



Taxation of Chargeable Gains Act 1992

1992 CHAPTER 12

PART IV

SHARES, SECURITIES, OPTIONS ETC.

CHAPTER I

GENERAL

Deep discount securities, the accrued income scheme etc.

118 Amount to be treated as consideration on disposal of deep discount securities etc

- (1) Subject to subsections (2) and (3) below, in the computation of the gain accruing on the disposal by any person of any deep discount securities (within the meaning of Schedule 4 to the Taxes Act)—
 - (a) section 37 shall not apply but the consideration for the disposal shall be treated as reduced by the amount mentioned in paragraph 4(1)(a) of that Schedule (including any amount mentioned in paragraph 3 of that Schedule); and
 - (b) where that amount exceeds the consideration for the disposal, the amount of the excess shall be treated as expenditure within section 38(1)(b) incurred by that person on the security immediately before the disposal.
- (2) Subsection (3) below applies where—
 - (a) there is a conversion of securities to which section 132 applies and those securities include deep discount securities; or
 - (b) securities including deep discount securities are exchanged (or by virtue of section 136(1) are treated as exchanged) for other securities in circumstances in which section 135(3) applies.
- (3) Where this subsection applies—

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- (a) subsection (1) and section 37 shall not apply but any sum payable to the beneficial owner of the deep discount securities by way of consideration for their disposal (in addition to his new holding) shall be treated for the purpose of the computation of the gain as reduced by the amount of the accrued income on which he is chargeable to tax by virtue of paragraph 7(3) of Schedule 4 to the Taxes Act or, in a case where paragraph 3 of that Schedule applies, on which he would be so chargeable if that paragraph did not apply; and
 - (b) where that amount exceeds any such sum, the excess shall be treated as expenditure within section 38(1)(b) incurred by him on the security immediately before the time of the conversion or exchange.
- (4) Where a disposal of a deep discount security is to be treated for the purposes of this Act as one on which neither a gain nor a loss accrues to the person making the disposal, the consideration for which the person acquiring the security would, apart from this subsection, be treated for those purposes as having acquired the security shall be increased by the amount mentioned in paragraph 4(1)(a) of Schedule 4 to the Taxes Act (including any amount mentioned in paragraph 3 of that Schedule).
- (5) Where by virtue of paragraph 18(3) of Schedule 4 to the Taxes Act trustees are deemed for the purposes of that Schedule to dispose of a security at a particular time—
- (a) they shall be deemed to dispose of the security at that time for the purposes of this Act, and
 - (b) the disposal deemed by paragraph (a) above shall be deemed to be at the market value of the security.
- (6) Where by virtue of paragraph 18(4) of Schedule 4 to the Taxes Act trustees are deemed for the purposes of that Schedule to acquire a security at a particular time—
- (a) they shall be deemed to acquire the security at that time for the purposes of this Act, and
 - (b) the acquisition deemed by paragraph (a) above shall be deemed to be at the market value of the security.

119 Transfers of securities subject to the accrued income scheme

- (1) Where there is a transfer of securities within the meaning of section 710 of the Taxes Act (accrued income scheme)—
- (a) if section 713(2)(a) or (3)(a) of that Act applies, section 37 shall be disregarded in computing the gain accruing on the disposal concerned;
 - (b) if section 713(2)(b) or (3)(b) of that Act applies, section 39 shall be disregarded in computing the gain accruing to the transferee if he disposes of the securities;
- but subsections (2) and (3) below shall apply.
- (2) Where the securities are transferred with accrued interest (within the meaning of section 711 of the Taxes Act)—
- (a) if section 713(2)(a) of that Act applies, an amount equal to the accrued amount (determined under that section) shall be excluded from the consideration mentioned in subsection (8) below;
 - (b) if section 713(2)(b) of that Act applies, an amount equal to that amount shall be excluded from the sums mentioned in subsection (9) below.

