



# Income Tax Act 2007

## 2007 CHAPTER 3

### PART 1

#### OVERVIEW

#### 1 Overview of Income Tax Acts

- (1) The following Acts make provision about income tax—
  - (a) ITEPA 2003 (which is about charges to tax on employment income, pension income and social security income [<sup>F1</sup>and makes provision for the high income child benefit charge]),
  - (b) ITTOIA 2005 (which is about charges to tax on trading income, property income, savings and investment income and some other miscellaneous income), and
  - (c) this Act (which contains the other main provisions about income tax).
- (2) There are also provisions about income tax elsewhere: see in particular—
  - (a) [<sup>F2</sup>Part 2 of TIOPA 2010] (double taxation relief),
  - (b) CAA 2001 (allowances for capital expenditure), and
  - (c) Part 4 of FA 2004 (pension schemes etc).
- (3) Schedule 1 to the Interpretation Act 1978 (c. 30) defines “the Income Tax Acts” (as all enactments relating to income tax).

#### Textual Amendments

- F1** Words in s. 1(1)(a) inserted (17.7.2012) (with effect in accordance with Sch. 1 para. 7 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 1 para. 6\(2\)](#)
- F2** Words in s. 1(2)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 72](#) (with Sch. 9 paras. 1-9, 22)

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## 2 Overview of Act

(1) This Act has 17 Parts.

(2) Part 2 contains basic provisions about income tax including—

- (a) provision about the annual nature of income tax (Chapter 1),
- (b) the rates at which income tax is charged (Chapter 2), and
- (c) the calculation of income tax liability (Chapter 3).

(3) Part 3 is about taxpayers' personal reliefs including—

- (a) personal allowances (Chapter 2),
- (b) blind persons' allowances (Chapter 2), and
- (c) tax reductions for married couples and civil partners (Chapter 3).

(4) Part 4 is about loss relief including relief for—

- (a) trade losses (Chapters 2 and 3),
- (b) losses from property businesses (Chapter 4),
- (c) losses in an employment or office (Chapter 5),
- (d) losses on disposal of shares (Chapter 6), and
- (e) losses from miscellaneous transactions (Chapter 7).

(5) Part 5 is about relief under the enterprise investment scheme.

[<sup>F3</sup>(5A) Part 5A is about relief under the seed enterprise investment scheme.]

[<sup>F4</sup>(5B) Part 5B is about relief for social investments.]

(6) Part 6 is about—

- (a) relief for investment in venture capital trusts, and
- (b) other matters relating to venture capital trusts.

(7) Part 7 is about community investment tax relief.

(8) Part 8 is about a variety of reliefs including relief for—

- (a) interest payments (Chapter 1),
- (b) gifts to charity including gift aid (Chapters 2 and 3),
- (c) annual payments <sup>F5</sup>... (Chapter 4), and
- (d) maintenance payments (Chapter 5).

(9) Part 9 contains special rules about settlements and trustees including—

- (a) general provision about settlements and trustees (Chapter 2),
- (b) special income tax rates for trusts (Chapters 3, 4, 5 and 6),
- (c) rules about trustees' expenses (Chapters 4 and 8),
- (d) rules about trustees' discretionary payments (Chapter 7),
- (e) <sup>F6</sup>... and
- (f) rules about heritage maintenance settlements (Chapter 10).

[<sup>F7</sup>(9A) Part 9A is about the treatment of certain transactions in UK land.]

(10) Part 10 contains special rules about charitable trusts etc.

[<sup>F8</sup>(10A) Part 10A is about alternative finance arrangements.]

<sup>F9</sup>(11) .....

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[<sup>F10</sup>(11ZA) Part 11ZA is about manufactured payments.]

[<sup>F11</sup>(11A) Part 11A is about leasing arrangements involving finance leases or loans.]

(12) Part 12 is about accrued income profits.

[<sup>F12</sup>(12A) Part 12A is about sale and lease-back etc.]

(13) Part 13 is about tax avoidance in relation to—

- (a) transactions in securities (Chapter 1),
- (b) transfers of assets abroad (Chapter 2),
- [<sup>F13</sup>(c) .....
- (d) sales of occupation income (Chapter 4), <sup>F14</sup>...
- (e) trade losses (Chapter 5) <sup>F15</sup>...
- [<sup>F16</sup>(f) transfers of income streams (Chapter 5A).]
- [<sup>F17</sup>(g) finance arrangements (Chapter 5B),
- (h) loan or credit transactions (Chapter 5C),]
- [<sup>F18</sup>(ha) disposals of assets through partnerships (Chapter 5D),]
- [<sup>F19</sup>(hb) disguised investment management fees (Chapter 5E),]
- [<sup>F20</sup>(hc) income-based carried interest (Chapter 5F),]
- [<sup>F21</sup>(i) leases of plant and machinery (Chapter 6), and
- (j) tax relief for interest (Chapter 7).]

(14) Part 14 deals with some miscellaneous rules about income tax liability, including—

- [<sup>F22</sup>(za) an alternative basis for charge (the remittance basis) for certain income and gains of certain individuals (Chapter A1),]
- (a) limits on liability to income tax for non-UK residents (Chapter 1),
- [<sup>F23</sup>(aa) exemption for persons not domiciled in United Kingdom (Chapter 1A),]
- (b) special rules about residence [<sup>F24</sup>and domicile (Chapters 2 and 2A)], <sup>F25</sup>...
- [<sup>F26</sup>(ba) rules about UK representatives of non-UK residents (Chapters 2B and 2C),]
- (c) rules about jointly held property (Chapter 3)[<sup>F27</sup>, and
- (d) imposition of the charge to income tax on the receipts of certain types of company being wound up (Chapter 3A).]

(15) Part 15 is about the deduction of income tax at source.

(16) Part 16 contains definitions which apply for the purposes of the Income Tax Acts and other general provisions which apply for the purposes of those Acts.

(17) Part 17—

- (a) contains provisions to be used in interpreting this Act,
- (b) introduces Schedule 1 (minor and consequential amendments),
- (c) introduces Schedule 2 (transitional provisions and savings),
- (d) introduces Schedule 3 (repeals and revocations, including of spent enactments),
- (e) introduces Schedule 4 (index of defined expressions that apply for the purposes of this Act),
- (f) confers powers on the Treasury to make orders, and
- (g) makes provision about the coming into force of this Act.

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### Textual Amendments

- F3** S. 2(5A) inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 7](#)
- F4** S. 2(5B) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 11 para. 4](#)
- F5** Words in s. 2(8)(c) omitted (with effect in accordance with s. 15(5) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [s. 15\(4\)\(a\)](#)
- F6** S. 2(9)(e) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), [37\(2\)](#) (with reg. 32)
- F7** S. 2(9A) inserted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 79\(2\)\(a\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 39(1)(2))
- F8** S. 2(10A) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 220](#) (with Sch. 9 paras. 1-9, 22)
- F9** S. 2(11) omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 17\(a\)](#)
- F10** S. 2(11ZA) inserted (1.1.2014) by [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 17\(b\)](#)
- F11** S. 2(11A) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 238](#) (with Sch. 9 paras. 1-9, 22)
- F12** S. 2(12A) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 257](#) (with Sch. 9 paras. 1-9, 22)
- F13** S. 2(13)(c) omitted (with effect in accordance with s. 82 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [s. 79\(2\)\(b\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 39(1)(2))
- F14** Word in s. 2(13)(d) omitted (with effect in accordance with Sch. 25 para. 10 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 25 para. 9\(5\)](#)
- F15** Word in s. 2(13)(e) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 8 para. 272, [Sch. 10 Pt. 10](#) (with Sch. 9 paras. 1-9, 22)
- F16** S. 2(13)(f) and word inserted (with effect in accordance with Sch. 25 para. 10 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 25 para. 9\(5\)](#)
- F17** S. 2(13)(g)(h) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 272](#) (with Sch. 9 paras. 1-9, 22)
- F18** S. 2(13)(ha) inserted (26.3.2015) by [Finance Act 2015 \(c. 11\)](#), [s. 21\(2\)\(a\)](#)
- F19** S. 2(13)(hb) inserted (with effect in accordance with s. 21(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [s. 21\(2\)\(b\)](#)
- F20** S. 2(13)(hc) inserted (with effect in accordance with s. 37(4) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 37\(3\)](#)
- F21** S. 2(13)(i)(j) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 7 para. 51](#) (with Sch. 9 paras. 1-9, 22)
- F22** S. 2(14)(za) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 75](#)
- F23** S. 2(14)(aa) inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [s. 52\(2\)](#)
- F24** Words in s. 2(14)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 7 para. 76](#) (with Sch. 9 paras. 1-9, 22)

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- F25** Word in s. 2(14) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 281\(a\), Sch. 10 Pt. 11](#) (with Sch. 9 paras. 1-9, 22)
- F26** S. 2(14)(ba) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 281\(b\)](#) (with Sch. 9 paras. 1-9, 22)
- F27** S. 2(14)(d) and preceding word inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 7 para. 69](#) (with Sch. 9 paras. 1-9, 22)

## PART 2

### BASIC PROVISIONS

#### CHAPTER 1

##### CHARGES TO INCOME TAX

### 3 Overview of charges to income tax

- (1) Income tax is charged under—
- (a) Part 2 of ITEPA 2003 (employment income),
  - (b) Part 9 of ITEPA 2003 (pension income),
  - (c) Part 10 of ITEPA 2003 (social security income),
  - (d) Part 2 of ITTOIA 2005 (trading income),
  - (e) Part 3 of ITTOIA 2005 (property income),
  - (f) Part 4 of ITTOIA 2005 (savings and investment income), and
  - (g) Part 5 of ITTOIA 2005 (miscellaneous income).
- (2) Income tax is also charged under other provisions, including—
- (a) Chapter 5 of Part 4 of FA 2004 (registered pension schemes: tax charges),
  - (b) section 7 of F(No.2)A 2005 (social security pension lump sums),
  - (c) Part 10 of this Act (special rules about charitable trusts etc),
  - (d) Chapter 2 of Part 12 of this Act (accrued income profits),<sup>F28</sup>...
  - (e) Part 13 of this Act (tax avoidance)<sup>F29</sup>, and
  - (f) Chapter 3A of Part 14 of this Act (banks etc in compulsory liquidation).]

#### Textual Amendments

- F28** Word in s. 3(2) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 7 para. 70\(a\), Sch. 10 Pt. 12](#) (with Sch. 9 paras. 1-9, 22)
- F29** S. 3(2)(f) And word inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 7 para. 70\(b\)](#) (with Sch. 9 paras. 1-9, 22)

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#### 4 Income tax an annual tax

- (1) Income tax is charged for a year only if an Act so provides.
- (2) A year for which income tax is charged is called a “tax year”.
- (3) A tax year begins on 6 April and ends on the following 5 April.
- (4) “The tax year 2007-08” means the tax year beginning on 6 April 2007 (and any corresponding expression in which two years are similarly mentioned is to be read in the same way).
- (5) Every assessment to income tax must be made for a tax year.
- (6) Subsection (5) is subject to Chapter 15 of Part 15 (by virtue of which an assessment may relate to a return period).

#### [<sup>F30</sup>5 Income tax and companies

Section 3 of CTA 2009 disappplies the provisions of the Income Tax Acts relating to the charge to income tax in relation to income of a company (not accruing to it in a fiduciary or representative capacity) if—

- (a) the company is UK resident, or
- (b) the company is non-UK resident and [<sup>F31</sup>it is chargeable to corporation tax in respect of the income, or would be so chargeable but for an exemption.]

#### Textual Amendments

**F30** S. 5 substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 700** (with [Sch. 2 Pts. 1, 2](#))

**F31** Words in s. 5(b) substituted (6.4.2020) by [Finance Act 2019 \(c. 1\)](#), **Sch. 5 paras. 9, 35** (with [Sch. 5 para. 36](#))

## CHAPTER 2

### RATES AT WHICH INCOME TAX IS CHARGED

#### *The rates*

#### 6 The <sup>F32</sup>... basic rate [<sup>F33</sup>, higher rate and additional rate]

- (1) The main rates at which income tax is charged are—
  - <sup>F34</sup>(a) .....
  - (b) the basic rate, <sup>F35</sup>...
  - (c) the higher rate [<sup>F36</sup>, and
  - (d) the additional rate.]
- (2) The <sup>F37</sup>... basic rate [<sup>F38</sup>, higher rate and additional rate] for a tax year are the rates determined as such by Parliament for the tax year.

<sup>F39</sup>(2A) .....

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<sup>F39</sup>(2B) .....

<sup>F39</sup>(2C) .....

(3) For other rates at which income tax is charged see—

<sup>F40</sup>(za) .....

[<sup>F41</sup>(zb) section 6B (Welsh basic, higher and additional rates),]

[<sup>F42</sup>(zc) section 6C (default basic, higher and additional rates),]

[<sup>F43</sup>(a) section 7 (starting rate for savings [<sup>F44</sup>and savings nil rate]),]

[<sup>F45</sup>(aa) section 7A (savings basic, higher and additional rates),]

(b) section 8 ([<sup>F46</sup>dividend nil rate,] dividend ordinary rate [<sup>F47</sup>, dividend upper rate and dividend additional rate]), and

(c) section 9 (trust rate and dividend trust rate).

[<sup>F48</sup>(4) See also section 80C of the Scotland Act 1998 which makes provision for the purposes of section 11A (income charged at Scottish rates)]

#### Textual Amendments

**F32** Words in s. 6 heading omitted (21.7.2008 with effect in accordance with s. 5(6) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 5\(5\)](#)

**F33** Words in s. 6 heading substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 2 para. 2\(3\)](#)

**F34** S. 6(1)(a) omitted (21.7.2008 with effect in accordance with s. 5(6) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 5\(2\)](#)

**F35** Word in s. 6(1)(b) omitted (with effect in accordance with s. 6(6) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\), s. 6\(2\)](#)

**F36** S. 6(1)(d) and preceding word inserted (with effect in accordance with s. 6(6) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 6\(2\)](#)

**F37** Words in s. 6(2) omitted (21.7.2008 with effect in accordance with s. 5(6) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 5\(3\)](#)

**F38** Words in s. 6(2) substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 2 para. 2\(2\)](#)

**F39** S. 6(2A)-(2C) omitted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\), Sch. 38 para. 2\(a\)](#)

**F40** S. 6(3)(za) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\), ss. 13\(14\), 14\(3\)\(15\), 72\(3\); S.I. 2016/1161, regs. 2, 3](#)

**F41** S. 6(3)(zb) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\), ss. 9\(2\), 14, 29\(4\); S.I. 2018/892, art. 3](#) (with arts. 5, 6, 8)

**F42** S. 6(3)(zc) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(5\)\(a\)\(24\); S.I. 2016/1161, regs. 2, 3](#)

**F43** S. 6(3)(a) substituted (21.7.2008 with effect in accordance with s. 5(6) of the amending Act) by [Finance Act 2008 \(c. 9\), s. 5\(4\)](#)

**F44** Words in s. 6(3)(a) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(2\)\(17\)](#)

**F45** S. 6(3)(aa) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(5\)\(b\)\(24\); S.I. 2016/1161, regs. 2, 3](#)

**F46** Words in s. 6(3)(b) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(2\)\(10\)](#)

**F47** Words in s. 6(3)(b) substituted (with effect in accordance with s. 6(6) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 6\(3\)](#)

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**F48** S. 6(4) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Scotland Act 2016 (c. 11), ss. 13(14), 14(4)(15), 72(3); S.I. 2016/1161, regs. 2, 3

#### **<sup>F49</sup>6A The Scottish basic, higher and additional rates**

.....

##### **Textual Amendments**

**F49** S. 6A omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Scotland Act 2016 (c. 11), ss. 13(14), 14(5)(15), 72(3); S.I. 2016/1161, regs. 2, 3

#### **[<sup>F50</sup>6B The Welsh basic, higher and additional rates**

(1) The Welsh basic rate, the Welsh higher rate and the Welsh additional rate for a tax year are calculated as follows.

*Step 1* Take the basic rate, higher rate or additional rate.

*Step 2* Deduct 10 percentage points.

*Step 3* Add the Welsh rate (if any) set by the National Assembly for Wales for that year for the purpose of calculating the Welsh basic rate, the Welsh higher rate or the Welsh additional rate (as the case may be).

(2) For provision about the setting of the Welsh rates, see Chapter 2 of Part 4A of the Government of Wales Act 2006.]

##### **Textual Amendments**

**F50** S. 6B inserted (24.7.2018) by Wales Act 2014 (c. 29), ss. 9(3), 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)

#### **[<sup>F51</sup>6C The default basic, higher and additional rates**

The default basic rate, default higher rate and default additional rate for a tax year are the rates determined as such by Parliament for the tax year.]

##### **Textual Amendments**

**F51** S. 6C inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Finance Act 2016 (c. 24), s. 6(3)(24); S.I. 2016/1161, regs. 2, 3

#### **7 The starting rate for savings [<sup>F52</sup>and savings nil rate]**

[<sup>F53</sup>(1)] The starting rate for savings is 0%.

[<sup>F54</sup>(2)] The savings nil rate is 0%]



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### Textual Amendments

- F52** Words in s. 7 heading inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(3\)\(c\)\(17\)](#)
- F53** S. 7 renumbered as s. 7(1) (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(3\)\(a\)\(17\)](#)
- F54** S. 7(2) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(3\)\(b\)\(17\)](#)

## [<sup>F55</sup>7A The savings basic, higher and additional rates

The savings basic rate, savings higher rate and savings additional rate for a tax year are the rates determined as such by Parliament for the tax year.]

### Textual Amendments

- F55** S. 7A inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(4\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

## 8 The [<sup>F56</sup>dividend nil rate,] dividend ordinary rate[<sup>F57</sup>, dividend upper rate and dividend additional rate]

[<sup>F58</sup>(A1) The dividend nil rate is 0%.]

(1) The dividend ordinary rate is [<sup>F59</sup>8.75%].

(2) The dividend upper rate is [<sup>F60</sup>33.75%].

[<sup>F61</sup>(3) The dividend additional rate is [<sup>F62</sup>39.35%].]

### Textual Amendments

- F56** Words in s. 8 heading inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(3\)\(a\)\(10\)](#)
- F57** Words in s. 8 heading substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 2 para. 3\(3\)](#)
- F58** S. 8(A1) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(3\)\(b\)\(10\)](#)
- F59** Word in s. 8(1) substituted (with effect for the tax year 2022-23 and subsequent tax years) by [Finance Act 2022 \(c. 3\), s. 4\(1\)\(a\)\(3\)](#)
- F60** Word in s. 8(2) substituted (with effect for the tax year 2022-23 and subsequent tax years) by [Finance Act 2022 \(c. 3\), s. 4\(1\)\(b\)\(3\)](#)
- F61** S. 8(3) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 2 para. 3\(2\)](#)
- F62** Word in s. 8(3) substituted (with effect for the tax year 2022-23 and subsequent tax years) by [Finance Act 2022 \(c. 3\), s. 4\(1\)\(c\)\(3\)](#)

## 9 The trust rate and dividend trust rate

(1) The trust rate is [<sup>F63</sup>45%].

*Status: Point in time view as at 22/02/2024.*

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(2) The dividend trust rate is [<sup>F64</sup>39.35%].

#### Textual Amendments

- F63** Words in s. 9(1) substituted (17.7.2012) (with effect in accordance with s. 1(6) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 1\(3\)\(b\)](#)
- F64** Word in s. 9(2) substituted (with effect for the tax year 2022-23 and subsequent tax years) by [Finance Act 2022 \(c. 3\), s. 4\(2\)\(3\)](#)

### *Income charged at particular rates*

#### 10 <sup>F65</sup>Income charged at the ... basic [<sup>F66</sup>, higher and additional] rates: individuals

<sup>F67</sup>(1) .....

[<sup>F68</sup>(2) Income tax on an individual's income up to the basic rate limit is charged at the basic rate <sup>F69</sup>....]

(3) Income tax is charged at the higher rate on an individual's income above the basic rate limit [<sup>F70</sup>and up to the higher rate limit.]

[<sup>F71</sup>(3A) Income tax is charged at the additional rate on an individual's income above the higher rate limit.]

<sup>F72</sup>(3B) .....

<sup>F72</sup>(3C) .....

(4) This section is subject to—

<sup>F73</sup> .....

[<sup>F74</sup>section 11A (income charged at [<sup>F75</sup>Scottish] rates),]

[<sup>F76</sup>section 11B (income charged at the Welsh basic, higher and additional rates),]

[<sup>F77</sup>section 11C (income charged at the default basic, higher and additional rates: non-UK resident individuals),

section 11D (savings income charged at the savings basic, higher and additional rates: individuals),

section 12 (savings income charged at the starting rate for savings),]

[<sup>F78</sup>section 12A (savings income charged at the savings nil rate),]

section 13 (income charged at the dividend ordinary and dividend upper rates: individuals), and

any other provisions of the Income Tax Acts which provide for income of an individual to be charged at different rates of income tax in some circumstances.

(5) The basic rate limit is [<sup>F79</sup>£37,700].

[<sup>F80</sup>(5A) The higher rate limit for a tax year is equal to—

- (a) twice the amount specified in subsection (1) of section 35 (personal allowance) for the tax year, plus
- (b) the amount specified in subsection (2) of that section (amount at which personal allowance starts to be withdrawn).

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(5B) Before the start of the tax year the Treasury must make an order specifying the amount which is, as a result of subsection (5A), the higher rate limit for the tax year.]

[<sup>F81</sup>(6) The basic rate limit [<sup>F82</sup>and higher rate limit are] increased in some circumstances: see—

- (a) section 414(2) (gift aid relief), and
- (b) section 192(4) of FA 2004 (relief for pension contributions).

(7) See section 21 for indexation of the basic rate limit.]

### Textual Amendments

- F65** Word in s. 10 heading omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 3\(6\)](#)
- F66** Words in s. 10 heading substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 4\(6\)](#)
- F67** S. 10(1) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 3\(2\)](#)
- F68** S. 10(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 3\(3\)](#)
- F69** Words in s. 10(2) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(6\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F70** Words in s. 10(3) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 4\(2\)](#)
- F71** S. 10(3A) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 4\(3\)](#)
- F72** S. 10(3B)(3C) omitted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 38 para. 4\(a\)](#)
- F73** S. 10(4) entry omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 3\(4\)](#)
- F74** Words in s. 10(4) inserted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 38 para. 4\(b\)](#)
- F75** Word in s. 10(4) substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), ss. 13(14), 14(6)(15), 72(3); S.I. 2016/1161, [regs. 2, 3](#)
- F76** Words in s. 10(4) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), [ss. 9\(4\), 14, 29\(4\)](#); S.I. 2018/892, [art. 3](#) (with arts. 5, 6, 8)
- F77** Words in s. 10(4) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(7\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F78** Words in s. 10(4) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\)](#), [s. 4\(4\)\(17\)](#)
- F79** Sum in s. 10(5) specified (1.2.2021 with effect for the tax year 2021-22) by [The Income Tax \(Indexation\) Order 2021 \(S.I. 2021/111\)](#), [art. 2](#)
- F80** [S. 10\(5A\)\(5B\)](#) substituted for [s. 10\(5A\)](#) (with the substituted s. 10(5A) having effect for the tax year 2023-24 and subsequent tax years, and the substituted s. 10(5B) having effect for the tax year 2028-29 and subsequent tax years) by [Finance Act 2023 \(c. 1\)](#), [s. 6\(1\)\(3\)\(5\)](#)
- F81** S. 10(6)(7) inserted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 3\(5\)](#)
- F82** Words in s. 10(6) substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 4\(5\)](#)

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#### Modifications etc. (not altering text)

- C1** S. 10(5): sum specified (for the tax years 2022-23, 2023-24, 2024-25 and 2025-26) by [Finance Act 2021 \(c. 26\), s. 5\(1\)](#)

## 11 Income charged at the [<sup>F83</sup>default basic rate: non-individuals]

- (1) Income tax is charged at the [<sup>F84</sup>default] basic rate on the income of persons other than individuals.
- (2) This section is subject to—  
<sup>F85</sup>  
...  
section 14 (income charged at the dividend ordinary rate: other persons), Chapters 3 to 6 of Part 9 (which provide for some income of trustees to be charged at the dividend trust rate or at the trust rate), and  
any other provisions of the Income Tax Acts which provide for income of persons other than individuals to be charged at different rates of income tax in some circumstances.

#### Textual Amendments

- F83** Words in s. 11 heading substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(8\)\(a\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F84** Word in s. 11(1) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(8\)\(b\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F85** Words in s. 11(2) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 1 para. 4](#)

## [<sup>F86</sup>11A Income charged at [<sup>F87</sup>Scottish] rates

- [<sup>F88</sup>(1A) Income tax is charged at Scottish rates on the non-savings income of a Scottish taxpayer.]
- (4) For the purposes of this section, “non-savings income” means income which is not savings income.
- (5) This section is subject to—  
section 13 (income charged at the dividend ordinary, upper and additional rates: individuals), and  
any provisions of the Income Tax Acts (apart from section 10) which provide for income of an individual to be charged at different rates of income tax in some circumstances.
- (6) Section 16 has effect for determining [<sup>F89</sup>which part of a Scottish taxpayer’s income consists of savings income].]

#### Textual Amendments

- F86** S. 11A inserted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by [Finance Act 2014 \(c. 26\), Sch. 38 para. 5](#)

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- F87** Word in s. 11A heading substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(10), 14(4)(15), 72(3)**; S.I. 2016/1161, **regs. 2, 3**
- F88** S. 11A(1A) substituted for s. 11A(1)-(3) (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(10), 14(8)(15), 72(3)**; S.I. 2016/1161, **regs. 2, 3**
- F89** Words in s. 11A(6) substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(10), 14(9)(15), 72(3)**; S.I. 2016/1161, **regs. 2, 3**

### [<sup>F90</sup>11B **Income charged at the Welsh basic, higher and additional rates**

- (1) Income tax is charged at the Welsh basic rate on the income of a Welsh taxpayer which—
  - (a) is non-savings income, and
  - (b) would otherwise be charged at the basic rate.
- (2) Income tax is charged at the Welsh higher rate on the income of a Welsh taxpayer which—
  - (a) is non-savings income, and
  - (b) would otherwise be charged at the higher rate.
- (3) Income tax is charged at the Welsh additional rate on the income of a Welsh taxpayer which—
  - (a) is non-savings income, and
  - (b) would otherwise be charged at the additional rate.
- (4) For the purposes of this section, “non-savings income” means income which is not savings income.
- (5) This section is subject to—

section 13 (income charged at the dividend ordinary, upper and additional rates: individuals), and

any provisions of the Income Tax Acts (apart from section 10) which provide for income of an individual to be charged at different rates of income tax in some circumstances.
- (6) Section 16 has effect for determining the extent to which the non-savings income of a Welsh taxpayer would otherwise be charged at the basic, higher or additional rate.]

#### **Textual Amendments**

- F90** S. 11B inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(5), 14, 29(4)**; S.I. 2018/892, **art. 3** (with **arts. 5, 6, 8**)

### [<sup>F91</sup>11C **Income charged at the default basic, higher and additional rates: non-UK resident individuals**

- (1) Income tax on a non-UK resident individual’s income up to the basic rate limit is charged at the default basic rate.
- (2) Income tax is charged at the default higher rate on a non-UK resident individual’s income above the basic rate limit and up to the higher rate limit.

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- (3) Income tax is charged at the default additional rate on a non-UK resident individual's income above the higher rate limit.
- (4) Subsections (1) to (3) are subject to—
- section 11D (savings income charged at the savings basic, higher and additional rates),
  - section 12 (savings income charged at the starting rate for savings),
  - section 12A (savings income charged at the savings nil rate),
  - section 13 (income charged at the dividend ordinary, upper and additional rates: individuals), and
  - any other provisions of the Income Tax Acts (apart from section 10) which provide for income to be charged at different rates of income tax in some circumstances.

#### Textual Amendments

**F91** Ss. 11C, 11D inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(8\)\(b\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

### **11D Income charged at the savings basic, higher and additional rates**

- (1) Income tax is charged at the savings basic rate on an individual's income which—
- (a) is saving income, and
  - (b) would otherwise be charged at the basic rate or the default basic rate.
- (2) Income tax is charged at the savings higher rate on an individual's income which—
- (a) is savings income, and
  - (b) would otherwise be charged at the higher rate or the default higher rate.
- (3) Income tax is charged at the savings additional rate on an individual's income which—
- (a) is savings income, and
  - (b) would otherwise be charged at the additional rate or the default additional rate.
- (4) Subsections (1) to (3)—
- (a) have effect after sections 12 and 12A have been applied (so that any reference in subsections (1) to (3) to income which would otherwise be charged at a particular rate does not include income charged at the starting rate for savings or at the savings nil rate), and
  - (b) are subject to any other provisions of the Income Tax Acts (apart from sections 10 and 11C) which provide for income to be charged at different rates of income tax in some circumstances.
- (5) Section 16 has effect for determining the extent to which an individual's savings income above the starting rate limit for savings would otherwise be charged at the basic, higher or additional rate or the default basic, default higher or default additional rate.
- (6) In relation to an individual who is a Scottish taxpayer, references in this section to income which would otherwise be charged at a particular rate are to be read as references to income that would, if the individual were not a Scottish taxpayer

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(but were UK resident), be charged at that rate (and subsection (5) is to be read accordingly).]

#### Textual Amendments

**F91** Ss. 11C, 11D inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(8\)\(b\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

### [<sup>F92</sup>12 Income charged at the starting rate for savings

- (1) Income tax is charged at the starting rate for savings <sup>F93</sup>... on so much of an individual's income up to the starting rate limit for savings [<sup>F94</sup>as—
  - (a) is savings income, and
  - (b) would otherwise be charged at the basic rate or the default basic rate].
- (2) This is subject to any provisions of the Income Tax Acts (apart from section 10) which provide for income of an individual to be charged at different rates of income tax in some circumstances.
- (3) The starting rate limit for savings is [<sup>F95</sup>£5,000].
- (4) See section 21 for indexation of the starting rate limit for savings.
- (5) Section 16 has effect for determining the extent to which a person's income up to the starting rate limit for savings consists of savings income.]

#### Textual Amendments

**F92** S. 12 substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 5](#)

**F93** Words in s. 12(1) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(10\)\(a\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

**F94** Words in s. 12(1) substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(10\)\(b\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

**F95** Sum in s. 12(3) confirmed (6.4.2023 for the tax year 2023-24) by [Finance Act 2023 \(c. 30\)](#), [s. 4\(1\)](#)

### [<sup>F96</sup>12A Savings income charged at the savings nil rate

- (1) This section applies in relation to an individual if—
  - (a) the amount of the individual's Step 3 income is greater than £L, where £L is the amount of the starting rate limit for savings, and
  - (b) when the individual's Step 3 income is split into two parts—
    - (i) one (“the individual's income up to the starting rate for savings”) consisting of the lowest £L of the individual's Step 3 income, and
    - (ii) the other (“the individual's income above the starting rate limit for savings”) consisting of the rest of the individual's Step 3 income, some or all of the individual's income above the starting rate limit for savings consists of savings income (whether or not some or all of the individual's income up to the starting rate limit for savings consists of savings income).
- (2) In this section—

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£A is the amount of the individual's savings allowance (see section 12B),  
“the excess” is so much of the individual's income above the starting rate limit for savings as consists of savings income, and  
£X is the amount of the excess.

- (3) If £X is less than or equal to £A, income tax is charged at the savings nil rate (rather than the basic, higher or additional rate [<sup>F97</sup>or the default basic, default higher or default additional rate]) on the excess.
- (4) If £X is more than £A, income tax is charged at the savings nil rate (rather than the basic, higher or additional rate [<sup>F98</sup>or the default basic, default higher or default additional rate]) on the lowest £A of the excess.
- (5) Subsections (3) and (4) are subject to any provisions of the Income Tax Acts (apart from [<sup>F99</sup>sections 10 and 11C]) which provide for income to be charged at different rates of income tax in some circumstances.
- (6) Section 16 has effect for determining the extent to which the individual's income above the starting rate limit for savings consists of savings income.
- (7) For the purposes of this section, an individual's “Step 3 income” is the individual's net income less allowances deducted at Step 3 of the calculation in section 23.

#### Textual Amendments

- F96** Ss. 12A, 12B inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(5\)\(17\)](#)
- F97** Words in s. 12A(3) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(11\)\(a\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)
- F98** Words in s. 12A(4) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(11\)\(a\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)
- F99** Words in s. 12A(5) substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(11\)\(b\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)

## 12B Individual's entitlement to a savings allowance

- (1) Subsections (2) to (4) determine the amount of an individual's savings allowance for a tax year.
- (2) If any of the individual's income for the year is additional-rate income, the individual's savings allowance for the year is nil.
- (3) If—
  - (a) any of the individual's income for the year is higher-rate income, and
  - (b) none of the individual's income for the year is additional-rate income,
 the individual's savings allowance for the year is £500.
- (4) If none of the individual's income for the year is higher-rate income, the individual's savings allowance for the year is £1,000.
- (5) The Treasury may by regulations substitute a different amount for the amount for the time being specified in subsection (2), (3) or (4); and regulations under this subsection that have effect for a tax year may be made at any time before the end of that tax year.



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- (6) If regulations under subsection (5) reduce any amount, the regulations may not be made unless a draft of the instrument containing them (whether alone or together with regulations under subsection (5) which increase any amount) has been laid before, and approved by a resolution of, the House of Commons.
- (7) Section 1014(4) (negative procedure) does not apply to regulations under subsection (5) which increase any amount if—
- (a) the instrument containing them also contains regulations under subsection (5) which reduce any amount, and
  - (b) a draft of the instrument has been laid before, and approved by a resolution of, the House of Commons.
- (8) For the purposes of this section—
- (a) each of the following is “additional-rate income”—
    - (i) income on which income tax is charged at the additional rate [<sup>F100</sup>, default additional rate] or dividend additional rate,
    - (ii) income on which income tax would be charged at the additional rate [<sup>F101</sup>, or default additional rate,] but for section 12A (income charged at savings nil rate),
    - (iii) income on which income tax would be charged at the dividend additional rate but for section 13A (income charged at dividend nil rate), and
    - (iv) income of an individual who is a Scottish taxpayer or Welsh taxpayer which would, if the individual were not a Scottish taxpayer or Welsh taxpayer (as the case may be), be income on which income tax is charged at the additional rate [<sup>F102</sup> or default additional rate], and
  - (b) each of the following is “higher-rate income”—
    - (i) income on which income tax is charged at the higher rate [<sup>F103</sup>, default higher rate] or dividend upper rate,
    - (ii) income on which income tax would be charged at the higher rate [<sup>F104</sup>, or default higher rate,] but for section 12A (income charged at savings nil rate),
    - (iii) income on which income tax would be charged at the dividend upper rate but for section 13A (income charged at dividend nil rate), and
    - (iv) income of an individual who is a Scottish taxpayer or Welsh taxpayer which would, if the individual were not a Scottish taxpayer or Welsh taxpayer (as the case may be), be income on which income tax is charged at the higher rate [<sup>F105</sup> or default higher rate].]

#### Textual Amendments

**F96** Ss. 12A, 12B inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(5\)\(17\)](#)

**F100** Words in s. 12B(8)(a)(i) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(a\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)

**F101** Words in s. 12B(8)(a)(ii) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(b\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)

**F102** Words in s. 12B(8)(a)(iv) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(c\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)

**F103** Words in s. 12B(8)(b)(i) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(d\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)

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- F104** Words in s. 12B(8)(b)(ii) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(e\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F105** Words in s. 12B(8)(b)(iv) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(12\)\(f\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)

### 13 **Income charged at the dividend ordinary [<sup>F106</sup>, dividend upper and dividend additional] rates: individuals**

- (1) Income tax is charged at the dividend ordinary rate on an individual's income which—
- (a) is dividend income,
  - (b) would otherwise be charged at the <sup>F107</sup>... basic rate, <sup>F108</sup>... [<sup>F109</sup>or the Welsh basic rate,] and
  - (c) is not relevant foreign income charged in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis).
- (2) Income tax is charged at the dividend upper rate on an individual's income which—
- (a) is dividend income, <sup>F110</sup>...
  - (b) would otherwise be charged at the higher rate, <sup>F111</sup>... [<sup>F112</sup>or the Welsh higher rate,]<sup>F113</sup> and
  - (c) is not relevant foreign income charged in accordance with section 832 of ITTOIA 2005.]
- <sup>F114</sup>(2A) Income tax is charged at the dividend additional rate on an individual's income which—
- (a) is dividend income,
  - (b) would otherwise be charged at the additional rate, <sup>F115</sup>... [<sup>F116</sup>or the Welsh additional rate,] and
  - (c) is not relevant foreign income charged in accordance with section 832 of ITTOIA 2005.]
- (3) Subsections (1) [<sup>F117</sup>to (2A)] are subject to any provisions of the Income Tax Acts (apart from section 10 [<sup>F118</sup>or 11A]<sup>F119</sup> or 11B]) which provide for income to be charged at different rates of income tax in some circumstances.
- (4) Section 16 has effect for determining the extent to which an individual's dividend income would otherwise be charged at the <sup>F120</sup>... basic [<sup>F121</sup>, higher or additional] rate <sup>F122</sup>... [<sup>F123</sup>or the Welsh basic, higher or additional rate].
- <sup>F124</sup>(5) In relation to an individual who is a Scottish taxpayer, references in this section to income that would otherwise be charged at a particular rate are to be read as references to income that would, if the individual were not a Scottish taxpayer, be charged at that rate (and subsection (4) is to be read accordingly).]

#### Textual Amendments

- F106** Words in s. 13 heading substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\), Sch. 2 para. 5\(5\)](#)
- F107** Words in s. 13(1)(b) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 1 para. 6\(a\)](#)
- F108** Words in s. 13(1)(b) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\), ss. 13\(14\), 14\(11\)\(a\)\(15\), 72\(3\)](#); S.I. 2016/1161, [regs. 2, 3](#)

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- F109** Words in s. 13(1)(b) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(6)(a)**, 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)
- F110** Word in s. 13(2)(a) omitted (21.7.2008 with effect in accordance with s. 68(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **s. 68(1)(a)**
- F111** Words in s. 13(2)(b) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(14)**, 14(11)(b)(15), 72(3); S.I. 2016/1161, **regs. 2, 3**
- F112** Words in s. 13(2)(b) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(6)(b)**, 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)
- F113** S. 13(2)(c) and word inserted (21.7.2008 with effect in accordance with s. 68(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **s. 68(1)(b)**
- F114** S. 13(2A) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 2 para. 5(2)**
- F115** Words in s. 13(2A)(b) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(14)**, 14(11)(c)(15), 72(3); S.I. 2016/1161, **regs. 2, 3**
- F116** Words in s. 13(2A)(b) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(6)(c)**, 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)
- F117** Words in s. 13(3) substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 2 para. 5(3)**
- F118** Words in s. 13(3) inserted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), **Sch. 38 para. 6(d)**
- F119** Words in s. 13(3) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(6)(d)**, 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)
- F120** Word in s. 13(4) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 6(b)**
- F121** Words in s. 13(4) substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 2 para. 5(4)**
- F122** Words in s. 13(4) omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(14)**, 14(11)(d)(15), 72(3); S.I. 2016/1161, **regs. 2, 3**
- F123** Words in s. 13(4) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(6)(e)**, 14, 29(4); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)
- F124** S. 13(5) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(14)**, 14(11)(e)(15), 72(3); S.I. 2016/1161, **regs. 2, 3**

### <sup>F125</sup>13A Income charged at the dividend nil rate

- (1) Subsection (2) applies if, ignoring this section, at least some of an individual's income would be charged to income tax at the dividend ordinary rate, the dividend upper rate or the dividend additional rate.
- (2) Income tax is charged at the dividend nil rate (rather than the dividend ordinary rate, dividend upper rate or dividend additional rate) on one or more amounts of the individual's income as follows—

*Step 1* Identify the amount (“D”) of the individual's income which would, ignoring this section, be charged at the dividend ordinary rate.*Rule 1A:* If D is more than <sup>F126</sup>£1,000, the first <sup>F126</sup>£1,000 of D is charged at the dividend nil rate (rather than the dividend ordinary rate), and is the only amount charged at the dividend nil rate.*Rule 1B:* If D is equal to <sup>F126</sup>£1,000, D is charged at the dividend nil rate (rather than the dividend ordinary rate), and is the only amount charged at the dividend nil rate.*Rule 1C:* If D is less than <sup>F126</sup>£1,000 but more than nil, D is charged at the dividend nil rate (rather than the dividend ordinary rate).

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*Step 2* If D is less than [<sup>F126</sup>£1,000], identify the amount (“U”) of the individual's income which would, ignoring this section, be charged at the dividend upper rate. *Rule 2A:* If the total of D and U is more than [<sup>F126</sup>£1,000]—

- (a) the first £M of U is charged at the dividend nil rate (rather than the dividend upper rate), where £M is the difference between [<sup>F126</sup>£1,000] and D, and
- (b) the amounts charged under this Rule and Rule 1C are the only amounts charged at the dividend nil rate.

*Rule 2B:* If the total of D and U is equal to [<sup>F126</sup>£1,000], U is charged at the dividend nil rate (rather than the dividend upper rate), and the amounts charged under this Rule and Rule 1C are the only amounts charged at the dividend nil rate. *Rule 2C:* If the total of D and U is less than [<sup>F126</sup>£1,000] but more than nil, U is charged at the dividend nil rate (rather than the dividend upper rate).

*Step 3* If the total of D and U is less than [<sup>F126</sup>£1,000], identify the amount (“A”) of the individual's income which would, ignoring this section, be charged at the dividend additional rate. *Rule 3A:* If the total of D, U and A is more than [<sup>F126</sup>£1,000], the first £X of A is charged at the dividend nil rate (rather than the dividend additional rate), where £X is the difference between—

[<sup>F126</sup>£1,000], and  
the total of D and U,

and the amounts charged under this Rule, and Rules 1C and 2C, are the amounts charged at the dividend nil rate. *Rule 3B:* If the total of D, U and A is less than or equal to [<sup>F126</sup>£1,000], A is charged at the dividend nil rate (rather than the dividend additional rate), and the amounts charged under this Rule, and Rules 1C and 2C, are the amounts charged at the dividend nil rate.]

#### Textual Amendments

- F125** S. 13A inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(5\)\(10\)](#)
- F126** Sum in s. 13A(2) substituted (with effect for the tax year 2023-24) by [Finance Act 2023 \(c. 1\), s. 7\(1\)\(2\)](#)

## 14 Income charged at the dividend ordinary rate: other persons

- (1) Income tax is charged at the dividend ordinary rate on the income of persons other than individuals which—
  - (a) is dividend income,
  - (b) would otherwise be charged at the basic rate, and
  - (c) is not relevant foreign income charged in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis).
- (2) This is subject to—
 

Chapters 3 to 6 of Part 9 (which provide for some income of trustees to be charged at the dividend trust rate or at the trust rate),  
<sup>F127</sup> ... and

any other provisions of the Income Tax Acts (apart from section 11) which provide for income of persons other than individuals to be charged at different rates of income tax in some circumstances.

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### Textual Amendments

**F127** Words in s. 14(2) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(3)** (with reg. 32)

## 15 Income charged at the trust rate and the dividend trust rate

For the circumstances in which income tax is charged at the trust rate and the dividend trust rate, see Chapters 3 to 6 of Part 9.

## 16 Savings and dividend income to be treated as highest part of total income

- (1) This section has effect for determining<sup>F128</sup> —
- [<sup>F129</sup>(za) which part of a Scottish taxpayer's income consists of savings income,]
  - [<sup>F130</sup>(zb) the rate at which income tax would be charged on the non-savings income of a Welsh taxpayer apart from section 11B,]
    - (a) the extent to which a person's income up to the starting rate limit for savings consists of savings income,
    - [<sup>F131</sup>(aa) the extent to which a person's income above the starting rate limit for savings consists of savings income,] and
    - [<sup>F132</sup>(ab) the rate at which income tax would be charged on a person's savings income above the starting rate limit for savings apart from sections 11D and 12A,]
    - (b) the rate at which income tax would be charged on a person's dividend income apart from section 13.]
- (2) It also has effect for all other income tax purposes except for the purposes of—
- (a) section 491 (special rates not to apply to first slice of trustees' trust rate income), and
  - (b) sections 535 to 537 of ITTOIA 2005 (gains from contracts for life insurance etc: top slicing relief).
- (3) If a person has savings income but no dividend income, the savings income is treated as the highest part of the person's total income.
- (4) If a person has dividend income but no savings income, the dividend income is treated as the highest part of the person's total income.
- (5) If a person has both savings income and dividend income—
- (a) the savings income and dividend income are together treated as the highest part of the person's total income, and
  - (b) the dividend income is treated as the higher part of that part of the person's total income.
- (6) See section 1012 for the relationship between—
- (a) the rules in this section, and
  - (b) other rules requiring particular income to be treated as the highest part of a person's total income.
- (7) References in this section to dividend income do not include dividend income which is relevant foreign income charged in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis).

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### Textual Amendments

- F128** Words in s. 16(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 7](#)
- F129** S. 16(1)(za) substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\), ss. 13\(14\), 14\(12\)\(15\), 72\(3\); S.I. 2016/1161, regs. 2, 3](#)
- F130** S. 16(1)(zb) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\), ss. 9\(7\), 14, 29\(4\); S.I. 2018/892, art. 3 \(with arts. 5, 6, 8\)](#)
- F131** S. 16(1)(aa) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(6\)\(17\)](#)
- F132** S. 16(1)(ab) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(13\)\(24\); S.I. 2016/1161, regs. 2, 3](#)

## 17 Repayment: tax paid at [<sup>F133</sup>greater] rate instead of [<sup>F134</sup>starting rate for savings][<sup>F135</sup>or savings nil rate]

- (1) This section applies if income tax [<sup>F136</sup>at a rate greater than the starting rate for savings] has been paid on income on which income tax is chargeable at the [<sup>F137</sup>starting rate for savings].
- [<sup>F138</sup>(1A) This section also applies if income tax at a rate greater than the savings nil rate has been paid on income on which income tax is chargeable at the savings nil rate.]
- (2) If a claim is made, any necessary repayment of tax must be made.

### Textual Amendments

- F133** Word in s. 17 heading substituted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(7\)\(b\)\(i\)\(17\)](#)
- F134** Words in s. 17 heading substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 8\(3\)](#)
- F135** Words in s. 17 heading inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(7\)\(b\)\(ii\)\(17\)](#)
- F136** S. 17(1) words substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(14\)\(24\); S.I. 2016/1161, regs. 2, 3](#)
- F137** Words in s. 17(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 8\(2\)](#)
- F138** S. 17(1A) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(7\)\(a\)\(17\)](#)

## 18 Meaning of “savings income”

- (1) This section applies for the purposes of the Income Tax Acts.
- (2) “Savings income” is income—
- (a) which is within subsection (3) or (4), and
  - (b) which is not relevant foreign income charged in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis).
- (3) Income is within this subsection if it is—
- (a) income chargeable under Chapter 2 of Part 4 of ITTOIA 2005 (interest),

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- (b) income chargeable under Chapter 7 of Part 4 of ITTOIA 2005 (purchased life annuity payments), other than income from annuities specified in section 718(2) of that Act (annuities purchased from certain life assurance premium payments or under wills etc),
  - (c) income chargeable under Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities), or
  - (d) income chargeable under Chapter 2 of Part 12 of this Act (accrued income profits).
- (4) Income is within this subsection if—
- (a) it is chargeable under Chapter 9 of Part 4 of ITTOIA 2005 (gains from contracts for life insurance etc), and
  - (b) an individual is, or personal representatives are, liable for income tax on it (under section 465 or 466 of that Act).

**Modifications etc. (not altering text)**

- C2** S. 18 excluded by [Taxes Management Act 1970 \(c. 9\)](#), s. 18E(2)(b) (as inserted (with effect in accordance with s. 381(1)) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 7 para. 103 (with Sch. 9 paras. 1-9, 22))

## 19 Meaning of “dividend income”

- (1) This section applies for the purposes of the Income Tax Acts.
- (2) “Dividend income” is income which is—
- (a) chargeable under Chapter 3 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies),
  - (b) chargeable under Chapter 4 of that Part (dividends from non-UK resident companies),
  - (c) chargeable under Chapter 5 of that Part (stock dividends from UK resident companies),
  - (d) chargeable under Chapter 6 of that Part (release of loan to participator in close company), or
  - (e) a relevant foreign distribution chargeable under Chapter 8 of Part 5 of ITTOIA 2005 (income not otherwise charged).
- (3) In subsection (2) “relevant foreign distribution” means a distribution of a non-UK resident company which—
- (a) is not chargeable under Chapter 4 of Part 4 of ITTOIA 2005, but
  - (b) would be chargeable under Chapter 3 of that Part if the company were UK resident.

*Starting rate limit and basic rate limit*

## <sup>F139</sup>20 The starting rate limit and the basic rate limit

.....

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### Textual Amendments

**F139** S. 20 omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of Finance Act 2008 (c. 9), **Sch. 1 para. 10**

## 21 Indexation of the <sup>F140</sup>basic rate limit and starting rate limit for savings]

(1) This section applies if the <sup>F141</sup>consumer prices index] for the September before the start of a tax year is higher than it was for the previous September.

<sup>F142</sup>(2) .....

(3) The basic rate limit for the tax year is the amount found as follows.

### *Step 1*

Increase the basic rate limit for the previous tax year by the same percentage as the percentage increase in the <sup>F143</sup>consumer prices index].

### *Step 2*

If the result of Step 1 is a multiple of £100, it is the basic rate limit for the tax year.

If the result of Step 1 is not a multiple of £100, round it up to the nearest amount which is a multiple of £100.

That amount is the basic rate limit for the tax year.

<sup>F144</sup>(3A) The starting rate limit for savings for the tax year is the amount found as follows.

### *Step 1*

Increase the starting rate limit for savings for the previous tax year by the same percentage as the percentage increase in the <sup>F145</sup>consumer prices index].

### *Step 2*

If the result of Step 1 is a multiple of £10, it is the starting rate limit for savings for the tax year.

If the result of Step 1 is not a multiple of £10, round it up to the nearest amount which is a multiple of £10.

That amount is the starting rate limit for savings for the tax year.]

(4) Subsections <sup>F146</sup>(3) and (3A)] do not require a change to be made in the amounts deductible or repayable under PAYE regulations during the period beginning on 6 April and ending on 17 May in the tax year.

(5) Before the start of the tax year the Treasury must make an order replacing the amounts specified in <sup>F147</sup>sections 10 and 12] with the amounts which, as a result of subsections <sup>F148</sup>(3) and (3A)], are the <sup>F149</sup>basic rate limit and starting rate limit for savings] for the tax year.

<sup>F150</sup>(6) In this section “consumer prices index” means the all items consumer prices index published by the Statistics Board.]



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### Textual Amendments

- F140** Words in s. 21 heading substituted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(6\)](#)
- F141** Words in s. 21(1) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(2\)\(a\)](#)
- F142** S. 21(2) omitted (21.7.2008) by virtue of [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(2\)](#)
- F143** Words in s. 21(3) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(2\)\(a\)](#)
- F144** S. 21(3A) inserted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(3\)](#)
- F145** Words in s. 21(3A) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(2\)\(a\)](#)
- F146** Words in s. 21(4) substituted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(4\)](#)
- F147** Words in s. 21(5) substituted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(5\)\(a\)](#)
- F148** Words in s. 21(5) substituted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(5\)\(b\)](#)
- F149** Words in s. 21(5) substituted (21.7.2008) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 11\(5\)\(c\)](#)
- F150** S. 21(6) inserted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(2\)\(b\)](#)

### Modifications etc. (not altering text)

- C3** S. 21 excluded (21.7.2009) by [Finance Act 2009 \(c. 10\), s. 2\(2\)](#)
- C4** S. 21 excluded (19.7.2011) by [Finance Act 2011 \(c. 11\), s. 2\(2\)](#)
- C5** S. 21 excluded (17.7.2012) by [Finance Act 2012 \(c. 14\), s. 2\(2\)](#)
- C6** S. 21 excluded (17.7.2013) by [Finance Act 2013 \(c. 29\), s. 3\(2\)](#)
- C7** S. 21 excluded (17.7.2014) by [Finance Act 2014 \(c. 26\), ss. 1\(4\)\(a\), 2\(2\)\(a\)](#)
- C8** S. 21 excluded (temp.) (17.7.2014) by [Finance Act 2014 \(c. 26\), s. 3\(3\)](#)
- C9** S. 21 excluded (26.3.2015) by [Finance Act 2015 \(c. 11\), s. 4\(2\)](#)
- C10** S. 21 excluded (6.4.2015 for the tax year 2015-16) by [Finance Act 2014 \(c. 26\), s. 2\(2\)\(a\)](#)
- C11** S. 21 excluded (temp.) (27.4.2017 in relation to the tax year 2017-18) by [Finance Act 2017 \(c. 10\), s. 4\(3\)](#)
- C12** S. 21 excluded (15.3.2018) by [Finance Act 2018 \(c. 3\), s. 5](#)
- C13** S. 21 excluded (12.2.2019) by [Finance Act 2019 \(c. 1\), s. 5\(5\)\(a\)](#)
- C14** S. 21 excluded (12.2.2019) by [Finance Act 2019 \(c. 1\), s. 6](#)
- C15** S. 21 excluded (for the tax year 2020-21) by [Finance Act 2020 \(c. 14\), s. 4](#)
- C16** S. 21 excluded (6.4.2021 for the tax year 2021-22) by [Finance Act 2021 \(c. 26\), s. 4\(2\)](#)
- C17** S. 21 excluded (for the tax year 2022-23) by [Finance Act 2022 \(c. 3\), s. 5\(2\)](#)
- C18** S. 21 excluded (for the tax years 2022-23, 2023-24, 2024-25 and 2025-26) by [Finance Act 2021 \(c. 26\), s. 5\(3\)\(a\)](#)
- C19** S. 21 excluded (6.4.2023 for the tax year 2023-24) by [Finance Act 2023 \(c. 30\), s. 4\(2\)](#)

## CHAPTER 3

### CALCULATION OF INCOME TAX LIABILITY

#### 22 Overview of Chapter

- (1) This Chapter deals with the calculation of a person's income tax liability for a tax year.
- (2) But it does not deal with any income tax liability mentioned in section 32.
- (3) This Chapter needs to be read with Chapter 1 of Part 14 (limits on liability to income tax of non-UK residents).

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## **23 The calculation of income tax liability**

To find the liability of a person (“the taxpayer”) to income tax for a tax year, take the following steps. *Step 1*

Identify the amounts of income on which the taxpayer is charged to income tax for the tax year.

The sum of those amounts is “total income”.

Each of those amounts is a “component” of total income.

### *Step 2*

Deduct from the components the amount of any relief under a provision listed in relation to the taxpayer in section 24 to which the taxpayer is entitled for the tax year.

See [F151 sections 24A and 25] for further provision about the deduction of those reliefs.

The sum of the amounts of the components left after this step is “net income”.

### *Step 3*

Deduct from the amounts of the components left after Step 2 any allowances to which the taxpayer is entitled for the tax year under Chapter 2 of Part 3 of this Act or F152 ... (individuals: personal allowance and blind person's allowance).

See section 25 for further provision about the deduction of those allowances.

### *Step 4*

Calculate tax at each applicable rate on the amounts of the components left after Step 3.

See Chapter 2 of this Part for the rates at which income tax is charged and the income charged at particular rates.

If the taxpayer is a trustee, see also Chapters 3 to 6 and 10 of Part 9 (special rules about settlements and trustees) for further provision about the income charged at particular rates.

[F153 See also section 863I of ITTOIA 2005 which provides for certain partnership profits to be charged at the additional rate.]

### *Step 5*

Add together the amounts of tax calculated at Step 4.

### *Step 6*

Deduct from the amount of tax calculated at Step 5 any tax reductions to which the taxpayer is entitled for the tax year under a provision listed in relation to the taxpayer in section 26.

See sections 27 to 29 for further provision about the deduction of those tax reductions.

### *Step 7*

Add to the amount of tax left after Step 6 any amounts of tax for which the taxpayer is liable for the tax year under any provision listed in relation to the taxpayer in section 30.

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The result is the taxpayer's liability to income tax for the tax year.

#### Textual Amendments

- F151** Words in s. 23 substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 3 para. 2\(2\)](#)
- F152** Words in s. 23 omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 1 para. 6\(o\)\(i\)](#)
- F153** Words in s. 23 inserted (with effect in accordance with Sch. 17 para. 21 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 19](#)

#### Modifications etc. (not altering text)

- C20** S. 23 applied (N.I.) (6.4.2009) by [The Education \(Student Loans\) \(Repayment\) Regulations \(Northern Ireland\) 2009 \(S.R. 2009/128\)](#), regs. 1(1), [24\(3\)](#)
- C21** S. 23 modified (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(5\)](#)
- C22** S. 23 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 35 para. 1\(10\)](#)
- C23** S. 23 applied (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), [Sch. 16 para. 10\(1\)](#) (with [Sch. 16 para. 10\(3\)](#))
- C24** S. 23 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 2\(5\)](#) (with [Sch. 2 para. 3\(2\)\(3\)](#))
- C25** S. 23 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 1\(5\)](#) (with [Sch. 2 para. 3\(2\)\(3\)](#))
- C26** S. 23 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by [Finance Act 2022 \(c. 3\)](#), [Sch. 1 para. 75\(2\)](#)

## 24 Reliefs deductible at Step 2

(1) If the taxpayer is an individual, the provisions referred to at Step 2 of the calculation in section 23 are—

- (a) the following—
- section 72 (early trade losses relief),
  - Chapter 6 of Part 4 (share loss relief),
  - Chapter 3 of Part 8 (gifts of shares, securities and real property to charities etc),
  - sections 457 and 458 of this Act or section 266(7) of ICTA (payments to trade unions or police organisations),
  - section 193(4) of FA 2004 (pension schemes: relief under net pay arrangement: excess relief), and
  - section 194(1) of FA 2004 (pension schemes: relief on making of claim), and
- (b) the following—
- section 64 (trade loss relief against general income),
  - section 83 (carry-forward trade loss relief),
  - section 89 (terminal trade loss relief),
  - section 96 (post-cessation trade relief),
  - section 118 (carry-forward property loss relief),
  - section 120 (property loss relief against general income),
  - section 125 (post-cessation property relief),
  - section 128 (employment loss relief against general income),
  - section 152 (loss relief against miscellaneous income),
  - Chapter 1 of Part 8 (interest payments),

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[<sup>F154</sup>Chapter 1A of Part 8 (irrecoverable peer-to-peer loans),]  
 Chapter 4 of Part 8 (annual payments <sup>F155</sup>...),  
 section 574 (manufactured dividends on UK shares: payments by non-companies),  
 section 579 (manufactured interest on UK securities: payments not otherwise deductible),  
 Part 2 of CAA 2001 (plant and machinery allowances), in a case where the allowance is to be given effect under section 258 of that Act (special leasing of plant and machinery),  
<sup>F156</sup>...  
 Part 8 of CAA 2001 (patent allowances), in a case where the allowance is to be given effect under section 479 of that Act (persons having qualifying non-trade expenditure),  
 section 555 of ITEPA 2003 (deduction for liabilities related to former employment),  
 section 446 of ITTOIA 2005 (strips of government securities: relief for losses),  
 section 454(4) of ITTOIA 2005 (listed securities held since 26 March 2003: relief for losses: persons other than trustees), and  
 section 600 of ITTOIA 2005 (relief for patent expenses).

- (2) In any other case, the provisions referred to at Step 2 of the calculation in section 23 are—
- (a) the provisions listed in subsection (1)(b), and
  - (b) [<sup>F157</sup>regulation 18 of the Unauthorised Unit Trusts (Tax) Regulations 2013].

#### Textual Amendments

**F154** Words in s. 24(1) inserted (15.9.2016) by [Finance Act 2016 \(c. 24\), s. 32\(3\)](#)

**F155** Words in s. 24(1)(b) omitted (with effect in accordance with s. 15(5) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\), s. 15\(4\)\(b\)](#)

**F156** S. 24(1)(b) entry omitted (21.7.2008 with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 27\(2\)](#)

**F157** Words in s. 24(2)(b) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\), regs. 1\(3\), 37\(4\)](#) (with reg. 32)

#### [<sup>F158</sup>24A Limit on Step 2 deductions

- (1) If the taxpayer is an individual, there is a limit on certain deductions which may be made for the tax year at Step 2.
- (2) The limit is determined as follows.
- (3) Amount A must not exceed amount B.
- (4) Amount A is—
  - (a) the deductions for the tax year at Step 2 for the reliefs listed in subsection (6) taken together, less
  - (b) so much of those deductions as fall within subsection (7).
- (5) Amount B is—

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- (a) £50,000, or
  - (b) if more, 25% of the taxpayer's adjusted total income for the tax year (see subsection (8)).
- (6) The reliefs are—
- (a) relief under section 64 (trade loss relief against general income);
  - (b) relief under section 72 (early trade losses relief);
  - (c) relief under section 96 (post-cessation trade relief);
  - (d) relief under section 120 (property loss relief against general income);
  - (e) relief under section 125 (post-cessation property relief);
  - (f) relief under section 128 (employment loss relief against general income);
  - (g) relief under Chapter 6 of Part 4 (share loss relief);
  - (h) relief under Chapter 1 of Part 8 (interest payments);
  - (i) relief under section 555 of ITEPA 2003 (deduction for liabilities relating to former employment);
  - (j) relief under section 446 of ITTOIA 2005 (strips of government securities: relief for losses);
  - (k) relief under section 454(4) of ITTOIA 2005 (listed securities held since 26 March 2003: relief for losses: persons other than trustees).
- (7) The deductions falling within this subsection are—
- (a) deductions for amounts of relief so far as attributable to allowances under Part 3A of CAA 2001 (business premises renovation allowances);
  - (b) deductions for amounts of relief under a provision mentioned in subsection (6) (a) to (e) so far as made from profits of the trade or business to which the relief in question relates;
  - (c) deductions for amounts of relief under the provision mentioned in subsection (6)(a) or (b) so far as attributable to a deduction allowed under section 205 or 220 of ITTOIA 2005 (deduction for overlap profit in final tax year or on change of accounting date);
  - (d) deductions for amounts of relief under the provision mentioned in subsection (6)(g)—
    - (i) where the shares in question fall within section 131(2)(a) (qualifying shares to which EIS relief is attributable), or
    - (ii) where SEIS relief is attributable to the shares in question as determined in accordance with Part 5A (seed enterprise investment scheme)<sup>F159</sup>, or
    - (iii) where SI relief is attributable to the shares in question as determined in accordance with Part 5B (income tax relief for social investments).]
- (8) The taxpayer's "adjusted total income" for the tax year is calculated as follows.
- Step 1* Take the amount of the taxpayer's total income for the tax year.
- Step 2* Add back the amounts of any deductions allowed under Part 12 of ITEPA 2003 (payroll giving) in calculating the taxpayer's income which is charged to tax for the tax year.
- Step 3* If the taxpayer is given relief in accordance with section 192 of FA 2004 (pension schemes: relief at source) in respect of any contribution paid in the tax year under a pension scheme, deduct the gross amount of the contribution. The "gross" amount of a contribution is the amount of the contribution before deduction of tax under section 192(1) of FA 2004.

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*Step 4* If the taxpayer is entitled to a deduction for relief under section 193(4) or 194(1) of FA 2004 (pension schemes: excess relief under net payment arrangements or relief on making a claim) for the tax year, deduct the amount of the excess or contribution (as the case may be). The result is the taxpayer's adjusted total income for the tax year.]

#### Textual Amendments

- F158** S. 24A inserted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 3 para. 1](#) (with [Sch. 3 paras. 4, 5](#))
- F159** S. 24A(7)(d)(iii) and word inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 11 para. 5](#)

#### Modifications etc. (not altering text)

- C27** [S. 24A\(7\)\(c\)](#) applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by [Finance Act 2022 \(c. 3\)](#), [Sch. 1 para. 76\(2\)](#)

## 25 Reliefs and allowances deductible at Steps 2 and 3: supplementary

- (1) This section supplements the provisions about reliefs and allowances in Steps 2 and 3 of the calculation in section 23.
- (2) At Steps 2 and 3, deduct the reliefs and allowances in the way which will result in the greatest reduction in the taxpayer's liability to income tax.
- (3) Subsection (2) is subject to—
  - section 65(2) to (4) (priority rule in relation to trade loss relief against general income),
  - section 80(2) (ring fence income),
  - section 83(3) and (4) (carry-forward trade loss relief against trade profits),
  - section 89(3) (terminal trade loss relief against trade profits),
  - section 93(2) (terminal trade loss relief and mineral extraction trade),
  - section 95(2) (foreign trades etc reliefs only against qualifying foreign income),
  - section 115(2) (restrictions on reliefs for firms exploiting films),
  - section 118(3) and (4) (carry-forward property loss relief against property business profits),
  - section 121(2) and (3) (priority rule in relation to property loss relief against general income),
  - section 129(2) to (4) (priority rule in relation to employment loss relief against general income),
  - section 133(4) (share loss relief against general income),
  - section 152(4) and (7) (loss relief against miscellaneous income),
  - [<sup>F160</sup>sections 412A(4), 412B(3) and 412C(3) (relief for irrecoverable peer-to-peer loans only against interest on certain loans),]
  - sections 574(3) to (8) and 575 (manufactured dividends on UK shares: restrictions on deductions),
  - section 579(2) to (5) and 580 (manufactured interest on UK securities: restrictions on deductions),
  - section 258 of CAA 2001 (special leasing of plant or machinery),

<sup>F161</sup>  
...

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section 479 of that Act (persons having qualifying non-trade expenditure), section 601 of ITTOIA 2005 (how relief for patent expenses is given), and any other provision of the Income Tax Acts under which reliefs or allowances deductible at Step 2 or 3 are not permitted to be deducted from particular components of income or are required to be deducted from particular components of income or in a different order.

- (4) A relief or allowance may be deducted at Step 2 or 3 only so far as there is sufficient income from which to deduct it.
- (5) In deciding whether there is sufficient income from which to deduct a relief or allowance, reliefs and allowances already deducted at Step 2 or 3 must be taken into account.
- (6) Nothing in Step 2 or 3 is to be read as permitting a relief or allowance to be deducted more than once.

#### Textual Amendments

**F160** Words in s. 25(3) inserted (15.9.2016) by [Finance Act 2016 \(c. 24\), s. 32\(4\)](#)

**F161** S. 25(3) entry omitted (21.7.2008 with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 27 para. 27\(3\)](#)

#### Modifications etc. (not altering text)

**C28** S. 25(2) modified (21.7.2009) by [Finance Act 2009 \(c. 10\), Sch. 6 para. 1\(6\)](#)

**C29** S. 25(2) excluded by 2005 c. 5, s. 535(8) (as inserted (with effect in relation to the tax year 2019-20 and subsequent tax years) by [Finance Act 2020 \(c. 14\), s. 37\(2\)\(5\)](#) (with s. 37(6)))

**C30** S. 25(2) modified (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 2 para. 1\(6\)](#) (with Sch. 2 para. 3(2)(3))

**C31** S. 25(2) modified (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 2 para. 2\(6\)](#) (with Sch. 2 para. 3(2)(3))

## 26 Tax reductions

- (1) If the taxpayer is an individual, the provisions referred to at Step 6 of the calculation in section 23 are—

- (a) the following—

Chapter 3 of Part 3 of this Act <sup>F162</sup>... (tax reductions for married couples and civil partners),

[<sup>F163</sup>Chapter 3A of Part 3 of this Act (transferable tax allowance for married couples and civil partners),]

Chapter 1 of Part 5 (EIS relief),

[<sup>F164</sup>Chapter 1 of Part 5A (SEIS relief),]

[<sup>F165</sup>Chapter 1 of Part 5B (relief for social investments),]

Chapter 2 of Part 6 (VCT relief),

Chapter 1 of Part 7 (community investment tax relief),

[<sup>F166</sup>section 399B (relief for non-deductible interest on loan to invest in partnership with residential property business),]

[<sup>F167</sup>section 414A(3) (gift aid where devolved basic rate is above basic rate),]

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- section 453 (qualifying maintenance payments),  
<sup>F168</sup> .....
- section 461 (spreading of patent royalty receipts),  
 section 353(1A) of ICTA (relief for interest on loan to buy life annuity),  
<sup>F169</sup>section 192A of FA 2004 (relief at source: additional relief),]  
<sup>F170</sup>section 274A of ITTOIA 2005 (property business: relief for non-  
 deductible costs of a dwelling-related loan),]  
 section 535 of ITTOIA 2005 (top slicing relief), and  
 section 539 of ITTOIA 2005 (relief for deficiencies), and
- (b) the following—  
<sup>F171</sup> .....
- <sup>F171</sup> .....
- section 401 of ITTOIA 2005 (relief: [<sup>F172</sup>distribution repaying shares or  
 security issued in earlier distribution]), <sup>F173</sup> ...
- sections 677 and 678 of ITTOIA 2005 (relief where foreign estates have  
 borne UK income tax).  
<sup>F174</sup>sections 2 and 6 of TIOPA 2010 (double taxation relief: relief by  
 agreement), and  
 section 18(1)(b) and (2) of TIOPA 2010 (relief for foreign tax where no  
 double taxation arrangements).]
- (2) In any other case, the provisions referred to at Step 6 of the calculation in section 23  
 are—
- (a) the provisions listed in subsection (1)(b),
- <sup>F175</sup>(aa) section 274B of ITTOIA 2005 (trusts with accumulated or discretionary  
 income derived from property business: relief for non-deductible costs of  
 dwelling-related loans),] and
- (b) section 26 of FA 2005 (trusts with vulnerable beneficiary: income tax relief).

### Textual Amendments

- F162** Words in s. 26(1)(a) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 1 para. 6\(o\)\(ii\)](#)
- F163** Words in s. 26(1)(a) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [s. 11\(3\)](#)
- F164** S. 26(1)(a) entry inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 8](#)
- F165** Words in s. 26(1)(a) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 11 para. 6](#)
- F166** Words in s. 26(1)(a) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [s. 24\(8\)\(a\)](#)
- F167** Words in s. 26(1)(a) inserted (with effect in accordance with art 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\)](#), [arts. 1\(1\), 12\(3\)](#)
- F168** Words in s. 26(1)(a) omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(a\)](#)
- F169** Words in s. 26(1)(a) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\)](#), [arts. 1\(1\), 5\(2\)](#)
- F170** Words in s. 26(1)(a) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [s. 24\(8\)\(b\)](#)



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- F171** Words in s. 26(1)(b) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 73\(2\), Sch. 10 Pt. 1](#) (with [Sch. 9 paras. 1-9, 22](#))
- F172** Words in s. 26(1)(b) substituted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(2\)](#)
- F173** Word in s. 26(1)(b) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 73\(3\), Sch. 10 Pt. 1](#) (with [Sch. 9 paras. 1-9, 22](#))
- F174** Words in s. 26(1)(b) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 73\(4\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F175** S. 26(2)(aa) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 24\(9\)](#)

## 27 Order of deducting tax reductions: individuals

- (1) This section makes provision about the order in which tax reductions are to be deducted at Step 6 of the calculation in section 23, if the taxpayer is an individual.
- (2) Deduct the tax reductions in the order which will result in the greatest reduction in the taxpayer's liability to income tax for the tax year.
- (3) Subsection (2) is subject to subsections (4) to (6).
- (4) If the taxpayer is entitled to tax reductions for the tax year under more than one of the provisions listed in subsection (5), a tax reduction under a provision mentioned earlier in the list must be deducted before a tax reduction under a provision mentioned later in the list.
- (5) The provisions are—
  - Chapter 2 of Part 6 (VCT relief),
  - Chapter 1 of Part 5 (EIS relief),
  - [<sup>F176</sup>Chapter 1 of Part 5A (SEIS relief),]
  - [<sup>F177</sup>Chapter 1 of Part 5B (relief for social investments),]
  - Chapter 1 of Part 7 (community investment tax relief),
  - section 353(1A) of ICTA (relief for interest on loan to buy life annuity),
  - section 453 (qualifying maintenance payments),
  - <sup>F178</sup> .....
  - Chapter 3 of Part 3 of this Act <sup>F179</sup>... (tax reductions for married couples and civil partners).
- (6) If the taxpayer is entitled to a tax reduction under—
  - (a) [<sup>F180</sup>sections 2 and 6 of TIOPA 2010] (double taxation arrangements: relief by agreement), or
  - (b) [<sup>F181</sup>section 18(1)(b) and (2) of TIOPA 2010] (relief for foreign tax where no double taxation arrangements),that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year.

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### Textual Amendments

- F176** Words in s. 27(5) inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 6 para. 9**
- F177** Words in s. 27(5) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), **Sch. 11 para. 7**
- F178** Words in s. 27(5) omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 39 para. 32(2)(a)**
- F179** Words in s. 27(5) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), **Sch. 1 para. 6(o)(ii)**
- F180** Words in s. 27(6)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 74(a)** (with Sch. 9 paras. 1-9, 22)
- F181** Words in s. 27(6)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 74(b)** (with Sch. 9 paras. 1-9, 22)

## 28 Order of deducting tax reductions: other persons

- (1) This section makes provision about the order in which tax reductions are to be deducted at Step 6 of the calculation in section 23, if the taxpayer is a person other than an individual.
- (2) Deduct the tax reductions in the order which will result in the greatest reduction in the taxpayer's liability to income tax for the tax year.
- (3) Subsection (2) is subject to subsections (4) and (5).
- (4) If the taxpayer is entitled to a tax reduction under—
  - (a) [<sup>F182</sup>sections 2 and 6 of TIOPA 2010] (double taxation arrangements: relief by agreement), or
  - (b) [<sup>F183</sup>section 18(1)(b) and (2) of TIOPA 2010] (relief for foreign tax where no double taxation arrangements),
 that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year, subject to subsection (5).
- (5) If the taxpayer is a trustee and is entitled to a tax reduction under section 26 of FA 2005 (trusts with vulnerable beneficiary: income tax relief) that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year.

### Textual Amendments

- F182** Words in s. 28(4)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 75(a)** (with Sch. 9 paras. 1-9, 22)
- F183** Words in s. 28(4)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 75(b)** (with Sch. 9 paras. 1-9, 22)

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## 29 Tax reductions: supplementary

- (1) This section supplements the provisions about tax reductions in Step 6 of the calculation in section 23.
  - (2) A tax reduction may be deducted at Step 6 only so far as there is sufficient tax calculated at Step 5 of the calculation from which to deduct it.
  - (3) In deciding whether there is sufficient tax calculated at Step 5 from which to deduct a tax reduction, tax reductions already deducted at Step 6 must be taken into account.
  - (4) Subsections (2) and (3) apply in addition to—
    - (a) [<sup>F184</sup>sections 36(1) to (5) and (7) and 41 of TIOPA 2010] (limits on credit for foreign tax), and
    - (b) any other provision of the Income Tax Acts that limits the amount of a tax reduction.
- [<sup>F185</sup>(4A) If the taxpayer is an individual, the total of the tax reductions within subsection (4B) that are deducted at Step 6 must not be greater than—
- A – B**
- where—
- A is the amount of tax calculated at Step 5, and
- B is the total amount of the tax treated under section 414 (gift aid) as deducted from gifts made by the taxpayer in the tax year.
- (4B) A tax reduction is within this subsection if it is under—
- Chapter 1 of Part 5 (EIS relief),
- [<sup>F186</sup>Chapter 1 of Part 5A (SEIS relief),]
- [<sup>F187</sup>Chapter 1 of Part 5B (relief for social investments),]
- Chapter 2 of Part 6 (VCT relief), or
- Chapter 1 of Part 7 (community investment tax relief).
- (4C) Subsection (4A) applies in addition to subsections (2) and (3).]
- (5) For the purposes of this Chapter, a person is treated as being entitled to a tax reduction under [<sup>F188</sup>sections 2 and 6 of TIOPA 2010] if the person is entitled to credit against income tax under double taxation arrangements.

### Textual Amendments

- F184** Words in s. 29(4)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 76\(2\)](#) (with Sch. 9 paras. 1-9, 22)
- F185** S. 29(4A)-(4C) inserted (retrospective with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\), art. 4\(2\)\(b\)](#)
- F186** Words in s. 29(4B) inserted (with effect in accordance with s. 56(5) of the amending Act) by [Finance Act 2013 \(c. 29\), s. 56\(2\)](#)
- F187** Words in s. 29(4B) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\), Sch. 11 para. 8](#)
- F188** Words in s. 29(5) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 76\(3\)](#) (with Sch. 9 paras. 1-9, 22)

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### 30 Additional tax

(1) If the taxpayer is an individual, the provisions referred to at Step 7 of the calculation in section 23 are—

[<sup>F189</sup>section 414A(4) read with section 414A(5) (gift aid where devolved basic rate is below basic rate),]

section 424 (gift aid: charge to tax),

[<sup>F190</sup>section 809ZN (tainted gift aid donations: charge to tax),]

[<sup>F190</sup>section 809ZO (tainted charity donations by trustees: charge to tax),]

[<sup>F191</sup>Chapter 8 of Part 10 of ITEPA 2003 (high income child benefit charge),]

[<sup>F192</sup>section 192B of FA 2004 (relief at source: excessive relief given),]

section 205 of FA 2004 (pension schemes: the short service refund lump sum charge),

<sup>F193</sup> ...

section 206 of FA 2004 (pension schemes: the special lump sum death benefits charge),

[<sup>F194</sup>section 208] of FA 2004 (pension schemes: the unauthorised payments charge),

[<sup>F195</sup>section 209] of FA 2004 (pension schemes: the unauthorised payments surcharge),

section 214 of FA 2004 (pension schemes: the lifetime allowance charge),

section 227 of FA 2004 (pension schemes: the annual allowance charge), and

[<sup>F196</sup>section 244A of FA 2004 (pension schemes: the overseas transfer charge),]

section 7 of F(No.2)A 2005 (social security pension lump sum).

[<sup>F197</sup>(2) If the taxpayer is a trustee, the provisions referred to at Step 7 of the calculation in section 23 are—

section 496 (discretionary payments by trustees: tax pool adjustment),

section 809ZN (tainted gift aid donations: charge to tax), and

section 809ZO (tainted charity donations by trustees: charge to tax).]

#### Textual Amendments

**F189** Words in s. 30(1) inserted (with effect in accordance with art 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\)](#), arts. 1(1), **12(4)**

**F190** Words in s. 30(1) inserted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 3 para. 8(a)**

**F191** Words in s. 30(1) inserted (17.7.2012) (with effect in accordance with Sch. 1 para. 7 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 1 para. 6(3)**

**F192** Words in s. 30(1) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\)](#), arts. 1(1), **5(3)**

**F193** Words in s. 30(1) omitted (with effect in accordance with Sch. 5 para. 4 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 5 para. 3(2)**

**F194** Words in s. 30(1) substituted (with effect in accordance with s. 99(2) of the amending Act) by [Finance Act 2022 \(c. 3\)](#), **s. 99(1)(a)**

**F195** Words in s. 30(1) substituted (with effect in accordance with s. 99(2) of the amending Act) by [Finance Act 2022 \(c. 3\)](#), **s. 99(1)(b)**

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- F196** Words in s. 30(1) inserted (with effect in accordance with s. 99(2) of the amending Act) by [Finance Act 2022 \(c. 3\), s. 99\(1\)\(c\)](#)
- F197** S. 30(2) substituted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\), Sch. 3 para. 8\(b\)](#)

### 31 Total income: supplementary

- (1) This section applies for the purposes of calculating total income.
- (2) Income from which a deduction in respect of income tax is to be made (or treated as made) at the basic [<sup>F198</sup>rate][<sup>F199</sup>, the Welsh basic rate][<sup>F200</sup>or the Scottish basic rate]<sup>F201</sup> ... in force for a tax year is treated as income of that tax year.
- <sup>F202</sup>(3) .....
- (4) [<sup>F203</sup>Subsection (2) applies] even if all or part of the income, or the dividend or other distribution, accrued or will accrue in a different tax year.
- (5) An assessment that has become final and conclusive for income tax purposes for a tax year is also final and conclusive for the purposes of calculating total income.

#### Textual Amendments

- F198** Word in s. 31(2) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(4\)](#)
- F199** Words in s. 31(2) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1\(1\), 12\(5\)](#)
- F200** Words in s. 31(2) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\), arts. 1\(1\), 14\(2\)](#)
- F201** Words in s. 31(2) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 1 para. 12](#)
- F202** S. 31(3) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(3\)\(a\)](#)
- F203** Words in s. 31(4) substituted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(3\)\(b\)](#)

### 32 Liability not dealt with in the calculation

The liabilities referred to in section 22(2) are income tax liability—

[<sup>F204</sup>under section 74C(5) (non-active traders: withdrawal of relief),]  
under section 79(1) (capital allowances restrictions: withdrawal of relief),  
under section 81(6) (dealings in commodity futures: withdrawal of relief),  
under [<sup>F205</sup>section 103B(5)] (non-active partners: withdrawal of relief),  
under section 235 (withdrawal or reduction of EIS relief),  
[<sup>F206</sup>under section 257G (withdrawal or reduction of SEIS relief),]  
[<sup>F207</sup> under section 257S (withdrawal or reduction of relief for social investments),]  
under sections 266 to 270 (withdrawal or reduction of VCT relief),  
under section 372 (withdrawal or reduction of CITR),

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under section 512 (heritage maintenance settlements: application of property for non-heritage purposes),  
 under Chapter 1 of Part 13 (transactions in securities),  
 under regulations made under section 918(4) (foreign payers of manufactured dividends: Real Estate Investment Trusts: the reverse charge),  
 under section 920 or 923 (foreign payers of manufactured interest or manufactured overseas dividends: the reverse charge),  
 under Chapter 15, 16 or 17 of Part 15 (deduction of tax at source: collection mechanisms),  
 F208  
 .....  
 under paragraph 11(3) of Schedule 20 to FA 1994 (recovery of excess credit for overseas tax: changes for facilitating self-assessment),  
 of the person who is (or persons who are) the responsible person in relation to an employer-financed retirement benefits scheme under section 394(2) of ITEPA 2003,  
 under Chapter 5 of Part 4 of FA 2004 (registered pension schemes: tax charges), except any liability under a provision mentioned in section 30(1),<sup>F209</sup> ...  
 under section 682(4) of ITTOIA 2005 (assessments, adjustments and claims after the administration period), so far as the liability represents a tax reduction given effect at Step 6 of the calculation in section 23<sup>F210</sup>, and  
 under section 24(4) of TIOPA 2010 (recovery of excess credit for overseas tax).]

#### Textual Amendments

- F204** Words in s. 32 inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 21 para. 3**
- F205** Words in s. 32 substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), **Sch. 4 paras. 5, 21**
- F206** Words in s. 32 inserted (with effect in accordance with s. 56(5) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **s. 56(3)**
- F207** Words in s. 32 inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), **Sch. 11 para. 9**
- F208** Words in s. 32 repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 77(2)**, **Sch. 10 Pt. 1** (with Sch. 9 paras. 1-9, 22)
- F209** Word in s. 32 repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 77(3)**, **Sch. 10 Pt. 1** (with Sch. 9 paras. 1-9, 22)
- F210** Words in s. 32 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 77(4)** (with Sch. 9 paras. 1-9, 22)

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## PART 3

### PERSONAL RELIEFS

#### CHAPTER 1

##### INTRODUCTION

### 33 Overview of Part

- (1) This Part provides for personal reliefs.
- (2) Chapter 2 provides for entitlement to a personal allowance and a blind person's allowance.
- (3) Chapter 3 provides for tax reductions for married couples and civil partners [<sup>F211</sup>where a party to the marriage or civil partnership is born before 6 April 1935].
- [<sup>F212</sup>(3A) Chapter 3A provides for a transferable tax allowance for married couples and civil partners.]
- (4) Chapter 4 contains provision applicable for the purposes of Chapters 2 [<sup>F213</sup>, 3 and 3A], in particular—
  - (a) requirements about residence etc of claimants to allowances under Chapter 2 or tax reductions under Chapter 3 [<sup>F214</sup>or 3A], and
  - (b) indexation of the amounts of [<sup>F215</sup>the allowances under Chapter 2 and tax reductions under Chapter 3].

#### Textual Amendments

- F211** Words in s. 33(3) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(5\)\(a\)](#)
- F212** S. 33(3A) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(5\)\(b\)](#)
- F213** Words in s. 33(4) substituted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(5\)\(c\)](#)
- F214** Words in s. 33(4)(a) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(5\)\(d\)](#)
- F215** Words in s. 33(4)(b) substituted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(5\)\(e\)](#)

## CHAPTER 2

### PERSONAL ALLOWANCE AND BLIND PERSON'S ALLOWANCE

#### *Introduction*

### 34 Allowances under Chapter

- (1) In this Chapter—

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- (a) [<sup>F216</sup>section 35 deals] with entitlement to a personal allowance,
  - (b) section 38 deals with entitlement to a blind person's allowance, and
  - (c) section 39 deals with the transfer of part of a blind person's allowance to a spouse or civil partner.
- (2) An allowance under this Chapter is given effect at Step 3 of the calculation in section 23.
- [<sup>F217</sup>(3) For the effect of section 809B (claim for remittance basis to apply) applying to an individual for a tax year, see section 809G (no entitlement to personal allowance or blind person's allowance).]

#### Textual Amendments

- F216** Words in s. 34(1)(a) substituted (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 5\(3\)](#)
- F217** S. 34(3) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 7 para. 76](#)

### *Personal allowances*

#### 35 [<sup>F218</sup>Personal allowance]

- [<sup>F219</sup>(1)] An individual who makes a claim is entitled to a personal allowance of [<sup>F220</sup>£12,570] for a tax year if the individual [<sup>F221</sup>meets the requirements of section 56 (residence etc).]
- [<sup>F222</sup>(2) For an individual whose adjusted net income exceeds £100,000, the allowance under subsection (1) is reduced by one-half of the excess.
- (3) If the amount of any allowance that remains after the operation of subsection (2) would otherwise not be a multiple of £1, it is to be rounded up to the nearest amount which is a multiple of £1.
- (4) For the meaning of “adjusted net income” see section 58.]

#### Textual Amendments

- F218** S. 35 heading substituted (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 5\(4\)\(b\)](#)
- F219** S. 35(1) renumbered (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 4\(1\)](#)
- F220** Sum in s. 35(1) specified (1.2.2021 with effect for the tax year 2021-22) by [The Income Tax \(Indexation\) Order 2021 \(S.I. 2021/111\), art. 3\(a\)](#)
- F221** Words in s. 35 substituted for s. 35(a)(b) (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 5\(4\)\(a\)](#)
- F222** S. 35(2)-(4) inserted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 4\(1\)](#)

#### Modifications etc. (not altering text)

- C32** S. 35(1): sum specified (for the tax years 2022-23, 2023-24, 2024-25 and 2025-26) by [Finance Act 2021 \(c. 26\), s. 5\(2\)](#)



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**<sup>F224</sup>36 Personal allowance for those [<sup>F223</sup>born after 5 April 1938 but before 6 April 1948]**

**Textual Amendments**

**F223** Words in s. 36 heading substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(3\)\(d\)](#)

**F224** S. 36 omitted (with effect in accordance with s. 2(9) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\), s. 2\(5\)](#)

**37 Personal allowance for those [<sup>F225</sup>born before 6 April 1938]**

<sup>F226</sup><sup>F227</sup>(1) An individual who makes a claim is entitled to a personal allowance of £10,660, or (if greater) the section 35 amount, for a tax year if the individual—

- (a) was born before 6 April 1938, and
- (b) meets the requirements of section 56 (residence etc).]

(2) [<sup>F228</sup>If the allowance under subsection (1) is greater than the section 35 amount, for] an individual whose adjusted net income for the tax year exceeds [<sup>F229</sup>£27,700], the allowance under subsection (1)—

- (a) is reduced by [<sup>F230</sup>an amount equal to half of that excess income], but
- (b) is not reduced below [<sup>F231</sup>the [<sup>F232</sup>section 35 amount].]

<sup>F233</sup>(2A) In this section “the section 35 amount” means the amount of any allowance to which the individual would be entitled under section 35 for the tax year if the individual had been born after 5 April 1948.]

(3) For the meaning of “adjusted net income” see section 58.]

