HMRC - OT21206 - The Meaning Of “Finance Costs”

CTA10\S331

Financing costs are defined in CTA10\S331 (formerly ICTA88\S501A(4) and ICTA88\S501A(5)) to be the costs of debt finance, including

loan relationship debits in respect of debtor relationships

forex differences arising in relation to debt finance

trading profits or losses on derivative contracts in relation to debt finance

the financing cost implicit in a payment under a finance lease

any other costs arising from what would be considered a financing transaction in accordance with generally accepted accounting practice (GAAP).

The definition is drawn very widely.

Finance Leases CTA10\S331(4)

Certain costs related to finance leases are also treated as finance costs for calculating the adjusted ring fence profits of a company. CTA10\S331(4) deals with a situation whereby an amount is not treated as a finance charge under a finance lease in the company’s accounts but

is treated as a finance charge in group accounts, or

would be treated as a finance charge if the group accounts were drawn up in accordance with GAAP.

Such an amount is to be treated as a financing cost implicit in a payment under a finance lease and hence a cost of debt finance.

This provision is aimed primarily at companies or groups that are not required to draw up their accounts under IAS or UK GAAP because, for example, they are non-resident. Where appropriate, this means the question of whether an amount is a finance charge is to be determined by reference to hypothetical group accounts drawn up in accordance with UK GAAP.

Recovery of Finance Costs CTA10\S331(5)

Where finance lease costs have been disallowed, then any repayment of them is left out of account in computing adjusted ring fence profits (CTA10\S331(5)).

What is meant by “finance lease” and “accounts” is defined in CTA10\S331(6) and CTA10\S331(9) respectively (see OT21209).

Previous page

Next page