



Income Tax (Trading and Other Income) Act 2005

2005 CHAPTER 5

PART 4

SAVINGS AND INVESTMENT INCOME

CHAPTER 8

PROFITS FROM DEEPLY DISCOUNTED SECURITIES

Charge to tax under Chapter 8

427 Charge to tax on profits from deeply discounted securities

- (1) Income tax is charged on profits on the disposal of deeply discounted securities.
- (2) The profits are treated as income for income tax purposes if they would not otherwise be income.

428 Income charged

- (1) Tax is charged under this Chapter on the full amount of profits arising in the tax year.
- (2) The profits on a disposal are to be taken to arise when the disposal occurs.
- (3) If the profits arise on a disposal of securities that are outside the United Kingdom—
 - (a) they are treated for the purposes of section 830 (meaning of “relevant foreign income”) as arising from a source outside the United Kingdom, and
 - (b) subsection (1) is subject to Part 8 (foreign income: special rules).
- (4) Subsection (2) needs to be read with section 438 (timing of transfers and acquisitions).

429 Person liable

- (1) The person liable for any tax charged under this Chapter is the person making the disposal.
- (2) See section 437 for who that person is.

*Deeply discounted securities***430 Meaning of “deeply discounted security”**

- (1) The general rule is that a security is a “deeply discounted security” for the purposes of this Chapter if, as at the time it is issued, the amount payable on maturity or any other possible occasion of redemption (“A”) exceeds or may exceed the issue price by more than—

$$A \times 0.5\% \times Y,$$

where Y is the number of years in the redemption period or 30, whichever is the lower.

- (2) If the redemption period is not a number of complete years, for the purposes of subsection (1) the incomplete year is expressed as twelfths, treating each complete month and any remaining part of a month as one-twelfth.
- (3) In this section “redemption period” means the period between the date of issue and the date of the occasion of redemption in question.
- (4) Interest payable on an occasion of redemption is ignored in determining for the purposes of this section the amount payable on that occasion.
- (5) For the purposes of this section, in the case of an issue to which section 442 applies (securities issued in accordance with qualifying earn-out right), the issue price of the security is to be taken as the amount paid to acquire it (see section 442(2)).
- (6) The general rule in subsection (1) is subject to—
 - section 431 (excluded occasions of redemption),
 - section 432 (securities which are not deeply discounted securities),
 - sections 434 to 436 (securities issued in separate tranches), and
 - section 443(1) (strips of government securities).

431 Excluded occasions of redemption

- (1) An occasion of redemption of a security other than maturity is ignored for the purposes of section 430(1) if the third-party option conditions or the commercial protection conditions are met.
- (2) The third-party option conditions are that—
 - (a) the security may be redeemed on the occasion at the option of a person other than its holder,
 - (b) the security is issued to a person who is not connected with the issuer, and
 - (c) the obtaining of a tax advantage by any person is not the main benefit, or one of the main benefits, that might have been expected to accrue from the provision in accordance with which the security may be redeemed on the occasion.

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- (3) The commercial protection conditions are that—
 - (a) the security may be redeemed on the occasion as the result of an exercise of an option that is exercisable only on the occurrence of—
 - (i) an event adversely affecting the holder (see subsection (8)), or
 - (ii) a default by any person, and
 - (b) as at the time of the security's issue it appears unlikely that the option will be exercisable on the occasion.
- (4) Subsection (1) does not apply to an occasion just because the occasion coincides or may coincide with an occasion meeting the third-party option conditions or the commercial protection conditions.
- (5) If—
 - (a) the only reason that a security is not a deeply discounted security is that an occasion on which it may be redeemed is ignored because the third-party option conditions are met, and
 - (b) at some time after its issue the security is acquired by, or its holder becomes, a person connected with the issuer,in relation to that time and later this Chapter applies as if the security were a deeply discounted security.
- (6) If a person ("P") who is not connected with the issuer acquires—
 - (a) a security which is only a deeply discounted security because it was issued to a person connected with the issuer and so fails to meet the condition specified in subsection (2)(b), or
 - (b) a security within subsection (5),this Chapter applies in relation to P as if the security ceased to be a deeply discounted security on the acquisition.
- (7) For the purposes of the application of this section to a security, the question whether persons are connected is determined without regard to the security or any other security issued under the same prospectus.
- (8) In this section "event adversely affecting the holder", in relation to a security, means an event the occurrence of which appears, as at the time of the security's issue, likely to have an adverse effect on the interests of its holder at the time of the event if there were no provision for redemption on its occurrence.