**Textual Amendments**

**F225** Words in s. 37 heading substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(d\)](#)

**F226** S. 37 omitted (26.3.2015 for the tax year 2016-17 and subsequent tax years) by virtue of [Finance Act 2015 \(c. 11\), s. 5\(5\)\(11\)](#)

**F227** S. 37(1) substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(a\)](#)

**F228** Words in s. 37(2) substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(b\)\(i\)](#)

**F229** Sum in s. 37(2) substituted (26.3.2015 for the tax year 2015-16) by [Finance Act 2015 \(c. 11\), s. 2\(1\)\(a\)](#)

**F230** Words in s. 37(2)(a) substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(b\)\(ii\)](#)

**F231** Words in s. 37(2)(b) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 4\(2\)](#)

**F232** Words in s. 37(2)(b) substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(b\)\(iii\)](#)

**F233** S. 37(2A) inserted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(4\)\(c\)](#)

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### *Blind person's allowance*

## 38 Blind person's allowance

- (1) An individual who makes a claim is entitled to a blind person's allowance of [<sup>F234</sup>£3,070 ] for a tax year if the individual—
- (a) meets the first or second condition for the whole or part of the tax year, and
  - (b) meets the requirements of section 56 (residence etc).
- (2) The first condition is that the individual is—
- (a) registered as a severely sight-impaired adult in a register kept under section 77(1) of the Care Act 2014 (registers kept by local authorities in England), or
  - [<sup>F235</sup>(b) registered as a severely sight-impaired adult in a register kept under section 18(1) of the Social Services and Well-being (Wales) Act 2014 (registers kept by local authorities in Wales).]
- (3) The second condition is that—
- (a) the individual is ordinarily resident in Scotland or Northern Ireland, and
  - (b) because of the individual's blindness, the individual is unable to do any work for which eyesight is essential.
- (4) If an individual who is entitled to a blind person's allowance for a particular tax year—
- (a) became registered [<sup>F236</sup>as a blind person in a register kept under section 29 of the National Assistance Act 1948 or] as a severely sight-impaired person in a register kept under section 77(1) of the Care Act 2014 [<sup>F237</sup>or section 18(1) of the Social Services and Well-being (Wales) Act 2014] in the tax year, but
  - (b) obtained the evidence [<sup>F238</sup>of blindness or] of severe sight-impairment on the basis of which the registration was made in the preceding tax year,
- the individual is treated as having met the first condition for the whole of the preceding tax year.

#### Textual Amendments

- F234** Sum in s. 38(1) substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person's Allowance and Married Couple's Allowance\) Order 2024 \(S.I. 2024/84\)](#), **reg. 2(a)**
- F235** S. 38(2)(b) substituted (6.4.2016) by [The Social Services and Well-being \(Wales\) Act 2014 \(Consequential Amendments\) Regulations 2016 \(S.I. 2016/413\)](#), regs. 2(1), **256(2)**
- F236** Words in s. 38(4)(a) omitted (E.W.) (6.4.2016) by virtue of [The Social Services and Well-being \(Wales\) Act 2014 \(Consequential Amendments\) Regulations 2016 \(S.I. 2016/413\)](#), regs. 2(1), **256(3)(a)(i)**
- F237** Words in s. 38(4)(a) inserted (E.W.) (6.4.2016) by [The Social Services and Well-being \(Wales\) Act 2014 \(Consequential Amendments\) Regulations 2016 \(S.I. 2016/413\)](#), regs. 2(1), **256(3)(a)(ii)**
- F238** Words in s. 38(4)(b) omitted (E.W.) (6.4.2016) by virtue of [The Social Services and Well-being \(Wales\) Act 2014 \(Consequential Amendments\) Regulations 2016 \(S.I. 2016/413\)](#), regs. 2(1), **256(3)(b)**

## 39 Transfer of part of blind person's allowance to a spouse or civil partner

- (1) This section applies to an individual who is entitled to a blind person's allowance under section 38 for a tax year if—

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- (a) the individual is a person whose spouse or civil partner is living with the individual for the whole or any part of the tax year, and
  - (b) the spouse or civil partner meets the requirements of section 56 (residence etc).
- (2) If—
- (a) the allowance exceeds the individual's remaining relievable income,
  - (b) the individual makes an election, and
  - (c) the individual's spouse or civil partner makes a claim,
- the individual's spouse or civil partner is entitled to an allowance for the tax year equal to the amount of the excess.
- (3) The individual's remaining relievable income is the amount found by—
- (a) taking the amount of the individual's net income, and
  - (b) subtracting any personal allowance to which the individual is entitled for the tax year.

#### **40 Election for transfer of allowance under section 39**

- (1) An election under section 39—
- (a) must be made [<sup>F239</sup>not more than 4 years after the end of] the tax year to which it relates, and
  - (b) cannot be withdrawn.
- (2) If an individual makes an election for a tax year under section 39 the individual is treated as also giving notice under section 51(4) that section 51(1) (tax reductions for married couples and civil partners: transfer of unused relief) is to apply for the tax year.

##### **Textual Amendments**

**F239** Words in s. 40(1)(a) substituted (1.4.2010) by [Finance Act 2008 \(c. 9\), s. 118\(2\), Sch. 39 para. 55](#); [S.I. 2009/403, art. 2\(2\)](#) (with [art. 10](#))

#### *Supplementary*

#### **41 Allowances in year of death**

- (1) Any allowance to which an individual is entitled under this Chapter for any tax year, including the tax year in which the individual dies, is given in full.

<sup>F240</sup>(2) .....

<sup>F241</sup>(3) .....

##### **Textual Amendments**

**F240** S. 41(2) omitted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\), s. 4\(5\)](#)

**F241** S. 41(3) omitted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\), s. 4\(5\)](#)

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## CHAPTER 3

### TAX REDUCTIONS FOR MARRIED COUPLES AND CIVIL PARTNERS<sup>[F242]</sup>: PERSONS BORN BEFORE 6 APRIL 1935

#### Textual Amendments

**F242** Words in Pt. 3 Ch. 3 heading inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(6\)](#)

#### Introduction

#### 42 Tax reductions under Chapter

- (1) This Chapter contains provisions about entitlement to tax reductions in a case where a party to a marriage or civil partnership was born before 6 April 1935.
- (2) Individuals are entitled to tax reductions under the following provisions of this Chapter—
  - (a) section 45 (marriages before 5 December 2005),
  - (b) section 46 (marriages and civil partnerships on or after 5 December 2005),
  - (c) section 47 (election by individual to transfer relief under section 45 or 46),
  - (d) section 48 (joint election to transfer relief under section 45 or 46),
  - (e) section 49 (election for partial transfer back of relief),
  - (f) section 51 (transfer of unused relief), and
  - (g) section 52 (transfer back of unused relief).
- (3) The tax reductions under sections 45 to 49 are subject to section 54 (tax reductions in the year of marriage or entry into civil partnership).
- (4) A tax reduction under this Chapter is given effect at Step 6 of the calculation in section 23.

#### 43 Meaning of “the minimum amount”

In this Chapter “the minimum amount” means <sup>[F243]</sup>£4,280].

#### Textual Amendments

**F243** Sum in s. 43 substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person’s Allowance and Married Couple’s Allowance\) Order 2024 \(S.I. 2024/84\), reg. 2\(b\)](#)

#### <sup>[F244]</sup>43A. Meaning of “relevant conversion”

For the purposes of this Chapter, a civil partnership between two people results from a relevant conversion if—

- (a) the civil partnership results from—
  - (i) the conversion of their marriage into a civil partnership under Part 3 of the Marriage and Civil Partnership (Northern Ireland) (No. 2) Regulations 2020, or

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- (ii) the conversion of their marriage into a civil partnership under Part 4 or 5 of those Regulations, and
- (b) the marriage took place before 5 December 2005.]

#### Textual Amendments

**F244** S. 43A inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(2)**

## 44 Election for new rules to apply

- (1) In this Chapter “an election for the new rules to apply” means an election made by a husband and wife who got married before 5 December 2005 [<sup>F245</sup>, or by the civil partners in a civil partnership which results from a relevant conversion,] for the new rules to apply to them instead of the old rules.
- (2) In subsection (1)—
  - “the new rules” means the rules for relief under section 46 (marriages and civil partnerships on or after 5 December 2005), and
  - “the old rules” means the rules for relief under section 45 (marriages before 5 December 2005).
- (3) An election for the new rules to apply—
  - (a) must be made jointly by the parties to the marriage [<sup>F246</sup>or civil partnership],
  - (b) must be made before the first tax year for which it is to be in force,
  - (c) continues in force in each subsequent tax year, and
  - (d) cannot be withdrawn.

#### Textual Amendments

**F245** Words in s. 44(1) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(3)(a)**

**F246** Words in s. 44(3)(a) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(3)(b)**

### *Married couple's allowance*

## 45 Marriages before 5 December 2005

- (1) If a man—
  - (a) makes a claim for a tax year, and
  - (b) meets the conditions set out in subsection (2) [<sup>F247</sup>or the conditions set out in subsection (2A)],he is entitled to a tax reduction for the tax year of 10% of the amount specified in subsection (3)(a) <sup>F248</sup> ... .
- (2) The conditions are that—
  - (a) for the whole or part of the tax year he is married and his wife is living with him,

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- (b) the marriage took place before 5 December 2005 and no election for the new rules to apply is in force for the tax year,
- (c) he or his wife was born before 6 April 1935, and
- (d) he meets the requirements of section 56 (residence etc).

[<sup>F249</sup>(2A) The conditions are that—

- (a) for the whole or part of the tax year he is in a civil partnership and his female civil partner is living with him,
- (b) the civil partnership results from a relevant conversion and no election for the new rules to apply is in force for the tax year,
- (c) he or his civil partner was born before 6 April 1935, and
- (d) he meets the requirements of section 56 (residence etc).]

(3) The amount is—

- (a) [<sup>F250</sup>£11,080], if either the man or his wife [<sup>F251</sup>or civil partner] is aged 75 or over at some time in the tax year <sup>F252</sup>...

<sup>F252</sup>(b) .....

(4) For a man whose adjusted net income for the tax year exceeds [<sup>F253</sup>£37,000], the amounts specified in subsection (3) are reduced by [<sup>F254</sup>half the excess].

(5) But subsection (4) does not reduce the amounts specified in subsection (3) below the minimum amount.

(6) For the meaning of “adjusted net income” see section 58.

#### Textual Amendments

**F247** Words in s. 45(1)(b) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(4)(a)**

**F248** Words in s. 45(1) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10** Group 1

**F249** S. 45(2A) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(4)(b)**

**F250** Sum in s. 45(3)(a) substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person’s Allowance and Married Couple’s Allowance\) Order 2024 \(S.I. 2024/84\)](#), **reg. 2(e)**

**F251** Words in s. 45(3)(a) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(4)(c)**

**F252** Words in s. 45(3) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10** Group 1

**F253** Sum in s. 45(4) substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person’s Allowance and Married Couple’s Allowance\) Order 2024 \(S.I. 2024/84\)](#), **reg. 2(e)**

**F254** Words in s. 45(4) substituted for s. 45(4)(a)(b) (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 5(6)**

## 46 Marriages and civil partnerships on or after 5 December 2005

(1) If an individual—

- (a) makes a claim for a tax year, and
- (b) meets the conditions set out in subsection (2),

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the individual is entitled to a tax reduction for the tax year of 10% of the amount specified in subsection (3)(a) <sup>F255</sup>....

(2) The conditions are that—

- (a) for the whole or part of the tax year the individual is married or in a civil partnership and is living with the spouse or civil partner,
- (b) the marriage took place, or the civil partnership was formed, on or after 5 December 2005 or, if the marriage took place before that date [<sup>F256</sup>or if the civil partnership results from a relevant conversion], an election for the new rules to apply is in force for the tax year,
- (c) the individual, or the spouse or civil partner, was born before 6 April 1935,
- (d) the individual meets the requirements of section 56 (residence etc), and
- (e) the individual's net income for the tax year exceeds that of the spouse or civil partner or, if they have the same amount of net income for the tax year, the individual is specified in an election as the person to be entitled to relief under this section for the year.

(3) The amount is—

- (a) [<sup>F257</sup>£11,080], if either the individual, or the spouse or civil partner, is aged 75 or over at some time in the tax year <sup>F258</sup>...

<sup>F258</sup>(b) .....

(4) For an individual whose adjusted net income for the tax year exceeds [<sup>F259</sup>£37,000], the amounts specified in subsection (3) are reduced by [<sup>F260</sup>half the excess].

(5) But subsection (4) does not reduce the amounts specified in subsection (3) below the minimum amount.

(6) An election under subsection (2)(e)—

- (a) is to be made jointly by the parties to the marriage or civil partnership, and
- (b) is to be made [<sup>F261</sup>not more than 4 years after the end of] the tax year to which the election relates.

(7) For the meaning of “adjusted net income” see section 58.

#### Textual Amendments

**F255** Words in s. 46(1) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10** Group 1

**F256** Words in s. 46(2)(b) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(5)**

**F257** Sum in s. 46(3)(a) substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person's Allowance and Married Couple's Allowance\) Order 2024 \(S.I. 2024/84\)](#), **reg. 2(d)**

**F258** Words in s. 46(3) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10** Group 1

**F259** Sum in s. 46(4) substituted (23.1.2024) by [The Income Tax \(Indexation of Blind Person's Allowance and Married Couple's Allowance\) Order 2024 \(S.I. 2024/84\)](#), **reg. 2(e)**

**F260** Words in s. 46(4) substituted for s. 46(4)(a)(b) (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 5(7)**

**F261** Words in s. 46(6)(b) substituted (1.4.2010) by [Finance Act 2008 \(c. 9\)](#), s. 118(2), **Sch. 39 para. 56**; [S.I. 2009/403](#), **art. 2(2)** (with **art. 10**)

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### *Elections to transfer relief*

#### **47 Election by individual to transfer relief under section 45 or 46**

- (1) If—
- (a) an individual's spouse or civil partner is entitled to a tax reduction under section 45 or 46 for a tax year, and
  - (b) the individual meets the conditions set out in subsection (2),
- the individual is entitled to a tax reduction for that tax year of 10% of half the minimum amount.
- (2) The conditions are that the individual—
- (a) has made an election which is in force for the tax year,
  - (b) makes a claim, and
  - (c) meets the requirements of section 56 (residence etc).
- (3) If an individual is entitled to a tax reduction under subsection (1), the tax reduction to which the individual's spouse or civil partner is entitled under section 45 or 46 is calculated for the tax year as if the appropriate amount were reduced by half the minimum amount.
- (4) In subsection (3) “the appropriate amount” means—
- (a) if the individual's spouse [<sup>F262</sup>or civil partner] is entitled to a tax reduction under section 45, the amount specified in section 45(3)(a) <sup>F263</sup>... , after any reductions under section 45(4) and 54(2), or
  - (b) if the individual's spouse or civil partner is entitled to a tax reduction under section 46, the amount specified in section 46(3)(a) <sup>F263</sup>... , after any reductions under sections 46(4) and 54(2).

#### **Textual Amendments**

**F262** Words in s. 47(4)(a) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(6)**

**F263** Words in s. 47(4) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10**  
Group 1

#### **48 Joint election to transfer relief under section 45 or 46**

- (1) If—
- (a) an individual's spouse or civil partner is entitled to a tax reduction under section 45 or 46 for a tax year, and
  - (b) the conditions set out in subsection (2) are met,
- the individual is entitled to a tax reduction for that tax year of 10% of the minimum amount.
- (2) The conditions are that—
- (a) the individual and the individual's spouse or civil partner have made a joint election which is in force for the tax year,
  - (b) the individual makes a claim, and
  - (c) the individual meets the requirements of section 56 (residence etc).



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- (3) If an individual is entitled to a tax reduction under subsection (1), the tax reduction to which the individual's spouse or civil partner is entitled under section 45 or 46 is calculated for the tax year as if the appropriate amount were reduced by the minimum amount.
- (4) In subsection (3) “the appropriate amount” means—
- (a) if the individual's spouse [<sup>F264</sup>or civil partner] is entitled to a tax reduction under section 45, the amount specified in section 45(3)(a) <sup>F265</sup>... , after any reductions under section 45(4) and 54(2), or
  - (b) if the individual's spouse or civil partner is entitled to a tax reduction under section 46, the amount specified in section 46(3)(a) <sup>F265</sup>... , after any reductions under sections 46(4) and 54(2).

#### Textual Amendments

**F264** Words in s. 48(4)(a) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(6)**

**F265** Words in s. 48(4) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\)](#), s. 3(2), **Sch. 1 Pt. 10** Group 1

## 49 Election for partial transfer back of relief

- (1) If an individual whose spouse or civil partner is entitled under section 48(1) to a tax reduction for a tax year—
- (a) has made an election which is in force for the tax year, and
  - (b) makes a claim,
- the individual is entitled to a tax reduction for that tax year of 10% of half the minimum amount (in addition to any tax reduction to which the individual is entitled under section 45 or 46).
- (2) The amount of the tax reduction to which the individual's spouse or civil partner is entitled under section 48(1) for that tax year is 10% of half the minimum amount (instead of 10% of the minimum amount).

## 50 Procedure for making and withdrawing elections under sections 47 to 49

- (1) This section applies to elections under sections 47 to 49.
- (2) An election—
- (a) must, except in the cases dealt with by subsection (3), be made before the first tax year in which it is to be in force, and
  - (b) continues in force in each subsequent tax year until it is withdrawn.
- (3) An election—
- (a) may be made in the first tax year in which it is to be in force if that is the tax year in which the marriage takes place or the civil partnership is formed, and
  - (b) may be made in the first 30 days of the first tax year in which it is to be in force if appropriate notice is given before the tax year.

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- (4) In subsection (3), “appropriate notice” means notice given to an officer of Revenue and Customs by the individual or (in the case of a joint election) individuals concerned that it is intended to make the election.
- (5) An election may be withdrawn only by—
  - (a) a notice given by the individual or individuals by whom the election was made, or
  - (b) a subsequent election under section 47, 48 or 49.
- (6) If an election is withdrawn under subsection (5)(a), the withdrawal does not have effect until the tax year after the one in which the notice is given.
- (7) A notice under subsection (5)(a)—
  - (a) must be given to an officer of Revenue and Customs, and
  - (b) must be in the form specified by the Commissioners for Her Majesty's Revenue and Customs.

### *Transfer of unused relief*

## **51 Transfer of unused relief**

- (1) If—
  - (a) an individual's spouse or civil partner is entitled to a tax reduction under section 45 or 46 for a tax year,
  - (b) the spouse or civil partner's MCA tax reductions are greater than the spouse or civil partner's comparable tax liability, and
  - (c) the conditions set out in subsection (4) are met,
 the individual is entitled to a tax reduction for that tax year equal to the unused part of the spouse or civil partner's MCA tax reductions.
- (2) The spouse or civil partner's MCA tax reductions are the sum of—
  - (a) the tax reduction to which the spouse or civil partner is entitled under section 45 or 46, and
  - (b) any tax reduction under section 49 to which the spouse or civil partner is entitled for the tax year.
- (3) The unused part of the spouse or civil partner's MCA tax reductions is equal to—
  - (a) the spouse or civil partner's MCA tax reductions, less
  - (b) the spouse or civil partner's comparable tax liability.
- (4) The conditions are that—
  - (a) the spouse or civil partner gives notice to an officer of Revenue and Customs that subsection (1) is to apply for the tax year,
  - (b) the individual makes a claim, and
  - (c) the individual meets the requirements of section 56 (residence etc).
- (5) The tax reduction to which the individual is entitled under subsection (1) is in addition to any tax reduction to which the individual is entitled under section 47 or 48.
- (6) The meaning of “comparable tax liability” is given in section 53.

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## 52 Transfer back of unused relief

- (1) If—
- (a) an individual's spouse or civil partner is entitled to a tax reduction under section 47 or 48 for a tax year,
  - (b) the tax reduction is greater than the spouse or civil partner's comparable tax liability, and
  - (c) the conditions set out in subsection (3) are met,
- the individual is entitled to a tax reduction for that tax year equal to the unused part of the spouse or civil partner's tax reduction.
- (2) The unused part of the spouse or civil partner's tax reduction is equal to—
- (a) the tax reduction to which the spouse or civil partner is entitled, less
  - (b) the spouse or civil partner's comparable tax liability.
- (3) The conditions are that—
- (a) the spouse or civil partner gives notice to an officer of Revenue and Customs that subsection (1) is to apply for the tax year, and
  - (b) the individual makes a claim.
- (4) The tax reduction to which the individual is entitled under subsection (1) is in addition to any tax reduction to which the individual is entitled under section 45, 46 or 49.
- (5) The meaning of “comparable tax liability” is given in section 53.

## 53 Transfer of unused relief: general

- (1) For the purposes of sections 51 and 52, the comparable tax liability of an individual is the amount of the individual's tax left after Step 6 of the calculation in section 23 for the tax year, making that calculation with the modifications set out in subsections (2) and (3).
- (2) In making that calculation, do not deduct any tax reduction under—
- (a) [<sup>F266</sup>sections 2 and 6 of TIOPA 2010] (double taxation arrangements: relief by agreement), or
  - (b) [<sup>F267</sup>section 18(1)(b) and (2) of TIOPA 2010] (relief for foreign tax where there are no double taxation arrangements).
- (3) If the individual's entitlement to a tax reduction under this Chapter is extinguished under section 423(4) (gift aid: restriction of reliefs) to any extent, deduct from the amount calculated in accordance with subsections (1) and (2) the amount by which the tax reduction is reduced.
- (4) A notice under section 51 or 52—
- (a) must be given [<sup>F268</sup>not more than 4 years after the end of] the tax year to which it relates,
  - (b) must be in the form specified by the Commissioners for Her Majesty's Revenue and Customs, and
  - (c) cannot be withdrawn.
- (5) For the purposes of this section a person is treated as being entitled to a tax reduction under [<sup>F269</sup>sections 2 and 6 of TIOPA 2010] if the person is entitled to credit against income tax under double taxation arrangements.

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### Textual Amendments

- F266** Words in s. 53(2)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 78\(2\)\(a\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F267** Words in s. 53(2)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 78\(2\)\(b\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F268** Words in s. 53(4)(a) substituted (1.4.2010) by [Finance Act 2008 \(c. 9\), s. 118\(2\), Sch. 39 para. 57; S.I. 2009/403, art. 2\(2\)](#) (with [art. 10](#))
- F269** Words in s. 53(5) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 78\(3\)](#) (with [Sch. 9 paras. 1-9, 22](#))

### Supplementary

## 54 Tax reductions in the year of marriage or entry into civil partnership

- (1) Subsection (2) applies if an individual—
  - (a) gets married or enters into a civil partnership in a tax year, and
  - (b) claims a tax reduction under section 45 or 46 for that tax year.
- (2) In calculating the amount of the tax reduction (if any) to which the individual is entitled under that section, the amounts specified in section 45(3) or 46(3) (as applicable) are reduced by one twelfth for each month of the tax year which is a month ending before the date on which—
  - (a) the marriage took place, or
  - (b) the civil partnership was formed.
- (3) The reference in subsection (2) to the amounts specified in section 45(3) or 46(3) is to those amounts after any reduction under section 45(4) or 46(4).
- (4) But if—
  - (a) the individual has previously been married or in a civil partnership in the same tax year, and
  - (b) the conditions in section 45(2) [<sup>F270</sup>or (2A)] or 46(2) are met in relation to the earlier marriage or civil partnership,
 subsection (2) applies only if the claim is in respect of the later marriage or civil partnership.
- (5) If a claim under section 47, 48 or 49 is for the tax year in which the marriage takes place, or the civil partnership is formed, the references in those sections to the minimum amount are to be read as references to the minimum amount reduced by one twelfth for each month of the tax year which is a month ending before the date on which—
  - (a) the marriage took place, or
  - (b) the civil partnership was formed.
- (6) In this section, “month” means a period beginning with the sixth day of a calendar month and ending with the fifth day of the next calendar month.

*Status: Point in time view as at 22/02/2024.*

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### Textual Amendments

**F270** Words in s. 54(4)(b) inserted (7.12.2020) by [The Marriage and Civil Partnership \(Northern Ireland\) \(No. 2\) Regulations 2020 \(S.I. 2020/1143\)](#), regs. 1(2), **45(7)**

## 55 Sections 45 to 53: supplementary

- (1) An individual is not entitled to more than one tax reduction under sections 45 to 48 for a tax year (regardless of whether the individual is a party to more than one marriage or civil partnership in the tax year).
- (2) For the purposes of sections 45 and 46 an individual is treated as having reached the age of 75 in a tax year if the individual was due to reach the age of 75 in the tax year, but dies in the tax year before reaching that age.
- (3) Unless this Chapter provides otherwise, a tax reduction to which an individual is entitled under this Chapter for a tax year, including the tax year in which the individual dies, is given in full.

## [<sup>F271</sup>CHAPTER 3A

### TRANSFERABLE TAX ALLOWANCE FOR MARRIED COUPLES AND CIVIL PARTNERS

### Textual Amendments

**F271** Pt. 3 Ch. 3A inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), s. **11(2)**

### *Introduction*

#### 55A Tax reduction under Chapter

- (1) This Chapter contains provisions about the entitlement of a spouse or civil partner to a tax reduction in a case where the other party to the marriage or civil partnership has elected for a reduced personal allowance.
- (2) A tax reduction under this Chapter is given effect at Step 6 of the calculation in section 23.
- (3) For the effect of section 809B (claim for remittance basis to apply) applying to an individual for a tax year, see section 809G (no entitlement to tax reduction).

### *Tax reduction*

#### 55B Tax reduction: entitlement

- (1) An individual is entitled to a tax reduction for a tax year of the appropriate percentage of the transferable amount if the conditions in subsection (2) are met.
- (2) The conditions are that—

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- [<sup>F272</sup>(a) the individual is the gaining party (see section 55C(1)(a)) in the case of an election under section 55C which is in force for the tax year,]
- (b) the individual is not, for the tax year, liable to tax at a rate other than the basic rate, [<sup>F273</sup>the default basic rate, the savings basic rate,]<sup>F274</sup>the dividend nil rate,]<sup>F275</sup>the Scottish basic rate,]<sup>F276</sup>a Scottish rate below the Scottish basic rate, the Scottish intermediate rate,]<sup>F277</sup>the Welsh basic rate,] the dividend ordinary rate [<sup>F278</sup>, the savings nil rate] or the starting rate for savings,
- [<sup>F279</sup>(ba) if for the tax year the individual is liable to tax at the dividend nil rate, the individual would for that year neither be liable to tax at the dividend upper rate, nor be liable to tax at the dividend additional rate, if section 13A (dividend nil rate) were omitted,]
- (c) the individual meets the requirements of section 56 (residence) for the tax year, and
- (d) neither the individual nor the [<sup>F280</sup>relinquishing] spouse or civil partner makes a claim for the tax year under section 45 (married couple's allowance: marriages before 5 December 2005) or section 46 (married couple's allowance: marriages and civil partnerships on or after 5 December 2005).
- (3) “The appropriate percentage” is the basic rate [<sup>F281</sup>or default basic rate]<sup>F282</sup>or, in the case of a Scottish taxpayer [<sup>F283</sup>or Welsh taxpayer], the Scottish basic rate]<sup>F284</sup>or Welsh basic rate] at which the individual would be charged to income tax for the tax year to which the reduction relates.
- (4) “The transferable amount”—
- (a) for the tax year 2015-16, is [<sup>F285</sup>£1,060], and
- (b) for the tax year 2016-17 and subsequent tax years, is 10% of the amount of personal allowance specified in section 35(1) for the tax year to which the reduction relates.
- (5) If the transferable amount calculated in accordance with subsection (4)(b) would otherwise not be a multiple of £10, it is to be rounded up to the nearest amount which is a multiple of £10.
- [ In this section “the relinquishing spouse or civil partner”, in relation to an election <sup>F286</sup>(5A) under section 55C, means the individual mentioned in section 55C(1)(a) by whom, or by whose personal representatives, the election is made.]
- (6) If an individual is entitled to a tax reduction under subsection (1) [<sup>F287</sup>by reference to an election under section 55C], the personal allowance to which the [<sup>F288</sup>relinquishing] spouse or civil partner is entitled under section 35 <sup>F289</sup>... is reduced for the tax year by the transferable amount.
- (7) If an individual who is entitled to a tax reduction for a tax year under subsection (1) dies during that tax year, subsection (6) is to be ignored (but this does not affect the individual's entitlement to the tax reduction).

#### Textual Amendments

**F272** S. 55B(2)(a) substituted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [s. 6\(3\)\(a\)\(12\)\(a\)](#)

**F273** Words in s. 55B(2)(b) inserted (30.11.2016) (with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(15\)\(a\)\(24\)](#); [S.I. 2016/1161](#), [regs. 2, 3](#)

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- F274** Words in s. 55B(2)(b) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(6\)\(a\)\(10\)](#)
- F275** Words in s. 55B(2)(b) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\), arts. 1\(1\), 14\(3\)\(a\)](#)
- F276** Words in s. 55B(2)(b) inserted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\), arts. 1\(2\), 6\(2\)](#)
- F277** Words in s. 55B(2)(b) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1, 12\(6\)\(a\)](#)
- F278** Words in s. 55B(2)(b) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(8\)\(17\)](#)
- F279** S. 55B(2)(ba) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 5\(6\)\(b\)\(10\)](#)
- F280** Word in s. 55B(2)(d) substituted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(3\)\(b\)\(12\)\(a\)](#)
- F281** Words in s. 55B(3) inserted (30.11.2016) (with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(15\)\(b\)\(24\)](#); [S.I. 2016/1161, regs. 2, 3](#)
- F282** Words in s. 55B(3) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\), arts. 1\(1\), 14\(3\)\(b\)](#)
- F283** Words in s. 55B(3) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1, 12\(6\)\(b\)\(i\)](#)
- F284** Words in s. 55B(3) inserted (with effect in accordance with art. 1(2) of the amending S.I.) [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1, 12\(6\)\(b\)\(ii\)](#)
- F285** Sum in s. 55B(4)(a) substituted (with effect in accordance with s. 3(5) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 3\(4\)](#)
- F286** S. 55B(5A) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(4\)\(12\)\(a\)](#)
- F287** Words in s. 55B(6) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(5\)\(a\)\(12\)\(a\)](#)
- F288** Word in s. 55B(6) substituted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(5\)\(b\)\(12\)\(a\)](#)
- F289** Words in s. 55B(6) omitted (with effect in accordance with s. 5(11) of the amending Act) by virtue of [Finance Act 2015 \(c. 11\), s. 5\(8\)](#)

### *Election to reduce personal allowance*

#### **55C Election to reduce personal allowance**

- (1) An individual may make an election for the purposes of section 55B if—
- (a) the individual is married to, or in a civil partnership with, the same person <sup>F290</sup> (“the gaining party”) —
    - (i) for the whole or part of the tax year concerned, and
    - (ii) when the election is made <sup>F291</sup> or, where the election is made after the death of one or each of them, when they were last both living],
  - (b) the individual is entitled to a personal allowance under section 35 <sup>F292</sup> ... for that tax year,

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- (c) assuming the individual's personal allowance was reduced as set out in section 55B(6), the individual would not for that year be liable to tax at a rate other than the basic rate, <sup>F293</sup>the default basic rate, the savings basic rate, <sup>F294</sup>the dividend nil rate, <sup>F295</sup>the Scottish basic rate, <sup>F296</sup>a Scottish rate below the Scottish basic rate, the Scottish intermediate rate, <sup>F297</sup>the Welsh basic rate, the dividend ordinary rate <sup>F298</sup>, the savings nil rate] or the starting rate for savings,
- <sup>F299</sup>(ca) [ where on that assumption the individual would for the tax year be liable to tax at the dividend nil rate, the individual on that assumption would for that year neither be liable to tax at the dividend upper rate, nor be liable to tax at the dividend additional rate, if section 13A (dividend nil rate) were omitted,] and
- (d) where the individual meets the requirements of section 56 (residence) for the tax year by reason of meeting the condition in subsection (3) of that section, the individual meets the condition in subsection (2) of this section.
- (2) The condition is that the individual's hypothetical net income for the tax year concerned is less than the amount of the personal allowance to which the individual is entitled for that tax year under section 35 <sup>F300</sup>....
- (3) For the purposes of subsection (2), an individual's "hypothetical net income" is the amount that would be that individual's net income calculated at Step 2 of section 23 if that individual's income tax liability were calculated on the basis that the individual—
- was UK resident for the tax year concerned (and the year was not a split year),
  - was domiciled in the United Kingdom for that tax year,
  - in that tax year, did not fall to be regarded as resident in a country outside the United Kingdom for the purposes of double taxation arrangements having effect at the time, and
  - for that tax year, had made a claim for any available relief under section 6 of TIOPA 2010 (as required by subsection (6) of that section).
- (4) An individual's hypothetical net income for a tax year is, to the extent that it is not sterling, to be calculated by reference to the average exchange rate for the year ending on 31 March in the tax year concerned.
- <sup>F301</sup>[ The personal representatives of an individual may make any election for the purposes of section 55B that the individual (if living) might make in relation to—
- the tax year in which the individual dies, or
  - an earlier tax year.]

#### Textual Amendments

**F290** Words in s. 55C(1)(a) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [s. 6\(7\)\(a\)\(12\)\(a\)](#)

**F291** Words in s. 55C(1)(a)(ii) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [s. 6\(7\)\(b\)\(12\)\(a\)](#)

**F292** Words in s. 55C(1)(b) omitted (with effect in accordance with s. 5(11) of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), [s. 5\(9\)](#)

**F293** Words in s. 55B(3) inserted (30.11.2016) (with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\)](#), [s. 6\(16\)\(24\)](#); [S.I. 2016/1161](#), [regs. 2, 3](#)

**F294** Words in s. 55C(1)(c) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\)](#), [s. 5\(7\)\(a\)\(10\)](#)



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- F295** Words in s. 55C(1)(c) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Scottish Rate of Income Tax \(Consequential Amendments\) Order 2015 \(S.I. 2015/1810\)](#), arts. 1(1), [14\(4\)](#)
- F296** Words in s. 55C(1)(c) inserted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\)](#), arts. 1(2), [6\(2\)](#)
- F297** Words in s. 55C(1)(c) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\)](#), arts. 1(1), [12\(7\)](#)
- F298** Words in s. 55C(1)(c) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\)](#), s. [4\(8\)\(17\)](#)
- F299** S. 55C(1)(ca) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\)](#), s. [5\(7\)\(b\)\(10\)](#)
- F300** Words in s. 55C(2) omitted (with effect in accordance with s. 5(11) of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), s. [5\(9\)](#)
- F301** S. 55C(5) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), s. [6\(8\)\(12\)\(a\)](#)

## **55D Procedure for elections under section 55C**

- (1) An election under section 55C is to be made not more than 4 years after the end of the tax year to which it relates.
- (2) If the conditions in paragraphs (a) to (d) of section 55C(1) continue to be met, an election continues in force in each subsequent tax year unless—
  - (a) subsection (3) applies,
  - (b) the election is withdrawn, or
  - (c) it ceases to have effect under subsection (5).
- (3) Where an election is made after the end of the tax year to which it relates [<sup>F302</sup>or is made after the death of either of the spouses or civil partners], the election has effect for the tax year to which it relates only (and accordingly does not continue in force for subsequent tax years under subsection (2)).
- (4) An election may be withdrawn only by a notice given by the individual by whom the election was made [<sup>F303</sup>; an election made by an individual's personal representatives may not be withdrawn].
- (5) If an individual's spouse or civil partner does not obtain a tax reduction under section 55B in respect of a tax year in which an election is in force the election ceases to have effect for subsequent tax years; but this does not prevent an individual making a further election for the purposes of section 55B(2)(a) (whether or not in relation to the same marriage or civil partnership).
- (6) The withdrawal of an election under subsection (4) does not, except in the cases dealt with by subsection (7), have effect until the tax year after the one in which the notice is given.
- (7) The withdrawal of an election under subsection (4) has effect for the tax year in which the notice is given if—
  - (a) in a case where the individual concerned met the condition in section 55C(1)
    - (a) by reason of being married, the marriage has come to an end in that tax year, or

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- (b) in a case where the individual concerned met the condition in section 55C(1) (a) by reason of being in a civil partnership, the civil partnership has come to an end in that tax year.
- (8) For the purposes of subsection (7)(a), a marriage comes to an end if any of the following is made in respect of it—
- [<sup>F304</sup>(a) in England and Wales, a divorce order which has been made final, a nullity of marriage order which has been made final, a judicial separation order or a corresponding decree,]
- (b) in Scotland, a decree of divorce, a declarator of nullity or a decree of separation [<sup>F305</sup>or]
- [<sup>F306</sup>(c) in Northern Ireland, a decree absolute of divorce, a decree of nullity of marriage or a decree of judicial separation.]
- (9) For the purposes of subsection (7)(b), a civil partnership comes to an end if any of the following is made in respect of it—
- (a) a dissolution order or nullity order, which has been made final,
- (b) a separation order, or
- (c) in Scotland, a decree of dissolution, a declarator of nullity or a decree of separation.
- (10) A notice under subsection (4) must—
- (a) be given to an officer of Revenue and Customs, and
- (b) must be in the form specified by the Commissioners for Her Majesty's Revenue and Customs.
- (11) Paragraph 3(1)(b) of Schedule 1A to TMA 1970 (amendment of claims and elections) does not apply to an election under section 55C.
- [<sup>F307</sup>(12) In subsection (8) “corresponding decree” means any of the following—
- a decree absolute of divorce;
- a decree absolute of nullity of marriage;
- a decree of judicial separation.]

#### Textual Amendments

- F302** Words in s. 55D(3) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(10\)\(12\)\(a\)](#)
- F303** Words in s. 55D(4) inserted (retrospective and with effect in accordance with s. 6(12)(b)(c) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 6\(11\)\(12\)\(a\)](#)
- F304** S. 55D(8)(a) substituted (6.4.2022) by [Divorce, Dissolution and Separation Act 2020 \(c. 11\), s. 8\(1\)\(8\), Sch. para. 57\(2\)\(a\)](#); S.I. 2022/283, reg. 2
- F305** Word in s. 55D(8)(b) inserted (6.4.2022) by [Divorce, Dissolution and Separation Act 2020 \(c. 11\), s. 8\(1\)\(8\), Sch. para. 57\(2\)\(b\)](#); S.I. 2022/283, reg. 2
- F306** S. 55D(8)(c) inserted (6.4.2022) by [Divorce, Dissolution and Separation Act 2020 \(c. 11\), s. 8\(1\)\(8\), Sch. para. 57\(2\)\(c\)](#); S.I. 2022/283, reg. 2
- F307** S. 55D(12) inserted (6.4.2022) by [Divorce, Dissolution and Separation Act 2020 \(c. 11\), s. 8\(1\)\(8\), Sch. para. 57\(3\)](#); S.I. 2022/283, reg. 2

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## Supplementary

### 55E Limitation on number of tax reductions and elections

- (1) An individual is not entitled to more than one tax reduction under section 55B for a tax year (regardless of whether the individual is a party to more than one marriage or civil partnership in the tax year).
- (2) An individual is not entitled to have more than one election for the purposes of section 55B which operates for a tax year (regardless of whether the individual is a party to more than one marriage or civil partnership in the tax year).]

## CHAPTER 4

### GENERAL

### 56 Residence etc of claimants

- (1) This section applies in relation to an individual who claims—
  - (a) an allowance under Chapter 2 (personal allowance and blind person's allowance) for a tax year, or
  - (b) a tax reduction under Chapter 3 [<sup>F308</sup>or 3A] (tax reductions for married couples and civil partners) for a tax year.
- (2) The individual meets the requirements of this section if the individual—
  - (a) is UK resident for the tax year, or
  - (b) meets the condition in subsection (3).
- (3) An individual meets the condition in this subsection if, at any time in the tax year, the individual—
  - [<sup>F309</sup>(za) is a [<sup>F310</sup>national of the United Kingdom or a] national of an EEA state,]
    - (a) is resident in the Isle of Man or the Channel Islands,
    - (b) has previously resided in the United Kingdom and is resident abroad for the sake of the health of—
      - (i) the individual, or
      - (ii) a member of the individual's family who is resident with the individual,
  - (c) is a person who is or has been employed in the service of the Crown,
  - (d) is employed in the service of any territory under Her Majesty's protection,
  - (e) is employed in the service of a missionary society, or
  - (f) is a person whose late spouse or late civil partner was employed in the service of the Crown.

#### Textual Amendments

**F308** Words in s. 56(1)(b) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 11\(7\)](#)

**F309** S. 56(3)(za) inserted (21.7.2008 with effect in accordance with s. 70(4) of the amending Act) by [Finance Act 2008 \(c. 9\), s. 70\(2\)](#)

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**F310** Words in s. 56(3)(za) inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2020](#) (S.I. 2020/332), regs. 1, **3(2)**

## 57 Indexation of allowances

- (1) This section provides for increases in the amounts specified in—
- (a) section [<sup>F311</sup>35(1)] [<sup>F312</sup>(personal allowance)],
  - <sup>F313</sup>(b) .....
  - <sup>F314</sup>(c) .....
  - (d) section 38(1) (blind person's allowance),
  - (e) section 43 (tax reductions for married couples and civil partners: the minimum amount),
  - (f) section 45(3)(a) <sup>F315</sup>... (marriages before 5 December 2005),
  - (g) section 46(3)(a) <sup>F316</sup>... (marriages and civil partnerships on or after 5 December 2005), and
  - (h) sections 36(2), <sup>F317</sup>... 45(4) and 46(4) (adjusted net income limit).
- (2) It applies if the [<sup>F318</sup>consumer prices index] for the September before the start of a tax year is higher than it was for the previous September.
- (3) For the tax year—
- (a) the allowances specified in sections [<sup>F319</sup>35(1)] [<sup>F320</sup>and] 38(1),
  - (b) the amounts specified in sections 45(3)(a) <sup>F321</sup>... and 46(3)(a) <sup>F321</sup>..., and
  - (c) the minimum amount specified in section 43,
- are found as follows.

### *Step 1*

Multiply the allowance, amount or (as the case may be) the minimum amount for the previous tax year by the same percentage as the percentage increase in the [<sup>F322</sup>consumer prices index].

### *Step 2*

If the result of Step 1 is a multiple of £10, it is the increase for the tax year.

If the result of Step 1 is not a multiple of £10, round it up to the nearest amount which is a multiple of £10.

That amount is the increase for the tax year.

### *Step 3*

Add the increase for the tax year to the allowance, amount or (as the case may be) the minimum amount for the previous tax year.

The result is the allowance, amount or (as the case may be) the minimum amount for the tax year.

- (4) For the tax year, the adjusted net income limits specified in sections <sup>F323</sup>... <sup>F324</sup>... 45(4) and 46(4) are found as follows.

### *Step 1*

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Increase the adjusted net income limit for the previous tax year by the same percentage as the percentage increase in the [<sup>F325</sup>consumer prices index].

*Step 2*

If the result of Step 1 is a multiple of £100, it is the adjusted net income limit for the tax year.

If the result of Step 1 is not a multiple of £100, round it up to the nearest amount which is a multiple of £100.

That amount is the adjusted net income limit for the tax year.

- (5) Subsections (1) to (4) do not require a change to be made in the amounts deductible or repayable under PAYE regulations during the period beginning on 6 April and ending on 17 May in the tax year.
- (6) Before the start of the tax year the Treasury must make an order replacing the amounts specified in the provisions listed in subsection (1) with the amounts which, as a result of this section, are the allowances, amounts, the minimum amount and the adjusted net income limits for the tax year.

[<sup>F326</sup>(7) In this section “consumer prices index” means the all items consumer prices index published by the Statistics Board.]

<sup>F327</sup>(8) . . . . .

**Textual Amendments**

- F311** Word in s. 57(1)(a) substituted (with effect in accordance with s. 4(5) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 4\(3\)](#)
- F312** Words in s. 57(1)(a) substituted (with effect in accordance with s. 5(11) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 5\(10\)\(a\)](#)
- F313** S. 57(1)(b) omitted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\), s. 4\(6\)\(a\)\(ii\)](#)
- F314** S. 57(1)(c) omitted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\), s. 4\(6\)\(a\)\(ii\)](#)
- F315** Words in s. 57(1)(f) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\), s. 3\(2\), Sch. 1 Pt. 10](#) Group 1
- F316** Words in s. 57(1)(g) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\), s. 3\(2\), Sch. 1 Pt. 10](#) Group 1
- F317** Word in s. 57(1)(h) omitted (with effect in accordance with s. 5(11) of the amending Act) by virtue of [Finance Act 2015 \(c. 11\), s. 5\(10\)\(b\)](#)
- F318** Words in s. 57(2) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(3\)\(a\)](#)
- F319** Word in s. 57(3)(a) substituted (with effect in accordance with s. 4(5) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 4\(3\)](#)
- F320** Word in s. 57(3)(a) substituted (17.7.2012) (with effect in accordance with s. 1(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 4\(6\)\(b\)](#)
- F321** Words in s. 57(3)(b) repealed (31.1.2013) by [Statute Law \(Repeals\) Act 2013 \(c. 2\), s. 3\(2\), Sch. 1 Pt. 10](#) Group 1
- F322** Words in s. 57(3) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(3\)\(a\)](#)
- F323** Word in s. 57(4) omitted (with effect in accordance with s. 2(9) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\), s. 2\(8\)\(b\)](#)

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- F324** Word in s. 57(4) omitted (with effect in accordance with s. 5(11) of the amending Act) by virtue of [Finance Act 2015 \(c. 11\), s. 5\(10\)\(c\)](#)
- F325** Words in s. 57(4) substituted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(3\)\(a\)](#)
- F326** S. 57(7) inserted (with effect in accordance with s. 4(4) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 4\(3\)\(b\)](#)
- F327** S. 57(8) omitted (12.2.2019) by virtue of [Finance Act 2019 \(c. 1\), s. 5\(4\)\(a\)](#)

#### Modifications etc. (not altering text)

- C33** S. 57 excluded (21.7.2008) by [Finance Act 2008 \(c. 9\), s. 2\(2\)\(a\)](#)
- C34** S. 57 excluded (21.7.2008) by [Finance Act 2008 \(c. 9\), s. 3\(2\)\(a\)](#)
- C35** S. 57 excluded (21.7.2009) by [Finance Act 2009 \(c. 10\), s. 3\(2\)\(a\)](#)
- C36** S. 57 excluded (19.7.2011) by [Finance Act 2011 \(c. 11\), s. 3\(2\)](#)
- C37** S. 57 excluded (17.7.2012) by [Finance Act 2012 \(c. 14\), s. 3\(2\)](#)
- C38** S. 57 excluded (17.7.2013) by [Finance Act 2013 \(c. 29\), s. 2\(2\)](#)
- C39** S. 57 excluded (17.7.2014) by [Finance Act 2014 \(c. 26\), s. 1\(4\)\(b\)](#)
- C40** S. 57 excluded (17.7.2014) by [Finance Act 2014 \(c. 26\), s. 2\(2\)\(b\)](#)
- C41** S. 57 excluded (26.3.2015) by [Finance Act 2015 \(c. 11\), ss. 2\(2\), 5\(2\)](#)
- C42** S. 57 excluded (6.4.2015 for tax year 2015-16) by [Finance Act 2014 \(c. 26\), s. 2\(2\)\(b\)](#)
- C43** S. 57 excluded (12.2.2019) by [Finance Act 2019 \(c. 1\), s. 5\(5\)\(b\)](#)
- C44** S. 57 excluded (for the tax years 2022-23, 2023-24, 2024-25 and 2025-26) by [Finance Act 2021 \(c. 26\), s. 5\(3\)\(b\)](#)

#### <sup>F328</sup>57A Personal allowance linked to national minimum wage

.....

#### Textual Amendments

- F328** S. 57A omitted (12.2.2019) by virtue of [Finance Act 2019 \(c. 1\), s. 5\(4\)\(a\)](#)

#### 58 Meaning of “adjusted net income”

- (1) For the purposes of Chapters 2 and 3, an individual's adjusted net income for a tax year is calculated as follows.

##### *Step 1*

Take the amount of the individual's net income for the tax year.

##### *Step 2*

If in the tax year the individual makes, or is treated under section 426 as making, a gift that is a qualifying donation for the purposes of Chapter 2 of Part 8 (gift aid) deduct the grossed up amount of the gift.

##### *Step 3*

If the individual is given relief in accordance with section 192 of FA 2004 (relief at source) in respect of any contribution paid in the tax year under a pension scheme, deduct the gross amount of the contribution.

##### *Step 4*

Add back any relief under section 457 or 458 (payments to trade unions or police organisations) that was deducted in calculating the individual's net income for the tax year.

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The result is the individual's adjusted net income for the tax year.

- (2) The grossed up amount of a gift is the amount of the gift grossed up by reference to the basic rate for the tax year <sup>F329</sup> ....
- (3) The gross amount of a contribution is the amount of the contribution before deduction of tax under section 192(1) of FA 2004.
- [<sup>F330</sup>(4) Subsection (6) of section 809ZM (removal of income tax relief in respect of tainted donations etc) excludes certain donations from being deducted at step 2 in subsection (1).]

#### Textual Amendments

**F329** Words in s. 58(2) omitted (6.4.2018) by virtue of [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\)](#), arts. 1(2), **6(3)**

**F330** S. 58(4) inserted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 3 para. 9**

## PART 4

### LOSS RELIEF

## CHAPTER 1

### INTRODUCTION

#### 59 Overview of Part

- (1) This Part provides for income tax relief for—
  - (a) losses in a trade, profession or vocation (and certain post-cessation payments and events) (see Chapters 2 and 3),
  - (b) losses in a UK property business or overseas property business (and, in the case of a UK property business, certain post-cessation payments and events) (see Chapter 4),
  - (c) losses in an employment or office (see Chapter 5),
  - (d) losses on a disposal of certain shares (see Chapter 6), and
  - (e) losses in certain miscellaneous transactions (see Chapter 7).
- (2) This Part needs to be read with Chapter 3 of Part 2 (calculation of income tax liability).
- (3) For rules about the calculation of losses for the purposes of this Part, see—
  - (a) section 26 of ITTOIA 2005 (losses of a trade, profession or vocation calculated on same basis as profits),
  - (b) [<sup>F331</sup>sections 272 and 272ZA] of ITTOIA 2005 (which [<sup>F332</sup>apply] section 26 of that Act, so that losses of a UK property business or overseas property business are calculated on the same basis as profits),
  - (c) section 11 of ITEPA 2003 (calculation of “net taxable earnings”), and
  - (d) section 872 of ITTOIA 2005 (losses from miscellaneous transactions calculated on same basis as miscellaneous income).

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### Textual Amendments

**F331** Words in s. 59(3)(b) substituted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 2 para. 61(a)**

**F332** Word in s. 59(3)(b) substituted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 2 para. 61(b)**

## CHAPTER 2

### TRADE LOSSES

#### *Introduction*

### 60 Overview of Chapter

- (1) This Chapter—
  - (a) provides for trade loss relief against general income (see sections 64 to 70),
  - (b) provides for early trade losses relief (see sections 72 to 74),
  - (c) contains provision restricting both those reliefs [<sup>F333</sup>and capital gains relief (see sections 74ZA] to 82),
  - (d) provides for carry-forward trade loss relief (see sections 83 to 88),
  - (e) provides for terminal trade loss relief (see sections 89 to 94),
  - (f) contains restrictions on the above reliefs for trades, professions and vocations carried on wholly outside the United Kingdom (see section 95), and
  - (g) provides for post-cessation trade relief (see sections 96 to 100).
- (2) This Chapter is subject to paragraph 2 of Schedule 1B to TMA 1970 (claims for loss relief involving two or more years).
- (3) For a rule treating an individual as starting or permanently ceasing to carry on a trade, profession or vocation for income tax purposes (including those of this Part), see—
  - (a) section 17 of ITTOIA 2005 (effect of becoming or ceasing to be a UK resident), and
  - (b) section 852(6) and (7) of ITTOIA 2005 (corresponding rule in the case of a trade or profession carried on by a firm).
- (4) For the purposes of this Chapter sideways relief is—
  - (a) trade loss relief against general income, or
  - (b) early trade losses relief.
- (5) References in this Chapter to a firm are to be read in the same way as references to a firm in Part 9 of ITTOIA 2005 (which contains special provision about partnerships).

### Textual Amendments

**F333** Words in s. 60(1)(c) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by Finance Act 2010 (c. 13), **Sch. 3 para. 2**



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## 61 Non-partners: losses of a tax year

- (1) This section applies if a trade, profession or vocation is carried on by a person otherwise than as a partner in a firm.
- (2) For the purposes of this Chapter any reference to the person making a loss in the trade, profession or vocation in a tax year is to the person making a loss in the trade, profession or vocation in the basis period for the tax year.
- (3) This section is subject to section 70 (restriction on trade loss relief against general income in case of farming or market gardening).
- (4) For the rules about basis periods, see Chapter 15 of Part 2 of ITTOIA 2005.
- (5) In particular, see the rule in section 206 of ITTOIA 2005 (restriction on bringing losses into account twice).

### Modifications etc. (not altering text)

**C45** Ss. 61-63 modified (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 2\(4\)](#)

**C46** Ss. 61-63 modified (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(4\)](#)

## 62 Partners: losses of a tax year etc

- (1) This section applies if a trade or profession is carried on by a person as a partner in a firm.
- (2) Any reference to a person making a loss in a trade or profession in a tax year is to the partner making a loss in the partner's notional trade in the basis period for the tax year (as to which, see sections 852 and 853 of ITTOIA 2005).
- (3) Further—
  - (a) any reference to a person making a claim for relief for a loss made in a trade or profession is to the partner making a claim for relief for a loss made in the partner's notional trade,
  - (b) any reference to a basis period for a tax year is to the basis period for the partner's notional trade for the tax year,
  - (c) any reference to the profits or losses of a partner's notional trade of a tax year is to the partner's share of the firm's profits or losses of the trade or profession treated for the purposes of Chapter 15 of Part 2 of ITTOIA 2005 as the profits or losses of the partner's notional trade in the basis period for the tax year,
  - (d) any reference to a person starting to carry on a trade or profession is to the partner starting to carry on the notional trade in accordance with section 852(2) or (3) of ITTOIA 2005, and
  - (e) any reference to a person permanently ceasing to carry on a trade or profession is to the partner permanently ceasing to carry on the notional trade in accordance with section 852(4) to (6) of ITTOIA 2005.
- (4) In this section a partner's “notional trade” has the same meaning as in Part 9 of ITTOIA 2005.
- (5) This section applies for the purposes of this Chapter and Chapter 3, except that it does not apply for the purposes of section 67(2) or sections 68 to 70 (restriction on trade loss relief against general income in case of farming or market gardening).

*Status: Point in time view as at 22/02/2024.*

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**Modifications etc. (not altering text)**

- C45** Ss. 61-63 modified (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 2\(4\)](#)  
**C47** S. 62 applied (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 para. 1\(13\)](#)  
**C48** Ss. 61-63 modified (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(4\)](#)

### 63 Prohibition against double counting

If relief is given under any provision of this Chapter for a loss or part of a loss, relief is not to be given for—

- (a) the same loss, or
- (b) the same part of the loss,

under any other provision of this Chapter or of the Income Tax Acts.

**Modifications etc. (not altering text)**

- C45** Ss. 61-63 modified (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 2\(4\)](#)  
**C49** Ss. 61-63 modified (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(4\)](#)

### *Trade loss relief against general income*

### 64 Deduction of losses from general income

- (1) A person may make a claim for trade loss relief against general income if the person—
  - (a) carries on a trade in a tax year, and
  - (b) makes a loss in the trade in the tax year (“the loss-making year”).
- (2) The claim is for the loss to be deducted in calculating the person's net income—
  - (a) for the loss-making year,
  - (b) for the previous tax year, or
  - (c) for both tax years.

(See Step 2 of the calculation in section 23.)
- (3) If the claim is made in relation to both tax years, the claim must specify the tax year for which a deduction is to be made first.
- (4) Otherwise the claim must specify either the loss-making year or the previous tax year.
- (5) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the loss-making year.
- (6) Nothing in this section prevents a person who makes a claim specifying a particular tax year in respect of a loss from making a further claim specifying the other tax year in respect of the unused part of the loss.
- (7) This section applies to professions and vocations as it applies to trades.
- (8) This section needs to be read with—
  - (a) section 65 (how relief works),
  - (b) sections 66 to 70 (restrictions on the relief),

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- <sup>F334</sup>(ba) sections [<sup>F335</sup>74ZA] to 74D (general restrictions on relief),]
- <sup>F336</sup>(bb) section 74E (restriction on the relief and early trade losses relief where cash basis applies),]
- (c) sections 75 to 79 (restrictions on the relief and early trade losses relief in relation to capital allowances), [<sup>F337</sup> and]
- (d) section 80 (restrictions on those reliefs in relation to ring fence income),
- <sup>F338</sup>(e) .....
- <sup>F339</sup>(f) .....

### Textual Amendments

- F334** S. 64(8)(ba) inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 21 para. 4**
- F335** Word in s. 64(8)(ba) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 3(a)**
- F336** S. 64(8)(bb) inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 4 para. 54(2)**
- F337** Word in s. 64(8)(c) inserted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 3(b)**
- F338** S. 64(8)(e) omitted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 3(c)**
- F339** S. 64(8)(f) and word omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **s. 66(4)(1)(i)**

## 65 How relief works

- (1) This subsection explains how the deductions are to be made.

The amount of the loss to be deducted at any step is limited in accordance with [<sup>F340</sup> sections 24A and 25(4) and (5)].

### Step 1

Deduct the loss in calculating the person's net income for the specified tax year.

### Step 2

This step applies only if the claim is made in relation to both tax years.

Deduct the part of the loss not deducted at Step 1 in calculating the person's net income for the other tax year.

### Other claims

If the loss has not been deducted in full at Steps 1 and 2, the person may use the part not so deducted in giving effect to any other relief under this Chapter (depending on the terms of the relief).

- (2) There is a priority rule if a person—
- (a) makes a claim for trade loss relief against general income (“the first claim”) in relation to the loss-making year, and
  - (b) makes a separate claim in respect of a loss made in the following tax year in relation to the same tax year as the first claim.

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- (3) The rule is that priority is given to making deductions under the first claim.
- (4) For this purpose a “separate claim” means—
  - (a) a claim for trade loss relief against general income, or
  - (b) a claim for employment loss relief against general income under section 128.

#### **Textual Amendments**

**F340** Words in s. 65(1) substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 3 para. 2\(3\)\(a\)](#)

### *Restriction on relief for uncommercial trades*

#### **66 Restriction on relief unless trade is commercial**

- (1) Trade loss relief against general income for a loss made in a trade in a tax year is not available unless the trade is commercial.
- (2) The trade is commercial if it is carried on throughout the basis period for the tax year—
  - (a) on a commercial basis, and
  - (b) with a view to the realisation of profits of the trade.
- (3) If at any time a trade is carried on so as to afford a reasonable expectation of profit, it is treated as carried on at that time with a view to the realisation of profits.
- (4) If the trade forms part of a larger undertaking, references to profits of the trade are to be read as references to profits of the undertaking as a whole.
- (5) If there is a change in the basis period in the way in which the trade is carried on, the trade is treated as carried on throughout the basis period in the way in which it is carried on by the end of the basis period.
- (6) The restriction imposed by this section does not apply to a loss made in the exercise of functions conferred by or under an Act.
- (7) This section applies to professions and vocations as it applies to trades.

#### **Modifications etc. (not altering text)**

**C50** Ss. 66-70 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(a\)](#)

**C51** Ss. 66-70 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(a\)](#)

### *Restriction on relief for “hobby” farming or market gardening*

#### **67 Restriction on relief in case of farming or market gardening**

- (1) This section applies if a loss is made in a trade of farming or market gardening in a tax year (“the current tax year”).

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- (2) Trade loss relief against general income is not available for the loss if a loss, calculated without regard to capital allowances, was made in the trade in each of the previous 5 tax years (see section 70).
- (3) This section does not prevent relief for the loss from being given if—
  - (a) the carrying on of the trade forms part of, and is ancillary to, a larger trading undertaking,
  - (b) the farming or market gardening activities meet the reasonable expectation of profit test (see section 68), or
  - (c) the trade was started, or treated as started, at any time within the 5 tax years before the current tax year (see section 69 below, as well as section 17 of ITTOIA 2005).

**Modifications etc. (not altering text)**

**C50** Ss. 66-70 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(a\)](#)

**C51** Ss. 66-70 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(a\)](#)

## 68 Reasonable expectation of profit

- (1) This section explains how the farming or market gardening activities (“the activities”) meet the reasonable expectation of profit test for the purposes of section 67.
- (2) The test is decided by reference to the expectations of a competent farmer or market gardener (a “competent person”) carrying on the activities.
- (3) The test is met if—
  - (a) a competent person carrying on the activities in the current tax year would reasonably expect future profits (see subsection (4)), but
  - (b) a competent person carrying on the activities at the beginning of the prior period of loss (see subsection (5)) could not reasonably have expected the activities to become profitable until after the end of the current tax year.
- (4) In determining whether a competent person carrying on the activities in the current tax year would reasonably expect future profits regard must be had to—
  - (a) the nature of the whole of the activities, and
  - (b) the way in which the whole of the activities were carried on in the current tax year.
- (5) “The prior period of loss” means—
  - (a) the 5 tax years before the current tax year, or
  - (b) if losses in the trade, calculated without regard to capital allowances, were also made in successive tax years before those 5 tax years (see section 70), the period comprising both the successive tax years and the 5 tax years.

**Modifications etc. (not altering text)**

**C50** Ss. 66-70 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(a\)](#)

**C51** Ss. 66-70 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(a\)](#)

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## 69 Whether trade is the same trade

- (1) This section applies for the purposes of sections 67 and 68.
- (2) If there is a change in the persons carrying on a trade which involves all of the persons carrying it on before the change permanently ceasing to carry it on—
  - (a) the trade is treated as permanently ceasing to be carried on, and
  - (b) a new trade is treated as starting to be carried on, at the date of the change (but see subsections (3) to (6)).
- (3) A husband and wife are treated as the same person.
- (4) Persons who are civil partners of each other are treated as the same person.
- (5) A husband or wife is treated as the same person as—
  - (a) a company of which either one of them has control, or
  - (b) a company of which both have control.
- (6) A person's civil partner is treated as the same person as—
  - (a) a company of which either of the civil partners has control, or
  - (b) a company of which both have control.
- (7) “Control” [<sup>F341</sup>is to be read in accordance with sections 450 and 451 of CTA 2010].

### Textual Amendments

**F341** Words in s. 69(7) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 495](#) (with [Sch. 2](#))

### Modifications etc. (not altering text)

**C50** Ss. 66-70 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(a\)](#)

**C51** Ss. 66-70 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(a\)](#)

## 70 Determining losses in previous tax years

- (1) This section applies for the purposes of sections 67(2) and 68(5) in determining whether a loss, calculated without regard to capital allowances, is made in the trade in any tax year before the current tax year.
- (2) The loss made in a tax year before the current tax year is not taken to be the loss (if any) made in the basis period for the tax year, but is instead the loss made in the tax year itself.
- (3) This loss is determined by reference to—
  - (a) the profits or losses of periods of account of the trade (calculated for income tax purposes, but without regard to capital allowances), or
  - (b) if (as a result of section 69) a person claiming the relief is treated as the same person as a company within the charge to corporation tax, the profits or losses of the company's accounting periods (calculated for corporation tax purposes, but without regard to capital allowances),
 or by reference to both.
- (4) If—

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- (a) a period of account does not coincide with a tax year, or
  - (b) an accounting period does not coincide with a tax year,
- any of the steps in section 203(2) of ITTOIA 2005 may be taken to arrive at the profits or losses made in a tax year.

For this purpose references in section 203(2) of that Act to basis periods are read as references to tax years and references to periods of account are read as including accounting periods.

- (5) The steps must be taken in accordance with section 203(3) or (4) of ITTOIA 2005.
- (6) A loss in a trade is calculated without regard to capital allowances by ignoring—
  - (a) the allowances treated as expenses of the trade under CAA 2001, and
  - (b) the charges treated as receipts of the trade under that Act.

**Modifications etc. (not altering text)**

**C50** Ss. 66-70 applied (21.7.2009) by [Finance Act 2009 \(c. 10\), Sch. 6 para. 1\(11\)\(a\)](#)

**C51** Ss. 66-70 applied (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 2 para. 3\(1\)\(a\)](#)

**C52** S. 70(2)(3)(a)(4)(a)(5) applied (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), ss. 51\(4\), 1184\(1\) \(with Sch. 2\)](#)

*Use of trading loss as CGT loss*

**71 Treating trade losses as CGT losses**

A person who cannot deduct all of a loss under a claim for trade loss relief against general income may be able to treat the unused part as an allowable loss for capital gains tax purposes: see sections 261B and 261C of TCGA 1992.

*Early trade losses relief*

**72 Relief for individuals for losses in first 4 years of trade**

- (1) An individual may make a claim for early trade losses relief if the individual makes a loss in a trade—
  - (a) in the tax year in which the trade is first carried on by the individual, or
  - (b) in any of the next 3 tax years.
- (2) The claim is for the loss to be deducted in calculating the individual's net income for the 3 tax years before the one in which the loss is made (see Step 2 of the calculation in section 23).
- (3) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the tax year in which the loss is made.
- (4) This section applies to professions and vocations as it applies to trades.
- (5) This section needs to be read with—
  - (a) section 73 (how relief works),
  - (b) section 74 (restrictions on the relief [<sup>F342</sup>unless trade is commercial etc]),

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- <sup>F343</sup>(ba) sections [<sup>F344</sup>74ZA] to 74D (general restrictions on relief),]
- <sup>F345</sup>(bb) section 74E (restriction on the relief and trade loss relief where cash basis applies),]
- (c) sections 75 to 79 (restrictions on the relief and trade loss relief against general income in relation to capital allowances), [<sup>F346</sup> and]
- (d) section 80 (restrictions on those reliefs in relation to ring fence income),
- <sup>F347</sup>(e) .....
- <sup>F348</sup>(f) .....

#### Textual Amendments

- F342** Words in s. 72(5)(b) inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 21 para. 5\(a\)](#)
- F343** S. 72(5)(ba) inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 21 para. 5\(b\)](#)
- F344** Word in s. 72(5)(ba) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 4\(a\)](#)
- F345** S. 72(5)(bb) inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 4 para. 54\(3\)](#)
- F346** Word in s. 72(5)(c) inserted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 4\(b\)](#)
- F347** S. 72(5)(e) omitted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 4\(c\)](#)
- F348** S. 72(5)(f) and word omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [s. 66\(4\)\(1\)\(ii\)](#)

## 73 How relief works

This section explains how the deductions are made for the 3 tax years mentioned in section 72(2). The amount of the loss to be deducted at any step is limited in accordance with [<sup>F349</sup>sections 24A and 25(4) and (5)] .

### Step 1

Deduct the loss in calculating the individual's net income for the earliest of the 3 tax years.

### Step 2

Deduct any part of the loss not deducted at Step 1 in calculating the individual's net income for the next tax year.

### Step 3

Deduct any part of the loss not deducted at Step 1 or 2 in calculating the individual's net income for the latest of the 3 tax years.

### Other claims

If the loss has not been deducted in full at Steps 1 to 3, the individual may use the part not so deducted in giving effect to any other relief under this Chapter (depending on the terms of the relief).



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### Textual Amendments

**F349** Words in s. 73 substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 3 para. 2(3)(b)**

## 74 Restrictions on relief unless trade is commercial etc

- (1) Early trade losses relief for a loss made by an individual in a trade in a tax year is not available unless the trade is commercial.
- (2) The trade is commercial if it is carried on throughout the basis period for the tax year—
  - (a) on a commercial basis, and
  - (b) in such a way that profits of the trade could reasonably be expected to be made in the basis period or within a reasonable time afterwards.
- (3) If the trade forms part of a larger undertaking, the reference to profits of the trade is to be read as a reference to profits of the undertaking as a whole.
- (4) Early trade losses relief for a loss made by an individual is not available if—
  - (a) the individual first carries on the trade at a time when the individual has a spouse or civil partner and is living with the spouse or civil partner,
  - (b) the spouse or civil partner previously carried on the trade, and
  - (c) the loss is made in a tax year falling after the relevant 4 year period.
- (5) The relevant 4 year period comprises—
  - (a) the tax year in which the spouse or civil partner first carried on the trade, and
  - (b) the next 3 tax years.
- (6) This section applies to professions and vocations as it applies to trades.

*<sup>F350</sup>General restrictions on sideways relief and capital gains relief*

### Textual Amendments

**F350** Ss. 74A-74D and cross-heading inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by Finance Act 2008 (c. 9), **Sch. 21 para. 2**

## <sup>F351</sup>74ZA No relief for tax-generated losses

- (1) This section applies if—
  - (a) during a tax year a person carries on (alone or in partnership) a trade, profession or vocation (“the relevant activity”),
  - (b) the person makes a loss in the relevant activity in that tax year, and
  - (c) the loss arises directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements.
- (2) No sideways relief or capital gains relief may be given to the person for the loss (but subject to subsection (5)).
- (3) In subsection (1) “relevant tax avoidance arrangements” means arrangements—

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- (a) to which the person is a party, and
  - (b) the main purpose, or one of the main purposes, of which is the obtaining of a reduction in tax liability by means of sideways relief or capital gains relief.
- (4) In subsection (3) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).
- (5) This section has no effect in relation to any loss that derives wholly from qualifying film expenditure (see section 74D).
- (6) For the purposes of this section—
- (a) capital gains relief is, in relation to a loss, the treatment of a loss as an allowable loss by virtue of section 261B of TCGA 1992 (use of trading loss as a CGT loss), and
  - (b) capital gains relief is given for a loss when it is so treated.]

#### Textual Amendments

**F351** S. 74ZA inserted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 5](#)

#### Modifications etc. (not altering text)

**C53** Ss. 74ZA-74D applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(b\)](#)

### 74A Reliefs in any tax year not to exceed cap for tax year

- (1) This section applies if—
- (a) during a tax year an individual carries on one or more trades, otherwise than as a partner in a firm, in a non-active capacity (see section 74C), and
  - (b) the individual makes a loss in any of those trades (an “affected loss”) in that tax year.
- (2) There is a restriction on the amount of sideways relief and capital gains relief which (after applying the restrictions under the other provisions of this Chapter) may be given to the individual for any affected loss (but see subsections (7) and (8)).
- (3) The restriction is that the total amount of the sideways relief and capital gains relief given to the individual for all the affected losses must not exceed the cap for that tax year.
- (4) The cap for any tax year is £25,000.
- (5) The Treasury may by order amend the sum for the time being specified in subsection (4).
- (6) If—
- (a) in a tax year an individual makes a loss to which the restriction under section 103C (losses in trade carried on by non-active or limited partner) applies, and
  - (b) sideways relief or capital gains relief is given to the individual for that loss, the amount of the cap under this section for the tax year in the case of the individual is reduced by the amount of that loss.

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- (7) The restriction under this section does not apply to so much of any affected loss as derives from qualifying film expenditure (see section 74D).
- (8) The restriction under this section does not affect the giving of sideways relief for a loss made in a trade against the profits of that trade.
- (9) In this section “trade” does not include a trade which consists of the underwriting business of a member of Lloyd's (within the meaning of section 184 of FA 1993).
- (10) For the purposes of this section—
  - (a) capital gains relief is, in relation to a loss, the treatment of a loss as an allowable loss by virtue of section 261B of TCGA 1992 (use of trading loss as a CGT loss), and
  - (b) capital gains relief is given for a loss when it is so treated.

**Modifications etc. (not altering text)**

**C53** Ss. 74ZA-74D applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(b\)](#)

<sup>F352</sup>**74B No relief for tax-generated losses**

.....

**Textual Amendments**

**F352** S. 74B omitted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 6](#)

**74C Meaning of “non-active capacity” for purposes of [<sup>F353</sup>section 74A]etc**

- (1) For the purposes of [<sup>F354</sup>section 74A] an individual carries on a trade in a non-active capacity during a tax year if the individual—
  - (a) carries on the trade at a time during the year, and
  - (b) does not devote a significant amount of time to the trade in the relevant period for the tax year.
- (2) For the purposes of this section an individual devotes a significant amount of time to a trade in the relevant period for a tax year if, in the relevant period, the individual spends an average of at least 10 hours a week personally engaged in activities of the trade and those activities are carried on—
  - (a) on a commercial basis, and
  - (b) with a view to the realisation of profits as a result of the activities.
- (3) For this purpose “the relevant period” means the basis period for the tax year (unless the basis period is shorter than 6 months).
- (4) If the basis period for the tax year is shorter than 6 months, “the relevant period” means—
  - (a) the period of 6 months beginning with the date on which the individual first started to carry on the trade (if the basis period begins with that date), or

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- (b) the period of 6 months ending with the date on which the individual permanently ceased to carry on the trade (if the basis period ends with that date).
- (5) If—
- (a) any relief is given on the assumption that the individual devoted or will devote a significant amount of time to the trade in the relevant period for a tax year, but
- (b) the individual in fact failed or fails to do so,
- the relief is withdrawn by the making of an assessment to income tax under this section.

#### Textual Amendments

**F353** Words in s. 74C heading substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 7\(3\)](#)

**F354** Words in s. 74C(1) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 7\(2\)](#)

#### Modifications etc. (not altering text)

**C53** Ss. 74ZA-74D applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(b\)](#)

**C54** Ss. 74B-74D applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(b\)](#)

### 74D Meaning of “qualifying film expenditure” for purposes of sections [<sup>F355</sup>74ZA and 74A]

- (1) For the purposes of sections [<sup>F356</sup>74ZA and 74A] expenditure is qualifying film expenditure if—
- (a) it is deducted under a relevant film provision for the purposes of calculating the profits of a trade, or
- (b) it is incidental expenditure which (although not deducted under a relevant film provision) is incurred in connection with the production of a film, or the acquisition of the original master version of a film, in relation to which expenditure is so deducted.
- (2) Expenditure is incidental if it is on management, administration or obtaining finance.
- (3) The extent to which expenditure is within subsection (1)(b) is determined on a just and reasonable basis.
- (4) For the purposes of sections [<sup>F357</sup>74ZA and 74A] the amount of any loss that derives from qualifying film expenditure is determined on a just and reasonable basis.
- (5) In this section—
- “the acquisition of the original master version of a film” has the same meaning as in Chapter 9 of Part 2 of ITTOIA 2005 (see sections 130 and 132 of that Act),
- “film” is to be read in accordance with paragraph 1 of Schedule 1 to the Films Act 1985, and
- “a relevant film provision” means any one of sections 137 to 140 of ITTOIA 2005 (relief for certified master versions of films).]

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#### Textual Amendments

- F355** Words in s. 74D heading substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 8(3)**
- F356** Words in s. 74D(1) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 8(2)**
- F357** Words in s. 74D(4) substituted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 3 para. 8(2)**

#### Modifications etc. (not altering text)

- C53** Ss. 74ZA-74D applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), **Sch. 2 para. 3(1)(b)**
- C54** Ss. 74B-74D applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), **Sch. 6 para. 1(1)(b)**

*<sup>F358</sup> Restriction on sideways relief and capital gains relief where cash basis applies*

#### Textual Amendments

- F358** S. 74E and cross-heading inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 4 para. 54(4)**

### 74E No relief where cash basis used to calculate losses

- (1) This section applies if—
- a person makes a loss in any trade in a tax year, and
  - an election under section 25A of ITTOIA 2005 (cash basis for small businesses) has effect in relation to the trade for that tax year.
- (2) No sideways relief or capital gains relief may be given to the person for the loss.
- (3) For the purposes of this section—
- capital gains relief is, in relation to a loss, the treatment of a loss as an allowable loss by virtue of section 261B of TCGA 1992 (use of trading loss as a CGT loss), and
  - capital gains relief is given for a loss when it is so treated.]

#### Modifications etc. (not altering text)

- C55** S. 74E applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), **Sch. 2 para. 3(1)(c)**

*Restrictions on sideways relief for certain capital allowances*

### 75 Trade leasing allowances given to individuals

- (1) Sideways relief is not available to an individual for so much of a loss as derives from a trade leasing allowance unless the individual meets the time commitment test.
- (2) A trade leasing allowance is an allowance made under Part 2 of CAA 2001 in respect of—

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- (a) expenditure incurred on the provision of plant or machinery for leasing in the course of a trade, or
  - (b) expenditure incurred on the provision for the purposes of a trade of an asset which is not to be leased but which is fee-producing.
- (3) An asset is fee-producing if payments in the nature of—
- (a) royalties, or
  - (b) licence fees,
- are to arise from rights granted by the individual in connection with the asset.
- (4) To meet the time commitment test conditions A and B must be met.
- (5) Condition A is that the individual must carry on the trade for a continuous period of at least 6 months beginning or ending in the basis period for the tax year in which the loss was made (“the loss-making basis period”).
- (6) Condition B is that substantially the whole of the individual's time must be given to carrying on the trade—
- (a) for a continuous period of at least 6 months beginning or ending in the loss-making basis period (if the individual starts or permanently ceases to carry on the trade in the tax year (or does both)), or
  - (b) throughout the loss-making basis period (in any other case).

**Modifications etc. (not altering text)**

**C56** Ss. 75-79 applied (21.7.2009) by [Finance Act 2009 \(c. 10\), Sch. 6 para. 1\(11\)\(c\)](#)

**C57** Ss. 75-79 applied (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 2 para. 3\(1\)\(d\)](#)

**76 First-year allowances [<sup>F359</sup>and annual investment allowances]: introduction**

Sideways relief is not available to an individual for so much of a loss as derives from [<sup>F360</sup>an annual investment allowance or] a first-year allowance under Part 2 of CAA 2001 if either section 77 or 78 applies.

**Textual Amendments**

**F359** Words in s. 76 heading inserted (21.7.2008 with effect in accordance with Sch. 24 para. 23 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 24 para. 21\(b\)](#)

**F360** Words in s. 76 inserted (21.7.2008 with effect in accordance with Sch. 24 para. 23 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 24 para. 21\(a\)](#)

**Modifications etc. (not altering text)**

**C56** Ss. 75-79 applied (21.7.2009) by [Finance Act 2009 \(c. 10\), Sch. 6 para. 1\(11\)\(c\)](#)

**C57** Ss. 75-79 applied (10.6.2021) by [Finance Act 2021 \(c. 26\), Sch. 2 para. 3\(1\)\(d\)](#)

**77 First-year allowances: partnerships with companies**

- (1) This section applies if—
- (a) the first-year allowance is in respect of expenditure incurred at any time on the provision of plant or machinery for leasing in the course of a qualifying activity, and

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- (b) either the qualifying activity was at that time carried on by the individual in partnership with a company or arrangements have been made with a view to the activity being so carried on.
- (2) It does not matter—
- (a) if the firm includes other partners, or
  - (b) when the arrangements were made.
- (3) For the purposes of this section—
- (a) letting a ship on charter is treated as leasing the ship, and
  - (b) references to making arrangements include effecting schemes.

**Modifications etc. (not altering text)**

- C56** Ss. 75-79 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(c\)](#)  
**C57** Ss. 75-79 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(d\)](#)

**78 First-year allowances [<sup>F361</sup> and annual investment allowances]: arrangements to reduce tax liabilities**

- (1) This section applies if—
- (a) the [<sup>F362</sup>annual investment allowance or] first-year allowance is made in connection with a relevant qualifying activity or a relevant asset (see subsections (2) and (3)), and
  - (b) arrangements within subsection (4) have been made.
- (2) A qualifying activity is a relevant one if—
- (a) at the time when the expenditure was incurred, the activity was carried on by the individual as a partner in a firm, or
  - (b) at a later time, it has been carried on by the individual as a partner in a firm or transferred to a person connected with the individual.
- (3) An asset is a relevant one if, after the time when the expenditure was incurred, the asset was transferred by the individual—
- (a) to a person connected with the individual, or
  - (b) to a person at a price lower than its market value.
- (4) Arrangements are within this subsection if as a result of them—
- (a) the sole benefit, or
  - (b) the main benefit,
- that might be expected to arise to the individual from the transaction under which the expenditure was incurred is the obtaining of a reduction in tax liability by means of sideways relief.
- (5) It does not matter when the arrangements were made.
- (6) References to making arrangements include effecting schemes.

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### Textual Amendments

- F361** Words in s. 78 heading inserted (21.7.2008 with effect in accordance with Sch. 24 para. 23 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 24 para. 22\(b\)](#)
- F362** Words in s. 78(1)(a) inserted (21.7.2008 with effect in accordance with Sch. 24 para. 23 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 24 para. 22\(a\)](#)

### Modifications etc. (not altering text)

- C56** Ss. 75-79 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(c\)](#)
- C57** Ss. 75-79 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(d\)](#)

## 79 Capital allowances restrictions: supplementary

- (1) If relief is given in a case to which section 75 or 76 applies, the relief is withdrawn by the making of an assessment to income tax under this section.
- (2) Expressions which are used—
- (a) in any of sections 75 to 78, and
  - (b) in Part 2 of CAA 2001,
- have the same meaning in those sections as in that Part.

### Modifications etc. (not altering text)

- C56** Ss. 75-79 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(c\)](#)
- C57** Ss. 75-79 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(d\)](#)

### *Restriction on sideways relief for specific trades*

## 80 Ring fence income

- (1) This section applies if—
- (a) a person has income arising from oil extraction activities or oil rights (“ring fence income”), and
  - (b) the person makes a loss in any trade.
- (2) Sideways relief for the loss is not to be given against the person's ring fence income except so far as the loss arises from oil extraction activities or oil rights.
- (3) “Oil extraction activities” and “oil rights” have the [<sup>F363</sup>meaning given by sections 225A and 225B of ITTOIA 2005].

### Textual Amendments

- F363** Words in s. 80(3) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 193](#) (with [Sch. 9 paras. 1-9, 22](#))

### Modifications etc. (not altering text)

- C58** S. 80 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 1\(11\)\(d\)](#)



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**C59** S. 80 applied (10.6.2021) by [Finance Act 2021 \(c. 26\)](#), [Sch. 2 para. 3\(1\)\(e\)](#)

## <sup>F364</sup>**81 Dealings in commodity futures**

.....

### **Textual Amendments**

**F364** S. 81 omitted (8.4.2010 with effect in accordance with Sch. 3 para. 11 of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 3 para. 9](#)

## **82 Exploitation of films**

In the case of a trade carried on by an individual which consists of or includes the exploitation of films—

- (a) see [<sup>F365</sup>section 115] for a restriction on sideways relief if the trade was carried on by the individual as a partner in a firm, and
- (b) see section 796 for a charge to income tax if the individual made a loss in the trade (whether carried on alone or as a partner in a firm) for which sideways relief is claimed.

### **Textual Amendments**

**F365** Words in s. 82(a) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 6, 21](#)

### *Carry-forward trade loss relief*

## **83 Carry forward against subsequent trade profits**

- (1) A person may make a claim for carry-forward trade loss relief if—
  - (a) the person has made a loss in a trade in a tax year, and
  - (b) relief for the loss has not been fully given under this Chapter or any other provision of the Income Tax Acts or under section 261B of TCGA 1992 (use of trading loss as a CGT loss).
- (2) The claim is for the part of the loss for which relief has not been given under any such provision (“the unrelieved loss”) to be deducted in calculating the person's net income for subsequent tax years (see Step 2 of the calculation in section 23).
- (3) But a deduction for that purpose is to be made only from profits of the trade.
- (4) In calculating a person's net income for a tax year, deductions under this section from the profits of a trade are to be made before deductions of any other reliefs from those profits.
- (5) This section applies to professions and vocations as it applies to trades (and section 84 is to be read accordingly).
- (6) This section needs to be read with—

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- (a) section 84 (how relief works),
- (b) section 85 (use of trade-related interest and dividends if trade profits insufficient),
- (c) section 86 (trade transferred to a company),
- (d) section 87 (ring fence trades),
- (e) section 88 (carry forward of certain interest as loss), and
- (f) sections 17(3) and 852(7) of ITTOIA 2005 (effect of becoming or ceasing to be UK resident).

**Modifications etc. (not altering text)**

**C60** S. 83 excluded (with effect in accordance with Sch. 18 para. 63 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 18 para. 20\(6\)](#)

**84 How relief works**

This section explains how the deductions are to be made. The amount of the unrelieved loss to be deducted at any step is limited in accordance with section 25(4) and (5).

*Step 1*

Deduct the unrelieved loss from the profits of the trade of the next tax year.

*Step 2*

Deduct from the profits of the trade of the following tax year the amount of the unrelieved loss not previously deducted.

*Step 3*

Continue to apply Step 2 in relation to the profits of the trade of subsequent tax years until all the unrelieved loss is deducted.

**85 Use of trade-related interest and dividends if trade profits insufficient**

- (1) This section applies if carry-forward trade loss relief cannot be fully given in relation to the profits of a trade of a tax year because (apart from this section) there are no profits, or insufficient profits, of the trade of the tax year.
- (2) For the purposes of the relief any interest or dividends for the tax year that relate to the trade are treated as profits of the trade of the tax year.
- (3) Interest or dividends for the tax year relate to the trade if they—
  - (a) arise in the tax year, and
  - (b) would be brought into account in calculating the profits of the trade but for the fact that they have been subjected to tax under other provisions of the Income Tax Acts.

**86 Trade transferred to a company**

- (1) This section applies if—
  - (a) a trade is carried on by an individual otherwise than as a partner in a firm or by individuals in partnership,

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- (b) the trade is transferred to a company,
  - (c) the consideration for the transfer is wholly or mainly the allotment of shares to the individual or individuals, and
  - (d) in the case of any individual to whom, or to whose nominee or nominees, shares are so allotted, the individual's total income for a relevant tax year includes income derived by the individual from the company.
- (2) For the purposes of carry-forward trade loss relief, the income so derived is treated as—
- (a) profits of the trade of the relevant tax year carried on by the individual, or
  - (b) if the trade was carried on by the individual in partnership, profits of the individual's notional trade of the relevant tax year.
- (3) The tax year in which the transfer is made is a relevant one if—
- (a) the individual is the beneficial owner of the shares allotted as mentioned above, and
  - (b) the company carries on the trade,
- throughout the period beginning with the date of the transfer and ending with the next 5 April.
- (4) Otherwise a tax year is a relevant one if—
- (a) the individual is the beneficial owner of the shares allotted as mentioned above, and
  - (b) the company carries on the trade,
- throughout the tax year.
- (5) The income derived from the company may be by way of dividends on the shares or otherwise.
- (6) This section applies to businesses which are not trades as it applies to trades.

## **87 Ring fence trades**

- (1) This section applies if—
- (a) a person makes a loss in a tax year carrying on oil-related activities (within the meaning of section 16 of ITTOIA 2005),
  - (b) those activities are treated under that section as a separate trade for the tax year or a subsequent tax year,
  - (c) the person makes profits in a subsequent tax year from other activities, and
  - (d) the other activities and the oil-related activities would, but for that section, together form a single trade.
- (2) For the purposes of carry-forward trade loss relief for the loss, the person may treat profits from the other activities in a subsequent tax year as if they were profits of the separate trade (despite section 16 of ITTOIA 2005).

## **88 Carry forward of certain interest as loss**

- (1) This section applies if—
- (a) an individual pays interest in a tax year which is eligible for relief under section 383 (as a result of section 388 or 398),

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- (b) the interest is an expense incurred wholly and exclusively for the purposes of a trade carried on wholly or partly in the United Kingdom, and
  - (c) relief under section 383 cannot be fully given in respect of the interest because there is no income or insufficient income in the tax year.
- (2) For the purposes of carry-forward trade loss relief, the amount for which relief has not been given may be carried forward to subsequent tax years as if it were a loss made in the trade.
- (3) This section applies to professions and vocations as it applies to trades.

### *Terminal trade loss relief*

## **89 Carry back of losses on a permanent cessation of a trade**

- (1) A person may make a claim for terminal trade loss relief if the person—
- (a) permanently ceases to carry on a trade in a tax year (“the final tax year”), and
  - (b) makes a terminal loss in the trade (see section 90).
- (2) The claim is for the total amount of terminal losses made in the trade by the person (“the relievable loss”) to be deducted in calculating the person's net income for the final tax year and the 3 previous tax years (see Step 2 of the calculation in section 23).
- (3) But a deduction for that purpose is to be made only from profits of the trade.
- (4) This section applies to professions and vocations as it applies to trades (and sections 90 and 91 are to be read accordingly).
- (5) This section needs to be read with—
- (a) section 91 (how relief works),
  - (b) section 92 (use of trade-related interest and dividends if trade profits insufficient),
  - (c) section 93 (mineral extraction trade and carry back of balancing allowances), and
  - (d) section 94 (carry back of certain interest as loss).

#### **Modifications etc. (not altering text)**

**C61** Ss. 89-91 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 71(2)**

## **90 Losses that are “terminal losses”**

- (1) Each of the following is a terminal loss made in the trade—
- (a) the loss (if any) made in the trade in the period beginning with the start of the final tax year and ending with the cessation, and
  - (b) the loss (if any) made in the trade in the period consisting of so much of the previous tax year as falls in the 12 months prior to the cessation.
- (2) The profit or loss of a period mentioned in subsection (1)(a) or (b) (a “terminal loss period”) is determined by reference to the profits or losses of periods of account of the trade (calculated for income tax purposes).

