

# 2008 Pre-Budget Report



PBRN04

24 November 2008

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## CORPORATION TAX: LOAN RELATIONSHIPS: CONNECTED COMPANIES

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### Who is likely to be affected?

1. Companies that are subject to the corporation tax legislation on corporate debt (the 'loan relationships' rules).

### General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to amend the loan relationships rules affecting connected companies.
3. The first change amends the rules on the release of trade debts between connected companies.
4. The second change amends the rules on the late payment of interest between connected companies.

### Operative date

5. The changes will have effect for company accounting periods beginning on or after 1 April 2009.

### Current law and proposed revisions

6. Two companies are 'connected' under the loan relationships rules if one controls the other, or they are both under common control – so companies in the same group are connected. A creditor that formally releases a connected debtor from a trade debt is denied a deduction for the loss on the debt, but currently the debtor may be taxed on its 'profit'. Under the first change proposed, the debtor company would not be taxable on the release.

7. The second change concerns the rule that allows a debtor company a deduction for interest payable to a connected creditor that is outside the loan relationships rules only on a paid basis, rather than on the accruals basis that normally applies. A consultation has taken place on how the rule should be amended to provide certainty about its operation. The options for change are being considered in the light of responses received to that consultation.

### **Further advice**

8. More information on why the late interest rules are being amended can be found in the consultation document issued on 28 July 2008 entitled 'Changes to corporation tax rules on late payments of interest between connected companies'.
9. Draft legislation to achieve both changes will be available on the HM Revenue & Customs website later this year.
10. If you have any questions about these changes, please contact Sue Davies on 020 7147 2565 (e-mail: [sue.davies@hmrc.gsi.gov.uk](mailto:sue.davies@hmrc.gsi.gov.uk)) or Tony Sadler on 020 7147 2608 (e-mail: [tony.sadler@hmrc.gsi.gov.uk](mailto:tony.sadler@hmrc.gsi.gov.uk)). Information about Pre-Budget Report measures is available on the HM Revenue & Customs website at [www.hmrc.gov.uk](http://www.hmrc.gov.uk)