



# Income Tax (Trading and Other Income) Act 2005

## 2005 CHAPTER 5

### PART 4

#### SAVINGS AND INVESTMENT INCOME

#### CHAPTER 8

##### PROFITS FROM DEEPLY DISCOUNTED SECURITIES

##### *Special rules for strips of government securities*

#### **443 Application of this Chapter to strips of government securities**

- (1) All strips are treated as deeply discounted securities for the purposes of this Chapter, whether or not they would otherwise be so.
- (2) This Chapter applies to strips subject to the rules in—
  - (a) section 445 (strips of government securities: acquisitions and disposals),
  - (b) section 446 (strips of government securities: relief for losses),
  - (c) section 447 (restriction of profits on strips by reference to original acquisition cost),
  - (d) section 448 (restriction of losses on strips by reference to original acquisition cost),
  - (e) section 449 (strips of government securities: manipulation of acquisition, transfer or redemption payments), <sup>F1</sup>and]
  - (f) section 450 (market value of strips etc.), and
  - (g) <sup>F2</sup> .....

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#### Textual Amendments

- F1** Word in s. 443(2)(e) inserted (19.7.2007) by Finance Act 2007 (c. 11), s. 109, Sch. 26 para. 11(2)(a)
- F2** S. 443(2)(g) repealed (19.7.2007) by Finance Act 2007 (c. 11), ss. 109, 114, Sch. 26 para. 11(2)(b), Sch. 27 Pt. 6(5)

#### 444 Meaning of “strip” in Chapter 8

- (1) In this Chapter “strip”, in relation to any stock or bond (“the underlying security”), means a security which—
- (a) meets conditions A to C,
  - (b) if it was acquired after 26th March 2003, was issued by or on behalf of the government of any territory, and
  - (c) if it was acquired on or before that date, was issued under the National Loans Act 1968 (c. 13) in a case where the underlying security was itself a gilt-edged security.
- (2) Condition A is that the security is issued for the purpose of representing the right to or of securing—
- (a) a payment corresponding to a payment of interest or principal remaining to be made under the underlying security, or
  - (b) two or more payments each corresponding to a payment to be so made.
- (3) Condition B is that the security is issued in conjunction with the issue of one or more other securities which, together with that security—
- (a) represent the right to, or
  - (b) secure,
- payments corresponding to every payment remaining to be made under the underlying security.
- (4) Condition C is that the security is not itself a security which—
- (a) represents the right to, or
  - (b) secures,
- payments corresponding to a part of every payment remaining to be made under the underlying security.
- (5) After the balance has been struck for a dividend on any underlying security, a payment to be made in respect of that dividend is treated for the purposes of conditions A to C as not being a payment remaining to be made under the underlying security.
- [<sup>F3</sup>(6) Nothing in this section affects the meaning of the expression “corporate strip” in this Chapter (see section 452E).]

#### Textual Amendments

- F3** S. 444(6) inserted (retrospectively) by Finance (No. 2) Act 2005 (c. 22), s. 39, Sch. 7 para. 25(7)(10)

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#### 445 Strips of government securities: acquisitions and disposals

- (1) A person who receives strips of a security (“the underlying security”) in exchange for the underlying security is treated as having acquired each strip by the payment of an amount equal to—

$$A \times \frac{B}{C}$$

where—

A is the market value of the underlying security at the time of the exchange,

B is the market value of the strip at that time, and

C is the total of the market values at that time of all the strips received in the exchange.

- (2) For the purposes of this Chapter—
- a person who holds a strip of a security on 5th April in any tax year is treated as having transferred the strip on that day, and
  - an amount equal to its market value on that day is treated as payable on the transfer.
- (3) For the purposes of this Chapter that person is also treated as having immediately re-acquired the strip for the same amount.
- (4) Subsections (2) and (3) do not apply if there is any other disposal of the strip on that day.
- (5) Section 439(4) (deduction of incidental expenses incurred before 27th March 2003) does not apply to transfers and reacquisitions within subsections (2) and (3).
- (6) For the purposes of this Chapter—
- the consolidation of a strip of a security with other such strips into a single security is a disposal of the strip by the person consolidating it (whether or not it would be apart from this subsection), and
  - an amount equal to the market value of the strip at the consolidation is treated as payable on the disposal.
- (7) Section 438 (timing of transfers and acquisitions) does not apply to an exchange within subsection (1) or a consolidation within subsection (6).
- (8) Subsections (1) and (6) apply instead of sections 440(4) (market value on general conversions of deeply discounted securities) and 441 (market value acquisitions).

#### 446 Strips of government securities: relief for losses

- (1) Relief from income tax may be claimed under this section for any loss made on the disposal of a strip of a security.

[<sup>F4</sup>(2) If a person makes a claim under this section, the relief is given by deducting the loss in calculating the person's net income for the tax year in which the disposal occurs (see Step 2 of the calculation in section 23 of ITA 2007).]