432 Securities which are not deeply discounted securities

- (1) The following are not deeply discounted securities—
 - (a) shares in a company,
 - (b) gilt-edged securities that are not strips,
 - (c) life assurance policies, and
 - (d) capital redemption policies.
- (2) An excluded indexed security (see section 433) is only a deeply discounted security if treated as such under section 431(5) (acquisition by a person connected with the issuer or holder becoming such a person).
- (3) In this section "capital redemption policies" has the same meaning as in Chapter 9 of this Part (see section 473(2)).

- (4) See also sections 434 to 436 (rules under which securities issued under the same prospectus on separate occasions may be treated as being, or as not being, deeply discounted securities).

433 Meaning of “excluded indexed security”

- (1) In this Chapter “excluded indexed security” means a security under the terms of which the amount payable on redemption is determined by applying to the amount for which the security was issued the percentage change (if any) over the security’s redemption period in—
- (a) the value of chargeable assets of a particular description, or
 - (b) an index of the value of such assets.
- (2) The fact that the terms under which the security is issued include a provision to the effect that the amount payable on its redemption must be at least a specified percentage of the amount for which it was issued only prevents it from falling within the definition in subsection (1) if that percentage exceeds 10%.
- (3) Interest payable on redemption is ignored in determining for the purposes of this section the amount payable on redemption.
- (4) In subsection (1) “redemption period” means—
- (a) the period beginning with the date of issue and ending with the date of redemption, or
 - (b) a period which is or includes almost all that period and only differs from it for purposes connected with giving effect to a valuation in relation to rights or liabilities under the security.
- (5) An asset is a chargeable asset for the purposes of subsection (1) if a gain accruing to a person on its disposal would be a chargeable gain for the purposes of TCGA 1992 on the assumptions specified in subsection (6).
- (6) The assumptions are that—
- (a) the asset is an asset of the person,
 - (b) the person is not entitled to the exemption conferred by section 100 of TCGA 1992 (exemption for authorised unit trusts etc.),
 - (c) disposal of the asset by the person would not be treated for income tax purposes as a disposal in the course of a trade, profession or vocation, and
 - (d) section 116(10) of TCGA 1992 is ignored (chargeable gains on subsequent disposals of qualifying corporate bonds acquired in reorganisations, conversions and reconstructions).
- (7) For the purposes of this section—
- (a) neither the retail prices index nor any similar general index of prices published by the government of a territory or by an agent of such a government is an index of the value of chargeable assets, and
 - (b) “redemption”, in relation to a security, does not include its redemption on an occasion which is to be ignored under section 431(1) (excluded occasions of redemption).

434 Securities issued in separate tranches: preliminary

- (1) Sections 435 and 436 set out rules under which securities issued under the same prospectus on separate occasions may be treated as being, or as not being, deeply discounted securities.
- (2) If any of the securities in the original issue under the prospectus is a deeply discounted security—
 - (a) the rule in section 435 applies to securities in later issues under it, and
 - (b) the rule in section 436 does not apply to any securities issued under it.
- (3) If none of the securities in the original issue under the prospectus is a deeply discounted security, the rule in section 435 applies to securities in a later issue except where the rule in section 436 applies.