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- (3) If no period of account coincides with a terminal loss period, any of the following steps may be taken if they are necessary in order to arrive at the profit or loss of the terminal loss period—
  - (a) apportioning the profit or loss of a period of account between the part of the period that falls in the terminal loss period and the part that does not, and
  - (b) adding the profit or loss of a period of account (or part of a period) to profits or losses of other periods of account (or parts).
- (4) Section 203(3) and (4) of ITTOIA 2005 applies for the purposes of subsection (3) as it applies for the purposes of section 203(2) of that Act.
- (5) If as a result of section 205 of ITTOIA 2005 a deduction is allowed for overlap profit in calculating the profits of the trade of the final tax year, that deduction is to be made in calculating the loss (if any) mentioned in subsection (1)(a) (and is therefore irrelevant for the purposes of subsection (1)(b)).
- (6) In the case of a notional trade carried on by a partner in a firm—
  - (a) the periods of account of the notional trade are taken to be the periods of account of the actual trade, and
  - (b) the references in subsections (2) and (3) to the profits or losses of periods of account of the trade are to the partner's share of the profits or losses of the actual trade determined in accordance with sections 849 and 850 of ITTOIA 2005.

**Modifications etc. (not altering text)**

**C61** Ss. 89-91 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 71(2)**

## 91 How relief works

This section explains how the deductions are to be made. The amount of the relievable loss to be deducted at any step is limited in accordance with section 25(4) and (5).

### *Step 1*

Deduct the relievable loss from the profits of the trade of the final tax year.

### *Step 2*

Deduct any part of the relievable loss not deducted at Step 1 from the profits of the trade of the previous tax year.

### *Step 3*

Deduct any part of the relievable loss not deducted at Step 1 or 2 from the profits of the trade of the tax year before the previous one.

### *Step 4*

Deduct any part of the relievable loss not deducted at Step 1, 2 or 3 from the profits of the trade of the tax year before that one.

### *Other claims*

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If the relievable loss has not been deducted in full at Steps 1 to 4, the person may use the part not so deducted in giving effect to any other relief under this Chapter (depending on the terms of the relief).

**Modifications etc. (not altering text)**

**C61** Ss. 89-91 applied (with application in accordance with Sch. 1 para. 64 of the amending Act) by Finance Act 2022 (c. 3), **Sch. 1 para. 71(2)**

**92 Use of trade-related interest and dividends if trade profits insufficient**

- (1) This section applies if terminal trade loss relief cannot be fully given in relation to the profits of a trade of a tax year because (apart from this section) there are no profits, or insufficient profits, of the trade of the tax year.
- (2) For the purposes of the relief any interest or dividends for the tax year that relate to the trade are treated as profits of the trade of the tax year.
- (3) Interest or dividends for the tax year relate to the trade if they—
  - (a) arise in the tax year, and
  - (b) would be brought into account in calculating the profits of the trade but for the fact that they have been subjected to tax under other provisions of the Income Tax Acts.

**93 Mineral extraction trade and carry back of balancing allowances**

- (1) This section applies if—
  - (a) a person permanently ceases to carry on a mineral extraction trade, and
  - (b) the person makes a claim for terminal trade loss relief and a claim in respect of a balancing allowance under section 355 of CAA 2001.
- (2) Terminal trade loss relief must be given before relief under section 355 of CAA 2001.
- (3) In giving effect to the terminal trade loss relief, the balancing allowance is to be ignored.
- (4) “Mineral extraction trade” has the same meaning as in Part 5 of CAA 2001 (see section 394 of that Act).

**94 Carry back of certain interest as loss**

- (1) This section applies if—
  - (a) an individual pays interest in a tax year which is eligible for relief under section 383 (as a result of section 388 or 398),
  - (b) the interest is an expense incurred wholly and exclusively for the purposes of a trade carried on wholly or partly in the United Kingdom, and
  - (c) relief under section 383 cannot be fully given in respect of the interest because there is no income or insufficient income in the tax year.
- (2) For the purposes of terminal trade loss relief, the amount for which relief has not been given may be treated as a loss made in the trade at the date of payment.

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- (3) This section applies to professions and vocations as it applies to trades.

### *Wholly foreign trades*

## **95 Foreign trades etc: reliefs only against foreign income**

- (1) This section applies if a person—
- (a) carries on a trade, profession or vocation wholly outside the United Kingdom, and
  - (b) makes a loss in the trade, profession or vocation.
- (2) In that case—
- (a) sideways relief for the loss is available only against the person's qualifying foreign income,
  - (b) trade income relief for the loss is available only against the person's qualifying foreign trade income, and
  - (c) section 261B of TCGA 1992 (use of trading loss as a CGT loss) does not apply in relation to the loss.
- (3) “Trade income relief” means—
- (a) carry-forward trade loss relief, or
  - (b) terminal trade loss relief.
- (4) “Qualifying foreign income” means—
- (a) qualifying foreign trade income, or
  - (b) income falling within section 23, 355, 575, 613, 615, 631 or 635 of ITEPA 2003 (foreign employment or pension income).
- (5) “Qualifying foreign trade income” means the profits of any trade, profession or vocation carried on wholly outside the United Kingdom.
- (6) But “qualifying foreign income” and “qualifying foreign trade income” do not include any income which is charged to income tax in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis).

### *Post-cessation trade relief*

## **96 Post-cessation trade relief**

- (1) A person may make a claim for post-cessation trade relief if, after permanently ceasing to carry on a trade—
- (a) the person makes a qualifying payment, or
  - (b) a qualifying event occurs in relation to a debt owed to the person, and the payment is made, or the event occurs, within 7 years of that cessation.
- (2) If the claim is made in respect of a payment, the claim is for the payment to be deducted in calculating the person's net income for the tax year in which the payment is made (see Step 2 of the calculation in section 23).

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- (3) If the claim is made in respect of an event, the claim is for the appropriate amount of the debt to be deducted in calculating the person's net income for the relevant tax year (see Step 2 of the calculation in section 23).
- (4) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the deduction is to be made.
- (5) If—
  - (a) the person is a company within the charge to income tax under Chapter 2 of Part 2 of ITTOIA 2005 in respect of a trade, and
  - (b) the company ceases at any time to be within that tax charge in respect of the trade,
 the company is treated for the purposes of this section as permanently ceasing to carry on the trade at that time.
- (6) This section applies to professions and vocations as it applies to trades (and sections 97 and 98 are to be read accordingly).
- (7) This section needs to be read with—
  - (a) section 97 (meaning of “qualifying payment”),
  - (b) section 98 (meaning of “qualifying event” etc),
  - <sup>F366</sup>(ba) section 98A (denial of relief for tax-generated payments or events),]
  - (c) section 99 (reduction of relief for unpaid trade expenses), and
  - (d) section 100 (prohibition against double counting).

#### Textual Amendments

**F366** S. 96(7)(ba) inserted (17.7.2012) (with effect in accordance with s. 9(5) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 9\(2\)](#)

## 97 Meaning of “qualifying payment”

- (1) For the purposes of section 96 a person makes a “qualifying payment” after permanently ceasing to carry on a trade if the person makes a payment wholly and exclusively for any of purposes A to D.
- (2) A payment is made for purpose A if it is made—
  - (a) in remedying defective work done, goods supplied or services provided in the course of the trade, or
  - (b) by way of damages (whether awarded or agreed) in respect of defective work done, goods supplied or services provided in the course of the trade.
- (3) A payment is made for purpose B if it is made in meeting the expenses of legal or other professional services in connection with a claim (a “claim about defects”) that—
  - (a) work done in the course of the trade was defective,
  - (b) goods supplied in the course of the trade were defective, or
  - (c) services provided in the course of the trade were defective.
- (4) A payment is made for purpose C if it is made in insuring—
  - (a) against liabilities arising out of any claim about defects, or



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- (b) against the liability to meet the expenses of legal or other professional services in connection with any claim about defects.
- (5) A payment is made for purpose D if it is made for the purpose of collecting a debt which was brought into account in calculating the profits of the trade.

## 98 Meaning of “qualifying event” etc

- (1) This section explains for the purposes of section 96 what is meant by—
- (a) a “qualifying event” occurring in relation to a debt owed to a person who has permanently ceased to carry on a trade, and
  - (b) “the appropriate amount of the debt” to be deducted in calculating a person's net income for “the relevant tax year”.
- (2) A qualifying event occurs in relation to a debt owed to the person if—
- (a) an unpaid debt was brought into account in calculating the profits of the trade,
  - (b) the person is entitled to the benefit of the debt, and
  - (c) the debt is released (in whole or in part) as part of a statutory insolvency arrangement (within the meaning of Part 2 of ITTOIA 2005).

The event occurs when the debt is released.

- (3) The appropriate amount of the debt to be deducted is—
- (a) the amount released, or
  - (b) if the person was entitled to only part of the benefit of the debt, the corresponding part of the amount released.
- (4) The relevant tax year is the tax year in which the debt is released.
- (5) A qualifying event also occurs in relation to a debt owed to the person if—
- (a) an unpaid debt was brought into account in calculating the profits of the trade,
  - (b) the person is entitled to the benefit of the debt, and
  - (c) the debt proves to be bad.

The event occurs when the debt proves to be bad.

- (6) The appropriate amount of the debt to be deducted is—
- (a) the amount of the debt, or
  - (b) if the person was entitled to only part of the benefit of the debt, the corresponding part of the amount of the debt.
- (7) The relevant tax year is the tax year specified in the claim.
- (8) The person making the claim may specify—
- (a) the tax year in which the debt proves to be bad, or
  - (b) a subsequent tax year throughout which the debt remains bad (so long as the tax year begins within 7 years of the cessation),
- but, if the person has previously made a claim specifying a tax year in respect of the debt, the person may not specify another tax year in respect of it.

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**Modifications etc. (not altering text)**

**C62** S. 98 applied (17.7.2012) by [Finance Act 2012 \(c. 14\), s. 9\(8\)](#)

**[<sup>F367</sup>98A Denial of relief for tax-generated payments or events**

- (1) Post-cessation trade relief is not available to a person in respect of a payment or an event which is made or occurs directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements (and, accordingly, no section 261D claim may be made in respect of the payment or event).
- (2) For this purpose “relevant tax avoidance arrangements” means arrangements—
  - (a) to which the person is a party, and
  - (b) the main purpose, or one of the main purposes, of which is the obtaining of a reduction in tax liability as a result of the availability of post-cessation trade relief (whether by making a claim for that relief or a section 261D claim).
- (3) In this section—
  - (a) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and
  - (b) “section 261D claim” means a claim under section 261D of TCGA 1992.]

**Textual Amendments**

**F367** S. 98A inserted (17.7.2012) (with effect in accordance with s. 9(5)(7)(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 9\(3\)](#)

**99 Reduction of relief for unpaid trade expenses**

- (1) This section applies for the purposes of post-cessation trade relief in respect of a person's trade if a deduction was made in calculating the profits of the trade for an expense not actually paid (an “unpaid expense”).
- (2) The amount of the person's relief for a tax year is reduced (but not below nil) by—
  - (a) the total amount of unpaid expenses at the end of the tax year, or
  - (b) if the person carried on the trade as a partner in a firm, the person's share of the total amount of unpaid expenses at the end of the tax year.
- (3) But any unpaid expense which is taken into account in reducing the amount of the person's relief for a tax year is left out of account in making reductions for subsequent tax years.
- (4) If the person actually pays an amount in respect of an unpaid expense taken into account in reducing the amount of the person's relief, the person is treated as making a qualifying payment for the purposes of section 96.
- (5) The amount of the qualifying payment is—
  - (a) the amount actually paid, or
  - (b) if less, the amount of the reduction.
- (6) This section applies to professions and vocations as it applies to trades.

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## **100 Prohibition against double counting**

- (1) Post-cessation trade relief is not available for an amount for which relief is given, or is available, under any other provision of the Income Tax Acts.
- (2) For this purpose—
  - (a) relief available under section 254 of ITTOIA 2005 (allowable deductions against post-cessation receipts) is treated as given for other amounts before any amount for which post-cessation trade relief is available, and
  - (b) relief under that section is treated as available if it would have been available but for the fact that the post-cessation receipts (against which the deductions would have been allowed) are exempt under section 524 of this Act.

## **101 Treating excess post-cessation trade relief as CGT loss**

A person who cannot deduct all of an amount under a claim for post-cessation trade relief may be able to treat the unused part as an allowable loss for capital gains tax purposes: see sections 261D and 261E of TCGA 1992.

# **CHAPTER 3**

## **RESTRICTIONS ON TRADE LOSS RELIEF FOR CERTAIN PARTNERS**

### *Introduction*

## **102 Overview of Chapter**

- (1) This Chapter restricts the amount of relief that may be given for any loss made by an individual in a trade carried on by the individual as—
  - (a) a limited partner in any tax year (see sections [<sup>F368</sup>103A, 103C to 105, 113A and 114]),
  - (b) a member of a limited liability partnership (an “LLP”) in any tax year (see sections [<sup>F369</sup>103C, 103D, 107 to 109, 113A and 114]), or
  - (c) a non-active partner [<sup>F370</sup>(see sections 103B to 103D and 110 to 114)].
- (2) This Chapter also restricts the amount of relief that may be given for any loss made by an individual in a trade carried on by the individual as a partner in a firm if the trade consists of or includes the exploitation of films (see [<sup>F371</sup>section 115]).
- [<sup>F372</sup>(2A) This Chapter also provides for no relief to be given for a loss made by an individual in a trade carried on by the individual as a partner in a firm in certain cases where some or all of the loss is allocated to the individual rather than a person who is not an individual (see section 116A).]
- (3) This Chapter needs to be read with sections 791 to 795 (income tax charge recovering excess relief for losses made by individuals carrying on a trade in partnership).
- (4) See also—
  - (a) sections 796 to 803 (income tax charge in relation to individuals claiming relief for film-related trading losses), and
  - (b) sections 804 to 809 (income tax charge in relation to individuals carrying on a trade in partnership claiming relief for licence-related trading losses).

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### Textual Amendments

- F368** Words in s. 102(1)(a) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 7\(2\)\(a\), 21](#)
- F369** Words in s. 102(1)(b) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 7\(2\)\(b\), 21](#)
- F370** Words in s. 102(1)(c) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 7\(2\)\(c\), 21](#)
- F371** Words in s. 102(2) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 7\(3\), 21](#)
- F372** S. 102(2A) inserted (with effect in accordance with Sch. 17 para. 14 of the amending Act) by [Finance Act 2014 \(c. 26\), Sch. 17 para. 8\(2\)](#)

## 103 Meaning of “sideways relief”, “capital gains relief” and “firm”

- (1) For the purposes of this Chapter sideways relief is—
  - (a) trade loss relief against general income (see sections 64 to 70), or
  - (b) early trade losses relief (see sections 72 to 74).
- (2) For the purposes of this Chapter—
  - (a) capital gains relief is, in relation to a loss, the treatment of the loss as an allowable loss by virtue of section 261B of TCGA 1992 (use of trading loss as a CGT loss), and
  - (b) capital gains relief is given for a loss when it is so treated.
- (3) References in this Chapter to a firm are to be read in the same way as references to a firm in Part 9 of ITTOIA 2005 (which contains special provision about partnerships).

## <sup>F373</sup>103A Meaning of “limited partner”

- (1) In this Chapter “ limited partner ” means an individual who carries on a trade—
  - (a) as a limited partner in a limited partnership registered under the Limited Partnerships Act 1907,
  - (b) as a partner in a firm who in substance acts as a limited partner in relation to the trade (see subsection (2)), or
  - (c) while the condition mentioned in subsection (3) is met in relation to the individual.
- (2) An individual in substance acts as a limited partner in relation to a trade if the individual—
  - (a) is not entitled to take part in the management of the trade, and
  - (b) is entitled to have any liabilities (or those beyond a certain limit) for debts or obligations incurred for the purposes of the trade met or reimbursed by some other person.
- (3) The condition referred to in subsection (1)(c) is that—
  - (a) the individual carries on the trade jointly with other persons,
  - (b) under the law of a territory outside the United Kingdom, the individual is not entitled to take part in the management of the trade, and
  - (c) under that law, the individual is not liable beyond a certain limit for debts or obligations incurred for the purposes of the trade.

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- (4) In the case of an individual who is a limited partner as a result of subsection (1)(c), references in this Chapter to the individual's firm are to be read as references to the relationship between the individual and the other persons mentioned in subsection (3) (a).

#### Textual Amendments

**F373** Ss. 103A, 103B inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 8, 21](#)

### 103B Meaning of “non-active partner” etc

- (1) For the purposes of this Chapter an individual carries on a trade as a non-active partner during a tax year if the individual—
- carries on the trade as a partner in a firm at a time during the year,
  - does not carry on the trade as a limited partner at any time during the year, and
  - does not devote a significant amount of time to the trade in the relevant period for the year.
- (2) For the purposes of this Chapter an individual devotes a significant amount of time to a trade in the relevant period for a tax year if, in that period, the individual spends an average of at least 10 hours a week personally engaged in activities [<sup>F374</sup>of the trade and those activities are carried on—
- on a commercial basis, and
  - with a view to the realisation of profits as a result of the activities.]
- (3) For this purpose “ the relevant period ” means the basis period for the tax year (unless the basis period is shorter than 6 months).
- (4) If the basis period for the tax year is shorter than 6 months, “ the relevant period ” means—
- the period of 6 months beginning with the date on which the individual first started to carry on the trade (if the basis period begins with that date), or
  - the period of 6 months ending with the date on which the individual permanently ceased to carry on the trade (if the basis period ends with that date).
- (5) If—
- any relief is given on the assumption that the individual devoted or will devote a significant amount of time to the trade in the relevant period for a tax year, but
  - the individual in fact failed or fails to do so,
- the relief is withdrawn by the making of an assessment to income tax under this section.]

#### Textual Amendments

**F373** Ss. 103A, 103B inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 8, 21](#)

**F374** Words in s. 103B(2) substituted (21.7.2008 with effect in accordance with s. 61(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [s. 61\(1\)](#)

*Status: Point in time view as at 22/02/2024.*

*Changes to legislation: Income Tax Act 2007 is up to date with all changes known to be in force on or before 24 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

### *<sup>F375</sup>Limit on amount of sideways relief and capital gains relief*

#### **Textual Amendments**

**F375** S. 103C and cross-heading inserted (with effect in accordance with Sch. 4 para. 1(2)-(13) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 para. 1\(1\)](#)

#### **103C Limit on reliefs in any tax year not to exceed cap for tax year**

- (1) This section applies if an individual carries on one or more trades—
  - (a) as a non-active partner in a firm during a tax year, or
  - (b) as a limited partner in a firm at a time in that tax year,
 and the individual makes a loss in any of those trades (an “affected loss”) in that tax year.
- (2) There is a restriction on the amount of sideways relief and capital gains relief which (after applying the restrictions under the other provisions of this Chapter) may be given to the individual for any affected loss (but see subsections (6) and (7)).
- (3) The restriction is that the total amount of the sideways relief and capital gains relief given to the individual for all the affected losses must not exceed the cap for that tax year.
- (4) The cap for any tax year is £25,000.
- (5) The Treasury may by order amend the sum for the time being specified in subsection (4).
- (6) The restriction under this section does not apply to so much of any affected loss as derives from qualifying film expenditure (see section 103D).
- (7) The restriction under this section does not affect the giving of sideways relief for a loss made in a trade against the profits of that trade.
- (8) In this section “trade ” does not include a trade which consists of the underwriting business of a member of Lloyd's (within the meaning of section 184 of FA 1993). ]

#### **<sup>F376</sup>103D Meaning of “qualifying film expenditure”**

- (1) For the purposes of this Chapter expenditure is qualifying film expenditure if—
  - (a) it is deducted under a relevant film provision for the purposes of the calculation required by section 849 of ITTOIA 2005 (calculation of firm's profits or losses), or
  - (b) it is incidental expenditure which (although not deducted under a relevant film provision) is incurred in connection with the production of a film, or the acquisition of the original master version of a film, in relation to which expenditure is so deducted.
- (2) Expenditure is incidental if it is on management, administration or obtaining finance.
- (3) The extent to which expenditure is within subsection (1)(b) is determined on a just and reasonable basis.

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- (4) For the purposes of this Chapter the amount of any loss that derives from qualifying film expenditure is determined on a just and reasonable basis.
- (5) In this section—
- “ the acquisition of the original master version of a film ” has the same meaning as in Chapter 9 of Part 2 of ITTOIA 2005 (see sections 130 and 132 of that Act),
  - “ film ” is to be read in accordance with paragraph 1 of Schedule 1 to the Films Act 1985, and
  - “ a relevant film provision ” means any one of sections 137 to 140 of ITTOIA 2005 (relief for certified master versions of films). ]

#### Textual Amendments

**F376** S. 103D inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 9, 21](#)

### *Limited partners*

#### **104 Restriction on reliefs for limited partners**

- (1) This section applies if—
- (a) at a time in a tax year (“the relevant tax year”) an individual carries on a trade (“the relevant trade”) as a limited partner in a firm, and
  - (b) the individual makes a loss in the relevant trade in the relevant tax year.
- (2) There is a restriction on the amount of relief within subsection (3) which may be given to the individual for the loss.
- (3) The relief within this subsection is—
- (a) sideways relief against the individual's income apart from profits of the relevant trade, and
  - (b) capital gains relief.
- (4) The restriction is that—
- (a) the sum of the amount of the relief given and the total amount of all other relevant relief given, less
  - (b) the total amount of recovered relief,
- must not exceed the individual's contribution to the firm as at the end of the basis period for the relevant tax year (see section 105).
- (5) “Relevant relief” means sideways relief or capital gains relief given to the individual for—
- (a) a loss made in the relevant trade in a tax year at a time during which the individual carries on that trade as a limited partner, or
  - (b) a loss made in the relevant trade in an early tax year during which the individual carries on that trade as a non-active partner<sup>F377</sup>....
- (6) “The total amount of recovered relief” means the total amount of income treated as received by the individual under section 792 (recovery of excess relief) as a result of the application of that section in relation to claims for relief for losses made by the individual in the relevant trade.

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- (7) If the firm is carrying on, or has carried on, other trades apart from the relevant trade, for the purpose of determining the total amount of all other relevant relief and the total amount of recovered relief—
- (a) apply subsection (5) in relation to each other trade as well as the relevant trade and then add the results together, and
  - (b) apply subsection (6) as if the reference to the relevant trade were a reference to the relevant trade or any of the other trades.

#### Textual Amendments

**F377** Words in s. 104(5) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 10\(a\), 21](#), [Sch. 27 Pt. 2\(1\)](#)

### 105 Meaning of “contribution to the firm”

- (1) For the purposes of section 104 the individual's contribution to the firm is the sum of amounts A and B.
- (2) Amount A is the amount which the individual has contributed to the firm as capital less so much of that amount (if any) as is within subsection (4).
- (3) In particular, the individual's share of any profits of the firm is to be included in the amount which the individual has contributed to the firm as capital so far as that share has been added to the firm's capital.
- (4) An amount of capital is within this subsection if it is an amount which—
  - (a) the individual has previously drawn out or received back,
  - (b) the individual is or may be entitled to draw out or receive back at any time when the individual is carrying on a trade as a limited partner in the firm, or
  - (c) the individual is or may be entitled to require another person to reimburse to the individual.
- (5) In subsection (4) any reference to drawing out or receiving back an amount is to doing so directly or indirectly but does not include drawing out or receiving back an amount which, because of its being drawn out or received back, is chargeable to income tax as profits of a trade.
- (6) Amount B is the amount of the individual's total share of profits within subsection (7) except so far as—
  - (a) that share has been added to the firm's capital, or
  - (b) the individual has received that share in money or money's worth.
- (7) Profits are within this subsection if they are from the relevant trade.
- (8) In determining the amount of the individual's total share of profits within subsection (7) ignore the individual's share of any losses from the relevant trade which would (apart from this subsection) reduce that amount.
- (9) In subsections (3), (7) and (8) any reference to profits or losses are to profits or losses calculated in accordance with generally accepted accounting practice (before any adjustment required or authorised by law in calculating profits or losses for income tax purposes).



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- (10) If the firm is carrying on, or has carried on, other trades apart from the relevant trade, subsections (7) and (8) have effect as if references to the relevant trade were references to the relevant trade or any of the other trades.
- (11) This section needs to be read with <sup>F378</sup>section 113A and any regulations made under section 114 (exclusion of amounts) in calculating the individual's contribution to the firm for the purposes of section 104).

#### Textual Amendments

**F378** Words in s. 105(11) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 11\(a\), 21](#)

### <sup>F379</sup>106 Meaning of “limited partner”

#### Textual Amendments

**F379** S. 106 repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 12, 21, Sch. 27 Pt. 2\(1\)](#)

### *Members of LLPs*

### 107 Restriction on reliefs for members of LLPs

- (1) This section applies if—
  - (a) an individual carries on a trade (“the relevant trade”) as a member of an LLP at a time in a tax year, and
  - (b) the individual makes a loss in the relevant trade in the tax year (“the relevant tax year”).
- (2) But if the relevant tax year is an early tax year during which the individual carries on the relevant trade as a non-active partner <sup>F380</sup>...—
  - (a) this section does not apply, and
  - (b) section 110 applies instead.
- (3) There is a restriction on the amount of relief within subsection (4) which may be given to the individual for the loss.
- (4) The relief within this subsection is—
  - (a) sideways relief against the individual's income apart from profits of the relevant trade, and
  - (b) capital gains relief.
- (5) The restriction is that—
  - (a) the sum of the amount of the relief given and the total amount of all other relevant relief given, less
  - (b) the total amount of recovered relief,

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must not exceed the individual's contribution to the LLP as at the end of the basis period for the relevant tax year (see section 108).

- (6) “Relevant relief” means sideways relief or capital gains relief given to the individual for—
- (a) a loss made in the relevant trade in a tax year at a time during which the individual carries on that trade as a member of an LLP, or
  - (b) a loss made in the relevant trade in an early tax year during which the individual carries on that trade as a non-active partner.
- (7) “The total amount of recovered relief” means the total amount of income treated as received by the individual under section 792 (recovery of excess relief) as a result of the application of that section in relation to claims for relief for losses made by the individual in the relevant trade.
- (8) If the LLP is carrying on, or has carried on, other trades apart from the relevant trade, for the purpose of determining the total amount of all other relevant relief and the total amount of recovered relief—
- (a) apply subsection (6) in relation to each other trade as well as the relevant trade and then add the results together, and
  - (b) apply subsection (7) as if the reference to the relevant trade were a reference to the relevant trade or any of the other trades.

#### **Textual Amendments**

**F380** Words in s. 107(2) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\), Sch. 4 paras. 10\(b\), 21, Sch. 27 Pt. 2\(1\)](#)

### **108 Meaning of “contribution to the LLP”**

- (1) For the purposes of section 107 the individual's contribution to the LLP at any time (“the relevant time”) is the sum of amounts A and B.
- (2) Amount A is the amount which the individual has contributed to the LLP as capital less so much of that amount (if any) as is within subsection (5).
- (3) In particular, the individual's share of any profits of the LLP is to be included in the amount which the individual has contributed to the LLP as capital so far as that share has been added to the LLP's capital.
- (4) In subsection (3) the reference to profits is to profits calculated in accordance with generally accepted accounting practice (before any adjustment required or authorised by law in calculating profits for income tax purposes).
- (5) An amount of capital is within this subsection if it is an amount which—
  - (a) the individual has previously drawn out or received back,
  - (b) the individual draws out or receives back during the period of 5 years beginning with the relevant time,
  - (c) the individual is or may be entitled to draw out or receive back at any time when the individual is a member of the LLP, or
  - (d) the individual is or may be entitled to require another person to reimburse to the individual.

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- (6) In subsection (5) any reference to drawing out or receiving back an amount is to doing so directly or indirectly but does not include drawing out or receiving back an amount which, because of its being drawn out or received back, is chargeable to income tax as profits of a trade.
- (7) Amount B is the amount of the individual's liability on a winding up of the LLP so far as that amount is not included in amount A.
- (8) For the purposes of subsection (7) the amount of the individual's liability on a winding up of the LLP is the amount which—
  - (a) the individual is liable to contribute to the assets of the LLP in the event of its being wound up, and
  - (b) the individual remains liable to contribute for the period of at least 5 years beginning with the relevant time (or until the LLP is wound up, if that happens before the end of that period).
- (9) This section needs to be read with <sup>F381</sup>section 113A and any regulations made under section 114 (exclusion of amounts] in calculating the individual's contribution to the LLP for the purposes of section 107).

#### Textual Amendments

**F381** Words in s. 108(9) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 11\(b\), 21](#)

### 109 Unrelieved losses brought forward

- (1) This section applies for the purpose of determining an individual's entitlement to sideways relief and capital gains relief if—
  - (a) the individual carries on a trade as a member of an LLP at a time during a tax year (“the current tax year”), and
  - (b) as a result of section 107, sideways relief or capital gains relief has not been given to the individual for amounts of loss made in the trade in previous tax years as a member of the LLP.
- (2) So far as they are not excluded by subsection (3), the amounts of loss mentioned in subsection (1)(b) are treated as having been made in the current tax year.
- (3) An amount of loss is excluded so far as—
  - (a) as a result of this section, sideways relief or capital gains relief has been given to the individual for the amount for years prior to the current tax year or would have been so given had a claim been made, or
  - (b) other than as a result of this section, relief under the Income Tax Acts has been given to the individual for the amount for years prior to the current tax year or for the current tax year.

*Non-active members of LLPs or other partnerships (apart from limited partnerships)*

### 110 Restriction on reliefs for non-active partners in early tax years

- (1) This section applies if—

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- (a) an individual carries on a trade (“the relevant trade”) as a non-active partner in a firm during an early tax year <sup>F382</sup> ..., and
  - (b) the individual makes a loss in the relevant trade in that tax year (“the relevant tax year”).
- (2) There is a restriction on the amount of relief within subsection (3) which may be given to the individual for the loss.
- (3) The relief within this subsection is—
- (a) sideways relief against the individual's income apart from profits of the relevant trade, and
  - (b) capital gains relief.
- (4) The restriction is that—
- (a) the sum of the amount of the relief given and the total amount of all other relevant relief given, less
  - (b) the total amount of recovered relief,
- must not exceed the individual's contribution to the firm as at the end of the basis period for the relevant tax year (see section 111).
- (5) “Relevant relief” means sideways relief or capital gains relief given to the individual for—
- (a) a loss made in the relevant trade in a tax year at a time during which the individual carries on that trade as a limited partner or as a member of an LLP, or
  - (b) a loss made in the relevant trade in an early tax year during which the individual carries on that trade as a non-active partner.
- (6) “The total amount of recovered relief” means the total amount of income treated as received by the individual under section 792 (recovery of excess relief) as a result of the application of that section in relation to claims for relief for losses made by the individual in the relevant trade.
- (7) If the firm is carrying on, or has carried on, other trades apart from the relevant trade, for the purpose of determining the total amount of all other relevant relief and the total amount of recovered relief—
- (a) apply subsection (5) in relation to each other trade as well as the relevant trade and then add the results together, and
  - (b) apply subsection (6) as if the reference to the relevant trade were a reference to the relevant trade or any of the other trades.
- (8) In this section “trade” does not include a trade which consists of the underwriting business of a member of Lloyd's (within the meaning of section 184 of FA 1993).

#### Textual Amendments

**F382** Words in s. 110(1)(a) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 10\(c\), 21](#), [Sch. 27 Pt. 2\(1\)](#)

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## 111 Meaning of “contribution to the firm”

- (1) For the purposes of section 110 the individual's contribution to the firm at any time (“the relevant time”) is the sum of amount A and amount B and, if there is a winding up of the firm, amount C.
- (2) Amount A is the amount which the individual has contributed to the firm as capital less so much of that amount (if any) as is within subsection (4).
- (3) In particular, the individual's share of any profits of the firm is to be included in the amount which the individual has contributed to the firm as capital so far as that share has been added to the firm's capital.
- (4) An amount of capital is within this subsection if it is an amount which—
  - (a) the individual has previously drawn out or received back,
  - (b) the individual draws out or receives back during the period of 5 years beginning with the relevant time,
  - (c) the individual is or may be entitled to draw out or receive back at any time when the individual is carrying on a trade as a partner in the firm, or
  - (d) the individual is or may be entitled to require another person to reimburse to the individual.
- (5) In subsection (4) any reference to drawing out or receiving back an amount is to doing so directly or indirectly but does not include drawing out or receiving back an amount which, because of its being drawn out or received back, is chargeable to income tax as profits of a trade.
- (6) Amount B is the amount of the individual's total share of profits within subsection (7) except so far as—
  - (a) that share has been added to the firm's capital, or
  - (b) the individual has received that share in money or money's worth.
- (7) Profits are within this subsection if they are from the relevant trade.
- (8) In determining the amount of the individual's total share of profits within subsection (7) ignore the individual's share of any losses from the relevant trade which would (apart from this subsection) reduce that amount.
- (9) In subsections (3), (7) and (8) any reference to profits or losses are to profits or losses calculated in accordance with generally accepted accounting practice (before any adjustment required or authorised by law in calculating profits or losses for income tax purposes).
- (10) If the firm is carrying on, or has carried on, other trades apart from the relevant trade, subsections (7) and (8) have effect as if references to the relevant trade were references to the relevant trade or any of the other trades.

Subsection (8) of section 110 applies for the purposes of this subsection as it applies for the purposes of that section.
- (11) Amount C is the amount which the individual has contributed to the assets of the firm on its winding up so far as it is not included in amount A or B.
- (12) This section needs to be read with <sup>F383</sup>section 113A and any regulations made under section 114 (exclusion of amounts] in calculating the individual's contribution to the firm for the purposes of section 110).

*Status: Point in time view as at 22/02/2024.*

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### Textual Amendments

**F383** Words in s. 111(12) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 11\(c\)](#), 21

## 112 [<sup>F384</sup>Meaning of “early tax year”]

<sup>F385</sup>(1) .....

<sup>F385</sup>(2) .....

<sup>F385</sup>(3) .....

<sup>F385</sup>(4) .....

<sup>F385</sup>(5) .....

- (6) In this Chapter “early tax year” means, in relation to an individual carrying on a trade—
- (a) the tax year in which the individual first started to carry on the trade, or
  - (b) one of the next 3 tax years.

### Textual Amendments

**F384** S. 112 heading substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 13\(b\)](#), 21

**F385** S. 112(1)-(5) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 13\(a\)](#), 21, [Sch. 27 Pt. 2\(1\)](#)

## 113 Unrelieved losses brought forward

- (1) This section applies for the purpose of determining an individual's entitlement to sideways relief and capital gains relief in relation to a trade if—
- (a) at a time during a tax year (“the current tax year”) the individual carries on the trade as a partner in a firm or makes a contribution to the assets of a firm within subsection (2) on the firm's winding up, and
  - (b) as a result of section 110, sideways relief or capital gains relief has not been given to the individual for amounts of loss made in the trade in previous tax years.
- (2) A firm is within this subsection if the individual has carried on the trade as a partner in the firm.
- (3) So far as they are not excluded by subsection (4), the amounts of loss mentioned in subsection (1)(b) are treated as having been made in the current tax year.
- (4) An amount of loss is excluded so far as—
- (a) as a result of this section, sideways relief or capital gains relief has been given to the individual for the amount for years prior to the current tax year or would have been so given had a claim been made, or
  - (b) other than as a result of this section, relief under the Income Tax Acts has been given to the individual for the amount for years prior to the current tax year or for the current tax year.

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- (5) For the purpose of applying sections 107 and 110 in relation to the amounts of loss treated by this section as having been made in the current tax year—
- (a) the individual is treated as having carried on the trade during the current tax year as a non-active partner in the firm, and
  - (b) the current tax year is treated as if it were an early tax year in relation to the individual's carrying on of the trade.
- (6) Subsection (7) applies if the individual—
- (a) made a contribution in the current tax year to the assets of the firm on its winding up, but
  - (b) did not carry on the trade as a partner in the firm in the current tax year.
- (7) If this subsection applies—
- (a) the restrictions under sections 66 and 74(1) do not apply in relation to the amounts of loss treated by this section as having been made in the current tax year, and
  - (b) in the application of this Chapter in relation to those amounts of loss, section 110(4) has effect as if the words “the basis period for” were omitted.
- (8) In subsection (1)(b) the reference to amounts of loss does not include amounts of loss which have been treated by section 109 as having been made in any previous tax year.

*[<sup>F386</sup>Exclusion of amounts in calculating contribution to the firm or LLP*

#### Textual Amendments

**F386** S. 113A and cross-heading inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 para. 2](#)

### 113A Exclusion of amounts contributed to access relief

- (1) An amount which an individual contributes to a firm as capital is to be excluded in calculating the individual's contribution to the firm for the purposes of section 104 or 110 if the contribution was made for a prohibited purpose (but see subsection (4)).
- (2) If—
- (a) an individual carries on a trade as a member of an LLP at a time in a tax year,
  - (b) the individual does not devote a significant amount of time to the trade in the relevant period for that year, and
  - (c) the individual contributes an amount to the LLP as capital at any time in that year,
- that amount is to be excluded in calculating the individual's contribution to the LLP for the purposes of section 107 if the contribution was made for a prohibited purpose (but see subsection (4)).
- (3) For the purposes of this section a contribution is made for a prohibited purpose if the main purpose, or one of the main purposes, of making the contribution is the obtaining of a reduction in tax liability by means of sideways relief or capital gains relief.
- (4) This section has no effect in relation to the application of any restriction under section 104, 107 or 110 to any loss that derives wholly from qualifying film expenditure.]

*Status: Point in time view as at 22/02/2024.*

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F387  
...

#### Textual Amendments

**F387** S. 114 cross-heading omitted and s. 114 heading substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 14, 21](#)

### 114 [F387 Power to exclude other amounts ]

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations provide that any amount of a specified description is to be excluded in calculating—
  - (a) the individual's contribution to the firm for the purposes of section 104 or 110, or
  - (b) the individual's contribution to the LLP for the purposes of section 107.
- (2) “Specified” means specified in the regulations.
- (3) The regulations may—
  - (a) make provision having retrospective effect,
  - (b) contain incidental, supplemental, consequential and transitional provision and savings, and
  - (c) make different provision for different cases or purposes.
- (4) The provision which may be made as a result of subsection (3)(b) includes provision amending or repealing any provision of an Act passed before FA 2005.
- (5) No regulations may be made under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.

*Restrictions for film trades carried on in partnership*

### 115 Restrictions on reliefs for firms exploiting films

- (1) This section applies if—
  - (a) an individual carries on a trade as a partner in a firm at a time during a tax year,
  - (b) the trade consists of or includes the exploitation of films,
  - (c) the individual makes a loss in the trade in the tax year (“the affected tax year”),
  - (d) the individual does not devote a significant amount of time to the trade in the relevant period for the affected tax year<sup>F388</sup> ...,
  - (e) the affected tax year is the one in which the individual first started to carry on the trade or is one of the next 3 tax years, and
  - (f) a relevant agreement existed at a time during the affected tax year which guaranteed the individual an amount of income (see subsections (5) to (9)).
- (2) Sideways relief for the loss is not available to the individual, except against any of the individual's income which consists of profits of the trade.
- (3) Capital gains relief for the loss is not available to the individual.
- [F389] (4) The restrictions under this section do not apply to so much of the loss (if any) as derives from qualifying film expenditure.]



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- (5) An agreement is relevant if—
  - (a) it is an agreement made with a view to the individual's carrying on the trade,
  - (b) it is an agreement made in the course of the individual's carrying it on, or
  - (c) it is related to an agreement falling within paragraph (a) or (b).
- (6) An agreement is relevant whether or not the individual is or may be required under the agreement to contribute an amount to the trade.
- (7) Agreements are related to one another if they are entered into under the same arrangement (regardless of when either agreement is entered into).
- (8) A relevant agreement guarantees the individual an amount of income if it (or any part of it) is designed to secure the receipt by the individual of that amount (or at least that amount) of income.
- (9) It does not matter when the amount of income is (or is to be) received.
- (10) In this section “film” is to be read in accordance with paragraph 1 of Schedule 1 to the Films Act 1985 (c. 21).

**Textual Amendments**

**F388** Words in s. 115(1)(d) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 10\(d\), 21](#), [Sch. 27 Pt. 2\(1\)](#)

**F389** S. 115(4) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 15, 21](#)

**<sup>F390</sup>116 Exclusion from restrictions under section 115: certain film expenditure**

.....

**Textual Amendments**

**F390** S. 116 repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 16, 21](#), [Sch. 27 Pt. 2\(1\)](#)

*<sup>F391</sup>Partnerships with mixed membership etc*

**Textual Amendments**

**F391** S. 116A and cross-heading inserted (with effect in accordance with Sch. 17 para. 14 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 8\(2\)](#)

**116A Excess loss allocation to partners who are individuals**

- (1) Subsection (2) applies if—
  - (a) in a tax year, an individual (“A”) makes a loss in a trade as a partner in a firm, and
  - (b) A's loss arises, wholly or partly—
    - (i) directly or indirectly in consequence of, or

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- (ii) otherwise in connection with, relevant tax avoidance arrangements.
- (2) No relevant loss relief may be given to A for A's loss.
- (3) In subsection (1)(b) “relevant tax avoidance arrangements” means arrangements—
  - (a) to which A is party, and
  - (b) the main purpose, or one of the main purposes, of which is to secure that losses of a trade are allocated, or otherwise arise, in whole or in part to A, rather than a person who is not an individual, with a view to A obtaining relevant loss relief.
- (4) In subsection (3)(b) references to A include references to A and other individuals.
- (5) For the purposes of subsection (3)(b) it does not matter if the person who is not an individual is not a partner in the firm or is unknown or does not exist.
- (6) In this section—
  - “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and
  - “relevant loss relief” means—
    - (a) sideways relief,
    - (b) relief under section 83 (carry-forward trade loss relief),
    - (c) relief under section 89 (terminal trade loss relief), or
    - (d) capital gains relief.
- (7) This section applies to professions as it applies to trades.]

## CHAPTER 4

### LOSSES FROM PROPERTY BUSINESSES

#### *Introduction*

#### 117 Overview of Chapter

- (1) This Chapter—
    - (a) provides for losses made in a UK property business or overseas property business in a tax year to be carried forward for deduction from profits in subsequent tax years (see sections 118 and 119),
    - (b) provides in limited circumstances for relief against general income for losses made in a UK property business or overseas property business (see sections 120 to 124), and
    - (c) provides for relief for certain post-cessation payments and events in connection with a UK property business (see section 125).
  - (2) This Chapter also makes provision for a UK property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation to be treated as a trade for the purposes of this Part (see section 127).
- [<sup>F392</sup>(2A) This Chapter also makes provision for an overseas property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation

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in one or more EEA states to be treated as a trade for the purposes of this Part (see section 127ZA).]

[<sup>F393</sup>(3) This Chapter also contains provision restricting relief under this Chapter (see [<sup>F394</sup>sections 127A [<sup>F395</sup>to 127C]])].]

#### Textual Amendments

**F392** S. 117(2A) inserted (19.7.2011) (with effect in accordance with Sch. 14 para. 4 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 14 para. 3\(2\)](#)

**F393** S. 117(3) inserted (8.4.2010 with effect in accordance with s. 25(5)-(7) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [s. 25\(2\)](#)

**F394** Words in s. 117(3) substituted (17.7.2012) (with effect in accordance with s. 10(5)-(7) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [s. 10\(2\)](#)

**F395** Words in s. 117(3) substituted (with effect in accordance with Sch. 17 para. 14 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 9\(2\)](#)

### *Carry-forward property loss relief*

## 118 Carry forward against subsequent property business profits

- (1) Relief is given to a person under this section if the person—
  - (a) carries on a UK property business or overseas property business (alone or in partnership) in a tax year, and
  - (b) makes a loss in the business in the tax year.
- (2) The relief is given by deducting the loss in calculating the person's net income for subsequent tax years (see Step 2 of the calculation in section 23).
- (3) But a deduction for that purpose is to be made only from profits of the business.
- (4) In calculating a person's net income for a tax year, deductions under this section from the profits of a business are to be made before deductions of any other reliefs from those profits.
- (5) No relief is to be given under this section so far as relief for the loss is given under section 120.
- (6) This section needs to be read with section 119 (how relief works).

#### Modifications etc. (not altering text)

**C63** S. 118 excluded (with effect in accordance with Sch. 18 para. 63 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 18 para. 20\(7\)](#)

## 119 How relief works

This section explains how the deductions are to be made. The amount of the loss to be deducted at any step is limited in accordance with section 25(4) and (5).

### *Step 1*

Deduct the loss from the profits of the business for the next tax year.

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### *Step 2*

Deduct from the profits of the business for the following tax year the amount of the loss not previously deducted.

### *Step 3*

Continue to apply Step 2 in relation to the profits of the business for subsequent tax years until all the loss is deducted.

## *Property loss relief against general income*

### **120 Deduction of property losses from general income**

- (1) A person may make a claim for property loss relief against general income if—
  - (a) in a tax year (“the loss-making year”) the person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership), and
  - (b) the loss has a capital allowances connection or the business has a relevant agricultural connection.
- (2) The claim is for the applicable amount of the loss to be deducted in calculating the person's net income—
  - (a) for the loss-making year, or
  - (b) for the next tax year.

(See Step 2 of the calculation in section 23.)
- (3) The claim must specify the tax year for which the deduction is to be made.
- (4) But if the applicable amount of the loss is not deducted in full in giving effect to a claim for the specified tax year, the person may make a separate claim for property loss relief against general income for the other tax year.
- (5) For this purpose “the other tax year” means the tax year which was not specified in the claim already made, but which could have been specified.
- (6) This section needs to be read with—
  - (a) section 121 (how relief works),
  - (b) section 122 (meaning of “the applicable amount of the loss”),
  - (c) section 123 (meaning of “the loss has a capital allowances connection” and “the business has a relevant agricultural connection”), and
  - (d) section 124 (supplementary).

[<sup>F396</sup>(7) See also section 127A (no relief for tax-generated losses attributable to annual investment allowance) [<sup>F397</sup> and section 127B (no relief for tax-generated agricultural expenses)][<sup>F398</sup> and section 127BA (restriction of relief: cash basis)].]

#### **Textual Amendments**

**F396** S. 120(7) inserted (8.4.2010 with effect in accordance with s. 25(5)-(7) of the amending Act) by [Finance Act 2010 \(c. 13\), s. 25\(3\)](#)

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**F397** Words in s. 120(7) inserted (17.7.2012) (with effect in accordance with s. 10(5)-(7) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 10\(3\)](#)

**F398** Words in s. 120(7) inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 2 para. 62\(2\)](#)

## 121 How relief works

- (1) This subsection explains how the deductions are to be made.

The amount of the applicable amount of the loss to be deducted at any step is limited in accordance with [F399 sections 24A and 25(4) and (5)].

### *Step 1*

Deduct the applicable amount of the loss in calculating the person's net income for the specified tax year.

### *Step 2*

This step applies if the applicable amount of the loss has not been deducted in full and the person makes a separate claim for the other tax year.

Deduct the part of the applicable amount of the loss not deducted at Step 1 in calculating the person's net income for the other tax year.

### *Other relief*

If the applicable amount of the loss has not been deducted in full at Steps 1 and 2, relief is given under section 118 for the part not so deducted.

- (2) There is a priority rule if—
- a person makes a claim for property loss relief against general income (“the prior claim”) in respect of a loss made in a tax year,
  - the prior claim specifies the next tax year as the one for which the deduction is to be made (“the relevant tax year”),
  - the person makes another claim for property loss relief against general income in respect of a loss made in the relevant tax year, and
  - that other claim also specifies the relevant tax year as the one for which the deduction is to be made.
- (3) The rule is that priority is given to making deductions under the prior claim.

### **Textual Amendments**

**F399** Words in s. 121(1) substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 3 para. 2\(3\)\(c\)](#)

## 122 Meaning of “the applicable amount of the loss”

- (1) This section defines “the applicable amount of the loss” for the purposes of sections 120 and 121.
- (2) “The applicable amount of the loss” is—
- the amount of the loss, or

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- (b) if less, the amount arising from the relevant connection (see subsections (3) to (5)).
- (3) If—
  - (a) the loss has a capital allowances connection, but
  - (b) the business does not have a relevant agricultural connection,
 the amount arising from the relevant connection is the amount (“the net capital allowances”) by which the capital allowances exceed the charges under CAA 2001.
- (4) If—
  - (a) the business has a relevant agricultural connection, but
  - (b) the loss does not have a capital allowances connection,
 the amount arising from the relevant connection is the amount of the allowable agricultural expenses.
- (5) If—
  - (a) the loss has a capital allowances connection, and
  - (b) the business has a relevant agricultural connection,
 the amount arising from the relevant connection is the sum of the net capital allowances and the amount of the allowable agricultural expenses.

### **123 Meaning of “the loss has a capital allowances connection” and “the business has a relevant agricultural connection”**

- (1) This section applies for the purposes of sections 120 and 122.
- (2) The loss has a capital allowances connection if, in calculating the loss—
  - (a) the amount of the capital allowances treated as expenses of the business, exceeds
  - (b) the amount of any charges under CAA 2001 treated as receipts of the business.
- [<sup>F400</sup>(2A) But any allowance under Part 2A of CAA 2001 (structures and buildings allowances) is to be ignored for the purposes of subsection (2).]
- (3) The business has a relevant agricultural connection if—
  - (a) the business is carried on in relation to land that consists of or includes an agricultural estate, and
  - (b) allowable agricultural expenses deducted in calculating the loss are attributable to the estate.
- (4) “Agricultural estate” means land—
  - (a) which is managed as one estate, and
  - (b) which consists of or includes land occupied wholly or mainly for purposes of husbandry.
- (5) “Allowable agricultural expenses”, in relation to an agricultural estate, means any expenses attributable to the estate which are deductible—
  - (a) in respect of maintenance, repairs, insurance or management of the estate, and
  - (b) otherwise than in respect of interest payable on a loan.
- (6) But expenses attributable to the parts of the estate used wholly for purposes other than those of husbandry are to be ignored.

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- (7) And if parts of the estate are used both—
- (a) for purposes of husbandry, and
  - (b) for other purposes,
- the expenses in respect of those parts are to be reduced so far as those parts are used for the other purposes.

#### Textual Amendments

**F400** S. 123(2A) inserted (5.7.2019) by [The Capital Allowances \(Structures and Buildings Allowances\) Regulations 2019 \(S.I. 2019/1087\)](#), regs. 1, 6

## 124 Supplementary

- (1) A claim for property loss relief against general income must be made on or before the first anniversary of the normal self-assessment filing date for the tax year specified in the claim.
- (2) If a loss has previously been carried forward under section 118, the claim must be accompanied by the amendments of any return made under—
- (a) section 8 of TMA 1970, or
  - (b) section 8A of TMA 1970,
- that are necessary to give effect to section 118(5) (reducing the amount of the loss carried forward (if necessary, to nil)).

### *Post-cessation property relief*

## 125 Post-cessation property relief

- (1) A person may make a claim for post-cessation property relief if, after permanently ceasing to carry on a UK property business (whether carried on alone or in partnership) —
- (a) the person makes a qualifying payment, or
  - (b) a qualifying event occurs in relation to a debt owed to the person,
- and the payment is made, or the event occurs, within 7 years of that cessation.
- (2) If the claim is made in respect of a payment, the claim is for the payment to be deducted in calculating the person's net income for the tax year in which the payment is made (see Step 2 of the calculation in section 23).
- (3) If the claim is made in respect of an event, the claim is for the appropriate amount of the debt to be deducted in calculating the person's net income for the relevant tax year (see Step 2 of the calculation in section 23).
- (4) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the tax year for which the deduction is to be made.
- (5) If—
- (a) the person is a company within the charge to income tax under Chapter 3 of Part 3 of ITTOIA 2005 in respect of a UK property business, and

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- (b) the company ceases at any time to be within that tax charge in respect of the business,  
the company is treated for the purposes of this section as permanently ceasing to carry on the business at that time.
- (6) The following provisions apply for the purposes of post-cessation property relief as they apply for the purposes of post-cessation trade relief (but as if any reference to a trade were to a UK property business)—
- (a) section 97 (meaning of “qualifying payment”),
  - (b) section 98 (meaning of “qualifying event” etc),
  - [<sup>F401</sup>(ba) section 98A (denial of relief for tax-generated payments or events),]
  - (c) section 99 (reduction of relief for unpaid trade expenses), and
  - (d) section 100 (prohibition against double counting).

#### **Textual Amendments**

**F401** S. 125(6)(ba) inserted (17.7.2012) (with effect in accordance with s. 9(6)-(8) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 9\(4\)](#)

## **126 Treating excess post-cessation property relief as CGT loss**

A person who cannot deduct all of an amount under a claim for post-cessation property relief may be able to treat the unused part as an allowable loss for capital gains tax purposes: see sections 261D and 261E of TCGA 1992.

### *Furnished holiday accommodation*

## **127 UK furnished holiday lettings business treated as trade**

- (1) This section applies if, in a tax year, a person carries on a UK furnished holiday lettings business.
  - (2) “UK furnished holiday lettings business” means a UK property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation (within the meaning of Chapter 6 of Part 3 of ITTOIA 2005).
  - (3) For the purposes of this Part (but as modified below) the person is treated instead as carrying on in the tax year a single trade—
    - (a) which consists of every commercial letting of furnished holiday accommodation comprised in the person's UK furnished holiday lettings business, and
    - (b) the profits of which are chargeable to income tax.
- [<sup>F402</sup>(3A) Chapter 2 applies as if sections 64 to 82 and 89 to 95 were omitted.]
- (7) If there is a letting of accommodation only part of which is furnished holiday accommodation, just and reasonable apportionments are to be made for the purpose of determining what is comprised in the trade treated as carried on.



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#### Textual Amendments

**F402** S. 127(3A) substituted (19.7.2011) for s. 127(4)-(6) (with effect in accordance with Sch. 14 para. 4 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 14 para. 3\(3\)](#)

#### Modifications etc. (not altering text)

**C64** S. 127(1)-(3) modified (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 6 para. 2\(5\)](#)

### [<sup>F403</sup> **127ZA EEA furnished holiday lettings business treated as trade**

- (1) This section applies if, in a tax year, a person carries on an EEA furnished holiday lettings business.
- (2) “EEA furnished holiday lettings business” means an overseas property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation (within the meaning of Chapter 6 of Part 3 of ITTOIA 2005) in one or more EEA states.
- (3) For the purposes of this Part (but as modified below) the person is treated instead as carrying on in the tax year a single trade—
  - (a) which consists of every commercial letting of furnished holiday accommodation comprised in the person's EEA furnished holiday lettings business, and
  - (b) the profits of which are chargeable to income tax.
- (4) Chapter 2 applies as if sections 64 to 82 and 89 to 95 were omitted.
- (5) If there is a letting of accommodation only part of which is furnished holiday accommodation, just and reasonable apportionments are to be made for the purpose of determining what is comprised in the trade treated as carried on.]

#### Textual Amendments

**F403** S. 127ZA inserted (19.7.2011) (with effect in accordance with Sch. 14 para. 4 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 14 para. 3\(4\)](#)

### [<sup>F404</sup> *Restrictions on relief*

#### Textual Amendments

**F404** S. 127A and cross-heading inserted (8.4.2010 with effect in accordance with s. 25(5)-(7) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [s. 25\(4\)](#)

### **127A No relief for tax-generated losses attributable to annual investment allowance**

- (1) This section applies if—
  - (a) in a tax year a person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership),
  - (b) the loss has a capital allowances connection (see section 123(2)), and

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- (c) the loss arises directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements.
- (2) No property loss relief against general income may be given to the person for so much of the applicable amount of the loss as is attributable to an annual investment allowance.
- (3) For the purposes of subsection (2), the applicable amount of the loss is to be treated as attributable to capital allowances before anything else and to an annual investment allowance before any other capital allowance.
- (4) In subsection (1) “relevant tax avoidance arrangements” means arrangements—
  - (a) to which the person is a party, and
  - (b) the main purpose, or one of the main purposes, of which is being in a position to make use of an annual investment allowance in the obtaining of a reduction in tax liability by means of property loss relief against general income.
- (5) In subsection (4) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).
- (6) In this section “the applicable amount of the loss” has the meaning given by section 122.]

**[<sup>F405</sup>127B] No relief for tax-generated agricultural expenses**

- (1) This section applies if—
  - (a) in a tax year a person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership),
  - (b) the business has a relevant agricultural connection for the purposes of section 120 (see section 123(3) to (7)), and
  - (c) any allowable agricultural expenses deducted in calculating the loss arise directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements.
- (2) No property loss relief against general income may be given to the person for so much of the applicable amount of the loss as is attributable to expenses falling within subsection (1)(c).
- (3) For the purposes of subsection (2), the applicable amount of the loss is to be treated as attributable to expenses falling within subsection (1)(c) before anything else.
- (4) In subsection (1) “relevant tax avoidance arrangements” means arrangements—
  - (a) to which the person is a party, and
  - (b) the main purpose, or one of the main purposes, of which is the obtaining of a reduction in tax liability by means of property loss relief against general income.
- (5) In subsection (4) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).
- (6) In this section “the applicable amount of the loss” has the meaning given by section 122 and “allowable agricultural expenses” has the meaning given by section 123.]

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#### Textual Amendments

**F405** S. 127B inserted (17.7.2012) (with effect in accordance with s. 10(5)-(7) of the amending Act) by [Finance Act 2012 \(c. 14\), s. 10\(4\)](#)

### [<sup>F406</sup> **127BA** Restriction of relief: cash basis

- (1) This section applies if—
  - (a) in a tax year a person makes a loss in a UK property business or overseas property business (whether carried on alone or in partnership), and
  - (b) the profits of the business are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).
- (2) No property loss relief against general income may be given to the person for the loss.]

#### Textual Amendments

**F406** S. 127BA inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 2 para. 62\(3\)](#)

### [<sup>F407</sup> **127C** Excess loss allocation to partners who are individuals

- (1) Subsection (2) applies if—
  - (a) in a tax year, an individual (“A”) makes a loss in a UK property business or an overseas property business as a partner in a firm, and
  - (b) A's loss arises, wholly or partly—
    - (i) directly or indirectly in consequence of, or
    - (ii) otherwise in connection with, relevant tax avoidance arrangements.
- (2) No relevant loss relief may be given to A for A's loss.
- (3) In subsection (1)(b) “relevant tax avoidance arrangements” means arrangements—
  - (a) to which A is party, and
  - (b) the main purpose, or one of the main purposes, of which is to secure that losses of a UK property business or an overseas property business are allocated, or otherwise arise, in whole or in part to A, rather than a person who is not an individual, with a view to A obtaining relevant loss relief.
- (4) In subsection (3)(b) references to A include references to A and other individuals.
- (5) For the purposes of subsection (3)(b) it does not matter if the person who is not an individual is not a partner in the firm or is unknown or does not exist.
- (6) In this section—

“arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable), and

“relevant loss relief” means relief under section 118 (carry-forward property loss relief) or section 120 (property loss relief against general income).]

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### Textual Amendments

**F407** S. 127C inserted (with effect in accordance with Sch. 17 para. 14 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 9\(3\)](#)

## CHAPTER 5

### LOSSES IN AN EMPLOYMENT OR OFFICE

#### 128 Employment loss relief against general income

- (1) A person may make a claim for employment loss relief against general income if the person—
  - (a) is in employment or holds an office in a tax year, and
  - (b) makes a loss in the employment or office in the tax year (“the loss-making year”).
- (2) The claim is for the loss to be deducted in calculating the person's net income—
  - (a) for the loss-making year,
  - (b) for the previous tax year, or
  - (c) for both tax years.

(See Step 2 of the calculation in section 23.)

- (3) If the claim is made in relation to both tax years, the claim must specify the year for which a deduction is to be made first.
- (4) Otherwise the claim must specify either the loss-making year or the previous tax year.
- (5) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the loss-making year.
- [<sup>F408</sup>(5A) No claim may be made in respect of the loss if and to the extent that it is made as a result of anything done in pursuance of arrangements the main purpose, or one of the main purposes, of which is the avoidance of tax.]
- (6) Nothing in this section prevents a person who makes a claim specifying a particular tax year in respect of a loss from making a further claim specifying the other tax year in respect of the unused part of the loss.
- (7) This Chapter is subject to paragraph 2 of Schedule 1B to TMA 1970 (claims for loss relief involving two or more years).
- (8) This section needs to be read with section 129 (how relief works).

### Textual Amendments

**F408** S. 128(5A) inserted (with effect in accordance with s. 68(2) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [s. 68\(1\)](#) (with [s. 68\(3\)](#))

*Status: Point in time view as at 22/02/2024.*

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## 129 How relief works

- (1) This subsection explains how the deductions are to be made.

The amount of the loss to be deducted at any step is limited in accordance with [F409 sections 24A and 25(4) and (5)].

### *Step 1*

Deduct the loss in calculating the person's net income for the specified tax year.

### *Step 2*

This step applies only if the claim is made in relation to both tax years.

Deduct the part of the loss not deducted at Step 1 in calculating the person's net income for the other tax year.

- (2) There is a priority rule if a person—
- (a) makes a claim for employment loss relief against general income (“the first claim”) in relation to the loss-making year, and
  - (b) makes a separate claim in respect of a loss made in the following tax year in relation to the same tax year as the first claim.
- (3) The rule is that priority is given to making deductions under the first claim.
- (4) For this purpose a “separate claim” means—
- (a) a claim for employment loss relief against general income, or
  - (b) a claim for trade loss relief against general income (see sections 64 to 70).

### **Textual Amendments**

**F409** Words in s. 129(1) substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 3 para. 2(3)(d)**

## 130 Treating loss in employment or office as CGT loss

A person who cannot deduct all of a loss in an employment or office under a claim for employment loss relief against general income may be able to treat the unused part as an allowable loss for capital gains tax purposes: see sections 261B and 261C of TCGA 1992.

## CHAPTER 6

### LOSSES ON DISPOSAL OF SHARES

#### *Share loss relief against general income*

## 131 Share loss relief

- (1) An individual is eligible for relief under this Chapter (“share loss relief”) if—
- (a) the individual incurs an allowable loss for capital gains tax purposes on the disposal of any shares in any tax year (“the year of the loss”), and

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- (b) the shares are qualifying shares.

This is subject to subsections (3) and (4) and section 136(2).

- (2) Shares are qualifying shares for the purposes of this Chapter if—
- (a) EIS relief is attributable to them, or
  - (b) if EIS relief is not attributable to them, they are shares in a qualifying trading company which have been subscribed for by the individual.
- (3) Subsection (1) applies only if the disposal of the shares is—
- (a) by way of a bargain made at arm's length,
  - (b) by way of a distribution in the course of dissolving or winding up the company,
  - (c) a disposal within section 24(1) of TCGA 1992 (entire loss, destruction, dissipation or extinction of asset), or
  - (d) a deemed disposal under section 24(2) of that Act (claim that value of the asset has become negligible).
- (4) Subsection (1) does not apply to any allowable loss incurred on the disposal if—
- (a) the shares are the subject of an exchange or arrangement of the kind mentioned in section 135 or 136 of TCGA 1992 (company reconstructions etc), and
  - (b) because of section 137 of that Act, the exchange or arrangement involves a disposal of the shares.

### 132 Entitlement to claim

- (1) An individual who is eligible for share loss relief may make a claim for the loss to be deducted in calculating the individual's net income—
- (a) for the year of the loss,
  - (b) for the previous tax year, or
  - (c) for both tax years.

(See Step 2 of the calculation in section 23.)

- (2) If the claim is made in relation to both tax years, the claim must specify the year for which a deduction is to be made first.
- (3) Otherwise the claim must specify either the year of the loss or the previous tax year.
- (4) The claim must be made on or before the first anniversary of the normal self-assessment filing date for the year of the loss.

### 133 How relief works

- (1) This subsection explains how the deductions are to be made.

The amount of the loss to be deducted at any step is limited in accordance with [F410 sections 24A and 25(4) and (5)] .

#### *Step 1*

Deduct the loss in calculating the individual's net income for the specified tax year.

#### *Step 2*

This step applies only if the claim is made in relation to both tax years.

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Deduct the part of the loss not deducted at Step 1 in calculating the individual's net income for the other tax year.

- (2) Subsection (1) is subject to sections 136(5) and 147 (which set limits on the amounts of share loss relief that may be obtained in particular cases).
- (3) If an individual—
  - (a) makes a claim for share loss relief against income (“the first claim”) in relation to the year of the loss, and
  - (b) makes a separate claim for share loss relief against income in respect of a loss made in the following tax year in relation to the same tax year as the first claim, priority is to be given to making deductions under the first claim.
- (4) Any share loss relief claimed in respect of any income has priority over any relief claimed in respect of that income under section 64 (deduction of losses from general income) or 72 (early trade losses relief).
- (5) A claim for share loss relief does not affect any claim for a deduction under TCGA 1992 for so much of the allowable loss as is not deducted under subsection (1).

#### **Textual Amendments**

**F410** Words in s. 133(1) substituted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 3 para. 2(3)(e)**

#### *Shares to which EIS relief is not attributable*

### **134 Qualifying trading companies**

- (1) In relation to shares to which EIS relief is not attributable (see section 131(2)(b)), a qualifying trading company is a company which meets each of conditions A to [F411C].
- (2) Condition A is that the company either—
  - (a) meets each of the following requirements on the date of the disposal—
    - (i) the trading requirement (see section 137),
    - (ii) the control and independence requirement (see section 139),
    - (iii) the qualifying subsidiaries requirement (see section 140), and
    - (iv) the property managing subsidiaries requirement (see section 141), or
  - (b) has ceased to meet any of those requirements at a time which is not more than 3 years before that date and has not since that time been an excluded company, an investment company or a trading company.
- (3) Condition B is that the company either—
  - (a) has met each of the requirements mentioned in condition A for a continuous period of 6 years ending on that date or at that time, or
  - (b) has met each of those requirements for a shorter continuous period ending on that date or at that time and has not before the beginning of that period been an excluded company, an investment company or a trading company.
- (4) Condition C is that the company—

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- (a) met the gross assets requirement (see section 142) both immediately before and immediately after the issue of the shares in respect of which the share loss relief is claimed, and
- (b) met the unquoted status requirement (see section 143) at the relevant time within the meaning of that section.

<sup>F412</sup>(5) . . . . .

#### Textual Amendments

**F411** Word in s. 134(1) substituted (with effect in accordance with s. 38(3) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 38\(2\)\(a\)\(i\)](#)

**F412** S. 134(5) repealed (with effect in accordance with s. 38(3) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 38\(1\)\(a\)](#)

### 135 Subscriptions for shares

- (1) This section has effect in relation to shares to which EIS relief is not attributable.
- (2) An individual subscribes for shares in a company if they are issued to the individual by the company in consideration of money or money's worth.
- (3) If—
  - (a) an individual (“A”) subscribed for, or is treated under subsection (4) or this subsection as having subscribed for, any shares,
  - (b) A transferred the shares to another individual (“B”) during their lives, and
  - (c) A was B's spouse or civil partner at the time of the transfer,
 B is treated as having subscribed for the shares.
- (4) If—
  - (a) an individual has subscribed for, or is treated under subsection (3) or this subsection as having subscribed for, any shares, and
  - (b) any corresponding bonus shares are subsequently issued to the individual,
 the individual is treated as having subscribed for the bonus shares.

### 136 Disposals of new shares

- (1) This section has effect in relation to shares to which EIS relief is not attributable.
- (2) If—
  - (a) an individual disposes of shares (“the new shares”), and
  - (b) the new shares are, by virtue of section 127 of TCGA 1992 (reorganisation etc treated as not involving disposal), identified with other shares (“the old shares”) previously held by the individual,
 the individual is not eligible for share loss relief on the disposal of the new shares unless [<sup>F413</sup>condition A or B] is met.  
 This is subject to section 145(3).
- (3) Condition A is that the individual would have been eligible for share loss relief on a disposal of the old shares—



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- (a) if the individual had incurred an allowable loss in disposing of them by way of a bargain made at arm's length on the occasion of the disposal that would have occurred but for section 127 of TCGA 1992, and
  - (b) where applicable, if this Chapter had then been in force.
- (4) Condition B is that the individual gave for the new shares consideration in money or money's worth other than consideration of the kind mentioned in paragraph (a) or (b) of section 128(2) of TCGA 1992 (“new consideration”).
- (5) If the individual relies on condition B, the amount of share loss relief on the disposal of the new shares must not exceed the amount or value of the new consideration taken into account as a deduction in calculating the amount of the loss incurred on the disposal.

#### Textual Amendments

**F413** Words in s. 136(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 496** (with **Sch. 2**)

### *Qualifying trading companies: the requirements*

#### **137 The trading requirement**

- (1) The trading requirement is that—
- (a) the company, ignoring any incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, or
  - (b) the company is a parent company and the business of the group does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- (2) If the company intends that one or more other companies should become its qualifying subsidiaries with a view to their carrying on one or more qualifying trades—
- (a) the company is treated as a parent company for the purposes of subsection (1)(b), and
  - (b) the reference in subsection (1)(b) to the group includes the company and any existing or future company that will be its qualifying subsidiary after the intention in question is carried into effect.

This subsection does not apply at any time after the abandonment of that intention.

- (3) For the purpose of subsection (1)(b) the business of the group means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (4) For the purpose of determining the business of a group, activities are ignored so far as they are activities carried on by a mainly trading subsidiary otherwise than for its main purpose.
- (5) For the purposes of determining the business of a group, activities of a group company are ignored so far as they consist in—
- (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
  - (b) the making of loans to another group company,

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- (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company, or
  - (d) the holding and managing of property used by a group company for the purpose of research and development from which it is intended—
    - (i) that a qualifying trade to be carried on by a group company will be derived, or
    - (ii) that a qualifying trade carried on or to be carried on by a group company will benefit.
- (6) Any reference in subsection (5)(d)(i) or (ii) to a group company includes a reference to any existing or future company which will be a group company at any future time.
- (7) In this section—
- “excluded activities” has the meaning given by section 192 read with sections 193 to 199,
  - “group” means a parent company and its qualifying subsidiaries,
  - “group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries,
  - “incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the company in question,
  - “mainly trading subsidiary” means a subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly,
  - “non-qualifying activities” means—
    - (a) excluded activities, and
    - (b) activities (other than research and development) carried on otherwise than in the course of a trade,
  - “parent company” means a company that has one or more qualifying subsidiaries,
  - “qualifying subsidiary” is to be read in accordance with section 191,
  - “qualifying trade” has the meaning given by section 189, and
  - “research and development” has the meaning given by section 1006.
- (8) In sections 189(1)(b) and 194(4)(c) (as applied by subsection (7) for the purposes of the definitions of “excluded activities” and “qualifying trade”) “period B” means the continuous period that is relevant for the purposes of section 134(3).
- [<sup>F414</sup>(9) In section 195 as applied by subsection (7) for the purposes mentioned in subsection (8), references to the issuing company are to be read as references to the company mentioned in subsection (1).]

#### Textual Amendments

**F414** S. 137(9) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(5\), 13](#)

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### **138 Ceasing to meet trading requirement because of administration or receivership**

- (1) A company is not regarded as ceasing to meet the trading requirement merely because of anything done in consequence of the company or any of its subsidiaries being in administration or receivership.

This has effect subject to subsections (2) and (3).

- (2) Subsection (1) applies only if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a result of the company concerned being in administration or receivership,

is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

- (3) A company ceases to meet the trading requirement if before the time that is relevant for the purposes of section 134(2)—
- (a) a resolution is passed, or an order is made, for the winding up of the company or any of its subsidiaries (or, in the case of a winding up otherwise than under the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989, any other act is done for the like purpose), or
  - (b) the company or any of its subsidiaries is dissolved without winding up.

This is subject to subsection (4).

- (4) Subsection (3) does not apply if—
- (a) the winding up is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax, and
  - (b) the company continues, during the winding up, to be a trading company.

- (5) References in this section to a company being “in administration” or “in receivership” are to be read in accordance with section 252.

### **139 The control and independence requirement**

- (1) The control element of the requirement is that—
- (a) the company must not control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the company, and
  - (b) no arrangements must be in existence by virtue of which the company could fail to meet paragraph (a) (whether at a time during the continuous period that is relevant for the purposes of section 134(3) or otherwise).

- (2) The independence element of the requirement is that—
- (a) the company must not—
    - (i) be a 51% subsidiary of another company, or
    - (ii) be under the control of another company (or of another company and any other person connected with that other company), without being a 51% subsidiary of that other company, and
  - (b) no arrangements must be in existence by virtue of which the company could fail to meet paragraph (a) (whether at a time during the continuous period that is relevant for the purposes of section 134(3) or otherwise).

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- (3) This section is subject to section 145(3).
- (4) In this section—
- “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable,
- “control”, in subsection (1)(a), is to be read in accordance with [F415 sections 450 and 451 of CTA 2010],
- “qualifying subsidiary” is to be read in accordance with section 191.

#### Textual Amendments

**F415** Words in s. 139(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 497** (with Sch. 2)

### 140 The qualifying subsidiaries requirement

- (1) The qualifying subsidiaries requirement is that any subsidiary that the company has must be a qualifying subsidiary of the company.
- (2) In this section “qualifying subsidiary” is to be read in accordance with section 191.

### 141 The property managing subsidiaries requirement

- (1) The property managing subsidiaries requirement is that any property managing subsidiary that the company has must be a qualifying 90% subsidiary of the company.
- (2) In this section—
- “property managing subsidiary” has the meaning given by section 188(2),
- “qualifying 90% subsidiary” has the meaning given by section 190.

### 142 The gross assets requirement

- (1) The gross assets requirement in the case of a single company is that the value of the company's gross assets—
- (a) must not exceed £7 million immediately before the shares in respect of which the share loss relief is claimed are issued, and
  - (b) must not exceed £8 million immediately afterwards.
- (2) The gross assets requirement in the case of a parent company is that the value of the group assets—
- (a) must not exceed £7 million immediately before the shares in respect of which the share loss relief is claimed are issued, and
  - (b) must not exceed £8 million immediately afterwards.
- (3) The value of the group assets means the sum of the values of the gross assets of each of the members of the group, ignoring any that consist in rights against, or shares in or securities of, another member of the group.
- (4) In this section—
- “group” means a parent company and its qualifying subsidiaries,

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“parent company” means a company that has one or more qualifying subsidiaries,

“qualifying subsidiary” is to be read in accordance with section 191, and

“single company” means a company that does not have one or more qualifying subsidiaries.

### 143 The unquoted status requirement

- (1) The unquoted status requirement is that, at the time (“the relevant time”) at which the shares in respect of which the share loss relief is claimed are issued—
  - (a) the company must be an unquoted company,
  - (b) there must be no arrangements in existence for the company to cease to be an unquoted company, and
  - (c) there must be no arrangements in existence for the company to become a subsidiary of another company (“the new company”) by virtue of an exchange of shares, or shares and securities, if—
    - (i) section 145 applies in relation to the exchange, and
    - (ii) arrangements have been made with a view to the new company ceasing to be an unquoted company.
- (2) The arrangements referred to in subsection (1)(b) and (c)(ii) do not include arrangements in consequence of which any shares, stocks, debentures or other securities of the company or the new company are at any subsequent time—
  - (a) listed on a stock exchange that is a recognised stock exchange by virtue of an order made under section [F416 1005(1)(b)], or
  - (b) listed on an exchange, or dealt in by any means, designated by an order made for the purposes of section 184(3)(b) or (c),if the order was made after the relevant time.
- (3) In this section—

“arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable, and

“unquoted company” has the meaning given by section 184(2).

#### Textual Amendments

**F416** Word in s. 143(2)(a) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(2\)](#)

### 144 Power to amend requirements by Treasury order

The Treasury may by order make such amendments of sections 137 to 143 as they consider appropriate.

*Qualifying trading companies: supplementary*

### 145 Relief after an exchange of shares for shares in another company

- (1) This section and section 146 apply in relation to shares to which EIS relief is not attributable if—

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- (a) a company (“the new company”) in which the only issued shares are subscriber shares acquires all the shares (“old shares”) in another company (“the old company”),
- (b) the consideration for the old shares consists wholly of the issue of shares (“new shares”) in the new company,
- (c) the consideration for the new shares of each description consists wholly of old shares of the corresponding description,
- (d) new shares of each description are issued to the holders of old shares of the corresponding description in respect of and in proportion to their holdings, and
- (e) by virtue of section 127 of TCGA 1992 as applied by section 135(3) of that Act (company reconstructions etc), the exchange of shares is not to be treated as involving a disposal of the old shares or an acquisition of the new shares.

In this subsection references to shares, except in the expressions “shares to which EIS relief is not attributable” and “subscriber shares”, include securities.

- (2) For the purposes of this Chapter the exchange of shares is not regarded as involving any disposal of the old shares or any acquisition of the new shares.
- (3) Nothing in—
  - (a) section 136(2) (disposals of new shares), and
  - (b) section 139 (the control and independence requirement),
 applies in relation to such an exchange of shares, or shares and securities, as is mentioned in subsection (1) or, in the case of section 139, arrangements with a view to such an exchange.
- (4) For the purposes of this section old shares and new shares are of a corresponding description if, on the assumption that they were shares in the same company, they would be of the same class and carry the same rights.
- (5) References in section 146 to “old shares”, “new shares”, “the old company” and “the new company” are to be read in accordance with this section.

#### **146 Substitution of new shares for old shares**

- (1) Subsection (2) applies if, in the case of any new shares held by an individual or by a nominee for an individual, the old shares for which they were exchanged were shares—
  - (a) to which EIS relief was not attributable, and
  - (b) which had been subscribed for by the individual.
- (2) This Chapter has effect in relation to any subsequent disposal or other event as if—
  - (a) the new shares had been subscribed for by the individual at the time when, and for the amount for which, the old shares were subscribed for by the individual,
  - (b) the new shares had been issued by the new company at the time when the old shares were issued to the individual by the old company, and
  - (c) any requirements of this Chapter which were met at any time before the exchange by the old company had been met at that time by the new company.

[<sup>F417</sup>(3) Nothing in subsection (2) applies in relation to section 195(7) as applied by section 137(7) for the purposes mentioned in section 137(8).]

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### Textual Amendments

**F417** S. 146(3) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(6\), 13](#)

## *Limits on share loss relief and mixed holdings*

### **147 Limits on share loss relief**

- (1) Subsection (2) applies if—
  - (a) an individual disposes of any qualifying shares,
  - (b) those shares either—
    - (i) form part of a section 104 holding <sup>F418</sup>... at the time of the disposal,  
<sub>F419</sub> ...
    - <sup>F420</sup>(ii) at a time earlier than the time of the disposal but after 5 April 2008 formed part of a section 104 holding, or
    - (iii) at a time earlier than that time and than 6 April 2008 formed part of an old section 104 holding or a 1982 holding, and]
  - (c) the individual makes a claim under section 132 in respect of a loss incurred on the disposal.
- (2) The amount of share loss relief on the disposal is not to exceed the sums that would be allowed as deductions in calculating the amount of the loss if the qualifying shares had not formed part of the holding.
- (3) Subsection (4) applies if—
  - (a) an individual disposes of any qualifying shares,
  - (b) the qualifying shares, and other shares that are not capable of being qualifying shares, are for the purposes of TCGA 1992 to be treated as acquired by a single transaction by virtue of section 105(1)(a) of that Act (disposal of shares acquired on same day etc), and
  - (c) the individual makes a claim under section 132 in respect of a loss incurred on the disposal.
- (4) The amount of share loss relief on the disposal is not to exceed the sums that would be allowed as deductions in calculating the amount of the loss if—
  - (a) the qualifying shares were to be treated as acquired by a single transaction, and
  - (b) the other shares were not to be so treated.
- (5) Subsection (6) applies if—
  - (a) an individual disposes of any qualifying shares,
  - (b) the qualifying shares (taken as a single asset), and other shares in the same company that are not capable of being qualifying shares (taken as a single asset), are for the purposes of TCGA 1992 to be treated as the same asset by virtue of section 127 of that Act (reorganisation etc treated as not involving disposal), and
  - (c) the individual makes a claim under section 132 in respect of a loss incurred on the disposal,

References in this subsection and subsection (6) to other shares in the same company include debentures of the same company.

*Status: Point in time view as at 22/02/2024.*

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- (6) The amount of share loss relief on the disposal is not to exceed the sums that would be allowed as deductions in calculating the amount of the loss if the qualifying shares and the other shares in the same company were not to be treated as the same asset.
- (7) In this section—
- “section 104 holding” has the meaning given by section 104(3) of TCGA 1992 [<sup>F421</sup>and “old section 104 holding” is a holding that was a section 104 holding within the meaning of that provision as it applied in relation to disposals before 6 April 2008], and
- “1982 holding” has the meaning given by section 109(1) of that Act [<sup>F422</sup>as it applied in relation to disposals before 6 April 2008].
- (8) For the purposes of this section and section 148, shares to which EIS relief is not attributable are not capable of being qualifying shares at any time if—
- (a) the individual acquired the shares otherwise than by subscription, [<sup>F423</sup>or]
- (b) condition C in section 134(4) was not met in relation to the issue of the shares,  
<sup>F424</sup> ...
- <sup>F424</sup>(c) .....
- (9) For the purposes of subsection (5), shares to which EIS relief is not attributable are not capable of being qualifying shares at any time if they are shares of a different class from the shares mentioned in paragraph (a) of that subsection.

#### Textual Amendments

- F418** Words in s. 147(1)(b)(i) omitted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 98\(2\)\(a\)](#)
- F419** Word in s. 147(1)(b)(i) omitted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 98\(2\)\(a\)](#)
- F420** S. 147(1)(b)(ii)(iii) substituted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) for s. 147(1)(b)(ii) by [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 98\(2\)\(b\)](#)
- F421** Words in s. 147(7) inserted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 98\(3\)\(a\)](#)
- F422** Words in s. 147(7) inserted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 98\(3\)\(b\)](#)
- F423** Word in s. 147(8)(a) inserted (with effect in accordance with s. 38(3) of the amending Act) by [Finance Act 2020 \(c. 14\)](#), [s. 38\(2\)\(a\)\(ii\)](#)
- F424** S. 147(8)(c) and word omitted (with effect in accordance with s. 38(3) of the amending Act) by virtue of [Finance Act 2020 \(c. 14\)](#), [s. 38\(2\)\(a\)\(ii\)](#)

## 148 Disposal of shares forming part of mixed holding

- (1) This section applies if an individual disposes of shares forming part of a mixed holding of shares, that is, a holding of shares in a company which includes—
- (a) shares that are not capable of being qualifying shares, and
- (b) other shares.
- (2) Any question—
- (a) whether a disposal by the individual of shares forming part of the mixed holding is of qualifying shares, or



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- (b) as to which of any qualifying shares acquired by the individual at different times such a disposal relates to,  
is to be determined as provided by the following provisions of this section.
- (3) Any such question as is mentioned in subsection (2) is to be determined—
- (a) except in a case falling within paragraph (b)—
- (i) in accordance with subsection (4), and
- (ii) in the case of shares which under that subsection are identified with the whole or any part of a section 104 holding <sup>F425</sup> ..., in accordance with subsection (5),
- (b) in the case of a mixed holding which includes any of the following—
- [<sup>F426</sup>(ai) shares to which SEIS relief is attributable (as determined in accordance with Part 5A),]
- (i) shares issued before 1 January 1994 in respect of which relief has been given under Chapter 3 of Part 7 of ICTA (business expansion scheme) and has not been withdrawn,
- (ii) shares to which EIS relief is attributable, and
- (iii) shares to which deferral relief (within the meaning of Schedule 5B to TCGA 1992) is attributable,
- in accordance with subsection (6).
- (4) For the purposes of subsection (3)(a)(i), the question is to be determined by identifying the shares disposed of in accordance with sections 105 to 105B and 106A of TCGA 1992.
- (5) For the purposes of subsection (3)(a)(ii), the question is to be determined by treating the disposal and any previous disposal by the individual out of the section 104 <sup>F427</sup> ... holding as relating to shares acquired later rather than earlier.
- (6) For the purposes of subsection (3)(b), the question is to be determined—
- (a) in relation to shares issued before 1 January 1994, as provided by subsections (3) to (4C) of section 299 of ICTA (as that section has effect in relation to shares so issued),
- (b) in relation to shares issued on or after that date and before 6 April 2007, as provided by subsections (6) to (6D) of that section (as that section has effect in relation to shares so issued), and
- (c) in relation to shares issued on or after 6 April 2007, as provided by section 246 of this Act.
- (7) Any such question as is mentioned in subsection (2) which cannot be determined as provided by subsections (3) to (6) is to be determined on a just and reasonable basis.
- (8) In this section “holding” means any number of shares of the same class held by one individual in the same capacity, growing or diminishing as shares of that class are acquired or disposed of.
- For this purpose—
- (a) shares are not to be treated as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt in on such an exchange, and
- (b) subsection (4) of section 104 of TCGA 1992 applies as it applies for the purposes of subsection (1) of that section.

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(9) In this section “section 104 holding” [F428<sup>1</sup>has] the same meaning as in section 147.

#### Textual Amendments

- F425** Words in s. 148(3)(a)(ii) omitted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 99\(2\)](#)
- F426** S. 148(3)(b)(ai) inserted (with effect in accordance with Sch. 3 para. 3 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 3 para. 2\(4\)](#)
- F427** Words in s. 148(5) omitted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 99\(3\)](#)
- F428** Word in s. 148(9) substituted (21.7.2008 with effect in accordance with Sch. 2 para. 100 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 99\(4\)](#)

### 149 Section 148: supplementary

- (1) In the case of a disposal of shares within section 148(3)(b)(ii) or (iii) to which section 105A of TCGA 1992 (election for alternative treatment: approved-scheme shares) applies—
- (a) section 299 of ICTA (identification of shares) has effect for the purposes of section 148(6)(b), and
  - (b) section 246 of this Act has effect for the purposes of section 148(6)(c), with the same modifications as those with which they have effect for the purposes of section 150A(4) of TCGA 1992 (enterprise investment schemes).
- (2) In a case to which section 127 of TCGA 1992 (reorganisation etc treated as not involving disposal) applies (including a case where that section applies by virtue of an enactment relating to chargeable gains), shares included in the new holding are treated for the purposes of section 148 as acquired when the original shares were acquired.
- (3) Any shares held or disposed of by a nominee or bare trustee for an individual are treated for the purposes of section 148 as held or disposed of by that individual.
- (4) In this section “new holding” and “original shares” have the same meaning as in section 127 of TCGA 1992 (or, as the case may be, that section as applied by the enactment concerned).

#### *Miscellaneous and supplementary*

### 150 Deemed time of issue for certain shares

- (1) In this section “the relevant provisions” means—
- F429  
 ...  
 section 142(1)(a) and (2)(a),  
 section 143(1), and  
 section 146(2)(b).
- (2) If—
- (a) any shares were issued to an individual (“A”) or are treated under subsection (3) or this subsection as having been issued to A at a particular time,

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- (b) the shares are transferred by A to another individual (“B”) during their lives, and
  - (c) A was B's spouse or civil partner at the time of the transfer,
- the shares are treated for the purposes of the relevant provisions as having been issued to B at the time they were issued to A or are treated as having been so issued.
- (3) If—
- (a) any shares (“the original shares”) have been issued to an individual, or are treated under subsection (2) or this subsection as having been issued to an individual at a particular time, and
  - (b) any corresponding bonus shares are subsequently issued to the individual,
- the bonus shares are treated for the purposes of the relevant provisions as having been issued at the time the original shares were issued to the individual or are treated as having been so issued.

#### Textual Amendments

**F429** Words in s. 150(1) omitted (with effect in accordance with s. 38(3) of the amending Act) by virtue of Finance Act 2020 (c. 14), s. 38(2)(a)(iii)

## 151 Interpretation of Chapter

- (1) In this Chapter (subject to subsections (2) to (8))—
- “bonus shares” means shares which are issued otherwise than for payment (whether in cash or otherwise),
  - “civil partner” refers to one of two civil partners who are living together,
  - “corresponding bonus shares”, in relation to any shares, means bonus shares which—
    - (a) are issued in respect of those shares, and
    - (b) are in the same company, are of the same class, and carry the same rights, as those shares,
  - “EIS relief” means—
    - (a) EIS income tax relief under Part 5 of this Act, and
    - (b) in relation to shares issued after 31 December 1993 and before 6 April 2007, relief under Chapter 3 of Part 7 of ICTA (enterprise investment scheme),
  - “excluded company” means a company which—
    - (a) has a trade which consists wholly or mainly of dealing in land, in commodities or futures or in shares, securities or other financial instruments,
    - (b) has a trade which is not carried on on a commercial basis and in such a way that profits in the trade can reasonably be expected to be realised,
    - (c) is a holding company of a group other than a trading group, or
    - (d) is a building society or a [<sup>F430</sup>registered society],
  - “group” (except in sections 137 and 142) means a company which has one or more 51% subsidiaries together with that or those subsidiaries,

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“holding company” means a company whose business consists wholly or mainly in the holding of shares or securities of companies which are its 51% subsidiaries,

[<sup>F431</sup>“investment company” means a company—

- (a) whose business consists wholly or mainly in the making of investments, and
- (b) which derives the principal part of its income from the making of investments,

but does not include the holding company of a trading group,]

“qualifying shares” has the meaning given by section 131(2),

[<sup>F432</sup>“registered society” means—

- (a) a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014,
- (b) a society registered or treated as registered under the Industrial and Provident Societies Act (Northern Ireland) 1969, or
- (c) an SCE formed in accordance with Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society,]

“shares”—

- (a) includes stock, but
- (b) does not include shares or stock not forming part of a company's ordinary share capital,

“share loss relief” has the meaning given by section 131(1),

“spouse” refers to one of two spouses who are living together,

“trading company” means a company other than an excluded company which is—

- (a) a company whose business consists wholly or mainly of the carrying on of a trade or trades, or
- (b) the holding company of a trading group,

“trading group” means a group the business of whose members, when taken together, consists wholly or mainly in the carrying on of a trade or trades, and

“the year of the loss” has the meaning given by section 131(1).