- (3) Where the securities are transferred without accrued interest (within the meaning of section 711 of the Taxes Act)—
 - (a) if section 713(3)(a) of that Act applies, an amount equal to the rebate amount (determined under that section) shall be added to the consideration mentioned in subsection (8) below;
 - (b) if section 713(3)(b) of that Act applies, an amount equal to that amount shall be added to the sums mentioned in subsection (9) below.
- (4) Where section 716 of the Taxes Act applies—
 - (a) if subsection (2) or (3) of that section applies, section 37 shall be disregarded in computing the gain accruing on the disposal concerned, but the relevant amount shall be excluded from the consideration mentioned in subsection (8) below; and
 - (b) if subsection (4) of that section applies, section 39 shall be disregarded in computing the gain accruing on the disposal concerned, but the relevant amount shall be excluded from the sums mentioned in subsection (9) below.
- (5) In subsection (4) above “the relevant amount” means an amount equal to—
 - (a) if paragraph (b) below does not apply, the amount of the unrealised interest in question (within the meaning of section 716 of the Taxes Act);
 - (b) if section 719 of the Taxes Act applies—
 - (i) in a case falling within subsection (4)(a) above, amount A (within the meaning of section 719);
 - (ii) in a case falling within subsection (4)(b) above, amount C (within the meaning of section 719).
- (6) In relation to any securities which by virtue of subsection (7) below are treated for the purposes of this subsection as having been transferred, subsections (2) and (3) above shall have effect as if for “applies” (in each place where it occurs) there were substituted “would apply if the disposal were a transfer”.
- (7) Where there is a disposal of securities for the purposes of this Act which is not a transfer for the purposes of section 710 of the Taxes Act but, if it were such a transfer, one or more of the following paragraphs would apply, namely, paragraphs (a) and (b) of section 713(2) and paragraphs (a) and (b) of section 713(3) of that Act, the securities shall be treated—
 - (a) for the purposes of subsection (6) above, as transferred on the day of the disposal, and
 - (b) for the purposes of subsections (2) and (3) above, as transferred with accrued interest if, had the disposal been a transfer for the purposes of section 710, it would have been a transfer with accrued interest and as transferred without accrued interest if, had the disposal been such a transfer, it would have been a transfer without accrued interest.
- (8) The consideration is the consideration for the disposal of the securities transferred which is taken into account in the computation of the gain accruing on the disposal.
- (9) The sums are the sums allowable to the transferee as a deduction from the consideration in the computation of the gain accruing to him if he disposes of the securities.
- (10) Where on a conversion or exchange of securities a person is treated as entitled to a sum under subsection (2)(a) of section 713 of the Taxes Act an amount equal to the

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accrued amount (determined under that section) shall, for the purposes of this Act, be treated as follows—

- (a) to the extent that it does not exceed the amount of any consideration which the person receives (or is deemed to receive) or becomes entitled to receive on the conversion or exchange (other than his new holding), it shall be treated as reducing that consideration; and
- (b) to the extent that it does exceed that amount, it shall be treated as consideration which the person gives on the conversion or exchange;

and where on a conversion or exchange of securities a person is treated as entitled to relief under subsection (3)(a) of that section an amount equal to the rebate amount (determined under that section) shall, for the purposes of the computation of the gain, be treated as consideration which the person receives on the conversion or exchange.

- (11) In subsection (10) above “conversion” means conversion within the meaning of section 132 and “exchange” means an exchange which by virtue of Chapter II of this Part does not involve a disposal.

120 Increase in expenditure by reference to tax charged in relation to shares etc

- (1) Where an amount is chargeable to tax under Chapter II of Part III of the Finance Act 1988 on a person who acquires shares or an interest in shares, then on the first disposal of the shares (whether by him or by another person) after his acquisition, section 38(1)(a) shall apply as if a sum equal to the amount chargeable had formed part of the consideration given by the person making the disposal for his acquisition of the shares; and this subsection shall apply with the appropriate modifications in a case to which section 83 of that Act applies.

This subsection shall be construed as if it were contained in Chapter II of Part III of the Finance Act 1988.

- (2) Section 38(1)(a) applies as if the relevant amount as defined in the following provisions of this section in the cases there specified had formed part of the consideration given by the person making the disposal for his acquisition of the assets in question.
- (3) Where an amount is chargeable to tax by virtue of section 162(5) of the Taxes Act in respect of shares or an interest in shares, then—
 - (a) on a disposal of the shares or interest, where that is the event giving rise to the charge; or
 - (b) in any case, on the first disposal of the shares or interest after the event, the relevant amount is a sum equal to the amount so chargeable.
- (4) If a gain chargeable to tax under section 135(1) or (6) of the Taxes Act is realised by the exercise of a right to acquire shares, the relevant amount is a sum equal to the amount of the gain so chargeable to tax.
- (5) Where an amount is chargeable to tax under section 138 of the Taxes Act on a person acquiring any shares or interest in shares, then on the first disposal (whether by him or another person) of the shares after his acquisition, the relevant amount is an amount equal to the amount so chargeable.
- (6) Where an amount was chargeable to tax under section 185(6) of the Taxes Act in respect of shares acquired in exercise of any such right as is mentioned in

section 185(1) of that Act, the relevant sum in relation to those shares is an amount equal to the amount so chargeable.

- (7) Subsections (3), (4), (5) and (6) above shall be construed as one with sections 162, 135, 138 and 185 of the Taxes Act respectively.