HMRC - OT21220 - The Supplementary Charge - Negative Financing Costs

All finance costs must be excluded in the computation of adjusted ring fence profits.

Financing costs may include forex differences on the loan finance (see OT21206). When the exchange rate on the borrowed currency weakens the borrower makes an exchange gain, and in some circumstances this can be greater than the other finance costs such as interest. The net result is a negative finance cost.

When the finance cost is negative the adjusted ring fence profit is reduced when these costs are excluded.

This may result in a negative figure for the adjusted ring fence profit even where a ring fence profit arose (Example 1) or a negative figure for the adjusted ring fence profit that is greater than the ring fence trading loss (Example 2).

If there are no adjusted ring fence profits then there can be no impost to supplementary charge.

An example showing how negative finance costs can be tracked is at OT21224.

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