

*Bill 6: Corporation Tax  
Use of different accounting practices within a group  
May 2008: CC/SC (08) 19*

**Part 1: Corporation tax liability: miscellaneous rules**

**Chapter 1: Other miscellaneous rules**

**Clause 1{j9201}: Use of different accounting practices within a group of companies**

1. This clause deals with the use of different accounting practices within a group of companies. It is based on section 51 of FA 2004.
2. If the accounting treatments for a transaction under international accounting standards and UK generally accepted accounting practice are different, this could give rise to a tax mismatch: for example, one company might recognise a (deductible) loss before the other company recognised the corresponding (taxable) gain. If the two companies were members of the same group, the intra-group gain and loss would be cancelled out in arriving at the group's consolidated profit before tax – but the group would still have the tax advantage of obtaining the deduction before having to recognise the taxable income.
3. Accordingly, a tie-breaker provision is needed to deal with such cases. This clause of the Bill gives UK generally accepted accounting practice the priority, whether the tax advantage arises by accident or design.
4. The source legislation refers to “the Tax Acts”, which is defined in Schedule 1 to the Interpretation Act 1978 as meaning the Income Tax Acts and the Corporation Tax Acts. The legislation could have an income tax application if, for example:
  - A non-UK resident company, liable to income tax on its UK property income under the non-resident landlords scheme, prepared accounts in accordance with international accounting standards; and
  - A UK resident company in the same group prepared accounts in accordance with UK generally accepted accounting practice.
5. However, this clause of the Bill does not apply to persons other than companies. Schedule 1 to the Interpretation Act 1978 defines “the Corporation Tax Acts” to mean the enactments relating to the taxation of the income and chargeable gains of companies and of company distributions (including provisions relating to income tax). This includes the enactments relating to income tax in their application to companies. The implied reference to the Income Tax Acts is therefore not necessary. Accordingly, subsection (2) sharpens the drafting by referring to “the Corporation Tax Acts”.
6. *Subsection (5)* gives “tax advantage” the meaning given by section 840ZA of ICTA. Section 840ZA is being rewritten in Bill 6; the cross-reference will be updated in due course.

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**Schedule 1{j3}: Transitionals and savings etc**

7. It is possible – although in practice very unlikely – that there could be companies with periods of account which (a) began before 1 January 2005 but (b) will not have ended before this Bill comes into force. Accordingly, Schedule 1 to this Bill contains a saving for section 51(6)(a) of FA 2004.