- (2) For the purposes of the definition of “corresponding bonus shares” in subsection (1), shares are not treated as being of the same class unless they would be so treated if dealt in on [<sup>F433</sup>a recognised stock exchange].
- (3) In section 148(3)(b) and (6) “shares” does not include stock.
- (4) Except as provided by subsection (5), paragraph (b) of [<sup>F434</sup>the definition of shares in subsection (1)] does not apply in the definition of “excluded company” in subsection (1) or in sections 145(1) to (4) and 147(3) to (6), (8) and (9).
- (5) Paragraph (b) of that definition applies in relation to the expression “shares to which EIS relief is not attributable” in section 145(1).
- (6) The definition of “shares” in subsection (1) does not apply in sections 137(5)(a), 142(3) and 143(1)(c) and (2).
- (7) For the purposes of the definition of “trading group” in subsection (1), any trade carried on by a subsidiary which is an excluded company is treated as not constituting a trade.

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- (8) For the purposes of this Chapter a disposal of shares which results in an allowable loss for capital gains tax purposes is treated as made at the time when the disposal is made or treated as made for the purposes of TCGA 1992.

#### Textual Amendments

- F430** Words in s. 151(1) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\), s. 154, Sch. 4 para. 105\(2\)](#) (with Sch. 5)
- F431** Words in s. 151(1) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 498\(2\)](#) (with Sch. 2)
- F432** Words in s. 151(1) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\), s. 154, Sch. 4 para. 105\(3\)](#) (with Sch. 5) (as amended (1.8.2014) by [Finance Act 2014 \(c. 26\), Sch. 39 paras. 10, 15](#))
- F433** Words in s. 151(2) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\), Sch. 26 para. 12\(3\)](#)
- F434** Words in s. 151(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 498\(3\)](#) (with Sch. 2)

## CHAPTER 7

### LOSSES FROM MISCELLANEOUS TRANSACTIONS

#### *Loss relief against miscellaneous income*

#### 152 Losses from miscellaneous transactions

- [<sup>F435</sup>(1) If in a tax year (“the loss-making year”) a person makes a loss in a relevant transaction, the person may make a claim for loss relief against relevant miscellaneous income.]
- (2) A transaction is a relevant one if, assuming there were profits or other income arising from it—
- those profits or that other income would be [<sup>F436</sup>income on which income tax is charged under, or by virtue of, a relevant section 1016 provision (“the relevant provision”)], and
  - the person would be liable for income tax charged on those profits or that other income.
- [<sup>F437</sup>(2A) A relevant section 1016 provision” means a provision to which section 1016 applies, other than—
- regulation 17 of the Offshore Funds (Tax) Regulations 2009 (S.I. 2009/3001) (treatment of participants in non-reporting funds: charge to tax on disposal of asset), or
  - Chapter 9 of Part 4 of ITTOIA 2005 (gains from contracts for life insurance etc).]
- (3) The claim is for the loss to be deducted in calculating the person's net income for the loss-making year and subsequent tax years (see Step 2 of the calculation in section 23).
- (4) But a deduction for that purpose is to be made only from the person's [<sup>F438</sup>relevant] miscellaneous income.

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- (5) [<sup>F439</sup> The person's “relevant miscellaneous income] is so much of the person's total income as is—
- (a) income or gains arising from transactions, and
  - [<sup>F440</sup>(b) income on which income tax is charged under, or by virtue of, the relevant provision.]

This is subject to subsection (6).

- (6) If the loss was made by the person as a partner in a partnership, the transactions covered by subsection (5)(a) are limited to transactions entered into by the partnership.
- (7) In calculating a person's net income for a tax year, deductions under this section from the person's [<sup>F441</sup>relevant] miscellaneous income are to be made before deductions of any other reliefs from that [<sup>F441</sup>relevant] miscellaneous income.

<sup>F442</sup>(8) . . . . .

- (9) This section needs to be read with—
- (a) section 153 (how relief works),
  - (b) section 154 (transactions in deposit rights),<sup>F443</sup> ...
  - [<sup>F444</sup>(ba) section 154A (anti-avoidance), and]
  - (c) section 155 (claims).

#### Textual Amendments

**F435** S. 152(1) substituted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(a)

**F436** Words in s. 152(2)(a) substituted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(b)

**F437** S. 152(2A) inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(c)

**F438** Word in s. 152(4) inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(d)

**F439** Words in s. 152(5) substituted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(e)

**F440** S. 152(5)(b) substituted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(f)

**F441** Word in s. 152(7) inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(g)

**F442** S. 152(8) omitted (with effect and application in accordance with s. 22(8) of the amending Act) by virtue of Finance Act 2015 (c. 11), s. 22(2)(h)

**F443** Word in s. 152(9)(b) omitted (with effect in accordance with s. 22(9) of the amending Act) by virtue of Finance Act 2015 (c. 11), s. 22(2)(i)

**F444** S. 152(9)(ba) inserted (with effect in accordance with s. 22(9) of the amending Act) by Finance Act 2015 (c. 11), s. 22(2)(i)

## 153 How relief works

This section explains how the deductions are to be made. The amount of the loss to be deducted at any step is limited in accordance with section 25(4) and (5).

*Step 1*

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Deduct the loss from the [<sup>F445</sup>relevant] miscellaneous income for the loss-making year.

*Step 2*

Deduct from the [<sup>F445</sup>relevant] miscellaneous income for the next tax year the amount of the loss not previously deducted.

*Step 3*

Continue to apply Step 2 in relation to [<sup>F445</sup>relevant] miscellaneous income for subsequent tax years until all the loss is deducted.

**Textual Amendments**

**F445** Word in s. 153 inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(3)

**Modifications etc. (not altering text)**

**C65** S. 153 modified (21.7.2009) by Finance Act 2009 (c. 10), s. 69(4)

*Deposit rights*

**154 Transactions in deposit rights**

- (1) This section applies if—
  - (a) a person makes a loss from the disposal or exercise of a right to receive an amount,
  - (b) the disposal or exercise is a transaction in a deposit under Chapter 11 of Part 4 of ITTOIA 2005 (see subsection (2)), and
  - (c) the person's total income for a tax year includes interest payable on the amount.
- (2) The disposal or exercise is a transaction in a deposit under Chapter 11 of Part 4 of ITTOIA 2005 if, assuming there were a profit or gain from it, the profit or gain would be charged to tax under that Chapter.
- (3) For the purposes of the giving of loss relief against [<sup>F446</sup>relevant] miscellaneous income for the loss mentioned in subsection (1)(a), the interest mentioned in subsection (1)(c) is treated as [<sup>F447</sup>relevant] miscellaneous income, for the tax year, in relation to the loss.]

**Textual Amendments**

**F446** Word in s. 154(3) inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(4)(a)

**F447** Words in s. 154(3) substituted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(4)(b)

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### Supplementary

#### [<sup>F448</sup>154A] Anti-avoidance

- (1) Subsection (2) applies if—
  - (a) a person makes a loss in a relevant transaction, and
  - (b) that loss arises directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements.
- (2) The person is not to be given loss relief under section 152 for the loss.
- (3) Subsection (4) applies if—
  - (a) a person has income on which income tax is chargeable under, or by virtue of, a relevant section 1016 provision, and
  - (b) that income arises directly or indirectly in consequence of, or otherwise in connection with, relevant tax avoidance arrangements.
- (4) The person is not to be given loss relief against that income under section 152.
- (5) In this section “relevant tax avoidance arrangements” means arrangements—
  - (a) to which the person is party, and
  - (b) the main purpose, or one of the main purposes, of which is to obtain a reduction in tax liability by means of loss relief under section 152.
- (6) In subsection (5) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).]

#### Textual Amendments

**F448** S. 154A inserted (with effect and application in accordance with s. 22(9)-(11) of the amending Act) by Finance Act 2015 (c. 11), s. 22(5)

#### 155 Time limit for claiming relief

- (1) So far as a claim for loss relief against [<sup>F449</sup>relevant] miscellaneous income concerns the amount of the loss for a tax year, it must be made [<sup>F450</sup>not more than 4 years after the end of] the tax year.
- (2) But—
  - (a) the question whether, and
  - (b) if so, how much,
 loss relief against [<sup>F449</sup>relevant] miscellaneous income should be given for a tax year may be the subject of a separate claim made [<sup>F451</sup>not more than 4 years after the end of] the tax year.

#### Textual Amendments

**F449** Word in s. 155(1)(2) inserted (with effect and application in accordance with s. 22(8) of the amending Act) by Finance Act 2015 (c. 11), s. 22(6)

**F450** Words in s. 155(1) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 58; S.I. 2009/403, art. 2(2) (with art. 10)



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**F451** Words in s. 155(2) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), **Sch. 39 para. 58**; S.I. 2009/403, art. 2(2) (with art. 10)

## PART 5

### ENTERPRISE INVESTMENT SCHEME

#### CHAPTER 1

##### INTRODUCTION

###### *EIS relief*

#### **156 Meaning of “EIS relief” and commencement**

- (1) This Part provides for EIS income tax relief (“EIS relief”), that is, entitlement to tax reductions in respect of amounts subscribed by individuals for shares.
- (2) In this Part “EIS” stands for the enterprise investment scheme.
- (3) In accordance with section 1034(3), this Part has effect only in relation to shares issued on or after 6 April 2007.

This is subject to Schedule 2 (transitional provisions and savings).

#### **157 Eligibility for EIS relief**

- (1) An individual (“the investor”) is eligible for EIS relief in respect of an amount subscribed by the investor on the investor's own behalf for an issue of shares in a company (“the issuing company”) if—
  - [<sup>F452</sup>(za) the risk-to-capital condition is met (see section 157A),]
  - (a) the shares (“the relevant shares”) are issued to the investor,
  - [<sup>F453</sup>(aa) the shares are issued before 6 April 2025,]
  - (b) the investor is a qualifying investor in relation to the relevant shares (see Chapter 2),
  - (c) the general requirements (including requirements as to the purpose of the issue of shares and the use of money raised) are met in respect of the relevant shares (see Chapter 3), and
  - (d) the issuing company is a qualifying company in relation to the relevant shares (see Chapter 4).

[<sup>F454</sup>(1A) The Treasury may, by regulations, amend subsection (1)(aa) to substitute a different date for the date for the time being specified there.]

[<sup>F455</sup>(2) .....

[<sup>F456</sup>(3) .....

*Status: Point in time view as at 22/02/2024.*

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### Textual Amendments

- F452** S. 157(1)(za) inserted (15.3.2018) by Finance Act 2018 (c. 3), s. 14(1)(a)(4); S.I. 2018/931, reg. 2(a)
- F453** S. 157(1)(aa) inserted (18.11.2015) by Finance (No. 2) Act 2015 (c. 33), Sch. 5 para. 2(2)
- F454** S. 157(1A) inserted (18.11.2015) by Finance (No. 2) Act 2015 (c. 33), Sch. 5 para. 2(3)
- F455** S. 157(2) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of Finance Act 2012 (c. 14), Sch. 7 para. 2
- F456** S. 157(3) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of Finance Act 2012 (c. 14), Sch. 7 para. 2

### [<sup>F457</sup>157A] Risk-to-capital condition

- (1) The risk-to-capital condition is met if, having regard to all the circumstances existing at the time of the issue of the shares, it would be reasonable to conclude that—
  - (a) the issuing company has objectives to grow and develop its trade in the long-term, and
  - (b) there is a significant risk that there will be a loss of capital of an amount greater than the net investment return.
- (2) For the purposes of subsection (1)(b)—
  - (a) the risk is to be determined by reference to a loss of capital, and the net investment return, for the investors generally,
  - (b) the reference to a loss of capital is to a loss of some or all of the amounts subscribed for the shares by the investors, and
  - (c) the reference to the net investment return is to the net investment return to the investors (whether by way of income or capital growth) taking into account the value of EIS relief.
- (3) For the purposes of subsection (1) the circumstances to which regard may be had include—
  - (a) the extent to which the company's objectives include increasing the number of its employees or the turnover of its trade,
  - (b) the nature of the company's sources of income, including the extent to which there is a significant risk of the company not receiving some or all of the income,
  - (c) the extent to which the company has or is likely to have assets, or is or could become a party to arrangements for acquiring assets, that could be used to secure financing from any person,
  - (d) the extent to which the activities of the company are sub-contracted to persons who are not connected with it,
  - (e) the nature of the company's ownership structure or management structure, including the extent to which others participate in or devise the structure,
  - (f) how any opportunity for investment in the company is marketed, and
  - (g) the extent to which arrangements are in place under which opportunities for investments in the company are or may be marketed with, or otherwise associated with, opportunities for investments in other companies or entities.
- (4) If the issuing company is a parent company—

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- (a) any reference in this section to the company's trade is to what would be the trade of the group if the activities of the group companies taken together were regarded as one trade, and
- (b) any reference in subsection (3)(a) to (e) to the company is to any group company.]

#### Textual Amendments

**F457** S. 157A inserted (15.3.2018) by Finance Act 2018 (c. 3), s. 14(1)(b)(4); S.I. 2018/931, reg. 2(a)

### 158 Form and amount of EIS relief

- (1) If an individual—
  - (a) is eligible for EIS relief in respect of any amount subscribed for shares, and
  - (b) makes a claim in respect of all or some of the shares included in the issue,the individual is entitled to a tax reduction for the tax year in which the shares were issued (“the current year”).

This is subject to the provisions of this Part.

- (2) The amount of the tax reduction to which the individual is entitled is the amount equal to tax at the [<sup>F458</sup>EIS rate] for the current year on—
  - (a) the amount or, as the case may be, the sum of the amounts subscribed for shares issued in that year in respect of which the individual is eligible for and claims EIS relief [<sup>F459</sup>(qualifying shares)], or
  - (b) if less, [<sup>F460</sup>the allowable amount].

[<sup>F461</sup>(2ZA) The allowable amount is—

- (a) if the qualifying shares do not include any KIC shares: £1 million;
- (b) if the amount, or the sum of the amounts, subscribed for qualifying shares that are KIC shares is £1 million or more: £2 million;
- (c) if neither paragraph (a) nor paragraph (b) applies: £1 million plus the amount, or the sum of the amounts, subscribed for qualifying shares that are KIC shares.

(2ZB) In subsection (2ZA) “KIC shares” means shares in a company which, or in companies each of which, is a knowledge-intensive company at the time the shares are issued (see section 252A and subsection (6)).]

[<sup>F462</sup>(2A) In this Part “the EIS rate” means [<sup>F463</sup>30%].]

- (3) The tax reduction is given effect at Step 6 of the calculation in section 23.
- (4) <sup>F464</sup>... if in the case of any issue of shares—
  - (a) which are issued <sup>F464</sup>... in the current year, and
  - (b) in respect of the amount subscribed for which the individual is eligible for EIS relief,

the individual so claims, [<sup>F465</sup>subsections (1) to (2ZB)] apply as if, in respect of such part of that issue as may be specified in the claim, the shares had been issued in the preceding tax year; and the individual's liability to tax for both tax years is determined accordingly.

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<sup>F466</sup>(5) .....

[<sup>F467</sup>(6) If the issuing company began to carry on a trade less than three years before the date the relevant shares are issued, section 252A as it applies for the purposes of this section has effect with the substitution of the following subsections for subsections (2) to (4A)

“(2) The first operating costs condition is that in at least one of the relevant three succeeding years at least 15% of the relevant operating costs constitute expenditure on research and development or innovation.

(3) The second operating costs condition is that in each of the relevant three succeeding years at least 10% of the relevant operating costs constitute such expenditure.

(4) In subsections (2) and (3)—

“relevant operating costs” means—

(a) if the issuing company is a single company at the time the relevant shares are issued, the operating costs of that company, and

(b) if the issuing company is a parent company at the time the relevant shares are issued, the sum of—

(i) the operating costs of the issuing company, and

(ii) the operating costs of each company which is a qualifying subsidiary of the issuing company at that time, excluding a company's operating costs for any of the relevant three succeeding years during any part of which the company is not a qualifying subsidiary of the issuing company;

“the relevant three succeeding years” means the three consecutive years the first of which begins with the date the relevant shares are issued.”

(7) In subsection (6) “trade” includes—

(a) any business or profession,

(b) so far as not within paragraph (a), the carrying on of research and development activities from which it is intended a trade will be derived or will benefit,

(c) preparing to carry on a trade.]

#### Textual Amendments

**F458** Words in s. 158(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 13(2)**

**F459** Words in s. 158(2)(a) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 4 paras. 1(2)**, 10; S.I. 2018/931, reg. 3(a)

**F460** Words in s. 158(2)(b) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 4 para. 1(3)**, 10; S.I. 2018/931, reg. 3(a)

**F461** S. 158(2ZA)(2ZB) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 4 paras. 1(4)**, 10; S.I. 2018/931, reg. 3(a)

**F462** S. 158(2A) inserted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 13(3)**

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- F463** Word in s. 158(2A) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\), s. 42\(2\)\(6\)](#); S.I. 2011/2459, art. 2
- F464** Words in s. 158(4) omitted (with effect in accordance with Sch. 8 para. 13(2) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\), Sch. 8 para. 6\(2\)](#)
- F465** Words in s. 158(4) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\), Sch. 4 paras. 1\(5\), 10](#); S.I. 2018/931, reg. 3(a)
- F466** S. 158(5) omitted (with effect in accordance with Sch. 8 para. 13(3) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\), Sch. 8 para. 6\(3\)](#)
- F467** S. 158(6)(7) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\), Sch. 4 paras. 1\(6\), 10](#); S.I. 2018/931, reg. 3(a)

### Miscellaneous

#### 159 Periods A, B and C

- (1) This section applies for the purposes of this Part in relation to any shares issued by a company.
- (2) “Period A” means the period—
  - (a) beginning—
    - (i) with the incorporation of the company, or
    - (ii) if the company was incorporated more than two years before the date on which the shares were issued, two years before that date, and
  - (b) ending immediately before the termination date relating to the shares (see section 256).
- (3) “Period B” means the period—
  - (a) beginning with the issue of the shares, and
  - (b) ending immediately before the termination date relating to the shares.
- (4) “Period C” means the period—
  - (a) beginning 12 months before the issue of the shares, and
  - (b) ending immediately before the termination date relating to the shares.

#### 160 Overview of other Chapters of Part

In this Part—

- (a) Chapter 5 provides for the attribution of EIS relief to shares and the making of claims for such relief,
- (b) Chapter 6 provides for EIS relief to be withdrawn or reduced in the circumstances mentioned in that Chapter,
- (c) Chapter 7 makes provision with respect to the procedure for the withdrawal or reduction of EIS relief, and
- (d) Chapter 8 contains supplementary and general provisions.

#### 161 Other tax reliefs relating to EIS

- (1) Chapter 6 of Part 4 (losses on disposal of shares) provides for relief against the income of an individual who incurs an allowable loss for capital gains tax purposes on a disposal of shares to which EIS relief is attributable.

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- (2) Subsection (3) of section 392 (loan to buy interest in close company) provides that subsection (2)(a) of that section does not apply if at any time—
- (a) the individual by whom the shares are acquired, or
  - (b) that individual's spouse or civil partner,
- makes a claim for EIS relief in respect of the shares.
- (3) Section 150A of TCGA 1992 makes provision about gains or losses on the disposal of shares to which EIS relief is attributable.
- (4) Schedule 5B to TCGA 1992 provides relief in respect of the re-investment under EIS of the proceeds of assets disposed of in circumstances where there would otherwise be a chargeable gain.

<sup>F468</sup>(5) .....

#### Textual Amendments

**F468** S. 161(5) omitted (21.7.2008 with effect in accordance with Sch. 2 para. 56(3) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 2 para. 54](#)

## CHAPTER 2

### THE INVESTOR

#### *Introduction*

#### 162 Overview of Chapter

The investor is a qualifying investor in relation to the relevant shares if the requirements of this Chapter are met as to—

- (a) no connection with the issuing company (see section 163),
- (b) no linked loans (see section 164), <sup>F469</sup> ...
- <sup>F470</sup>(ba) existing shareholdings (see section 164A), and]
- (c) no tax avoidance (see section 165).

#### Textual Amendments

**F469** Word in s. 162(b) omitted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 3](#)

**F470** S. 162(ba) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 3](#)

#### *The requirements*

#### 163 The no connection with the issuing company requirement

- (1) The investor must not be connected with the issuing company (whether before or after its incorporation) at any time during the period—

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- (a) beginning two years before the issue of the shares, and
  - (b) ending immediately before the termination date relating to the shares.
- (2) This is subject to section 169(1).

#### **164 The no linked loans requirement**

- (1) No linked loan is to be made by any person, at any time in period A, to the investor or an associate of the investor.
- (2) In this section “linked loan” means any loan which—
- (a) would not have been made, or
  - (b) would not have been made on the same terms,
- if the investor had not subscribed for the relevant shares, or had not been proposing to do so.
- (3) References in this section to the making by any person of a loan to the investor or an associate of the investor include references—
- (a) to the giving by that person of any credit to the investor or any associate of the investor, and
  - (b) to the assignment to that person of a debt due from the investor or any associate of the investor.

#### **[<sup>F471</sup>164A] The existing shareholdings requirement**

- (1) If, at the time the relevant shares are issued, the investor holds any other shares in a company within subsection (2) (“C”), those other shares must be—
- (a) a risk finance investment, or
  - (b) subscriber shares which—
    - (i) were issued to, and have since they were issued been continuously held by, the investor, or
    - (ii) were acquired by the investor at a time when C had not issued any shares other than subscriber shares and had not begun to carry on or make preparations for carrying on any trade or business.
- (2) The companies referred to in subsection (1) are—
- (a) the issuing company, and
  - (b) any company which is a qualifying subsidiary of the issuing company at the time the relevant shares are issued.
- (3) Shares in a company are a “risk finance investment” if—
- (a) they are issued by the company to the investor, and
  - (b) (at any time) the company provides a compliance statement under section 205, 257ED or 257PB in respect of the issue of shares which includes those shares.]

#### **Textual Amendments**

**F471** S. 164A inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 4](#)

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## 165 The no tax avoidance requirement

The relevant shares must be subscribed for by the investor for genuine commercial reasons, and not as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

*Meaning of connection with issuing company*

## 166 Connection with issuing company

(1) For the purposes of this Chapter (except section 168(4)), an individual is connected with the issuing company if the individual or an associate of the individual is connected with that company under—

- (a) section 167 (employees, directors and partners),
- (b) section 170 (persons interested in capital etc of company), or
- (c) section 171 (persons subscribing for shares under certain arrangements).

[<sup>F472</sup>(1A) But see section 252A(12) for provision which disapplies section 168.]

(2) See too section 257(2).

### Textual Amendments

**F472** S. 166(1A) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 5**

## 167 Employees, directors and partners

(1) An individual is connected with the issuing company if the individual—

- (a) is an employee of—
  - (i) the issuing company,
  - (ii) any subsidiary of the issuing company, or
  - (iii) a partner of the issuing company or any of its subsidiaries,
- (b) is a partner of—
  - (i) the issuing company, or
  - (ii) any subsidiary of the issuing company, or
- (c) subject to section 168, is a director of—
  - (i) the issuing company,
  - (ii) any subsidiary of the issuing company, or
  - (iii) a company which is a partner of the issuing company or any of its subsidiaries.

(2) In subsection (1) “subsidiary”, in relation to the issuing company, means a company which at any time in period A is a 51% subsidiary of the issuing company, whether or not it is such a subsidiary while the individual or associate concerned is such an employee, partner or director as is mentioned in that subsection.

(3) For the purposes of this section and sections 168 and 169, in the case of an individual (“A”) who is both a director and an employee of a company—



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- (a) references (however expressed) to A in A's capacity as a director of the company include A in A's capacity as an employee of the company, but
- (b) (apart from that) A is to be treated as a director, and not as an employee, of the company.

## 168 Directors excluded from connection

- (1) An individual is not connected with the issuing company under section 167 merely because the individual, or an associate of the individual, is a director of that or another company unless the individual or associate (or a partnership of which the individual or associate is a member)—
  - (a) receives a payment from the issuing company or a related person during the period mentioned in section 163, or
  - (b) is entitled to receive such a payment in respect of that period or any part of it.
- (2) For the purposes of subsection (1) the following are ignored—
  - (a) any payment or reimbursement of travelling or other expenses wholly, exclusively and necessarily incurred by the individual or an associate of the individual in the performance of the individual's or associate's duties as a director,
  - (b) any interest which represents no more than a reasonable commercial return on money lent to the issuing company or a related person,
  - (c) any dividend or other distribution which does not exceed a normal return on the investment,
  - (d) any payment for the supply of goods which does not exceed their market value,
  - (e) any payment of rent for any property occupied by the issuing company or a related person which does not exceed a reasonable and commercial rent for the property, and
  - (f) any necessary and reasonable remuneration which meets the conditions in subsection (3).
- (3) The conditions are that the remuneration—
  - (a) is paid for services rendered to the issuing company or related person in the course of a trade or profession carried on wholly or partly in the United Kingdom (not being secretarial or managerial services or services of a kind provided by the person to whom they are rendered), and
  - (b) is taken into account in calculating for tax purposes the profits of that trade or profession.
- (4) In this section—
  - (a) “related person”, in relation to the issuing company, means—
    - (i) any company of which the individual or an associate of the individual is a director and which is a subsidiary or partner of the issuing company, or a partner of a subsidiary of the issuing company, and
    - (ii) any person connected with the issuing company or with a company falling within sub-paragraph (i), and
  - (b) any reference to a payment to an individual includes a payment made to the individual indirectly or to the individual's order or for the individual's benefit.

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- (5) In this section and section 169 “subsidiary”, in relation to the issuing company, means a company which at any time in period A is a 51% subsidiary of the issuing company.

### 169 Directors qualifying for relief despite connection

- (1) Section 163(1) does not prevent the investor from being a qualifying investor despite the investor's connection with the issuing company at any time in period A relating to the relevant shares if—
- (a) the investor is connected with that company merely because of the investor, or the investor's associate—
    - (i) being a director of, or of a company which is a partner of, the issuing company or a subsidiary of the issuing company, and
    - (ii) being in receipt of, or entitled to receive, remuneration as such, and
  - (b) conditions A and B and (where applicable) condition C are met.
- (2) Condition A is that, in relation to the director (“D”), whether D is the investor or an associate of the investor—
- (a) D's remuneration, or
  - (b) the remuneration to which D is entitled,
- consists only of remuneration which is reasonable remuneration for services rendered to the company of which D is a director in D's capacity as such.
- (3) Condition B is that the investor was issued with the relevant shares, or a previous issue of shares in the issuing company which meet the requirements of section 173(2), at a time when the investor had never been—
- (a) connected with the issuing company, or
  - (b) involved in carrying on (whether on the investor's own account or as a partner, director or employee) the whole or any part of the trade, business or profession carried on by the issuing company or a subsidiary of that company.
- (4) Condition C is that, if the issue of the relevant shares did not meet condition B, they were issued before <sup>F473</sup>—
- (a) the termination date relating to the latest issue of shares which met that condition, or
  - (b) if that issue is an issue in respect of which the investor is eligible for SEIS relief (within the meaning of Part 5A), before the date specified in section 257AC(4) in relation to the shares.]
- (5) For the purposes of condition A any necessary and reasonable remuneration falling within section 168(2)(f) is to be left out of account.
- (6) In this section “remuneration” includes any benefit or facility.

#### Textual Amendments

**F473** Words in s. 169(4) substituted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 10](#)

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## 170 Persons interested in capital etc of company

- (1) An individual is connected with the issuing company if the individual directly or indirectly possesses or is entitled to acquire more than 30% of—
  - (a) the ordinary share capital of the company or any subsidiary of the company,
  - (b) the <sup>F474</sup>... issued share capital of the company or any such subsidiary, or
  - (c) the voting power in the company or any such subsidiary.
- (2) An individual is connected with the issuing company if the individual directly or indirectly possesses or is entitled to acquire such rights as would—
  - (a) in the event of the winding up of the company or any subsidiary of the company, or
  - (b) in any other circumstances,entitle the individual to receive more than 30% of the assets of the company or subsidiary (“the company in question”) which would then be available for distribution to equity holders of the company in question.
- (3) For the purposes of subsection (2)—
  - (a) the persons who are equity holders of the company in question, and
  - (b) the percentage of the assets of the company in question to which the individual would be entitled,are determined in accordance with [<sup>F475</sup>Chapter 6 of Part 5 of CTA 2010].
- (4) In making that determination—
  - (a) references in [<sup>F476</sup>section 166 of that Act to company A] are to be read as references to an equity holder, and
  - (b) references in that [<sup>F477</sup>section] to a winding up are to be read as including references to any other circumstances in which assets of the company in question are available for distribution to its equity holders.
- (5) An individual is not connected with a company merely because one or more shares in the company are held by the individual or by an associate of the individual, at a time when the company—
  - (a) has not issued any shares other than subscriber shares, and
  - (b) has not begun to carry on, or make preparations for carrying on, any trade or business.
- (6) An individual is connected with the issuing company if the individual has control of the issuing company or of any subsidiary of that company.
- (7) In this section “subsidiary”, in relation to the issuing company, means a company which at any time in period A is a 51% subsidiary of the issuing company, whether or not it is such a subsidiary while the individual concerned has, or is entitled to acquire, such capital, voting power, rights or control as are mentioned in this section.
- <sup>F478</sup>(8) .....
- (9) For the purposes of this section—
  - (a) an individual is treated as entitled to acquire anything which the individual is entitled to acquire at a future date or will at a future date be entitled to acquire, and
  - (b) there is attributed to any individual any rights or powers of any other person who is an associate of the individual.

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F479(10) .....

#### Textual Amendments

- F474** Words in s. 170(1)(b) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 7 para. 4(a)**
- F475** Words in s. 170(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 499(a)** (with Sch. 2)
- F476** Words in s. 170(4)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 499(b)** (with Sch. 2)
- F477** Word in s. 170(4)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 499(c)** (with Sch. 2)
- F478** S. 170(8) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 7 para. 4(b)**
- F479** S. 170(10) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 7 para. 4(b)**

### 171 Persons subscribing for shares under certain arrangements

- (1) This section applies if an individual (“A”) subscribes for shares in a company (“the company”) with which A is not connected under section 167 or 170.
- (2) If—
- (a) A subscribes for the shares as part of an arrangement, and
  - (b) the arrangement provides for another person to subscribe for shares in another company with which (assuming it to be the issuing company) A, or any other individual who is a party to the arrangement, is connected,
- A is connected with the company under this section.

## CHAPTER 3

### GENERAL REQUIREMENTS

#### *Introduction*

### 172 Overview of Chapter

The general requirements are met in respect of the relevant shares if the requirements of this Chapter are met as to—

- (a) the shares (see section 173),
- [<sup>F480</sup>(aa) the maximum amount raised annually through risk [<sup>F481</sup>finance investments] (see section 173A),]
- [<sup>F482</sup>(aaa) the maximum risk finance investments at the issue date (see section 173AA),
- (aab) the maximum risk finance investments at times during period B (see section 173AB),]
- <sup>F483</sup>(ab) .....
- (b) the purpose of the issue (see section 174),
- (c) the use of the money raised (see section 175),

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- [<sup>F484</sup>(ca) the permitted maximum age (see section 175A),]
- (d) the minimum period (see section 176),
- (e) no pre-arranged exits (see section 177), and
- (f) no tax avoidance (see section 178)[<sup>F485</sup>, and
- (g) no disqualifying arrangements (see section 178A)].

#### Textual Amendments

- F480** S. 172(aa) inserted (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 16 para. 5(2)** (with Sch. 16 para. 5(5)(6))
- F481** Words in s. 172(aa) substituted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 6(a)**
- F482** S. 172(aaa)(aab) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 6(b)**
- F483** S. 172(ab) omitted (with effect in accordance with Sch. 5 para. 21 of the amending Act) by virtue of Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 6(c)**
- F484** S. 172(ca) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 6(d)**
- F485** S. 172(g) and preceding word inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by Finance Act 2012 (c. 14), **Sch. 7 para. 5**

### *The requirements*

#### 173 The shares requirement

- (1) The relevant shares must meet—
  - (a) the requirements of subsection (2), and
  - (b) unless they are bonus shares, the requirements of subsection (3).
- (2) Shares meet the requirements of this subsection if they are ordinary shares which do not, at any time during period B, carry—
  - [<sup>F486</sup>(a) any present or future preferential right to dividends that is within subsection (2A),
  - (aa) any present or future preferential right to a company's assets on its winding up,] or
  - (b) any present or future right to be redeemed.
- [<sup>F487</sup>(2A) A preferential right to dividends carried by a share in a company is within this subsection if—
  - (a) the amount of any dividends payable pursuant to the right, or the date or dates on which they are payable, depend to any extent on a decision of the company, the holder of the share or any other person, or
  - (b) the amount of any dividends that become payable at any time pursuant to the right includes any amount that became payable at any earlier time pursuant to the right, but has not been paid.]
- (3) Shares meet the requirements of this subsection if they—
  - (a) are subscribed for wholly in cash, and
  - (b) are fully paid up at the time they are issued.

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- (4) Shares are not fully paid up for the purposes of subsection (3)(b) if there is any undertaking to pay cash to any person at a future date in respect of the acquisition of the shares.

#### Textual Amendments

**F486** S. 173(2)(a)(aa) substituted (17.7.2012) for s. 173(2)(a) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 6\(2\)](#)

**F487** S. 173(2A) inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 6\(3\)](#)

#### <sup>F488</sup>173A The maximum amount raised annually through risk <sup>F489</sup>finance investments requirement

- (1) The total amount of relevant investments made in the issuing company in the year ending with the date the relevant shares are issued <sup>F490</sup> must not exceed—
- (a) if the company is a knowledge-intensive company at that date (see section 252A and subsection (5A)), £10 million, and
  - (b) in any other case, £5 million.]

<sup>F491</sup>(2) In subsection (1), the reference to relevant investments made in the issuing company includes—

- (a) a relevant investment made in any company that has at any time in the year mentioned there been a 51% subsidiary of the issuing company (including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the end of that year, not those made after it last ceased to be such a subsidiary),
- (b) any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time in that year been a 51% subsidiary of the issuing company (but, if it is not such a subsidiary at the end of that year, ignoring any money so employed after it last ceased to be such a subsidiary), and
- (c) any other relevant investment made in a company if—
  - (i) the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
  - (ii) in that year, after the investment was made, the trade (or a part of it) became a relevant transferred trade (see subsection (2B)).

(2A) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a relevant transferred trade, the reference in subsection (2)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.

(2B) Where—

- (a) in the year mentioned in subsection (1) a trade is transferred—
  - (i) to the issuing company,
  - (ii) to a company that has at any time during that year been a 51% subsidiary of the issuing company, or

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(iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,

(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, in that year before the company became such a subsidiary but, if the company is not such a subsidiary at the end of that year, not where it is transferred to such a company or partnership after the company last ceased to be such a subsidiary), and

(b) that trade or a part of it was previously (at any time) carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).]

(3) A “relevant investment” is made in a company if—

(a) an investment (of any kind) in the company is made by a VCT, or

(b) the company issues shares (money having been subscribed for them), and (at any time) the company provides—

(i) a compliance statement under section 205, or

[ a compliance statement under section 257ED (seed enterprise <sup>F492</sup>(ia) investment scheme).]

<sup>F493</sup>(ii) .....

in respect of the shares<sup>F494</sup>, or

<sup>F495</sup>(ba) [ an investment is made in the company and (at any time) the company provides a compliance statement under section 257PB (tax relief for social investments) in respect of the investment, or]

(c) any other investment is made in the company which is aid received by it pursuant to a measure approved by the European Commission [<sup>F496</sup>before IP completion day] as compatible with Article 107 of the Treaty on the Functioning of the European Union in accordance with the principles laid down in the [<sup>F497</sup>European Commission's Guidelines on State aid to promote risk finance investment][<sup>F498</sup>(as those guidelines had effect at the time of the approval)].]

(4) An investment within subsection (3)(b) is regarded as made when the shares are issued.

[ Section 257KB applies in determining for those purposes when an investment within <sup>F499</sup>(5) subsection (3)(ba) is made as it applies for the purposes of Part 5B (tax relief on social investments).]

<sup>F500</sup>(5A) [ If the issuing company began to carry on a trade less than three years before the date the relevant shares are issued, section 252A as it applies for the purposes of this section has effect with the substitution of the following subsections for subsections (2) to (4A)

“(2) The first operating costs condition is that in at least one of the relevant three succeeding years at least 15% of the relevant operating costs constitute expenditure on research and development or innovation.

(3) The second operating costs condition is that in each of the relevant three succeeding years at least 10% of the relevant operating costs constitute such expenditure.

(4) In subsections (2) and (3)—

“relevant operating costs” means—

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- (a) if the issuing company is a single company at the time the relevant shares are issued, the operating costs of that company, and
- (b) if the issuing company is a parent company at the time the relevant shares are issued, the sum of—
  - (i) the operating costs of the issuing company, and
  - (ii) the operating costs of each company which is a qualifying subsidiary of the issuing company at that time, excluding a company's operating costs for any of the relevant three succeeding years during any part of which the company is not a qualifying subsidiary of the issuing company;

“the relevant three succeeding years” means the three consecutive years the first of which begins with the date the relevant shares are issued.”]

[ For the purposes of this section—

- <sup>F501</sup>(6) (a) references to a trade include a part of a trade (and references to the carrying on of a trade are to be construed accordingly);
- (b) when determining the amount of money raised by a relevant investment which has been employed for the purposes of a trade such apportionments are to be made as are just and reasonable.
- (7) In this section “trade” includes—
- (a) any business or profession,
  - (b) so far as not within paragraph (a), the carrying on of research and development activities from which it is intended a trade will be derived or will benefit, and
  - (c) preparing to carry on a trade.]]

### Textual Amendments

- F488** S. 173A inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 5\(3\)](#) (with [Sch. 16 para. 5\(5\)\(6\)8](#))
- F489** Words in s. 173A heading substituted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(6\)](#)
- F490** Words in s. 173A(1) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 2\(2\)](#), 10; [S.I. 2018/931](#), reg. 3(a)
- F491** S. 173A(2)-(2B) substituted for s. 173A(2) (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(2\)](#)
- F492** S. 173A(3)(b)(ia) inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 12](#)
- F493** S. 173A(3)(b)(ii) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 7\(3\)\(a\)](#)
- F494** S. 173A(3)(c) and preceding word inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 7\(3\)\(b\)](#)
- F495** S. 173A(3)(ba) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(3\)\(a\)](#)
- F496** Words in s. 173A(3)(c) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, [4\(2\)\(a\)](#)
- F497** Words in s. 173A(3)(c) substituted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(3\)\(b\)](#)



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- F498** Words in s. 173A(3)(c) substituted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, [4\(2\)\(b\)](#)
- F499** S. 173A(5) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(4\)](#)
- F500** S. 173A(5A) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 2\(3\)](#), 10; S.I. 2018/931, reg. 3(a)
- F501** S. 173A(6)(7) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 7\(5\)](#)

**Modifications etc. (not altering text)**

- C66** S. 173A(3)(4) applied by 1992 c. 12, Sch. 5B para. 1(6) (as inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#)), [Sch. 16 para. 7\(2\)\(b\)](#))

**[<sup>F502</sup>173A] Maximum risk finance investments at the issue date requirement**

- (1) The total amount of relevant investments made in the issuing company on or before the issue date must not exceed—
- if the issuing company is a knowledge-intensive company at the issue date (see section 252A), £20 million, and
  - in any other case, £12 million.
- (2) In subsection (1) the reference to relevant investments made in the issuing company includes—
- any relevant investment made in any company that at the issue date is, or has at any time before that date been, a 51% subsidiary of the issuing company (including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the issue date, not investments made in it after it last ceased to be such a subsidiary),
  - any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time before the issue date been a 51% subsidiary of the issuing company (but, if it is not such a subsidiary at that date, ignoring any money so employed after it last ceased to be such a subsidiary), and
  - any other relevant investment made in a company if—
    - the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
    - after the investment was made, but on or before the issue date, that trade became a relevant transferred trade (see subsection (4)).
- (3) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a relevant transferred trade, the reference in subsection (2)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.
- (4) Where—
- at any time on or before the issue date, a trade is transferred—
    - to the issuing company,
    - to a company that at the issue date is, or has at any time before that date been, a 51% subsidiary of the issuing company, or

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(iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,

(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, before the company became such a subsidiary but, if the company is not such a subsidiary at the issue date, not where it is transferred to such a company or partnership after the company last ceased to be such a subsidiary), and

(b) the trade or a part of it was previously (at any time) carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).

(5) In this section—

“the issue date” means the date on which the relevant shares are issued;

“relevant investment” has the meaning given by section 173A(3), and section 173A(4) and (5) (which determines when certain investments are made) applies for the purposes of this section;

and section 173A(6) and (7) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 173A.

#### Textual Amendments

**F502** Ss. 173AA, 173AB inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 8](#)

### 173AB Maximum risk finance investments during period B requirement

- (1) The requirement of this section applies if condition A or B is met.
- (2) Condition A is that—
  - (a) a company becomes a 51% subsidiary of the issuing company at any time during period B,
  - (b) all or part of the money raised by the issue of the relevant shares is employed for the purposes of a qualifying business activity which consists wholly or in part of a trade carried on by that company, and
  - (c) that trade (or a part of it) was carried on by that company before it became a 51% subsidiary as mentioned in paragraph (a).
- (3) Condition B is that all or part of the money raised by the issue of the relevant shares is employed for the purposes of a qualifying business activity which consists wholly or in part of a trade which, during period B, becomes a relevant transferred trade.
- (4) The requirement of this section is that, at all times in period B, the total of the relevant investments made in the issuing company before the time in question (“the relevant time”) must not exceed—
  - (a) if the issuing company is a knowledge-intensive company at the issue date (see section 252A), £20 million, and
  - (b) in any other case, £12 million.
- (5) In subsection (4) the reference to relevant investments made in the issuing company includes—

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- (a) any relevant investment made in any company that at any time before the relevant time has been a 51% subsidiary of the issuing company (including investments made in a company before it became such a subsidiary but, if it is not such a subsidiary at the relevant time, not investments made in it after it last ceased to be such a subsidiary),
  - (b) any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time before the relevant time been a 51% subsidiary of the issuing company (but, if it is not such a subsidiary at the relevant time, ignoring any money so employed after it last ceased to be such a subsidiary), and
  - (c) any other relevant investments made in a company where—
    - (i) the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
    - (ii) after the investment was made, but before the relevant time, that trade (or a part of it) becomes a relevant transferred trade (see subsection (7)).
- (6) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which became a relevant transferred trade, the reference in subsection (5)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.
- (7) Where—
- (a) before the relevant time, a trade is transferred—
    - (i) to the issuing company,
    - (ii) to a company that is at the relevant time, or has before that time been, a 51% subsidiary of the issuing company, or
    - (iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, before the company became such a subsidiary but, if the company is not such a subsidiary at the relevant time, not where it is transferred to such a company or partnership after the company last ceased to be such a subsidiary), and
  - (b) the trade or a part of it was previously (at any time) carried on by another person,
- the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).
- (8) In this section—
- “the issue date” means the date on which the relevant shares are issued, and
  - “relevant investment” has the meaning given by section 173A(3), and section 173A(4) and (5) (which determines when certain investments are made) applies for the purposes of this section;
- and section 173A(6) and (7) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 173A.]

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#### Textual Amendments

**F502** Ss. 173AA, 173AB inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 8**

### <sup>F503</sup>173B The spending of money raised by SEIS investment requirement

.....

#### Textual Amendments

**F503** S. 173B omitted (with effect in accordance with Sch. 5 para. 21 of the amending Act) by virtue of Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 9**

### 174 The purpose of the issue requirement

<sup>F504</sup>(1) The relevant shares (other than any of them which are bonus shares) must be issued in order to raise money for the purpose of a qualifying business activity [<sup>F505</sup>so as to promote business growth and development].

<sup>F506</sup>(2) For this purpose “business growth and development” means the growth and development of—

- (a) if the issuing company is a single company, the business of that company, and
- (b) if the issuing company is a parent company, what would be the business of the group if the activities of the group companies taken together were regarded as one business.]

#### Textual Amendments

**F504** S. 174(1): s. 174 renumbered as s. 174(1) (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 10(2)**

**F505** Words in s. 174(1) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 10(3)**

**F506** S. 174(2) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 10(4)**

### 175 The use of the money raised requirement

<sup>F507</sup>(1) The requirement of this section is that all of the money raised by the issue of the relevant shares (other than any of them which are bonus shares) is, no later than the time mentioned in subsection (3), employed wholly for the purpose of the qualifying business activity for which it was raised.]

<sup>F508</sup>(1ZA) Employing money raised by the issue of the relevant shares (whether on its own or together with other money) on the acquisition, directly or indirectly, of—

- (a) an interest in another company such that a company becomes a 51% subsidiary of the issuing company,
- (b) a further interest in a company which is a 51% subsidiary of the issuing company,

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- (c) a trade,
  - (d) intangible assets employed for the purposes of a trade, or
  - (e) goodwill employed for the purposes of a trade,
- does not amount to employing that money for the purposes of a qualifying business activity.
- (1ZB) The Treasury may by regulations provide that subsection (1ZA) does not apply in relation to acquisitions of intangible assets which are of a description specified, or which occur in circumstances specified, in the regulations.
- (1ZC) For the purposes of subsections (1ZA) and (1ZB)—
- “goodwill” has the same meaning as in Part 8 of CTA 2009 (see section 715(3));
  - “intangible assets” means any asset which falls to be treated as an intangible asset in accordance with generally accepted accountancy practice;
- and section 173A(6) and (7) (meaning of “trade” etc) applies as it applies for the purposes of section 173A.
- (1A) Also, otherwise employing money on the acquisition of shares or stock in a company does not of itself amount to employing the money for the purposes of a qualifying business activity.]
- (2) The [<sup>F509</sup>requirement in subsection (1) does] not fail to be met merely because an amount of money which is not significant is employed for another purpose.
- (3) The time referred to in [<sup>F510</sup>subsection (1)] is—
- (a) the end of the period of [<sup>F511</sup>two years] beginning with the issue of the shares, or
  - (b) in the case of money raised only for the purpose of an activity to which section 179(2) applies, the end of the period of [<sup>F511</sup>two years] beginning with—
    - (i) the issue of the shares, or
    - (ii) if later, the time when the company or a qualifying 90% subsidiary of the company begins to carry on the qualifying trade.
- (4) In determining for the purposes of subsection (3)(b) when a qualifying trade is begun to be carried on by a qualifying 90% subsidiary of a company, any carrying on by it of the trade before it became such a subsidiary is ignored.

#### Textual Amendments

**F507** S. 175(1) substituted (with effect in accordance with Sch. 8 para. 11 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 7\(2\)](#)

**F508** S. 175(1ZA)-(1A) substituted for s. 175(1A) (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 11\(2\)](#)

**F509** Words in s. 175(2) substituted (with effect in accordance with Sch. 8 para. 11 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 7\(3\)](#)

**F510** Words in s. 175(3) substituted (with effect in accordance with Sch. 8 para. 11 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 7\(4\)\(a\)](#)

**F511** Words in s. 175(3) substituted (with effect in accordance with Sch. 8 para. 11 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 7\(4\)\(b\)](#)

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## **[<sup>F512</sup>175A] The permitted maximum age requirement**

- (1) The requirement of this section is that, if the relevant shares are issued after the initial investing period, condition A, B or C must be met.
- (2) “The initial investing period” means—
  - (a) where the issuing company is a knowledge-intensive company at the issue date, the period of 10 years [<sup>F513</sup>beginning with—
    - (i) the relevant first commercial sale, or
    - (ii) if the issuing company so elects, the date by reference to which that company is treated as reaching an annual turnover of £200,000 (see section 252B),] and
  - (b) in any other case, the period of 7 years beginning with that sale.
- (3) Condition A is that—
  - (a) a relevant investment was made in the issuing company before the end of the initial investing period, and
  - (b) some or all of the money raised by that investment was employed for the purposes of the relevant qualifying business activity (or a part of it).
- (4) Condition B is that—
  - (a) the total amount of relevant investments made in the issuing company in a period of 30 consecutive days which includes the issue date is at least 50% of the average turnover amount, and
  - (b) the money raised by those investments is employed for the purpose of entering a new product or geographical market.
- (5) Condition C is that—
  - (a) condition B in subsection (4) or condition B in section 294A(4) (VCT: permitted company age requirement) was previously met in relation to one or more relevant investments made in the issuing company, and
  - (b) some or all of the money raised by those investments was employed for the purposes of the relevant qualifying business activity.
- (6) “The relevant first commercial sale” means the earliest of the following—
  - (a) the first commercial sale made by the issuing company;
  - (b) the first commercial sale made by a company that is at the issue date, or before that date has been, a 51% subsidiary of the issuing company (including a sale made by a company before it became such a subsidiary but, if it is not such a subsidiary at the issue date, not a sale made after it last ceased to be such a subsidiary);
  - (c) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on, on or before the issue date, by—
    - (i) the issuing company, or
    - (ii) a company that is at the issue date, or before that date has been, a 51% subsidiary of the issuing company,
 (including a trade subsequently carried on by such a company before it became such a subsidiary but, if it is not such a subsidiary at the issue date, not a trade which it carried on only after it last ceased to be such a subsidiary);
  - (d) the first commercial sale made by a company which becomes a 51% subsidiary of the issuing company after the issue date in circumstances where

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all or part of the money raised by the issue of the relevant shares is employed for the purposes of an activity carried on by that subsidiary (including a sale made by such a company before it became such a subsidiary);

- (e) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on by a company mentioned in paragraph (d) (including a trade carried on by such a company before it became such a subsidiary);
- (f) if the money raised by the issue of the relevant shares (or any part of it) is employed for the purposes of a trade which has been transferred, after the issue date, to the issuing company or a 51% subsidiary of that company (or a partnership of which the issuing company or such a subsidiary is a member), having previously (at any time) been carried on by another person, the first commercial sale made by that other person.

- (7) “The average turnover amount” means one fifth of the total relevant turnover amount for the <sup>F514</sup>relevant five year period.]

<sup>F515</sup> [ Subject to subsection (7B), the relevant five year period is the five year period which (7A) ends immediately before the beginning of the last accounts filing period.

- (7B) If the last accounts filing period ends more than 12 months before the issue date, the relevant five year period is the five year period which ends 12 months before the issue date.]

- (8) In this section—

“entering a new product or geographical market” has the same meaning as in Commission Regulation (EU) No 651/2014 (General block exemption Regulation) <sup>F516</sup>as it had effect in the United Kingdom immediately before IP completion day];

“first commercial sale” has the same meaning as in the European Commission's Guidelines on State aid to promote risk finance investments <sup>F517</sup>(as those guidelines had effect in the United Kingdom immediately before IP completion day)];

“the issue date” means the date on which the relevant shares are issued;

“the last accounts filing period” means the last period for filing (within the meaning of section 442 of the Companies Act 2006) for the issuing company which ends before the date on which the relevant shares are issued;

“relevant investment” has the meaning given by section 173A(3), and section 173A(4) and (5) (which determines when certain investments are made) applies for the purposes of this section;

“relevant qualifying business activity” means the qualifying business activity for which the money raised by the issue of the relevant shares is employed;

“the total relevant turnover amount” for a period is—

- (a) if the issuing company is a single company at the issue date, the sum of—
  - (i) the issuing company's turnover for that period,
  - (ii) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the issuing company after the issue date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and

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- (iii) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already included in calculating the amounts within subparagraphs (i) and (ii));
- (b) if the issuing company is a parent company at the issue date, the sum of—
  - (i) the issuing company's turnover for that period,
  - (ii) the turnover for that period of each company which at the issue date is a qualifying subsidiary of the issuing company,
  - (iii) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the issuing company after the issue date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and
  - (iv) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already included in calculating the amounts within subparagraphs (i) to (iii));

“transferred trade” means a trade which has been transferred to the company which is carrying on the trade at the time the money raised by the issue of the relevant shares is employed or to a partnership of which that company is a member;

“turnover”—

- (a) in relation to a company, has the meaning given by section 474(1) of the Companies Act 2006 and is to be determined by reference to the accounts of companies and amounts recognised for accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a company's turnover for a period);
- (b) in relation to any other person carrying on a trade, also has the meaning given by section 474(1) of that Act (reading references in that provision to a company as references to the person) and is to be determined by reference to the accounts of the person and amounts recognised for accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a person's turnover for a period);
- (c) in relation to a transferred trade carried on by a company or other person, means such proportion of the turnover of the company or other person as it is just and reasonable to attribute to the transferred trade;

and section 173A(6) and (7) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 173A.]

#### Textual Amendments

**F512** S. 175A inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 12](#)



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- F513** Words in s. 175A(2)(a) substituted (6.4.2018) by Finance Act 2018 (c. 3), Sch. 4 paras. 5, 10; S.I. 2018/931, reg. 3(a)
- F514** Words in s. 175A(7) substituted (retrospectively) by Finance Act 2016 (c. 24), s. 29(1)(a)(6) (with s. 30)
- F515** S. 175A(7A)(7B) inserted (retrospectively) by Finance Act 2016 (c. 24), s. 29(1)(b)(6) (with s. 30)
- F516** Words in s. 175A(8) inserted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, 4(3)(a)
- F517** Words in s. 175A(8) substituted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, 4(3)(b)

## 176 The minimum period requirement

- (1) The issue of shares which includes the relevant shares must meet—
- (a) the requirement of subsection (2) in a case where the money raised by an issue of shares is raised wholly for the purpose of a qualifying business activity falling within section 179(2),
  - (b) the requirement of subsection (3) in a case where the money raised by an issue of shares is raised wholly or partly for the purpose of a qualifying business activity falling within section 179(4).
- (2) The requirement is that—
- (a) the trade concerned must have been carried on for a period of at least 4 months ending at or after the time of the issue, and
  - (b) throughout that period—
    - (i) the trade must have been carried on by the issuing company or a qualifying 90% subsidiary of that company, and
    - (ii) the trade must not have been carried on by any other person.
- (3) The requirement is that—
- (a) the research and development concerned must have been carried on for a period of at least 4 months ending at or after the time of the issue, and
  - (b) throughout that period—
    - (i) the research and development must have been carried on by the issuing company or a qualifying 90% subsidiary of that company, and
    - (ii) the research and development must not have been carried on by any other person.
- (4) If—
- (a) merely because of the issuing company or any other company being wound up, or dissolved without winding up—
    - (i) the trade is carried on as mentioned in subsection (2), or
    - (ii) the research and development is carried on as mentioned in subsection (3),for a period shorter than 4 months, and
  - (b) the winding up or dissolution—
    - (i) is for genuine commercial reasons, and
    - (ii) is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax,subsection (2) or, as the case may be, (3) has effect as if it referred to that shorter period.

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- (5) If—
- (a) merely because of anything done as a result of the issuing company or any other company being in administration or receivership—
    - (i) the trade is carried on as mentioned in subsection (2), or
    - (ii) the research and development is carried on as mentioned in subsection (3),
 for a period shorter than 4 months, and
  - (b) the entry into administration or receivership, and everything done as a result of the company concerned being in administration or receivership—
    - (i) is for genuine commercial reasons, and
    - (ii) is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax,
 subsection (2) or, as the case may be, (3) has effect as if it referred to that shorter period.

### 177 The no pre-arranged exits requirement

- (1) The issuing arrangements for the relevant shares must not include—
- (a) arrangements with a view to the subsequent repurchase, exchange or other disposal of those shares or of other shares in or securities of the issuing company,
  - (b) arrangements for or with a view to the cessation of any trade which is being or is to be or may be carried on by the issuing company or a person connected with that company,
  - (c) arrangements for the disposal of, or of a substantial amount (in terms of value) of, the assets of the issuing company or of a person connected with that company, or
  - (d) arrangements the main purpose or one of the main purposes of which is (by means of any insurance, indemnity or guarantee or otherwise) to provide partial or complete protection for persons investing in shares in the issuing company against what would otherwise be the risks attached to making the investment.
- [<sup>F518</sup>(2) The arrangements referred to in subsection (1)(a) do not include—
- (a) any arrangements with a view to such an exchange of shares, or shares and securities, as is mentioned in section 247(1), or
  - (b) any arrangements with a view to any shares in the issuing company being exchanged for, or converted into, shares in that company of a different class.]
- (3) The arrangements referred to in subsection (1)(b) and (c) do not include any arrangements applicable only on the winding up of a company except in a case where—
- (a) the issuing arrangements include arrangements for the company to be wound up, or
  - (b) the arrangements are applicable on the winding up of the company otherwise than for genuine commercial reasons.
- (4) The arrangements referred to in subsection (1)(d) do not include any arrangements which are confined to the provision—
- (a) for the issuing company itself, or

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- (b) if the issuing company is a parent company that meets the trading requirement in section 181(2)(b), for the issuing company itself, for the issuing company itself and one or more of its subsidiaries or for one or more of its subsidiaries, of any such protection against the risks arising in the course of carrying on its business as might reasonably be expected to be provided in normal commercial circumstances.
- (5) In this section “the issuing arrangements” means—
- (a) the arrangements under which the shares are issued to the individual, and
  - (b) any arrangements made before the issue of the shares to the individual in relation to or in connection with that issue.

#### Textual Amendments

**F518** S. 177(2) substituted (with effect in accordance with s. 11(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 11\(2\)](#)

### 178 The no tax avoidance requirement

The relevant shares must be issued for genuine commercial reasons, and not as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### <sup>F519</sup>178A The no disqualifying arrangements requirement

- (1) The relevant shares must not be issued, nor any money raised by the issue employed, in consequence or anticipation of, or otherwise in connection with, disqualifying arrangements.
- (2) Arrangements are “disqualifying arrangements” if—
  - (a) the main purpose, or one of the main purposes, of the arrangements is to secure—
    - (i) that a qualifying business activity is or will be carried on by the issuing company or a qualifying 90% subsidiary of that company, and
    - (ii) that one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of shares issued by the issuing company which raise money for the purposes of that activity or that such shares may comprise part of the qualifying holdings of a VCT,
  - (b) that activity is the relevant qualifying business activity, and
  - (c) one or both of conditions A and B are met.
- (3) Condition A is that, as a (direct or indirect) result of the money raised by the issue of the relevant shares being employed as required by section 175, an amount representing the whole or the majority of the amount raised is, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.
- (4) Condition B is that, in the absence of the arrangements, it would have been reasonable to expect that the whole or greater part of the component activities of the relevant qualifying business activity would have been carried on as part of another business by a relevant person or relevant persons.

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(5) For the purposes of this section it is immaterial whether the issuing company is a party to the arrangements.

(6) In this section—

“component activities” means—

- (a) if the relevant qualifying business activity is activity A (see section 179(2)), the carrying on of a qualifying trade or preparing to carry on such a trade, which constitutes that activity, and
- (b) if the relevant qualifying business activity is activity B (see section 179(4)), the carrying on of research and development which constitutes that activity;

“qualifying holdings”, in relation to the issuing company, is to be construed in accordance with section 286 (VCTs: qualifying holdings);

“relevant person” means a person who is a party to the arrangements or a person connected with such a party;

“relevant qualifying business activity” means the activity for the purposes of which the issue of the relevant shares raised money;

“relevant tax relief”, in respect of shares, means one or more of the following—

- (a) EIS relief in respect of the shares;
- (b) SEIS relief under Part 5A in respect of the shares;
- (ba) [<sup>F520</sup>SI relief under Part 5B in respect of the shares;]
- (c) relief under Chapter 6 of Part 4 (losses on disposal of shares) in respect of the shares;
- (d) relief under section 150A or 150E of TCGA 1992 (enterprise investment scheme) in respect of the shares;
- (e) relief under Schedule 5B to that Act (enterprise investment scheme: reinvestment) in consequence of which deferral relief is attributable to the shares (see paragraph 19(2) of that Schedule);
- (f) relief under Schedule 5BB to that Act (seed enterprise investment scheme: re-investment) in consequence of which SEIS re-investment relief is attributable to the shares (see paragraph 4 of that Schedule).]

#### **Textual Amendments**

**F519** S. 178A inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 9](#)

**F520** Words in s. 178A(6) inserted (with effect in accordance with Sch. 1 para. 16 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 11\(2\)](#)

#### *Meaning of “qualifying business activity”*

### **179 Meaning of “qualifying business activity”**

(1) In this Part “qualifying business activity”, in relation to the issuing company, means—

- (a) activity A, or
- (b) activity B,

if it is carried on by the company or a qualifying 90% subsidiary of the company.

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F521 .....

(2) Activity A is—

- (a) the carrying on of a qualifying trade which, on the date the relevant shares are issued, the company or a qualifying 90% subsidiary of the company is carrying on, or
- (b) the activity of preparing to carry on (or preparing to carry on and then carrying on) a qualifying trade—
  - (i) which, on that date, is intended to be carried on <sup>F522</sup>... by the company or such a subsidiary, and
  - (ii) which is begun to be carried on by the company or such a subsidiary within two years after that date.

<sup>F523</sup>(3) .....

(4) Activity B is the carrying on of research and development—

- (a) which, on the date the relevant shares are issued, the company or a qualifying 90% subsidiary of the company is carrying on, or which the company or such a subsidiary begins to carry on immediately afterwards, and
- (b) from which, on that date, it is intended—
  - (i) that a qualifying trade which the company or such a subsidiary will carry on <sup>F524</sup>... will be derived, or
  - (ii) that a qualifying trade which the company or such a subsidiary is carrying on, or will carry on, <sup>F525</sup>... will benefit.

<sup>F526</sup>(5) .....

(6) In determining—

- (a) for the purposes of subsection (2)(b) when a qualifying trade is begun to be carried on by a qualifying 90% subsidiary of the company, or
- (b) for the purposes of subsection (4)(a) when research and development is begun to be carried on by such a subsidiary,

any carrying on of the trade or, as the case may be, the research and development by it before it became such a subsidiary is ignored.

(7) References in subsection (2)(b)(i) or (4)(b) to a qualifying 90% subsidiary of the company include references to any existing or future company which will be such a subsidiary at any future time.

### Textual Amendments

**F521** Words in s. 179(1) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 2 para. 10](#)

**F522** Words in s. 179(2)(b)(i) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by virtue of [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 1\(2\)\(a\)](#); S.I. 2011/662, art. 2

**F523** S. 179(3) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by virtue of [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 1\(2\)\(b\)](#); S.I. 2011/662, art. 2

**F524** Words in s. 179(4)(b)(i) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by virtue of [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 1\(2\)\(c\)](#); S.I. 2011/662, art. 2

**F525** Words in s. 179(4)(b)(ii) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by virtue of [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 1\(2\)\(c\)](#); S.I. 2011/662, art. 2

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**F526** S. 179(5) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by virtue of Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 1(2)(d)**; S.I. 2011/662, art. 2

## CHAPTER 4

### THE ISSUING COMPANY

#### *Introduction*

### 180 Overview of Chapter

The issuing company is a qualifying company in relation to the relevant shares if the requirements of this Chapter are met as to—

- [<sup>F527</sup>(za) UK permanent establishment (see section 180A),
- (zb) financial health (see section 180B),]
  - (a) trading (see section 181),
  - (b) the issuing company to carry on the qualifying business activity (see section 183),
  - (c) unquoted status (see section 184),
  - (d) control and independence (see section 185),
  - (e) gross assets (see section 186),
- [<sup>F528</sup>(ea) number of employees (see section 186A),]
  - (f) qualifying subsidiaries (see section 187), and
  - (g) property managing subsidiaries (see section 188).

#### **Textual Amendments**

**F527** S. 180(za)(zb) inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 1(3)**; S.I. 2011/662, art. 2

**F528** S. 180(ea) inserted (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 16 para. 2(2)** (with Sch. 16 para. 2(4)(5))

#### *The requirements*

### [<sup>F529</sup>180A] **The UK permanent establishment requirement**

- (1) The issuing company must meet the UK permanent establishment requirement throughout period B.
- (2) The UK permanent establishment requirement is that the issuing company has a permanent establishment in the United Kingdom.

#### **Textual Amendments**

**F529** Ss. 180A, 180B inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 1(4)**; S.I. 2011/662, art. 2

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## 180B The financial health requirement

- (1) The issuing company must meet the financial health requirement at the beginning of period B.
- (2) The financial health requirement is that the issuing company is not in difficulty.
- (3) The issuing company is “in difficulty” if it is reasonable to assume that it would be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02) [<sup>F530</sup>as those guidelines had effect in the United Kingdom immediately before IP completion day].]

### Textual Amendments

- F529** Ss. 180A, 180B inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 1\(4\)](#); [S.I. 2011/662, art. 2](#)
- F530** Words in [s. 180B\(3\)](#) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), [regs. 1, 4\(4\)](#)

## 181 The trading requirement

- (1) The issuing company must meet the trading requirement throughout period B.
- (2) The trading requirement is that—
  - (a) the company, ignoring any incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, or
  - (b) the company is a parent company and the business of the group does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- (3) If the company intends that one or more other companies should become its qualifying subsidiaries with a view to their carrying on one or more qualifying trades—
  - (a) the company is treated as a parent company for the purposes of subsection (2)(b), and
  - (b) the reference in subsection (2)(b) to the group includes the company and any existing or future company that will be its qualifying subsidiary after the intention in question is carried into effect.

This subsection does not apply at any time after the abandonment of that intention.

- (4) For the purpose of subsection (2)(b) the business of the group means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (5) For the purpose of determining the business of a group, activities are ignored so far as they are activities carried on by a mainly trading subsidiary otherwise than for its main purpose.
- (6) For the purposes of determining the business of a group, activities of a group company are ignored so far as they consist in—
  - (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
  - (b) the making of loans to another group company,

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- (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company, or
  - (d) the holding and managing of property used by a group company for the purpose of research and development from which it is intended—
    - (i) that a qualifying trade to be carried on by a group company will be derived, or
    - (ii) that a qualifying trade carried on or to be carried on by a group company will benefit.
- (7) Any reference in subsection (6)(d)(i) or (ii) to a group company includes a reference to any existing or future company which will be a group company at any future time.
- (8) In this section—
- “incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the company in question,
  - “mainly trading subsidiary” means a qualifying subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly, and
  - “non-qualifying activities” means—
    - (a) excluded activities, and
    - (b) activities (other than research and development) carried on otherwise than in the course of a trade.
- (9) This section is supplemented by section 189 (meaning of “qualifying trade”) and sections 192 to 199 (excluded activities).

## **182 Ceasing to meet trading requirement because of administration or receivership**

- (1) A company is not regarded as ceasing to meet the trading requirement merely because of anything done in consequence of the company or any of its subsidiaries being in administration or receivership.

This has effect subject to subsections (2) and (3).

- (2) Subsection (1) applies only if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a result of the company concerned being in administration or receivership,

is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

- (3) A company ceases to meet the trading requirement if before the end of period B—
- (a) a resolution is passed, or an order is made, for the winding up of the company or any of its subsidiaries (or, in the case of a winding up otherwise than under the Insolvency Act 1986 (c. 45) or the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), any other act is done for the like purpose), or
  - (b) the company or any of its subsidiaries is dissolved without winding up.

This is subject to subsection (4).



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- (4) Subsection (3) does not apply if the winding up or dissolution is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### **183 The issuing company to carry on the qualifying business activity requirement**

- (1) The requirement of this section is met in relation to the issuing company if, at no time in period B, is any of the following—

- (a) the relevant qualifying trade,
- (b) relevant preparation work (if any), and
- (c) relevant research and development (if any),

carried on by a person other than the issuing company or a qualifying 90% subsidiary of that company.

- (2) Subsection (3) has effect for the purpose of determining whether the requirement of this section is met in relation to the issuing company in a case where relevant preparation work is carried out by that company or a qualifying 90% subsidiary of that company.

- (3) The carrying on of the relevant qualifying trade by a company other than the issuing company or a subsidiary of that company is to be ignored if it takes place at any time in period B before the issuing company or any qualifying 90% subsidiary of that company begins to carry on that trade.

- (4) The requirement of this section is not regarded as failing to be met in relation to the issuing company if, merely because of any act or event within subsection (5), the relevant qualifying trade—

- (a) ceases to be carried on in period B by the issuing company or any qualifying 90% subsidiary of that company, and
- (b) is subsequently carried on in that period by a person who is not at any time in period C connected with the issuing company.

- (5) The following are acts and events within this subsection—

- (a) anything done as a consequence of the issuing company or any other company being in administration or receivership, and
- (b) the issuing company or any other company being wound up, or dissolved without being wound up.

- (6) Subsection (4) applies only if—

- (a) the entry into administration or receivership, and everything done as a consequence of the company concerned being in administration or receivership, or
- (b) the winding up or dissolution,

is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

- (7) In this section—

“relevant preparation work” means preparations within section 179(2)

(b) which are the subject of the qualifying business activity mentioned in section 174,

“the relevant qualifying trade” means the qualifying trade which is the subject of that qualifying business activity,

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“relevant research and development” means—

- (a) research and development within section 179(4) which is the subject of that qualifying business activity, and
- (b) any other preparations for the carrying on of the qualifying trade which is the subject of that activity.

## 184 The unquoted status requirement

- (1) At the beginning of period B—
  - (a) the issuing company must be an unquoted company,
  - (b) there must be no arrangements in existence for the issuing company to cease to be an unquoted company, and
  - (c) there must be no arrangements in existence for the issuing company to become a subsidiary of another company (“the new company”) by virtue of an exchange of shares, or shares and securities, if—
    - (i) section 247 applies in relation to the exchange, and
    - (ii) arrangements have been made with a view to the new company ceasing to be an unquoted company.
- (2) In this section “unquoted company” means a company none of whose shares, stocks, debentures or other securities are marketed to the general public.
- (3) For the purposes of subsection (2), shares, stocks, debentures or other securities are marketed to the general public if they are—
  - (a) listed on [<sup>F531</sup>a recognised stock exchange,]
  - (b) listed on a designated exchange in a country outside the United Kingdom, or
  - (c) dealt in outside the United Kingdom by such means as may be designated.
- (4) In subsection (3)(b) and (c) “designated” means designated by an order made by the Commissioners for Her Majesty’s Revenue and Customs for the purposes of that provision.
- (5) An order made for the purposes of subsection (3)(b) may designate an exchange by name, or by reference to any class or description of exchanges, including a class or description framed by reference to any authority or approval given in a country outside the United Kingdom.
- (6) The arrangements referred to in subsection (1)(b) and (c)(ii) do not include arrangements in consequence of which any shares, stocks, debentures or other securities of the company are at any subsequent time—
  - (a) listed on a stock exchange that is a recognised stock exchange by virtue of an order made under section [<sup>F532</sup>1005(1)(b)], or
  - (b) listed on an exchange, or dealt in by any means, designated by an order made for the purposes of subsection (3)(b) or (c),
 if the order was made after the beginning of period B.

### Textual Amendments

**F531** Words in s. 184(3)(a) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(4\)\(a\)](#)

**F532** Word in s. 184(6)(a) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(4\)\(b\)](#)

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## 185 The control and independence requirement

- (1) The control element of the requirement is that—
  - (a) the issuing company must not at any time in period B control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the issuing company, and
  - (b) no arrangements must be in existence at any time in that period by virtue of which the issuing company could fail to meet paragraph (a) (whether during that period or otherwise).
- (2) The independence element of the requirement is that—
  - (a) the issuing company must not at any time in period B—
    - (i) be a 51% subsidiary of another company, or
    - (ii) be under the control of another company (or of another company and any other person connected with that other company), without being a 51% subsidiary of that other company, and
  - (b) no arrangements must be in existence at any time in that period by virtue of which the issuing company could fail to meet paragraph (a) (whether during that period or otherwise).
- (3) This section is subject to section 247(4) (exchange of shares).

## 186 The gross assets requirement

- (1) In the case of relevant shares issued by a single company, the value of the company's assets—
  - (a) must not exceed [<sup>F533</sup>£15 million] immediately before the relevant share issue, and
  - (b) must not exceed [<sup>F534</sup>£16 million] immediately afterwards.
- (2) In the case of relevant shares issued by a parent company, the value of the group assets—
  - (a) must not exceed [<sup>F535</sup>£15 million] immediately before the relevant share issue, and
  - (b) must not exceed [<sup>F536</sup>£16 million] immediately afterwards.
- (3) In this section—
  - (a) the relevant share issue is the issue of shares in the company that includes the relevant shares, and
  - (b) the value of the group assets is the sum of the values of the gross assets of each of the members of the group, ignoring any that consist in rights against, or shares in or securities of, another member of the group.

### Textual Amendments

**F533** Words in s. 186(1)(a) substituted (19.7.2012) (with effect in accordance with Sch. 7 para. 23(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 paras. 11\(a\), 23\(1\)](#); S.I. 2012/1896, art. 2(b)

**F534** Words in s. 186(1)(b) substituted (19.7.2012) (with effect in accordance with Sch. 7 para. 23(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 paras. 11\(b\), 23\(1\)](#); S.I. 2012/1896, art. 2(b)

**F535** Words in s. 186(2)(a) substituted (19.7.2012) (with effect in accordance with Sch. 7 para. 23(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 paras. 11\(a\), 23\(1\)](#); S.I. 2012/1896, art. 2(b)

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**F536** Words in s. 186(2)(b) substituted (19.7.2012) (with effect in accordance with Sch. 7 para. 23(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 paras. 11\(b\), 23\(1\)](#); S.I. 2012/1896, art. 2(b)

### **[<sup>F537</sup>186A] The number of employees requirement**

- (1) If the issuing company is a single company, the full-time equivalent employee number for it must be less than [<sup>F538</sup>the permitted limit] when the relevant shares are issued.
- (2) If the issuing company is a parent company, the sum of—
  - (a) the full-time equivalent employee number for it, and
  - (b) the full-time equivalent employee numbers for each of its qualifying subsidiaries,
 must be less than [<sup>F539</sup>the permitted limit] when the relevant shares are issued.
- (3) The full-time equivalent employee number for a company is calculated as follows—

#### *Step 1*

Find the number of full-time employees of the company.

#### *Step 2*

Add, for each employee of the company who is not a full-time employee, such fraction as is just and reasonable.

The result is the full-time equivalent employee number.

[ The permitted limit” means—

- <sup>F540</sup>(3A)
  - (a) if the issuing company is a knowledge-intensive company (see section 252A) at the time the relevant shares are issued, 500, and
  - (b) in any other case, 250.
- (3B) The Treasury may by regulations amend subsection (3A)(a) or (b) by substituting a different number for the number for the time being specified there.]
- (4) In this section references to an employee—
  - (a) include a director, but
  - (b) do not include—
    - (i) an employee on maternity [<sup>F541</sup>, paternity [<sup>F542</sup>, shared parental or parental bereavement]] leave, or
    - (ii) a student on vocational training.]

#### **Textual Amendments**

**F537** S. 186A inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 2\(3\)](#) (with [Sch. 16 para. 2\(4\)\(5\)](#))

**F538** Words in s. 186A(1) substituted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 13\(a\)](#)

**F539** Words in s. 186A(2) substituted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 13\(a\)](#)

**F540** S. 186A(3A)(3B) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 13\(b\)](#)

**F541** Words in s. 186A(4)(b)(i) substituted (1.12.2014) by [Children and Families Act 2014 \(c. 6\)](#), s. 139(6), [Sch. 7 para. 70](#); S.I. 2014/1640, art. 5(2)(cc)

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**F542** Words in s. 186A(4)(b)(i) substituted (18.1.2020) by Parental Bereavement (Leave and Pay) Act 2018 (c. 24), s. 2(2), **Sch. para. 51**; S.I. 2020/45, reg. 2

## **187 The qualifying subsidiaries requirement**

Any subsidiary that the issuing company has at any time in period B must be a qualifying subsidiary of the company.

## **188 The property managing subsidiaries requirement**

- (1) Any property managing subsidiary that the issuing company has at any time in period B must be a qualifying 90% subsidiary of the company.
- (2) “Property managing subsidiary” means a subsidiary of the company whose business consists wholly or mainly in the holding or managing of land or any property deriving its value from land.
- (3) In subsection (2) references to property deriving its value from land include—
  - (a) any shareholding in a company deriving its value directly or indirectly from land,
  - (b) any partnership interest deriving its value directly or indirectly from land,
  - (c) any interest in settled property deriving its value directly or indirectly from land, and
  - (d) any option, consent or embargo affecting the disposition of land.

### *Definitions*

## **189 Meaning of “qualifying trade”**

- (1) For the purposes of this Part, a trade is a qualifying trade if—
  - (a) it is conducted on a commercial basis and with a view to the realisation of profits, and
  - (b) it does not at any time in period B consist wholly or as to a substantial part in the carrying on of excluded activities.
- (2) References in this section and sections 192 to 198 to a trade are to be read without regard to the definition of “trade” in section 989.

## **190 Meaning of “qualifying 90% subsidiary”**

- (1) For the purposes of this Part, a company (“the subsidiary”) is a qualifying 90% subsidiary of another company (“the relevant company”) if the following conditions are met—
  - (a) the relevant company possesses at least 90% of the issued share capital of, and at least 90% of the voting power in, the subsidiary,
  - (b) the relevant company would—
    - (i) in the event of a winding up of the subsidiary, or
    - (ii) in any other circumstances,

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- be beneficially entitled to receive at least 90% of the assets of the subsidiary which would then be available for distribution to equity holders of the subsidiary,
- (c) the relevant company is beneficially entitled to receive at least 90% of any profits of the subsidiary which are available for distribution to equity holders of the subsidiary,
  - (d) no person other than the relevant company has control of the subsidiary, and
  - (e) no arrangements are in existence by virtue of which any of the conditions in paragraphs (a) to (d) would cease to be met.
- [<sup>F543</sup>(1A) For the purposes of this Part, a company (“company A”) which is a subsidiary of another company (“company B”) is a qualifying 90% subsidiary of a third company (“company C”) if—
- (a) company A is a qualifying 90% subsidiary of company B, and company B is a qualifying 100% subsidiary of company C, or
  - (b) company A is a qualifying 100% subsidiary of company B, and company B is a qualifying 90% subsidiary of company C.
- (1B) For the purposes of subsection (1A), no account is to be taken of any control company C may have of company A.
- (1C) For those purposes, a company (“company X”) is a qualifying 100% subsidiary of another company (“company Y”) at any time when the conditions in subsection (1) (a) to (e) would be met if—
- (a) company X were the subsidiary,
  - (b) company Y were the relevant company, and
  - (c) in subsection (1) for “at least 90%” in each place there were substituted “100%”.]
- (2) Subsections (3), (4) and (5) of section 191 (conditions not regarded as ceasing to be met because of winding up, dissolution, administration, receivership or arrangements for disposal not having tax avoidance as main purpose) apply in relation to the conditions in subsection (1)—
- (a) as they apply in relation to the conditions in subsection (2) of that section, but
  - (b) with the omission from subsection (5) of “or (as the case may be) by another subsidiary”.
- (3) For the purposes of subsection (1)—
- (a) the persons who are equity holders of the subsidiary, and
  - (b) the percentage of the assets of the subsidiary to which an equity holder would be entitled,
- are to be determined in accordance with [<sup>F544</sup>Chapter 6 of Part 5 of CTA 2010].
- (4) In making that determination—
- (a) references in [<sup>F545</sup>section 166 of that Act to company A] are to be read as references to an equity holder, and
  - (b) references in that [<sup>F546</sup>section] to a winding up are to be read as including references to any other circumstances in which assets of the subsidiary are available for distribution to its equity holders.

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### Textual Amendments

- F543** S. 190(1A)-(1C) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 16\(2\), 18](#)
- F544** Words in s. 190(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 500\(a\)](#) (with [Sch. 2](#))
- F545** Words in s. 190(4)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 500\(b\)](#) (with [Sch. 2](#))
- F546** Word in s. 190(4)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 500\(c\)](#) (with [Sch. 2](#))

## 191 Meaning of “qualifying subsidiary”

- (1) For the purposes of this Part, a company (“the subsidiary”) is a qualifying subsidiary of another company (“the relevant company”) if the following conditions are met.
- (2) The conditions are that—
  - (a) the subsidiary is a 51% subsidiary of the relevant company,
  - (b) no person other than the relevant company, or another of its subsidiaries, has control of the subsidiary, and
  - (c) no arrangements are in existence by virtue of which either of the conditions in paragraphs (a) and (b) would cease to be met.
- (3) The conditions do not cease to be met merely because the subsidiary or any other company is wound up, or dissolved without winding up, if the winding up or dissolution—
  - (a) is for genuine commercial reasons, and
  - (b) is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (4) The conditions do not cease to be met merely because of anything done as a consequence of the subsidiary or any other company being in administration or receivership, if—
  - (a) the entry into administration or receivership, and
  - (b) everything done as a consequence of the company concerned being in administration or receivership,is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (5) The conditions do not cease to be met merely because arrangements are in existence for the disposal by the relevant company or (as the case may be) by another subsidiary of all its interest in the subsidiary, if the disposal—
  - (a) is to be for genuine commercial reasons, and
  - (b) is not to be part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### Modifications etc. (not altering text)

- C67** S. 191 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 2 para. 42](#) (with [Sch. 2](#))

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## [<sup>F547</sup>191A Meaning of “permanent establishment”

- (1) This section applies for the purposes of this Part.
- (2) A company has a “permanent establishment” in the United Kingdom if (and only if)—
  - (a) it has a fixed place of business there through which the business of the company is wholly or partly carried on, or
  - (b) an agent acting on behalf of the company has and habitually exercises there authority to enter into contracts on behalf of the company.
- (3) For the purposes of this section “fixed place of business” includes (without prejudice to the generality of that expression)—
  - (a) a place of management,
  - (b) a branch,
  - (c) an office,
  - (d) a factory,
  - (e) a workshop,
  - (f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources, and
  - (g) a building site or construction or installation project.
- (4) If the condition in subsection (5) is met, a company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that—
  - (a) a fixed place of business is maintained there for the purpose of carrying on activities for the company, or
  - (b) an agent carries on activities there for and on behalf of the company.
- (5) The condition is that, in relation to the business of the company as a whole, the activities carried on are only of a preparatory or auxiliary character.
- (6) For this purpose “activities of a preparatory or auxiliary character” include (without prejudice to the generality of that expression)—
  - (a) the use of facilities for the purpose of storage, display or delivery of goods or merchandise belonging to the company,
  - (b) the maintenance of a stock of goods or merchandise belonging to the company for the purpose of storage, display or delivery,
  - (c) the maintenance of a stock of goods or merchandise belonging to the company for the purpose of processing by another person, and
  - (d) purchasing goods or merchandise, or collecting information, for the company.
- (7) A company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that it carries on business there through an agent of independent status (including a broker or a general commission agent) acting in the ordinary course of the agent's business.
- (8) A company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that it controls a company that—
  - (a) is resident there, or
  - (b) carries on business there (whether through a permanent establishment or otherwise).
- (9) The Treasury may by regulations amend this section.]



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### Textual Amendments

**F547** S. 191A inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(1), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 1(5)**; S.I. 2011/662, art. 2

### *Excluded activities*

## 192 Meaning of “excluded activities”

- (1) The following are excluded activities for the purposes of sections 181 and 189—
- (a) dealing in land, in commodities or futures or in shares, securities or other financial instruments,
  - (b) dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution,
  - (c) banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities,
  - (d) leasing (including letting ships on charter or other assets on hire),
  - (e) receiving royalties or licence fees,
  - (f) providing legal or accountancy services,
  - (g) property development,
  - (h) farming or market gardening,
  - (i) holding, managing or occupying woodlands, any other forestry activities or timber production,
  - [<sup>F548</sup>(ia) shipbuilding,
  - (ib) producing coal,
  - (ic) producing steel,]
  - (j) operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment,
  - (k) operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home,<sup>F549</sup> ...
  - [<sup>F550</sup>(ka) generating or exporting electricity or making electricity generating capacity available,
  - (kb) generating heat,
  - (kc) generating any form of energy not within paragraph (ka) or (kb),
  - (kd) producing gas or fuel, and]
  - (l) any activities which are excluded activities under section 199 (provision of services or facilities for another business).
- (2) Subsection (1) is supplemented by the following provisions—
- (a) section 193 (wholesale and retail distribution),
  - (b) section 194 (leasing of ships),
  - (c) section 195 (receipt of royalties and licence fees),
  - (d) section 196 (property development),
  - [<sup>F551</sup>(da) section 196A (shipbuilding),
  - (db) section 196B (producing coal),
  - (dc) section 196C (producing steel),]
  - (e) section 197 (hotels and comparable establishments),<sup>F552</sup> ...

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- (f) section 198 (nursing homes and residential care homes), <sup>F553</sup> ... <sup>F554</sup> and  
 (g) section 198A (export of electricity).]  
<sup>F555</sup>(h) .....

#### Textual Amendments

- F548** S. 192(1)(ia)-(ic) inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 5\(a\), 10](#) (with [Sch. 11 para. 11](#))
- F549** Word in s. 192(1)(k) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 24 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 13\(2\)](#)
- F550** S. 192(1)(ka)-(kd) substituted for s. 192(1)(ka)-(kc) (with effect in accordance with s. 28(5) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 28\(1\)](#)
- F551** S. 192(2)(da)-(dc) inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 5\(b\), 10](#) (with [Sch. 11 para. 11](#))
- F552** Word in s. 192(2)(e) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 24 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 13\(3\)](#)
- F553** Word in s. 192(2)(f) omitted (with effect in accordance with s. 56(8) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [s. 56\(2\)\(b\)](#)
- F554** S. 192(2)(g) and word substituted for s. 192(2)(g) (with effect in accordance with s. 28(5) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 28\(3\)\(a\)\(i\)](#)
- F555** S. 192(2)(h) omitted (with effect in accordance with s. 28(5) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 28\(3\)\(a\)\(ii\)](#)

#### Modifications etc. (not altering text)

- C68** S. 192 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), [s. 1184\(1\)](#), [Sch. 2 para. 43](#) (with [Sch. 2](#))

### 193 Excluded activities: wholesale and retail distribution

- (1) This section supplements section 192(1)(b).
- (2) In this section—
  - (a) subsections (3) and (4) are for determining whether a trade is a trade of wholesale or retail distribution, and
  - (b) subsections (5) and (6) are for determining whether a trade of wholesale or retail distribution is an ordinary trade of wholesale or retail distribution.
- (3) A trade of wholesale distribution is one in which goods are offered for sale and sold to persons for resale by them, or for processing and resale by them, to members of the general public for their use or consumption.
- (4) A trade of retail distribution is one in which goods are offered or exposed for sale and sold to members of the general public for their use or consumption.
- (5) A trade of wholesale or retail distribution is not an ordinary trade of wholesale or retail distribution if—
  - (a) it consists to a substantial extent—
    - (i) in dealing in goods of a kind which are collected or held as an investment, or
    - (ii) in that activity and any other excluded activity taken together, and

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- (b) a substantial proportion of those goods are held for a period which is significantly longer than the period for which the trader would reasonably be expected to hold them while trying to dispose of them at their market value.
- (6) In determining whether a trade of wholesale or retail distribution is an ordinary trade of wholesale or retail distribution regard is to be had to the extent to which it has the following features—
- (a) the goods are bought by the trader in quantities larger than those in which the trader sells them,
  - (b) the goods are bought and sold by the trader in different markets,
  - (c) the trader employs staff and incurs expenses in the trade in addition to the cost of the goods and, in the case of a trade carried on by a company, in addition to any remuneration paid to any person connected with it,
  - (d) there are purchases from or sales to persons who are connected with the trader,
  - (e) purchases are matched with forward sales or vice versa,
  - (f) the goods are held by the trader for longer than is normal for goods of the kind in question,
  - (g) the trade is carried on otherwise than at a place or places commonly used for wholesale or retail trade,
  - (h) the trader does not take physical possession of the goods.
- (7) In subsection (6)—
- (a) the features in paragraphs (a) to (c) are regarded as indications that the trade is an ordinary trade of wholesale or retail distribution, and
  - (b) those in paragraphs (d) to (h) are regarded as indications to the contrary.