435 Securities issued in separate tranches: basic rule

- (1) The rule in this section is that if securities in any of the issues made on separate occasions under the same prospectus are not deeply discounted securities, securities in any later issue under it are not deeply discounted securities, unless they are treated as such for one of the reasons specified in subsection (2).
- (2) The reasons are—
 - (a) that the securities were issued to a person connected with the issuer and so fail to meet the condition specified in section 431(2)(b), and
 - (b) that such a person has acquired or become the holder of the securities and so section 431(5) applies to them.

436 Deeply discounted securities issued in separate tranches: nominal value rule

- (1) This section only applies if some of the securities in one or more later issues under the same prospectus are deeply discounted securities (or are such securities if the rule in section 435 is ignored).
- (2) The rule in this section applies for any disposal or acquisition after the time when the condition specified in subsection (3) is first met.
- (3) The condition is that the aggregate nominal value as at a particular time of the securities within subsection (1) exceeds the aggregate nominal value as at that time of all the other securities issued under the prospectus at any time.
- (4) The rule is that all securities issued under the prospectus (including those issued after the time when the condition specified in subsection (3) is first met) are to be treated as deeply discounted securities and as having been acquired as such (whenever actually issued or acquired).
- (5) Subsection (6) applies where the question is whether a security held by a person who is not connected with the issuer is a deeply discounted security as a result of the rule in this section.
- (6) For the purpose of determining whether the rule in this section applies, securities that are only within subsection (1) for one of the reasons specified in section 435(2) are treated as not being within it.

Disposals

437 Transactions which are disposals

- (1) References in this Chapter to the disposal of a deeply discounted security are—
 - (a) to its redemption,
 - (b) to its transfer by sale, exchange, gift or otherwise, including a transfer treated as made by subsection (3), and
 - (c) so far as not covered by paragraph (a) or (b), to its conversion under its terms into shares in a company or other securities (including other deeply discounted securities).
- (2) The person treated as making a disposal is—
 - (a) in the case of a disposal within subsection (1)(a), the person entitled as the security's holder to any payment on the disposal,
 - (b) in the case of a disposal within subsection (1)(b), the transferor, and
 - (c) in the case of a disposal within subsection (1)(c), the person who would be entitled as the security's holder to any payment on the disposal, if such a payment were made.
- (3) A person who dies while entitled to a deeply discounted security is treated as transferring it immediately before death to the personal representatives.
- (4) In the case of strips, further provision about occasions counting as disposals is made by section 445(2) and (6)(a).

438 Timing of transfers and acquisitions

- (1) This section applies if—
 - (a) a transfer or acquisition of a deeply discounted security is made under an agreement, and
 - (b) the transferee or the person making the acquisition becomes entitled to the security at the time the agreement is made.
- (2) The transfer or acquisition is treated as occurring at that time.
- (3) For this purpose a conditional agreement is taken to be made when the condition is met.
- (4) This section is subject to section 445(7) (exchanges for and consolidation of strips).

Calculating profits

439 Calculating the profit from disposals

- (1) A person's profit on a disposal is the amount by which the amount payable on the disposal exceeds the amount paid by the person to acquire the security.
- (2) No account is to be taken of any incidental expenses incurred in connection with the disposal or acquisition.
- (3) Subsection (2) is subject to subsection (4) and section 455 (listed securities held since 26th March 2003: calculating the profit or loss on disposals).

- (4) Incidental expenses incurred before 27th March 2003 by the person making the disposal in connection with the acquisition or disposal of the security are deducted from the person's profit.
- (5) Where a person re-acquires a security, any previous acquisition of it is ignored in determining on a subsequent disposal—
 - (a) the amount the person paid to acquire the security, and
 - (b) incidental expenses within subsection (4).

