HMRC - CFM98460 - Requirements: Elections That May Be Made In The Return

TIOPA10/SCH7A/PARAS12-19

The following elections, if made, and revocations, where permitted, should be made in a full or abbreviated interest restriction return, which may be a revised return.

The election has effect for the period of account to which the return relates and according to the nature of the election may also have effect for later periods of account. Some elections may be revoked, in which case the revocation must be included in an interest restriction return. Where the election applies only for the single period, a revocation will be need to be included in a revised return for that period. Otherwise a revocation is included in an original or revised return for the period from which the revocation is to first have effect. Once an irrevocable election has been made in an interest restriction return for a period, submission of a revised interest restriction for the period cannot have the effect of revoking the election already made.

The detailed effects of the elections are covered in the guidance on the relevant parts of the calculation process. The abbreviated return election allows a group to submit a simplified return where there are no disallowances. The group ratio election, group ratio (blended) election and the group-EBITDA (chargeable gains) election are only relevant where group ratio method

The election to file an abbreviated return (TIOPA10/SCH7A/PARAS19 and 12(3)(g)) is made in the return. An abbreviated return may also include other elections. For instance a group ratio election could be included in an abbreviated return if it has the effect that no interest restriction is due. If a group would suffer no interest restriction whether or not a group ratio election is made, it has the further option of submitting an abbreviated (or full) return for a period without the election, remaining free to subsequently submit a revised full return including the election, if this would have the effect of increasing the unused interest allowance available to carry forward and use in a later period.

A group ratio election (PARAS 13 and 12(3)(a)) allows a worldwide group to substitute a measure of its external net interest etc. expense to EBITDA for the 30% applied under the fixed ratio method, see s398. The election may only be made where a reporting company has been appointed and is made by that company. It may be revoked.

A group ratio (blended) election (PARAS14 and 12(3)(b)) is an election that may be made by a worldwide group that has made a group ratio election. This allows an alternative method of computing the group ratio, where a group (normally a joint venture) is held by a number of investors and cannot be made unless at least one investor is a related party and a member of a different worldwide group throughout the period of account. The group ratio is then a weighted average of the investor groups’ applicable percentages (S401-403). The election may only be made where a reporting company has been appointed and is made by that company.

There is a fair degree of flexibility. The election is only likely to be beneficial where an investor group has a group ratio higher than that the group making the election would otherwise have. The election relates to a single period of account and may be revoked. The election can specify one or more investor group or groups and treat them as having made or not made further elections in computing their position under the CIR - subject to limitation where the election in question would have been irrevocable.

A group-EBITDA (chargeable gains) election (PARAS15 and 12(3)(c)) is an election to modify the manner in which group-EBITDA is computed in the manner set out in s422. The election may only be made where a reporting company has been appointed and is made by that company. Once made the election is irrevocable, but it only makes a difference in a period for which a group ratio election has effect.

An interest allowance (alternative calculation) election (PARAS16 and 12(3)(d)) is an election to change the way in which group-interest and group-EBITDA are computed by adjusting the accounting-based value of certain items, to a figure which is more likely to be closer to a its measurement for UK tax purposes by applying the alternative calculation provisions in S423-426. The changes to the computation of group interest are relevant to the calculation of adjusted net group-interest expense in applying the debt cap under the fixed ratio method. Both are relevant to the application of the group ratio method. The election may only be made where a reporting company has been appointed and is made by that company. Once made the election is irrevocable.

An interest allowance (non-consolidated investment) election (PARAS 17 and 12(3)(e)) can only be made where the worldwide group has appointed a reporting company and is made by that company. It brings into effect the non-consolidated investment provisions in S427 and 428 which have the effect of modifying the group ratio calculation by bringing into account amounts relating to non-consolidated associates and leaving out of account interest etc. amounts and profits from transaction between members of the principal group and those non-consolidated associates. It may also change the calculation of adjusted net group-interest expense in applying the debt cap under the fixed ratio method. This election may be revoked.

An interest allowance (consolidated partnerships) election (PARAS18 and 12(3)(f)) treats an interest in a partnership as if it were accounted for by the equity method, applying s430. An election must identify a partnership interest. Further elections may be made in respect of other partnership interests. The election has effect for the current and subsequent periods of account and is irrevocable. The changes to the computation of group interest are relevant to the calculation of adjusted net group-interest expense in applying the debt cap under the fixed ratio method

Previous page