

Status: Point in time view as at 20/07/2005.

Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Relevant discounted securities: corporate strips. (See end of Document for details)

SCHEDULES

SCHEDULE 7

AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

Relevant discounted securities: corporate strips

- 21 (1) Schedule 13 to FA 1996 (discounted securities: income tax) is amended as follows.
- (2) In paragraph 3 (meaning of “relevant discounted security”) in sub-paragraph (1), for “paragraph 14(1)” substitute “ paragraphs 13B(1) and 14(1) ”.
- (3) In paragraph 4 (meaning of “transfer”)—
- (a) in sub-paragraph (1), after “Subject to sub-paragraph (2)” insert “ and paragraph 13B(4) ”;
- (b) in sub-paragraph (5), after “without prejudice to paragraph” insert “ 13B(2) to (5) or ”.
- (4) In paragraph 5 (redemption to include conversion), in sub-paragraph (3), after “This paragraph does not apply to” insert “—
- (a) the conversion of an interest-bearing corporate security into corporate strips (see paragraph 13A(2) to (7) below), or
- (b) ”.
- (5) After paragraph 13 (excluded indexed securities) insert—

“Meaning of corporate strip and conversion into corporate strips

- 13A(1) In this Schedule “corporate strip” means any asset—
- (a) which is, or has at any time been, one of the separate assets mentioned in sub-paragraph (2) below, and
- (b) which is not prevented from being a corporate strip by sub-paragraph (9) below.
- (2) For the purposes of this Schedule a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security (“the converted corporate security”) but—
- (a) as a result of any scheme or arrangements, he comes to have two or more separate assets in place of the converted corporate security,
- (b) each of those separate assets satisfies condition A,
- (c) those separate assets, taken together, satisfy condition B, and
- (d) at least one of those separate assets is not prevented from being a corporate strip by sub-paragraph (9) below,
- and related expressions shall be construed accordingly.
- (3) Condition A is that the asset—
- (a) represents the right to, or

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- (b) secures,
one or more stripped payments.
- (4) For the purposes of this paragraph, a “stripped payment” is—
 - (a) the payment of, or
 - (b) a payment corresponding to,
 the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.
- (5) Condition B is that the assets, taken together,—
 - (a) represent the right to, or
 - (b) secure,
 every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).
- (6) Where a person—
 - (a) has an interest-bearing corporate security, but
 - (b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),
 this Schedule has effect as if, as a result of a scheme or arrangements, the person had come to have the separate assets in place of the security immediately before the sale or transfer.
- (7) For the purposes of this Schedule, sub-paragraphs (2) to (6) above also have effect in relation to each of the separate assets mentioned in sub-paragraph (2) above as if it were itself an interest-bearing corporate security (if that is not in fact the case).
- (8) Where sub-paragraphs (2) to (6) above have effect by virtue of sub-paragraph (7) above—
 - (a) any reference in this Schedule to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and
 - (b) sub-paragraph (1) above (meaning of “corporate strip”) has effect accordingly.
- (9) An asset is not a corporate strip if it—
 - (a) represents the right to, or
 - (b) secures,
 payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.
- (10) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.

References to payments the right to which a separate asset represents or secures shall be construed accordingly.

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Corporate strips deemed to be relevant discounted securities

- 13B (1) Every corporate strip is a relevant discounted security.
- (2) Where a person converts an interest-bearing corporate security into corporate strips of the security, he shall be deemed to have paid, in respect of his acquisition of each corporate strip, an amount determined in accordance with sub-paragraph (3) below.
- (3) The amount is that which bears to the acquisition cost of the converted corporate security the proportion that SMV bears to TMV, where—
SMV is the market value of the corporate strip, and
TMV is the total of the market values of all the separate assets resulting from the conversion.
- (4) If the converted corporate security is a relevant discounted security—
(a) its conversion into corporate strips is deemed to be a transfer of the security, and
(b) the amount payable on the transfer is deemed to be an amount equal to the acquisition cost of the converted corporate security.
- (5) Where corporate strips are consolidated into a single security—
(a) by being exchanged by any person for that security, or
(b) by being otherwise converted by any person into that security under any arrangements,
each of the corporate strips shall be deemed to have been redeemed, at the time of the exchange or other conversion, by the payment to that person of an amount equal to its market value.
- (6) Sub-paragraphs (2) to (5) above have effect for the purposes of this Schedule.
- (7) For the purposes of this paragraph, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).
- (8) References in this paragraph to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

Corporate strips: manipulation of acquisition, sale or redemption price

- 13C (1) This paragraph applies in any case where, as a result of any scheme or arrangement,—
(a) the amount paid by a person in respect of his acquisition of a corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,
(b) the amount payable to a person on a transfer of a corporate strip by him is less than the market value of the corporate strip at the time of the transfer, or

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- (c) on redemption of a corporate strip, the amount payable to a person, as the person holding the corporate strip, is less than the market value of the corporate strip on the day before redemption,
- and the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.
- (2) In a case falling within sub-paragraph (1)(a) above, the person shall be treated for the purposes of paragraph 1(2)(b) above on a transfer of the corporate strip by him as if he had paid in respect of his acquisition of the corporate strip an amount equal to the market value of the corporate strip at the time of that acquisition.
- (3) In a case falling within sub-paragraph (1)(b) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.
- (4) In a case falling within sub-paragraph (1)(c) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on redemption were an amount equal to the market value of the corporate strip on the day before redemption.
- (5) The market value of a corporate strip at any time shall be determined for the purposes of this paragraph without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in sub-paragraph (1) above.
- (6) For the purposes of this paragraph, no account shall be taken of any costs incurred in connection with any transfer or redemption of a corporate strip or its acquisition.
- (7) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.

*Corporate strips: manipulation of price:
associated payment giving rise to CGT loss*

13D(1) Where—

- (a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of paragraph 13C(1) above,
- (b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and
- (c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person for the purposes of capital gains tax,
- the loss shall not be an allowable loss for the purposes of capital gains tax.
- (2) For the purposes of this paragraph, a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from paragraph 13C above and this paragraph) is—

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- (a) the obtaining of a tax advantage by any person, or
 - (b) the accrual to any person of an allowable loss for the purposes of capital gains tax.
- (3) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.”.
- (6) In paragraph 15(1) (general interpretation) insert each of the following definitions at the appropriate place—
 - ““corporate strip” has the meaning given by paragraph 13A above;”;
 - ““interest-bearing corporate security” means any interest-bearing security other than—
 - (a) a security issued by the government of a territory;
 - (b) a share in a company;”;
 - ““interest-bearing security” includes any loan stock or similar security;”.
- (7) In paragraph 15(1)—
 - (a) in the definition of “relevant discounted security”, after “paragraphs 3” insert “ , 13B(1) ”;
 - (b) in the definition of “strip”, after “ “strip”” insert “ , except in the expression “corporate strip”, ”.
- (8) The amendments made by this paragraph have effect in any case where a person acquires a corporate strip on or after 2nd December 2004 otherwise than in pursuance of an agreement entered into before that date.

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