440 Market value disposals

- (1) On the disposal of a deeply discounted security by a transfer of a kind specified in subsection (2), for the purposes of this Chapter an amount equal to the market value at the time of the disposal is treated as payable.
- (2) The transfers are—
 - (a) a transfer made otherwise than by a bargain at arm's length,
 - (b) a transfer between connected persons,
 - (c) a transfer for a consideration which is not wholly in money or money's worth,
 - (d) a transfer treated as made by section 437(3) (death), and
 - (e) a transfer by personal representatives to a legatee.
- (3) Subsection (1) is subject to subsection (4).
- (4) On a conversion of a deeply discounted security into shares or other securities which counts as its disposal under section 437(1), an amount equal to the market value of the shares or other securities at the time of the conversion is treated as the amount payable.
- (5) Subsection (4) is subject to section 445(8) (exchanges for and consolidations of strips).
- (6) In this section "legatee" includes any person taking (whether beneficially or as trustee)
—
 - (a) on a testamentary disposition, or
 - (b) on an intestacy or partial intestacy.
- (7) Such a person includes a person taking as a result of an appropriation by personal representatives in or towards the satisfaction of a legacy or other interest or share in the deceased's property.

441 Market value acquisitions

- (1) A person who acquires a deeply discounted security on a disposal of a kind specified in subsection (2) is treated for the purposes of this Chapter as acquiring it by the payment of an amount equal to its market value at the time of the disposal.
- (2) The disposals are—
 - (a) a transfer within section 440(2), and
 - (b) a conversion of a deeply discounted security into other deeply discounted securities which counts as its disposal under section 437(1).
- (3) This section is subject to section 445(8) (exchanges for and consolidations of strips).

442 Securities issued in accordance with qualifying earn-out right

- (1) This section applies if a security is issued to a person in accordance with the terms of a qualifying earn-out right.
- (2) The amount paid by the person to acquire the security is to be taken for the purposes of this Chapter to be the total of—
 - (a) the market value, immediately before the issue, of the right to be issued with the security in accordance with the terms of the qualifying earn-out right, and
 - (b) any amount payable for the issue in accordance with those terms.
- (3) In this section “qualifying earn-out right” means a right that meets conditions A to C, or so much of a right as does so.
- (4) Condition A is that the right constitutes the whole or part of the consideration for—
 - (a) the transfer by the person on whom the right is conferred of shares in or debentures of a company, or
 - (b) the transfer of the whole or part of—
 - (i) a business carried on by that person, or by that person and others in partnership, or
 - (ii) an interest in such a business.
- (5) Condition B is that the right is either—
 - (a) a right to be issued with securities of another company, or
 - (b) a right which is capable of being discharged in accordance with its terms by the issue of such securities.
- (6) Condition C is that the right is such that the value of the consideration mentioned in condition A is unascertainable at the time when the right is conferred.

*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),
 - (f) section 450 (market value of strips etc.), and
 - (g) section 451 (market value of strips etc. quoted in foreign stock exchange lists).

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.

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) 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

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- (b) 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—
 - (a) 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
 - (b) 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.
- (2) If such a claim is made, an amount of income for the tax year in which the disposal occurs which is equal to that loss is not charged to income tax.
- (3) For this purpose a person makes a loss on the disposal of a strip if—
 - (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).

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).

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—

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- (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.
- (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.

450 Market value of strips etc.

- (1) This section and section 451 (market value of strips etc. quoted in foreign stock exchange lists) deal with—
- (a) determining the market value at any time of a strip for the purposes of this Chapter, and
 - (b) determining the market value at any time of a security exchanged for strips of that security for the purposes of section 445(1).
- (2) The market value on any day on which the Stock Exchange is open of any strip or security quoted in The Stock Exchange Daily Official List is—
- (a) the lower of the two figures shown in that List for the strip or security for that day, plus
 - (b) one-quarter of the difference between those two figures.
- (3) The market value on any day on which the Stock Exchange is closed of any such strip or security is the lower of—
- (a) its market value on the latest previous day on which the Stock Exchange is open, and
 - (b) its market value on the earliest subsequent day on which the Stock Exchange is open.