- (3) For this purpose a person makes a loss on the disposal of a strip if—

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- (a) the person disposes of the strip, and
  - (b) the amount the person paid for the strip, ignoring any incidental expenses incurred in connection with the acquisition, exceeds the amount payable on the disposal, ignoring any incidental expenses incurred in connection with the disposal.
- (4) The loss is an amount equal to the excess.
- (5) A claim under this section must be made on or before the first anniversary of the normal self-assessment filing date for the tax year in which the disposal occurs.
- (6) The relief may be claimed by the person making the disposal.
- (7) Relief for a loss on a disposal may not be claimed under this section if section 454 (listed securities held since 26th March 2003: relief for losses) applies in respect of the disposal.
- (8) This section is subject to—
- (a) section 448 (restriction of losses on strips by reference to original acquisition cost),
  - (b) section 449 (strips of government securities: manipulation of acquisition, sale or redemption payments), and
  - (c) section 458(2) (strips held by non-UK resident trustees).

#### Textual Amendments

- F4** S. 446(2) substituted (6.4.2007 with effect as stated in s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), ss. 1027, 1034, [Sch. 1 para. 524](#) (with transitional provisions and savings in [Sch. 2](#))

#### 447 Restriction of profits on strips by reference to original acquisition cost

- (1) This section applies if—
- (a) a person makes a profit on the disposal of a strip (apart from this section), and
  - (b) the person's original acquisition cost for the strip (see subsection (4)) exceeds the amount that falls to be brought into account as the amount paid by the person to acquire the strip in determining the amount of the profit.
- (2) If the amount that falls to be brought into account as the amount payable on the disposal in determining the amount of the profit exceeds the person's original acquisition cost for the strip, the amount of the profit is restricted to that excess.
- (3) Otherwise the person is treated as not making a profit on the disposal.
- (4) For the purposes of this section and section 448, a person's original acquisition cost for a strip is the amount that falls to be taken into account as the amount paid by the person to acquire the strip in determining whether the person makes a profit or loss on its disposal if 5th April disposals and acquisitions are ignored.
- (5) In subsection (4) “5th April disposals and acquisitions” means—
- (a) disposals under section 445(2) (other than the disposal in question), and
  - (b) acquisitions under section 445(3).

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#### **448 Restriction of losses on strips by reference to original acquisition cost**

- (1) This section applies if—
  - (a) a person makes a loss on the disposal of a strip (apart from this section), and
  - (b) the person's original acquisition cost for the strip exceeds the amount that falls to be brought into account as the amount payable on the disposal of the strip in determining the amount of the loss.
- (2) If the amount that falls to be brought into account as the amount paid by the person to acquire the strip in determining the amount of the loss exceeds the person's original acquisition cost for the strip, the amount of the loss is reduced.
- (3) The amount of the reduction is  $A - B$  where—
  - A is the person's original acquisition cost for the strip, and
  - B is the amount that falls to be brought into account as the amount payable on the disposal of the strip in determining the amount of the loss.
- (4) If subsection (2) does not apply, the person is treated as not making a loss on the disposal.
- (5) In this section any reference to making a loss on the disposal of a strip has the meaning given in section 446(3) and (4).

#### **449 Strips of government securities: manipulation of acquisition, transfer or redemption payments**

- (1) This section applies if—
  - (a) as a result of a scheme or arrangement an amount referred to in subsection (2) (a), (b) or (c) differs from the market value of a strip in a way specified in that subsection, and
  - (b) 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) The ways are that—
  - (a) the amount paid by a person in respect of the acquisition of the strip is or was more than the market value at the time of the acquisition,
  - (b) the amount payable to a person on transferring the strip is less than the market value at the time of the transfer, or
  - (c) on redemption of the strip the amount payable to a person, as the person holding the strip, is less than the market value on the day before redemption.
- (3) In a case within subsection (2)(a), for the purposes of sections 439(1) and 446(3) on transferring the strip the person is treated as if the person had paid to acquire the strip an amount equal to the market value of the strip at the time of the acquisition.
- (4) In a case within subsection (2)(b), for those purposes the person is treated as if the amount payable to the person on the transfer were an amount equal to the market value of the strip at the time of the transfer.
- (5) In a case within subsection (2)(c), for those purposes the person is treated as if the amount payable to the person on redemption were an amount equal to the market value of the strip on the day before redemption.

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- (6) For the purposes of this section, no account is to be taken of any incidental expenses incurred in connection with any disposal or acquisition of a strip.

<sup>F6</sup>[<sup>F5</sup> **450 Market value of strips etc.**

- (1) The Treasury may make regulations as to the manner for determining—
- (a) the market value at any time of a strip for the purposes of this Chapter, and
  - (b) the market value at any time of a security exchanged for strips of that security for the purposes of section 445(1).
- (2) The regulations may—
- (a) make different provision for different cases, and
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.]

**Textual Amendments**

- F5** S. 450 substituted for ss. 450, 451 (19.7.2007 with effect as stated in [Sch. 26 para. 5\(2\)](#) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), s. 109, [Sch. 26 para. 5\(1\)](#); S.I. 2015/635, art. 2
- F6** S. 450 substituted for s. 450 (with effect in accordance with Sch. 26 para. 5(2) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 5](#); S.I. 2015/635, art. 2

**452 Power to modify this Chapter for strips**

- (1) The Treasury may by regulations provide that this Chapter is to apply to a strip with such modifications as they consider appropriate.
- (2) This section is without prejudice to the general power to make regulations under section 202 of FA 1996 (gilt stripping).

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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\(7\)\(a\)](#)