



Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XII

SPECIAL CLASSES OF COMPANIES AND BUSINESSES

CHAPTER III

UNIT TRUST SCHEMES, DEALERS IN SECURITIES ETC.

Dealers in securities, banks and insurance businesses

471 Exchange of securities in connection with conversion operations, nationalisation etc

(1) If—

- (a) any securities to which a person who is carrying on a trade which consists wholly or partly in dealing in securities is beneficially entitled are exchanged for other securities; and
- (b) the exchange is one to which this section applies,

then, whether or not any additional consideration is given for the exchange but subject to subsection (2) below, that person shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both at the time of the exchange and thereafter, as if the exchange had not taken place, and in that case the produce of any subsequent realisation of any of the securities received by him under the exchange (together with any additional consideration, or the appropriate part of any additional consideration, received by him under the exchange) shall be treated as the produce of the realisation of the corresponding securities surrendered by or transferred from him under the exchange, or of a corresponding part thereof, as the case may be.

- (2) Subsection (1) above shall not apply to any person who gives notice to the inspector not later than two years after the end of the chargeable period in which the exchange takes place that he desires not to be treated as mentioned in that subsection.

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- (3) The exchanges to which this section applies are—
- (a) any exchange effected under any arrangement carried out under section 2 of the National Loans Act 1939 or section 14 of the National Loans Act 1968 if the Treasury direct, in pursuance of that arrangement, that this section shall apply to exchanges thereunder;
 - (b) any exchange of securities effected by section 1 of the Bank of England Act 1946; and
 - (c) any exchange of securities effected in pursuance of any enactment passed after 5th April 1946 which provides for the compulsory acquisition of any securities and the issue of other securities in lieu thereof, if the Treasury direct that this section shall apply to exchanges of securities effected in pursuance of that enactment.
- (4) In this section “securities” includes shares, stock, bonds, debentures and debenture stock.

472 Distribution of securities issued in connection with nationalisation etc

- (1) Where—
- (a) in pursuance of any enactment passed after 5th April 1946 any securities are issued to any body corporate as, or as part of, the consideration for the compulsory acquisition of any property under that enactment; and
 - (b) that body corporate is wound up or the capital thereof is reduced or any bonds, debentures or debenture stock thereof are redeemed, and, in or in connection with the winding up, reduction of capital or redemption, all or any of the securities so issued are distributed to holders of securities of the body corporate (“the distributed securities”); and
 - (c) the Treasury direct that this section shall apply in relation to the distribution, any person (“the dealer”) who is carrying on a trade which consists wholly or partly in dealing in securities and is beneficially entitled to any securities (“the relevant securities”) to the holders of which the distribution is made shall, in relation to that distribution, be treated for tax purposes in the manner specified in subsections (2) and (3) below, unless he gives notice to the inspector not later than two years after the end of the chargeable period in which the distribution takes place that he desires not to be so treated in relation to that distribution.
- (2) If the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock is that the relevant securities to which the dealer is beneficially entitled are wholly extinguished without his receiving anything in respect thereof except the distributed securities, he shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both then and thereafter, as if neither the extinction nor the distribution had taken place but as if the produce of any subsequent realisation of any of the distributed securities were the produce of the realisation of the relevant securities or a corresponding part thereof, as the case may be.
- (3) In any other case—
- (a) the dealer shall be treated as having acquired the distributed securities at a cost equal to such proportion of the cost to him of the relevant securities as may be specified in the direction of the Treasury referred to in subsection (1) above and the question whether he has made any, and if so what, profit or suffered any, and if so what, loss on any subsequent realisation of the distributed securities shall be determined accordingly; and

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- (b) in considering whether he has, either as the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock and the distribution of the securities, or on any subsequent realisation of any of the relevant securities, made any, and if so what, profit or suffered any, and if so what, loss in connection with the relevant securities, the distributed securities shall be left out of account and the cost to him of the relevant securities shall be deemed to be reduced by the amount of the cost at which, under paragraph (a) above, he is taken to have acquired the distributed securities.
- (4) In this section “securities” includes shares, stock, bonds, debentures and debenture stock.

473 Conversion etc. of securities held as circulating capital

- (1) Subsections (3) and (4) below shall have effect where a transaction to which this section applies occurs in relation to any securities (“the original holding”)—
- (a) to which a person carrying on a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is beneficially entitled; and
 - (b) which are such that a profit on their sale would form part of the trading profits of that business.
- (2) This section applies to any transaction which, if the securities were not such as are mentioned in subsection (1)(b) above—
- (a) would result in the original holding being equated with a new holding by virtue of sections 77 to 86 of the 1979 Act (capital gains tax roll-over relief in cases of conversion etc.); or
 - (b) would be treated by virtue of section 84 of that Act (compensation stock) as an exchange for a new holding which does not involve a disposal of the the original holding;
- but does not apply to any transaction in relation to which section 471 applies or would apply if the person concerned had not given a notice under that section.
- (3) Subject to subsection (4) below, in making any computation in accordance with the provisions of this Act applicable to Case I of Schedule D of the profits or losses of the business —
- (a) the transaction shall be treated as not involving any disposal of the original holding, and
 - (b) the new holding shall be treated as the same asset as the original holding.
- (4) Where under the transaction the person concerned receives or becomes entitled to receive any consideration in addition to the new holding, subsection (3) above shall have effect as if references to the original holding were references to the proportion of it which the market value of the new holding at the time of the transaction bears to the aggregate of that value and the market value at that time (or, if it is cash, the amount) of the consideration.
- (5) Subsections (3) and (4) above shall have effect with the necessary modifications in relation to any computation made for the purposes of section 76(2) in a case where securities held by the company concerned are equated with a new holding by virtue of any of sections 77 to 86 of the 1979 Act or are treated as not disposed of by virtue of section 84 of that Act.