**Modifications etc. (not altering text)**

**C69** S. 193(5)(b) applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 2 para. 44](#) (with [Sch. 2](#))

**194 Excluded activities: leasing of ships**

- (1) This section supplements section 192(1)(d) so far as it relates to the leasing of ships other than offshore installations or pleasure craft.
- (2) In the following provisions “ship” accordingly means a ship other than an offshore installation or a pleasure craft.
- (3) If the requirements of subsection (4) are met, a trade is not to be regarded as consisting in the carrying on of excluded activities within section 192(1)(d) as a result only of its consisting in letting ships on charter.
- (4) The requirements of this subsection are that—
  - (a) every ship let on charter by the company carrying on the trade is beneficially owned by the company,
  - (b) every ship beneficially owned by the company is registered in the United Kingdom,
  - (c) throughout period B the company is solely responsible for arranging the marketing of the services of its ships, and

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- (d) the conditions mentioned in subsection (5) are met in relation to every letting on charter by the company.
- (5) The conditions referred to in subsection (4)(d) are—
- (a) the letting is for a period not exceeding 12 months and no provision is made at any time (whether in the charterparty or otherwise) for extending it beyond that period otherwise than at the option of the charterer,
  - (b) no provision for the grant of a new letting to end more than 12 months after the provision is made (whether in the charterparty or otherwise) is in force during the period of the letting otherwise than at the option of the charterer,
  - (c) the letting is by way of a bargain at arm's length between the company and a person who is not connected with it,
  - (d) under the terms of the charter the company is responsible as principal—
    - (i) for taking, throughout the period of the charter, management decisions in relation to the ship, other than those of a kind generally regarded by persons engaged in trade of the kind in question as matters of husbandry, and
    - (ii) for defraying all expenses in connection with the ship throughout that period, or substantially all such expenses, other than those directly incidental to a particular voyage or to the employment of the ship during that period, and
  - (e) no arrangements exist by virtue of which a person other than the company may be appointed to be responsible for the matters mentioned in paragraph (d) on behalf of the company.
- (6) If in the case of the company carrying on the trade (“the letting company”) the charterer is also a company and—
- (a) the charterer is a qualifying subsidiary of the letting company, or
  - (b) the letting company is a qualifying subsidiary of the charterer, or
  - (c) both companies are qualifying subsidiaries of a third company,
- subsection (5) has effect with the omission of paragraph (c).
- (7) If any of the requirements of subsection (4) is not met in relation to any lettings of ships, the trade is not, as a result, to be treated as consisting in the carrying on of excluded activities if—
- (a) those lettings, and
  - (b) any other excluded activities
- do not, taken together, amount to a substantial part of the trade.
- (8) In this section “pleasure craft” means any ship of a kind primarily used for sport or recreation.

**Modifications etc. (not altering text)**

**C70** S. 194 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 2 para. 45** (with Sch. 2)

**195 Excluded activities: receipt of royalties and licence fees**

- (1) This section supplements section 192(1)(e) (receipt of royalties and licence fees).

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- (2) If the requirement of subsection (3) is met, a trade is not to be regarded as consisting in the carrying on of excluded activities within section 192(1)(e) as a result only of its consisting to a substantial extent in the receiving of royalties or licence fees.
- (3) The requirement of this subsection is that the royalties or licence fees (or all but for a part that is not a substantial part in terms of value) are attributable to the exploitation of relevant intangible assets.
- (4) For this purpose an intangible asset is a “relevant intangible asset” if the whole or greater part (in terms of value) of it has been created—
- [<sup>F556</sup>(a) by the issuing company, or]
  - [<sup>F556</sup>(b) by a company which was a qualifying subsidiary of the issuing company throughout a period during which it created the whole or greater part (in terms of value) of the intangible asset.]
- (5) In the case of an intangible asset that is intellectual property, references to the creation of an asset by a company are to its creation in circumstances in which the right to exploit it vests in the company (whether alone or jointly with others).
- (6) In this section—
- <sup>F557</sup> ...
- “intangible asset” means any asset which falls to be treated as an intangible asset in accordance with generally accepted accountancy practice,
- “intellectual property” means—
- (a) any patent, trade mark, registered design, copyright, design right, performer's right or plant breeder's right, or
  - (b) any rights under the law of a country or territory outside the United Kingdom which correspond or are similar to those falling within paragraph (a).
- [<sup>F558</sup>(7) If—
- (a) the issuing company acquired all the shares (“old shares”) in another company (“the old company”) at a time when the only shares issued in the issuing company were subscriber shares, and
  - (b) the consideration for the old shares consisted wholly of the issue of shares in the issuing company,
- references in subsection (4) to the issuing company include the old company.]

#### Textual Amendments

**F556** S. 195(4)(a)(b) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(7\)\(a\)](#), 13

**F557** Words in s. 195(6) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(7\)\(b\)](#), 13, [Sch. 27 Pt. 2\(16\)](#)

**F558** S. 195(7) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(7\)\(c\)](#), 13

#### Modifications etc. (not altering text)

**C71** S. 195 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 2 para. 46](#) (with [Sch. 2](#))

**C72** S. 195 modified (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), [ss. 79\(9\)](#), 1184(1) (with [Sch. 2](#))

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## 196 Excluded activities: property development

- (1) This section supplements section 192(1)(g).
- (2) “Property development” means the development of land—
  - (a) by a company which has, or at any time has had, an interest in the land, and
  - (b) with the sole or main object of realising a gain from the disposal of an interest in the land when it is developed.
- (3) For this purpose “interest in land” means, subject to subsection (4)—
  - (a) any estate, interest or right in or over land, including any right affecting the use or disposition of land, or
  - (b) any right to obtain such an estate, interest or right from another which is conditional on the other's ability to grant it.
- (4) References in this section to an interest in land do not include—
  - (a) the interest of a creditor (other than a creditor in respect of a rentcharge) whose debt is secured by way of mortgage, an agreement for a mortgage or a charge of any kind over land, or
  - (b) in the case of land in Scotland, the interest of a creditor in a charge or security of any kind over land.

## [<sup>F559</sup>196A] Excluded activities: shipbuilding

In section 192(1)(ia) “shipbuilding” has the same meaning as in the Framework on state aid to shipbuilding (2003/C 317/06), published in the Official Journal on 30 December 2003 [<sup>F560</sup>], except that references in that Framework to building in the Union are to be read as including building in the United Kingdom].

### Textual Amendments

**F559** Ss. 196A-196C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 6, 10](#) (with [Sch. 11 para. 11](#))

**F560** Words in s. 196A inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, [4\(5\)](#)

## 196B Excluded activities: producing coal

- (1) This section supplements section 192(1)(ib).
- (2) “Coal” has the meaning given by Article 2 of Council Regulation [\(EC\) No. 1407/2002](#) (state aid to coal industry).
- (3) The production of coal includes the extraction of it.

### Textual Amendments

**F559** Ss. 196A-196C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 6, 10](#) (with [Sch. 11 para. 11](#))

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## 196C Excluded activities: producing steel

In section 192(1)(ic) “steel” means any of the steel products listed in Annex 1 to the Guidelines on national regional aid (2006/C 54/08), published in the Official Journal on 4 March 2006.]

### Textual Amendments

**F559** Ss. 196A-196C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 6, 10](#) (with [Sch. 11 para. 11](#))

## 197 Excluded activities: hotels and comparable establishments

- (1) This section supplements section 192(1)(j).
- (2) The reference to a comparable establishment is to a guest house, hostel or other establishment the main purpose of maintaining which is the provision of facilities for overnight accommodation (with or without catering services).
- (3) The activities of a person are not to be taken to fall within section 192(1)(j) unless that person has an estate or interest in, or is in occupation of, the hotel or comparable establishment in question.

## 198 Excluded activities: nursing homes and residential care homes

- (1) This section supplements section 192(1)(k).
- (2) “Nursing home” means any establishment which exists wholly or mainly for the provision of nursing care—
  - (a) for persons suffering from sickness, injury or infirmity, or
  - (b) for women who are pregnant or have given birth.
- (3) “Residential care home” means any establishment which exists wholly or mainly for the provision of residential accommodation, together with board and personal care, for persons in need of personal care because of—
  - (a) old age,
  - (b) mental or physical disability,
  - (c) past or present dependence on alcohol or drugs,
  - (d) any past illnesses, or
  - (e) past or present mental disorder.
- (4) The activities of a person are not to be taken to fall within section 192(1)(k) unless that person has an estate or interest in, or is in occupation of, the nursing home or residential care home in question.

## <sup>F561</sup>198A<sup>F562</sup> Excluded activities: ... export of electricity

- (1) This section supplements section 192(1)(ka).
- (2) Electricity is exported if it is exported onto a distribution system or transmission system (within the meaning of section 4 of the Electricity Act 1989).

<sup>F563</sup>(3) .....

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- F563 (4) .....
- F564 (5) .....
- F564 (6) .....
- F565 (7) .....
- F565 (8) .....
- F563 (9) .....]

**Textual Amendments**

- F561** S. 198A inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 24 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 7 para. 14**
- F562** Words in s. 198A heading omitted (with effect in accordance with s. 28(5) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(3)(b)(i)**
- F563** S. 198A(3)-(9) omitted (with effect in accordance with s. 28(5) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(3)(b)(ii)**
- F564** S. 198A(5)(6) omitted (with effect in accordance with Sch. 6 para. 14 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), **Sch. 6 para. 10(2)(a)**; S.I. 2015/1836, **reg. 2(a)**
- F565** S. 198A(7)(8) omitted (with effect in accordance with Sch. 6 para. 5 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), **Sch. 6 para. 4(1)(b)**

**F566 198BE Excluded activities: subsidised generation of heat and subsidised production of gas or fuel**

.....

**Textual Amendments**

- F566** S. 198B omitted (with effect in accordance with s. 28(5) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(3)(c)**

**199 Excluded activities: provision of services or facilities for another business**

- (1) Providing services or facilities for a business carried on by another person (other than a company of which the provider of the services or facilities is a qualifying subsidiary) is an excluded activity if—
  - (a) the business consists wholly or as to a substantial part of activities falling within any of paragraphs (a) to [F567(ka)] of section 192(1), and
  - (b) a controlling interest in the business is held by a person who also has a controlling interest in the business carried on by the provider of the services or facilities.
- (2) Subsections (3) to (5) explain what is meant by a controlling interest in a business for the purposes of subsection (1)(b).
- (3) In the case of a business carried on by a company, a person (“A”) has a controlling interest in the business if—
  - (a) A controls the company,



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- (b) the company is a close company and A or an associate of A is a director of the company and is either—
    - (i) the beneficial owner of more than 30% of the ordinary share capital of the company, or
    - (ii) able, directly or through the medium of other companies or by any other indirect means, to control more than 30% of that share capital, or
  - (c) at least half the business could, in accordance with [F568 section 942 of CTA 2010], be regarded as belonging to A for the purposes of [F569 section 941 of that Act].
- (4) In any other case, a person has a controlling interest in a business if the person is entitled to at least half the assets used for, or of the income arising from, the business.
- (5) For the purposes of this section—
- (a) any rights or powers of a person who is an associate of another are to be attributed to that other person, and
  - (b) “business” includes any trade, profession or vocation.

#### Textual Amendments

**F567** Word in s. 199(1)(a) substituted (17.7.2012) (with effect in accordance with Sch. 7 para. 24 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 15](#)

**F568** Words in s. 199(3)(c) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 501\(a\)](#) (with [Sch. 2](#))

**F569** Words in s. 199(3)(c) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 501\(b\)](#) (with [Sch. 2](#))

#### Modifications etc. (not altering text)

**C73** S. 199 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 2 para. 49](#) (with [Sch. 2](#))

### Supplementary

#### <sup>F570</sup>200 Power to amend by Treasury order

#### Textual Amendments

**F570** S. 200 omitted (18.11.2015) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 14](#)

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## CHAPTER 5

### ATTRIBUTION OF AND CLAIMS FOR EIS RELIEF

#### *Attribution*

#### **201 Attribution of EIS relief to shares**

- (1) References in this Part, in relation to any individual, to the EIS relief attributable to any shares or issue of shares are to be read as references to any reduction made in the individual's liability to income tax that is attributed to those shares or that issue in accordance with this section.

This is subject to the provisions of Chapters 6 and 7 providing for the withdrawal or reduction of EIS relief.

- (2) If an individual's liability to income tax is reduced in any tax year, then—
- (a) if the reduction is obtained because of one issue of shares, the amount of the reduction is attributed to that issue, and
  - (b) if the reduction is obtained because of two or more issues of shares, the amount of the reduction—
    - (i) is apportioned between those issues in the same proportions as the amounts claimed by the individual in respect of each issue, and
    - (ii) is attributed to those issues accordingly.
- (3) If under this section an amount of any reduction of income tax is attributed to an issue of shares (“the original issue”) to an individual, a proportionate part of that amount is attributed to each share in respect of which the claim was made.
- (4) If corresponding bonus shares are issued to the individual in respect of any shares (“the original shares”) to which EIS relief is attributed—
- (a) a proportionate part of the total amount attributed to the original shares immediately before the bonus shares are issued is attributed to each of the shares in the holding comprising the original shares and the bonus shares, and
  - (b) after the issue of the bonus shares, this Part applies as if the original issue had included those shares.
- (5) In subsection (4) “corresponding bonus shares” means bonus shares which are in the same company, of the same class, and carry the same rights as the original shares.
- (6) If section 158(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, this section has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).
- (7) If, at a time when EIS relief is attributable to, or to any part of, any issue of shares, the relief falls to be withdrawn or reduced under Chapters 6 and 7—
- (a) if it falls to be withdrawn, the relief attributable to each of the shares in question is reduced to nil, and
  - (b) if it falls to be reduced by any amount, the relief attributable to each of the shares in question is reduced by a proportionate part of that amount.

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### *Claims: general*

#### **202 Time for making claims for EIS relief**

- (1) A claim for EIS relief in respect of shares issued by a company in any tax year may be made—
  - (a) not earlier than the time the requirement in section 176(2) or (3) (trade etc must have been carried on for 4 months) is first met, and
  - (b) not later than the fifth anniversary of the normal self-assessment filing date for the tax year.
- (2) If section 158(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, this section has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).

#### **203 Entitlement to claim**

- (1) The investor is entitled to make a claim for EIS relief in respect of the amount subscribed by the investor for the relevant shares if the investor has received from the issuing company a compliance certificate in respect of those shares.
- (2) For the purposes of PAYE regulations no regard is to be had to EIS relief unless a claim for it has been duly made.
- (3) No application may be made under section 55(3) or (4) of TMA 1970 (application for postponement of payment of tax pending appeal) on the ground that the investor is eligible for EIS relief unless a claim for the relief has been duly made by the investor.

### *Claims: supporting documents*

#### **204 Compliance certificates**

- (1) A “compliance certificate” is a certificate which—
  - (a) is issued by the issuing company in respect of the relevant shares,
  - (b) states that, except so far as they fall to be met by or in relation to the investor, the requirements for EIS relief are for the time being met in relation to those shares, and
  - (c) is in such form as the Commissioners for Her Majesty's Revenue and Customs may direct.
- (2) Before issuing a compliance certificate in respect of the relevant shares, the issuing company must provide an officer of Revenue and Customs with a compliance statement in respect of the issue of shares which includes the relevant shares.
- (3) The issuing company must not issue a compliance certificate without the authority of an officer of Revenue and Customs.
- (4) If the issuing company, or a person connected with the issuing company, has given notice to an officer of Revenue and Customs under section 241 of this Act or paragraph 16(2) or (4) of Schedule 5B to TCGA 1992, a compliance certificate must not be issued unless the authority is given or renewed after the receipt of the notice.

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- (5) If an officer of Revenue and Customs—
- (a) has been requested to give or renew an authority to issue a compliance certificate, and
  - (b) has decided whether or not to do so,
- the officer must give notice of the officer's decision to the issuing company.

## **205 Compliance statements**

- (1) A “compliance statement” is a statement, in respect of an issue of shares, to the effect that, except so far as they fall to be met by or in relation to the individuals to whom shares included in that issue have been issued, the requirements for EIS relief (see section 157)—
- (a) are for the time being met in relation to the shares to which the statement relates, and
  - (b) have been so met at all times since the shares were issued.
- (2) In determining for the purposes of subsection (1) whether the requirements for EIS relief are met at any time in relation to the issue of shares, references in this Part to “the relevant shares” are read as references to the shares included in the issue.
- (3) A compliance statement must be in such form as the Commissioners for Her Majesty's Revenue and Customs direct and must contain—
- (a) such additional information as the Commissioners reasonably require, including in particular information relating to the persons who have requested the issue of compliance certificates,
  - (b) a declaration that the statement is correct to the best of the issuing company's knowledge and belief, and
  - (c) such other declarations as the Commissioners may reasonably require.
- (4) The issuing company may not provide an officer of Revenue and Customs with a compliance statement in respect of any shares issued by it in any tax year—
- (a) before the requirement in section 176(2) or (3) (trade etc must have been carried on for 4 months) is met, or
  - (b) later than two years after the end of that tax year or, if that requirement is first met after the end of that tax year, later than two years after the requirement is first met.

## **206 Appeal against refusal to authorise compliance certificate**

For the purpose of the provisions of TMA 1970 relating to appeals, the refusal of an officer of Revenue and Customs to authorise the issue of a compliance certificate is taken to be a decision disallowing a claim by the issuing company.

## **207 Penalties for fraudulent certificate or statement etc**

The issuing company is liable to a penalty not exceeding £3,000 if—

- (a) it issues a compliance certificate, or provides a compliance statement, which is made fraudulently or negligently, or
- (b) it issues a compliance certificate in contravention of section 204(3) or (4).

*Status: Point in time view as at 22/02/2024.*

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## CHAPTER 6

### WITHDRAWAL OR REDUCTION OF EIS RELIEF

#### *Introduction*

#### **208 Overview of Chapter**

This Chapter provides for EIS relief to be withdrawn or reduced under—

- (a) section 209 (disposal of shares),
- (b) section 211 (call options),
- (c) section 212 (put options),
- (d) section 213 (value received by the investor),
- (e) section 224 (repayments etc of share capital to other persons),
- (f) section 232 (acquisition of a trade or trading assets),
- (g) section 233 (acquisition of share capital), and
- (h) section 234 (relief subsequently found not to have been due).

#### *Disposals*

#### **209 Disposal of shares**

- (1) This section applies if—
  - (a) the investor disposes of any of the relevant shares,
  - (b) the disposal takes place before period A ends, and
  - (c) EIS relief is attributable to the shares.
- (2) If the disposal is not made by way of a bargain made at arm's length, the EIS relief attributable to the shares must be withdrawn.
- (3) If the disposal is made by way of a bargain made at arm's length, the EIS relief attributable to the shares must—
  - (a) if it is greater than the amount given by the formula set out below, be reduced by that amount, and
  - (b) in any other case, be withdrawn.

<sup>F571</sup>The formula is—

$$R \times \text{EISR}$$

where—

R is the amount or value of the consideration received by the investor for the shares, and  
<sup>F572</sup>EISR is the [<sup>F573</sup>EIS original rate].]

- (4) This section does not apply to a disposal of shares to which an amount of EIS relief is attributable if—
  - (a) the disposal was made by an individual (“A”) to another individual (“B”), and
  - (b) A and B were married to, or were civil partners of, each other and living together at the time of the disposal.

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- (5) Section 246 contains rules for determining which shares of any class are treated as disposed of for the purposes of this section if the investor disposes of some but not all the shares of that class which are held by the investor.
- [<sup>F574</sup>(6) Nothing in this section applies to a disposal of shares occurring as a result of the investor's death.]

#### Textual Amendments

- F571** Formula in s. 209(3) amended (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 14\(a\)](#)
- F572** Words in s. 209(3) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 14\(b\)](#)
- F573** Words in s. 209(3) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\), s. 42\(3\)\(a\)\(6\)](#); [S.I. 2011/2459, art. 2](#)
- F574** S. 209(6) inserted (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\), Sch. 7 para. 17](#)

## 210 Cases where maximum EIS relief not obtained

- (1) If the investor's liability to income tax is reduced for any tax year in respect of any issue of shares and—
- (a) the amount of the reduction (“A”), is less than
  - (b) the amount (“B”) which is equal to tax at the [<sup>F575</sup>EIS original rate] on the amount on which the investor claims EIS relief in respect of the shares,
- section 209(3) has effect in relation to a disposal of any of the shares as if the amount or value referred to as “R” were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

- (2) If section 158(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, subsection (1) has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).
- (3) If the amount of EIS relief attributable to any of the relevant shares has been reduced before the EIS relief was obtained, the amount referred to in subsection (1) as A is to be treated for the purposes of that subsection as the amount that it would have been without that reduction.
- (4) Subsection (3) does not apply to a reduction of EIS relief by virtue of section 201(4) (attribution of EIS relief if there is a corresponding issue of bonus shares).

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### Textual Amendments

**F575** Words in s. 210(1)(b) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [s. 42\(3\)\(b\)\(6\)](#); [S.I. 2011/2459](#), [art. 2](#)

## 211 Call options

- (1) This section applies if the investor grants an option which, if exercised, would bind the investor to sell any of the relevant shares.
- (2) The grant of the option is treated for the purposes of section 209 as a disposal of the shares to which the option relates.
- (3) Nothing in this section prejudices section 177 (no pre-arranged exits).

## 212 Put options

- (1) This section applies if, at any time in period A, a person grants the investor an option which, if exercised, would bind the grantor to purchase any of the relevant shares.
- (2) Any EIS relief attributable to the shares to which the option relates must be withdrawn.
- (3) For the purposes of subsection (2) the shares to which an option relates are those which, if—
  - (a) the option were exercised immediately after the grant, and
  - (b) any shares in the issuing company acquired by the investor after the grant were disposed of immediately after being acquired,would be treated for the purposes of section 209 as disposed of in pursuance of the option.

*Value received by investor*

## 213 Value received by the investor

- (1) This section applies if the investor receives any value from the issuing company at any time in period C relating to the relevant shares.
- (2) Any EIS relief attributable to the shares must—
  - (a) if it is greater than the amount given by the formula set out below, be reduced by that amount, and
  - (b) in any other case, be withdrawn.

The formula is— <sup>F576</sup>

$$R \times \text{EISR}$$

where—

R is the amount of the value received by the investor, and  
[<sup>F577</sup>EISR is the [<sup>F578</sup>EIS original rate].]

- (3) This section is subject to the following sections—
  - (a) section 214 (value received: receipts of insignificant value),

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- (b) section 218 (value received where there is more than one issue of shares),
- (c) section 219 (value received where part of share issue treated as made in previous tax year),
- (d) section 220 (cases where maximum EIS relief not obtained),
- (e) section 221 (receipts of value by and from connected persons etc), and
- (f) section 222 (receipt of replacement value).

Sections 218 to 220 are to be applied in the order in which they appear in this Part.

- (4) Value received is to be ignored, for the purposes of this section, to the extent to which EIS relief attributable to the shares has already been withdrawn or reduced on its account.
- (5) For the purposes of this section and sections 214 to 223, an individual who acquires any relevant shares on such a transfer as is mentioned in section 245 (spouses or civil partners) is treated as the investor.

#### Textual Amendments

- F576** Formula in s. 213(2) amended (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 16(a)**
- F577** Words in s. 213(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 16(b)**
- F578** Words in s. 213(2) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **s. 42(3)(c)(6)**; S.I. 2011/2459, art. 2

#### Modifications etc. (not altering text)

- C74** [S. 213](#) excluded (20.5.2020) by [Finance Act 2020 \(c. 14\)](#), **s. 110(1)(2)**

## 214 Value received: receipts of insignificant value

- (1) Section 213(2) does not apply if the receipt of value is a receipt of insignificant value.

This is subject to subsection (2).

- (2) If—
  - (a) value is received (“the relevant receipt”) by the investor from the issuing company at any time in period C relating to the relevant shares,
  - (b) the investor has received from the issuing company one or more receipts of insignificant value at a time or times—
    - (i) during that period, but
    - (ii) not later than the time of the relevant receipt, and
  - (c) the total amount of the value of the receipts within paragraph (a) and (b) is not an amount of insignificant value,
 the investor is treated for the purposes of this Chapter as if the relevant receipt had been a receipt of an amount of value equal to that total amount.
- (3) A receipt does not fall within subsection (2)(b) if it has previously formed part of a total amount falling within subsection (2)(c).



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## **215 Meaning of “receipts of insignificant value”**

- (1) This section applies for the purposes of section 214.
- (2) “A receipt of insignificant value” means a receipt of an amount of insignificant value, that is, an amount of value which—
  - (a) is not more than £1,000, or
  - (b) if it is more than £1,000, is insignificant in relation to the amount subscribed by the investor for the relevant shares.

This is subject to subsection (3).

- (3) If at any time in the period—
  - (a) beginning 12 months before the issue of the relevant shares, and
  - (b) ending at the end of the issue date,repayment arrangements are in existence, no amount of value received by the investor is treated as a receipt of insignificant value.
- (4) For this purpose “repayment arrangements” means arrangements which provide for the investor to receive, or to be entitled to receive, any value from the issuing company at any time in period C relating to the relevant shares.
- (5) For the purposes of this section—
  - (a) the references to the investor include references to any person who at any time in period C relating to the relevant shares is an associate of the investor (whether or not that person is such an associate at the material time), and
  - (b) the reference in subsection (4) to the issuing company includes a reference to a person who at any time in period C relating to the relevant shares is connected with that company (whether or not that person is so connected at the material time).

## **216 When value is received**

- (1) This section applies for the purposes of sections 213 (value received by the investor) and 218 (value received where there is more than one issue of shares).
- (2) The investor receives value from the issuing company at any time when the issuing company—
  - (a) repays, redeems or repurchases any of its share capital or securities which belong to the investor or makes any payment to the investor for giving up the investor's right to any of the issuing company's share capital or any security on its cancellation or extinguishment,
  - (b) repays, in pursuance of any arrangements for or in connection with the acquisition of the shares in respect of which EIS relief is claimed, any debt owed to the investor other than a debt which was incurred by the company—
    - (i) on or after the date of issue of those shares, and
    - (ii) otherwise than in consideration of the extinguishment of a debt incurred before that date,
  - (c) makes to the investor any payment for giving up on its extinguishment the investor's right to any debt, other than a debt in respect of a repayment of the kind mentioned in section 168(2)(a) or (f) (ignoring of certain expenses or remuneration) or an ordinary trade debt,

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- (d) releases or waives any liability of the investor to the issuing company or discharges or undertakes to discharge any liability of the investor to a third person,
  - (e) makes a loan or advance to the investor which has not been repaid in full before the issue of the shares in respect of which EIS relief is claimed,
  - (f) provides a benefit or facility for the investor,
  - (g) transfers an asset to the investor for no consideration or for consideration less than its market value or acquires an asset from the investor for consideration greater than its market value, or
  - (h) makes to the investor any other payment except—
    - (i) a payment of a kind mentioned in any of the provisions of section 168(2) (ignoring of certain payments), or
    - (ii) a payment in discharge of an ordinary trade debt.
- (3) For the purposes of subsection (2)(d) the issuing company is to be treated as having released or waived a liability if the liability is not discharged within 12 months of the time when it ought to have been discharged.
- (4) For the purposes of subsection (2)(e) the following is to be treated as if it were a loan made by the issuing company to the investor—
- (a) the amount of any debt (other than an ordinary trade debt) incurred by the investor to the issuing company, and
  - (b) the amount of any debt due from the investor to a third party which has been assigned to the issuing company.
- (5) The investor also receives value from the issuing company if—
- (a) in respect of ordinary shares held by the investor any payment or asset is received in a winding up or in connection with a dissolution of the company, and
  - (b) the winding up or dissolution falls within section 182(4) (no tax avoidance).
- (6) The investor also receives value from the issuing company if any person who would, for the purposes of section 163, be treated as connected with the company—
- (a) purchases any of its share capital or securities which belong to the investor, or
  - (b) makes any payment to the investor for giving up any right in relation to any of the company's share capital or securities.
- (7) If because of the investor's disposal of shares in a company any EIS relief attributable to those shares is withdrawn or reduced under section 209, the investor is not to be treated as receiving value from the company in respect of the disposal.
- (8) The investor is not to be treated as receiving value from the issuing company merely because of the payment to the investor, or any associate of the investor, of any remuneration for services rendered to that company as a director if the remuneration is reasonable remuneration.
- (9) Section 167(3) (director also an employee) applies for the purposes of subsection (8) as it applies for the purposes of section 167, and the reference in that subsection to the payment of remuneration includes the provision of any benefit or facility.
- (10) In this section “ordinary trade debt” means any debt for goods or services supplied in the ordinary course of a trade or business if any credit given—
- (a) is for not more than 6 months, and

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- (b) is not longer than that normally given to customers of the person carrying on the trade or business.

## 217 The amount of value received

In a case falling within a provision listed in column 1 of the following table, the amount of value received for the purposes of sections 213 and 218 is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The amount of value received</i>
Section 216(2)(a), (b) or (c)	The amount received by the investor or, if greater, the market value of the shares, securities or debt
Section 216(2)(d)	The amount of the liability
Section 216(2)(e)	The amount of the loan or advance, less the amount of any repayment made before the issue of the relevant shares
Section 216(2)(f)	The cost to the issuing company of providing the benefit or facility, less any consideration given for it by the investor
Section 216(2)(g)	The difference between the market value of the asset and the consideration (if any) given for it
Section 216(2)(h)	The amount of the payment
Section 216(5)	The amount of the payment or the market value of the asset
Section 216(6)	The amount received by the investor or, if greater, the market value of the shares or securities

## 218 Value received where there is more than one issue of shares

- (1) This section applies if—
- two or more issues of shares in the issuing company have been made to the investor which include shares in respect of which the investor obtains EIS relief, and
  - value is received by the investor at any time in the applicable periods for two or more of those issues.
- (2) Section 213(2) has effect in relation to the shares included in each of the issues referred to in subsection (1)(b) as if the amount of value referred to as “R” were reduced by multiplying it by the fraction—

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$$\frac{A}{B}$$

where—

A is the amount on which the investor obtains EIS relief in respect of the shares included in the issue in question, and

B is the sum of that amount and the corresponding amount or amounts in respect of the other issue or issues.

- (3) For the purposes of subsection (1) “the applicable period” for an issue of shares is period C in relation to those shares.

## 219 Value received where part of share issue treated as made in previous tax year

- (1) This section applies if—
- (a) section 213(2) applies to an issue of shares, and
  - (b) section 158(1) and (2) (form and amount of EIS relief) applies in the case of that issue as if part of the issue had been issued in a previous tax year.
- (2) This subsection explains how the calculation under section 213(2) is to be made.

### *Step 1*

Apportion the amount referred to as “R” between the tax year in which the shares were issued and the previous tax year by multiplying that amount by the fraction—

$$\frac{A}{B}$$

where—

A is the amount on which the investor obtains EIS relief in respect of the shares treated as issued in the tax year in question, and

B is the sum of that amount and the corresponding amount in respect of the shares treated as issued in the other tax year.

### *Step 2*

In relation to each of the amounts (“R1” and “R2”) so apportioned to the two tax years, calculate the amounts (“X1” and “X2”) that would be given by the formula if there were separate issues of shares in those tax years.

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In calculating amounts X1 and X2, apply section 220 if appropriate but do not apply section 218.

*Step 3*

Add amounts X1 and X2 together.

The result is the required amount.

## 220 Cases where maximum EIS relief not obtained

- (1) If the investor's liability to income tax is reduced for any tax year in respect of any issue of shares and—
- the amount of the reduction (“A”), is less than
  - the amount (“B”) which is equal to income tax at the [<sup>F579</sup>EIS original rate] on the amount on which the investor claims EIS relief in respect of the shares, section 213(2) has effect in relation to any value received as if the amount referred to as “R” were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

- (2) If the amount of EIS relief attributable to any of the relevant shares has been reduced before the EIS relief was obtained, the amount referred to in subsection (1) as “A” is to be treated for the purposes of that subsection as the amount that it would have been without that reduction.
- (3) Subsection (2) does not apply to a reduction of EIS relief by virtue of section 201(4) (attribution of EIS relief where there is a corresponding issue of bonus shares).

### Textual Amendments

**F579** Words in s. 220(1)(b) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), s. 42(3)(d)(6); S.I. 2011/2459, art. 2

## 221 Receipts of value by and from connected persons etc

In sections 213, 214 and 216 to 218—

- any reference to a payment or transfer to the investor includes a reference to a payment or transfer made to the investor indirectly or to the investor's order or for the investor's benefit,
- any reference to the investor includes a reference to an associate of the investor, and

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- (c) any reference to the issuing company includes a reference to a person who at any time in period A relating to the relevant shares is connected with that company (whether or not that person is so connected at the material time).

## 222 Receipt of replacement value

- (1) If—
  - (a) any EIS relief attributable to the relevant shares would, in the absence of this section, be reduced or withdrawn under section 213 because of a receipt of value within section 216(2) or (6) (“the original value”),
  - (b) the original supplier receives value (“the replacement value”) from the original recipient and the receipt is a qualifying receipt, and
  - (c) the amount of the replacement value is at least the amount of the original value, section 213 does not, because of the receipt of the original value, have effect to reduce or withdraw the EIS relief.

This is subject to section 223(1) and (2).

- (2) For the purposes of this section—
  - “the original recipient” means the person who receives the original value,
  - “the original supplier” means the person from whom that value was received.
- (3) If the amount of the original value is, by virtue of section 218, treated as reduced for the purposes of section 213(2) as it applies in relation to the relevant shares in question, the reference in subsection (1)(c) to the amount of the original value is to be read as a reference to the amount of that value ignoring the reduction.
- (4) A receipt of the replacement value is a qualifying receipt for the purposes of subsection (1) if it arises—
  - (a) because of the original recipient doing one or more of the following—
    - (i) making a payment to the original supplier, other than a payment within paragraph (c) or a payment to which subsection (5) applies,
    - (ii) acquiring any asset from the original supplier for a consideration the amount or value of which is more than the market value of the asset,
    - (iii) disposing of any asset to the original supplier for no consideration or for a consideration the amount or value of which is less than the market value of the asset,
  - (b) if the receipt of the original value was within section 216(2)(d), because of an event the effect of which is to reverse the event which constituted the receipt of the original value, or
  - (c) if the receipt of the original value was within section 216(6), because of the original recipient repurchasing the share capital or securities in question, or (as the case may be) re-acquiring the right in question, for a consideration the amount or value of which is at least the amount of the original value.
- (5) This subsection applies to—
  - (a) any payment for any goods, services or facilities, provided (whether in the course of trade or otherwise) by—
    - (i) the original supplier, or
    - (ii) any other person who, at any time in period C relating to the relevant shares, is an associate of, or is connected with, that supplier (whether

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- or not the other person is such an associate, or is so connected, at the material time),
- which is reasonable in relation to the market value of those goods, services or facilities,
- (b) any payment of any interest which represents no more than a reasonable commercial return on any money lent to—
- (i) the original recipient, or
  - (ii) any person who, at any time in period C relating to the relevant shares, is an associate of that recipient (whether or not the person is such an associate at the material time),
- (c) any payment for the acquisition of an asset which does not exceed its market value,
- (d) any payment, as rent for any property occupied by—
- (i) the original recipient, or
  - (ii) any person who, at any time in period C relating to the relevant shares, is an associate of that recipient (whether or not the person is such an associate at the material time),
- of an amount not exceeding a reasonable and commercial rent for the property,
- (e) any payment in discharge of an ordinary trade debt, and
- (f) any payment for shares in or securities of any company in circumstances that do not fall within subsection (4)(a)(ii).
- (6) For the purposes of this section, the amount of the replacement value is—
- (a) in a case within paragraph (a) of subsection (4), the sum of—
    - (i) the amount of any payment within sub-paragraph (i) of that paragraph, and
    - (ii) the difference between the market value of any asset to which sub-paragraph (ii) or (iii) of that paragraph applies and the amount or value of the consideration (if any) received for it,
  - (b) in a case within subsection (4)(b), the same as the amount of the original value, and
  - (c) in a case within subsection (4)(c), the amount or value of the consideration received by the original supplier.

Section 217 applies for the purpose of determining the amount of the original value.

- (7) In this section—
- (a) any reference to a payment to a person (however expressed) includes a reference to a payment made to the person indirectly or to the person's order or for the person's benefit, and
  - (b) “ordinary trade debt” has the meaning given by section 216(10).

## **223 Section 222: supplementary**

- (1) The receipt of the replacement value by the original supplier is ignored for the purposes of section 222(1) to the extent to which it has previously been set (under that section) against a receipt of value to prevent any reduction or withdrawal of EIS relief under section 213.
- (2) The receipt of the replacement value by the original supplier (“the event”) is ignored for the purposes of section 222 if—

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- (a) the event occurs before period C relating to the relevant shares,
- (b) if the event occurs after the time the original recipient receives the original value, it does not occur as soon after that time as is reasonably practicable in the circumstances, or
- (c) if an appeal has been brought by the investor against an assessment to withdraw or reduce any EIS relief attributable to the relevant shares because of the receipt of the original value, the event occurs more than 60 days after the day on which the amount of relief which falls to be withdrawn has been finally determined.

But nothing in section 222 or this section requires the replacement value to be received after the original value.

- (3) This subsection applies if—
  - (a) the receipt of the replacement value by the original supplier is a qualifying receipt for the purposes of section 222(1), and
  - (b) in consequence of the receipt any receipts of value are ignored for the purposes of section 213 as that section applies in relation to the shares in question or any other shares subscribed for by the investor, and
  - (c) the event which gives rise to the receipt is (or includes) a subscription for shares by—
    - (i) the investor, or
    - (ii) any person who at any time in period C relating to the relevant shares is an associate of the investor (whether or not the person is such an associate at the material time).
- (4) If either of the following applies—
  - (a) subsection (3), and
  - (b) paragraph 13C(3) of Schedule 5B to TCGA 1992 (which makes corresponding provision in relation to relief under that Schedule in respect of re-investment under EIS),
 the person who subscribes for the shares is not to be eligible for any EIS relief in relation to those shares or any other shares in the same issue.
- (5) In this section “the original recipient”, “the original supplier” and “replacement value” have the same meaning as in section 222.

#### *Repayments etc of share capital to other persons*

### **224 Repayments etc of share capital to other persons**

- (1) This section applies if any EIS relief is attributable to shares held by an individual and, at any time in period C, the issuing company or any subsidiary—
  - (a) repays, redeems or repurchases any of its share capital which belongs to any member other than—
    - (i) the individual, or
    - (ii) a person who falls within subsection (4), or
  - (b) makes any payment to any such member for giving up the member's right to any of the share capital of the company or subsidiary on its cancellation or extinguishment.



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- (2) The EIS relief must—
- (a) if it is greater than the amount given by the formula set out below, be reduced by that amount, and
  - (b) in any other case, be withdrawn.

The formula is— <sup>F580</sup>

$$R \times \text{EISR}$$

where—

R is the amount received by the member, and  
[<sup>F581</sup>EISR is the [<sup>F582</sup>EIS original rate].]

- (3) This section is subject to the following sections—
- (a) section 225 (insignificant repayments ignored for the purposes of this section),
  - (b) section 226 (amount of repayments etc where there is more than one issue of shares),
  - (c) section 227 (single issue affecting more than one individual),
  - (d) section 228 (single issue treated as made partly in previous tax year),
  - (e) section 229 (maximum relief not obtained for share issue),
  - (f) section 230 (repayment of authorised minimum within 12 months), and
  - (g) section 231 (restriction on withdrawal of relief).

Sections 226 to 229 are to be applied in the order in which they appear in this Part.

- (4) A person falls within this subsection if the repayment—
- (a) causes any EIS relief attributable to that person's shares in the issuing company to be withdrawn or reduced by virtue of—
    - (i) section 209 (disposal of shares), or
    - (ii) section 216(2)(a) (receipt of value by virtue of repayment of share capital etc),
  - [<sup>F583</sup>(aa) causes any SEIS relief attributable to that person's shares in the issuing company to be withdrawn or reduced by virtue of—
    - (i) section 257FA (disposal of shares), or
    - (ii) section 257FH(2)(a) (receipt of value by virtue of repayment of share capital etc),]
    - (b) causes any investment relief under Schedule 15 to FA 2000 (the corporate venturing scheme) attributable to that person's shares in the issuing company to be withdrawn or reduced by virtue of—
      - (i) paragraph 46 of that Schedule (disposal of shares), or
      - (ii) paragraph 49(1)(a) of that Schedule (receipt of value by virtue of repayment of share capital etc), or
    - (c) gives rise to a qualifying chargeable event within the meaning of paragraph 14(4) of Schedule 5B to TCGA 1992 (EIS: deferral relief) in respect of that person's shares in the issuing company.

(5) A repayment is treated as having the effect mentioned in subsection (4)(a), [<sup>F584</sup>(aa),] (b) or (c) if it would have that effect were it not a receipt of insignificant value for the purposes of whichever of the following is applicable—

    - (a) section 213,

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- [<sup>F585</sup>(aa) section 257FE,]  
 (b) paragraph 47 of Schedule 15 to FA 2000, and  
 (c) paragraph 13 of Schedule 5B to TCGA 1992.
- (6) A repayment is to be ignored, for the purposes of this section, to the extent to which EIS relief attributable to any shares has already been withdrawn or reduced on its account.
- (7) In this section and sections 225 to 231—
- (a) “repayment” means a repayment, redemption, repurchase or payment mentioned in subsection (1)(a) or (b), and
- (b) references to a subsidiary of a company are references to a company which, at any time in period A relating to the shares in question, is a 51% subsidiary of the company, whether or not it is such a subsidiary at the time of the repayment.

#### Textual Amendments

- F580** Formula in s. 224(2) amended (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 18(a)**
- F581** Words in s. 224(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 18(b)**
- F582** Words in s. 224(2) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **s. 42(3)(e)(6)**; [S.I. 2011/2459](#), **art. 2**
- F583** S. 224(4)(aa) inserted (with effect in accordance with Sch. 5 para. 22 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 5 para. 15(2)**
- F584** Word in s. 224(5) inserted (with effect in accordance with Sch. 5 para. 22 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 5 para. 15(3)(a)**
- F585** S. 224(5)(aa) inserted (with effect in accordance with Sch. 5 para. 22 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 5 para. 15(3)(b)**

## 225 Insignificant repayments ignored for purposes of section 224

- (1) A repayment is ignored for the purposes of section 224 (repayments etc of share capital to other persons) if both—
- (a) the market value of the shares to which it relates (“the target shares”) immediately before the event occurs, and
- (b) the amount received by the member in question,
- are insignificant in relation to the market value of the remaining issued share capital of the issuing company (or, as the case may be, the subsidiary) immediately after the event occurs.

This is subject to subsection (3).

- (2) For the purposes of subsection (1) it is assumed that the target shares are cancelled at the time the repayment is made.
- (3) Subsection (1) does not apply if repayment arrangements are in existence at any time in the period—
- (a) beginning 12 months before the issue of the relevant shares, and
- (b) ending at the end of the issue date.
- (4) For this purpose “repayment arrangements” means arrangements which provide—

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- (a) for a repayment by the issuing company or any subsidiary of that company (whether or not it is such a subsidiary at the time the arrangements are made),  
or
- (b) for anyone to be entitled to such a repayment,  
at any time in period C relating to the relevant shares.

## **226 Amount of repayments etc where there is more than one issue of shares**

- (1) This section applies if, in relation to the same repayment, section 224(2) applies to EIS relief attributable to two or more issues of shares.
- (2) Section 224(2) has effect in relation to the shares included in each of those issues as if the amount referred to as “R” were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

A is the amount on which EIS relief was obtained by the individuals in respect of shares which are included in the issue and to which EIS relief is or, but for section 224(2) (b), would be attributable, and

B is the sum of that amount and the corresponding amount or amounts in respect of the other issue or issues.

## **227 Single issue affecting more than one individual**

- (1) This section applies if, in relation to the same repayment, section 224(2) applies to EIS relief attributable to shares held by two or more individuals.
- (2) Section 224(2) has effect in relation to each individual as if the amount referred to as “R” were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

A is the amount on which the individual obtains EIS relief in respect of the shares to which EIS relief is or, but for section 224(2)(b), would be attributable, and

B is the sum of that amount and the corresponding amount or amounts on which the other individual or individuals obtain EIS relief in respect of such shares.

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## 228 Single issue treated as made partly in previous tax year

- (1) This section applies if—
- (a) section 224(2) applies to EIS relief attributable to shares held by an individual, and
  - (b) part of the issue of shares has been treated as issued to the individual in a previous tax year for the purposes of section 158(1) and (2) (form and amount of EIS relief).
- (2) This subsection explains how the calculation under section 224(2) is to be made.

### *Step 1*

Apportion the amount referred to as “R” between the tax year in which the shares were issued and the previous tax year by multiplying that amount by the fraction—

$$\frac{A}{B}$$

where—

A is the amount on which the individual obtains EIS relief in respect of the shares treated as issued in the tax year in question, and

B is the sum of that amount and the corresponding amount in respect of the shares treated as issued in the other tax year.

### *Step 2*

In relation to each of the amounts (“R1” and “R2”) so apportioned to the two tax years, calculate the amounts (“X1” and “X2”) that would be given by the formula if there were separate issues of shares in those tax years.

In calculating amounts X1 and X2, apply section 229 if appropriate but do not apply section 226 or 227.

### *Step 3*

Add amounts X1 and X2 together.

The result is the required amount.

## 229 Maximum relief not obtained for share issue

- (1) This section applies if section 224(2) applies to EIS relief attributable to shares held by an individual and—
- (a) the amount of the reduction (“A”) in the individual's liability to income tax for any tax year in respect of the shares, is less than
  - (b) the amount (“B”) which is equal to income tax at the [<sup>F586</sup>EIS original rate] on the amount on which the individual claims EIS relief in respect of the shares.

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- (2) Section 224(2) has effect as if the amount referred to as “R” were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

- (3) If the amount of EIS relief attributable to any of the relevant shares has been reduced before the EIS relief was obtained, the amount referred to in subsections (1) and (2) as “A” is to be treated for the purposes of those subsections as the amount that it would have been without that reduction.
- (4) Subsection (3) does not apply to a reduction of EIS relief by virtue of section 201(4) (attribution of EIS relief where there is a corresponding issue of bonus shares).

#### Textual Amendments

**F586** Words in s. 229(1)(b) substituted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [s. 42\(3\)\(f\)\(6\)](#); [S.I. 2011/2459](#), [art. 2](#)

### 230 Repayment of authorised minimum within 12 months

- (1) This section applies if—
- [<sup>F587</sup>(a) a company issues share capital (“the original shares”) of nominal value equal to the authorised minimum (within the meaning of the Companies Act 2006) for the purposes of complying with section 761 of that Act (public company: requirement as to minimum share capital),]
  - (b) the registrar of companies issues the company with a certificate under that section.
- (2) Section 224(2) does not apply in relation to any redemption of the original shares within 12 months of the date on which they were issued.

<sup>F588</sup>(3) .....

#### Textual Amendments

**F587** S. 230(1)(a) substituted (6.4.2008) by [Companies Act 2006 \(Consequential Amendments\) \(Taxes and National Insurance\) Order 2008 \(S.I. 2008/954\)](#), arts. 1(1), [39\(2\)](#) (with art. 4)

**F588** S. 230(3) repealed (6.4.2008) by [Companies Act 2006 \(Consequential Amendments\) \(Taxes and National Insurance\) Order 2008 \(S.I. 2008/954\)](#), arts. 1(1), 39(2), [Sch.](#) (with art. 4)

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### **231 Restriction on withdrawal of relief under section 224**

- (1) This section applies if, because of a repayment, any investment relief which is attributable under Schedule 15 to FA 2000 to any shares is withdrawn under paragraph 56(2) of that Schedule.
- (2) For the purposes of this section “the relevant amount” is the amount determined by the formula—

$$A - 5B$$

where—

A is the amount of the repayment, and

B is the total amount of investment relief withdrawn because of the repayment.

- (3) If the relevant amount does not exceed £1,000, the repayment is ignored for the purposes of section 224(1), unless repayment arrangements are in existence at any time in the period—
  - (a) beginning 12 months before the issue of the shares mentioned in subsection (1), and
  - (b) ending at the end of the issue date.
- (4) For this purpose “repayment arrangements” means arrangements which provide—
  - (a) for a repayment by the issuing company or any subsidiary of that company, or
  - (b) for anyone to be entitled to such a repayment,
 at any time.
- (5) Subsection (4)(a) applies in relation to a subsidiary of the issuing company whether or not it is such a subsidiary when the arrangements were made.
- (6) If the repayment is not ignored by virtue of subsection (3), the amount received because of the repayment is treated for the purposes of section 224(2) as an amount equal to the relevant amount.
- (7) In this section—
  - (a) “investment relief” has the same meaning as in Schedule 15 to FA 2000 (corporate venturing scheme), and
  - (b) references to the withdrawal of investment relief include its reduction.

### *Miscellaneous*

### **232 Acquisition of a trade or trading assets**

- (1) Any EIS relief attributable to any shares in a company held by an individual is withdrawn if—
  - (a) at any time in period A, the company or any qualifying subsidiary—
    - (i) begins to carry on as its trade, or as part of its trade, a trade which was previously carried on at any time in that period otherwise than by the company or any qualifying subsidiary, or

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- (ii) acquires the whole, or the greater part, of the assets used for the purposes of a trade previously so carried on, and
  - (b) the individual is a person, or one of a group of persons, to whom subsection (2) or (3) applies.
- (2) This subsection applies to any person or group of persons—
- (a) to whom an interest amounting in total to more than a half share in the trade (as previously carried on) belonged at any time in period A, and
  - (b) who is or are a person or group of persons to whom such an interest in the trade carried on by the company belongs or has, at any such time, belonged.
- (3) This subsection applies to any person or group of persons who—
- (a) control or, at any time in period A, have controlled the company, and
  - (b) is or are a person or group of persons who, at any such time, controlled another company which previously carried on the trade.
- (4) For the purposes of subsection (2)—
- (a) [<sup>F589</sup>for the purpose of determining] the person to whom a trade belongs and, if a trade belongs to two or more persons, their respective shares in [<sup>F590</sup>that trade—
    - (i) apply section 941(6) of CTA 2010, and
    - (ii) an interest in a trade belonging to a company may be treated in accordance with any of the options set out in section 942 of that Act, and]
  - (b) any interest, rights or powers of a person who is an associate of another person are treated as those of that other person.
- (5) In determining whether any EIS relief attributable to any shares in the issuing company held by an individual who—
- (a) is a director of, or of a company which is a partner of, the issuing company or any qualifying subsidiary, and
  - (b) is in receipt of, or entitled to receive, remuneration as such a director falling within section 169(2) (reasonable remuneration for services),
- is to be withdrawn, the reference in subsection (3)(b), and (so far as relating to that provision) the reference in subsection (1)(a)(i), to any time in period A are to be read as references to any time before the end of period A.
- (6) Section 167(3) (director also an employee) applies for the purposes of subsection (5) as it applies for the purposes of section 168, and in subsection (5) “remuneration” includes any benefit or facility.
- (7) In this section “trade” includes any business or profession, and references to a trade previously carried on include references to part of such a trade.

#### Textual Amendments

**F589** Words in s. 232(4)(a) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 502\(a\)](#) (with [Sch. 2](#))

**F590** Words in s. 232(4)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 502\(b\)](#) (with [Sch. 2](#))

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### 233 Acquisition of share capital

- (1) Any EIS relief attributable to any shares in a company held by an individual is withdrawn if—
  - (a) the company comes to acquire all of the issued share capital of another company at any time in period A, and
  - (b) the individual is a person, or one of a group of persons, to whom subsection (2) applies.
- (2) This subsection applies to any person or group of persons who—
  - (a) control or have, at any time in period A, controlled the company, and
  - (b) is or are a person or group of persons who, at any such time, controlled the other company.
- (3) In determining whether any EIS relief attributable to any shares in the issuing company held by an individual who—
  - (a) is a director of, or of a company which is a partner of, the issuing company or any qualifying subsidiary, and
  - (b) is in receipt of, or entitled to receive, remuneration as such a director falling within section 169(2),
 is to be withdrawn, the reference in subsection (2)(b) to any time in period A is to be read as a reference to any time before the end of period A.
- (4) Section 167(3) applies for the purposes of subsection (3) as it applies for the purposes of section 168, and in subsection (3) “remuneration” includes any benefit or facility.

### 234 Relief subsequently found not to have been due

- (1) Any EIS relief obtained by the investor which is subsequently found not to have been due must be withdrawn.
- (2) EIS relief obtained by the investor in respect of the relevant shares may not be withdrawn on the ground—
  - (a) that the requirements of sections 174 and 175 (the purpose of the issue and use of money raised requirements) are not met in respect of the shares, or
  - (b) that the issuing company is not a qualifying company in relation to the shares (see Chapter 4),
 unless the requirements of subsection (3) are met.
- (3) The requirements of this subsection are met if either—
  - (a) the issuing company has given notice under section 241, or paragraph 16(2) or (4) of Schedule 5B to TCGA 1992, (information to be provided by issuing company etc) in relation to the relevant issue of shares, or
  - (b) an officer of Revenue and Customs has given notice to that company stating the officer's opinion that, because of the ground in question, the whole or any part of the EIS relief obtained by any individual in respect of shares included in the relevant issue of shares was not due.
- (4) In this section “the relevant issue of shares” means the issue of shares in the issuing company which includes the relevant shares.



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## CHAPTER 7

### WITHDRAWAL OR REDUCTION OF EIS RELIEF: PROCEDURE

#### *Assessments and appeals*

#### **235 Assessments for the withdrawal or reduction of EIS relief**

If any EIS relief which has been obtained falls to be withdrawn or reduced under Chapter 6, it must be withdrawn or reduced by the making of an assessment to income tax for the tax year for which the relief was obtained.

#### **236 Appeals against section 234(3)(b) notices**

- (1) For the purposes of the provisions of TMA 1970 relating to appeals, the giving of notice by an officer of Revenue and Customs under section 234(3)(b) is taken to be a decision disallowing a claim by the issuing company.
- (2) If any issue has been determined on an appeal brought by virtue of paragraph 1A(6) of Schedule 5B to TCGA 1992 (appeal against notice that shares never have been, or have ceased to be, eligible shares), the determination is conclusive for the purposes of any appeal brought by virtue of subsection (1) on which that issue arises.

#### **237 Time limits for assessments**

- (1) An officer of Revenue and Customs may <sup>F591</sup>... —
  - (a) make an assessment for withdrawing or reducing the EIS relief attributable to any of the relevant shares, or
  - (b) give a notice under section 234(3)(b),  
[<sup>F592</sup>at any time not more than] 6 years after the end of the relevant tax year.
- (2) In subsection (1) “the relevant tax year” means—
  - (a) the tax year in which the time mentioned in section 175(3) (the use of money raised requirement) falls, or
  - (b) the tax year in which the event which causes the EIS relief to be withdrawn or reduced occurs,whichever is the later.
- (3) Subsection (1) is without prejudice to section [<sup>F593</sup>36(1A)] of TMA 1970 [<sup>F594</sup>(loss of tax brought about deliberately etc)].

#### **Textual Amendments**

**F591** Word in s. 237(1) omitted (1.4.2010) by virtue of Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 59(2)(a); S.I. 2009/403, art. 2(2) (with art. 10)

**F592** Words in s. 237(1) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 59(2)(b); S.I. 2009/403, art. 2(2) (with art. 10)

**F593** Word in s. 237(3) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 59(3)(a); S.I. 2009/403, art. 2(2) (with art. 10)

**F594** Words in s. 237(3) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 59(3)(b); S.I. 2009/403, art. 2(2) (with art. 10)

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### 238 Cases where assessment not to be made

- (1) No assessment for withdrawing or reducing EIS relief in respect of shares issued to an individual may be made because of an event occurring after the individual's death.
- (2) Subsection (3) applies if an individual has, by a disposal or disposals to which section 209(3) applies, disposed of all shares which—
  - (a) have been issued to the individual by the issuing company, and
  - (b) are shares—
    - (i) to which EIS relief is attributable, or
    - (ii) in relation to which period A has not come to an end.
- (3) No assessment for withdrawing or reducing EIS relief in respect of those shares may be made because of any subsequent event unless the event occurs at a time when the individual is connected with the company within the meaning of section 166.

### *Interest*

### 239 Date from which interest is chargeable

- (1) In its application to an assessment made by virtue of section 235 in the case of relief withdrawn or reduced by virtue of a provision listed [<sup>F595</sup>in subsection (2)], section 86 of TMA 1970 (interest on overdue income tax) has effect as if the relevant date were [<sup>F596</sup>31 January next following the tax year for which the assessment is made].

<sup>F597</sup> .....

- [<sup>F598</sup>(2) The provisions are—
- section 163,
  - section 164,
  - section 173A,
  - any of [<sup>F599</sup>sections 180A to 188],
  - section 209,
  - section 212(1),
  - section 213,
  - section 224,
  - section 232, and
  - section 233.]

#### Textual Amendments

**F595** Words in s. 239(1) substituted (21.7.2009) by [Finance Act 2009 \(c. 10\), s. 105\(2\)\(a\)](#)

**F596** Words in s. 239(1) substituted (21.7.2009) by [Finance Act 2009 \(c. 10\), s. 105\(2\)\(b\)](#)

**F597** S. 239(1) Table omitted (21.7.2009) by virtue of [Finance Act 2009 \(c. 10\), s. 105\(2\)\(c\)](#)

**F598** S. 239(2) substituted (21.7.2009) by [Finance Act 2009 \(c. 10\), s. 105\(3\)](#)

**F599** Words in s. 239(2) substituted (retrospective to 6.4.2012) by [Finance Act 2012 \(c. 14\), Sch. 7 paras. 18, 25](#)

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## Information

### 240 Information to be provided by the investor

- (1) This section applies if the investor has obtained EIS relief in respect of the relevant shares, and an event occurs as a result of which—
  - (a) the investor is not a qualifying investor in relation to the shares,
  - (b) the EIS relief falls to be withdrawn or reduced by virtue of section 164 (no linked loans requirement),
  - (c) the EIS relief falls to be withdrawn or reduced under—
    - (i) section 209 (disposal of shares),
    - (ii) section 211 (call options), or
    - (iii) section 212 (put options), or
  - (d) the EIS relief falls to be withdrawn or reduced under section 213 (receipt of value by the investor), or would fall to be so withdrawn or reduced but for section 222 (receipt of replacement value).
- (2) The investor must within 60 days of coming to know of the event give a notice to an officer of Revenue and Customs containing particulars of the event.
- (3) If the investor—
  - (a) is required under this section to give notice of a receipt of value which is within section 213, or would be within that section but for section 222, and
  - (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,the notice must include particulars of that receipt of replacement value (or expected receipt).
- (4) In subsection (3) “qualifying receipt” and “replacement value” are to be read in accordance with section 222.

### 241 Information to be provided by the issuing company etc

- (1) This section applies if the issuing company has provided an officer of Revenue and Customs with a compliance statement in respect of an issue of shares and an event occurs as a result of which—
  - [<sup>F600</sup>(za) a requirement of any of the following provisions is not met in respect of the shares included in the issue, or would not be met if EIS relief had been obtained in respect of those shares—
    - (i) section 173A (the maximum amount raised annually through risk finance investments),
    - (ii) section 173AA (the maximum amount raised through risk finance investments at the issue date),
    - (iii) section 173AB (the maximum amount raised through finance investments during period B),
    - (iv) section 175A (the permitted maximum age requirement).]
  - (a) the requirement of section 175 (the use of money raised) is not met in respect of any of the shares included in the issue, or would not be met if EIS relief had been obtained in respect of the shares in question,
  - (b) any provision of Chapter 4 has effect to prevent the issuing company being a qualifying company in relation to any of the shares included in the issue,

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- or would have such an effect if EIS relief had been obtained in respect of the shares in question, or
- (c) any provision of Chapter 6 which is listed in subsection (2) has effect to cause any EIS relief attributable to any of the shares included in the issue to be withdrawn or reduced, or—
- (i) would have such an effect if EIS relief had been obtained in respect of the shares in question, or
- (ii) in the case of section 213, would have such an effect but for section 222 (receipt of replacement value).
- (2) The provisions are—
- (a) section 213 (value received by the investor),
- (b) section 224 (repayments etc of share capital to other persons),
- (c) section 232 (acquisition of a trade or trading assets), and
- (d) section 233 (acquisition of share capital).
- (3) If this section applies—
- (a) the issuing company, and
- (b) any person connected with the issuing company who has knowledge of the matters mentioned in subsection (1),
- must give a notice to an officer of Revenue and Customs containing particulars of the event.
- (4) Any notice required to be given by the issuing company under subsection (3)(a) must be given—
- (a) within 60 days of the event, or
- (b) if the event is a receipt of value within section 216(2) from a person connected with the company (see section 221), within 60 days of the company coming to know of the event.
- (5) Any notice required to be given by a person under subsection (3)(b) must be given within 60 days of the person coming to know of the event.
- (6) If a person—
- (a) is required under this section to give notice of a receipt of value which is within section 213, or would be within that section but for section 222, and
- (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,
- the notice must include particulars of that receipt of replacement value (or expected receipt).
- (7) In subsection (6) “qualifying receipt” and “replacement value” are to be read in accordance with section 222.

#### Textual Amendments

**F600** S. 241(1)(za) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 16](#)

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## **242 Power to require information where section 240 or 241 applies or could have applied**

- (1) This section applies if an officer of Revenue and Customs has reason to believe that a person—
  - (a) has not given a notice which the person is required to give under section 240 or 241 in respect of any event,
  - (b) has given or received value within the meaning of section 216(2) or (6) which, but for the fact that the amount given or received was an amount of insignificant value, would have triggered a requirement to give such a notice, or
  - (c) has made or received any repayment within the meaning given by section 224(7) which, but for the fact that it falls to be ignored for the purposes of section 224 by virtue of section 225(1), would have triggered a requirement to give a notice under section 241.
- (2) The officer may by notice require the person concerned to supply the officer, within such time as the officer may specify in the notice, with such information relating to the event as the officer may reasonably require for the purposes of this Part.
- (3) The period specified in a notice under subsection (2) must be at least 60 days.
- (4) In subsection (1)(b) the reference to an amount of insignificant value is construed in accordance with section 215(2).

## **243 Power to require information in other cases**

- (1) Subsection (2) applies if EIS relief is claimed in respect of shares in a company, and an officer of Revenue and Customs has reason to believe that it may not be due because of any such arrangement or scheme as is mentioned in—
  - (a) section 165 or 182(2) or (4) (no tax avoidance),
  - (b) section 171 (persons subscribing for shares under certain arrangements),
  - (c) section 176(4) or (5), 183(6) or 191(3), (4) or (5) (winding up, administration etc),
  - (d) section 177(1) (no pre-arranged exits), <sup>F601</sup>...
  - <sup>F602</sup>(da) section 178A (no disqualifying arrangements), or]
  - (e) section 185(1) or (2), 190(1) or 191(2) (conditions ceasing to be met).

The reference in paragraph (c) to subsections (3), (4) and (5) of section 191 is to be read as including those subsections as applied by section 190(2).

- (2) The officer may by notice require any person concerned to supply the officer within such time as may be specified in the notice with—
  - (a) a declaration in writing stating whether or not, according to the information which that person has or can reasonably obtain, any such arrangement or scheme exists or has existed, and
  - (b) such other information as the officer may reasonably require for the purposes of the provision in question and as that person has or can reasonably obtain.
- (3) The period specified in a notice under subsection (2) must be at least 60 days.

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- (4) For the purposes of subsection (2), in a case falling within a provision listed in column 1 of the following table, the person concerned is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The person concerned</i>
Subsection (1)(a)	The claimant, the company and any person controlling the company
Subsection (1)(b)	The claimant
Subsection (1)(c)	The claimant, the company, any other company in question and any person controlling the company or any other company in question
Subsection (1)(d)	The claimant, the company and any person connected with the company
[ <sup>F603</sup> Subsection (1)(da)]	The claimant, the company, any person controlling the company and any person whom an officer of Revenue and Customs has reason to believe may be a party to the arrangements in question]
Subsection (1)(e)	The company and any person controlling the company

References in this subsection to the claimant include references to any person to whom the claimant appears to have made such a transfer as is mentioned in section 245 (spouses or civil partners) of any of the shares in question.

- (5) If EIS relief has been obtained in respect of shares in a company—
- (a) any person who receives from the company any payment or asset which may constitute value received (by the person or another) for the purposes of section 213, and
  - (b) any person on whose behalf such a payment or asset is received,
- must, if so required by an officer of Revenue and Customs, state whether the payment or asset so received is received on behalf of any other person and, if so, the name and address of that other person.
- (6) If EIS relief has been claimed in respect of shares in a company—
- (a) any person who holds or has held shares in the company, and
  - (b) any person on whose behalf any such shares are or were held,
- must, if so required by an officer of Revenue and Customs, state whether the shares so held are or were held on behalf of any other person and, if so, the name and address of that other person.

#### Textual Amendments

**F601** Word in s. 243(1)(d) omitted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 19\(a\)](#)

**F602** S. 243(1)(da) inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 19\(a\)](#)

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**F603** Words in s. 243(4) inserted (17.7.2012) (with effect in accordance with Sch. 7 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 para. 19\(b\)](#)

## 244 Obligations of secrecy

No obligation of secrecy imposed by statute or otherwise prevents an officer of Revenue and Customs from disclosing to a company that EIS relief has been obtained or claimed in respect of a particular number or proportion of its shares.

## CHAPTER 8

### SUPPLEMENTARY AND GENERAL

#### *Disposals of shares*

## 245 Transfers between spouses or civil partners

- (1) This section applies if—
  - (a) shares to which an amount of EIS relief is attributable were issued to an individual (“A”),
  - (b) A transferred the shares to another individual (“B”) during their lives,
  - (c) A was married to, or was the civil partner of, B at the time of the transfer, and
  - (d) section 209 (disposal of shares) does not apply to the transfer.
- (2) This Part has effect, in relation to any subsequent disposal or other event, as if—
  - (a) B were the individual who had subscribed for the shares,
  - (b) the amount that B had subscribed for the shares were the amount that A had subscribed for them,
  - (c) B's liability to income tax had been reduced in respect of the shares for the same tax year as that for which A's was so reduced,
  - (d) the amount by which B's liability to income tax had been reduced in respect of the shares were the same as that by which A's liability to income tax had been so reduced, and
  - (e) that amount of EIS relief had continued to be attributable to the shares despite the transfer.
- (3) If the amount of EIS relief attributable to the shares had been reduced before the relief was obtained by A—
  - (a) this Part has effect, in relation to any subsequent disposal or other event, as if the amount of EIS relief attributable to the shares transferred to B had been correspondingly reduced before the relief was obtained by B, and
  - (b) sections 210(3), 220(2) and 229(3) apply in relation to B as they would have applied in relation to A.
- (4) If, because of any such disposal or other event, an assessment for reducing or withdrawing EIS relief is to be made, the assessment is to be made on B.

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## 246 Identification of shares on a disposal

- (1) The rules in subsections (2) and (3) are for determining which shares of any class are treated as disposed of for the purposes of—
  - (a) section 209 (disposal of shares), or
  - (b) section 245 (spouses or civil partners),
 if the investor disposes of some but not all of the shares of that class which the investor holds in a company.
- (2) Shares acquired on an earlier day are treated as disposed of before shares acquired on a later day.
- (3) Shares acquired on the same day are treated as disposed of in the following order—
  - (a) first any to which [<sup>F604</sup>no EIS relief, deferral relief or SEIS relief] is attributable,
  - [<sup>F605</sup>(aa) next any to which SEIS relief is attributable,]
  - (b) next any to which deferral relief, but not EIS relief, is attributable,
  - (c) next any to which EIS relief, but not deferral relief, is attributable, and
  - (d) finally any to which both EIS relief and deferral relief are attributable.
- (4) Any shares within paragraph (c) or (d) of subsection (3) which are treated by section 201(6) as issued on an earlier day are treated as disposed of before any other shares falling within that paragraph of subsection (3).
- (5) The following—
  - (a) any shares to which EIS relief is attributable and which were transferred to an individual as mentioned in section 245, and
  - (b) any shares to which deferral relief, but not EIS relief, is attributable and which were acquired by an individual on a disposal to which section 58 of TCGA 1992 applies,
 are treated for the purposes of subsections (2) and (3) as acquired by the individual on the day on which they were issued.
- (6) In a case to which section 127 of TCGA 1992 applies (including the case where that section applies by virtue of an enactment relating to chargeable gains), shares included in the new holding are treated for the purposes of subsections (2) and (3) as acquired when the original shares were acquired.
- (7) In this section—
 

“deferral relief” has the same meaning as in Schedule 5B to TCGA 1992,

“new holding” and “original shares” have the same meaning as in section 127 of TCGA 1992 (or, as the case may be, that section as applied by the enactment concerned).

[<sup>F606</sup>“SEIS relief” means relief under Part 5A (seed enterprise investment scheme).]

### Textual Amendments

- F604** Words in s. 246(3)(a) substituted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 14\(2\)\(a\)](#)
- F605** S. 246(3)(aa) inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 14\(2\)\(b\)](#)



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**F606** Words in s. 246(7) inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 14\(3\)](#)

### *Acquisition of issuing company*

## **247 Continuity of EIS relief where issuing company is acquired by new company**

- (1) This section applies if—
- (a) a company (“the new company”) in which the only issued shares are subscriber shares acquires all the shares (“old shares”) in another company (“the old company”),
  - (b) the consideration for the old shares consists wholly of the issue of shares (“new shares”) in the new company,
  - (c) the consideration for the new shares of each description consists wholly of old shares of the corresponding description,
  - (d) new shares of each description are issued to the holders of old shares of the corresponding description in respect of and in proportion to their holdings,
  - (e) at some time before the issue of the new shares—
    - (i) the old company issued shares which meet the requirements of section 173(2), and
    - (ii) a compliance certificate in respect of those shares was issued by that company for the purposes of subsection (1) of section 203 and in accordance with section 204, and
  - (f) before the issue of the new shares the Commissioners for Her Majesty’s Revenue and Customs have, on the application of the new company or the old company, notified that company that they are satisfied that the exchange of shares—
    - (i) will be effected for genuine commercial reasons, and
    - (ii) will not form part of any such scheme or arrangements as are mentioned in section 137(1) of TCGA 1992 (schemes with avoidance purposes).

In this subsection references to shares, except in the expressions “subscriber shares” and “shares which meet the requirements of section 173(2)”, include securities.

- (2) Subsection (2) of section 138 of TCGA 1992 (procedure for advance clearance) applies for the purposes of subsection (1)(f) as it applies for the purposes of subsection (1) of that section.
- (3) For the purposes of this Part—
- (a) the exchange of shares is not regarded as involving any disposal of the old shares or any acquisition of the new shares, and
  - (b) any EIS relief which is attributable to any old shares is attributable instead to the new shares for which they are exchanged.

[<sup>F607</sup>(3A) In section 173AB(2)(a) and in the definition of “the total relevant turnover amount” in section 175A(8), references to a company becoming a 51% subsidiary of the issuing company after the issue date do not include a company becoming such a subsidiary as a result of an exchange of shares as mentioned in subsection (1).]

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- (4) Nothing in section 185 (the control and independence requirement) applies in relation to such an exchange of shares, or shares and securities, as is mentioned in subsection (1), or arrangements with a view to such an exchange.
- (5) For the purposes of this section old shares and new shares are of a corresponding description if, on the assumption that they were shares in the same company, they would be of the same class and carry the same rights.
- (6) References in sections 248 and 249 to “old shares”, “new shares”, “the old company” and “the new company” are to be read in accordance with this section.

#### Textual Amendments

**F607** S. 247(3A) inserted (with effect in accordance with Sch. 5 para. 23 of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 5 para. 17**

### 248 Carry over of obligations etc where EIS relief attributed to new shares

- (1) This section applies if, under section 247, any EIS relief which is attributable to any old shares becomes attributable instead to any new shares.
- (2) This Part has effect as if anything which, under—
  - (a) section 203(1) (entitlement to claim),
  - (b) section 234(3) (relief subsequently found not to be due), or
  - (c) sections 241 to 244 (information to be provided),
 has been done, or is required to be done, by or in relation to the old company had been done, or were required to be done, by or in relation to the new company.
- (3) Any appeal brought by the old company against a notice under section 234(3)(b) may be prosecuted by the new company as if it had been brought by that company.

### 249 Substitution of new shares for old shares

- (1) Subsection (2) applies if, in the case of any new shares held by an individual to which EIS relief becomes attributable under section 247, the old shares for which they were exchanged were subscribed for by and issued to the individual.
- (2) This Part<sup>F608</sup>; (except section 195(7)) has effect as if—
  - (a) the new shares had been subscribed for by the individual at the time when, and for the amount for which, the old shares were subscribed for by the individual,
  - (b) the new shares had been issued to the individual by the new company at the time when the old shares were issued to the individual by the old company,
  - (c) the claim for EIS relief made in respect of the old shares had been made in respect of the new shares, and
  - (d) the individual's liability to income tax had been reduced in respect of the new shares for the same tax year as that for which the individual's liability was so reduced in respect of the old shares.
- (3) Subsection (4) applies if, in the case of any new shares held by an individual to which EIS relief becomes so attributable under section 247, the old shares for which they were exchanged were transferred to the individual as mentioned in section 245.

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- (4) This Part<sup>F609</sup>; (except section 195(7)) has effect in relation to any subsequent disposal or other event as if—
- the new shares had been subscribed for by the individual at the time when, and for the amount for which, the old shares were subscribed for,
  - the new shares had been issued by the new company at the time when the old shares were issued by the old company,
  - the claim for EIS relief made in respect of the old shares had been made in respect of the new shares, and
  - the individual's liability to income tax had been reduced in respect of the new shares for the same tax year as that for which the liability of the individual who subscribed for the old shares was so reduced in respect of those shares.

#### Textual Amendments

**F608** Words in s. 249(2) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(8\)\(a\)](#), 13

**F609** Words in s. 249(4) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 11\(8\)\(b\)](#), 13

#### *Nominees etc*

### 250 Nominees and bare trustees

- Shares subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of this Part as subscribed for, issued to, held by or disposed of by the individual.
- If shares have been issued to a bare trust for two or more beneficiaries, this Part has effect (with the necessary modifications) as if—
  - each beneficiary had subscribed as an individual for all of those shares, and
  - the amount subscribed by each beneficiary was equal to the total amount subscribed on the issue of those shares divided by the number of beneficiaries.
- In subsection (2) and section 251 “shares” means shares which meet the requirements of section 173(2).

### 251 Approved [<sup>F610</sup>knowledge-intensive fund] as nominee

- [<sup>F611</sup>This section applies] if an individual claims EIS relief in respect of shares in a company at a time when—
  - the shares have been issued to the managers of [<sup>F612</sup>an approved knowledge-intensive fund] as nominee for the individual,
  - the fund has closed, that is to say, no further investments in the fund are to be accepted,<sup>F613</sup> ...
  - the amounts which the managers have, as nominee for the individual, subscribed for shares issued within [<sup>F614</sup>12] months after the closing of the fund represent at least [<sup>F615</sup>50%] of the individual's investment in the fund.

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- [<sup>F616</sup>(d) the amounts which the managers have, as nominee for the individual, subscribed for shares issued within 24 months after the closing of the fund represent at least 90% of the individual’s investment in the fund,
- (e) within that 24 month period at least 80% of the individual’s investment in the fund is represented by shares in companies which are knowledge-intensive companies at the time the shares are issued, and
- (f) the managers have met such conditions with respect to the provision of information to HMRC Commissioners as the Commissioners consider appropriate for the purposes of this section.]

<sup>F617</sup> ...

[<sup>F618</sup>(1A) In this section “the managers of an approved knowledge-intensive fund” means the person or persons having the management of an investment fund—

- (a) which is, in the opinion of HMRC Commissioners, a fund established for the purpose of investing wholly, or substantially wholly, in shares in companies which are knowledge-intensive companies at the time the shares are issued, and
- (b) which is, having met such other conditions as HMRC Commissioners consider appropriate for the purposes of this section, approved by them for those purposes.]

(2) <sup>F619</sup> ... Section 158 (form and amount of EIS relief) and section 201 (attribution of EIS relief to shares) have effect as if—

- (a) any reference to the tax year or other period in which the shares are issued were a reference to the tax year or other period in which the fund closes, and
- (b) any reference to the time of the issue of the shares, or the time of the subscription for the shares, were a reference to the time of the closing of the fund.

[<sup>F620</sup>(2A) Accordingly, in a case where section 158 has effect with the modifications in subsection (2), the reference in section 158(4) to the issue of the shares in the preceding tax year is to the issue of the shares in the tax year preceding the tax year in which the fund closes (and references elsewhere in this Part to the issue of shares in a previous tax year are to be read accordingly).]

<sup>F621</sup>(3) .....

(4) If an individual claims EIS relief in respect of shares in a company which have been issued to the managers of [<sup>F622</sup>an approved knowledge-intensive fund] as nominee for the individual, section 203(1) (entitlement to claim) applies as if —

- (a) it required the certificate referred to in that section to be issued by the company to the managers, and
- (b) it provided that no claim for EIS relief may be made unless the person making the claim has received from the managers a certificate issued by the managers in accordance with subsection (5).

(5) A certificate is issued in accordance with this subsection if—

- (a) it certifies that the managers hold compliance certificates issued to them by the companies concerned, for the purposes of section 203(1), in respect of the holding of shares shown on the managers’ certificate, and
- (b) it is in such form as [<sup>F623</sup>HMRC Commissioners] may authorise.

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- (6) The managers of [<sup>F624</sup>an approved knowledge-intensive fund] may be required by a notice given to them by an officer of Revenue and Customs to deliver to the officer, within the time limited by the notice, a return of the holdings of shares shown on certificates issued by them in accordance with subsection (5) in the tax year to which the return relates.
- (7) Section 207 (penalties for fraudulent certificate or statement etc) does not apply in relation to any certificate issued by the managers of [<sup>F625</sup>an approved knowledge-intensive fund] for the purposes of subsection (4).
- [<sup>F626</sup>(8) In this section “HMRC Commissioners” means the Commissioners for Her Majesty’s Revenue and Customs.]

### Textual Amendments

- F610** Words in s. 215 heading substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(11\)](#)
- F611** Words in s. 215(1) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(a\)](#)
- F612** Words in s. 215(1)(a) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(b\)](#)
- F613** Word in s. 215(1)(b) omitted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(c\)](#)
- F614** Word in s. 251(1)(c) substituted (with effect in accordance with Sch. 16 para. 19(2) of the amending Act) by [Finance Act 2007 \(c. 11\), Sch. 16 para. 19\(1\)](#)
- F615** Word in s. 215(1)(d) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(d\)](#)
- F616** S. 215(1)(d)-(f) inserted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(e\)](#)
- F617** Words in s. 215(1) omitted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(2\)\(f\)](#)
- F618** S. 215(1A) inserted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(3\)](#)
- F619** Words in s. 215(2) omitted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(4\)](#)
- F620** S. 215(2A) inserted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(5\)](#)
- F621** S. 251(3) omitted (17.7.2012) by virtue of [Finance Act 2012 \(c. 14\), Sch. 7 para. 20](#)
- F622** Words in s. 215(4) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(6\)](#)
- F623** Words in s. 215(5)(b) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(7\)](#)
- F624** Words in s. 215(6) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(8\)](#)
- F625** Words in s. 215(7) substituted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(9\)](#)
- F626** S. 215(8) inserted (6.4.2020 with effect in accordance with s. 36(12) of the amending Act) by [Finance Act 2020 \(c. 14\), s. 36\(10\)](#)

*Status: Point in time view as at 22/02/2024.*

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## *f<sup>627</sup> Powers to amend*

### **Textual Amendments**

**F627** S. 251A and cross-heading inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 18](#)

### **251A Powers to amend Chapters 2 to 4 by Treasury regulations**

- (1) The Treasury may by regulations add to, repeal or otherwise amend any provision of—
  - (a) Chapter 2 (the requirements to be met in relation to the investor),
  - (b) Chapter 3 (the general requirements to be met in respect of the relevant shares), or
  - (c) Chapter 4 (the requirements to be met by the issuing company for it to be a qualifying company in relation to the relevant shares).
- (2) Regulations under this section may—
  - (a) make different provision for different cases or purposes;
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (3) The provision which may be made as a result of subsection (2)(b) includes provision amending any provision of this or any other Act (including an Act passed after this Act).
- (4) Regulations under this section may, so long as they do not increase any person's liability to any tax, be made to have retrospective effect in relation to any time in the tax year in which they are made or the previous tax year.
- (5) This section is without prejudice to any other power to amend any provision of this Part.
- (6) A statutory instrument containing regulations under this section may not be made unless a draft of it has been laid before and approved by a resolution of the House of Commons.]

### *Interpretation*

### **252 Meaning of a company being “in administration” or “in receivership”**

- (1) References in this Part to a company being “in administration” or “in receivership” are to be read as follows.
- (2) A company is “in administration” if—
  - (a) it is in administration within the meaning of Schedule B1 to the Insolvency Act 1986 (c. 45) or Schedule B1 to the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), or
  - (b) there is in force in relation to it under the law of a country or territory outside the United Kingdom any appointment corresponding to an appointment of an administrator under either of those Schedules.
- (3) A company is “in receivership” if there is in force in relation to it—

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- (a) an order for the appointment of an administrative receiver, a receiver and manager or a receiver under Chapter 1 or 2 of Part 3 of the Insolvency Act 1986 or Part 4 of the Insolvency (Northern Ireland) Order 1989, or
- (b) any corresponding order under the law of a country or territory outside the United Kingdom.

**Modifications etc. (not altering text)**

**C75** S. 252 applied (with modifications) (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 2 para. 50(2)-(5)** (with Sch. 2)

**[<sup>F628</sup>252A Meaning of “knowledge-intensive company”**

- (1) For the purposes of this Part, the issuing company is a “knowledge-intensive company” at the time the relevant shares are issued if the company meets—
  - (a) one or both of the operating costs conditions (see subsections (2) and (3)), and
  - (b) one or both of—
    - (i) the innovation condition (see subsection (5)), and
    - (ii) the skilled employee condition (see subsection (8)).
- (2) The first operating costs condition is that in at least one of the relevant three preceding years at least 15% of the relevant operating costs constituted expenditure on research and development or innovation.
- (3) The second operating costs condition is that in each of the relevant three preceding years at least 10% of the relevant operating costs constituted such expenditure.
- (4) In subsections (2) and (3)—

“relevant operating costs” means—

  - (a) if the issuing company is a single company at the time the relevant shares are issued, the operating costs of that company, and
  - (b) if the issuing company is a parent company at the time the relevant shares are issued, the sum of—
    - (i) the operating costs of the issuing company, and
    - (ii) the operating costs of each company which is a qualifying subsidiary of the issuing company at that time;

“the relevant three preceding years” [<sup>F629</sup> means, subject to subsection (4A), the three consecutive years the last of which ends immediately before the beginning of the last accounts filing period.]

[ If the last accounts filing period ends more than 12 months before the date on which the <sup>F630</sup>(4A) relevant shares are issued, the relevant three preceding years are the three consecutive years the last of which ends 12 months before the date on which the relevant shares are issued.]

- (5) “The innovation condition” is—
  - (a) where the issuing company is a single company, that—
    - (i) the issuing company is engaged in intellectual property creation at the time the relevant shares are issued, and
    - (ii) it is reasonable to assume that, within 10 years of the issue of the relevant shares, one or a combination of—

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- (a) the exploitation of relevant intellectual property held by the company, and
  - (b) business which results from new or improved products, processes or services utilising relevant intellectual property held by the company,
- will form the greater part of its business;
- (b) where the issuing company is a parent company, that—
    - (i) the parent company or one or more of its qualifying subsidiaries (or both that company and one or more of those subsidiaries) is or are engaged in intellectual property creation at the time the relevant shares are issued, and
    - (ii) it is reasonable to assume that, within 10 years of the issue of the relevant shares, one or a combination of—
      - (a) the exploitation of relevant intellectual property held by the parent company or any of its qualifying subsidiaries, and
      - (b) business which results from new or improved products, processes or services utilising relevant intellectual property held by the parent company or any of its qualifying subsidiaries,
 will form the greater part of what would be the business of the group if the activities of the group companies taken together are regarded as one business.
- (6) For the purposes of subsection (5), a company is engaged in intellectual property creation if—
- (a) relevant intellectual property is being created by the company, or has been created by it within the previous three years,
  - (b) the company is taking, or preparing to take, steps in order that relevant intellectual property will be created by it, or
  - (c) the company is carrying on activity which is the subject of a written evaluation which—
    - (i) has been prepared by an independent expert, and
    - (ii) includes a statement to the effect that, in the opinion of the expert, it is reasonable to assume that relevant intellectual property will, in the foreseeable future, be created by the company.
- (7) For the purposes of this section—
- (a) intellectual property is “relevant” intellectual property, in relation to a company, if the whole or greater part (in terms of value) of it is created by the company, and
  - (b) intellectual property is created by a company if it is created in circumstances in which the right to exploit it vests in the company (whether alone or jointly with others).
- (8) “The skilled employee condition” is that throughout period B—
- (a) if the issuing company is a single company, the FTE skilled employee number is at least 20% of the FTE employee number, and
  - (b) if the issuing company is a parent company, the FTE group skilled employee number is at least 20% of the FTE group employee number.



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(9) But, in subsection (8), the reference to period B does not include any period during which the issuing company, by virtue of section 182 (companies in administration or receivership), is not regarded as having ceased to meet the trading requirement.

(10) In this section—

“FTE employee number” for a company is the full-time equivalent employee number determined in accordance with section 186A(3);

“FTE group employee number” means the sum of—

- (a) the FTE employee number for the issuing company, and
- (b) the FTE employee number for each of its qualifying subsidiaries;

“FTE group skilled employee number” means the sum of—

- (a) the FTE skilled employee number for the issuing company, and
- (b) the FTE skilled employee number for each of its qualifying subsidiaries;

“FTE skilled employee number” for a company is determined in accordance with section 186A(3) in the same way as the full-time equivalent employee number except that only employees of the company who—

- (a) hold a relevant HE qualification, and
- (b) are engaged directly in research and development or innovation activities carried on—
  - (i) if the issuing company is a single company, by that company, or
  - (ii) if the issuing company is a parent company, by that company or any qualifying subsidiary of that company,

are to be taken into account;

“independent expert”, in relation to an evaluation of activity of a company, means an individual who—

- (a) is not connected with the issuing company,
- (b) holds a relevant HE qualification, and
- (c) is an expert in the area of research and development or innovation being or to be pursued by the company in question;

“intellectual property” has the meaning given by section 195(6);

“the last accounts filing period” means the last period for filing (within the meaning of section 442 of the Companies Act 2006) for the issuing company which ends before the date on which the relevant shares were issued;

“operating costs”, of a company for a period of account, means expenses of the company which are recognised as expenses in the company's profit and loss account or income statement for that period, other than expenses relating to transactions between that company and another company at a time when both companies are members of the same group (but see also subsection (11));

“relevant HE qualification” means—

- (a) a qualification which is at level 7, or a higher level, of the framework for higher education qualifications in England, Wales and Northern Ireland (as that framework may be amended or replaced from time to time),
- (b) a qualification which is at level 11, or a higher level, of the framework for qualifications of higher education institutions in Scotland (as that framework may be amended or replaced from time to time), or
- (c) a comparable qualification to one within paragraph (a) or (b).

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- (11) Such apportionments as are just and reasonable are to be made to amounts recognised in a company's profit and loss account or income statement for the purpose of determining the company's operating costs for a year.
- (12) When determining whether an individual is connected with the issuing company for the purposes of this section, section 168 is to be ignored.
- (13) The Treasury may by regulations amend this section for the purposes of adding, amending or removing a condition which must be met for a company to be a knowledge-intensive company.
- (14) A statutory instrument containing regulations under subsection (13) may not be made unless a draft of it has been laid before and approved by a resolution of the House of Commons.]

#### Textual Amendments

**F628** S. 252A inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 5 para. 19](#)

**F629** Words in s. 252A(4) substituted (retrospectively) by [Finance Act 2016 \(c. 24\)](#), [s. 29\(2\)\(a\)\(6\)](#) (with s. 30)

**F630** S. 252A(4A) inserted (retrospectively) by [Finance Act 2016 \(c. 24\)](#), [s. 29\(2\)\(b\)\(6\)](#) (with s. 30)

#### [<sup>F631</sup>252B] Knowledge-intensive company reaching turnover of £200,000

- (1) This section has effect for the purposes of section 175A(2)(a)(ii) (alternative initial investing period in case of knowledge-intensive company).
- (2) Where—
  - (a) the annual turnover of the issuing company in relation to an accounting period (see subsection (3)) is £200,000 or more, and
  - (b) the annual turnover for the company in relation to each previous accounting period is less than £200,000,
 the company is treated as reaching an annual turnover of £200,000 or more by reference to the specified date (see subsection (4)).
- (3) The annual turnover in relation to an accounting period is—
  - (a) the turnover for that accounting period (if the accounting period is for 12 months), or
  - (b) the turnover for the period of 12 months ending when that accounting period ends (if not).
- (4) The specified date is—
  - (a) in the case of an accounting period of 12 months or less, the last day of that accounting period;
  - (b) in the case of an accounting period of more than 12 months, the last day of the period of 12 months beginning when that accounting period begins.
- (5) The turnover of the issuing company for a period (“the period”) is treated for the purposes of this section as including the relevant turnover of any company that is a member of the same group as the issuing company during the whole or any part of the period (a “group company”).
- (6) The relevant turnover of a group company is—

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- (a) its turnover for the period, if the group company is a member of the same group as the issuing company for the whole of the period;
  - (b) if the group company is a member of the same group as the issuing company for part of the period, its turnover for that part of the period.
- (7) Any necessary apportionments of turnover are to be made, on a time basis according to the respective lengths of the periods in question, for the purposes of subsections (3)(b) and (6).
- (8) In this section “turnover” has the meaning given by section 474(1) of the Companies Act 2006 and is to be determined by reference to—
- (a) the accounts of the company, and
  - (b) amounts recognised for accounting purposes.]