- (4) The Treasury may by regulations make provision as to the manner of determining, for any of the purposes mentioned in subsection (1), the market value at any time of—
 - (a) any strip, or
 - (b) any security exchanged for strips of that security.
- (5) The regulations may amend or modify—
 - (a) subsection (2) or (3), or
 - (b) any provision of section 451.
- (6) The regulations may—
 - (a) make different provision for different cases, and
 - (b) contain such incidental, supplemental, consequential and transitional provision and savings as the Treasury consider appropriate.

451 Market value of strips etc. quoted in foreign stock exchange lists

- (1) This section applies if the strip or security referred to in section 450(1)—
 - (a) is a security, or a strip of a security, issued by or on behalf of the government of a territory outside the United Kingdom, and
 - (b) is not quoted in The Stock Exchange Daily Official List, but
 - (c) is quoted in a foreign stock exchange list.
- (2) The market value on any day on which the foreign stock exchange to which that list relates is open is—
 - (a) the lower of the two figures shown in that list for the strip or security for that day, plus
 - (b) one-quarter of the difference between those two figures.
- (3) The market value on any day on which the foreign stock exchange to which that list relates is closed is the lower of—
 - (a) its market value on the latest previous day on which that exchange is open, and
 - (b) its market value on the earliest subsequent day on which that exchange is open.
- (4) But subsections (2) and (3) have effect subject to any modifications that are necessary because of the form of quotation adopted in the exchange in question.
- (5) In particular, if a single figure only is published, that figure is to be taken as the market value.
- (6) If a strip or security is quoted in more than one foreign stock exchange list—
 - (a) any such list published for a foreign stock exchange in the territory of the issuing government is to be used for the purposes of this section in preference to any other such list, and
 - (b) any such list published for a foreign stock exchange which is regarded as the major exchange in that territory for strips or securities is to be used for those purposes in preference to any other such list.
- (7) In this section—
 - “foreign stock exchange” means a recognised stock exchange in a territory outside the United Kingdom on which strips are traded,
 - “foreign stock exchange list” means any publication which performs in the case of a foreign stock exchange a function equivalent, or broadly similar,

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to that performed by The Stock Exchange Daily Official List in relation to strips, and

“issuing government” means the government which issued the security mentioned in subsection (1)(a).

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).

Special rules for listed securities held since 26th March 2003

453 Application of sections 454 to 456

- (1) In the case of a disposal of a deeply discounted security that meets conditions A and B, the rules in sections 454 to 456 apply for—
 - (a) providing for relief for losses on the disposal, and
 - (b) calculating the amount of profits chargeable under this Chapter on the disposal or the losses for which such relief may be given.
- (2) Condition A is that the person making the disposal has held the security continuously since a time before 27th March 2003.
- (3) Condition B is that the security was listed on a recognised stock exchange at any time before 27th March 2003.

454 Listed securities held since 26th March 2003: relief for losses

- (1) A person may claim relief from income tax under this section for a loss the person has made on disposing of deeply discounted securities.
- (2) For this purpose a person makes such a loss only if A exceeds B, where—

A is the amount the person paid for the securities, excluding any incidental expenses incurred in connection with the acquisition, and

B is the amount payable on the disposal, excluding any incidental expenses incurred in connection with the disposal.
- (3) For the calculation of the amount of the loss, see section 455(2) to (4) (under which those expenses are taken into account).
- (4) If a claim under this section is made by a person other than a trustee, an amount of income for the tax year in which the disposal occurs which is equal to that loss is not charged to income tax.
- (5) If such a claim is made by a trustee, the amount of profits arising in the tax year in which the disposal occurs that is charged under this Chapter is reduced by the amount of the loss.
- (6) 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.

(7) This section is subject to section 458(2) (securities held by non-UK resident trustees).

