



# Income Tax (Trading and Other Income) Act 2005

## 2005 CHAPTER 5

### PART 4

#### SAVINGS AND INVESTMENT INCOME

#### CHAPTER 4

##### DIVIDENDS FROM NON-UK RESIDENT COMPANIES

##### *Charge to tax on dividends from non-UK resident companies*

#### **402 Charge to tax on dividends from non-UK resident companies**

- (1) Income tax is charged on dividends of a non-UK resident company.
- (2) For exemptions, see in particular section 770 (amounts applied by SIP trustees acquiring dividend shares or retained for reinvestment).
- (3) Subsection (1) is also subject to section 498 of ITEPA 2003 (no charge on shares ceasing to be subject to SIP in certain circumstances).
- (4) In this Chapter “dividends” does not include dividends of a capital nature.

#### **403 Income charged**

- (1) Tax is charged under this Chapter on the <sup>F1</sup>... amount of the dividends arising in the tax year.
- (2) Subsection (1) is subject to—  
section 406(2) and (3) (later charge where cash dividends retained in SIPs are paid over),

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section 407(3) (dividend payment when dividend shares cease to be subject to SIP), and

Part 8 (foreign income: special rules).

#### **Textual Amendments**

**F1** Word in s. 403(1) omitted (with effect in accordance with s. 34(2) of the amending Act) by virtue of Finance Act 2008 (c. 9), **Sch. 12 para. 18**

#### **404 Person liable**

- (1) The person liable for any tax charged under this Chapter is the person receiving or entitled to the dividends.
- (2) Subsection (1) is subject to—
  - section 406(4) (later charge where cash dividends retained in SIPs are paid over), and
  - section 407(4) (dividend payment when dividend shares cease to be subject to SIP).

#### **[<sup>F2</sup>404A Distributions in a winding up**

- (1) For the purposes of this Chapter, a distribution made to an individual in respect of share capital in a winding up of a non-UK resident company is a dividend of the company if—
  - (a) Conditions A to D are met, and
  - (b) the distribution is not excluded (see subsection (7)).
- (2) Condition A is that, immediately before the winding up, the individual has at least a 5% interest in the company.
- (3) Condition B is that the company—
  - (a) is a close company when it is wound up, or
  - (b) was a close company at any time in the period of two years ending with the start of the winding up.
- (4) Condition C is that, at any time within the period of two years beginning with the date on which the distribution is made—
  - (a) the individual carries on a trade or activity which is the same as, or similar to, that carried on by the company or an effective 51% subsidiary of the company,
  - (b) the individual is a partner in a partnership which carries on such a trade or activity,
  - (c) the individual, or a person connected with him or her, is a participator in a company in which he or she has at least a 5% interest and which at that time—
    - (i) carries on such a trade or activity, or
    - (ii) is connected with a company which carries on such a trade or activity,
 or
  - (d) the individual is involved with the carrying on of such a trade or activity by a person connected with the individual.

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- (5) Condition D is that it is reasonable to assume, having regard to all the circumstances, that—
- (a) the main purpose or one of the main purposes of the winding up is the avoidance or reduction of a charge to income tax, or
  - (b) the winding up forms part of arrangements the main purpose or one of the main purposes of which is the avoidance or reduction of a charge to income tax.
- (6) The circumstances referred to in subsection (5) include in particular the fact that Condition C is met.
- (7) A distribution to an individual is excluded if or to the extent that—
- (a) the amount of the distribution does not exceed the amount that would result in no gain accruing for the purposes of capital gains tax, or
  - (b) the distribution is a distribution of irredeemable shares.
- (8) In this section—
- “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions, whether or not legally enforceable;
  - “close company” includes a company which would be a close company if it were a UK resident company;
  - “effective 51% subsidiary” has the meaning given by section 170(7) of TCGA 1992;
  - “participator” has the meaning given by section 454 of CTA 2010.
- (9) For the purposes of this section, a person has at least a 5% interest in a company if—
- (a) at least 5% of the ordinary share capital of the company is held by the individual, and
  - (b) at least 5% of the voting rights in the company are exercisable by the individual by virtue of that holding.
- (10) For the purposes of subsection (9) if an individual holds any shares in a company jointly or in common with one or more other persons, he or she is to be treated as sole holder of so many of them as is proportionate to the value of his or her share (and as able to exercise voting rights by virtue of that holding).]

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**Textual Amendments**

- F2** S. 404A inserted (with effect in accordance with s. 35(3) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 35\(2\)](#)

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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 7A-7D inserted by [2022 c. 3 Sch. 1 para. 3](#)
- s. 31E(4) inserted by [2022 c. 3 Sch. 1 para. 7\(3\)](#)
- s. 649(1A)(1B) inserted by [2023 c. 30 Sch. 2 para. 11\(2\)](#)
- s. 679(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(5\)\(b\)](#)
- s. 679A(3A) inserted by [2023 c. 30 Sch. 2 para. 11\(6\)\(b\)](#)
- s. 680(1A) inserted by [2023 c. 30 Sch. 2 para. 11\(7\)\(a\)](#)