#### Textual Amendments

**F631** S. 252B inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 6, 10](#); S.I. 2018/931, reg. 3(a)

### 253 Meaning of “associate”

- (1) In this Part “associate”, in relation to a person, means—
- (a) any relative or partner of that person,
  - (b) the trustee or trustees of any settlement in relation to which that person, or any relative of that person (living or dead), is or was a settlor, and
  - (c) if that person has an interest in any shares or obligations of a company which are subject to any trust or are part of the estate of a deceased person—
    - (i) the trustee or trustees of the settlement concerned or, as the case may be, the personal representatives of the deceased, and
    - (ii) if that person is a company, any other company which has an interest in those shares or obligations.
- (2) In subsection (1)(a) and (b) “relative” means spouse or civil partner, ancestor or lineal descendant.

### 254 Meaning of “disposal of shares”

- (1) In this Part references to a disposal of shares include references to a disposal of an interest or right in or over shares.
- (2) An individual is to be treated, for the purposes of this Part, as disposing of any shares which the individual is treated by virtue of section 136 of TCGA 1992 as exchanging for other shares.

### 255 Meaning of “issue of shares”

- (1) In this Part—
- (a) references (however expressed) to an issue of shares in any company are to such of the shares in the company as are of the same class and are issued on the same day, and

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- (b) references (however expressed) to an issue of shares in any company to an individual are to such of the shares in the company as are of the same class and are issued to the individual on the same day.
- (2) Subsection (1)(b) has effect subject to sections 201(6), 202(2), 210(2), 219(1) and 228(1).

## 256 Meaning of “the termination date”

- (1) In this Part “the termination date”, in relation to any shares issued by a company, means—
- (a) the third anniversary of the issue date, or
- (b) if—
- (i) the money raised by the issue was raised wholly or mainly for the purpose of a qualifying business activity within section 179(2) (the issuing company or a qualifying 90% subsidiary of that company carrying on or preparing to carry on a qualifying trade), and
- (ii) neither the issuing company nor any of its qualifying 90% subsidiaries had begun to carry on the trade in question on the issue date,
- the third anniversary of the date on which the issuing company or any qualifying 90% subsidiary of that company begins to carry on that trade.
- (2) In determining for the purposes of subsection (1) when a qualifying trade is begun to be carried on by a qualifying 90% subsidiary of a company, any carrying on of the trade by it before it became such a subsidiary is to be ignored.

## [<sup>F632</sup>256A Meaning of “the EIS original rate”

In this Part “the EIS original rate”, in relation to EIS relief, means the EIS rate for the tax year for which the EIS relief was obtained.]

### Textual Amendments

**F632** S. 256A inserted (13.10.2011) (with effect in accordance with s. 42(7)(8) of the amending Act) by Finance Act 2011 (c. 11), s. 42(4)(6); S.I. 2011/2459, art. 2

## 257 Minor definitions etc

- (1) In this Part—
- [<sup>F633</sup>“arrangements” includes any scheme, agreement, understanding, transaction or series of transactions (whether or not legally enforceable);]
- “bonus shares” means shares which are issued otherwise than for payment (whether in cash or otherwise),
- “director” is read in accordance with [<sup>F634</sup>section 452 of CTA 2010],
- “group” means a parent company and its qualifying subsidiaries,
- “group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries,
- “ordinary shares” means shares forming part of a company's ordinary share capital,

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“parent company” means a company that has one or more qualifying subsidiaries and “single company” means a company that does not,

“period A”, “period B” and “period C” have the meaning given by section 159, and

“research and development” has the meaning given by section 1006.

- (2) Section 993 (connected persons) does not apply for the purposes of Chapter 2 (other than section 168(4)).
- (3) Section 995 (control) does not apply for the purposes of the following provisions—
  - section 185(1)(a),
  - section 199(3)(a) and (b)(ii),
  - section 232(3),
  - section 233(2), and
  - section 243(4),and in those provisions “control” is to be read in accordance with [<sup>F635</sup>sections 450 and 451 of CTA 2010].
- (4) In this Part—
  - (a) references in any provision to the reduction of any EIS relief attributable to any shares include a reference—
    - (i) to the reduction of the relief to nil, and
    - (ii) if no relief has yet been obtained, to the reduction of the amount which apart from that provision would be the EIS relief, and
  - (b) references to the withdrawal of EIS relief in respect of any shares are—
    - (i) to the withdrawal of the EIS relief attributable to those shares, or
    - (ii) if no relief has yet been obtained, to ceasing to be eligible for EIS relief in respect of those shares.
- (5) For the purposes of this Part shares in a company are not treated as being of the same class unless they would be so treated if dealt in on [<sup>F636</sup>a recognised stock exchange].
- (6) For the purposes of this Part the market value at any time of any asset is the price which it might reasonably be expected to fetch on a sale at that time in the open market free from any interest or right which exists by way of security in or over it.
- (7) In this Part—
  - (a) references to EIS relief obtained by an individual in respect of any shares include references to EIS relief obtained by the individual in respect of those shares at any time after the individual has disposed of them, and
  - (b) references to the withdrawal or reduction of EIS relief obtained by an individual in respect of any shares include references to the withdrawal or reduction of EIS relief obtained by the individual in respect of those shares at any such time.
- (8) In the case of requirements that cannot be met until a future date, references in this Part to requirements being met for the time being are to nothing having occurred to prevent their being met.

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### Textual Amendments

- F633** Words in s. 257(1) substituted (retrospective to 6.4.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 7 paras. 21, 25](#)
- F634** Words in s. 257(1) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 503\(a\)](#) (with [Sch. 2](#))
- F635** Words in s. 257(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 503\(b\)](#) (with [Sch. 2](#))
- F636** Words in s. 257(5) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(5\)](#)

## [<sup>F637</sup>PART 5A

### SEED ENTERPRISE INVESTMENT SCHEME

### Textual Amendments

- F637** Pt. 5A inserted (17.7.2012) (with effect in accordance with Sch. 6 para. 24(1) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 1](#)

### Modifications etc. (not altering text)

- C76** Pt. 5A applied by [Taxation of Chargeable Gains Act 1992 \(c. 12\)](#), [Sch. 5BB para. 8\(4\)](#) (as inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), Sch. 6 para. 5)

## CHAPTER 1

### INTRODUCTION

#### *SEIS relief*

### 257A Meaning of “SEIS relief” and commencement

- (1) This Part provides for SEIS income tax relief (“SEIS relief”), that is, entitlement to tax reductions in respect of amounts subscribed by individuals for shares in companies carrying on new businesses.
- (2) In this Part “SEIS” stands for the seed enterprise investment scheme.

[<sup>F638</sup>(3) This Part has effect in relation to shares issued on or after 6 April 2012 only.]

<sup>F639</sup>(4) . . . . .

### Textual Amendments

- F638** S. 257A(3) substituted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [s. 54\(2\)](#)
- F639** S. 257A(4) omitted (17.7.2014) by virtue of [Finance Act 2014 \(c. 26\)](#), [s. 54\(3\)](#)

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## 257AA Eligibility for SEIS relief

An individual (“the investor”) is eligible for SEIS relief in respect of an amount subscribed by the investor on the investor's own behalf for an issue of shares in a company (“the issuing company”) if—

- [<sup>F640</sup>(za) the risk-to-capital condition is met (see section 257AAA),]
- (a) the shares (“the relevant shares”) are issued to the investor,
  - (b) the investor is a qualifying investor in relation to the relevant shares (see Chapter 2),
  - (c) the general requirements (including requirements as to the purpose of the issue of shares and the use of money raised) are met in respect of the relevant shares (see Chapter 3), and
  - (d) the issuing company is a qualifying company in relation to the relevant shares (see Chapter 4).

### Textual Amendments

**F640** S. 257AA(za) inserted (15.3.2018) by Finance Act 2018 (c. 3), s. 14(2)(a)(4); S.I. 2018/931, reg. 2(a)

## [<sup>F641</sup>257AAA Risk-to-capital condition

- (1) The risk-to-capital condition is met if, having regard to all the circumstances existing at the time of the issue of the shares, it would be reasonable to conclude that—
- (a) the issuing company has objectives to grow and develop its trade in the long-term, and
  - (b) there is a significant risk that there will be a loss of capital of an amount greater than the net investment return.
- (2) For the purposes of subsection (1)(b)—
- (a) the risk is to be determined by reference to a loss of capital, and the net investment return, for the investors generally,
  - (b) the reference to a loss of capital is to a loss of some or all of the amounts subscribed for the shares by the investors, and
  - (c) the reference to the net investment return is to the net investment return to the investors (whether by way of income or capital growth) taking into account the value of SEIS relief.
- (3) For the purposes of subsection (1) the circumstances to which regard may be had include—
- (a) the extent to which the company's objectives include increasing the number of its employees or the turnover of its trade,
  - (b) the nature of the company's sources of income, including the extent to which there is a significant risk of the company not receiving some or all of the income,
  - (c) the extent to which the company has or is likely to have assets, or is or could become a party to arrangements for acquiring assets, that could be used to secure financing from any person,
  - (d) the extent to which the activities of the company are sub-contracted to persons who are not connected with it,

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- (e) the nature of the company's ownership structure or management structure, including the extent to which others participate in or devise the structure,
  - (f) how any opportunity for investment in the company is marketed, and
  - (g) the extent to which arrangements are in place under which opportunities for investments in the company are or may be marketed with, or otherwise associated with, opportunities for investments in other companies or entities.
- (4) If the issuing company is a parent company—
- (a) any reference in this section to the company's trade is to what would be the trade of the group if the activities of the group companies taken together were regarded as one trade, and
  - (b) any reference in subsection (3)(a) to (e) to the company is to any group company.]

#### Textual Amendments

**F641** S. 257AAA inserted (15.3.2018) by Finance Act 2018 (c. 3), s. 14(2)(b)(4); S.I. 2018/931, reg. 2(a)

### 257AB Form and amount of SEIS relief

- (1) If an individual—
- (a) is eligible for SEIS relief in respect of any amount subscribed for shares, and
  - (b) makes a claim in respect of all or some of the shares included in the issue,
- the individual is entitled to a tax reduction for the tax year in which the shares were issued (“the current tax year”).

This is subject to the provisions of this Part.

- (2) The amount of the tax reduction to which the individual is entitled is the amount equal to tax at the SEIS rate for the current tax year on—
- (a) the amount or, as the case may be, the sum of the amounts subscribed for shares issued in that year in respect of which the individual is eligible for and claims SEIS relief, or
  - (b) if less, [<sup>F642</sup>£200,000].
- (3) In this Part “the SEIS rate” means 50%.
- (4) The tax reduction is given effect at Step 6 of the calculation in section 23.
- (5) If in the case of any issue of shares—
- (a) which are issued in the current tax year, and
  - (b) in respect of the amount subscribed for which the individual is eligible for SEIS relief,

the individual so claims, subsections (1) and (2) apply as if, in respect of such part of that issue as may be specified in the claim, the shares had been issued in the preceding tax year, and the individual's liability to tax for both tax years is determined accordingly.



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### Textual Amendments

**F642** Sum in s. 257AB(2)(b) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(2\)\(7\)](#)

## Miscellaneous

### 257AC Meaning of “period A” and “period B”

- (1) This section applies for the purposes of this Part in relation to any shares issued by a company.
- (2) “Period A” means the period—
  - (a) beginning with the incorporation of the company, and
  - (b) ending immediately before the termination date relating to the shares.
- (3) “Period B” means the period—
  - (a) beginning with the issue of the shares, and
  - (b) ending immediately before the termination date relating to the shares.
- (4) In this section “the termination date”, in relation to the shares, means the third anniversary of the date on which the shares are issued.

### 257AD Overview of other Chapters of Part

In this Part—

- (a) Chapter 5 provides for the attribution of SEIS relief to shares and the making of claims for such relief,
- (b) Chapter 6 provides for SEIS relief to be withdrawn or reduced in the circumstances mentioned in that Chapter,
- (c) Chapter 7 makes provision with respect to the procedure for the withdrawal or reduction of SEIS relief, and
- (d) Chapter 8 contains supplementary and general provisions.

### 257AE CGT reliefs relating to SEIS

- (1) Section 150E of TCGA 1992 makes provision about gains or losses on the disposal of shares to which SEIS relief is attributable.
- (2) Schedule 5BB to that Act provides relief in respect of the re-investment under SEIS of the proceeds of assets disposed of in circumstances where there would otherwise be a chargeable gain.

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## CHAPTER 2

### THE INVESTOR

#### *Introduction*

#### **257B Overview of Chapter**

The investor is a qualifying investor in relation to the relevant shares if the requirements of this Chapter are met as to—

- (a) no employee investors (see section 257BA),
- (b) no substantial interest in the issuing company (see section 257BB),
- (c) no related investment arrangements (see section 257BC),
- (d) no linked loans (see section 257BD), and
- (e) no tax avoidance (see section 257BE).

#### *The requirements*

#### **257BA The no employee investors requirement**

- (1) Neither the investor nor an associate of the investor may, at any time during period B, be an employee of the issuing company or of any qualifying subsidiary of that company.
- (2) For this purpose a person is not to be treated as an employee of the issuing company, or of any qualifying subsidiary of that company, at any time when the person is a director of that company.

#### **257BB The no substantial interest in the issuing company requirement**

The investor must not have a substantial interest in the issuing company at any time during period A.

#### **257BC The no related investment arrangements requirement**

The investor (“P”) must not subscribe for the relevant shares as part of an arrangement which provides for another person to subscribe for shares in another company in which P, or any other individual who is party to the arrangement, has a substantial interest.

#### **257BD The no linked loan requirement**

- (1) No linked loan is to be made by any person, at any time in period A, to the investor or an associate of the investor.
- (2) In this section “linked loan” means any loan which—
  - (a) would not have been made, or
  - (b) would not have been made on the same terms,
 if the investor had not subscribed for the relevant shares, or had not been proposing to do so.

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- (3) References in this section to the making by any person of a loan to the investor or an associate of the investor include a reference—
- (a) to the giving by that person of any credit to the investor or any associate of the investor, and
  - (b) to the assignment to that person of a debt due from the investor or any associate of the investor.

### **257BE The no tax avoidance requirement**

The relevant shares must be subscribed for by the investor for genuine commercial reasons, and not as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

*Meaning of substantial interest in a company*

### **257BF Persons with a substantial interest in a company**

- (1) An individual has a substantial interest in a company if the individual directly or indirectly possesses or is entitled to acquire more than 30% of—
- (a) the ordinary share capital of the company or any subsidiary of the company,
  - (b) the issued share capital of the company or any such subsidiary, or
  - (c) the voting power in the company or any such subsidiary.
- (2) An individual has a substantial interest in a company if the individual directly or indirectly possesses or is entitled to acquire such rights as would—
- (a) in the event of the winding up of the company or any subsidiary of the company, or
  - (b) in any other circumstances,
- entitle the individual to receive more than 30% of the assets of the company or subsidiary (“the company in question”) which would then be available for distribution to equity holders of the company in question.
- (3) For the purposes of subsection (2)—
- (a) the persons who are equity holders of the company in question, and
  - (b) the percentage of the assets of the company in question to which the individual would be entitled,
- are determined in accordance with Chapter 6 of Part 5 of CTA 2010.
- (4) In making that determination—
- (a) references in section 166 of that Act to company A are to be read as references to an equity holder, and
  - (b) references in that section to a winding up are to be read as including a reference to any other circumstances in which assets of the company in question are available for distribution to its equity holders.
- (5) An individual does not have a substantial interest in a company merely because one or more shares in the company are held by the individual or by an associate of the individual, at a time when the company—
- (a) has not issued any shares other than subscriber shares, and

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- (b) has not begun to carry on, or make preparations for carrying on, any trade or business.
- (6) An individual has a substantial interest in a company if the individual has control of the company or any subsidiary of that company.
- (7) For the purposes of this section—
  - (a) an individual is treated as entitled to acquire anything which the individual is entitled to acquire at a future date or will at a future date be entitled to acquire, and
  - (b) there is attributed to any individual any rights or powers of any other person who is an associate of the individual.
- (8) In this section “subsidiary”, in relation to a company, means a company which at any time in period A is a 51% subsidiary of the company, whether or not it is such a subsidiary while the individual concerned has, or is entitled to acquire, such capital, voting power, rights or control as are mentioned in this section.

## CHAPTER 3

### GENERAL REQUIREMENTS

#### *Introduction*

#### **257C Overview of Chapter**

The general requirements are met in respect of the relevant shares if the requirements of this Chapter are met as to—

- (a) the shares (see section 257CA),
- (b) the purpose of the issue (see section 257CB),
- (c) the spending of the money raised (see section 257CC),
- (d) no pre-arranged exits (see section 257CD),
- (e) no tax avoidance (see section 257CE), and
- (f) no disqualifying arrangements (see section 257CF).

#### *The requirements*

#### **257CA The shares requirement**

- (1) The relevant shares must meet—
  - (a) the requirements of subsection (2), and
  - (b) unless they are bonus shares, the requirements of subsection (4).
- (2) Shares meet the requirements of this subsection if they are ordinary shares which do not, at any time during period B, carry—
  - (a) any present or future preferential right to dividends that is within subsection (3),
  - (b) any present or future preferential right to a company's assets on its winding up, or

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- (c) any present or future right to be redeemed.
- (3) A preferential right to dividends carried by a share in a company is within this subsection if—
  - (a) the amount of any dividends payable pursuant to the right, or the date or dates on which they are payable, depend to any extent on a decision of the company, the holder of the share or any other person, or
  - (b) the amount of any dividends that become payable at any time pursuant to the right includes any amount that became payable at any earlier time pursuant to the right but has not been paid.
- (4) Shares meet the requirements of this subsection if they—
  - (a) are subscribed for wholly in cash, and
  - (b) are fully paid up at the time they are issued.
- (5) Shares are not fully paid up for the purposes of subsection (4)(b) if there is any undertaking to pay cash to any person at a future date in respect of the acquisition of the shares.

#### **257CB The purpose of the issue requirement**

- (1) The relevant shares (other than any of them which are bonus shares) must be issued in order to raise money for the purposes of a qualifying business activity carried on, or to be carried on, by the issuing company or a qualifying 90% subsidiary of that company.
- (2) For the meaning of “qualifying business activity” see section 257HG.

#### **257CC The spending of the money raised requirement**

- (1) The requirement of this section is that before the end of period B all of the money raised by the issue of the relevant shares (other than any of them which are bonus shares) is spent for the purposes of the qualifying business activity for which it was raised.
- (2) Spending money on the acquisition of shares or stock in a company does not of itself amount to spending the money for the purposes of a qualifying business activity.
- (3) This requirement does not fail to be met merely because an amount of money which is not significant is spent for another purpose or remains unspent at the end of period B.

#### **257CD The no pre-arranged exits requirement**

- (1) The issuing arrangements for the relevant shares must not include—
  - (a) arrangements with a view to the subsequent repurchase, exchange or other disposal of those shares or of other shares in or securities of the issuing company,
  - (b) arrangements for or with a view to the cessation of any trade which is being or is to be or may be carried on by the issuing company or a person connected with that company,
  - (c) arrangements for the disposal of, or of a substantial amount (in terms of value) of, the assets of the issuing company or of a person connected with that company, or

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- (d) arrangements the main purpose of which, or one of the main purposes of which, is (by means of any insurance, indemnity or guarantee or otherwise) to provide partial or complete protection for persons investing in shares in the issuing company against what would otherwise be the risks attached to making the investment.
- [<sup>F643</sup>(2) The arrangements referred to in subsection (1)(a) do not include—
- (a) any arrangements with a view to such an exchange of shares, or shares and securities, as is mentioned in section 257HB(1), or
  - (b) any arrangements with a view to any shares in the issuing company being exchanged for, or converted into, shares in that company of a different class.]
- (3) The arrangements referred to in subsection (1)(b) and (c) do not include any arrangements applicable only on the winding up of a company except in a case where—
- (a) the issuing arrangements include arrangements for the company to be wound up, or
  - (b) the arrangements are applicable to the winding up of the company otherwise than for genuine commercial reasons.
- (4) The arrangements referred to in subsection (1)(d) do not include any arrangements which are confined to the provision—
- (a) for the issuing company itself, or
  - (b) if the issuing company is a parent company that meets the trading requirement in section 257DA(2)(b), for the issuing company itself, for the issuing company itself and one or more of its subsidiaries or for one or more of its subsidiaries,
- of any such protection against risks arising in the course of carrying on its business as might reasonably be expected to be provided in normal commercial circumstances.
- (5) In this section “the issuing arrangements” means—
- (a) the arrangements under which the shares are issued to the individual,
  - (b) any arrangements made, before the shares were issued, in relation to or in connection with the issue, and
  - (c) if before the shares were issued information on pre-arranged exits was made available to any prospective subscribers for shares in the issuing company, any arrangements made during period B.
- (6) For the purposes of subsection (5)(c) “information on pre-arranged exits” means any information indicating the possibility of making, during period B, arrangements of the kind described in paragraph (a), (b), (c) or (d) of subsection (1).

#### Textual Amendments

**F643** S. 257CD(2) substituted (with effect in accordance with s. 11(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 11(3)

### 257CE The no tax avoidance requirement

The relevant shares must be issued for genuine commercial reasons, and not as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

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## **257CF The no disqualifying arrangements requirement**

- (1) The relevant shares must not be issued, nor any money raised by the issue spent, in consequence or anticipation of, or otherwise in connection with, disqualifying arrangements.
- (2) Arrangements are “disqualifying arrangements” if—
  - (a) the main purpose, or one of the main purposes, of the arrangements is to secure—
    - (i) that a qualifying business activity is or will be carried on by the issuing company or a qualifying 90% subsidiary of that company, and
    - (ii) that one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of shares issued by the issuing company which raise money for the purposes of that activity or that such shares may comprise part of the qualifying holdings of a VCT,
  - (b) that activity is the relevant qualifying business activity, and
  - (c) one or both of conditions A and B are met.
- (3) Condition A is that, as a (direct or indirect) result of the money raised by the issue of the relevant shares being spent as required by section 257CC, an amount representing the whole or the majority of the amount raised is, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.
- (4) Condition B is that, in the absence of the arrangements, it would have been reasonable to expect that the whole or greater part of the component activities of the relevant qualifying business activity would have been carried on as part of another business by a relevant person or relevant persons.
- (5) For the purposes of this section it is immaterial whether the issuing company is a party to the arrangements.
- (6) In this section—
  - “component activities” means—
    - (a) if the relevant qualifying business activity is activity A (see section 257HG(2)), the carrying on of a qualifying trade, or preparing to carry on such a trade, which constitutes that activity, and
    - (b) if the relevant qualifying business activity is activity B (see section 257HG(4)), the carrying on of research and development which constitutes that activity;
  - “qualifying holdings”, in relation to the issuing company, is to be construed in accordance with section 286 (VCTs: qualifying holdings);
  - “relevant person” means a person who is a party to the arrangements or a person connected with such a party;
  - “relevant qualifying business activity” means the activity for the purposes of which the issue of the relevant shares raised money;
  - “relevant tax relief”, in respect of shares, means one or more of the following—
    - (a) SEIS relief in respect of the shares;
    - (b) EIS relief in respect of the shares;
    - (ba) [<sup>F644</sup>SI relief under Part 5B in respect of the shares;]

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- (c) relief under Chapter 6 of Part 4 (losses on disposal of shares) in respect of the shares;
- (d) relief under section 150A or 150E of TCGA 1992 (enterprise investment scheme) in respect of the shares;
- (e) relief under Schedule 5B to that Act (enterprise investment scheme: re-investment) in consequence of which deferral relief is attributable to the shares (see paragraph 19(2) of that Schedule);
- (f) relief under Schedule 5BB to that Act (seed enterprise investment scheme: re-investment) in consequence of which SEIS re-investment relief is attributable to the shares (see paragraph 4 of that Schedule).

#### **Textual Amendments**

**F644** Words in s. 257CF(6) inserted (with effect in accordance with Sch. 1 para. 16 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 11(3)**

## **CHAPTER 4**

### THE ISSUING COMPANY

#### *Introduction*

#### **257D Overview of Chapter**

The issuing company is a qualifying company in relation to the relevant shares if the requirements of this Chapter are met as to—

- (a) trading (see section 257DA),
- (b) the issuing company's carrying on of the qualifying business activity (see section 257DC),
- (c) UK permanent establishment (see section 257DD),
- (d) financial health (see section 257DE),
- (e) unquoted status (see section 257DF),
- (f) control and independence (see 257DG),
- (g) no partnerships (see section 257DH),
- (h) gross assets (see section 257DI),
- (i) number of employees (see section 257DJ),
- (j) no previous other risk capital scheme investments (see section 257DK),
- (k) the amount raised through the SEIS (see section 257DL),
- (l) qualifying subsidiaries (see section 257DM), and
- (m) property managing subsidiaries (see section 257DN).

#### *The requirements*

#### **257DA The trading requirement**

- (1) The issuing company must meet the trading requirement throughout period B.



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- (2) The trading requirement is that—
- (a) the company, ignoring any incidental purposes, exists wholly for the purpose of carrying on one or more new qualifying trades (see section 257HF), or
  - (b) the company is a parent company and the business of the group does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- (3) If the company intends that one or more other companies should become its qualifying subsidiaries with a view to their carrying on one or more new qualifying trades—
- (a) the company is treated as a parent company for the purposes of subsection (2)(b), and
  - (b) the reference in subsection (2)(b) to the group includes the company and any existing or future company that will be its qualifying subsidiary after the intention in question is carried into effect.

This subsection does not apply at any time after the abandonment of that intention.

- (4) For the purpose of subsection (2)(b) the business of the group means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (5) For the purpose of determining the business of a group, activities are ignored so far as they are activities carried on by a mainly trading subsidiary otherwise than for its main purpose.
- (6) For the purposes of determining the business of a group, activities of a group company are ignored so far as they consist in—
- (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
  - (b) the making of loans to another group company,
  - (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company, or
  - (d) the holding and managing of property used by a group company for the purpose of research and development from which it is intended—
    - (i) that a qualifying trade to be carried on by a group company will be derived, or
    - (ii) that a qualifying trade carried on or to be carried on by a group company will benefit.
- (7) Any reference in subsection (6)(d)(i) or (ii) to a group company includes a reference to any existing or future company which will be a group company at any future time.
- (8) Where period B begins after the incorporation of the company, the requirement of subsection (2) must have been complied with since its incorporation; but for the purposes of that subsection any interval between the incorporation of the company and the time when it commenced business is to be ignored.
- (9) In this section—

“incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the company in question;

“mainly trading subsidiary” means a qualifying subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one

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or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly;

“non-qualifying activities” means—

- (a) excluded activities (within the meaning of sections 192 to 199), and
- (b) activities (other than research and development) carried on otherwise than in the course of a trade;

“qualifying trade” has the same meaning as in Part 5 (see sections 189 and 192 to 200).

### **257DB Ceasing to meet trading requirement: administration etc**

- (1) A company is not regarded as ceasing to meet the trading requirement merely because of anything done in consequence of the company or any of its subsidiaries being in administration or receivership.

This is subject to subsections (2) and (3).

- (2) Subsection (1) applies only if—
  - (a) the entry into administration or receivership, and
  - (b) everything done as a result of the company concerned being in administration or receivership,

is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

- (3) A company ceases to meet the trading requirement if before the end of period B—
  - (a) a resolution is passed, or an order is made, for the winding up of the company or any of its subsidiaries (or, in the case of a winding up otherwise than under the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989, any other act is done for the like purpose), or
  - (b) the company or any of its subsidiaries is dissolved without winding up.

This is subject to subsection (4).

- (4) Subsection (3) does not apply if the winding up or dissolution is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### **257DC The issuing company to carry on the qualifying business activity**

- (1) The requirement of this section is met in relation to the issuing company if, at no time in period B, is any of the following—
  - (a) the relevant new qualifying trade,
  - (b) relevant preparation work (if any), and
  - (c) relevant research and development (if any),

carried on by a person other than the issuing company or a qualifying 90% subsidiary of that company.

- (2) Subsection (3) has effect for the purpose of determining whether the requirement of this section is met in relation to the issuing company in a case where relevant preparation work is carried out by that company or a qualifying 90% subsidiary of that company.

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- (3) The carrying on of the relevant new qualifying trade by a company other than the issuing company or a subsidiary of that company is to be ignored if it takes place at any time in period B before the issuing company or any qualifying 90% subsidiary of that company begins to carry on that trade.
- (4) The requirement of this section is not regarded as failing to be met in relation to the issuing company if, merely because of any act or event within subsection (5), the relevant new qualifying trade—
  - (a) ceases to be carried on in period B by the issuing company or any qualifying 90% subsidiary of that company, and
  - (b) is subsequently carried on in that period by a person who is not at any time in period A connected with the issuing company.
- (5) The following are acts and events within this subsection—
  - (a) anything done as a consequence of the issuing company or any other company being in administration or receivership, and
  - (b) the issuing company or any other company being wound up, or dissolved without being wound up.
- (6) Subsection (4) applies only if—
  - (a) the entry into administration or receivership, and everything done as a consequence of the company concerned being in administration or receivership, or
  - (b) the winding up or dissolution,is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (7) In this section—
  - “the relevant new qualifying trade” means the new qualifying trade which is the subject of that qualifying business activity;
  - “relevant preparation work” means preparations within section 257HG(2)
    - (b) which are the subject of the qualifying business activity mentioned in section 257CB;
  - “relevant research and development” means—
    - (a) research and development within section 257HG(3) which is the subject of that qualifying business activity, and
    - (b) any other preparations for the carrying on of the new qualifying trade which is the subject of that activity.

### **257DD The UK permanent establishment requirement**

- (1) The issuing company must meet the UK permanent establishment requirement throughout period B.
- (2) The UK permanent establishment requirement is that the issuing company has a permanent establishment in the United Kingdom.

### **257DE The financial health requirement**

- (1) The issuing company must meet the financial health requirement at the beginning of period B.

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- (2) The financial health requirement is that the issuing company is not in difficulty.
- (3) The issuing company is “in difficulty” if it is reasonable to assume that it would be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02) [F645 as those guidelines had effect in the United Kingdom immediately before IP completion day].

#### Textual Amendments

**F645** Words in s. 257DE(3) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, 4(6)

### 257DF The unquoted status requirement

- (1) At the beginning of period B—
  - (a) the issuing company must be an unquoted company,
  - (b) there must be no arrangements in existence for the issuing company to cease to be an unquoted company, and
  - (c) there must be no arrangements in existence for the issuing company to become a subsidiary of another company (“the new company”) by virtue of an exchange of shares, or shares and securities, if—
    - (i) section 257HB applies in relation to the exchange, and
    - (ii) arrangements have been made with a view to the new company ceasing to be an unquoted company.
- (2) In this section “unquoted company” means a company none of whose shares, stocks, debentures or other securities are marketed to the general public.
- (3) For the purposes of subsection (2), shares, stock, debentures or other securities are marketed to the general public if they are—
  - (a) listed on a recognised stock exchange,
  - (b) listed on a designated exchange in a country outside the United Kingdom, or
  - (c) dealt in outside the United Kingdom by such means as may be designated.
- (4) In subsection (3)(b) and (c) “designated” means designated by an order made by the Commissioners for Her Majesty’s Revenue and Customs for the purposes of that provision.
- (5) An order made for the purposes of subsection (3)(b) may designate an exchange by name, or by reference to any class or description of exchanges, including a class or description framed by reference to any authority or approval given in a country outside the United Kingdom.
- (6) The arrangements referred to in subsection (1)(b) and (c)(ii) do not include arrangements in consequence of which any shares, stocks, debentures or other securities of the company are at any subsequent time—
  - (a) listed on a stock exchange that is a recognised stock exchange by virtue of an order made under section 1005(1)(b), or
  - (b) listed on an exchange, or dealt in by any means, designated by an order made for the purposes of subsection (3)(b) or (c),
 if the order was made after the beginning of period B.

*Status: Point in time view as at 22/02/2024.*

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## 257DG The control and independence requirement

- (1) The control element of the requirement is that—
- (a) the issuing company must not at any time in period A control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the issuing company, and
  - (b) no arrangements must be in existence at any time in that period by virtue of which the issuing company could fail to meet paragraph (a) (whether during that period or otherwise).

[<sup>F646</sup>(2) The independence element of the requirement is that—

- (a) the issuing company must not at any time in period A (ignoring any on-the-shelf period) be within subsection (2A), and
- (b) no arrangements must be in existence at any time in period A by virtue of which the issuing company could be within that subsection (whether during period A or otherwise).

(2A) The issuing company is within this subsection at any time if it is under the control of any other company (or of another company and any other person connected with that other company).

(2B) In subsection (2)(a) “on-the-shelf period” means a period during which the issuing company—

- (a) has not issued any shares other than subscriber shares, and
- (b) has not begun to carry on, or make preparations for carrying on, any trade or business.]

(3) This section is subject to section 257HB(4) (exchange of shares).

### Textual Amendments

**F646** S. 257DG(2)-(2B) substituted for s. 257DG(2) (with effect in accordance with s. 56(6) of the amending Act) by [Finance Act 2013 \(c. 29\), s. 56\(4\)](#)

## 257DH The no partnerships requirement

- (1) Neither the issuing company nor any qualifying 90% subsidiary of that company may, at any time during period A, be a member of a partnership.
- (2) “Partnership” includes—
- (a) a limited liability partnership, and
  - (b) an entity established under the law of a territory outside the United Kingdom of a similar character to a partnership,
- and “member”, in relation to a partnership, is to be read accordingly.

## 257DI The gross assets requirement

- (1) In the case of relevant shares issued by a single company, the value of the company's assets must not exceed [<sup>F647</sup>£350,000] immediately before the relevant shares are issued.

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- (2) In the case of relevant shares issued by a parent company, the value of the group assets must not exceed [<sup>F648</sup>£350,000] immediately before the relevant shares are issued.
- (3) For the purposes of this section the value of the group assets is the sum of the values of the gross assets of each of the members of the group, ignoring any that consist in rights against, or shares in or securities of, another member of the group.

#### Textual Amendments

- F647** Sum in s. 257DI(1) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(3\)\(a\)\(7\)](#)
- F648** Sum in s. 257DI(2) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(3\)\(b\)\(7\)](#)

### 257DJ The number of employees requirement

- (1) If the issuing company is a single company, the full-time equivalent employee number for it must be less than 25 when the relevant shares are issued.
- (2) If the issuing company is a parent company, the sum of—
  - (a) the full-time equivalent employee number for it, and
  - (b) the full-time equivalent employee numbers for each of its qualifying subsidiaries,
 must be less than 25 when the relevant shares are issued.
- (3) The full-time equivalent employee number for a company is calculated as follows—
 

*Step 1* Find the number of full-time employees of the company.

*Step 2* Add, for each employee of the company who is not a full-time employee, such fraction as is just and reasonable. The result is the full-time equivalent employee number.
- (4) In this section references to an employee—
  - (a) include a director, but
  - (b) do not include—
    - (i) an employee on maternity [<sup>F649</sup>, paternity [<sup>F650</sup>, shared parental or parental bereavement]] leave, or
    - (ii) a student on vocational training.

#### Textual Amendments

- F649** Words in s. 257DJ(4)(b)(i) substituted (1.12.2014) by [Children and Families Act 2014 \(c. 6\), s. 139\(6\), Sch. 7 para. 71; S.I. 2014/1640, art. 5\(2\)\(cc\)](#)
- F650** Words in s. 257DJ(4)(b)(i) substituted (18.1.2020) by [Parental Bereavement \(Leave and Pay\) Act 2018 \(c. 24\), s. 2\(2\), Sch. para. 52; S.I. 2020/45, reg. 2](#)

### 257DK No previous other risk capital scheme investments

- (1) The requirement of this section is that—
  - (a) no EIS investment or VCT investment is or has been made in the issuing company on or before the day on which the relevant shares are issued, and

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- (b) no EIS investment or VCT investment has been made on or before that day in a company which at the time the relevant shares are issued is a qualifying subsidiary of the issuing company.
- (2) An “EIS investment” is made in the company if the company—
- (a) issues shares (money having been subscribed for them), and
  - (b) (at any time) provides a compliance statement under section 205 in respect of the shares;
- and the EIS investment is regarded as made when the shares are issued.
- (3) A “VCT investment” is made in the company if an investment (of any kind) in the company is made by a VCT.

### **257DL The amount raised through the SEIS**

- (1) The sum of the following amounts must not exceed [<sup>F651</sup>£250,000]—
- (a) the amount of the SEIS investment made in the issuing company which includes the relevant shares (“the current investment”),
  - (b) the amount of other SEIS investments made in the issuing company on the same day as the current investment,
  - (c) the amount of any SEIS investments made in the issuing company during the period of 3 years ending immediately before that day, and
  - (d) the total of any other aid which—
    - (i) is granted to the issuing company on the day the current investment is made or during that period, and
    - (ii) disregarding any SEIS investment within paragraph (a) or (b), would be de minimis aid.
- (2) An “SEIS investment” is made in a company if—
- (a) the company issues shares (money having been subscribed for them), and
  - (b) (at any time) the company provides a compliance statement under section 257ED in respect of the shares;
- and an SEIS investment is made on the day when the shares are issued, and the amount of the investment is the amount subscribed for the shares.
- (3) “De minimis aid” means de minimis aid within the meaning of Article 2 of Commission Regulation (EC) No 1998/2006 (de minimis aid).
- The amount of the aid is the amount of the grant, or if the aid is not in the form of a grant, the gross grant equivalent amount (within the meaning of that Regulation).
- (4) Subsection (5) applies where, in relation to the current investment—
- (a) the sum of the amounts mentioned in subsection (1) exceeds [<sup>F652</sup>£250,000], but
  - (b) the sum of the amounts in paragraphs (c) and (d) of that subsection does not exceed [<sup>F653</sup>£250,000].
- (5) In the case of the current investment and each other SEIS investment made in the issuing company on the same day (if any)—
- (a) the appropriate proportion of the shares in the issue constituting the investment and the remainder are to be treated as two separate issues for the purposes of this Part, and

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- (b) the requirement in subsection (1) is to be treated as met in respect of the issue comprised of the appropriate proportion of the shares in the issue, but not in respect of the issue comprised of the remaining shares.
- (6) “The appropriate proportion” of the shares is—
- $$A - B C$$
- where—
- A is [<sup>F654</sup>£250,000],
- B is the sum of the amounts in paragraphs (c) and (d) of subsection (1), and
- C is the sum of the amounts in paragraphs (a) and (b) of that subsection.

#### Textual Amendments

- F651** Sum in s. 257DL(1) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(4\)\(a\)\(7\)](#)
- F652** Sum in s. 257DL(4)(a) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(4\)\(b\)\(7\)](#)
- F653** Sum in s. 257DL(4)(b) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(4\)\(c\)\(7\)](#)
- F654** Sum in s. 257DL(6) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(4\)\(d\)\(7\)](#)

### 257DM The qualifying subsidiaries requirement

Any subsidiary that the issuing company has at any time in period B must be a qualifying subsidiary of the company.

### 257DN The property managing subsidiaries requirement

- (1) Any property managing subsidiary that the issuing company has at any time in period B must be a qualifying 90% subsidiary of the company.
- (2) “Property managing subsidiary” means a subsidiary of the company whose business consists wholly or mainly in the holding or managing of land or any property deriving its value from land.
- (3) In subsection (2) references to property deriving its value from land include—
- (a) any shareholding in a company deriving its value directly or indirectly from land,
  - (b) any interest in settled property deriving its value directly or indirectly from land, and
  - (c) any option, consent or embargo affecting the disposition of land.



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## CHAPTER 5

### ATTRIBUTION AND CLAIMS FOR SEIS RELIEF

#### *Attribution*

#### **257E Attribution of SEIS relief to shares**

- (1) References in this Part, in relation to any individual, to the SEIS relief attributable to any shares or issue of shares are to be read as references to any reduction made in the individual's liability to income tax that is attributed to those shares or that issue in accordance with this section.

This is subject to the provisions of Chapters 6 and 7 providing for the withdrawal or reduction of SEIS relief.

- (2) If an individual's liability to income tax is reduced in any tax year, then—
- (a) if the reduction is obtained because of one issue of shares, the amount of the tax reduction is attributed to that issue, and
  - (b) if the reduction is obtained because of two or more issues of shares, the amount of the reduction—
    - (i) is apportioned between those issues in the same proportions as the amounts claimed by the individual in respect of each issue, and
    - (ii) is attributed to those issues accordingly.
- (3) If under this section an amount of any reduction of income tax is attributed to an issue of shares (“the original issue”), a proportionate part of that amount is attributed to each share in respect of which the claim is made.
- (4) If corresponding bonus shares are issued to the individual in respect of any shares (“the original shares”) to which SEIS relief is attributed—
- (a) a proportionate part of the total amount attributed to the original shares immediately before the bonus shares are issued is attributed to each of the shares in the holding comprising the original shares and the bonus shares, and
  - (b) after the issue of the bonus shares, this Part applies as if the original issue had included those shares.
- (5) In subsection (4) “corresponding bonus shares” means bonus shares which are in the same company, of the same class, and carry the same rights as the original shares.
- (6) If section 257AB(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, this section has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).
- (7) If, at a time when SEIS relief is attributable to, or to any part of, any issue of shares, the relief falls to be withdrawn or reduced under Chapters 6 and 7—
- (a) if it falls to be withdrawn, the relief attributable to each of the shares in question is reduced to nil, and
  - (b) if it falls to be reduced by any amount, the relief attributable to each of the shares in question is reduced by a proportionate part of that amount.

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*Claims: general*

### 257EA Time for making claims for SEIS relief

- (1) A claim for SEIS relief in respect of shares issued by a company in any tax year may not be made later than the fifth anniversary of the normal self-assessment filing date for the tax year.
- (2) If section 257AB(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, this section has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).

**Modifications etc. (not altering text)**

**C77** S. 257EA applied by [Taxation of Chargeable Gains Act 1992 \(c. 12\)](#), [Sch. 5BB para. 3\(1\)](#) (as inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), Sch. 6 para. 5)

### 257EB Entitlement to claim

- (1) The investor is entitled to make a claim for SEIS relief in respect of the amount subscribed by the investor for the relevant shares if the investor has received from the issuing company a compliance certificate in respect of those shares.
- (2) For the purposes of PAYE regulations no regard is to be had to SEIS relief unless a claim for it has been duly made.
- (3) No application may be made under section 55(3) or (4) of TMA 1970 (application for postponement of payment of tax pending appeal) on the ground that the investor is eligible for SEIS relief unless a claim for the relief has been duly made by the investor.

*Claims: supporting documents*

### 257EC Compliance certificates

- (1) A “compliance certificate” is a certificate which—
  - (a) is issued by the issuing company in respect of the relevant shares,
  - (b) states that, except so far as they fall to be met by or in relation to the investor, the requirements for SEIS relief (see section 257AA) are for the time being met in relation to those shares, and
  - (c) is in such form as the Commissioners for Her Majesty's Revenue and Customs may direct.
- (2) Before issuing a compliance certificate in respect of the relevant shares, the issuing company must provide an officer of Revenue and Customs with a compliance statement in respect of the issue of shares which includes the relevant shares.
- (3) The issuing company must not issue a compliance certificate without the authority of an officer of Revenue and Customs.
- (4) If the issuing company, or a person connected with the issuing company, has given notice to an officer of Revenue and Customs under section 257GF, a compliance

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certificate must not be issued unless the authority is given or renewed after the receipt of the notice.

- (5) If an officer of Revenue and Customs—
- (a) has been requested to give or renew an authority to issue a compliance certificate, and
  - (b) has decided whether or not to do so,
- the officer must give notice of the officer's decision to the issuing company.

### **257ED Compliance statements**

- (1) A “compliance statement” is a statement, in respect of an issue of shares, to the effect that, except so far as they fall to be met by or in relation to the individuals to whom shares included in that issue have been issued, the requirements for SEIS relief (see section 257AA)—
- (a) are for the time being met in relation to the shares to which the statement relates, and
  - (b) have been so met at all times since the shares were issued.
- (2) In determining for the purposes of subsection (1) whether the requirements for SEIS relief are met at any time in relation to the issue of shares, references in this Part to the relevant shares are read as references to the shares included in the issue.
- (3) A compliance statement must not be made in respect of an issue of shares before at least one of the following conditions is met—
- (a) at least 70% of the money raised by the issue has been spent for the purposes of the qualifying business activity for which it was raised;
  - (b) the new qualifying trade which constitutes the qualifying business activity or to which that activity relates has been carried on by the issuing company or a qualifying 90% subsidiary of that company for at least 4 months.
- (4) A compliance statement must be in such form as the Commissioners for Her Majesty's Revenue and Customs direct and must—
- (a) state which of the conditions in subsection (3) is met at the time the statement is made,
  - (b) contain such additional information as the Commissioners reasonably require, including in particular information relating to the persons who have requested the issue of compliance certificates,
  - (c) contain a declaration that the statement is correct to the best of the issuing company's knowledge and belief, and
  - (d) contain such other declarations as the Commissioners may reasonably require.

### **257EE Appeal against refusal to authorise compliance certificate**

For the purposes of the provisions of TMA 1970 relating to appeals, the refusal of an officer of Revenue and Customs to authorise the issue of a compliance certificate is taken to be a decision disallowing a claim by the issuing company.

### **257EF Penalties for fraudulent certificate or statement etc**

The issuing company is liable to a penalty not exceeding £3,000 if—

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- (a) it issues a compliance certificate, or provides a compliance statement, which is made fraudulently or negligently, or
- (b) it issues a compliance certificate in contravention of section 257EC(3) or (4).

### **257EG Power to amend sections 257EC and 257ED**

- (1) The Treasury may by order make such amendments of sections 257EC and 257ED as they consider appropriate.
- (2) An order under this section may include incidental, supplemental, consequential and transitional provision and savings.

## **CHAPTER 6**

### WITHDRAWAL OR REDUCTION OF SEIS RELIEF

#### *Introduction*

### **257F Overview of Chapter**

This Chapter provides for SEIS relief to be withdrawn or reduced under—

- (a) section 257FA (disposal of shares),
- (b) section 257FC (call options),
- (c) section 257FD (put options),
- (d) section 257FE (value received by the investor),
- (e) section 257FP (acquisition of a trade or trading asset),
- (f) section 257FQ (acquisition of share capital), and
- (g) section 257FR (relief subsequently found not to have been due).

### **257FA Disposal of shares**

- (1) This section applies if—
  - (a) the investor disposes of any of the relevant shares,
  - (b) the disposal takes place before period B ends, and
  - (c) SEIS relief is attributable to the shares.
- (2) If the disposal is not made by way of a bargain made at arm's length, the SEIS relief attributable to the shares must be withdrawn.
- (3) If the disposal is made by way of a bargain made at arm's length, the SEIS relief attributable to the shares must—
  - (a) if it is greater than the amount given by the formula set out below, be reduced by that amount, and
  - (b) in any other case, be withdrawn.

The formula is—

$$R \times \text{SEISR}$$

where—

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R is the amount or value of the consideration received by the investor for the shares, and

SEISR is the SEIS rate.

- (4) This section does not apply to a disposal of shares to which an amount of SEIS relief is attributable if—
  - (a) the disposal was made by an individual (“A”) to another individual (“B”), and
  - (b) A and B were married to, or were civil partners of, each other and living together at the time of the disposal.
- (5) Section 257HA contains rules for determining which shares of any class are treated as disposed of for the purposes of this section if the investor disposes of some but not all of the shares of that class which are held by the investor.
- (6) Nothing in this section applies to a disposal of shares occurring as a result of the investor's death.

#### **257FB Cases where maximum SEIS relief not obtained**

- (1) If the investor's liability to income tax is reduced for any tax year in respect of any issue of shares and—
  - (a) the amount of the reduction (“A”), is less than
  - (b) the amount (“B”) which is equal to tax at the SEIS rate on the amount on which the investor claims SEIS relief in respect of the shares,section 257FA(3) has effect in relation to a disposal of any of the shares as if the amount or value referred to as “R” were reduced by multiplying it by the fraction—
$$\frac{A}{B}$$
- (2) If section 257AB(1) and (2) applies in the case of any issue of shares as if part of the issue had been issued in a previous tax year, subsection (1) has effect as if that part and the remainder were separate issues of shares (and that part had been issued on a day in the previous tax year).
- (3) If the amount of SEIS relief attributable to any of the relevant shares has been reduced before the SEIS relief was obtained, the amount referred to in subsection (1) as A is to be treated for the purposes of that subsection as the amount that it would have been without that reduction.
- (4) Subsection (3) does not apply to a reduction of SEIS relief by virtue of section 257E(4) (attribution of SEIS relief if there is a corresponding issue of bonus shares).

#### **257FC Call options**

- (1) This section applies if the investor grants an option which, if exercised, would bind the investor to sell any of the relevant shares.
- (2) The grant of the option is treated for the purposes of section 257FA as a disposal of the shares to which the option relates.
- (3) Nothing in this section prejudices section 257CD (no pre-arranged exits).

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## **257FD Put options**

- (1) This section applies if, at any time in period A, a person grants the investor an option which, if exercised, would bind the grantor to purchase any of the relevant shares.
- (2) Any SEIS relief attributable to the shares to which the option relates must be withdrawn.
- (3) For the purposes of subsection (2) the shares to which an option relates are those which, if—
  - (a) the option were exercised immediately after the grant, and
  - (b) any shares in the issuing company acquired by the investor after the grant were disposed of immediately after being acquired,
 would be treated for the purposes of section 257FA as disposed of in pursuance of the option.

*Value received by investor*

## **257FE Value received by the investor**

- (1) This section applies if the investor receives any value from the issuing company at any time in period A relating to the relevant shares.
- (2) Any SEIS relief attributable to the shares must—
  - (a) if it is greater than the amount given by the formula set out below, be reduced by that amount, and
  - (b) in any other case, be withdrawn.

The formula is—

$$R \times \text{SEISR}$$

where—

R is the amount of the value received by the investor, and

SEISR is the SEIS rate.

- (3) This section is subject to the following sections—
  - (a) section 257FF (value received: receipts of insignificant value),
  - (b) section 257FJ (value received where there is more than one issue of shares),
  - (c) section 257FK (value received where part of share issue treated as made in previous tax year),
  - (d) section 257FL (cases where maximum SEIS relief not obtained),
  - (e) section 257FM (receipts of value by and from connected persons etc), and
  - (f) section 257FN (receipt of replacement value).

Sections 257FJ to 257FL are to be applied in the order in which they appear in this Part.

- (4) Value received is to be ignored, for the purposes of this section, to the extent to which SEIS relief attributable to the shares has already been withdrawn or reduced on its account.
- (5) For the purposes of this section and sections 257FF to 257FO, an individual who acquires any relevant shares on such a transfer as is mentioned in section 257H (spouses or civil partners) is treated as the investor.

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**Modifications etc. (not altering text)**

**C78** S. 257FE excluded (20.5.2020) by Finance Act 2020 (c. 14), s. 110(1)(3)

**257FF Value received: receipts of insignificant value**

(1) Section 257FE(2) does not apply if the receipt of value is a receipt of insignificant value.

This is subject to subsection (2).

(2) If—

- (a) value is received (“the relevant receipt”) by the investor from the issuing company at any time in period A relating to the relevant shares,
- (b) the investor has received from the issuing company one or more receipts of insignificant value at a time or times—
  - (i) during that period, but
  - (ii) not later than the time of the relevant receipt, and
- (c) the total value of the receipts within paragraphs (a) and (b) is not an amount of insignificant value,

the investor is treated for the purposes of this Chapter as if the relevant receipt had been a receipt of an amount of value equal to that total amount.

(3) A receipt does not fall within subsection (2)(b) if it has previously formed part of a total amount falling within subsection (2)(c).

**257FG Meaning of “a receipt of insignificant value”**

(1) This section applies for the purposes of section 257FF.

(2) “A receipt of insignificant value” means a receipt of an amount of insignificant value, that is, an amount of value which—

- (a) is not more than £1,000, or
- (b) if it is more than £1,000, is insignificant in relation to the amount subscribed by the investor for the relevant shares.

This is subject to subsection (3).

(3) If at any time in the period—

- (a) beginning 12 months before the issue of the relevant shares, and
- (b) ending at the end of the issue date,

repayment arrangements are in existence, no amount of value received by the investor is treated as a receipt of insignificant value.

(4) For this purpose “repayment arrangements” means arrangements which provide for the investor to receive, or to be entitled to receive, any value from the issuing company at any time in period A relating to the relevant shares.

(5) For the purposes of this section—

- (a) the references in this section to the investor include a reference to any person who at any time in period A relating to the relevant shares is an associate of

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the investor (whether or not that person is such an associate at the material time), and

- (b) the reference in subsection (4) to the issuing company includes a reference to a person who at any time in period A relating to the relevant shares is connected with that company (whether or not that person is so connected at the material time).

### **257FH When value is received**

- (1) This section applies for the purposes of sections 257FE (value received by the investor) and 257FJ (value received where there is more than one issue).
- (2) The investor receives value from the issuing company at any time when the issuing company—
  - (a) repays, redeems or repurchases any of its share capital or securities which belong to the investor or makes any payment to the investor for giving up the investor's right to any of the issuing company's share capital or any security on its cancellation or extinguishment,
  - (b) repays, in pursuance of any arrangements for or in connection with the acquisition of the shares in respect of which SEIS relief is claimed, any debt owed to the investor other than a debt which was incurred by the company—
    - (i) on or after the date of issue of those shares, and
    - (ii) otherwise than in consideration of the extinguishment of a debt incurred before that date,
  - (c) makes to the investor any payment for giving up on its extinguishment the investor's right to any debt, other than a debt in respect of a payment of the kind mentioned in subsection (3)(a) or (f) or an ordinary trade debt,
  - (d) releases or waives any liability of the investor to the issuing company or discharges or undertakes to discharge any liability of the investor to a third person,
  - (e) makes a loan or advance to the investor which has not been repaid in full before the issue of the shares in respect of which SEIS relief is claimed,
  - (f) provides a benefit or facility for the investor,
  - (g) transfers an asset to the investor for no consideration or for consideration less than its market value or acquires an asset from the investor for consideration greater than its market value, or
  - (h) makes to the investor any other payment except—
    - (i) an excluded payment, or
    - (ii) a payment in discharge of an ordinary trade debt.
- (3) “Excluded payment” means—
  - (a) any payment or reimbursement of travelling or other expenses, exclusively and necessarily incurred by the investor or an associate of the investor in the performance of the investor's or associate's duties as a director,
  - (b) any interest which represents no more than a reasonable commercial return on money lent to the issuing company or any person connected with that company,
  - (c) any dividend or other distribution which does not exceed a normal return on the investment,



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- (d) any payment for the supply of goods which does not exceed their market value,
  - (e) any payment of rent for any property occupied by the issuing company or a person connected with that company which does not exceed a reasonable and commercial rent for the property, and
  - (f) any necessary and reasonable remuneration which meets the conditions in subsection (4).
- (4) The conditions are that the remuneration—
- (a) is paid for services rendered to the issuing company or a person connected with that company in the course of a trade or profession (not being secretarial or managerial services or services of a kind provided by the person to whom they are rendered), and
  - (b) is taken into account in calculating for tax purposes the profits of that trade or profession.
- (5) For the purposes of subsection (2)(d) the issuing company is to be treated as having released or waived a liability if the liability is not discharged within 12 months of the time when it ought to have been discharged.
- (6) For the purposes of subsection (2)(e) the following is to be treated as if it were a loan made by the issuing company to the investor—
- (a) the amount of any debt (other than an ordinary trade debt) incurred by the investor to the issuing company, and
  - (b) the amount of any debt due from the investor to a third party which has been assigned to the issuing company.
- (7) The investor also receives value from the issuing company if—
- (a) in respect of ordinary shares held by the investor any payment or asset is received in a winding up or in connection with a dissolution of the company, and
  - (b) the winding up or dissolution falls within section 257DB(4) (no tax avoidance).
- (8) The investor also receives value from the issuing company if a person within subsection (9)—
- (a) purchases any of its share capital or securities which belong to the investor, or
  - (b) makes any payment to the investor for giving up any right in relation to any of the company's share capital or securities.
- (9) Those persons are—
- (a) any person who has a substantial interest in the company within the meaning of section 257BB;
  - (b) any employee of the issuing company;
  - (c) any director of the issuing company.
- (10) If because of the investor's disposal of shares in a company any SEIS relief attributable to those shares is withdrawn or reduced under section 257FA, the investor is not to be treated as receiving value from the company in respect of the disposal.
- (11) The investor is not to be treated as receiving value from the issuing company merely because of the payment to the investor, or any associate of the investor, of any

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remuneration for services rendered to that company as a director if the remuneration is reasonable remuneration.

- (12) For the purposes of subsection (11)—
- (a) the reference in that subsection to the payment of remuneration includes a reference to the provision of any benefit or facility, and
  - (b) in the case of an individual who is both a director and an employee of a company, the reference in that subsection to services rendered to that company as a director includes a reference to services rendered to that company as an employee.
- (13) In this section—
- (a) “ordinary trade debt” means any debt for goods or services supplied in the ordinary course of a trade or business if any credit given—
    - (i) is for not more than 6 months, and
    - (ii) is not longer than that normally given to customers of the person carrying on the trade or business, and
  - (b) any reference to a payment to an individual includes a payment made to the individual indirectly or to the individual's order or for the individual's benefit.

#### **257FI The amount of value received**

In a case falling within a provision listed in column 1 of the following table, the amount of value received for the purposes of sections 257FE and 257FJ is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The amount of value received</i>
Section 257FH(2)(a), (b) or (c)	The amount received by the investor or, if greater, the market value of the shares, securities or debt
Section 257FH(2)(d)	The amount of the liability
Section 257FH(2)(e)	The amount of the loan or advance, less the amount of any repayment made before the issue of the relevant shares
Section 257FH(2)(f)	The cost to the issuing company of providing the benefit or facility, less any consideration given for it by the investor
Section 257FH(2)(g)	The difference between the market value of the asset and the consideration (if any) given for it
Section 257FH(2)(h)	The amount of the payment
Section 257FH(7)	The amount of the payment or the market value of the asset
Section 257FH(8)	The amount received by the investor or, if greater, the market value of the shares or securities

#### **257FJ Value received where there is more than one issue**

- (1) This section applies if—

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- (a) two or more issues of shares in the issuing company have been made to the investor which include shares in respect of which the investor obtains SEIS relief, and
  - (b) value is received by the investor at any time in the applicable periods for two or more of those issues.
- (2) Section 257FE(2) has effect in relation to the shares included in each of the issues referred to in subsection (1)(b) as if the amount of value referred to as “R” were reduced by multiplying it by the fraction—
- A B
- where—
- A is the amount on which the investor obtains SEIS relief in respect of the shares included in the issue in question, and
- B is the sum of that amount and the corresponding amount or amounts in respect of the other issue or issues.
- (3) For the purposes of subsection (1) “the applicable period” for an issue of shares is period A in relation to those shares.

#### **257FK Value received where part of issue treated as made in previous tax year**

- (1) This section applies if—
- (a) section 257FE(2) applies to an issue of shares, and
  - (b) section 257AB(1) and (2) (form and amount of SEIS relief) applies in the case of that issue as if part of the issue had been issued in a previous tax year.
- (2) This subsection explains how the calculation under section 257FE(2) is to be made.
- Step 1* Apportion the amount referred to as “R” between the tax year in which the shares were issued and the previous tax year by multiplying that amount by the fraction—
- A B
- where—
- A is the amount on which the investor obtains SEIS relief in respect of the shares treated as issued in the tax year in question, and
- B is the sum of that amount and the corresponding amount in respect of the shares treated as issued in the other tax year.
- Step 2* In relation to each of the amounts (“R1” and “R2”) so apportioned to the two tax years, calculate the amounts (“X1” and “X2”) that would be given by the formula if there were separate issues of shares in those tax years. In calculating amounts X1 and X2, apply section 257FL if appropriate but do not apply section 257FJ.
- Step 3* Add amounts X1 and X2 together. The result is the required amount.

#### **257FL Cases where maximum SEIS relief not obtained**

- (1) If the investor's liability to income tax is reduced for any tax year in respect of any issue of shares and—

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- (a) the amount of the reduction (“A”), is less than
  - (b) the amount (“B”) which is equal to income tax at the SEIS rate on the amount on which the investor claims SEIS relief in respect of the shares,
- section 257FE(2) has effect in relation to any value received as if the amount referred to as “R” were reduced by multiplying it by the fraction—

A B

- (2) If the amount of SEIS relief attributable to any of the relevant shares has been reduced before the SEIS relief was obtained, the amount referred to in subsection (1) as A is to be treated for the purposes of that subsection as the amount that it would have been without that reduction.
- (3) Subsection (2) does not apply to a reduction of SEIS relief by virtue of section 257E(4) (attribution of SEIS relief where there is a corresponding issue of bonus shares).

### **257FM Receipts of value by and from connected persons etc**

In sections 257FE, 257FF and 257FH to 257FJ—

- (a) any reference to a payment or transfer to the investor includes a reference to a payment or transfer made to the investor indirectly or to the investor's order or for the investor's benefit,
- (b) any reference to the investor includes a reference to an associate of the investor, and
- (c) any reference to the issuing company includes a reference to a person who at any time in period A relating to the relevant shares is connected with that company (whether or not that person is so connected at the material time).

### **257FN Receipt of replacement value**

- (1) If—
  - (a) any SEIS relief attributable to the relevant shares would, in the absence of this section, be reduced or withdrawn under section 257FE because of a receipt of value within section 257FH(2), (7) or (8) (“the original value”),
  - (b) the original supplier receives value (“replacement value”) from the original recipient and the receipt is a qualifying receipt, and
  - (c) the amount of the replacement value is at least the amount of the original value,
 section 257FE does not, because of the receipt of value, have effect to reduce or withdraw the SEIS relief.

This is subject to section 257FO(1) and (2).

- (2) For the purposes of this section—
  - “the original recipient” means the person who receives the original value;
  - “the original supplier” means the person from whom that value was received.
- (3) If the amount of the original value is, by virtue of section 257FJ, treated as reduced for the purposes of section 257FE(2) as it applies in relation to the relevant shares in question, the reference in subsection (1)(c) to the amount of the original value is to be read as a reference to the amount of that value ignoring the reduction.

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- (4) A receipt of the replacement value is a qualifying receipt for the purposes of subsection (1) if it arises—
- (a) because of the original recipient doing one or more of the following—
    - (i) making a payment to the original supplier, other than a payment within paragraph (c) or a payment to which subsection (5) applies,
    - (ii) acquiring any asset from the original supplier for a consideration the amount or value of which is more than the market value of the asset,
    - (iii) disposing of any asset to the original supplier for no consideration or for a consideration the amount or value of which is less than the market value of the asset,
  - (b) if the receipt of the original value was within section 257FH(2)(d), because of an event the effect of which is to reverse the event which constituted the receipt of the original value, or
  - (c) if the receipt of the original value was within section 257FH(8), because of the original recipient repurchasing the share capital or securities in question, or (as the case may be) re-acquiring the right in question, for a consideration the amount or value of which is at least the amount of the original value.
- (5) This subsection applies to—
- (a) any payment for any goods, services or facilities, provided (whether in the course of trade or otherwise) by—
    - (i) the original supplier, or
    - (ii) any other person who, at any time in period A relating to the relevant shares, is an associate of, or is connected with, that supplier (whether or not the other person is such an associate, or is so connected, at the material time),which is reasonable in relation to the market value of those goods, services or facilities,
  - (b) any payment of any interest which represents no more than a reasonable commercial return on any money lent to—
    - (i) the original recipient, or
    - (ii) any person who, at any time in period A relating to the relevant shares, is an associate of that recipient (whether or not the person is such an associate at the material time),
  - (c) any payment for the acquisition of an asset which does not exceed its market value,
  - (d) any payment, as rent for any property occupied by—
    - (i) the original recipient, or
    - (ii) any person who, at any time in period A relating to the relevant shares, is an associate of that recipient (whether or not the person is such an associate at the material time),of an amount not exceeding a reasonable and commercial rent for the property,
  - (e) any payment in discharge of an ordinary trade debt, and
  - (f) any payment for shares in or securities of any company in circumstances that do not fall within subsection (4)(a)(ii).
- (6) For the purposes of this section, the amount of the replacement value is—
- (a) in a case within paragraph (a) of subsection (4), the sum of—

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- (i) the amount of any payment within sub-paragraph (i) of that paragraph, and
- (ii) the difference between the market value of any asset to which sub-paragraph (ii) or (iii) of that paragraph applies and the amount or value of the consideration (if any) received for it,
- (b) in a case within subsection (4)(b), the same as the amount of the original value, and
- (c) in a case within subsection (4)(c), the amount or value of the consideration received by the original supplier.

Section 257FI applies for the purpose of determining the original value.

- (7) In this section—
- (a) any reference to a payment to a person (however expressed) includes a reference to a payment made to the person indirectly or to the person's order or for the person's benefit, and
  - (b) “ordinary trade debt” has the meaning given by section 257FH(13).

### **257FO Section 257FN: supplementary**

- (1) The receipt of the replacement value by the original supplier is ignored for the purposes of section 257FN(1) to the extent to which it has previously been set (under that section) against a receipt of value to prevent any reduction or withdrawal of SEIS relief under section 257FE.
- (2) The receipt of the replacement value by the original supplier (“the event”) is ignored for the purposes of section 257FN if—
  - (a) the event occurs before period A relating to the relevant shares,
  - (b) if the event occurs after the time the original recipient receives the original value, it does not occur as soon after that time as is reasonably practicable in the circumstances, or
  - (c) if an appeal has been brought by the investor against an assessment to withdraw or reduce any SEIS relief attributable to the relevant shares because of the receipt of the original value, the event occurs more than 60 days after the day on which the amount of relief which falls to be withdrawn has been finally determined.

But nothing in section 257FN or this section requires the replacement value to be received after the original value.

- (3) This subsection applies if—
  - (a) the receipt of the replacement value by the original supplier is a qualifying receipt for the purposes of section 257FN(1),
  - (b) in consequence of the receipt, any receipts of value are ignored for the purposes of section 257FE as that section applies in relation to the shares in question or any other shares subscribed for by the investor, and
  - (c) the event which gives rise to the receipt is (or includes) a subscription for shares by—
    - (i) the investor, or
    - (ii) any person who at any time in period A relating to the relevant shares is an associate of the investor (whether or not the person is such an associate at the material time).

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- (4) If subsection (3) applies, the person who subscribes for the shares is not to be eligible for any SEIS relief in relation to those shares or any other shares in the same issue.
- (5) In this section “the original recipient”, “the original supplier” and “replacement value” have the same meaning as in section 257FN.

### *Miscellaneous*

#### **257FP Acquisition of trade or trading assets**

- (1) Any SEIS relief attributable to any shares in a company held by an individual is withdrawn if—
  - (a) at any time in period A, the company or any qualifying subsidiary—
    - (i) begins to carry on as its trade, or as part of its trade, a trade which was previously carried on at any time in that period otherwise than by the company or any qualifying subsidiary, or
    - (ii) acquires the whole, or the greater part, of the assets used for the purposes of a trade previously so carried on, and
  - (b) the individual is a person, or one of a group of persons, to whom subsection (2) or (3) applies.
- (2) This subsection applies to any person or group of persons—
  - (a) to whom an interest amounting in total to more than a half share in the trade (as previously carried on) belonged at any time in period A, and
  - (b) who is a person or group of persons to whom such an interest in the trade carried on by the company belongs or has, at any such time, belonged.
- (3) This subsection applies to any person or group of persons who—
  - (a) controls or, at any time in period A, has controlled the company, and
  - (b) at any such time, controlled another company which previously carried on the trade.
- (4) For the purposes of subsection (2)—
  - (a) for the purposes of determining the person to whom a trade belongs and, if a trade belongs to two or more persons, their respective shares in that trade—
    - (i) apply section 941(6) of CTA 2010, and
    - (ii) an interest in a trade belonging to a company may be treated in accordance with any of the options set out in section 942 of that Act, and
  - (b) any interest, rights or powers of a person who is an associate of another person are treated as those of that other person.
- (5) In this section “trade” includes any business or profession, and references to a trade previously carried on include references to part of such a trade.

#### **257FQ Acquisition of share capital**

- (1) Any SEIS relief attributable to any shares in a company held by an individual is withdrawn if—
  - (a) the company comes to acquire all of the issued share capital of another company at any time in period A, and

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- (b) the individual is a person, or one of a group of persons, to whom subsection (2) applies.
- (2) This subsection applies to any person or group of persons who—
  - (a) controls or, at any time in period A, has controlled the company, and
  - (b) at any such time, controlled the other company.

### **257FR Relief subsequently found not to have been due**

- (1) Any SEIS relief obtained by the investor which is subsequently found not to have been due must be withdrawn.
- (2) SEIS relief obtained by the investor in respect of the relevant shares may not be withdrawn on the ground—
  - (a) that the requirements of sections 257CB and 257CC (the purpose of the issue and use of money raised requirements) are not met in respect of the shares, or
  - (b) that the issuing company is not a qualifying company in relation to the shares (see Chapter 4),
 unless the requirements of subsection (3) are met.
- (3) The requirements of this subsection are met if either—
  - (a) the issuing company has given notice under section 257GF (information to be provided by issuing company etc) in relation to the relevant issue of shares, or
  - (b) an officer of Revenue and Customs has given notice to that company stating the officer's opinion that, because of the ground in question, the whole or any part of the SEIS relief obtained by any individual in respect of shares included in the relevant issue of shares was not due.
- (4) In this section “the relevant issue of shares” means the issue of shares in the issuing company which includes the relevant shares.

## **CHAPTER 7**

### WITHDRAWAL OR REDUCTION OF SEIS RELIEF: PROCEDURE

#### *Assessments and appeals*

### **257G Assessments for the withdrawal or reduction of SEIS relief**

If any SEIS relief which has been obtained falls to be withdrawn or reduced under Chapter 6, it must be withdrawn or reduced by the making of an assessment to income tax for the tax year for which the relief was obtained.

### **257GA Appeals against section 257FR(3)(b) notices**

For the purposes of the provisions of TMA 1970 relating to appeals, the giving of notice by an officer of Revenue and Customs under section 257FR(3)(b) is taken to be a decision disallowing a claim by the issuing company.



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### **257GB Time limits for assessments**

- (1) An officer of Revenue and Customs may—
  - (a) make an assessment for withdrawing or reducing the SEIS relief attributable to any of the relevant shares, or
  - (b) give a notice under section 257FR(3),at any time not more than 6 years after the end of the relevant tax year.
- (2) In subsection (1) “the relevant tax year” means—
  - (a) the tax year in which period B ends, or
  - (b) the tax year in which the event which causes the SEIS relief to be withdrawn or reduced occurs,whichever is the later.
- (3) Subsection (1) is without prejudice to section 36(1A) of TMA 1970 (loss of tax brought about deliberately etc).

### **257GC Cases where assessments not to be made**

- (1) No assessment for withdrawing or reducing SEIS relief in respect of shares issued to an individual may be made because of an event occurring after the individual's death.
- (2) Subsection (3) applies if an individual has, by a disposal or disposals to which section 257FA(3) applies, disposed of all shares which—
  - (a) have been issued to the individual by the issuing company, and
  - (b) are shares—
    - (i) to which SEIS relief is attributable, or
    - (ii) in relation to which period A has not come to an end.
- (3) No assessment for withdrawing or reducing SEIS relief in respect of those shares may be made because of any subsequent event unless the event occurs at a time when the individual—
  - (a) has a substantial interest in the company within the meaning of section 257BB,
  - (b) is an employee of the issuing company, or
  - (c) is a director of the issuing company.

### *Interest*

### **257GD Date from which interest is chargeable**

- (1) In its application to an assessment made by virtue of section 257G in the case of relief withdrawn or reduced by virtue of a provision listed in subsection (2), section 86 of TMA 1970 (interest on overdue income tax) has effect as if the relevant date were 31 January next following the tax year in which the assessment is made.
- (2) The provisions are—
  - (a) section 257BB (no substantial interest in the issuing company),
  - (b) section 257BD (no linked loan requirement),
  - (c) sections 257DA to 257DN (Chapter 4 requirements),
  - (d) section 257FA (disposal of shares),
  - (e) section 257FD (put options),

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- (f) section 257FE (receipt of value by the investor),
- (g) section 257FP (acquisition of a trade or trading asset),
- (h) section 257FQ (acquisition of share capital).

### *Information*

#### **257GE Information to be provided by the investor**

- (1) This section applies if the investor has obtained SEIS relief in respect of the relevant shares, and an event occurs as a result of which—
  - (a) the investor is not a qualifying investor in relation to the shares,
  - (b) the SEIS relief falls to be withdrawn or reduced by virtue of section 257BD (no linked loans requirement),
  - (c) the SEIS relief falls to be withdrawn or reduced under—
    - (i) section 257FA (disposal of shares),
    - (ii) section 257FC (call options), or
    - (iii) section 257FD (put options), or
  - (d) the SEIS relief falls to be withdrawn or reduced under section 257FE (receipt of value by the investor), or would fall to be so withdrawn or reduced but for section 257FN (receipt of replacement value).
- (2) The investor must within 60 days of coming to know of the event give a notice to an officer of Revenue and Customs containing particulars of the event.
- (3) If the investor—
  - (a) is required under this section to give notice of a receipt of value which is within section 257FE, or would be within that section but for section 257FN, and
  - (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,
 the notice must include particulars of that receipt of replacement value (or expected receipt).
- (4) In subsection (3) “qualifying receipt” and “replacement value” are to be read in accordance with section 257FN.

#### **257GF Information to be provided by the issuing company etc**

- (1) This section applies if the issuing company has provided an officer of Revenue and Customs with a compliance statement in respect of an issue of shares and an event occurs as a result of which—
  - (a) the requirement of section 257CC (spending of the money raised) is not met in respect of any of the shares included in the issue, or would not be met if SEIS relief had been obtained in respect of the shares in question,
  - (b) any provision of Chapter 4 has effect to prevent the issuing company being a qualifying company in relation to any of the shares included in the issue, or would have such an effect if SEIS relief had been obtained in respect of the shares in question, or
  - (c) any of the provisions of Chapter 6 mentioned in subsection (2) has effect to cause any SEIS relief attributable to any of the shares included in the issue to be withdrawn or reduced, or—

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- (i) would have such an effect if SEIS relief had been obtained in respect of the shares in question, or
  - (ii) in the case of section 257FE, would have such an effect but for section 257FN (receipt of replacement value).
- (2) The provision are—
  - (a) section 257FE (value received by the investor),
  - (b) section 257FP (acquisition of a trade or trading asset), and
  - (c) section 257FQ (acquisition of share capital).
- (3) If this section applies—
  - (a) the issuing company, and
  - (b) any person connected with the issuing company who has knowledge of the matters mentioned in subsection (1),must give a notice to an officer of Revenue and Customs containing particulars of the event.
- (4) Any notice required to be given by the issuing company under subsection (3)(a) must be given—
  - (a) within 60 days of the event, or
  - (b) if the event is a receipt of value within section 257FH(2) from a person connected with the company (see section 257FM), within 60 days of the company coming to know of the event.
- (5) Any notice required to be given by a person under subsection (3)(b) must be given within 60 days of the person coming to know of the event.
- (6) If a person—
  - (a) is required under this section to give notice of a receipt of value which is within section 257FE, or would be within that section but for section 257FN, and
  - (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,the notice must include particulars of that receipt of replacement value (or expected receipt).
- (7) In subsection (6) “qualifying receipt” and “replacement value” are to be read in accordance with section 257FN.

### **257GG Power to require information where section 257GE or 257GF applies or could have applied**

- (1) This section applies if an officer of Revenue and Customs has reason to believe that a person—
  - (a) has not given a notice which the person is required to give under section 257GE or 257GF in respect of any event, or
  - (b) has given or received value within the meaning of section 257FH(2) or (8) which, but for the fact that the amount given or received was an amount of insignificant value, would have triggered a requirement to give such a notice.
- (2) The officer may by notice require the person concerned to supply the officer, within such time as the officer may specify in the notice, with such information relating to the event as the officer may reasonably require for the purposes of this Part.

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- (3) The period specified in a notice under subsection (2) must be at least 60 days.
- (4) In subsection (1)(b), the reference to an amount of insignificant value is construed in accordance with section 257FG(2).

### **257GH Power to require information in other cases**

- (1) Subsection (2) applies if SEIS relief is claimed in respect of shares in a company, and an officer of Revenue and Customs has reason to believe that it may not be due because of any such arrangements or scheme as is mentioned in—
- (a) section 257BC (no related investment arrangements),
  - (b) section 257BE or 257DB(2) or (4) (no tax avoidance),
  - (c) section 257CD(1) (no pre-arranged exits),
  - (d) section 257CF (no disqualifying arrangements),
  - (e) section 257DB(4) (winding up, administration etc), or
  - (f) section 257DG(1) or (2) (conditions ceasing to be met).
- (2) The officer may by notice require any person concerned to supply the officer within such time as may be specified in the notice with—
- (a) a declaration in writing stating whether or not, according to the information which that person has or can reasonably obtain, any such arrangement or scheme exists or has existed, and
  - (b) such other information as the officer may reasonably require for the purposes of the provision in question and as that person has or can reasonably obtain.
- (3) The period specified in a notice under subsection (2) must be at least 60 days.
- (4) For the purposes of subsection (2), in a case falling within a provision listed in column 1 of the following table, the person concerned is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The person concerned</i>
Subsection (1)(a)	The claimant, the company and any person controlling the company
Subsection (1)(b)	The claimant
Subsection (1)(c)	The claimant, the company and any person connected with the company
Subsection (1)(d)	The claimant, the company, any person controlling the company and any person who an officer of Revenue and Customs has reason to believe may be a party to the arrangements in question
Subsection (1)(e)	The claimant, the company, any other company in question and any person controlling the company or any other company in question
Subsection (1)(f)	The company and any person controlling the company

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References in this subsection to the claimant include references to any person to whom the claimant appears to have made such a transfer as is mentioned in section 257H (spouses or civil partners) of any of the shares in question.

- (5) If SEIS relief has been obtained in respect of shares in a company—
- (a) any person who receives from the company any payment or asset which may constitute value received (by the person or another) for the purposes of section 257FE, and
  - (b) any person on whose behalf such a payment or asset is received,
- must, if so required by an officer of Revenue and Customs, state whether the payment or asset so received is received on behalf of any other person and, if so, the name and address of that other person.
- (6) If SEIS relief has been claimed in respect of shares in a company—
- (a) any person who holds or has held shares in the company, and
  - (b) any person on whose behalf any such shares are or were held,
- must, if so required by an officer of Revenue and Customs, state whether the shares so held are or were held on behalf of any other person and, if so, the name and address of that other person.

### **257GI Obligations of secrecy**

No obligation of secrecy imposed by statute or otherwise prevents an officer of Revenue and Customs from disclosing to a company that SEIS relief has been obtained or claimed in respect of a particular number or proportion of its shares.

## **CHAPTER 8**

### **SUPPLEMENTARY AND GENERAL**

#### *Disposals of shares*

### **257H Transfers between spouses or civil partners**

- (1) This section applies if—
- (a) shares to which an amount of SEIS relief is attributable were issued to an individual (“A”),
  - (b) A transferred the shares to another individual (“B”) during their lives,
  - (c) A was married to, or was the civil partner of, B at the time of the transfer, and
  - (d) section 257FA (disposal of shares) does not apply to the transfer.
- (2) This Part has effect, in relation to any subsequent disposal or other event, as if—
- (a) B were the individual who had subscribed for the shares,
  - (b) the amount that B had subscribed for the shares were the amount that A had subscribed for them,
  - (c) B's liability to income tax had been reduced in respect of the shares for the same tax year as that for which A's was so reduced,

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- (d) the amount by which B's liability to income tax had been reduced in respect of the shares were the same as that by which A's liability to income tax had been so reduced, and
  - (e) that amount of SEIS relief had continued to be attributable to the shares despite the transfer.
- (3) If the amount of SEIS relief attributable to the shares had been reduced before the relief was obtained by A—
- (a) this Part has effect, in relation to any subsequent disposal or other event, as if the amount of SEIS relief attributable to the shares transferred to B had been correspondingly reduced before the relief was obtained by B, and
  - (b) sections 257FB(3) and 257FL(2) apply in relation to B as they would have applied in relation to A.
- (4) If, because of any such disposal or other event, an assessment for reducing or withdrawing SEIS relief is to be made, the assessment is to be made on B.

#### **257HA Identification of shares on a disposal**

- (1) The rules in subsections (2) and (3) are for determining which shares of any class are treated as disposed of for the purposes of—
- (a) section 257FA (disposal of shares), or
  - (b) section 257H (spouses or civil partners),
- if the investor disposes of some but not all of the shares of that class which the investor holds in a company.
- (2) Shares acquired on an earlier day are treated as disposed of before shares acquired on a later day.
- (3) Shares acquired on the same day are treated as disposed of in the following order—
- (a) first any to which no SEIS relief is attributable,
  - (b) next any to which SEIS relief (but not SEIS re-investment relief) is attributable, and
  - (c) next any to which SEIS relief and SEIS re-investment relief are attributable.
- (4) Any shares to which SEIS relief is attributable and which were transferred to an individual as mentioned in section 257H are treated for the purposes of subsections (2) and (3) as acquired by the individual on the day on which they were issued.
- (5) In a case to which section 127 of TCGA 1992 applies (including the case where that section applies by virtue of an enactment relating to chargeable gains), shares included in the new holding are treated for the purposes of subsections (2) and (3) as acquired when the original shares were acquired.
- (6) In this section—
- “new holding” and “original shares” have the same meaning as in section 127 of TCGA 1992 (or, as the case may be, that section as applied by the enactment concerned);
  - “SEIS re-investment relief” means relief under Schedule 5BB to TCGA 1992.

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### *Acquisition of issuing company*

#### **257HB Continuity of SEIS relief where issuing company is acquired by new company**

- (1) This section applies if—
- (a) a company (“the new company”) in which the only issued shares are subscriber shares acquires all the shares (“old shares”) in another company (“the old company”),
  - (b) the consideration for the old shares consists wholly of the issue of shares (“new shares”) in the new company,
  - (c) the consideration for the new shares of each description consists wholly of old shares of the corresponding description,
  - (d) new shares of each description are issued to the holders of old shares of the corresponding description in respect of and in proportion to their holdings,
  - (e) at some time before the issue of the new shares—
    - (i) the old company issued shares which meet the requirements of section 257CA(2), and
    - (ii) a compliance certificate in respect of those shares was issued by that company for the purposes of subsection (1) of section 257EB and in accordance with section 257EC, and
  - (f) before the issue of the new shares the Commissioners for Her Majesty's Revenue and Customs have, on the application of the new company or the old company, notified that company that they are satisfied that the exchange of shares—
    - (i) will be effected for genuine commercial reasons, and
    - (ii) will not form part of any such scheme or arrangements as are mentioned in section 137(1) of TCGA 1992 (schemes with avoidance purposes).
- In this subsection references to shares, except in the expressions “subscriber shares” and “shares which meet the requirements of section 257CA(2)”, include securities.
- (2) Subsection (2) of section 138 of TCGA 1992 (procedure for advance clearance) applies for the purposes of subsection (1)(f) as it applies for the purposes of subsection (1) of that section.
- (3) For the purposes of this Part—
- (a) the exchange of shares is not regarded as involving any disposal of the old shares or any acquisition of the new shares, and
  - (b) any SEIS relief which is attributable to any old shares is attributable instead to the new shares for which they are exchanged.
- (4) Nothing in section 257DG (the control and independence requirement) applies in relation to such an exchange of shares, or shares and securities, as is mentioned in subsection (1), or arrangements with a view to such an exchange.
- (5) For the purposes of this section old shares and new shares are of a corresponding description if, on the assumption that they were shares in the same company, they would be of the same class and carry the same rights.
- (6) References in sections 257HC and 257HD to “old shares”, “new shares”, “the old company” and “the new company” are to be read in accordance with this section.

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### **257HC Carry over of obligations etc where SEIS relief attributed to new shares**

- (1) This section applies if, under section 257HB, any SEIS relief which is attributable to any old shares becomes attributable instead to any new shares.
- (2) This Part has effect as if anything which under—
  - (a) section 257EB(1) (entitlement to claim),
  - (b) section 257FR(3) (relief subsequently found not to be due), or
  - (c) sections 257GF to 257GH (information to be provided),
 has been done, or is required to be done, by or in relation to the old company had been done, or were required to be done, by or in relation to the new company.
- (3) Any appeal brought by the old company against a notice under section 257FR(3)(b) may be prosecuted by the new company as if it had been brought by that company.

### **257HD Substitution of new shares for old shares**

- (1) Subsection (2) applies if, in the case of any new shares held by an individual to which SEIS relief becomes attributable under section 257HB, the old shares for which they were exchanged were subscribed for by and issued to the individual.
- (2) This Part has effect as if—
  - (a) the new shares had been subscribed for by the individual at the time when, and for the amount for which, the old shares were subscribed for by the individual,
  - (b) the new shares had been issued to the individual by the new company at the time when the old shares were issued to the individual by the old company,
  - (c) the claim for SEIS relief made in respect of the old shares had been made in respect of the new shares, and
  - (d) the individual's liability to income tax had been reduced in respect of the new shares for the same tax year as that for which the individual's liability was so reduced in respect of the old shares.
- (3) Subsection (4) applies if, in the case of any new shares held by an individual to which SEIS relief becomes so attributable under section 257HB, the old shares for which they were exchanged were transferred to the individual as mentioned in section 257H.
- (4) This Part has effect in relation to any subsequent disposal or other event as if—
  - (a) the new shares had been subscribed for by the individual at the time when, and for the amount for which, the old shares were subscribed for,
  - (b) the new shares had been issued by the new company at the time when the old shares were issued by the old company,
  - (c) the claim for SEIS relief made in respect of the old shares had been made in respect of the new shares, and
  - (d) the individual's liability to income tax had been reduced in respect of the new shares for the same tax year as that for which the liability of the individual who subscribed for the old shares was so reduced in respect of those shares.



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### *Nominees etc*

#### **257HE Nominees and bare trustees**

- (1) Shares subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of this Part as subscribed for, issued to, held by or disposed of by the individual.
- (2) If shares have been issued to a bare trust for two or more beneficiaries, this Part has effect (with the necessary modifications) as if—
  - (a) each beneficiary had subscribed as an individual for all of those shares, and
  - (b) the amount subscribed by each beneficiary was equal to the total amount subscribed on the issue of those shares divided by the number of beneficiaries.
- (3) In subsection (2) “shares” means shares which meet the requirements of section 257CA(2).

### *Interpretation*

#### **257HF Meaning of “new qualifying trade”**

- (1) For the purposes of this Part a qualifying trade carried on by the issuing company or a qualifying 90% subsidiary of that company (“the relevant company”) is a “new qualifying trade” if (and only if)—
  - (a) the trade does not begin to be carried on (whether by the relevant company or any other person) before the [<sup>F655</sup>three] year pre-investment period, and
  - (b) at no time before the relevant company begins to carry on the trade was any other trade being carried on by the issuing company or by any company that was a 51% subsidiary of the issuing company at the time in question.
- (2) In this section—

“qualifying trade” has the same meaning as in Part 5 (see sections 189 and 192 to 200);

[<sup>F656</sup>“three year pre-investment period” means the period of 3 years ending immediately before the day on which the relevant shares are issued.]

#### **Textual Amendments**

**F655** Word in s. 257HF(1)(a) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(5\)\(a\)\(7\)](#)

**F656** Words in s. 257HF(2) substituted (6.4.2023 in relation to shares issued on or after that date) by [Finance Act 2023 \(c. 30\), s. 15\(5\)\(b\)\(7\)](#)

#### **257HG Meaning of “qualifying business activity”**

- (1) In this Part “qualifying business activity”, in relation to the issuing company, means—
  - (a) activity A, or
  - (b) activity B,if it is carried on by the company or a qualifying 90% subsidiary of the company.  
This is subject to subsection (3).