455 Listed securities held since 26th March 2003: calculating the profit or loss on disposals

- (1) A person's profit on a disposal, as calculated under section 439, is reduced by any incidental expenses incurred by that person in connection with the disposal or the acquisition of the security that have not been deducted under section 439(4).
- (2) A person's loss on a disposal for the purposes of section 454 (relief for losses) is the amount by which the deductible costs exceed the amount payable on the disposal.
- (3) In this section the "deductible costs" means—
 - (a) the amount paid by the person to acquire the security, and
 - (b) the incidental expenses incurred by that person in connection with the disposal or the acquisition.
- (4) Where a person re-acquires a security, any previous acquisition of it is ignored in determining the person's incidental expenses within subsection (1) or deductible costs on a subsequent disposal.
- (5) For the purposes of this section, no incidental expenses are treated as incurred in connection with transfers and reacquisitions within section 445(2) and (3) (transfer and immediate reacquisition of strips on 5th April).

456 Securities issued to connected persons etc. at excessive price: subsequent transfers to connected persons

- (1) No loss is taken to occur for the purposes of section 454 on a transfer of a deeply discounted security to a person connected with the transferor if conditions A and B and either condition C or conditions D and E are met.
- (2) Condition A is that the transferor acquired the security on its issue.
- (3) Condition B is that the amount paid by the transferor to acquire the security exceeded the market value of the security at the time of its issue.
- (4) Condition C is that at that time the transferor was connected with the issuer.
- (5) Condition D is that at that time the issuer was a close company.
- (6) Condition E is that at that time the transferor controlled that company with other persons to whom securities of the same kind were also issued.
- (7) Section 414 of ICTA (close companies) has effect for the purposes of this section with the omission of subsection (1)(a) (which excludes non-UK resident companies).
- (8) In this section "control" has the meaning given by section 416 of ICTA.

*Trustees***457 Trustees**

- (1) This section applies if profits are taken to arise on a disposal of a deeply discounted security by trustees.
- (2) For the purposes of Chapter 5 of Part 5 (settlements: amounts treated as income of settlor), the profits are to be taken to be income arising under the settlement from the security.
- (3) For the purposes of Chapter 1C of Part 15 of ICTA (settlements: liability of trustees), the profits are to be taken to be income arising to the trustees.
- (4) Income tax that is charged on the trustees is to be charged at the rate applicable to trusts for the tax year in which the disposal occurs.
- (5) If the trustees are trustees of a scheme to which section 469 of ICTA applies (unauthorised unit trusts), subsections (2) to (4) do not apply to any profits treated as income in the scheme's accounts.

458 Non-UK resident trustees

- (1) Tax is not charged under this Chapter if the disposal is made by the trustees of a settlement and they are non-UK resident.
- (2) The following provisions do not apply if the disposal falls within subsection (1)—
section 446 (strips of government securities: relief for losses), and
section 454 (listed securities held since 26th March 2003: relief for losses).
- (3) In this section “settlement” has the same meaning as in Chapter 5 of Part 5 (see section 620).

*Miscellaneous and supplementary***459 Transfer of assets abroad**

- (1) This section applies if profits are taken to arise on the disposal of a deeply discounted security by a person resident or domiciled outside the United Kingdom (“A”).
- (2) For the purpose of determining whether an individual ordinarily UK resident is liable for income tax in respect of the profits, sections 739 and 740 of ICTA (transfer of assets abroad) have effect as if the profits, when arising, constituted income becoming payable to A.
- (3) For this purpose it does not matter if A is not liable to income tax under this Chapter because of section 458 (non-UK resident trustees).

460 Minor definitions

- (1) In this Chapter “share”, in the case of a share in a company, means any share under which an entitlement to receive distributions may arise, but does not include a share in a building society.

- (2) In this Chapter “tax advantage” has the meaning given by section 709(1) of ICTA.
- (3) In this Chapter “market value” has the same meaning as in TCGA 1992 (see sections 272 to 274 of that Act), except as provided in section 450 or 451 (market value of strips etc.).