 2017.

Implications of the notional period of account

Tested amounts

The group will need to aggregate the financing expense amounts and the financing income amounts for the group for the notional period of account ending 31 March 2017.

Where a group has a straddling period of account it is likely that notional period of account ending 31 March 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. As a result, financing expense amounts and financing income amounts need to be adjusted to identify the amounts that are attributable to the notional period of account ending on 31 March 2017.

The rules for the calculation of financing expense and financing income amounts for a period require this attribution to be made on a just and reasonable basis. It is expected that in most cases time apportionment would be a suitable allocation method.

Available amount

In applying the Worldwide Debt Cap for the notional period of account ending 31 March 2017 it will be necessary to identify the amounts recognised in the consolidated accounts for that period for the calculation of the available amount.

The rules governing the repeal of the Worldwide Debt Cap Rules mirror the commencement rules and 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.

Meaning of worldwide group

In most cases the worldwide group for Worldwide Debt Cap and worldwide group for Corporate Interest Restriction will be the same. However, the definitions are not exactly aligned and could therefore give different results. The rules governing the repeal of the Worldwide Debt Cap are naturally based on the Worldwide Debt Cap definitions.

Example

A group prepares financial statements to 31 December each year.

As a result of the commencement provisions its financial statements for the year to 31 December 2017 are treated as being split as follows:

There will be a three month notional period of account from 1 January 2017 to 31 March 2017 to which the Worldwide Debt Cap rules will apply.

There will be a nine month notional period of account from 1 April 2017 to 31 December 2017 to which the Corporate Interest Restriction rules will apply.

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