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- (2) Activity A is—
- (a) the carrying on of a new qualifying trade which, on the date the relevant shares are issued, the company or a qualifying 90% subsidiary of the company is carrying on, or
  - (b) the activity of preparing to carry on (or preparing to carry on and then carrying on) a new qualifying trade—
    - (i) which, on that date, is intended to be carried on by the company or such a subsidiary, and
    - (ii) which is begun to be carried on by the company or such a subsidiary.
- (3) Activity B is the carrying on of research and development—
- (a) which, on the date the relevant shares are issued, the company or a qualifying 90% subsidiary of the company is carrying on, or which the company or such a subsidiary begins to carry on immediately afterwards, and
  - (b) from which, on that date, it is intended—
    - (i) that a new qualifying trade which the company or such a subsidiary will carry on will be derived, or
    - (ii) that a new qualifying trade which the company or such a subsidiary is carrying on, or will carry on, will benefit.
- (4) For the purposes of subsection (3)(a), when research and development is begun to be carried on by a qualifying 90% subsidiary of the issuing company, any carrying on of the research and development by it before it became such a subsidiary is ignored.
- (5) References in subsection (2)(b)(i) or (3)(b) to a qualifying 90% subsidiary of the issuing company include references to any existing or future company which will be such a subsidiary at any future time.

### **257HH Meaning of “disposal of shares”**

- (1) In this Part references to a disposal of shares include a reference to a disposal of an interest or right in or over shares.
- (2) An individual is to be treated, for the purposes of this Part, as disposing of any shares which the individual is treated by virtue of section 136 of TCGA 1992 as exchanging for other shares.

### **257HI Meaning of “issue of shares”**

- (1) In this Part—
  - (a) references (however expressed) to an issue of shares in any company are to such of the shares in the company as are of the same class and issued on the same day, and
  - (b) references (however expressed) to an issue of shares in any company to an individual are to such of the shares in the company as are of the same class and are issued to the individual in one capacity on the same day.
- (2) Subsection (1)(b) has effect subject to sections 257E(6), 257EA(2), 257FB(2) and 257FK(1).

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## **257HJ Minor definitions**

(1) In this Part—

“arrangements” includes any scheme, agreement, understanding, transaction or series of transactions (whether or not legally enforceable);

“associate” has the same meaning as in Part 5 (see section 253);

“bonus shares” means shares which are issued otherwise than for payment (whether in cash or otherwise);

“director” is read in accordance with section 452 of CTA 2010;

“EIS relief” means relief under Part 5;

“group” means a parent company and its qualifying subsidiaries;

“group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries;

“ordinary shares” means shares forming part of a company's ordinary share capital;

“parent company” means a company that has one or more qualifying subsidiaries, and “single company” means a company that does not;

“permanent establishment” has the same meaning as in Part 5 (see section 191A);

“qualifying subsidiary” has the same meaning as in Part 5 (see section 191);

“qualifying 90% subsidiary” has the same meaning as in Part 5 (see section 190);

“research and development” has the meaning given by section 1006.

(2) Section 252 (meaning of a company being “in administration” or “in receivership”) applies for the purposes of this Part.

(3) Section 995 (control) does not apply for the purposes of the following provisions—

(a) section 257DG(1)(a),

(b) section 257FP,

(c) section 257FQ,

(d) section 257GH(4);

and in those provisions “control” is to be read in accordance with sections 450 and 451 of CTA 2010.

(4) In this Part—

(a) references in any provision to the reduction of any SEIS relief attributable to any shares include a reference—

(i) to the reduction of the relief to nil, and

(ii) if no relief has yet been obtained, to the reduction of the amount which apart from that provision would be the SEIS relief, and

(b) references to the withdrawal of SEIS relief in respect of any shares are—

(i) to the withdrawal of the SEIS relief attributable to those shares, or

(ii) if no relief has yet been obtained, to ceasing to be eligible for SEIS relief in respect of those shares.

(5) For the purposes of this Part shares in a company are not treated as being of the same class unless they would be so treated if dealt in on a recognised stock exchange.

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- (6) For the purposes of this Part the market value at any time of any asset is the price which it might reasonably be expected to fetch on a sale at that time in the open market free from any interest or right which exists by way of security in or over it.
- (7) In this Part—
- (a) references to SEIS relief obtained by an individual in respect of any shares include a reference to SEIS relief obtained by the individual in respect of those shares at any time after the individual has disposed of them, and
  - (b) references to the withdrawal or reduction of SEIS relief obtained by an individual in respect of any shares include a reference to the withdrawal or reduction of SEIS relief obtained by the individual in respect of those shares at any time.
- (8) In the case of requirements that cannot be met until a future date, references in this Part to requirements being met for the time being are to nothing having occurred to prevent their being met.]

## [<sup>F657</sup>PART 5B

### TAX RELIEF FOR SOCIAL INVESTMENTS

#### Textual Amendments

**F657** Pt. 5B inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 11 para. 1](#)

## CHAPTER 1

### INTRODUCTION

#### **257J** Meaning of “SI relief” and “social enterprise”

- (1) This Part provides for income tax relief for social investments (“SI relief”), that is, entitlement to tax reductions in respect of amounts invested in social enterprises by individuals.
- (2) In this Part “social enterprise” means—
- (a) a community interest company,
  - (b) a community benefit society (see section 257JB) that is not a charity,
  - (c) a charity,
  - (d) an accredited social impact contractor (see section 257JD), or
  - (e) any other body prescribed, or of a description prescribed, by an order made by the Treasury.
- (3) An order under subsection (2)(e) may make provision as to the bodies which are social enterprises for the purposes of this Part at times before the order comes into force or FA 2014 is passed but, where a body is a social enterprise for the purposes of this Part as a result of an order under subsection (2)(e) that has come into force, no subsequent order under subsection (2)(e) may undo that result in respect of times before the subsequent order comes into force.

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## **257JA Form and amount of relief**

- (1) If an individual—
  - (a) is eligible for SI relief in respect of any amount, and
  - (b) makes a claim in respect of all or some of the amount,the individual is entitled to a tax reduction for the tax year in which the amount was invested.  
  
This is subject to the provisions of this Part.
- (2) The amount of the reduction to which an individual is entitled under this Part for any particular tax year is the amount equal to tax, at the SI rate for that year, on—
  - (a) the amount or, as the case may be, the sum of the amounts invested in that year in respect of which the individual is eligible for and claims SI relief, or
  - (b) if less, £1 million.
- (3) The tax reduction is given effect at Step 6 in section 23.
- (4) If an individual—
  - (a) is eligible for and claims SI relief in respect of an amount, and
  - (b) makes a claim for part of that amount to be treated for the purposes of subsections (1) and (2) as if it had been invested not in the tax year in which it was actually invested but in the preceding tax year,those subsections apply, and the individual's liability to tax for both tax years is determined, in accordance with the claim.
- (5) In this Part “the SI rate” means 30%.

## **257JB Meaning of “community benefit society”**

- (1) In this Part “community benefit society” means a body that—
  - (a) is registered as a community benefit society under the 2014 Act,
  - (b) is a pre-commencement society (within the meaning of the 2014 Act) that meets the condition in section 2(2)(a)(ii) of the 2014 Act, or
  - (c) is a society registered, or treated as registered, under section 1 of the Industrial and Provident Societies Act (Northern Ireland) 1969 in the case of which the condition in section 1(2)(b) of that Act is fulfilled,and in respect of which the condition in subsection (2) is met.
- (2) The condition is that—
  - (a) the body is of a kind prescribed by regulation 5 of, and
  - (b) the body's rules include a rule in the terms set out in Schedule 1 to, the Community Benefit Societies (Restriction on Use of Assets) Regulations 2006 (S.I. 2006/264) or the Community Benefit Societies (Restriction on Use of Assets) Regulations (Northern Ireland) 2006 (S.R. 2006/258).
- (3) The Treasury may by order amend this section for the purpose of—
  - (a) replacing—
    - (i) the condition in subsection (2), or
    - (ii) the condition, or all or any of the conditions, for the time being replacing the condition in subsection (2),with one or more other conditions;

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- (b) varying—
    - (i) the condition in subsection (2), or
    - (ii) the condition, or any of the conditions, for the time being replacing the condition in subsection (2);
  - (c) dispensing with—
    - (i) the condition in subsection (2), or
    - (ii) the condition, or all or any of the conditions, for the time being replacing the condition in subsection (2).
- (4) In this section—
- “the 2014 Act” means the Co-operative and Community Benefit Societies Act 2014;
  - “the 2010 Act” means the Co-operative and Community Benefit Societies and Credit Unions Act 2010.
- (5) While neither the 2014 Act, nor section 1 of the 2010 Act, is in force, subsection (1) of this section has effect as if for paragraphs (a) and (b) of that subsection there were substituted—
- “(a) is a society registered, or treated as registered, under section 1 of the Industrial and Provident Societies Act 1965 in the case of which the condition in section 1(2)(b) of that Act is fulfilled, or”.
- (6) If section 1 of the 2010 Act (registration of societies) comes into force before the 2014 Act comes into force then, with effect from the coming into force of that section and until the coming into force of the 2014 Act, subsection (1) of this section has effect as if for paragraphs (a) and (b) of that subsection there were substituted—
- “(a) is registered as a community benefit society under section 1 of the Industrial and Provident Societies Act 1965 (“the 1965 Act”),
  - (b) is a pre-2010 Act society (as defined by section 4A(1) of the 1965 Act) that meets the condition in section 1(3) of the 1965 Act, or”.
- (7) In the event that section 2 of the 2010 Act (renaming of the 1965 Act) is brought into force before its repeal by the 2014 Act takes effect then, with effect from the coming into force of that section, subsections (5) and (6) of this section have effect as if, in the provisions which they substitute, the references to the Industrial and Provident Societies Act 1965 were references to the Co-operative and Community Benefit Societies and Credit Unions Act 1965.

### **257JC Charities that are trusts**

In this Part (except section 257JD), a reference to a company includes a reference to a charity that is a trust.

### **257JD Accreditation as a social impact contractor**

- (1) In this Part “accredited social impact contractor” means a company limited by shares that is accredited under this section as a social impact contractor.
- (2) Applications for accreditation as a social impact contractor must be made to a Minister of the Crown in the form and manner specified by a Minister of the Crown.
- (3) A Minister of the Crown is to accredit a company if, but only if, that Minister is satisfied that—

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- (a) the company has entered into a social impact contract (see section 257JE),
  - (b) the company is, and at all times since its incorporation has been, established—
    - (i) for the purpose of entering into and carrying out a social impact contract, or for that purpose and purposes incidental to it, but
    - (ii) for no other purpose, and
  - (c) the activities of the company in carrying out that contract will not consist wholly, or as to a substantial part, in excluded activities (see section 257MQ).
- (4) If a Minister of the Crown is satisfied that the condition in subsection (3)(b) or (c) has ceased to be met in relation to a company that is an accredited social impact contractor, that Minister is to withdraw the company's accreditation with effect from the time the condition ceased to be met or a later time.

### **257JE Meaning of “social impact contract”**

- (1) In this Part “social impact contract” means a contract that meets such criteria as may be specified in regulations made by the Treasury.
- (2) The criteria which may be specified under subsection (1) include, in particular, criteria as to a party to the contract other than the company seeking accreditation.
- (3) Criteria may be specified in regulations under subsection (1) by reference to material published by, or on behalf of, a Minister of the Crown after the making of the regulations (as well as by reference to material published before the making of the regulations).
- (4) Regulations under subsection (1) may make different provision for different cases or circumstances or in relation to different areas.

### **257JF Accreditations: supplementary provisions**

- (1) An accreditation must be made so as to be conditional on compliance with—
  - (a) any requirements imposed by or under regulations, and
  - (b) any other requirements considered appropriate by the Minister of the Crown who is accrediting the company concerned.
- (2) The requirements that may be imposed by virtue of subsection (1) include requirements relating to the provision of information.
- (3) Regulations may—
  - (a) make further provision about applications for accreditation,
  - (b) make provision for the variation of an accreditation (including its provisions as to its duration),
  - (c) make provision which, in a case where a company is or has been an accredited social impact contractor, imposes or authorises the imposition of requirements on the company, or on any other party to the social impact contract concerned, to provide information,
  - (d) make provision about the consequences of a failure to comply with any requirement of an accreditation imposed by virtue of subsection (1) or with any requirement imposed by virtue of paragraph (c), including in particular—
    - (i) provision for the withdrawal of the accreditation concerned with effect from the time of the failure or a later time, and

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- (ii) provision for the imposition of penalties,
- (e) make provision for publication of information about an accreditation or accredited social impact contractor, and
- (f) make provision for reviews of, or for appeals to the tribunal against, any of the following—
  - (i) a refusal to grant or vary an accreditation,
  - (ii) the imposition of a requirement under subsection (1)(b),
  - (iii) the withdrawal of an accreditation (whether under section 257JD(4) or by virtue of provision made under paragraph (d)(i)), and
  - (iv) the imposition or amount of a penalty imposed by virtue of provision made under paragraph (d)(ii).
- (4) Regulations under subsection (1) or (3) may—
  - (a) make provision for the making of decisions by a Minister of the Crown as to any matter required to be decided for the purposes of the regulations,
  - (b) be framed by reference to material published by, or on behalf of, a Minister of the Crown after the making of the regulations (as well as by reference to material published before the making of the regulations),
  - (c) make different provision for different cases or circumstances or in relation to different areas, and
  - (d) contain incidental, supplemental, consequential and transitional provision and savings.
- (5) In this section—
  - “accreditation” means accreditation under section 257JD, and
  - “regulations” means regulations made by the Treasury.

#### **257JG Period of accreditation as a social impact contractor**

- (1) An accreditation under section 257JD has effect for a period—
  - (a) beginning with the day specified in the accreditation, and
  - (b) of a length specified in, or determined in accordance with, the accreditation.
- (2) The day specified under subsection (1)(a) in an accreditation may not be earlier than 6 April 2014 but subject to that—
  - (a) may be, or be earlier than, the day it is decided to grant the accreditation (and in particular may be, or be earlier than, the day the application for the accreditation is made), and
  - (b) may be earlier than the day section 257JD comes into force.
- (3) This section has effect subject to sections 257JD(4) and 257JF(3)(d)(i) (withdrawal of accreditations).

#### **257JH Functions of Ministers of the Crown under sections 257JD to 257JG**

- (1) A Minister of the Crown may delegate any function given to a Minister of the Crown by or under sections 257JD to 257JG other than a power of the Treasury to make regulations.
- (2) In those sections and this section “Minister of Crown” has the meaning given by section 8(1) of the Ministers of the Crown Act 1975.



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## CHAPTER 2

### ELIGIBILITY FOR RELIEF: BASIC RULE AND KEY DEFINITIONS

#### *Eligibility*

#### **257K Eligibility for SI relief**

- (1) An individual (“the investor”) who invests in a social enterprise is eligible for SI relief in respect of the amount invested if—
  - (a) the investment is made—
    - (i) by the investor on the investor's own behalf,
    - (ii) on or after 6 April 2014, and
    - (iii) before [<sup>F658</sup>6 April 2023] (but see subsection (5)), and
  - (b) the conditions set out in Chapters 3 and 4 are met.
- (2) Subsection (1)(b) is subject to the provisions in sections 257LB and 257MJ to 257MN which provide for conditions set out in those sections not to apply where the social enterprise is an accredited social impact contractor.
- (3) The investor is not eligible for SI relief in respect of the amount invested if—
  - (a) the investor has obtained in respect of that amount, or any part of it, relief under—
    - (i) Part 5 (enterprise investment scheme),
    - (ii) Part 5A (seed enterprise investment scheme), or
    - (iii) Part 7 (community investment tax relief), or
  - (b) that amount, or any part of it, has under Schedule 5B to TCGA 1992 (enterprise investment scheme: re-investment) been set against a chargeable gain.
- (4) Investments made by, subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of this Part as made by, subscribed for, issued to, held by or disposed of by the individual.
- (5) The Treasury may by order substitute a later date for the date for time being specified in subsection (1)(a)(iii).

#### **Textual Amendments**

**F658** Words in s. 257K(1)(a)(iii) substituted (10.6.2021) by [Finance Act 2021 \(c. 26\), s. 20\(a\)](#)

#### *Key definitions*

#### **257KA Key to reading the rest of the Part**

In the following provisions of this Part (except section 257N), a reference to—  
“the amount invested”,  
“the investment”,  
“the investor”, or  
“the social enterprise”,

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is to be read in accordance with section 257K(1).

### **257KB When investment is made, and “investment date”**

- (1) For the purposes of this Part “the investment date” means the date on which the investment is made.
- (2) So far as the investment is in shares, for the purposes of this Part it is made when the shares are issued to the investor by the social enterprise.
- (3) If the investment, so far as it is in qualifying debt investments (see section 257L), involves making the only advance covered by the debenture or debentures concerned, for the purposes of this Part it is made—
  - (a) when the social enterprise issues the debenture or debentures to the investor, or
  - (b) in a case where there is to be no such issuing, when the debenture or debentures, so far as relating to the advance, take effect between the social enterprise and the investor.
- (4) If the investment, so far as it is in qualifying debt investments, involves making the first of multiple advances covered by the debenture or debentures concerned, for the purposes of this Part it is made—
  - (a) when the social enterprise issues the debenture or debentures to the investor, or
  - (b) in a case where there is to be no such issuing, when the debenture or debentures, so far as relating to all of those advances, take effect between the social enterprise and the investor.
- (5) If the investment, so far as it is in qualifying debt investments, involves making the second of multiple advances covered by the debenture or debentures concerned, or a subsequent one of those advances, for the purposes of this Part it is made—
  - (a) when the amount of that advance is fully advanced in cash, or
  - (b) if later—
    - (i) when the social enterprise issues the debenture or debentures to the investor, or
    - (ii) in a case where there is to be no such issuing, when the debenture or debentures, so far as relating to all of those advances, takes effect between the social enterprise and the investor.
- (6) For the purposes of subsections (3) to (5) “debenture” includes any instrument creating or acknowledging indebtedness.

### **257KC “Shorter applicable period” and “longer applicable period”**

- (1) In this Part “the shorter applicable period” and “the longer applicable period” have the meaning given by this section.
- (2) The shorter applicable period begins with the investment date.
- (3) The longer applicable period begins with—
  - (a) the day on which the social enterprise is—
    - (i) incorporated (if it is a body corporate), or
    - (ii) established (in any other case), or
  - (b) if later, the day whose first anniversary is the investment date.

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- (4) Each of the periods ends with the third anniversary of the investment date.

## CHAPTER 3

### ELIGIBILITY: CONDITIONS RELATING TO THE INVESTOR AND THE INVESTMENT

#### **257L Investment to be in new shares or new qualifying debt investments**

- (1) At all times during the shorter applicable period, the investment must be in—
- (a) shares that meet conditions A and B and are issued to the investor by the social enterprise in return for the amount invested, or
  - (b) qualifying debt investments of which the investor is the holder in return for advancing the amount invested to the social enterprise.
- (2) Condition A is that the shares must carry none of the following—
- (a) a right to a return which, or any part of which, is a fixed amount;
  - (b) a right to a return which, or any part of which, is at a fixed rate;
  - (c) a right to a return which, or any part of which, is otherwise fixed by reference to the amount invested;
  - (d) a right to a return which, or any part of which, is fixed by reference to some other factor that is not contingent on successful financial performance by the social enterprise;
  - (e) a right to a return at a rate greater than a reasonable commercial rate.
- (3) Condition B is that, for the purpose of determining the amounts due in respect of the shares to their holder in the event of the winding-up of the social enterprise—
- (a) those amounts rank after all debts of the social enterprise except any due to holders of qualifying debt investments in the social enterprise in respect of their qualifying debt investments, and
  - (b) the shares do not rank above any other shares in the social enterprise.
- (4) In this Part “qualifying debt investments”, in relation to the social enterprise, means any debentures of the social enterprise in respect of which the following conditions are met—
- (a) neither the principal of the debt concerned, nor any return on that, is charged on any assets,
  - (b) the rate of any such return is not greater than a reasonable commercial rate of return, and
  - (c) in the event of the winding-up of the social enterprise and so far as the law allows, any sums due in respect of the debt (whether principal or return)—
    - (i) are subordinated to all other debts of the social enterprise except sums due in the case of other unsecured debentures of the social enterprise which rank equally,
    - (ii) rank equally, if there are shares in the social enterprise and they all rank equally among themselves, with amounts due to share-holders in respect of their shares, and
    - (iii) rank equally, if there are shares in the social enterprise and they do not all rank equally, with amounts due in respect of their shares to the holders of shares that do not rank above any other shares.

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- (5) The condition in subsection (3)(a) or (4)(c)(i) is met even if the sums concerned do not rank after debts which are postponed—
  - (a) by rules under section 411 of the Insolvency Act 1986, or
  - (b) by or under any other enactment.
- (6) For the purposes of subsection (4) “debenture” includes any instrument creating or acknowledging indebtedness.

### **257LA Condition that the amount invested must have been paid over**

- (1) So far as the investment is in shares—
  - (a) the shares must be subscribed for wholly in cash, and
  - (b) must be fully paid up at the time they are issued.
- (2) If the investment, so far as it is in qualifying debt investments, involves making—
  - (a) the only advance covered by the debenture or debentures concerned, or
  - (b) one of multiple advances covered by the debenture or debentures concerned, the full amount of that advance must have been advanced wholly in cash by the time the investment is made.
- (3) For the purposes of this section—
  - (a) shares are not fully paid up, or
  - (b) the full nominal amount of qualifying debt investments has not been advanced, if there is any undertaking to pay cash to any person at a future time in respect of the acquisition of the shares or investments.
- (4) For the purposes of subsection (2) “debenture” includes any instrument creating or acknowledging indebtedness.

### **257LB The no pre-arranged exits requirements**

- (1) There must not at any time in the shorter applicable period be any arrangements in existence for the investment to be redeemed, repaid, repurchased, exchanged or otherwise disposed of in that period.
- (2) The issuing arrangements for the investment must not include—
  - (a) arrangements for or with a view to the cessation of any trade which is being or is to be or may be carried on by the social enterprise or a person connected with the social enterprise, or
  - (b) arrangements for the disposal of, or of a substantial amount (in terms of value) of, the assets of the social enterprise or of a person connected with the social enterprise.
- (3) The arrangements referred to in subsection (2)(a) and (b) do not include any arrangements applicable only on the winding-up of a company except in a case where—
  - (a) the issuing arrangements include arrangements for the company to be wound up, or
  - (b) the arrangements are applicable on the winding-up of the company otherwise than for genuine commercial reasons.
- (4) In this section “the issuing arrangements” means—

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- (a) the arrangements under which the investor makes the investment, and
  - (b) any arrangements made before, and in relation to or in connection with, the making of the investment by the investor.
- (5) Subsections (2) to (4) do not apply if the social enterprise is an accredited social impact contractor.

### **257LC The no risk avoidance requirement**

- (1) There must not at any time in the shorter applicable period be any arrangements in existence the main purpose or one of the main purposes of which is (by means of any insurance, indemnity, guarantee, hedging of risk or otherwise) to provide partial or complete protection for the investor against what would otherwise be the risks attached to making the investment.
- (2) The arrangements referred to in subsection (1) do not include any arrangements which are confined to the provision—
- (a) for the social enterprise itself, or
  - (b) if the social enterprise is a parent company that meets the trading requirement in section 257MJ(2)(c) or is a parent company that is an accredited social impact contractor—
    - (i) for the social enterprise itself,
    - (ii) for the social enterprise itself and one or more of its subsidiaries, or
    - (iii) for one or more of the subsidiaries of the social enterprise,
- of any such protection against the risks arising in the course of carrying on its business as might reasonably be expected to be provided in normal commercial circumstances.

### **257LD The no linked loans requirement**

- (1) No linked loan is to be made by any person, at any time in the longer applicable period, to the investor or an associate of the investor.
- (2) In this section “linked loan” means any loan which—
- (a) would not have been made, or
  - (b) would not have been made on the same terms,
- if the investor had not made the investment, or had not been proposing to do so.
- (3) References in this section to the making by any person of a loan to the investor or an associate of the investor include—
- (a) references to the giving by that person of any credit to the investor or any associate of the investor, and
  - (b) references to the assignment to that person of a debt due from the investor or any associate of the investor.

### **The existing investments requirement**

<sup>f659</sup>

**257LDA**

- (1) If at the time immediately before the investment is made the investor holds any shares in or debentures of—
- (a) the social enterprise, or
  - (b) a company which at that time is a qualifying subsidiary of the social enterprise,

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those shares or debentures must be risk finance investments or (in the case of shares) permitted subscriber shares.

- (2) A share or debenture is a “risk finance investment” for the purposes of this section if—
- (a) it is a share that was issued to the investor, or a debenture of which the investor is the holder in return for advancing an amount, and
  - (b) at any time, a compliance statement under section 205, 257ED or 257PB is provided in respect of it or of shares or investments including it.
- (3) Subscriber shares are “permitted subscriber shares” for the purposes of this section if—
- (a) they were issued to the investor and have been continuously held by the investor since they were issued, or
  - (b) they were acquired by the investor at a time when the company which issued them—
    - (i) had issued no shares other than subscriber shares, and
    - (ii) had not begun to carry on or make preparations for carrying on any trade or business.
- (4) In this section “debenture” is to be read in accordance with section 257L(6).]

#### Textual Amendments

**F659** S. 257LDA inserted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 3**

### 257LE The no tax avoidance requirement

The investment must not be made as part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.

### <sup>F660</sup>257LEA The no disqualifying arrangements requirement

- (1) The investment must not be made, and money raised by the social enterprise from the making of the investment must not be employed,—
- (a) in consequence or anticipation of disqualifying arrangements, or
  - (b) otherwise in connection with disqualifying arrangements.
- (2) Arrangements are “disqualifying arrangements” if—
- (a) the main purpose, or one of the main purposes, of the arrangements is to secure both that an activity is or will be carried on by the social enterprise or a 90% social subsidiary of the social enterprise and that—
    - (i) one or more persons (whether or not including any party to the arrangements) may obtain relevant tax relief in respect of a qualifying investment which raises money for the purposes of that activity, or
    - (ii) shares issued by the social enterprise which raise money for the purposes of that activity may comprise part of the qualifying holdings of a VCT,
  - (b) that activity is the relevant qualifying activity, and
  - (c) one or both of conditions A and B are met.

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- (3) Condition A is that, as a (direct or indirect) result of the money raised by the investment being employed as required by section 257MM, an amount representing the whole or the majority of the amount raised is, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.
- (4) Condition B is that, in the absence of the arrangements, it would have been reasonable to expect that the whole or greater part of the component activities of the relevant qualifying activity would have been carried on as part of another business by a relevant person or relevant persons.
- (5) For the purposes of this section it is immaterial whether the social enterprise is a party to the arrangements.
- (6) In this section—
- “90% social subsidiary” is to be read in accordance with section 257MV;
  - “component activities” means the carrying on of a qualifying trade or preparing to carry on such a trade, which constitutes the relevant qualifying activity;
  - a “qualifying investment” means—
    - (a) shares in the social enterprise, or
    - (b) a qualifying debt investment in the social enterprise (see section 257L);
  - “qualifying holdings”, in relation to the social enterprise, is to be construed in accordance with section 286 (VCTs: qualifying holdings);
  - “relevant person” means a person who is a party to the arrangements or a person connected with such a party;
  - “relevant qualifying activity” means the qualifying trade or activity mentioned in section 257ML(1) for the purposes of which the investment raised money;
  - “relevant tax relief” has the meaning given by subsection (7).
- (7) “Relevant tax relief”—
- (a) in relation to a qualifying debt investment, means SI relief in respect of that investment;
  - (b) in relation to shares, means one or more of the following—
    - (i) SI relief in respect of the shares;
    - (ii) EIS relief (within the meaning of Part 5) in respect of the shares;
    - (iii) SEIS relief (within the meaning of Part 5A) in respect of the shares;
    - (iv) relief under Chapter 6 of Part 4 (losses on disposal of shares) in respect of the shares;
    - (v) relief under section 150A or 150E of TCGA 1992 (EIS and SEIS) in respect of the shares;
    - (vi) relief under Schedule 5B to that Act (EIS: reinvestment) in consequence of which deferral relief is attributable to the shares (see paragraph 19(2) of that Schedule);
    - (vii) relief under Schedule 5BB to that Act (SEIS: re-investment) in consequence of which SEIS re-investment relief is attributable to the shares (see paragraph 4 of that Schedule).]

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### Textual Amendments

**F660** S. 257LEA inserted (with effect in accordance with Sch. 1 para. 14(3)(4) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 4**

## 257LF Restrictions on being an employee, partner or paid director

- (1) This section applies—
  - (a) to the investor, and
  - (b) to any individual who is an associate of the investor.
- (2) An individual to whom this section applies must not at any time in the longer applicable period be—
  - (a) an employee of—
    - (i) the social enterprise,
    - (ii) any subsidiary of the social enterprise,
    - (iii) a partner of the social enterprise, or
    - (iv) a partner of any subsidiary of the social enterprise,
  - (b) a partner of—
    - (i) the social enterprise, or
    - (ii) any subsidiary of the social enterprise,
  - (c) a trustee of—
    - (i) the social enterprise, or
    - (ii) any subsidiary of the social enterprise, or
  - (d) a remunerated director of—
    - (i) the social enterprise, or
    - (ii) a linked company.
- (3) In this section—
 

“linked company” means—

  - (a) a subsidiary of the social enterprise,
  - (b) a company which is a partner of the social enterprise, or
  - (c) a company which is a partner of a subsidiary of the social enterprise;

“related person” means—

  - (a) the social enterprise,
  - (b) a person connected with the social enterprise,
  - (c) a linked company of which the individual is a director, or
  - (d) a person connected with such a company;

“subsidiary”, in relation to the social enterprise, means a company which at any time in the longer applicable period is a 51% subsidiary of the social enterprise (and such a company is therefore a subsidiary of the social enterprise for the purposes of this section even at times when it is not a 51% subsidiary of the social enterprise).
- (4) For the purposes of subsection (2)(d), an individual who is a director of the social enterprise or a linked company is “remunerated” if the individual (or a partnership of which the individual is a member)—



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- (a) receives at any time in the longer applicable period a payment from a related person, or
  - (b) is entitled to receive a payment from a related person in respect of any time in the longer applicable period.
- (5) For the purposes of subsection (4) the following are ignored—
- (a) any payment or reimbursement of travelling or other expenses wholly, exclusively and necessarily incurred by the individual in the performance of the individual's duties as a director,
  - (b) any interest which represents no more than a reasonable commercial return on money lent to a related person,
  - (c) any dividend or other distribution which does not exceed a normal return on the investment,
  - (d) any payment for the supply of goods which does not exceed their market value,
  - (e) any payment of rent for any property occupied by a related person which does not exceed a reasonable and commercial rent for the property,
  - (f) any necessary and reasonable remuneration which—
    - (i) is paid for services, rendered to a related person in the course of a trade or profession, that are not secretarial services and are not managerial services and are not services of a kind provided by the person to whom they are rendered, and
    - (ii) is taken into account in calculating for tax purposes the profits of that trade or profession, and
  - (g) if condition A is met and (where applicable) condition B is also met, any other reasonable remuneration (including any benefit or facility) received by the individual, or to which the individual is entitled, for services rendered by the individual—
    - (i) to the company (whether the social enterprise or a linked company) of which the individual is a director, and
    - (ii) in the individual's capacity as a director of that company.
- (6) Condition A is that the investor made the investment, or previously made another investment meeting the requirement in section 257L(1), at a time (“the qualifying time”) when—
- (a) the requirements of this section and sections 257LG and 257LH (even if the three sections were not then in force) would have been met even if each other reference in the three sections to any time in the longer applicable period were a reference to any time before the qualifying time, and
  - (b) the investor had never been involved in carrying on (whether on the investor's own account or as a partner, director or employee) the whole or any part of the trade, business or profession carried on by the social enterprise or a subsidiary of the social enterprise.
- (7) Condition B is that—
- (a) the investment did not meet condition A (but a previous investment did), and
  - (b) the investment was made before the third anniversary of the date when the investor last made an investment in the social enterprise which met condition A.

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- (8) References in this section to an individual in the individual's capacity as a director of a company include, if the individual is both a director and an employee of the company, references to the individual in the individual's capacity as an employee of the company but, apart from that, an individual who is both a director and an employee of a company is treated for the purposes of this section as a director, and not an employee, of the company.
- (9) In subsections (2), (4) and (5) “director” does not include a trustee of a charity that is a trust.

### **257LG The requirement not to be interested in capital etc of social enterprise**

- (1) This section applies—
- (a) to the investor, and
  - (b) to any individual who is an associate of the investor.
- (2) In this section “related company” means—
- (a) the social enterprise, or
  - (b) a company which at any time in the longer applicable period is a 51% subsidiary of the social enterprise (and such a company is therefore a related company for the purposes of this section even at times when it is not a 51% subsidiary of the social enterprise).
- (3) There must not be any time in the longer applicable period when an individual to whom this section applies has control of a related company.
- (4) There must not be any time in the longer applicable period when an individual to whom this section applies directly or indirectly possesses or is entitled to acquire—
- (a) more than 30% of the ordinary share capital of a related company,
  - (b) more than 30% of the loan capital of a related company, or
  - (c) more than 30% of the voting power in a related company.
- (5) For the purposes of subsections (3) and (4) ignore any shares in a related company held by the individual, or by an associate of the individual, at a time when that company—
- (a) has not issued any shares other than subscriber shares, and
  - (b) has not begun to carry on, or make preparations for carrying on, any trade or business.
- (6) For the purposes of this section, the loan capital of a company—
- (a) is treated as including any debt incurred by the company—
    - (i) for any money borrowed or capital assets acquired by the company,
    - (ii) for any right to receive income created in favour of the company, or
    - (iii) for consideration the value of which to the company was (at the time when the debt was incurred) substantially less than the amount of the debt (including any premium on it), and
  - (b) is treated as not including any debt incurred by the company by overdrawing an account with a person carrying on a business of banking if the debt arose in the ordinary course of that business.
- (7) For the purposes of this section—

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- (a) an individual is treated as entitled to acquire anything which the individual is entitled to acquire at a future date or will at a future date be entitled to acquire, and
- (b) there is attributed to any individual any rights or powers of any other person who is an associate of the individual.

### **257LH Requirement for no collusion with a non-qualifying investor**

There must not at any time in the longer applicable period be any arrangements—

- (a) as part of which—
  - (i) the investor makes the investment, or
  - (ii) the investor, or an individual who is an associate of the investor, makes any other investment in the social enterprise,
- (b) which provide for a person to make an investment in a company other than the social enterprise, where that person is not the individual (“A”) who invests as mentioned in paragraph (a), and
- (c) to which there is a party (whether or not A) who is an individual in relation to whom not all of the requirements in sections 257LF and 257LG would be met if—
  - (i) references in those sections to the investor were read as references to that individual, and
  - (ii) references in those sections to the social enterprise were read as references to the company mentioned in paragraph (b).

## **CHAPTER 4**

### **ELIGIBILITY: CONDITIONS RELATING TO THE SOCIAL ENTERPRISE**

#### *Conditions relating to the social enterprise<sup>F661</sup>: general*

#### **Textual Amendments**

**F661** Word in s. 257M cross-heading inserted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 6\(1\)](#)

### **257M The continuing to be a social enterprise requirement**

The social enterprise must be a social enterprise throughout the shorter applicable period.

### <sup>F662</sup>**257MA The amount raised from investments potentially eligible for relief**

#### **Textual Amendments**

**F662** S. 257MA omitted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 6\(2\)](#)

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## F663 **257MB Power to amend limits on amounts raised**

### Textual Amendments

**F663** S. 257MB omitted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by virtue of Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 6(2)**

## **257MC The gross assets requirement**

- (1) If the social enterprise is a single company, the value of its assets—
  - (a) must not exceed £15 million immediately before the investment is made, and
  - (b) must not exceed £16 million immediately after the investment is made.
- (2) If the social enterprise is a parent company, the value of the group assets—
  - (a) must not exceed £15 million immediately before the investment is made, and
  - (b) must not exceed £16 million immediately after the investment is made.
- (3) For the purposes of subsection (2), the value of the group assets is the sum of the values of the gross assets of each of the members of the group, ignoring any assets that consist in rights against, or shares in or securities of, another member of the group.

## **257MD The unquoted status requirement**

- (1) At the beginning of the shorter applicable period—
  - (a) the social enterprise must not be a quoted company,
  - (b) there must be no arrangements in existence for the social enterprise to become a quoted company, and
  - (c) there must be no arrangements in existence for the social enterprise to become a subsidiary of a company (“the new company”) by virtue of an exchange of shares, or shares and securities, if arrangements have been made with a view to the new company becoming a quoted company.
- (2) For the purpose of this section, a company is a “quoted company” if any shares, stocks, debentures or other securities of the company are—
  - (a) listed on a recognised stock exchange,
  - (b) listed on a designated exchange in a country outside the United Kingdom, or
  - (c) dealt in outside the United Kingdom by such means as may be designated.
- (3) In subsection (2)(b) and (c) “designated” means designated by an order made by the Commissioners for Her Majesty’s Revenue and Customs for the purposes of that provision.
- (4) An order made for the purposes of subsection (2)(b) may designate an exchange by name, or by reference to any class or description of exchanges, including a class or description framed by reference to any authority or approval given in a country outside the United Kingdom.
- (5) The arrangements referred to in subsection (1)(b), and the second arrangements referred to in subsection (1)(c), do not include arrangements in consequence of which

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any shares, stocks, debentures or other securities of the social enterprise or the new company (as the case may be) are at any subsequent time—

- (a) listed on a stock exchange that is a recognised stock exchange by virtue of an order under section 1005(1)(b), or
- (b) listed on an exchange, or dealt in by any means, designated by an order made for the purposes of subsection (2)(b) or (c),

if the order was made after the beginning of the shorter applicable period.

### **257ME The control and independence requirements**

- (1) The social enterprise must not at any time in the shorter applicable period control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the social enterprise.
- (2) The social enterprise must not at any time in the shorter applicable period—
  - (a) be a 51% subsidiary of a company, or
  - (b) be under the control of a company, or under the control of a company and a person connected with that company, without being a 51% subsidiary of the company.
- (3) No arrangements must be in existence at any time in the shorter applicable period by virtue of which the social enterprise could fail to meet either or both of subsections (1) and (2) (whether during that period or otherwise).

### **257MF The qualifying subsidiaries requirement**

Any subsidiary that the social enterprise has at any time in the shorter applicable period must be a qualifying subsidiary of the social enterprise.

### **257MG The property-managing subsidiaries requirement**

- (1) Any property-managing subsidiary that the social enterprise has at any time in the shorter applicable period must be a 90% social subsidiary of the social enterprise.
- (2) In subsection (1) “property-managing subsidiary” means a subsidiary of the social enterprise whose business consists wholly or mainly in the holding or managing of land or any property deriving its value (directly or indirectly) from land.

### **257MH The number of employees requirement**

- (1) If the social enterprise is a single company, the full-time equivalent employee number for it must be less than [F664250] when the investment is made.
- (2) If the social enterprise is a parent company, the sum of—
  - (a) the full-time equivalent employee number for it, and
  - (b) the full-time equivalent employee number for each of its qualifying subsidiaries,must be less than [F664250] when the investment is made.
- (3) The full-time equivalent employee number for a company is calculated by taking the number of full-time employees of the company and adding, for each employee of the company who is not a full-time employee, such fraction as is just and reasonable.

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- (4) In this section “employee”—
- (a) includes a director, but
  - (b) does not include—
    - (i) an employee on maternity [<sup>F665</sup>, paternity or parental bereavement] leave, or
    - (ii) a student on vocational training.

#### Textual Amendments

**F664** Word in s. 257MH(1)(2) substituted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 7**

**F665** Words in s. 257MH(4)(b)(i) substituted (18.1.2020) by Parental Bereavement (Leave and Pay) Act 2018 (c. 24), s. 2(2), **Sch. para. 53**; S.I. 2020/45, reg. 2

### 257MI The no partnership requirement

- (1) The requirements in this section apply during the shorter applicable period.
- (2) The social enterprise must not be a member of any partnership.
- (3) Each 90% social subsidiary of the social enterprise must not be a member of a partnership.

### <sup>F666</sup>257MIA The financial health requirement

- (1) The social enterprise must meet the financial health requirement at the beginning of the shorter applicable period.
- (2) The financial health requirement is that the social enterprise is not in difficulty.
- (3) The social enterprise is “in difficulty” if it is reasonable to assume that it would be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02).]

#### Textual Amendments

**F666** S. 257MIA inserted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 8**

### 257MJ The trading requirement

- (1) The social enterprise must meet the trading requirement throughout the shorter applicable period, but this does not apply if the social enterprise is an accredited social impact contractor.
- (2) The trading requirement is that—
  - (a) the social enterprise is a charity,
  - (b) the social enterprise is a single company that is not a charity, and its business—
    - (i) does not, if things done for incidental purposes are ignored, consist to any extent in the carrying-on of non-trade activities, and

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- (ii) does not consist wholly, or as to a substantial part, in the carrying-on of excluded activities, or
  - (c) the social enterprise is a parent company that is not a charity, and the business of the group does not consist wholly, or as to a substantial part, in the carrying-on of non-qualifying activities.
- (3) If the social enterprise intends that one or more companies should become its qualifying subsidiaries with a view to their carrying on one or more qualifying trades—
  - (a) the social enterprise is treated as a parent company for the purposes of subsection (2)(b) and (c), and
  - (b) the reference in subsection (2)(c) to the group includes the social enterprise and any existing or future company that will be its qualifying subsidiary after the intention in question is carried out,but this subsection does not apply at any time after the abandonment of that intention.
- (4) For the purposes of subsection (2)(c) “the business of the group” means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (5) For the purposes of determining the business of a group, activities of a group company are ignored so far as they are activities carried on by a mainly trading subsidiary otherwise than for its main purpose.
- (6) For the purposes of determining the business of a group, activities of a group company are ignored so far as they consist in—
  - (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
  - (b) the making of loans to another group company, or
  - (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company.
- (7) In this section—
  - “incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the body in question,
  - “mainly trading subsidiary” means a qualifying subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly,
  - “non-qualifying activities” means—
    - (a) excluded activities, and
    - (b) activities, other than activities carried on by a charity, that are carried on otherwise than in the course of a trade, and
  - “non-trade activities” means activities which are neither of the following—
    - (a) activities carried on in the course of a trade, and
    - (b) activities carried on in the course of preparing to carry on a trade.

### **257MK Ceasing to meet trading requirement: administration or receivership**

- (1) The social enterprise is not regarded as ceasing to meet the trading requirement merely because of anything done in consequence of the social enterprise or any of its

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subsidiaries being in administration or receivership, but this is subject to subsections (2) and (3).

- (2) Subsection (1) applies only if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a result of the company concerned being in administration or receivership,
- is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (3) The social enterprise ceases to meet the trading requirement if before the end of the shorter applicable period—
- (a) a resolution is passed, or an order is made, for the winding-up of the social enterprise or any of its subsidiaries (or, in the case of a winding-up otherwise than under the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), any other act is done for the like purpose), or
  - (b) the company or any of its subsidiaries is dissolved without winding-up,
- but this is subject to subsection (4).
- (4) Subsection (3) does not apply if the winding-up or dissolution is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.

### **257ML The issue must be to raise money for chosen trade or preparing for it**

- (1) The social enterprise must be a party to the making of the investment (so far as not in bonus shares) in order to raise money for the carrying-on, by the social enterprise or a 90% social subsidiary of the social enterprise, of—
- (a) a qualifying trade which on the investment date is carried on by the social enterprise or a 90% social subsidiary of the social enterprise, or
  - (b) the activity of preparing to carry on (or preparing to carry on and then carrying on) a qualifying trade—
    - (i) which on the investment date is intended to be carried on by the social enterprise or a 90% social subsidiary of the social enterprise, and
    - (ii) which is begun to be carried by the social enterprise or such a subsidiary within 2 years after that date.
- (2) In this Chapter—
- (a) the purpose within subsection (1) for which money is raised is referred to as “the funded purpose”,
  - (b) the qualifying trade mentioned in subsection (1)(a) or (b) is referred to as “the chosen trade”, and
  - (c) if the funded purpose is the carrying-on of the activity mentioned in subsection (1)(b), “relevant preparation work” means preparations that form the whole or part of the activity.
- (3) In determining for the purposes of subsection (1)(b) when a qualifying trade is begun to be carried on by a 90% social subsidiary of the social enterprise, any carrying-on of the trade by it before it became such a subsidiary is ignored.



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- (4) The reference in subsection (1)(b)(i) to a 90% social subsidiary of the social enterprise includes a reference to any existing or future body which will be such a subsidiary at any future time.
- (5) This section does not apply if the social enterprise is an accredited social impact contractor.

### **257MM Requirement to use money raised and to trade for minimum period**

- (1) All of the money raised by the social enterprise from the making of the investment must, no later than the end of 28 months beginning with the investment date, be employed wholly for the funded purpose.
- (2) The chosen trade must have been carried on for a period of at least 4 months ending at or after the time the investment is made and, throughout that period, the trade—
  - (a) must have been carried on by the social enterprise or a 90% social subsidiary of the social enterprise, and
  - (b) must not have been carried on by any other person.
- (3) Employing money on the acquisition of shares or stock in a body does not of itself amount to employing the money for the funded purpose.  
[ Employing money on the repayment of a loan does not amount to employing the <sup>F667</sup>(3A) money for the funded purpose.]
- (4) Subsection (1) does not fail to be met merely because an amount of money which is not significant is employed for other purposes.
- (5) If—
  - (a) merely because of the social enterprise or any other company being wound up, or dissolved without winding-up, the qualifying trade is carried on as mentioned in subsection (2) for a period shorter than 4 months, and
  - (b) the winding-up or dissolution—
    - (i) is for genuine commercial reasons, and
    - (ii) is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax,subsection (2) has effect as if it referred to that shorter period.
- (6) If—
  - (a) merely because of anything done as a result of the social enterprise or any other company being in administration or receivership, the chosen trade is carried on as mentioned in subsection (2) for a period shorter than 4 months, and
  - (b) the entry into administration or receivership, and everything done as a result of the company concerned being in administration or receivership—
    - (i) is for genuine commercial reasons, and
    - (ii) is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax,subsection (2) has effect as if it referred to that shorter period.
- (7) If the social enterprise is an accredited social impact contractor, the preceding provisions of this section apply with the following modifications—

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- (a) in subsection (1), for “28 months” substitute “ 24 months ”,
- (b) in that subsection, for “the funded purpose” substitute “ the carrying out of the social impact contract concerned ”, and
- (c) omit subsections (2), (3), [F<sup>668</sup>(3A),] (5) and (6).

#### **Textual Amendments**

**F667** S. 257MM(3A) inserted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 9\(2\)](#)

**F668** Word in s. 257MM(7)(c) inserted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 9\(3\)](#)

### **257MN The social enterprise must carry on the chosen trade**

- (1) There must not be a time in the shorter applicable period when—
  - (a) the chosen trade, or
  - (b) relevant preparation work,
 is carried on by a person who is neither the social enterprise nor a 90% social subsidiary of the social enterprise.
- (2) If relevant preparation work is carried out in the shorter applicable period by the social enterprise or a 90% social subsidiary of the social enterprise then, for the purposes of determining whether the requirement in subsection (1) is met, ignore any carrying-on of the chosen trade that takes place in that period before the trade begins to be carried on by a person who is the social enterprise or a 90% social subsidiary of the social enterprise.
- (3) The requirement in subsection (1) is not regarded as failing to be met if, merely because of any act or event within subsection (4), the chosen trade—
  - (a) ceases to be carried on in the shorter applicable period by the social enterprise or any 90% social subsidiary of the social enterprise, and
  - (b) it is subsequently carried on in that period by a person who is not any time in the longer applicable period connected with the social enterprise.
- (4) The acts and events within this subsection are—
  - (a) anything done as a consequence of the social enterprise or any other company being in administration or receivership, and
  - (b) the social enterprise or any other company being wound up, or dissolved without being wound up.
- (5) Subsection (4) applies only if—
  - (a) the entry into administration or receivership, and everything done as a consequence of the company concerned being in administration or receivership, or
  - (b) the winding-up or dissolution,
 is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (6) This section does not apply if the social enterprise is an accredited social impact contractor.

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## *F<sup>669</sup>* Limits on amounts that may be invested

### Textual Amendments

**F669** Ss. 257MNA-257MNE and cross-heading inserted (with effect in accordance with Sch. 1 para. 14(1) (2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 6\(3\)](#)

### **257MNA** Maximum amount where investment made in first 7 years

- (1) This section applies where—
  - (a) the investment is made before the end of the period of 7 years beginning with the relevant first commercial sale, or
  - (b) the investment is made after that period but—
    - (i) a relevant investment was made in the social enterprise before the end of that period, and
    - (ii) some or all of the money raised by that relevant investment was employed for the purposes of (or of part of) the qualifying activity for which the money raised by the investment is employed.
- (2) Where this section applies, the total amount of relevant investments made in the social enterprise on or before the date when the investment is made must not exceed £1.5 million.
- (3) The reference in subsection (2) to relevant investments “made in the social enterprise” is to be read with section 257MNB.
- (4) In this section—

“qualifying activity” means—

  - (a) a qualifying trade within paragraph (a) of section 257ML(1) carried on by the social enterprise or a 90% social subsidiary of the social enterprise, or
  - (b) an activity within paragraph (b) of section 257ML(1) so carried on;

“the relevant first commercial sale” has the meaning given by section 175A(6), reading—

  - (a) references to the issuing company as references to the social enterprise,
  - (b) references to the issue date as references to the investment date, and
  - (c) references to money raised by the issue of the relevant shares as references to money raised by the investment;

“relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (5) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (6) Where the social enterprise is an accredited social impact contractor—
  - (a) the reference in subsection (1)(a) to the relevant first commercial sale is to be read as a reference to the date on which the social enterprise first entered into a social impact contract;

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- (b) the reference in subsection (1)(b) to the qualifying activity mentioned there is to be read as a reference to the carrying out of the social impact contract for which the money raised by the investment is employed.
- (7) For provision about maximum amounts where this section does not apply, see section 257MNC.

### **257MNB Section 257MNA: supplementary**

- (1) In section 257MNA(2) the reference to relevant investments “made in the social enterprise” includes—
- (a) relevant investments made in a company which, at the material date, is or has been a 51% subsidiary of the social enterprise,
  - (b) any other relevant investment made in a company to the extent that the money raised by that relevant investment has been employed for the purposes of a trade carried on by another company (“company X”) which, at the material date, is or has been a 51% subsidiary of the social enterprise, and
  - (c) any other relevant investment made in a company if—
    - (i) the money raised by that relevant investment has been employed for the purposes of a trade carried on by that company or another person, and
    - (ii) after that relevant investment was made, but on or before the material date, that trade became a transferred trade (see subsection (5)).
- (2) The investments within paragraph (a) of subsection (1)—
- (a) include investments made in a company mentioned in that paragraph before it became a 51% subsidiary of the social enterprise, but
  - (b) where a company mentioned in that paragraph is not a 51% subsidiary of the social enterprise at the material date, do not include any investments made in that company after it last ceased to be such a subsidiary.
- (3) For the purposes of subsection (1)(b), where company X is not a 51% subsidiary of the social enterprise at the material date, any money employed after company X last ceased to be such a subsidiary is to be ignored.
- (4) Where only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a transferred trade, only the corresponding proportion of that relevant investment is to be treated as falling within subsection (1)(c).
- (5) For the purposes of this section, if—
- (a) on or before the material date a trade is transferred—
    - (i) to the social enterprise,
    - (ii) to a company which, at the material date, is or has been a 51% subsidiary of the social enterprise, or
    - (iii) to a partnership of which the social enterprise, or a company within sub-paragraph (ii), is a member, and
  - (b) the trade or part of it was at any time before the transfer carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “ transferred trade ” when it is transferred as mentioned in paragraph (a).

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- (6) The cases within subsection (5)(a)—
- (a) include the case where the trade is transferred to a company within subsection (5)(a)(ii), or a partnership of which such a company is a member, before the company became a 51% subsidiary of the social enterprise, but
  - (b) where a company within subsection (5)(a)(ii) is not a 51% subsidiary of the social enterprise at the material date, do not include the case where the trade is transferred to that company, or a partnership of which that company is a member, after that company last ceased to be such a subsidiary.
- (7) In this section—
- “the material date” means the date on which the investment is made;
  - “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (8) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (9) Section 173A(6) and (7) (meaning of “trade” etc) apply also for the purposes of this section.

#### **257MNC Maximum amount for cases outside section 257MNA**

- (1) This section applies where—
- (a) the investment is made at any time after the period mentioned in section 257MNA(1)(a), and
  - (b) it is not the case that the conditions in section 257MNA(1)(b)(i) and (ii) are met.
- (2) Where this section applies—
- (a) the total amount of relevant investments made in the social enterprise on or before the date when the investment is made must not exceed £1.5 million, and
  - (b) the amount invested must not be more than the amount mentioned in subsection (3).
- (3) That amount is the amount given by the formula—
- $$([\text{euro}] 200,000 - M \text{ RCG} + \text{RSI}) - T$$
- where—
- T is the total of any relevant investments made in the social enterprise in the aid period,
- M is the total of any de minimis aid, other than relevant investments, that is granted during the aid period—
- (a) to the social enterprise, or
  - (b) to a qualifying subsidiary of the social enterprise at a time when it is such a subsidiary,
- RCG is the highest rate at which capital gains tax is charged in the aid period, and
- RSI is the highest SI rate in the aid period.
- (4) In subsection (3) “the aid period” means the 3 years—

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- (a) ending with the day on which the investment is made, but
  - (b) in the case of that day, including only the part of the day before the investment is made.
- (5) In this section “de minimis aid” means de minimis aid which fulfils the conditions laid down <sup>F670</sup>in [Commission Regulation \(EU\) No 1407/2013](#) (de minimis aid) as it had effect in the United Kingdom immediately before IP completion day].
- <sup>F671</sup>(a) .....
- <sup>F671</sup>(b) .....
- (6) For the purposes of subsection (3), the amount of any de minimis aid is the amount of the grant or, if the aid is not in the form of a grant, the gross grant equivalent amount within the meaning of that Regulation <sup>F672</sup>as it had effect in the United Kingdom immediately before IP completion day].
- (7) For the purposes of subsection (3), if—
- (a) the investment or any relevant investment is made, or
  - (b) any aid is granted,
- in sterling or any other currency that is not the euro, its amount is to be converted into euros at an appropriate spot rate of exchange for the date on which the investment is made or the aid is paid.
- (8) In this section “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (9) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (10) Section 257MNB (which expands the meaning of “relevant investments made in the social enterprise”) applies for the purposes of each of subsections (2) and (3) above as it applies for the purposes of section 257MNA(2).

#### Textual Amendments

- F670** Words in s. 257MNC(5) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020](#) (S.I. 2020/1499), regs. 1, [4\(7\)\(a\)\(i\)](#)
- F671** S. 257MNC(5)(a)(b) omitted (31.12.2020) by virtue of [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020](#) (S.I. 2020/1499), regs. 1, [4\(7\)\(a\)\(ii\)](#)
- F672** Words in s. 257MNC(6) substituted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020](#) (S.I. 2020/1499), regs. 1, [4\(7\)\(b\)](#)

#### **257MNL** Limit on investment in shorter applicable period

- (1) This section applies where condition A or condition B is met.
- (2) Condition A is that—
- (a) a company becomes a 51% subsidiary of the social enterprise at any time during the shorter applicable period,
  - (b) all or part of the money raised by the investment is employed for the purposes of a qualifying activity which consists wholly or partly of a trade carried on by that company, and

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- (c) that trade (or part of it) was carried on by that company before it became a 51% subsidiary as mentioned in paragraph (a).
- (3) Condition B is that all or part of the money raised by the investment is employed for the purposes of a qualifying activity which consists wholly or partly of a trade which, during the shorter applicable period, becomes a transferred trade (see subsection (9)).
- (4) Where this section applies, at each time in the shorter applicable period (“the relevant time”) the total of the relevant investments made in the social enterprise before that time must not exceed £1.5 million.
- (5) In subsection (4) the reference to relevant investments “made in the social enterprise” includes—
- (a) relevant investments made in a company which at any time before the relevant time has been a 51% subsidiary of the social enterprise,
  - (b) any other relevant investment made in a company to the extent that the money raised by that relevant investment has been employed for the purposes of a trade carried on by another company (“company X”) which at any time before the relevant time has been a 51% subsidiary of the social enterprise, and
  - (c) any other relevant investment made in a company if—
    - (i) the money raised by that relevant investment has been employed for the purposes of a trade carried on by that company or another person, and
    - (ii) after that relevant investment was made, but before the relevant time, that trade (or part of it) became a transferred trade.
- (6) The investments within paragraph (a) of subsection (5)—
- (a) include investments made in a company mentioned in that paragraph before it became a 51% subsidiary of the social enterprise, but
  - (b) where a company mentioned in that paragraph is not a 51% subsidiary of the social enterprise at the relevant time, do not include any investments made in that company after it last ceased to be such a subsidiary.
- (7) For the purposes of subsection (5)(b), where company X is not a 51% subsidiary of the social enterprise at the relevant time, any money employed after company X last ceased to be such a subsidiary is to be ignored.
- (8) Where only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a transferred trade, only the corresponding proportion of that relevant investment is to be treated as falling within subsection (5) (c).
- (9) For the purposes of this section, if—
- (a) before the relevant time, a trade is transferred—
    - (i) to the social enterprise,
    - (ii) to a company which, at the relevant time, is or has been a 51% subsidiary of the social enterprise, or
    - (iii) to a partnership of which the social enterprise, or a company within sub-paragraph (ii), is a member, and
  - (b) the trade or part of it was at any time before the transfer carried on by another person,
- the trade or part mentioned in paragraph (b) becomes a “ transferred trade ” when it is transferred as mentioned in paragraph (a).

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- (10) The cases within subsection (9)(a)—
- (a) include the case where the trade is transferred to a company within subsection (9)(a)(ii), or a partnership of which such a company is a member, before the company became a 51% subsidiary of the social enterprise, but
  - (b) where a company within subsection (9)(a)(ii) is not a 51% subsidiary of the social enterprise at the relevant time, do not include the case where the trade is transferred to that company, or a partnership of which that company is a member, after that company last ceased to be such a subsidiary.
- (11) In this section—
- “qualifying activity” has the same meaning as in section 257MNA (see subsection (4) of that section);
- “relevant investment” has the meaning given by section 173A(3) (reading references in section 173A(3) to a company as including any social enterprise).
- (12) Section 173A(4) and (5) apply to determine for the purposes of this section when a relevant investment is made.
- (13) Section 173A(6) and (7) (meaning of “trade” etc) apply also for the purposes of this section.

#### **257MNE Power to amend limits on amounts that may be invested**

- (1) The Treasury may by regulations substitute a different figure for the figure for the time being specified in section 257MNA(2), 257MNC(2) or (3) or 257MND(4).
- (2) Regulations under this section may make incidental, supplemental, consequential, transitional or saving provision.
- (3) Regulations under this section may not be made unless a draft of the instrument containing them has been laid before, and approved by a resolution of, the House of Commons.]

#### *Interpretation of conditions relating to the social enterprise*

#### **257MP Meaning of “qualifying trade”**

- (1) For the purposes of this Chapter, a trade is a qualifying trade if—
  - (a) it is conducted on a commercial basis and with a view to the realisation of profits, and
  - (b) it does not at any time in the shorter applicable period consist wholly or as to a substantial part in the carrying-on of excluded activities.
- (2) References in this section and sections 257MQ to 257MT (excluded activities) to a trade are to be read without regard to the definition of “trade” in section 989.

#### **257MQ Meaning of “excluded activity”**

- (1) The following are excluded activities for the purposes of sections 257JD, 257MJ and 257MP—



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- (a) dealing in land, in commodities or futures or in shares, securities or other financial instruments,
  - (b) banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities <sup>F673</sup> ...,
  - [ <sup>F674</sup>(ba) leasing (including letting ships on charter or other assets on hire),
  - (bb) receiving royalties or licence fees,
  - (bc) operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home (see section 257MQA),
  - (bd) generating electricity, exporting electricity (see subsection (3)) or making electricity generating capacity available,
  - (be) generating heat,
  - (bf) generating any form of energy not within paragraph (bd) or (be),
  - (bg) producing gas or fuel,]
  - (c) property development (see section 257MR),
  - (d) activities in the fishery and aquaculture sector that is covered by Council Regulation (EC) No. 104/2000 of 17 December 1999 on the common organisation of the markets in fishery and aquaculture products,
  - (e) the primary production of products listed in Annex I to the Treaty on the Functioning of the European Union (agricultural etc products), with the exception of products covered by Council Regulation EC() No. 104/2000 (fishery and aquaculture products),
  - <sup>F675</sup>(f) .....
  - (g) road freight transport for hire or reward, and
  - (h) providing services or facilities for a business carried on by another person (other than a company of which the provider of the services or facilities is a qualifying subsidiary) if—
    - (i) the business consists wholly or as to a substantial part of activities falling within any of paragraphs (a) to (g), and
    - (ii) a controlling interest (see section 257MT) in the business is held by a person who also has a controlling interest in the business carried on by the provider of the services or facilities.
- <sup>F676</sup>(2) .....

[ For the purposes of subsection (1)(bd) electricity is exported if it is exported onto a <sup>F677</sup>(3) distribution system or transmission system (within the meaning of section 4 of the Electricity Act 1989).]

#### Textual Amendments

- F673** Words in s. 257MQ(1)(b) omitted (with application in accordance with Sch. 1 para. 15 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 10\(2\)\(a\)](#)
- F674** Ss. 257MQ(1)(ba)-(bg) inserted (with application in accordance with Sch. 1 para. 15 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 10\(2\)\(b\)](#)
- F675** S. 257MQ(1)(f) omitted (with application in accordance with Sch. 6 para. 14 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), [Sch. 6 para. 13\(2\)](#); S. 257MQ(1)(f) omitted (with application in accordance with Sch. 1 para. 15 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 10\(2\)\(c\)](#)

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**F676** S. 257MQ(2) omitted (with application in accordance with Sch. 1 para. 15 of the amending Act) by virtue of Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 10(3)**

**F677** S. 257MQ(3) inserted (with application in accordance with Sch. 1 para. 15 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 10(4)**

### **Excluded activities: nursing homes and residential care homes**

#### **F678 257MQA**

- (1) This section supplements section 257MQ(1)(bc).
- (2) “Nursing home” means any establishment which exists wholly or mainly for the provision of nursing care—
- (a) for persons suffering from sickness, injury or infirmity, or
  - (b) for women who are pregnant or have given birth.
- (3) “Residential care home” means any establishment which exists wholly or mainly for the provision of residential accommodation, together with board and personal care, for persons in need of personal care because of—
- (a) old age,
  - (b) mental or physical disability,
  - (c) past or present dependence on alcohol or drugs,
  - (d) any past illnesses, or
  - (e) past or present mental disorder.
- (4) The activities of a person are not to be taken to fall within section 257MQ(1)(bc) unless that person has an estate or interest in, or is in occupation of, the nursing home or residential care home in question.]

#### **Textual Amendments**

**F678** S. 257MQA inserted (with application in accordance with Sch. 1 para. 15 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 10(5)**

### **257MR Excluded activities: property development**

- (1) For the purposes of section 257MQ(1)(c) “property development” means the development of land—
- (a) by a company which has, or at any time has had, an interest in the land, and
  - (b) with the sole or main object of realising a gain from the disposal of an interest in the land when it is developed.
- (2) For the purposes of subsection (1) “interest in land” means (subject to subsection (3)) —
- (a) any estate, interest or right in or over land, including any right affecting the use or disposition of land, or
  - (b) any right to obtain such an estate, interest or right from another which is conditional on the other's ability to grant it.
- (3) References in this section to an interest in land do not include—
- (a) the interest of a creditor (other than a creditor in respect of a rentcharge) whose debt is secured by way of mortgage, an agreement for a mortgage or a charge of any kind over land, or

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- (b) in the case of land in Scotland, the interest of a creditor in a charge or security of any kind over land.

**F679 257MS Excluded activity: subsidised generation or export of electricity**

**Textual Amendments**

**F679** S. 257MS omitted: (with application in accordance with Sch. 6 para. 14 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), Sch. 6 para. 13(3); (with application in accordance with Sch. 1 para. 15 of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 1 para. 10(6)**

**257MT Excluded activity: providing services or facilities for another business**

- (1) This section explains what is meant by a controlling interest in a business for the purposes of section 257MQ(1)(h).
- (2) In the case of a business carried on by a company, a person (“A”) has a controlling interest in the business if—
  - (a) A controls the company,
  - (b) the company is a close company and A, or an associate of A, is a director of the company and either—
    - (i) is the beneficial owner of more than 30% of the ordinary share capital of the company, or
    - (ii) is able, directly or through the medium of other companies or by any other indirect means, to control more than 30% of that share capital, or
  - (c) at least half of the business could, in accordance with section 942 of CTA 2010, be regarded as belonging to A for the purposes of section 941 of CTA 2010 (company reconstructions without a change of ownership).
- (3) In any other case, a person has a controlling interest in a business if the person is entitled to at least half of the assets used for, or of the income arising from, the business.
- (4) For the purposes of this section—
  - (a) any rights or powers of a person who is an associate of another are to be attributed to that other person, and
  - (b) “business” includes any trade, profession or vocation.

**257MU Meaning of “qualifying subsidiary”**

- (1) For the purposes of this Part, a company (“the subsidiary”) is a qualifying subsidiary of another company (“the parent”) if—
  - (a) the subsidiary is a 51% subsidiary of the parent,
  - (b) no person other than the parent, or another of its subsidiaries, has control of the subsidiary, and
  - (c) no arrangements are in existence as a result of which either of the conditions in paragraphs (a) and (b) would cease to be met.

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- (2) The conditions in subsection (1)(a) to (c) do not cease to be met merely because the subsidiary or any other company is wound up, or dissolved without winding up, if the winding-up or dissolution—
- (a) is for genuine commercial reasons, and
  - (b) is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (3) The conditions in subsection (1)(a) to (c) do not cease to be met merely because of anything done as a consequence of the subsidiary or another company being in administration, or receivership, if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a consequence of the company concerned being in administration or receivership,
- is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (4) The conditions in subsection (1)(a) to (c) do not cease to be met merely because arrangements are in existence for the disposal by the parent or (as the case may be) by another subsidiary of all its interest in the subsidiary if the disposal—
- (a) is to be for genuine commercial reasons, and
  - (b) is not to be part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.

### **257MV Meaning of “90% social subsidiary” of a social enterprise**

- (1) For the purposes of this Chapter, a company (“the subsidiary”) is a 90% social subsidiary of another company (“the parent”) if—
- (a) the subsidiary is a social enterprise,
  - (b) the parent possesses at least 90% of the issued share capital of, and at least 90% of the voting power in, the subsidiary,
  - (c) the parent would—
    - (i) in the event of a winding-up of the subsidiary, or
    - (ii) in any other circumstances,
 be beneficially entitled to receive at least 90% of the assets of the subsidiary which would then be available for distribution to equity holders of the subsidiary,
  - (d) the parent is beneficially entitled to receive at least 90% of any profits of the subsidiary which are available for distribution to equity holders of the subsidiary,
  - (e) no person other than the parent has control of the subsidiary, and
  - (f) no arrangements are in existence as a result of which any of the conditions in paragraphs (a) to (e) would cease to be met.
- (2) For the purposes of this Chapter, a company (“company A”) which is a subsidiary of another company (“company B”) is a 90% social subsidiary of a third company (“company C”) if—
- (a) company A is a 90% social subsidiary of company B, and company B is a 100% social subsidiary of company C, or
  - (b) company A is a 100% social subsidiary of company B, and company B is a 90% social subsidiary of company C.

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- (3) For the purposes of subsection (2) no account is to be taken of any control company C may have of company A.
- (4) For the purposes of subsection (2), a company (“company X”) is a 100% social subsidiary of another company (“company Y”) at any time when the conditions in subsection (1)(a) to (f) would be met if—
  - (a) company X were the subsidiary,
  - (b) company Y were the parent, and
  - (c) in subsection (1) for “at least 90%” there were substituted “ 100% ”.
- (5) The conditions in subsection (1)(a) to (f) do not cease to be met merely because of anything done as a consequence of the subsidiary or any other company being wound up, or dissolved without being wound up, if the winding-up or dissolution—
  - (a) is for genuine commercial reasons, and
  - (b) is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (6) The conditions in subsection (1)(a) to (f) do not cease to be met merely because of anything done as a consequence of the subsidiary or any other company being in administration, or receivership, if—
  - (a) the entry into administration or receivership, and
  - (b) everything done as a consequence of the company concerned being in administration or receivership,is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (7) The conditions in subsection (1)(a) to (f) do not cease to be met merely because any arrangements are in existence for the disposal by the parent of all its interest in the subsidiary if the disposal—
  - (a) is to be for genuine commercial reasons, and
  - (b) is not to be part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (8) For the purposes of subsection (1)—
  - (a) the persons who are equity holders of the subsidiary, and
  - (b) the percentage of the assets of the subsidiary to which an equity holder would be entitled,are to be determined in accordance with Chapter 6 of Part 5 of CTA 2010.
- (9) In making that determination—
  - (a) references in section 166 of that Act to company A are to be read as references to an equity holder, and
  - (b) references in that section to winding up are to be read as including references to any other circumstances in which assets of the subsidiary are available for distribution to its equity holders.

<sup>F680</sup> ~~257MN~~ **Excluded activities: power to amend**

- (1) The Treasury may by regulations add to, repeal or otherwise amend any provision of sections 257MQ to 257MT (excluded activities).
- (2) Regulations under this section may—

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- (a) make different provision for different cases or purposes;
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (3) So far as they cause an activity to cease to be an excluded activity, amendments made by regulations under this section may have effect in relation to times before they come into force, but not times before 6 April 2015.
- (4) This section is without prejudice to any other power to amend any provision of this Part.]

#### Textual Amendments

**F680** S. 257MW inserted (with effect in accordance with Sch. 6 para. 5 of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [Sch. 6 para. 1](#)

## CHAPTER 5

### ATTRIBUTION OF RELIEF

#### 257N Attribution of SI relief to investments

- (1) References in this Part, in relation to any individual, to the SI relief attributable to any investment are to be read as references to any reduction made in the individual's liability to income tax that is attributed to that investment in accordance with this section.

This is subject to the provisions of this Part providing for the withdrawal or reduction of SI relief.

- (2) If an individual's liability to income tax is reduced under this Part in any tax year, then—
- (a) if the reduction is obtained because of a single distinct investment, the amount of the reduction is attributed to that investment, and
  - (b) if the reduction is obtained because of two or more distinct investments, the amount of the reduction—
    - (i) is apportioned between the distinct investments in the same proportions as the amounts claimed by the individual in respect of each of those investments, and
    - (ii) is attributed to those investments accordingly.
- (3) In this section “distinct investment” means an investment, made on a single day, in—
- (a) a single share or single qualifying debt investment, or
  - (b) two or more shares, or two or more qualifying debt investments, where the shares or qualifying debt investments are in the same social enterprise and of the same class.
- (4) If under this section an amount of any reduction in income tax is attributed to a distinct investment—

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- (a) in the case of a distinct investment of the kind mentioned in subsection (3) (a), that amount is attributed to the share, or qualifying debt investment, concerned, and
  - (b) in the case of a distinct investment of the kind mentioned in subsection (3) (b), a proportionate part of that amount is attributed to each of the shares, or qualifying debt investments, concerned.
- (5) If corresponding bonus shares are issued to an individual in respect of any shares (“the original shares”) to which SI relief is attributed—
- (a) a proportionate part of the total amount attributed to the original shares immediately before the bonus shares are issued is attributed to each of the shares in the holding comprising the original shares and the bonus shares, and
  - (b) after the issue of the bonus shares, this Part applies as if those shares had been issued to the individual on the same day as the original shares.
- (6) In subsection (5) “corresponding bonus shares” means bonus shares which are in the same company, of the same class, and carry the same rights, as the original shares.
- (7) If section 257JA(1) and (2) apply in the case of any investment as if part of the amount invested had been invested in a previous tax year, this section has effect as if that part and the remainder had been invested by separate investments (and that part had been invested by an investment made on a day in the previous tax year).
- (8) For the purposes of this section, shares or other investments in a company are not treated as being of the same class unless they would be so treated if dealt in on a recognised stock exchange.

## CHAPTER 6

### CLAIMS FOR RELIEF

#### **257P Time for making claims for SI relief**

- (1) A claim for SI relief in respect of the amount invested may be made—
  - (a) not earlier than the time the requirement in section 257MM(2) (chosen trade must have been carried on for 4 months) is first met, and
  - (b) not later than the fifth anniversary of the normal self-assessment filing date for the tax year in which the investment is made.
- (2) If the social enterprise is an accredited social impact contractor, subsection (1) applies with the omission of its paragraph (a).
- (3) If section 257JA(1) and (2) apply as if part of the amount invested had been invested in a previous tax year, subsection (1) has effect as if that part and the remainder had been invested by separate investments (and that part had been invested by an investment made on a day in the previous tax year).

#### **Modifications etc. (not altering text)**

**C79** S. 257P(1) applied (with modifications) by 1992 c. 12, Sch. 8B para. 8(1) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))

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### 257PA Entitlement to claim

- (1) The investor is entitled to make a claim for SI relief in respect of the amount invested if the investor has received from the social enterprise a compliance certificate in respect of that amount.
- (2) For the purposes of PAYE regulations, no regard is to be had to SI relief unless a claim for it has been duly made.
- (3) No application may be under section 55(3) or (4) of TMA 1970 (application for postponement of payment of tax pending appeal) on the ground that the investor is entitled to SI relief unless a claim for the relief has been duly made by the investor.

**Modifications etc. (not altering text)**

**C80** S. 257PA(1) applied (with modifications) by 1992 c. 12, Sch. 8B para. 8(1) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))

### 257PB Compliance statements

- (1) For the purposes of this Part, a “compliance statement” in respect of the investment is a statement by the social enterprise to the effect that, except so far as they fall to be met by or in relation to the individual, the requirements for SI relief—
  - (a) are for the time being met in relation to the investment (or in relation to investments that include the investment), and
  - (b) have been so met at all times since the investment was made.
- (2) A compliance statement must be in such form as the Commissioners for Her Majesty's Revenue and Customs may direct and must contain—
  - (a) such additional information as the Commissioners may reasonably require, including in particular information relating to the persons who have requested the issue of compliance certificates,
  - (b) a declaration that the statement is correct to the best of the social enterprise's knowledge and belief, and
  - (c) such other declarations as the Commissioners may reasonably require.
- (3) The social enterprise may not provide an officer of Revenue and Customs with a compliance statement in respect of the investment—
  - (a) before the requirement in section 257MM(2) (trade must have been carried for 4 months) is met, or
  - (b) later than 2 years after the end of the tax year in which the investment is made or, if that requirement is first met after the end of that tax year, later than 2 years after the requirement is first met.
- (4) If the social enterprise is an accredited social impact contractor, subsection (3) applies with the omission of its paragraph (a).

**Modifications etc. (not altering text)**

**C81** Ss. 257PB-257PD applied (with modifications) by 1992 c. 12, Sch. 8B para. 8(1) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))



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## 257PC Compliance certificates

- (1) For the purposes of this Chapter, a “compliance certificate” is a certificate which—
  - (a) is issued by the social enterprise in respect of the investment,
  - (b) states that, except so far as they fall to be met by or in relation to the individual, the requirements for SI relief are for the time being met in relation to the investment, and
  - (c) is in such form as the Commissioners for Her Majesty's Revenue and Customs may direct.
- (2) Before issuing a compliance certificate, the social enterprise must provide an officer of Revenue and Customs with a compliance statement in respect of the investment.
- (3) The social enterprise must not issue a compliance certificate without the authority of an officer of Revenue and Customs.
- (4) If the social enterprise, or a person connected with the social enterprise, has under section 257SF given a notice to an officer of Revenue and Customs that relates (whether or not exclusively) to the investment, a compliance certificate must not be issued unless the authority mentioned in subsection (3) of this section is given or renewed after receipt of the notice.
- (5) If—
  - (a) an officer of Revenue and Customs has been requested to give or renew an authority to issue a compliance certificate, and
  - (b) an officer of Revenue and Customs has decided whether or not to do so,an officer of Revenue and Customs must give notice of the decision to the social enterprise.
- (6) For the purposes of the provisions of TMA 1970 relating to appeals, the refusal of an officer of Revenue and Customs to authorise the issue of a compliance certificate is taken to be a decision disallowing a claim by the social enterprise.
- (7) In the case of requirements that cannot be met until a future time, references in this section to requirements being met for the time being are to nothing having occurred to prevent their being met.

### Modifications etc. (not altering text)

**C81** Ss. 257PB-257PD applied (with modifications) by 1992 c. 12, Sch. 8B para. 8(1) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))

## 257PD Penalties for fraudulent certificate or statement etc

The social enterprise is liable to a penalty not exceeding £3,000 if—

- (a) it issues a compliance certificate, or provides a compliance statement, which is made fraudulently or negligently, or
- (b) it issues a compliance certificate in contravention of section 257PC(3) or (4).

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**Modifications etc. (not altering text)**

**C81** Ss. 257PB-257PD applied (with modifications) by 1992 c. 12, Sch. 8B para. 8(1) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))

**257PE Power to amend Chapter**

- (1) The Treasury may by order amend this Chapter.
- (2) An order under this section may include consequential, incidental or transitional provision or savings, including consequential amendments, repeals or revocations of provision made by or under an enactment (including this Act) whenever passed or made.
- (3) An order under this section may make different provision for different cases or purposes.
- (4) An order under this section may, in particular, make provision for persons to be liable to penalties whose amount, or maximum amount, does not exceed £3,000.

**Modifications etc. (not altering text)**

**C82** S. 257PE(2) modified by 1992 c. 12, Sch. 8B para. 8(2) (as inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 12 para. 3](#))

## CHAPTER 7

### WITHDRAWAL OR REDUCTION OF SI RELIEF

#### *Value received by the investor*

**257Q Effect of the investor receiving value from the social enterprise**

- (1) If the investor receives any value from the social enterprise at any time in the longer applicable period, any SI relief given in respect of the investment must—
  - (a) if it is greater than the amount given by the formula set out in subsection (2), be reduced by that amount, and
  - (b) in any other case, be withdrawn.
- (2) The formula is—
 
$$V \times R$$
 where—
 

V is the amount of the value received, and

R is the SI rate for the tax year for which the SI relief was given.
- (3) Subsections (1) and (2) are subject to—
  - (a) section 257QA (value received: insignificant receipts),

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- (b) section 257QB (value received where there is more than one issue of investments),
  - (c) section 257QC (value received where part of investment treated as made in previous tax year),
  - (d) section 257QD (cases where maximum SI relief not obtained),
  - (e) section 257QG (receipts of value by and from connected persons etc), and
  - (f) section 257QH (receipt of replacement value).
- (4) Sections 257QB to 257QD are to be applied in the order in which they appear in this Part.
- (5) Value received is to be ignored, for the purposes of this section, so far as SI relief attributable to the investment has already been withdrawn or reduced on its account.
- (6) For the purposes of this section and sections 257QA to 257QI, an individual—
- (a) who acquires any part of the investment, and
  - (b) who does so on such a transfer as is mentioned in section 257T (spouses or civil partners),
- is treated as the investor.

#### **257QA Value received: insignificant receipts**

- (1) In this section “insignificant receipt” means a receipt whose amount—
- (a) is not more than £1,000, or
  - (b) is more than £1,000 but is insignificant in relation to the amount invested.
- (2) Section 257Q(1) does not apply to an insignificant receipt, subject as follows.
- (3) Section 257Q(1) applies to all receipts within the longer applicable period if, at any time on the investment date or in the preceding 12 months, arrangements are in existence providing for the investor to receive, or to be entitled to receive, value from the social enterprise at any time in the longer applicable period.
- (4) Once section 257Q(1) has applied to a receipt, it applies also to all other receipts within the longer applicable period except any earlier insignificant receipts.
- (5) The amount of the first receipt to which section 257Q(1) applies is treated as increased by the total amount of any earlier insignificant receipts.
- (6) In subsection (3)—
- (a) the reference to the investor includes any person who at any time in the longer applicable period is an associate of the investor (whether or not an associate at the material time), and
  - (b) the reference to the social enterprise includes any person who at any time in the longer applicable period is connected with the social enterprise (whether or not connected at the material time).

#### **257QB Value received where there is more than one issue of investments**

- (1) Subsection (3) applies if—
- (a) a time in the longer applicable period when the investor receives value from the social enterprise is within the period that for the purposes of this Part is

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the longer applicable period in relation to another investment in the social enterprise, and

(b) that other investment is one for which the investor has SI relief.

(2) That other investment is an “overlapping investment” for the purposes of subsection (3).

(3) Section 257Q(2) has effect in relation to the investment as if the amount V were reduced by multiplying it by—

IT

where—

I is the amount on which the investor has SI relief in the case of the investment, and

T is the total of that amount and the corresponding amount for each overlapping investment.

### **257QC Value received where part of investment treated as made in previous tax year**

(1) Subsection (2) applies if—

(a) section 257Q(1) applies to a receipt, and

(b) section 257JA(1) and (2) apply as if part of the amount invested had been invested in a previous tax year.

(2) The calculation under section 257Q(2) in relation to that receipt is to be made as follows—

*Step 1* Apportion the amount referred to as “V” between the tax year in which the investment was made and the preceding tax year by multiplying that amount by—

AB

where—

A is the part of the amount invested on which the investor obtains SI relief for the tax year in question, and

B is the sum of—

(a) that part, and

(b) the part of the amount invested on which the investor obtains SI relief for the other tax year.

*Step 2* In relation to each of the amounts (“V1” and “V2”) so apportioned to the two tax years, calculate the amounts (“X1” and “X2”) that would be given by the formula if separate investments had been made in those tax years. In calculating amounts X1 and X2, apply section 257QD if appropriate but do not apply section 257QB.

*Step 3* Add amounts X1 and X2 together. The result is the required amount.

### **257QD Cases where maximum SI relief not obtained**

(1) If the investor's liability to income tax is reduced for any tax year in respect of the investment and—

(a) the amount of the reduction (“A”), is less than

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(b) the amount (“B”) which is equal to income tax at the SI rate for that tax year on the amount on which the investor has SI relief in the case of the investment, section 257Q(2) has effect in relation to any value received as if the amount referred to as “V” were reduced by multiplying it by—

AB

- (2) If the amount of SI relief attributable to the investment has been reduced before the SI relief was obtained, the amount referred to in subsection (1) as “A” is to be treated for the purposes of that subsection as the amount that it would have been without that reduction.
- (3) Subsection (2) does not apply to a reduction of SI relief as a result of section 257N(5) (attribution of SI relief where there is a corresponding issue of bonus shares).

### **257QE When value is received**

- (1) This section applies for the purposes of sections 257Q and 257QB.
- (2) The investor receives value from the social enterprise at any time when the social enterprise—
- (a) repays, redeems or repurchases any investments in the social enterprise which belong to the investor, or makes any payment to the investor for giving up the investor's right to investments in the social enterprise on their cancellation or extinguishment,
  - (b) repays, in pursuance of any arrangements for or in connection with the making of the investment, any debt owed to the investor other than a debt which was incurred by the social enterprise—
    - (i) on or after the investment date, and
    - (ii) otherwise than in consideration of the extinguishment of a debt incurred before that date,
  - (c) makes to the investor any payment for giving up on its extinguishment the investor's right to any debt, other than—
    - (i) a debt in respect of a repayment of the kind mentioned in section 257LF(5)(a) or (f), or
    - (ii) an ordinary trade debt,
  - (d) releases or waives any liability of the investor to the social enterprise or discharges or undertakes to discharge any liability of the investor to a third person,
  - (e) makes a loan or advance to the investor which has not been repaid in full before the investment is made,
  - (f) provides a benefit or facility for the investor by providing, at a price less than the arm's-length price or free of charge, goods or services for whose provision the social enterprise ordinarily makes a charge,
  - (g) otherwise provides any benefit or facility for the investor,
  - (h) transfers an asset to the investor for no consideration or for consideration less than its market value or acquires an asset from the investor for consideration greater than its market value, or
  - (i) makes to the investor any other payment except—
    - (i) a payment of a kind mentioned in section 257LF(5), or
    - (ii) a payment in discharge of an ordinary trade debt.

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- (3) For the purposes of subsection (2)(d), the social enterprise is treated as having released or waived a liability if the liability is not discharged within 12 months of the time when it ought to have been discharged.
- (4) For the purposes of subsection (2)(e), each of the following is treated as a loan made by the social enterprise to the investor—
- (a) the amount of any debt, other than an ordinary trade debt, incurred by the investor to the social enterprise, and
  - (b) the amount of any debt due from the investor to a third party which has been assigned to the social enterprise.
- (5) The investor also receives value from the social enterprise if—
- (a) in respect of ordinary shares, or qualifying debt investments, held by the investor any payment or asset is received in a winding-up or dissolution of the social enterprise, and
  - (b) the winding-up or dissolution is for genuine commercial reasons, and is not part of any arrangements the main purpose or one of the main purposes of which is the avoidance of tax.
- (6) The investor also receives value from the social enterprise if—
- (a) a person—
    - (i) purchases any investments in the social enterprise which belong to the investor, or
    - (ii) makes any payment to the investor for giving up any right in relation to any investments in the social enterprise, and
  - (b) that person is an individual in relation to whom not all of the requirements in sections 257LF and 257LG would be met if references in those sections to the investor were read as references to that person.
- (7) If, because of the investor's disposal of investments in the social enterprise, any SI relief attributable to those investments is withdrawn or reduced under section 257R, the investor is not to be treated as receiving value from the social enterprise in respect of the disposal.
- (8) If the investor is a director of the social enterprise, the investor is not to be treated as receiving value from the social enterprise merely because of the payment to the investor of reasonable remuneration (including any benefit or facility) for any services rendered to the social enterprise as a director or employee.
- (9) In this section “ordinary trade debt” means any debt for goods or services supplied in the ordinary course of a trade or business if any credit given—
- (a) is for not more than 6 months, and
  - (b) is not for longer than that normally given to customers of the person carrying on the trade or business.

### **257QF The amount of value received**

In a case falling within a provision listed in column 1 of the following table, the amount of value received for the purposes of sections 257Q and 257QB is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The amount of value received</i>
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Section 257QE(2)(a), (b) or (c)	The amount received by the investor or, if greater, the market value of the investments or debt
Section 257QE(2)(d)	The amount of the liability
Section 257QE(2)(e)	The amount of the loan or advance, less the amount of any repayment made before the investment is made
Section 257QE(2)(f)	The arm's-length price for the goods or services, less any amount paid for them by the investor
Section 257QE(2)(g)	The cost to the social enterprise of providing the benefit or facility, less any consideration given for it by the investor
Section 257QE(2)(h)	The difference between the market value of the asset and the consideration (if any) given for it
Section 257QE(2)(i)	The amount of the payment
Section 257QE(5)	The amount of the payment or the market value of the asset
Section 257QE(6)	The amount received by the investor or, if greater, the market value of the investments

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### **257QG Receipts of value by and from connected persons etc**

In sections 257Q, 257QA, 257QB, 257QE and 257QF—

- (a) any reference to a payment or transfer to the investor includes a reference to a payment or transfer made to the investor indirectly or to the investor's order or for the investor's benefit,
- (b) any reference to the investor includes a reference to an associate of the investor, and
- (c) any reference to the social enterprise includes a reference to a person who at any time in the longer applicable period is connected with the social enterprise (whether or not that person is so connected at the material time).

### **257QH Receipt of replacement value**

(1) If—

- (a) any SI relief attributable to the investment would, in the absence of this section, be reduced or withdrawn under section 257Q because of a receipt of value within section 257QE(2) or (6) (“the original value”),
- (b) the original supplier receives value (“the replacement value”) from the original recipient and the receipt is a qualifying receipt, and
- (c) the amount of the replacement value is at least the amount of the original value, section 257Q does not, because of the receipt of the original value, have effect to withdraw or reduce the SI relief.

This is subject to section 257QI(1) and (2).

