HMRC - OT14610 - Transactions - General Objectives

OTA75\Sch4\Para2 contains provisions that restrict the allowance of expenditure under OTA75\S3 and OTA75\S4 and OTA83\S3 and OTA83\S4 where the claimant company incurs that expenditure in a transaction with a connected person (OT15580) or in one made otherwise than at arm’s length.

These provisions are primarily concerned with inter-affiliate or intra-group transactions but can also apply to non-arm’s length transactions between third parties. The main purpose of these provisions is to ensure that the cost allowable for relief to the purchaser does not exceed the actual cost to the group of acquiring an asset, or in providing services, and that the allowable cost does not exceed the market value of the asset or services.

Where the disposal by the other party to the transaction gives rise to a chargeable disposal receipt these provisions also ensure that the cost allowable for relief to the purchaser cannot exceed the amount of the disposal receipt.

After considering in detail the terms of OTA75\SCch4\Para2, the notes that follow consider some of the more frequently found situations and the issues that arise.

Next page