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Mr Stephen Timms (Labour-East Ham)

Amendment 69: Schedule 5, page 111, line 15, after ‘investment’ insert ‘or liability’.

Amendment 70: Schedule 5, page 111, line 16, after ‘made’ insert ‘, or the liability was incurred,’.

Amendment 71: Schedule 5, page 111, line 19, after ‘investment’ insert ‘or liability’.

Amendment 72: Schedule 5, page 111, line 26, at beginning insert ‘In the case of amounts relating to investments,’

Amendment 73: Schedule 5, page 111, line 28, after ‘But’ insert ‘in that case’.

Amendment 74: Schedule 5, page 111, line 30, at end insert-

‘(6) In the case of amounts relating to liabilities, those amendments have effect in relation to accounting periods ending on or after 9 May.

(7) But in that case, in relation to accounting periods beginning before that date, amounts are to be left out of account as a result of those amendments only if they relate to any time on or after that date.’.

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EXPLANATORY NOTE

SUMMARY

1. This amendment modifies paragraph 15 of Schedule 5 to the Finance Bill. Paragraph 15 prevents companies generating artificial loan relationship losses arising from investments in collective investment schemes (CIS) where the CIS has made an investment that is bound to decline in value.
2. In a newly disclosed scheme the CIS incurs a liability with the intention of causing the value of the CIS to decline. The amendment broadens paragraph 15 so that it applies where a CIS makes an investment or incurs a liability with the intention of causing the value of the fund to decline.

DETAILS

3. Amendment 69 inserts the words “or liability” after investment so that the rule applies both to investment and liabilities.
4. Amendments 70 and 71 are consequential and ensure that references in the legislation to “investments” are extended to “investments or liabilities”.
5. Amendment 72 preserves the basic commencement rule which is that paragraph 15 has effect in relation to artificial losses in respect of investments from the date that the legislation was originally announced on 6 March 2007.
6. Amendment 73 and 74 sets out the commencements rule for the Amendments, which is that they have effect only from the date they were tabled, on 9 May 2007.

BACKGROUND NOTE

7. Paragraph 15 is intended to stop artificial attempts to create loan relationship losses as a result of companies investing in collective investment schemes (CIS) where the CIS has made

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an investment that is bound to decline in value. Accordingly, in determining the fair value of the holding in a CIS, paragraph 15 provides that no account is taken of the depreciation of any asset which the fund has acquired to deliberately reduce the value of the holding for avoidance purposes.

8. In a scheme disclosed to HMRC since paragraph 15 was published on 6 March, the CIS assumes a liability with the intention of causing the value of the CIS to decline. Accordingly, paragraph 15 is extended so that it also covers cases where the CIS incurs a liability with the intention of causing the value of the fund to decline.