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- (6) In this section “securities” includes shares, any security within the meaning of section 82 of the 1979 Act and any rights, interests or options which by virtue of section 86(7), 93 or 139 of that Act are treated as shares for the purposes of sections 77 to 86 of that Act.
- (7) In determining for the purposes of subsection (2)(a) above whether a transaction would result in the original holding being equated with a new holding by virtue of section 85 or 86 of the 1979 Act the reference in section 87(1) of that Act to capital gains tax shall be construed as a reference to income tax.

474 Treatment of tax-free income

- (1) Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is carried on in the United Kingdom by a person not resident there, then—
- (a) in computing for any of the purposes of the Tax Acts the profits arising from, or loss sustained in, the business, and
 - (b) in the case of an insurance business, also in computing the profits or loss from pension business and general annuity business under section 436,
- all interest, dividends and other payments whatsoever to which section 48 or 123(4) extends shall be included notwithstanding the exemption from tax conferred by those sections respectively.

In this subsection “securities” includes stocks and shares.

- (2) Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities—
- (a) is carried on in the United Kingdom by a person not ordinarily resident there, and
 - (b) in making any such computation as is referred to in subsection (1) above with respect to that business, any interest on any securities issued by the Treasury is excluded by virtue of a condition of the issue thereof regulating the treatment of the interest on those securities for tax purposes,
- then any expenses attributable to the acquisition or holding of, or to any transaction in, the securities (but not including in those expenses any interest on borrowed money), and any profits or losses so attributable, shall also be excluded in making that computation.

475 Tax-free Treasury securities: exclusion of interest on borrowed money

- (1) This section has effect where paragraphs (a) and (b) of section 474(2) apply to a business for any accounting period or year of assessment.
- (2) Up to the amount determined under this section (“the amount ineligible for relief”), interest on money borrowed for the purposes of the business—
- (a) shall be excluded in any computation under the Tax Acts of the profits (or losses) arising from the business or, where subsection (6) below applies, arising from any annuity business forming part of the life assurance business, and
 - (b) shall be excluded from the definition of “charges on income” in section 338.

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- (3) Subject to subsection (4) below, in determining the amount ineligible for relief, account shall be taken of all money borrowed for the purposes of the business which is outstanding in the accounting or basis period, up to the total cost of the tax-free Treasury securities held for the purpose of the business in that period.
- (4) Where the person carrying on the business is a company, account shall not be taken of any borrowed money carrying interest which, apart from subsection (2) above, does not fall to be included in the computations under paragraph (a) of that subsection, and is not to be treated as a charge on income for the purposes of the Corporation Tax Acts.
- (5) Subject to subsection (6) below, the amount ineligible for relief shall be equal to a year's interest on the amount of money borrowed which is to be taken into account under subsection (3) above at a rate equal to the average rate of interest in the accounting or basis period on money borrowed for the purposes of the business, except that in the case of a period of less than 12 months interest shall be taken for that shorter period instead of for a year.
- (6) Where relief for expenses of management is to be granted to an insurance company for any accounting period, and that relief falls to be reduced under section 445(8)(b) (by applying the fraction which is investment income of the life assurance fund other than income from tax-free Treasury securities divided by that total investment income)—
 - (a) the amount ineligible for relief shall be a fraction of the amount of interest in the accounting period on money borrowed for the purposes of the business; and
 - (b) that fraction shall be the fraction which is income from tax-free Treasury securities divided by total investment income of the life assurance fund (that is to say, one minus the fraction to be applied under section 445(8)(b)).
- (7) In this section “tax-free Treasury securities” means securities issued by the Treasury with a condition regulating the treatment of the interest thereon for income tax or corporation tax purposes such that interest on the securities is excluded in computing the income or profits.
- (8) For the purposes of this section the cost of a holding of tax-free Treasury securities which has fluctuated in the accounting or basis period shall be the average cost of acquisition of the initial holding, and of any subsequent acquisitions in the accounting or basis period, applied to the average amount of the holding in the accounting or basis period, and this subsection shall be applied separately to securities of different classes.
- (9) In this section “accounting or basis period” means the company's accounting period or the period by reference to which the profits or gains arising in the year of assessment are to be computed.