(2) For the purposes of this section—

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- “the original recipient” means the person who receives the original value,  
and  
“the original supplier” means the person from whom that value was received.
- (3) If the amount of the original value is, by virtue of section 257QB, treated as reduced for the purposes of section 257Q(2) as it applies in relation to the investment, the reference in subsection (1)(c) to the amount of the original value is to be read as a reference to the amount of that value ignoring the reduction.
- (4) A receipt of the replacement value is a qualifying receipt for the purposes of subsection (1) if it arises—
- (a) because of the original recipient doing one or more of the following—
    - (i) making a payment to the original supplier, other than a payment within paragraph (c) or a payment to which subsection (5) applies,
    - (ii) acquiring any asset from the original supplier for a consideration the amount or value of which is more than the market value of the asset, and
    - (iii) disposing of any asset to the original supplier for no consideration or for a consideration the amount or value of which is less than the market value of the asset,
  - (b) if the receipt of the original value was within section 257QE(2)(d), because of an event the effect of which is to reverse the event which constituted the receipt of the original value, or
  - (c) if the receipt of the original value was within section 257QE(6), because of the original recipient repurchasing the investments in question, or (as the case may be) re-acquiring the right in question, for a consideration the amount or value of which is at least the amount of the original value.
- (5) This subsection applies to—
- (a) any payment for any goods, services or facilities, provided (whether in the course of trade or otherwise) by—
    - (i) the original supplier, or
    - (ii) any other person who at any time in the longer applicable period is an associate of, or is connected with, the original supplier (whether or not the person is such an associate, or is so connected, at the material time),

which is reasonable in relation to the market value of those goods, services or facilities,
  - (b) any payment of any interest which represents no more than a reasonable commercial return on any money lent to—
    - (i) the original recipient, or
    - (ii) any other person who at any time in the longer applicable period is an associate of the original recipient (whether or not the person is such an associate at the material time),
  - (c) any payment for the acquisition of an asset which does not exceed its market value,
  - (d) any payment, as rent for any property occupied by—
    - (i) the original recipient, or



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- (ii) any person who at any time in the longer applicable period is an associate of the original recipient (whether or not the person is such an associate at the material time),  
of an amount not exceeding a reasonable and commercial rent for the property,
  - (e) any payment in discharge of an ordinary trade debt, and
  - (f) any payment for shares in or securities of any company in circumstances that do not fall within subsection (4)(a)(ii).
- (6) For the purposes of this section, the amount of the replacement value is—
- (a) in a case within paragraph (a) of subsection (4), the sum of—
    - (i) the amount of any payment within sub-paragraph (i) of that paragraph, and
    - (ii) the difference between the market value of any asset to which sub-paragraph (ii) or (iii) of that paragraph applies and the amount or value of the consideration (if any) received for it,
  - (b) in a case within subsection (4)(b), the same as the amount of the original value, and
  - (c) in a case within subsection (4)(c), the amount or value of the consideration received by the original supplier.
- Section 257QF applies for the purpose of determining the amount of the original value.
- (7) In this section—
- (a) any reference to a payment to a person (however expressed) includes a reference to a payment made to the person indirectly or to the person's order or for the person's benefit, and
  - (b) “ordinary trade debt” has the meaning given by section 257QE(9).

### **257QI Section 257QH: supplementary**

- (1) The receipt of the replacement value by the original supplier is ignored for the purposes of section 257QH(1) to the extent to which it has previously been set under section 257QH against a receipt of value to prevent any reduction or withdrawal of SI relief under section 257Q.
- (2) The receipt of the replacement value by the original supplier (“the event”) is ignored for the purposes of section 257QH if—
  - (a) the event occurs before the longer applicable period,
  - (b) where the event occurs after the time the original recipient receives the original value, it does not occur as soon after that time as is reasonably practicable in the circumstances, or
  - (c) where an appeal has been brought by the investor against an assessment to withdraw or reduce any SI relief attributable to the investment because of the receipt of the original value, the event occurs more than 60 days after the day on which the amount of the relief which falls to be withdrawn has been finally determined.

But nothing in section 257QH or this section requires the replacement value to be received after the original value.

- (3) This subsection applies if—

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- (a) the receipt of the replacement value by the original supplier is a qualifying receipt for the purposes of section 257QH(1), and
  - (b) in consequence of the receipt, any receipts of value are ignored for the purposes of section 257Q as that section applies in relation to the investment or any other investments made by the investor, and
  - (c) the event which gives rise to the receipt is (or includes) the making of an investment by—
    - (i) the investor, or
    - (ii) any person who at any time in the longer applicable period is an associate of the investor (whether or not the person is such an associate at the material time).
- (4) If subsection (3) applies, the person who makes the investment concerned is not to be eligible for SI relief in relation to the investment concerned or any other investments in the same issue.
- (5) In this section “the original recipient”, “the original supplier” and “replacement value” have the same meaning as in section 257QH.

*Repayments etc of investments to other persons*

**257QJ Repayments etc of share capital to other persons**

- (1) This section applies if any SI relief is attributable to the whole or any part of the investment and, at any time in the longer applicable period, the social enterprise or any subsidiary—
- (a) repays, redeems or repurchases any of its share capital which belongs to any member other than—
    - (i) the investor, or
    - (ii) a person who falls within subsection (5), or
  - (b) makes any payment to any such member for giving up the member's right to any of the share capital of the social enterprise or subsidiary on its cancellation or extinguishment.
- (2) The SI relief must—
- (a) if it is greater than the amount given by the formula set out in subsection (3), be reduced by that amount, and
  - (b) in any other case, be withdrawn.
- (3) The formula is—
- $$A \times R$$
- where—
- A is the amount received by the member, and
- R is the SI rate for the tax year for which the SI relief was given.
- (4) This section is subject to sections 257QK to 257QP; and sections 257QL to 257QO are to be applied in the order in which they appear in this Part.

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- (5) A person falls within this subsection if the repayment causes any SI relief attributable to that person's shares in the social enterprise to be withdrawn or reduced by virtue of—
  - (a) section 257QE(2)(a) (receipt of value by virtue of repayment of investments etc), or
  - (b) section 257R (disposal of whole or part of the investment).
- (6) A repayment is treated as having the effect mentioned in subsection (5)(a) if it would have that effect were it not an insignificant receipt; and here “insignificant receipt” is to be read in accordance with section 257QA(1).
- (7) A repayment is to be ignored, for the purposes of this section, to the extent to which SI relief attributable to any shares has already been withdrawn or reduced on its account.
- (8) In this section and sections 257QK to 257QP—
  - (a) “repayment” means a repayment, redemption, repurchase or payment mentioned in subsection (1)(a) or (b), and
  - (b) references to a subsidiary of the social enterprise are references to a company which at any time in the longer applicable period is a 51% subsidiary of the social enterprise (whether or not it is such a subsidiary at the time of the repayment).

#### **257QK Insignificant payments ignored for the purposes of section 257QJ**

- (1) A repayment is ignored for the purposes of section 257QJ if both—
  - (a) the market value of the shares to which it relates (“the target shares”) immediately before the event occurs, and
  - (b) the amount received by the member in question,are insignificant in relation to the market value of the remaining issued share capital of the social enterprise, or (as the case may be) the subsidiary, immediately after the event occurs.

This is subject to subsection (3).
- (2) For the purposes of subsection (1) it is to be assumed that the target shares are cancelled at the time the repayment is made.
- (3) Subsection (1) does not apply if repayment arrangements are in existence at any time in the period—
  - (a) beginning 12 months before the investment date, and
  - (b) ending at the end of the investment date.
- (4) For this purpose “repayment arrangements” means arrangements which provide—
  - (a) for a repayment by the social enterprise or any subsidiary of the social enterprise (whether or not it is such a subsidiary at the time the arrangements are made), or
  - (b) for anyone to be entitled to such a repayment,at any time in the longer applicable period.

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### **257QL Amount of repayments etc if there is more than one issue of shares**

- (1) This section applies if, in relation to the same repayment, section 257QJ(2) applies to SI relief attributable to two or more issues of shares.
- (2) Section 257QJ(3) has effect in relation to the shares included in each of those issues as if the amount referred to as A were reduced by multiplying it by the fraction—

IT

where—

I is the amount on which SI relief was obtained by individuals in respect of shares which are included in the issue and to which SI relief is or, but for section 257QJ(2)(b), would be attributable, and

T is the total of that amount and the corresponding amount or amounts in respect of the other issue or issues.

### **257QM Single issue affecting more than one individual**

- (1) This section applies if, in relation to the same repayment, section 257QJ(2) applies to SI relief attributable to shares held by two or more individuals.
- (2) Section 257QJ(3) has effect in relation to each individual as if the amount referred to as A were reduced by multiplying it by the fraction—

IT

where—

I is the amount on which the individual obtains SI relief in respect of the shares to which SI relief is or, but for section 257QJ(2)(b), would be attributable, and

T is the total of that amount and the corresponding amount or amounts on which the other individual or individuals obtain SI relief in respect of such shares.

### **257QN Single issue treated as made partly in previous tax year**

- (1) This section applies if—
  - (a) section 257QJ(2) applies to SI relief attributable to shares held by an individual, and
  - (b) part of the issue of shares has been treated as issued to the individual in a previous tax year for the purposes of section 257JA(1) and (2).
- (2) This subsection explains how the calculation under section 257QJ(3) is to be made.

*Step 1* Apportion the amount referred to as A between the tax year in which the shares were issued and the previous tax year by multiplying that amount by the fraction—

IT

where—

I is the amount on which the individual obtains SI relief in respect of the shares treated as issued in the tax year in question, and

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T is the total of that amount and the corresponding amount in respect of the shares treated as issued in the other tax year.

*Step 2* In relation to each of the amounts (“A1” and “A2”) so apportioned to the two tax years, calculate the amounts (“X1” and “X2”) that would be given by the formula if there were separate issues of shares in those tax years. In calculating amounts X1 and X2, apply section 257QO if appropriate but do not apply section 257QL or 257QM.

*Step 3* Add amounts X1 and X2 together. The result is the required amount.

### **257QO Maximum relief not obtained for share issue**

(1) This section applies if section 257QJ(2) applies to SI relief attributable to shares held by the investor and—

- (a) the amount of the reduction (“D”) in the investor's liability to income tax for any tax year in respect of the shares, is less than
- (b) the amount given by—

$$I \times R$$

where—

I is the amount on which the investor claims SI relief in respect of the investment, and

R is the SI rate for the tax year for which the SI relief was given.

(2) Section 257QJ(3) has effect as if the amount referred to as A were reduced by multiplying it by the fraction—

$$DI \times R$$

(3) If the amount of SI relief attributable to any of the shares has been reduced before the SI relief was obtained, the amount referred to in subsections (1) and (2) as D is to be treated for the purposes of those subsections as the amount it would have been without that reduction.

(4) Subsection (3) does not apply to a reduction of SI relief by virtue of section 257N(5) (attribution of SI relief where there is a corresponding issue of bonus shares).

### **257QP Repayment of authorised minimum within 12 months**

(1) This section applies if—

- (a) a company issues share capital (“the original shares”) of nominal value equal to the authorised minimum (within the meaning of the Companies Act 2006) for the purposes of complying with section 761 of that Act (public company: requirement as to minimum share capital), and
- (b) the registrar of companies issues the company with a certificate under that section.

(2) Section 257QJ(2) does not apply in relation to any redemption of the original shares within 12 months of the date on which they were issued.

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### *Miscellaneous*

#### **257QQ Acquisition of a trade or trading assets**

- (1) Any SI relief attributable to the investment is withdrawn if—
  - (a) at any time in the longer applicable period, the social enterprise or any qualifying subsidiary—
    - (i) begins to carry on as its trade, or as part of its trade, a trade which was previously carried on at any time in that period otherwise than by the social enterprise or any qualifying subsidiary, or
    - (ii) acquires the whole, or the greater part, of the assets used for the purposes of a trade previously so carried on, and
  - (b) the investor is a person, or one of a group of persons, to whom subsection (2) or (3) applies.
- (2) This subsection applies to any person or group of persons—
  - (a) to whom an interest amounting in total to more than a half share in the trade (as previously carried on) belonged at any time in the longer applicable period, and
  - (b) who is or are a person or group of persons to whom such an interest in the trade carried on by the social enterprise belongs or has, at any such time, belonged.
- (3) This subsection applies to any person or group of persons who—
  - (a) control or, at any time in the longer applicable period, have controlled the social enterprise, and
  - (b) is or are a person or group of persons who, at any such time, controlled another company which previously carried on the trade.
- (4) For the purposes of subsection (2)—
  - (a) for the purpose of determining the person to whom a trade belongs and, if a trade belongs to two or more persons, their respective shares in that trade—
    - (i) apply section 941(6) of CTA 2010, and
    - (ii) an interest in a trade belonging to a company may be treated in accordance with any of the options set out in section 942 of that Act, and
  - (b) any interest, rights or powers of a person who is an associate of another person are treated as those of that other person.
- (5) If the investor—
  - (a) is a director of, or of a company which is a partner of, the social enterprise or any qualifying subsidiary, and
  - (b) is in receipt of, or entitled to receive, remuneration as such a director falling within section 257LF(5)(g) (reasonable remuneration for services),

then, in determining whether any SI relief attributable to the investment is to be withdrawn, the reference in subsection (3)(b), and (so far as relating to that provision) the reference in subsection (1)(a)(i), to any time in the longer applicable period are to be read as references to any time before the end of the longer applicable period.
- (6) Section 257LF(8) (director also an employee) applies for the purposes of subsection (5) as it applies for the purposes of section 257LF, and in subsection (5) “remuneration” includes any benefit or facility.

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- (7) In this section “trade” includes any business or profession, and references to a trade previously carried on include references to part of such a trade.

### **257QR Acquisition of share capital**

- (1) Any SI relief attributable to the investment is withdrawn if—
- (a) the social enterprise comes to acquire all of the issued share capital of another company at any time in the longer applicable period, and
  - (b) the investor is a person, or one of a group of persons, to whom subsection (2) applies.
- (2) This subsection applies to any person or group of persons who—
- (a) control or have, at any time in the longer applicable period, controlled the social enterprise, and
  - (b) is or are a person or group of persons who, at any such time, controlled the other company.
- (3) If the investor—
- (a) is a director of, or of a company which is a partner of, the social enterprise or any qualifying subsidiary, and
  - (b) is in receipt of, or entitled to receive, remuneration as such a director falling within section 257LF(5)(g) (reasonable remuneration for services),
- then, in determining whether any SI relief attributable to the investment is to be withdrawn, the reference in subsection (2)(b) to any time in the longer applicable period is to be read as a reference to any time before the end of the longer applicable period.
- (4) Section 257LF(8) (director also an employee) applies for the purposes of subsection (3) as it applies for the purposes of section 257LF, and in subsection (3) “remuneration” includes any benefit or facility.

### **257QS Relief subsequently found not to have been due**

- (1) Any SI relief obtained by the investor which is subsequently found not to have been due must be withdrawn.
- (2) SI relief obtained by the investor in respect of the investment may not be withdrawn on the ground that the requirements of Chapter 4 are not met unless the requirements of subsection (3) are met.
- (3) The requirements of this subsection are met if either—
- (a) the social enterprise has given notice under section 257SF in relation to the investment (information to be provided by the social enterprise etc), or
  - (b) an officer of Revenue and Customs has given notice to the social enterprise stating the officer's opinion that, because of the ground in question, the whole or any part of the SI relief attributable to the investment (whether alone or with other SI relief) was not due.

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## *Disposals*

### **257R Disposal of whole or part of the investment**

- (1) This section applies if—
- (a) the investor disposes of the whole or part of the investment,
  - (b) the disposal takes place before the shorter applicable period ends,
  - (c) SI relief is attributable to the shares, or qualifying debt investments, disposed of,
  - (d) the disposal is not to an individual who—
    - (i) is the spouse, or civil partner, of the investor, and
    - (ii) is living together with the investor at the time of the disposal, and
  - (e) the disposal does not occur as a result of the investor's death.
- (2) If the disposal is not made by way of a bargain at arm's length, the SI relief attributable to those shares, or qualifying debt investments, must be withdrawn.
- (3) If the disposal is made by way of a bargain at arm's length, the SI relief attributable to those shares or qualifying debt investments must—
- (a) if it is greater than the amount given by the formula set out in subsection (4), be reduced by that amount, and
  - (b) in any other case, be withdrawn.

- (4) The formula is—

$$C \times R$$

where—

C is the amount or value of the consideration received by the investor for the shares or qualifying debt investments, and

R is the SI rate for the tax year for which the SI relief was given.

### **257RA Cases where maximum relief not obtained**

- (1) Subsection (2) applies if the investor's liability to income tax for any tax year is reduced under this Part in respect of the investment and—
- (a) the amount of the reduction (“D”), is less than
  - (b) the amount given by—

$$A \times R$$

where—

A is the amount on which the investor claims SI relief in respect of the investment, and

R is the SI rate for that tax year.

- (2) Section 257R(3) and (4) have effect as if the amount or value referred to as C were reduced by multiplying it by the fraction—

$$DA \times R$$



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- (3) If section 257JA(1) and (2) apply in the case of the investment as if part of it had been made in a previous tax year, subsections (1) and (2) of this section have effect as if that part and the remainder had been invested by separate investments (and that part had been invested by an investment made on a day in the previous tax year).
- (4) If the amount of SI relief attributable to the investment or any part of it has been reduced before SI relief was obtained, the amount referred to in subsections (1) and (2) as D is to be treated for the purposes of those subsections as the amount that it would have been without that reduction.
- (5) Subsection (4) does not apply to a reduction of SI relief by virtue of section 257N(5) (attribution of SI relief if there is a corresponding issue of bonus shares).

### **257RB Call options**

- (1) This section applies if the investor grants an option which, if exercised, would bind the investor to sell the whole or part of investment.
- (2) The grant of the option is treated for the purposes of section 257R as a disposal—
  - (a) of the investment, or
  - (b) (as the case may be) of the part of the investment to which the option relates.
- (3) Nothing in this section prejudices section 257LB (no pre-arranged exits).

### **257RC Put options**

- (1) This section applies if, at any time in the longer applicable period, a person grants the investor an option which, if exercised, would bind the grantor to purchase the whole or part of the investment.
- (2) Any SI relief—
  - (a) attributable to the investment, or
  - (b) (as the case may be) attributable to the part of the investment to which the option relates,must be withdrawn.
- (3) For the purposes of subsection (2)(b), the part of the investment to which an option relates is the part which, if—
  - (a) the option were exercised immediately after the grant, and
  - (b) any investments made in the social enterprise by the investor after the grant were disposed of immediately after being made,would be treated for the purposes of section 257R as disposed of in pursuance of the option.

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## CHAPTER 8

### WITHDRAWAL OR REDUCTION OF SI RELIEF: PROCEDURE

#### *Assessments and appeals*

#### **257S Assessments for the withdrawal or reduction of SI relief**

If any SI relief which has been obtained falls to be withdrawn or reduced under Chapter 7, it must be withdrawn or reduced by the making of an assessment to income tax for the tax year for which the relief was obtained.

#### **257SA Appeals against section 257QS(3)(b) notices**

For the purposes of the provisions of TMA 1970 relating to appeals, the giving of notice by an officer of Revenue and Customs under section 257QS(3)(b) is taken to be a decision disallowing a claim by the social enterprise.

#### **257SB Time limits for assessments**

- (1) An officer of Revenue and Customs may—
  - (a) make an assessment for withdrawing or reducing the SI relief attributable to whole or any part of the investment, or
  - (b) give a notice under section 257QS(3)(b),
 at any time not more than 6 years after the end of the relevant tax year.
- (2) In subsection (1) “the relevant tax year” means—
  - (a) the tax year containing the end of the 28 months beginning with the investment date, or
  - (b) if later, the tax year in which occurs the event which causes the SI relief to be withdrawn or reduced.
- (3) Subsection (1) is without prejudice to section 36(1A) of TMA 1970 (loss of tax brought about deliberately etc).

#### **257SC Cases where assessment not to be made**

- (1) No assessment for withdrawing or reducing SI relief in respect of the investment may be made because of an event occurring after the investor's death.
- (2) Subsection (3) applies if the investor has, by a disposal or disposals to which section 257R(3) applies, disposed of all investments which—
  - (a) have been made by the investor in the social enterprise, and
  - (b) are investments—
    - (i) to which SI relief is attributable, or
    - (ii) have not been held by the investor until the end of the third anniversary of the date on which they were made.
- (3) No assessment for withdrawing or reducing SI relief in respect of those investments may be made because of any subsequent event unless the event occurs at a time when

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the requirements of sections 257LF, 257LG and 257LH are not met in relation to the investor by reference to any of those investments.

### *Interest*

#### **257SD Date from which interest is chargeable**

- (1) In its application to an assessment made by virtue of section 257S in the case of relief withdrawn or reduced by virtue of a provision listed in subsection (2), section 86 of TMA 1970 (interest on overdue income tax) has effect as if the relevant date were 31 January next following the tax year for which the assessment is made.
- (2) The provisions are—
  - section 257LD,
  - any of sections 257LF to 257LH,
  - any of sections 257M to 257MJ,
  - section 257MN,
  - section 257Q,
  - section 257QJ,
  - section 257QQ,
  - section 257QR
  - section 257R, and
  - section 257RC.

### *Information*

#### **257SE Information to be provided by the investor**

- (1) This section applies if the investor has obtained SI relief in respect of the investment, and an event occurs as a result of which—
  - (a) the SI relief falls to be withdrawn or reduced by virtue of any of sections 257LD, 257LF, 257LG and 257LH,
  - (b) the SI relief falls to be withdrawn or reduced under section 257Q (receipt of value), or would fall to be so withdrawn or reduced but for section 257QH (receipt of replacement value), or
  - (c) the SI relief falls to be withdrawn or reduced under any of sections 257R, 257RB and 257RC (disposals and options).
- (2) The investor must within 60 days of coming to know of the event give a notice to an officer of Revenue and Customs containing particulars of the event.
- (3) If the investor—
  - (a) is required under this section to give notice of a receipt of value which is within section 257Q, or would be within that section but for section 257QH, and
  - (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,the notice must include particulars of that receipt (or expected receipt).
- (4) In subsection (3) “qualifying receipt” and “replacement value” are to be read in accordance with section 257QH.

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### **257SF Information to be provided by the social enterprise etc**

- (1) This section applies if the social enterprise has provided an officer of Revenue and Customs with a compliance statement in respect of the investment and an event occurs as a result of which—
  - (a) any of the requirements in sections 257M, 257MC to 257MK, 257MM(1) and 257MN is not met in respect of the investment, or
  - (b) any of sections 257Q, 257QJ, 257QQ and 257QR has effect to cause any SI relief attributable to the investment to be withdrawn or reduced, or—
    - (i) would have such an effect if SI relief had been obtained in respect of the investment, or
    - (ii) in the case of section 257Q, would have such an effect but for section 257QH (receipt of replacement value).
- (2) If this section applies—
  - (a) the social enterprise, and
  - (b) any person connected with the social enterprise who has knowledge of the matters mentioned in subsection (1),
 must give a notice to an officer of Revenue and Customs containing particulars of the event.
- (3) Any notice required to be given by the social enterprise under subsection (2)(a) must be given—
  - (a) within 60 days of the event, or
  - (b) if the event is a receipt of value within section 257QE(2) from a person connected with the social enterprise (see section 257QG), within 60 days of the social enterprise coming to know of the event.
- (4) Any notice required to be given by a person under subsection (2)(b) must be given within 60 days of the person coming to know of the event.
- (5) If a person—
  - (a) is required under this section to give notice of a receipt of value which is within section 257Q, or would be within that section but for section 257QH, and
  - (b) has knowledge of any replacement value received (or expected to be received) because of a qualifying receipt,
 the notice must include particulars of that receipt of replacement value (or expected receipt).
- (6) In subsection (5) “qualifying receipt” and “replacement value” are to be read in accordance with section 257QH.
- (7) If the event mentioned in subsection (1) is one whose occurrence results in the requirement in section 257M not being met in respect of the investment, the references in subsections (2) and (3) to the social enterprise are to—
  - (a) the body concerned even though it has ceased to be a social enterprise, or
  - (b) the body into which the social enterprise has been converted.

### **257SG Power to require information in section 257SE or 257SF cases**

- (1) This section applies if an officer of Revenue and Customs has reason to believe that a person—

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- (a) has not given a notice which the person is required to give under section 257SE or 257SF in respect of any event,
  - (b) has given or received value within the meaning of section 257QE(2) or (6) which, but for the fact that the amount given or received was an insignificant receipt, would have triggered a requirement to give such a notice, or
  - (c) has made or received any repayment within the meaning given by section 257QJ(8) which, but for the fact that it falls to be ignored for the purposes of section 257QJ by virtue of section 257QK(1), would have triggered a requirement to give a notice under section 257SF.
- (2) The officer may by notice require the person concerned to supply the officer, within such time as the officer may specify in the notice, with such information relating to the event as the officer may reasonably require for the purposes of this Part.
  - (3) The period specified in a notice under subsection (2) must be at least 60 days.
  - (4) In subsection (1)(b) the reference to an insignificant receipt is to be read in accordance with section 257QA(1).

#### **257SH Power to require information in other cases**

- (1) Subsection (2) applies if SI relief is claimed in respect of the investment, and an officer of Revenue and Customs has reason to believe that it may not be due because of any such arrangements as are mentioned in section 257LB(1), 257LC, 257LE, [F681257LEA,] 257LH, 257ME(3), 257MK(2) or (4), 257MM(5) or (6), 257MN(5), 257MU or 257MV(1), (5), (6) or (7).
- (2) The officer may by notice require any person concerned to supply the officer within such time as may be specified in the notice with—
  - (a) a declaration in writing stating whether or not, according to the information which that person has or can reasonably obtain, any such arrangements exist or have existed, and
  - (b) such other information as the officer may reasonably require for the purposes of the provision in question and as that person has or can reasonably obtain.
- (3) The period specified in a notice under subsection (2) must be at least 60 days.
- (4) For the purposes of subsection (2), in the case of a provision listed in column 1 of the following table, the person concerned is given by the corresponding entry in column 2 of the table.

<b>Provision</b>	<b>The person concerned</b>
Section 257LB(1) or 257LC	The investor, the social enterprise and any person connected with the social enterprise
Section 257LE or 257MK(2) or (4)	The investor, the social enterprise and any person controlling the social enterprise
[F682Section 257LEA	The investor, the social enterprise, any person controlling the social enterprise and any person whom an officer of Revenue and Customs has reason to believe may be a party to the arrangements in question]
Section 257LH	The investor

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Section 257ME(3), The social enterprise and any person controlling the  
 257MU(1) or 257MV(1) social enterprise

Section 257MM(5) or (6), The investor, the social enterprise, any other company  
 257MN(5), 257MU(2), (3) in question, and any person controlling the social  
 or (4) or 257MV(5), (6) or enterprise or any other company in question  
 (7)

References in the table to the investor include references to any person to whom the investor appears to have made such a transfer as is mentioned in section 257T (spouses or civil partners) of the whole or part of the investment.

- (5) If SI relief has been obtained in respect of the investment—
- (a) any person who receives from the social enterprise any payment or asset which may constitute value received (by the person or another) for the purposes of section 257Q, and
  - (b) any person on whose behalf such a payment or asset is received,
- must, if so required by an officer of Revenue and Customs, state whether the payment or asset so received is received on behalf of any other person and, if so, the name and address of that other person.
- (6) If SI relief has been claimed in respect of the investment—
- (a) any person who holds or has held investments in the social enterprise, and
  - (b) any person on whose behalf any such investments are or were held,
- must, if so required by an officer of Revenue and Customs, state whether the investments so held are or were held on behalf of any other person and, if so, the name and address of that other person.

#### Textual Amendments

**F681** Word in s. 257SH(1) inserted (with effect in accordance with Sch. 1 para. 14(3)(4) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), Sch. 1 para. 5(2)

**F682** Words in s. 257SH(4) inserted (with effect in accordance with Sch. 1 para. 14(3)(4) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), Sch. 1 para. 5(3)

### 257SI Confidentiality

- (1) Section 18(1) of the Commissioners for Revenue and Customs Act 2005 does not prevent an officer of Revenue and Customs from disclosing to the social enterprise that SI relief has been obtained or claimed in respect of a particular number or proportion of any investments in it.
- (2) Section 18(1) of the Commissioners for Revenue and Customs Act 2005 does not prevent—
  - (a) disclosure to the Regulator of Community Interest Companies for the purposes of the Regulator's functions,
  - (b) disclosure to a Minister of the Crown for the purposes of functions of a Minister of the Crown under sections 257JD to 257JG, or
  - (c) disclosure to a person for the purposes of functions delegated to the person under section 257JH(1).

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- (3) Information disclosed in reliance on subsection (2) may not be further disclosed except—
- (a) with the consent of the Commissioners for Her Majesty's Revenue and Customs, or
  - (b) if the disclosure is required by an enactment.
- (4) Information originally disclosed in reliance on subsection (2)(a) may be disclosed in reliance on subsection (3)(a) only for the purposes of the Regulator's functions.
- (5) Information originally disclosed in reliance on subsection (2)(b) or (c) may be disclosed in reliance on subsection (3)(a) only for the purposes of—
- (a) functions of a Minister of the Crown under sections 257JD to 257JG, or
  - (b) functions delegated to a person under section 257JH(1).
- (6) If, in contravention of subsections (3) to (5), any revenue and customs information relating to a person is disclosed and the identity of the person—
- (a) is specified in the disclosure, or
  - (b) can be deduced from it,
- section 19 of the Commissioners for Revenue and Customs Act 2005 (offence of wrongful disclosure) applies as it applies in relation to a disclosure of such information in contravention of section 20(9) of that Act.
- (7) In subsection (6) “revenue and customs information relating to a person” has the meaning given by section 19(2) of that Act.
- (8) Subject to subsections (3) and (5), no obligation as to confidentiality or other restriction on disclosure, whether imposed by an enactment or otherwise, prevents disclosure of relevant information—
- (a) to a Minister of the Crown for the purposes of functions of a Minister of the Crown under sections 257JD to 257JG,
  - (b) to a person for the purposes of functions delegated to the person under section 257JH(1), or
  - (c) to an officer of Revenue and Customs for the purpose of assisting Her Majesty's Revenue and Customs to discharge their functions under the Income Tax Acts so far as relating to matters arising under this Part.
- (9) In subsection (8) “relevant information” means information obtained—
- (a) by a Minister of the Crown, or
  - (b) by a person to whom functions have been delegated under section 257JH(1), in the course of discharging functions under sections 257JD to 257JG.
- (10) In this section “Minister of the Crown” has the meaning given by section 8(1) of the Ministers of the Crown Act 1975.

## CHAPTER 9

### MISCELLANEOUS AND SUPPLEMENTARY PROVISIONS

#### **257T Transfers between spouses or civil partners**

- (1) This section applies if—

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- (a) the investor transfers the whole or part of the investment to another individual (“B”) during their lives,
  - (b) the investor was married to, or was the civil partner of, B at the time of the transfer, and
  - (c) section 257R does not apply to the transfer.
- (2) This Part (including subsection (1)) has effect, in relation to any subsequent disposal or other event, as if—
- (a) B were the investor as respects the transferred stake,
  - (b) B's liability to income tax had been reduced in respect of the transferred stake for the same tax year as that for which the investor's was so reduced,
  - (c) the amount by which B's liability to income tax had been reduced in respect of the transferred stake were the same as that by which the investor's liability had been so reduced, and
  - (d) the same amount of SI relief had continued to be attributable to the transferred stake despite the transfer.
- (3) If the amount of SI relief attributable to the transferred stake had been reduced before the relief was obtained by the investor—
- (a) this Part has effect, in relation to any subsequent disposal or other event, as if the amount of SI relief attributable to the transferred stake had been correspondingly reduced before the relief was obtained by B, and
  - (b) section 257QD(2), 257QO(3) and 257RA(4) apply in relation to B as they would have applied in relation to the investor.
- (4) If, because of any such disposal or other event, an assessment for reducing or withdrawing SI relief is to be made, the assessment is to be made on B.

### **257TA Identification of investments on a disposal**

- (1) The rules in subsections (2) and (3) are for determining which investments of any class are treated as disposed of for the purposes of—
- (a) section 257R (disposal of the investment), or
  - (b) section 257T (spouses or civil partners),
- if the investor disposes of some but not all of the investments of that class which the investor holds in the social enterprise.
- (2) Investments made on an earlier day are treated as disposed of before investments made on a later day.
- (3) Investments made on the same day are treated as disposed of in the following order—
- (a) first, any to which neither SI relief nor hold-over relief is attributable,
  - (b) next, any to which hold-over relief, but not SI relief, is attributable,
  - (c) next, any to which SI relief, but not hold-over relief, is attributable, and
  - (d) finally, any to which both SI relief and hold-over relief are attributable.
- (4) Any investments within paragraph (c) or (d) of subsection (3) which are treated by section 257N(7) as issued on an earlier day are treated as disposed of before any other investments falling within that paragraph of subsection (3).
- (5) The following—



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- (a) any investments to which SI relief is attributable and which were transferred to an individual as mentioned in section 257T, and
  - (b) any investments to which hold-over relief, but not SI relief, is attributable and which were acquired by an individual on a disposal to which section 58 of TCGA 1992 applies,
- are treated for the purposes of subsections (2) and (3) as acquired by the individual on the day on which they were made.
- (6) In a case to which section 127 of TCGA 1992 applies (including the case where that section applies by virtue of an enactment relating to chargeable gains), shares included in the new holding are treated for the purposes of subsections (2) and (3) as acquired when the original shares were acquired.
- (7) In this section—
- “hold-over relief” means relief under Schedule 8B to TCGA 1992;
  - “new holding” and “original shares” have the same meaning as in section 127 of TCGA 1992 (or, as the case may be, that section as applied by the enactment concerned).

#### **257TB Meaning of a company being “in administration” or “in receivership”**

- (1) References in this Part to a company being “in administration” or “in receivership” are to be read as follows.
- (2) A company is “in administration” if—
- (a) it is in administration within the meaning of Schedule B1 to the Insolvency Act 1986 or Schedule B1 to the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), or
  - (b) there is in force in relation to it under the law of a country or territory outside the United Kingdom any appointment corresponding to an appointment of an administrator under either of those Schedules.
- (3) A company is “in receivership” if there is in force in relation to it—
- (a) an order for the appointment of an administrative receiver, a receiver and manager or a receiver under Chapter 1 or 2 of Part 3 of the Insolvency Act 1986 or Part 4 of the Insolvency (Northern Ireland) Order 1989, or
  - (b) any corresponding order under the law of a country or territory outside the United Kingdom.

#### **257TC Meaning of “associate”**

- (1) In this Part “associate”, in relation to a person, means—
- (a) any relative or partner of the person,
  - (b) the trustee or trustees of any settlement in relation to which the person, or any relative of the person (living or dead), is or was a settlor, and
  - (c) if the person has an interest in any shares or obligations of a company which are subject to any trust or are part of the estate of a deceased person—
    - (i) the trustee or trustees of the settlement concerned or, as the case may be, the personal representatives of the deceased, and
    - (ii) if the person is a company, any other company which has an interest in those shares or obligations.

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- (2) In this section “relative” means spouse, civil partner, ancestor or lineal descendant.

### **257TD Meaning of “control”**

- (1) In this Part “control” is to be read in accordance with sections 450 and 451 of CTA 2010 but as if “company” in those sections included a charity that is a trust.
- (2) For the purposes of this Part, a charity that is a trust has “control” of another person if, as a result of the operation of subsection (1), the trustees (in their capacity as trustees of the trust) have, or any of them has, control of the person.
- (3) A person has “control” of a charity that is a trust if—
- (a) the person is a trustee of the charity and some or all of the powers of the trustees of the charity could be exercised by—
    - (i) the person acting alone, or
    - (ii) by the person acting together with any other persons who are trustees of the charity and who are connected with the person,
  - (b) the person, alone or together with other persons, has power to appoint or remove a trustee of the charity, or
  - (c) the person, alone or together with other persons, has any power of approval or direction in relation to the carrying-out by the trustees of any of their functions.
- (4) Subsection (3) is in addition to, and does not limit, subsection (1); and both of those subsections are subject to subsection (5).
- (5) For the purposes of this Part, a regulator is to be treated as not having control of any company regulated by the regulator.
- (6) Section 995 of this Act (control) does not apply for the purposes of this Part.

### **257TE Minor definitions etc**

- (1) In this Part—
- “arrangements” (except as used, in sections 257LB and 257QK, in the expressions “issuing arrangements” and “repayment arrangements”) includes any scheme, arrangement or understanding of any kind, whether or not legally enforceable, involving a single transaction or two or more transactions,
- “bonus shares” means shares which are issued otherwise than for payment (whether in cash or otherwise),
- “compliance statement” has the meaning given by section 257PB,
- “director”—
- (a) is read in accordance with section 452 of CTA 2010 but as if “company” in that section included a charity that is a trust, and
  - (b) in relation to a charity that is a trust (but subject to section 257LF(9)), includes (in particular) each trustee of the trust,
- “disposal”, in relation to any shares or other investments, includes disposal of an interest or right in or over them,
- “group” means a parent company and its qualifying subsidiaries,
- “group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries,

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“ordinary shares” means shares forming part of a company's ordinary share capital,

“parent company” means a company that has one or more qualifying subsidiaries,

“qualifying subsidiary” has the meaning given by section 257MU, and

“single company” means a company that does not have any qualifying subsidiaries.

- (2) For the purposes of this Part, the market value at any time of any asset is the price which it might reasonably be expected to fetch on a sale at that time in the open market free from any interest or right which exists by way of security in or over it.]

## PART 6

### VENTURE CAPITAL TRUSTS

#### CHAPTER 1

##### INTRODUCTION

### 258 Overview of Part

In this Part—

- (a) Chapter 2 provides for VCT income tax relief (“VCT relief”), that is, entitlement to tax reductions in respect of amounts subscribed by individuals for shares issued to them by venture capital trusts,
- (b) Chapter 3 provides for VCT approvals,
- (c) Chapter 4 makes provision as to the meaning of “qualifying holding” for the purposes of Chapter 3,
- (d) Chapter 5 confers power for regulations to make provision in relation to the winding up and merger of venture capital trusts, and
- (e) Chapter 6 makes supplementary and general provision.

### 259 Venture capital trusts and VCT approvals

- (1) In this Part “venture capital trust” means a company which—
  - (a) is not a close company, and
  - (b) is for the time being approved for the purposes of this Part by the Commissioners for Her Majesty's Revenue and Customs (see Chapter 3),and “VCT” means a venture capital trust.
- (2) In this Part “VCT approval” means an approval of a company for the purposes of this Part.

### 260 Other tax reliefs relating to VCTs

- (1) Chapter 5 of Part 6 of ITTOIA 2005 (venture capital trust dividends) provides that, if conditions are met, no liability to income tax arises in respect of dividends paid in respect of shares in a VCT.

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- (2) Section 100 of TCGA 1992 (exemption for venture capital trusts etc) provides that gains accruing to a VCT are not to be chargeable gains.
- (3) Section 151A of TCGA 1992 (venture capital trusts: reliefs) provides that a gain or loss accruing to an individual on a qualifying disposal of any ordinary shares in a company which—
  - (a) was a VCT at the time when the individual acquired the shares, and
  - (b) is still a VCT at the time of the disposal,
 is not to be a chargeable gain or, as the case may be, an allowable loss.
- (4) Schedule 5C to TCGA 1992 (venture capital trusts: deferred charge on re-investment, but only in relation to shares issued before 6 April 2004) provides that, if conditions are met, an individual's unused qualifying expenditure on shares in a VCT may be set against what would otherwise be chargeable gains.

## CHAPTER 2

### VCT RELIEF

#### *Entitlement to relief*

#### **261 Eligibility for relief**

- (1) An individual (“A”) is eligible for VCT relief for a tax year if—
  - (a) a VCT issues eligible shares to A in that year,
  - (b) the VCT issues the shares for raising money, and
  - (c) A subscribes for the shares on A's own behalf.
- (2) The amount in respect of which A is eligible for VCT relief for the tax year by reference to any shares is the amount subscribed by A for the shares.
- (3) A is eligible for VCT relief by reference to any shares only if—
  - [<sup>F683</sup>(za) the shares are issued before 6 April 2025,]
    - (a) the shares are both subscribed for and issued—
      - (i) for genuine commercial reasons, and
      - (ii) not as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax, and
    - (b) A is at least 18 years old when the shares are issued.
- (4) A is not eligible for VCT relief by reference to any shares if they are treated as issued to A by virtue of section 195(8) of FA 2003 (tax treatment of disposal by company of its own shares).

See section 271(4) for provision requiring the giving of notices about the effect of this subsection.

- [<sup>F684</sup>(5) The Treasury may, by regulations, amend subsection (3)(za) to substitute a different date for the date for the time being specified there.]

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### Textual Amendments

**F683** S. 261(3)(za) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 2\(2\)](#)

**F684** S. 261(5) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 2\(3\)](#)

## 262 Entitlement to claim relief

- (1) An individual (“A”) who is eligible for VCT relief by reference to shares issued in a tax year is entitled to claim VCT relief for that year.
- (2) A is entitled to claim VCT relief in respect of the amount on which A is eligible for VCT relief by reference to all or some of the shares.  
This is subject to subsection (3).
- (3) A is not entitled to claim VCT relief for any tax year on an amount of more than £200,000.

## 263 Form and amount of relief

- (1) An individual who—
  - (a) is entitled to claim VCT relief for a tax year, and
  - (b) claims such relief for the year on any amount,is entitled to a tax reduction for the year.
- (2) The tax reduction is equal to 30% of the amount in respect of which the claim is made.
- (3) The tax reduction is given effect at Step 6 of the calculation in section 23.

## 264 No entitlement to relief if there is a linked loan

- (1) An individual is not entitled to VCT relief by reference to any shares (“the relevant shares”) if a linked loan is made by any person, at any time in the relevant period, to the individual or an associate of the individual.
- (2) References in this section to the making by any person of a loan to an individual or any associate of the individual include references—
  - (a) to the giving by that person of any credit to the individual or any associate of the individual, and
  - (b) to the assignment to that person of any debt due from the individual or any associate of the individual.
- (3) In this section—

“linked loan” means a loan which—

  - (a) would not have been made, or
  - (b) would not have been made on the same terms,

if the individual had not subscribed for the relevant shares or had not been proposing to do so,

“the relevant period”, in relation to VCT relief in respect of any shares in a company which is a VCT, means the period—

  - (a) beginning with—

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- (i) the incorporation of the company, or
- (ii) if later, the date two years before the issue of the shares, and
- (b) ending immediately before the fifth anniversary of that issue.

## **[<sup>F685</sup>264A] Restricting relief where there is a linked sale**

- (1) This section applies where—
  - (a) an individual subscribes for shares (“the relevant shares”) in a VCT (“the VCT”), and
  - (b) there is at least one linked sale of other shares by the individual.
- (2) For the purposes of this Part, the amount the individual subscribes for the shares is to be treated as reduced (but not below nil) by the total consideration given for the linked sales of other shares.  
  
 This is subject to subsection (3).
- (3) If a sale is linked in relation to more than one subscription for shares—
  - (a) the consideration for it is to be applied to reduce subscriptions under subsection (2) in the order in which the subscriptions are made, and
  - (b) accordingly, to the extent that any consideration has been used to reduce an earlier subscription, it is not available to reduce a later one.
- (4) A sale of shares (“the sold shares”) is “linked” if conditions A and B are met.
- (5) Condition A is that the sold shares are in—
  - (a) the VCT, or
  - (b) [<sup>F686</sup>if subsection (7A) applies,] a company which is (or later becomes) a successor or predecessor of the VCT.
- (6) Condition B is that—
  - (a) the individual subscribes for the relevant shares in circumstances where—
    - (i) the purchase of the sold shares from the individual was conditional upon the individual subscribing for shares in the VCT, or
    - (ii) the individual's subscription for shares in the VCT was conditional upon that purchase, or
  - (b) the subscription for the relevant shares and the sale of the sold shares are within 6 months of each other (irrespective of which came first).
- (7) A company (“company X”) is a “successor or predecessor of the VCT” if—
  - (a) there is a merger of two or more companies for the purposes of Chapter 5 (see section 323) and—
    - (i) the VCT is one of the merged companies and company X is “the successor company” (as defined by that section), or
    - (ii) the VCT is “the successor company” and company X is one of the merged companies, or
  - (b) section 327 (effect of restructuring of VCT) applies and—
    - (i) the VCT is “the old company” and company X is “the new company” for the purposes of that section, or
    - (ii) company X is “the old company” and the VCT is “the new company” for those purposes.

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- [ This subsection applies if—
- <sup>F687</sup>(7A) (a) the date of the merger or restructuring referred to in subsection (7) (“D2”) is before, or the same as, the date when the individual subscribes for the relevant shares (“D1”), or
- (b) D2 is after D1 but no more than two years after, and either—
- (i) the individual could reasonably be expected to know at the time of subscribing for the relevant shares that the merger or restructuring referred to in subsection (7) was likely to take place, or
- (ii) the main purpose of the merger or restructuring, or one of its main purposes, is to enable individuals to obtain a tax advantage in connection with VCT relief.
- (7B) For the purposes of subsection (7A)—
- (a) the date of the merger or restructuring is the date of the issue of shares referred to in section 323(1)(a) or (2)(a) or section 326(2)(a) (or, if there is more than one such issue, the date of the first of them);
- (b) a “tax advantage” includes—
- (i) relief or increased relief from tax,
- (ii) repayment or increased repayment of tax,
- (iii) avoidance or reduction of a charge to tax or an assessment to tax, and
- (iv) avoidance of a possible assessment to tax.]
- (8) This section does not apply if, or to the extent that, the subscription for the relevant shares is a result of the individual electing to reinvest dividends payable to the individual on shares in the VCT, in acquiring further shares in the VCT.]

#### Textual Amendments

- F685** S. 264A inserted (with effect in accordance with Sch. 10 para. 2(2) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 2\(1\)](#)
- F686** Words in s. 264A(5)(b) inserted (with effect in accordance with Sch. 5 para. 12 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 para. 1\(2\)](#), 12
- F687** S. 264A(7A)(7B) inserted (with effect in accordance with Sch. 5 para. 12 of the amending Act) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 para. 1\(3\)](#), 12

## 265 No entitlement to relief which would have been lost if it had already been obtained

An individual is not entitled to VCT relief by reference to any shares if circumstances have arisen which would have resulted in the withdrawal or reduction of the relief, if that relief had already been obtained.

### *Loss of relief*

## 266 Loss of relief if shares disposed of within 5 years

- (1) This section applies, subject to section 267 (spouses or civil partners), if an individual—
- (a) obtains VCT relief in respect of eligible shares in a VCT, and

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- (b) makes a disposal of those shares within 5 years of their issue to the individual.
- (2) In the case of a disposal that is made otherwise than by way of a bargain made at arm's length, any VCT relief obtained by reference to the shares which are disposed of is to be withdrawn.
- (3) In the case of a disposal that is made by way of a bargain made at arm's length, any VCT relief obtained by reference to the shares disposed of must—
- (a) if it is greater than A, be reduced by A, and
  - (b) in any other case, be withdrawn.
- (4) A is 30% of the amount or value of the consideration which the individual receives for the shares.
- (5) The rules in subsections (6) and (7) are for determining which eligible shares of any class are treated as disposed of for the purposes of—
- (a) this section, and
  - (b) section 267,
- if a person disposes of some but not all of the eligible shares of that class which the person holds in a company.
- (6) Shares acquired on an earlier day are treated as disposed of before shares acquired on a later day.
- (7) Shares acquired on the same day are treated as disposed of in the following order—
- (a) shares by reference to which VCT relief has not been obtained, and
  - (b) shares by reference to which VCT relief has been obtained.

## **267 Transfers of shares between spouses or civil partners**

- (1) Section 266 does not apply in the case of any disposal of shares made by an individual to the individual's spouse or civil partner, if it is made at a time when they are living together.
- (2) Subsection (3) applies if any eligible shares which—
- (a) have been issued to any individual (“the transferor”), and
  - (b) are shares by reference to which any VCT relief has been obtained,
- are transferred to the transferor's spouse or civil partner (“the transferee”) by a disposal such as is mentioned in subsection (1).
- (3) If this subsection applies, section 266 and subsection (2) have effect, in relation to any subsequent disposal or other event, as if—
- (a) the transferee were the person who had subscribed for the shares,
  - (b) the shares had been issued to the transferee at the time when they were issued to the transferor,
  - (c) there had been, in relation to the transferred shares, such a reduction by way of VCT relief in the transferee's liability to income tax as is equal to the actual reduction in respect of those shares of the transferor's liability, and
  - (d) that deemed reduction were (despite the transfer) to be treated for the purposes of section 266 as an amount of VCT relief obtained by reference to the shares transferred.



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- (4) Any assessment for withdrawing or reducing VCT relief because of a disposal or other event falling within subsection (3) is to be made on the transferee.

## 268 Loss of relief if VCT approval withdrawn

- (1) This section applies if—
- (a) the approval of any company as a VCT is withdrawn, and
  - (b) the withdrawal of the approval is not one to which section 281(3) (VCT approval treated as never having been given) applies.
- (2) Any person who, at the time when the withdrawal takes effect, is holding any shares issued by the company by reference to which VCT relief has been obtained is treated for the purposes of section 266 as having disposed of those shares—
- (a) immediately before that time, and
  - (b) otherwise than by way of a bargain made at arm's length.

## 269 Loss of relief which is subsequently found not to have been due

Any VCT relief obtained which is subsequently found not to have been due is to be withdrawn.

## 270 Assessment on withdrawal or reduction of relief

- (1) An assessment for withdrawing or reducing VCT relief under any of sections 266 to 269 must be made for the tax year for which the relief was obtained<sup>F688</sup>, and may be made at any time not more than 6 years after the end of that tax year].
- (2) No assessment for withdrawing or reducing VCT relief obtained by reference to shares issued to any individual may be made because of any event occurring after the individual's death.

### Textual Amendments

**F688** Words in s. 270(1) inserted (with effect in accordance with Sch. 10 para. 1(2) of the amending Act) by Finance Act 2014 (c. 26), **Sch. 10 para. 1(1)**

## Supplementary

## 271 Provision of information

- (1) If an event occurs that results in any VCT relief falling to be withdrawn or reduced, the individual by whom the relief was obtained must, within 60 days of coming to know of the event, give notice to an officer of Revenue and Customs containing particulars of the event.

<sup>F689</sup>(2) .....

<sup>F689</sup>(3) .....

- (4) If a company which is a VCT issues to any individual eligible shares to which section 261(4) applies, it must—

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- (a) at the time of the issue of those shares, give the individual a notice stating that the individual is not eligible for VCT relief by reference to those shares, and
  - (b) not later than 3 months after the issue of those shares, give a copy of that notice to an officer of Revenue and Customs.
- (5) No obligation as to secrecy imposed by statute or otherwise prevents an officer of Revenue and Customs from disclosing to a VCT that VCT relief has been obtained by reference to a particular number or proportion of its shares.

#### Textual Amendments

**F689** S. 271(2)(3) omitted (13.8.2009) by virtue of [The Finance Act 2009, Schedule 47 \(Consequential Amendments\) Order 2009 \(S.I. 2009/2035\)](#), art. 1, [Sch. para. 47](#)

### 272 Regulations as to procedure etc

- (1) This section applies to VCT relief and relief for which the following provide—
- (a) section 151A of TCGA 1992 (VCTs: reliefs),
  - (b) Schedule 5C to TCGA 1992 (VCTs: deferred charge on re-investment),
  - (c) Chapter 5 of Part 6 of ITTOIA 2005 (VCT dividends), and
  - (d) regulations under Chapter 5 of this Part.
- (2) The Treasury may by regulations make such provision as they consider appropriate for—
- (a) giving effect to relief to which this section applies, and
  - (b) preventing such relief from being given unless a claim is made in accordance with the regulations and such other requirements as may be imposed by the regulations have been met.
- (3) Regulations under this section may make provision as to the manner in which, and the persons by whom, relief to which this section applies is to be claimed.

### 273 Interpretation of Chapter

- (1) In this Chapter “eligible shares”, in relation to a company which is a VCT, means ordinary shares in the VCT which, throughout the period of 5 years beginning on the date on which they are issued, carry—
- (a) no present or future preferential right to dividends or to a company's assets on its winding up, and
  - (b) no present or future right to be redeemed.
- (2) In this Chapter references to a disposal of shares include references to a disposal of an interest or right in or over shares.

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## CHAPTER 3

### VCT APPROVALS

#### *Giving of approval*

#### **274 Requirements for the giving of approval**

- (1) Subject to section 275, the Commissioners for Her Majesty's Revenue and Customs must not approve a company for the purposes of this Part unless it is shown to their satisfaction that the conditions mentioned in subsection (2)—
- (a) are met in relation to the most recent complete accounting period of the company, and
  - (b) will be met in relation to the accounting period of the company which is current when the application for approval is made.
- (2) The conditions applied by subsection (1) (which are also applied by section 275(1) and other provisions of this Chapter) are set out in column 2 of the following table together with, in column 1 of the table, the descriptions by which they are referred to. In each of those conditions “the relevant period” means the accounting period that is relevant for the purposes of the particular provision by which the condition is applied.

<i>Description</i>	<i>Condition</i>
The listing condition	The shares making up the company's ordinary share capital (or, if there are such shares of more than one class, those of each class) have been or will be [ <sup>F690</sup> [ <sup>F691</sup> admitted to trading on a regulated market] throughout the relevant period]
The nature of income condition	The company's income in the relevant period has been or will be derived wholly or mainly from shares or securities
The income retention condition	The company has not retained or will not retain an amount which is greater than 15% of the income it derived or will derive in the relevant period from shares or securities
The 15% holding limit condition	No holding in any company, other than a VCT or a company that would qualify as a VCT but for the listing condition, has represented or will represent at any time during the relevant period more than 15% by value of the company's investments
The [ <sup>F692</sup> 80%] qualifying holdings condition	At least 70% by value of the company's investments has been or will be represented throughout the relevant

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	period by shares or securities included in qualifying holdings of the company
The [ <sup>F693</sup> 70%] eligible shares condition	At least [ <sup>F693</sup> 70%] by value of the company's qualifying holdings has been or will be represented throughout the relevant period by holdings of eligible shares
[ <sup>F694</sup> The non-qualifying investments condition	The company has not made and will not make, in the relevant period, an investment which is neither of the following— (a) an investment that on the date it is made is included in the company's qualifying holdings; (b) an investment falling within subsection (3A)]
[ <sup>F695</sup> The investment limits condition	The company has not made and will not make an investment, in the relevant period, in a company which breaches the permitted investment limits]
[ <sup>F696</sup> The minimum investment on further issue condition	The company has not breached and will not breach, in the relevant period, the minimum investment on further issue condition]
[ <sup>F697</sup> The permitted maximum age condition	The company has not made and will not make an investment, in the relevant period, in a company which breaches the permitted maximum age limit.]
[ <sup>F697</sup> The no business acquisition condition	The company has not made and will not make an investment, in the relevant period, in a company which breaches the prohibition on business acquisitions.]

- (3) The conditions mentioned in subsection (2) are supplemented as follows—
- (a) the nature of income condition and the income retention condition by section 276,
  - (b) the 15% holding limit condition by section 277,
  - (c) the 15% holding limit condition, the [<sup>F698</sup>80%] qualifying holdings condition and the [<sup>F699</sup>70%] eligible shares condition by sections 278 and 279, <sup>F700</sup>...
  - (d) the [<sup>F698</sup>80%] qualifying holdings condition and the [<sup>F701</sup>70%] eligible shares condition by section 280 [<sup>F702</sup>, <sup>F703</sup>...
  - (e) the [<sup>F704</sup>80%] qualifying holdings condition by section 280A], <sup>F705</sup>...
  - (f) the investment limits condition by [<sup>F706</sup>subsection [<sup>F707</sup>(3ZA)] and by] section 280B.
  - [<sup>F708</sup>(fa) the minimum investment on further issue condition by section 280BA,]
  - [<sup>F709</sup>(g) the permitted maximum age condition by subsection [<sup>F710</sup>(3ZA)] and by section 280C, and
  - (h) the no business acquisition condition by subsection [<sup>F711</sup>(3ZA)] and by section 280D.]

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[<sup>F712</sup>(3ZA) In the second column of the table in subsection (2), in the entries for the investment limits condition, the permitted maximum age condition and the no business acquisition condition, any reference to an investment made by the company in a company does not include an investment falling within subsection (3A).]

[<sup>F713</sup>(3A) [<sup>F714</sup>An investment made by a company (“the investor”) falls within this subsection if it is] any of the following investments—

- (a) shares or units in an AIF (within the meaning given by regulation 3 of the Alternative Investment Fund Managers Regulations 2013) which may be repurchased or redeemed on 7 days' notice given by the investor;
- (b) shares or units in a UCITS (within the meaning given by section 363A(4) of TIOPA 2010) which may be repurchased or redeemed on 7 days' notice given by the investor;
- (c) ordinary shares or securities in a company which are acquired by [<sup>F715</sup>the investor] on a regulated market.]

[<sup>F716</sup>(d) money in the investor's possession;

- (e) a sum owed to the investor which—
  - (i) under section 285(4)(b) (read with section 285(5) and (6)) is to be regarded as an investment of the investor, and
  - (ii) is such that the investor's right mentioned in section 285(5)(a) may be exercised on 7 days' notice given by the investor.]

[<sup>F717</sup>(3B) In subsection (3A), any reference to a thing which may be done on 7 days' notice includes a case where that thing may be done—

- (a) on less than 7 days' notice, or
- (b) without notice.]

[<sup>F718</sup>[<sup>F719</sup>(4) In this section “regulated market” means—

- (a) a UK regulated market within the meaning given by Article 2.1(13A) of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments,
- (b) an EU regulated market within the meaning given by Article 2.1(13B) of that Regulation, and
- (c) [<sup>F720</sup>a Gibraltar regulated market within the meaning given by Article 26(11) (b)(i) of that Regulation.]]

[<sup>F721</sup>(5) The Treasury may by regulations—

- (a) amend the first entry in the table in subsection (2) (the listing condition),
- (b) add, remove or amend an entry in the list of investments in subsection (3A),
- [<sup>F722</sup>(ba) amend or repeal subsection (3B) in consequence of any provision made under paragraph (b),]
- (c) amend this section so as to make provision to restrict the period for which an investment [<sup>F723</sup>falling within subsection (3A) may be held by the company], or
- (d) amend subsection (4).]]

#### Textual Amendments

**F690** Words in s. 274(2) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(6\)](#)

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- F691** Words in s. 274(2) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(2), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(2)(a)**; S.I. 2011/662, art. 2
- F692** Word in s. 274(2) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 2, 13**; S.I. 2018/931, reg. 4(a)
- F693** Word in s. 274(2) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(2)(b)**; S.I. 2011/662, art. 2
- F694** Words in s. 274(2) inserted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(2)**
- F695** Words in s. 274(2) inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 18 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 8 para. 2(2)**
- F696** Words in s. 274(2) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 5(2), 13**; S.I. 2018/931, reg. 4(c)
- F697** Words in s. 274(2) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(2)**
- F698** Word in s. 274(3)(c)(d) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 3(a), 13**; S.I. 2018/931, reg. 4(a)
- F699** Word in s. 274(3)(c) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(2)(c)**; S.I. 2011/662, art. 2
- F700** Word in s. 274(3)(c) repealed (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), **Sch. 27 Pt. 2(16)**
- F701** Word in s. 274(3)(d) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(2)(c)**; S.I. 2011/662, art. 2
- F702** S. 274(3)(e) and word inserted (with effect in accordance with Sch. 16 para. 20(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), **Sch. 16 para. 20(2)(4)**
- F703** Word in s. 274(3)(d) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 18 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), **Sch. 8 para. 2(3)**
- F704** Word in s. 274(3)(e) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 3(a), 13**; S.I. 2018/931, reg. 4(a)
- F705** Word in s. 274(3)(e) omitted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(3)(a)**
- F706** Words in s. 274(3)(f) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(3)(b)**
- F707** Word in s. 274(3)(f) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(3)**
- F708** S. 274(3)(fa) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 5(3), 13**; S.I. 2018/931, reg. 4(c)
- F709** S. 274(3)(g)(h) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(3)(c)**
- F710** Word in s. 274(3)(g) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(3)**
- F711** Word in s. 274(3)(h) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(3)**
- F712** S. 274(3ZA) inserted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(4)**
- F713** S. 274(3A) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(4)**
- F714** Words in s. 274(3A) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(5)(a)**
- F715** Words in s. 274(3A)(c) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(5)(b)**
- F716** S. 274(3A)(d)(e) inserted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(5)(c)**
- F717** S. 274(3B) inserted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(6)**

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- F718** S. 274(4) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, **15(2)** (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)
- F719** S. 274(4)(5) inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(2), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(2)(d)**; S.I. 2011/662, art. 2
- F720** S. 274(4)(c) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) \(No. 2\) Regulations 2019 \(S.I. 2019/818\)](#), regs. 1(3), **6(2)**; 2020 c. 1, Sch. 5 para. 1(1)
- F721** S. 274(5) substituted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), **Sch. 6 para. 3(5)**
- F722** S. 274(5)(ba) inserted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(7)(a)**
- F723** Words in s. 274(5)(c) substituted (with effect in accordance with s. 31(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 31(7)(b)**

## 275 Alternative requirements for the giving of approval

- (1) This section applies if one or more of the conditions mentioned in section 274(2) are not met with respect to a company in relation to its most recent complete accounting period.
- (2) The Commissioners for Her Majesty's Revenue and Customs may still approve the company for the purposes of this Part if they are satisfied that the condition or conditions in question—
  - (a) will be met in relation to the period mentioned in subsection (3), and
  - (b) will continue to be met in relation to accounting periods following that period.
- (3) The period is—
  - (a) in relation to the listing condition, the nature of income condition, the income retention condition and the 15% holding limit condition, the accounting period of the company which is current when the application for approval is made, or its next accounting period,
  - (b) in relation to the [<sup>F724</sup>80%] qualifying holdings condition and the [<sup>F725</sup>70%] eligible shares condition, an accounting period of the company beginning no more than 3 years after the time when the approval is given or, if earlier, when the approval takes effect.

### Textual Amendments

- F724** Word in s. 275(3)(b) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), **Sch. 5 paras. 3(b)**, 13; S.I. 2018/931, reg. 4(a)
- F725** Word in s. 275(3)(b) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 2(3)**; S.I. 2011/662, art. 2

## 276 Conditions relating to income

- (1) Subsections (2) and (3) apply in determining for the purposes of the nature of income condition and the income retention condition—
  - (a) the amount of a company's income, or
  - (b) the amount of income which a company derives from shares or securities.

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- (2) The amounts to be brought into account under [F726Part 5 of CTA 2009] in respect of the company's loan relationships are to be determined without reference to any debtor relationship of the company.
- (3) The excess of any relevant credits over any relevant debits is to be treated as income which the company derives from shares or securities.
- In this subsection “relevant credits” and “relevant debits” are credits and debits brought into account by virtue of [F727section 574 of CTA 2009 (non-trading credits and debits to be brought into account under Part 5 of that Act)].
- (4) The income retention condition does not apply as regards an accounting period if the amount which the company would be required to distribute in order to meet that condition is less than—
- (a) £10,000, or
  - (b) if the period is shorter than 12 months, a proportionately reduced amount.
- (5) The income retention condition does not apply as regards an accounting period if—
- (a) the company is required to retain income in respect of the period by virtue of a restriction imposed by law, and
  - (b) the amount of income which the company is so required to retain in respect of the period exceeds an amount equal to 15% of the income the company derives from shares or securities.
- (6) Subsection (5) does not apply if—
- (a) the amount of income the company retains in respect of the accounting period exceeds the amount of income it is required, by virtue of a restriction imposed by law, to retain in respect of the period, and
  - (b) the sum of the excess and any amount of income the company distributes in respect of the period is at least—
    - (i) £10,000, or
    - (ii) if the period is shorter than 12 months, a proportionately reduced amount.

#### Textual Amendments

**F726** Words in s. 276(2) substituted (retrospective to 1.4.2009) by [The Corporation Tax Act 2009 \(Amendment\) Order 2009 \(S.I. 2009/2860\)](#), arts. 1(2), **5**

**F727** Words in s. 276(3) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 701** (with [Sch. 2 Pts. 1, 2](#))

### 277 The 15% holding limit condition

- (1) If the 15% holding limit condition was met when a holding in a company was acquired or last added to, the condition is treated as continuing to be met until an addition is next made to it.
- (2) “Holding in a company” means the shares or securities (whether of one class or more than one class) held in any one company.
- (3) An addition is made to a holding in a company whenever the company whose holding it is—



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- (a) acquires further shares or securities in the company, but
  - (b) does not do so by being allotted shares or securities without becoming liable to give any consideration.
- (4) For the purposes of this section—
- (a) holdings in companies which—
    - (i) are members of a group, whether or not including the company whose holdings they are (“company A”), and
    - (ii) are not excluded from the 15% holding limit condition,are to be treated as holdings in a single company, and
  - (b) if company A is a member of a group, money owed to it by another member of the group is to be treated—
    - (i) as a security of the latter held by company A, and
    - (ii) accordingly as, or as part of, the holding of company A in the company owing the money.

For the purposes of this subsection “group” means a company and all companies which are its 51% subsidiaries.

- (5) Subsection (6) applies if, in connection with a scheme of reconstruction—
- (a) a company issues shares or securities,
  - (b) the shares or securities are issued to persons holding shares or securities in a second company in respect of and in proportion to (or as nearly as may be in proportion to) their holdings in the second company, and
  - (c) those persons do not become liable to give any consideration for the shares or securities.

In this subsection “scheme of reconstruction” has the same meaning as in section 136 of TCGA 1992.

- (6) For the purposes of this section—
- (a) a holding of the shares or securities in the second company, and
  - (b) a corresponding holding of the shares or securities issued by the company,
- are to be regarded as the same holding.

## **278 Conditions relating to value of investments: general**

- (1) This section and section 279 apply for the purposes of the 15% holding limit condition, the [<sup>F728</sup>80%] qualifying holdings condition and the [<sup>F729</sup>70%] eligible shares condition (“the relevant conditions”).
- (2) The value of a holding of investments of any description is to be taken, unless subsection (3) applies, to be its value when acquired.
- (3) If, in the case of a holding of investments of any description—
  - (a) the holding is added to by a further holding of investments of that description, or
  - (b) any payment is made in discharge, in whole or in part, of any obligation attached to the holding that (by discharging the whole or any part of the obligation) increases the value of the holding,

the value of the holding is to be taken to be its value immediately after the most recent addition or payment.

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- (4) For the purposes of this section an addition is made to a holding of investments of any description whenever the company whose holding it is—
- (a) acquires further investments of that description, but
  - (b) does not do so by being allotted shares or securities in a company without becoming liable to give any consideration.
- (5) Subsection (6) applies if, in connection with a scheme of reconstruction—
- (a) a company issues shares or securities,
  - (b) the shares or securities are issued to persons holding shares or securities in a second company in respect of and in proportion to (or as nearly as may be in proportion to) their holdings in the second company, and
  - (c) those persons do not become liable to give any consideration for the shares or securities.

In this subsection “scheme of reconstruction” has the same meaning as in section 136 of TCGA 1992.

- (6) For the purposes of this section—
- (a) a holding of the shares or securities of any description in the second company, and
  - (b) a corresponding holding of the shares or securities issued by the company,
- are to be regarded as the same holding.

#### Textual Amendments

**F728** Word in s. 278(1) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 paras. 3\(c\)](#), 13; S.I. 2018/931, reg. 4(a)

**F729** Word in s. 278(1) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(4\)](#); S.I. 2011/662, art. 2

## 279 Conditions relating to value of investments: qualifying holdings

- (1) If—
- (a) any shares (“new shares”) are exchanged for other shares (“old shares”) under arrangements in relation to which section 326 (restructuring arrangements) applies, and
  - (b) those arrangements have not ceased by virtue of section 326(5) to be arrangements by reference to which requirements of Chapter 4 are treated as met,

the value of the new shares is taken to be the same as the value, when last valued in accordance with subsection (2) or (3) of section 278, of the old shares for which they are exchanged.

- (2) In subsection (1)—
- (a) references to shares in a company include references to any securities of that company, and
  - (b) the reference to the value of the new shares includes references to the value of those shares both—
    - (i) at the time of their acquisition, and

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- (ii) immediately after any subsequent addition to a holding of the new shares that is made under the arrangements.
- (3) If—
- (a) shares (“new shares”) are issued to a company as a result of the exercise by that company of any right of conversion attached to other shares, or securities, held by that company (“convertibles”), and
  - (b) section 329 (conversion of convertible shares and securities) applies in relation to the issue of the new shares,
- the value of the new shares at the time of their acquisition is taken to be the same as the value, when last valued in accordance with subsection (2) or (3) of section 278, of the convertibles for which they are exchanged.
- (4) Regulations under section 330 may make provision for securing that if—
- (a) there is an exchange of shares to which regulations under section 330 apply, and
  - (b) the new shares are treated by virtue of the regulations as meeting the requirements of Chapter 4,
- the value of the holding of the new shares, and of any original shares that are retained under the exchange, is taken to be an amount such that the requirements of the relevant conditions do not cease to be met because of the exchange.
- (5) In subsection (4)—
- (a) “shares” includes securities, and
  - (b) “exchange of shares”, “new shares” and “original shares” have the same meaning as in section 330.

## **280 Conditions relating to qualifying holdings and eligible shares**

- (1) Subsection (2) applies, subject to any regulations under subsection (3), if—
- (a) there has been an issue of ordinary share capital of a company (“the first issue”),
  - (b) a VCT approval of that company has taken effect on or before the day of the making of the first issue, and
  - (c) a further issue of ordinary share capital of that company has been made since the making of the first issue.
- (2) If this subsection applies, the use to which the money raised by the further issue is put, and the use of any money deriving from that use, are ignored in determining whether either or both of the [<sup>F730</sup>80%] qualifying holdings condition and the [<sup>F731</sup>70%] eligible shares condition are, have been or will be met in relation to—
- (a) the accounting period in which the further issue is made, or
  - (b) any later accounting period ending no more than 3 years after the making of the further issue.
- (3) The Treasury may by regulations make provision for subsection (2)—
- (a) not to apply, or to be treated as not having applied, in specified cases, or
  - (b) to apply, or to be treated as having applied, in specified cases—
    - (i) only to a specified extent, or
    - (ii) only if specified conditions (including conditions requiring approvals to be obtained) are met.

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- (4) Provision made by regulations under subsection (3) may (but need not) be made so that, in any particular case, subsection (2)—
- (a) does not apply, or is treated as not having applied, at prescribed times or with effect from a prescribed time, or
  - (b) applies, or is treated as having applied, in accordance with provision made under subsection (3)(b) at prescribed times or with effect from a prescribed time.
- (5) In subsection (3) “specified” means specified by regulations and in subsection (4) “prescribed” means specified by, or determined under, regulations.
- (6) Section 324 applies in relation to—
- (a) regulations under subsection (3), and
  - (b) any power conferred by that subsection,
- as it applies in relation to regulations under Chapter 5 and a power conferred by any provision of that Chapter.

#### Textual Amendments

**F730** Word in s. 280(2) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 paras. 3\(d\), 13](#); [S.I. 2018/931](#), reg. 4(a)

**F731** Word in s. 280(2) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(5\)](#); [S.I. 2011/662](#), art. 2

#### <sup>F732</sup>280A The <sup>F733</sup>80%] qualifying holdings condition: disposal of holding

- (1) This section applies if—
  - (a) a company which is a VCT disposes of shares or securities (“the holding”),
  - (b) the consideration for the disposal does not consist wholly of new qualifying holdings, and
  - (c) the holding was comprised in the company's qualifying holdings throughout the 6 months ending immediately before the disposal.
- (2) For the purpose of determining whether the <sup>F734</sup>80%] qualifying holdings condition is, has been or will be met—
  - (a) the company is to be treated as if it continued to hold the holding for the period of <sup>F735</sup>12] months beginning with the disposal (but see subsection (4)), and
  - (b) the value of the company's investments in that period is to be treated as reduced by the amount of any monetary consideration for the disposal.
- (3) The value of the holding in the period mentioned in subsection (2)(a) is to be treated as equal to its value (determined in accordance with this Chapter) immediately before the disposal.
- (4) If the consideration for the disposal includes new qualifying holdings, subsection (2)
  - (a) has effect as if the reference to the holding were to the appropriate proportion of the holding (the value of which is that proportion of the value of the holding, determined in accordance with subsection (3)).
- (5) The appropriate proportion is—

TCNQHTC

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where—

TC is the market value (at the time of the disposal) of the total consideration for the disposal, and

NQH is the market value (at that time) of the new qualifying holdings.

- (6) If at any time the value of the company's investments would by virtue of subsection (2) (b) be reduced to an amount less than the value of its qualifying holdings, the value of its investments at that time is to be treated as equal to the value of its qualifying holdings.
- (7) “New qualifying holdings” means shares or securities which (on transfer to the company) are comprised in the company's qualifying holdings.
- (8) If (and to the extent that) the holding was acquired with money the use of which is at any time ignored by virtue of section 280(2), subsections (2) to (6) do not apply in relation to that time.
- (9) Nothing in this section applies in relation to disposals between companies that are merging (within the meaning of section 323).]

#### Textual Amendments

- F732** S. 280A inserted (with effect in accordance with Sch. 16 para. 20(5) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 20\(3\)](#), (4)
- F733** Word in s. 280A heading substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 paras. 3\(e\)](#), 13; S.I. 2018/931, reg. 4(a)
- F734** Word in s. 280A(2) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 paras. 3\(e\)](#), 13; S.I. 2018/931, reg. 4(a)
- F735** Word in s. 280A(2)(a) substituted (6.4.2019) by [Finance Act 2018 \(c. 3\)](#), [Sch. 5 paras. 4](#), 13; S.I. 2018/931, reg. 4(b)

#### [<sup>F736</sup>280B] The investment limits condition

- (1) This section applies for the purposes of the investment limits condition.
- (2) Where a company (“the investor”) makes an investment (“the current investment”) in another company (“the relevant company”), that investment breaches the permitted investment limits [<sup>F737</sup>if one or more of the following applies—
  - (a) the total annual investment in the relevant company exceeds the amount for the time being specified in section 292A(1);
  - (b) the total investment in the relevant company at the investment date exceeds the amount specified in—
    - (i) if the relevant company is a knowledge-intensive company (see section 331A) at the investment date, section 292AA(1)(a), and
    - (ii) in any other case, section 292AA(1)(b);
  - (c) condition A or B is met and the total investment in the relevant company at any time during the 5-year post-investment period exceeds the amount specified in—
    - (i) if the relevant company is a knowledge-intensive company at the investment date, section 292AB(4)(a), and

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(ii) in any other case, section 292AB(4)(b).]

[ In this section—

<sup>F738</sup>(2A) “the investment date” means the date the current investment is made;  
 “the 5-year post-investment period” means the period of 5 years beginning with the day after the investment date.]

[<sup>F739</sup>(3) For the purposes of subsection (2)(a), the total annual investment in the relevant company is the sum of—

- (a) the amount of the current investment,
- (b) the total amount of other relevant investments made (whether or not by the investor), in the year ending with the day on which the current investment is made, in—
  - (i) the relevant company, or
  - (ii) a company that has at any time in that year been a 51% subsidiary of the relevant company,
 (including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the end of that year, not investments made in it after it last ceased to be such a subsidiary), and
- (c) the total amount of any other relevant investments (whether or not made by the investor) which are relevant imported investments.

(3A) For the purposes of subsection (2)(b), the total investment in the relevant company at the investment date is the sum of—

- (a) the amount of the current investment,
- (b) the total amount of other relevant investments made (whether or not by the investor), on or before the investment date, in—
  - (i) the relevant company, or
  - (ii) a company that is at the investment date, or has at any time before that date been, a 51% subsidiary of the relevant company,
 (including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the investment date, not investments made in it after it last ceased to be such a subsidiary), and
- (c) the total amount of any other relevant investments (whether or not made by the investor) which are relevant imported investments.

(3B) For the purposes of subsection (2)(c)—

- (a) condition A is that—
  - (i) a company becomes a 51% subsidiary of the relevant company during the 5-year post-investment period,
  - (ii) all or part of the money raised by the current investment is employed for the purposes of an activity which consists wholly or in part of a trade carried on by that company, and
  - (iii) that trade (or a part of it) was carried on by that company before it became a 51% subsidiary as mentioned in sub-paragraph (i);
- (b) condition B is that all or part of the money raised by the current investment is employed for the purposes of an activity which consists wholly or in part of a trade which, during the 5-year post-investment period, becomes a relevant transferred trade (see subsection (3F)).

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- (3C) For the purposes of subsection (2)(c), the total investment in the relevant company at a time during the 5-year post-investment period (“the relevant time”) is the sum of—
- (a) the amount of the current investment,
  - (b) the total amount of other relevant investments made, before the relevant time (whether or not by the investor), in—
    - (i) the relevant company, or
    - (ii) a company that at the relevant time is, or before that time has been, a 51% subsidiary of the relevant company,(including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the relevant time, not investments made in it after it last ceased to be such a subsidiary), and
  - (c) the total amount of any other relevant investments (whether or not made by the investor) which are relevant imported investments.
- (3D) In this section “relevant imported investment” means—
- (a) a relevant investment
    - (i) which is made in a company at a qualifying time, and
    - (ii) the money raised by which is employed for the purposes of a trade carried on by another company that is, at a qualifying time, a 51% subsidiary of the relevant company (but, if at the latest possible qualifying time it has ceased to be such a subsidiary, ignoring any money so employed after it last ceased to be such a subsidiary), or
  - (b) a relevant investment—
    - (i) which is made in a company at a qualifying time, and
    - (ii) the money raised by which is employed for the purposes of a trade carried on by that company or another person,where, at a qualifying time but after that investment was made, that trade (or a part of it) became a relevant transferred trade (see subsection (3F)).
- (3E) In subsection (3D) “a qualifying time” means—
- (a) for the purposes of subsection (3), any time in the year mentioned in that subsection,
  - (b) for the purposes of subsection (3A), any time on or before the investment date,
  - (c) for the purposes of subsection (3C), any time before the relevant time.
- (3F) For the purposes of this section if—
- (a) a trade is transferred—
    - (i) to the relevant company,
    - (ii) to a company that is a 51% subsidiary of the relevant company, or
    - (iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, before the company became such a subsidiary), and
  - (b) the trade, or a part of it, was previously (at any time) carried on by another person,
- the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).]

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- (4) A “relevant investment” is made in a company if—
- (a) an investment (of any kind) in the company is made by a VCT,
  - (b) the company issues shares (money having been subscribed for them), and (at any time) the company provides—
    - (i) a compliance statement under section 205 (enterprise investment scheme), or
    - (ii) a compliance statement under section 257ED (seed enterprise investment scheme),
 in respect of the shares,<sup>F740</sup> ...
    - <sup>F741</sup> [ an investment is made in the company and (at any time) the company provides a compliance statement under section 257PB (tax relief for social investments) in respect of the investment, or]
    - (c) any other investment is made in the company which is aid received by it pursuant to a measure approved by the European Commission as compatible with Article 107 of the Treaty on the Functioning of the European Union in accordance with the principles laid down in the [<sup>F742</sup>European Commission's Guidelines on State aid to promote risk finance investment][<sup>F743</sup>(as those guidelines had effect at the time of the approval)].
- (5) For the purposes of subsections (2) [<sup>F744</sup>to (3E)], an investment within subsection (4) (b) is regarded as made when the shares are issued.]
- <sup>F745</sup>(6) Section 257KB applies in determining for those purposes when an investment within subsection (4)(ba) is made as it applies for the purposes of Part 5B (tax relief on social investments).
- (7) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which became a relevant transferred trade as mentioned in subsection (3D), only the corresponding proportion of the relevant investment falls within that subsection.
- (8) For the purposes of this section—
- (a) references to a trade include a part of a trade (and references to the carrying on of a trade are to be construed accordingly), and
  - (b) when determining the amount of money raised by a relevant investment which has been employed for the purposes of a trade such apportionments are to be made as are just and reasonable.
- (9) In this section “trade” includes—
- (a) any business or profession,
  - (b) so far as not within paragraph (a), the carrying on of research and development activities from which it is intended a trade will be derived or will benefit, and
  - (c) preparing to carry on a trade.]

#### Textual Amendments

**F736** S. 280B inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 18 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 3](#)

**F737** Words in s. 280B(2) substituted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 4\(2\)](#)



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- F738** S. 280B(2A) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(3)**
- F739** S. 280B(3)-(3F) substituted for s. 280B(3) (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(4)**
- F740** Word in s. 280B(4)(b) omitted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(5)(a)**
- F741** S. 280B(4)(ba) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(5)(a)**
- F742** Words in s. 280B(4)(c) substituted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(5)(b)**
- F743** Words in s. 280B(4)(c) substituted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, **4(8)**
- F744** Words in s. 280B(5) substituted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(6)**
- F745** S. 280B(6)-(9) inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 4(7)**

#### **[<sup>F746</sup>280BA] The minimum investment on further issue condition**

- (1) A company breaches the minimum investment on further issue condition where—
- there has been an issue of ordinary share capital of the company (“the first issue”),
  - a VCT approval of the company has taken effect on or before the day of the making of the first issue,
  - a further issue (“the further issue”) of ordinary share capital of the company has been made since the making of the first issue, and
  - the company does not, on or before the relevant deadline, invest at least 30% of the money raised by the further issue in shares or securities which when held by the company are comprised in the company's qualifying holdings.
- (2) The relevant deadline is the last day of the period of 12 months immediately following the end of the accounting period in which the further issue is made.]

#### **Textual Amendments**

- F746** S. 280BA inserted (6.4.2018) by Finance Act 2018 (c. 3), **Sch. 5 paras. 6, 13**; S.I. 2018/931, reg. 4(c)

#### **[<sup>F747</sup>280C] The permitted maximum age condition**

- (1) This section applies for the purposes of the permitted maximum age condition.
- (2) Where a company makes an investment in another company (“the relevant company”), that investment (“the current investment”) breaches the permitted maximum age limits if—
- the investment is made after the initial investing period, and
  - none of conditions A to C is met.
- (3) “The initial investing period” means—
- where the relevant company is a knowledge-intensive company on the investment date, the period of 10 years [<sup>F748</sup>beginning with—
    - the relevant first commercial sale, or

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- (ii) if the relevant company so elects, the date by reference to which that company is treated as reaching an annual turnover of £200,000 (see section 331B),] and
  - (b) in any other case, the period of 7 years beginning with that sale.
- (4) Condition A is that—
- (a) a relevant investment was made in the relevant company before the end of the initial investing period, and
  - (b) some or all of the money raised by that investment was employed for the purposes of the same activities as the money raised by the current investment (or some of those activities).
- (5) Condition B is that—
- (a) the sum of—
    - (i) the amount of the current investment, and
    - (ii) the total amount of any other relevant investments made in the relevant company in a period of 30 consecutive days which includes the investment date,
 is at least 50% of the average turnover amount, and
  - (b) the money raised by the current investment and the investments mentioned in paragraph (a)(ii) is employed for the purpose of entering a new product or geographical market.
- (6) Condition C is that—
- (a) condition B in subsection (5) or condition B in section 175A(4) (EIS: permitted company age requirement) was previously met in relation to one or more relevant investments made in the relevant company, and
  - (b) some or all of the money raised by those investments was employed for the purposes of the same activities as the money raised by the current investment.
- (7) “The relevant first commercial sale” means the earliest of the following—
- (a) the first commercial sale made by the relevant company,
  - (b) the first commercial sale made by a company that is at the investment date, or before that date has been, a 51% subsidiary of the relevant company (including a sale made by a company before it became such a subsidiary but, if it is not such a subsidiary at the investment date, not a sale made after it last ceased to be such a subsidiary),
  - (c) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on, on or before the investment date, by—
    - (i) the relevant company, or
    - (ii) a company that is at the investment date, or before that date has been, a 51% subsidiary of the relevant company,
 (including a trade subsequently carried on by such a company before it became such a subsidiary but, if it is not such a subsidiary at the investment date, not a trade which it carried on only after it last ceased to be such a subsidiary);
  - (d) the first commercial sale made by a company which becomes a 51% subsidiary of the relevant company after the investment date in circumstances where all or part of the money raised by the current investment is employed for the purposes of an activity carried on by that subsidiary (including a sale made by such a company before it became such a subsidiary);

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- (e) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on by a company mentioned in paragraph (d) (including a trade carried on by such a company before it became such a subsidiary);
  - (f) if the money raised by the current investment or any part of it is employed for the purposes of a trade which has been transferred after the investment date to the relevant company or a 51% subsidiary of that company (or to a partnership of which the relevant company or such a subsidiary is a member), having previously been carried on (at any time) by another person, the first commercial sale made by that other person.
- (8) “The average turnover amount” means one fifth of the total relevant turnover amount for the <sup>F749</sup>relevant five year period.]
- [ Subject to subsection (8B), the relevant five year period is the five year period which <sup>F750</sup>(8A) ends immediately before the beginning of the last accounts filing period.
- (8B) If the last accounts filing period ends more than 12 months before the investment date, the relevant five year period is the five year period which ends 12 months before the investment date.]
- (9) In this section—
- “entering a new product or geographical market” has the same meaning as in Commission Regulation (EU) No 651/2014 (General block exemption Regulation) <sup>F751</sup>as it had effect in the United Kingdom immediately before IP completion day];
  - “first commercial sale” has the same meaning as in the European Commission's Guidelines on State aid to promote risk finance investments <sup>F752</sup>(as those guidelines had effect in the United Kingdom immediately before IP completion day)];
  - “the investment date” means the day on which the current investment is made;
  - “the last accounts filing period” means the last period for filing (within the meaning of section 442 of the Companies Act 2006) for the relevant company which ends before the date on which the current investment is made;
  - “relevant investment” has the meaning given by section 280B(4) (and section 280B(5) and (6) apply for the purposes of this section as they apply for section 280B(2) to (3E));
  - “the total relevant turnover amount” for a period is—
    - (a) if the relevant company is a single company at the investment date, the sum of—
      - (i) the relevant company's turnover for that period,
      - (ii) if all or part of the money raised by the current investment is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the relevant company after the investment date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and
      - (iii) if all or part of the money raised by the current investment is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already

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- included in calculating the amounts within sub-paragraphs (i) and (ii));
- (b) if the relevant company is a parent company at the investment date, the sum of—
- (i) the relevant company's turnover for that period,
  - (ii) the turnover for that period of each company which at the investment date is a 51% subsidiary of the relevant company,
  - (iii) if all or part of the money raised by the issue of the current investment is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the relevant company after the investment date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and
  - (iv) if all or part of the money raised by the current investment is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already included in calculating the amounts within sub-paragraphs (i) to (iii));

“transferred trade” means a trade which has been transferred to the company which is carrying on the trade at the time the money raised by the current investment is employed or to a partnership of which that company is a member;

“turnover”—

- (a) in relation to a company, has the meaning given by section 474(1) of the Companies Act 2006 and is to be determined by reference to the accounts of companies and amounts recognised for accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a company's turnover for a period);
- (b) in relation to any other person carrying on a trade, also has the meaning given by section 474(1) of that Act (reading references in that provision to a company as references to the person) and is to be determined by reference to the accounts of the person and amounts recognised for accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a person's turnover for a period);
- (c) in relation to a transferred trade carried on by a company or other person, means such proportion of the turnover of the company or other person as it is just and reasonable to attribute to the transferred trade;

and section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 280B.

#### Textual Amendments

**F747** Ss. 280C, 280D inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 5](#)

**F748** Words in s. 280C(3)(a) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 7, 10](#); [S.I. 2018/931](#), [reg. 3\(b\)](#)

**F749** Words in s. 280C(8) substituted (retrospectively) by [Finance Act 2016 \(c. 24\)](#), [s. 29\(3\)\(a\)\(6\)](#) (with [s. 30](#))

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- F750** S. 280C(8A)(8B) inserted (retrospectively) by Finance Act 2016 (c. 24), s. 29(3)(b)(6) (with s. 30)
- F751** Words in s. 280C(9) inserted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, 4(9)(a)
- F752** Words in s. 280C(9) substituted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, 4(9)(b)

## 280D The no business acquisition condition

- (1) This section applies for the purposes of the no business acquisition condition.
- (2) Where a company makes an investment in another company (“the relevant company”), that investment breaches the prohibition on business acquisitions if any of the money raised by it is employed (whether on its own or together with other money) on the acquisition, directly or indirectly, of—
  - (a) an interest in another company such that a company becomes a 51% subsidiary of the relevant company,
  - (b) a further interest in a company which is a 51% subsidiary of the relevant company,
  - (c) a trade,
  - (d) intangible assets employed for the purposes of a trade, or
  - (e) goodwill employed for the purposes of a trade.
- (3) The Treasury may by regulations provide that subsection (2) does not apply in relation to acquisitions of intangible assets which are of a description specified, or which occur in circumstances specified, in the regulations.
- (4) In this section—

“goodwill” has the same meaning as in Part 8 of CTA 2009 (see section 715(3));

“intangible assets” means any asset which falls to be treated as an intangible asset in accordance with generally accepted accountancy practice;

and section 280B(8) and (9) apply for the purposes of this section as they apply for the purposes of section 280B.]

### Textual Amendments

- F747** Ss. 280C, 280D inserted (with effect in accordance with Sch. 6 para. 23(1) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), Sch. 6 para. 5

*Withdrawal of approval*

## 281 Withdrawal of VCT approval of a company

- (1) The Commissioners for Her Majesty's Revenue and Customs (“the Commissioners”) may withdraw the VCT approval of a company if at any time it appears to them that there are reasonable grounds for believing—
  - (a) that the conditions for the approval of the company were not met at the time of the approval,
  - (b) in a case where the Commissioners were satisfied for the purposes of section 274(1)(b) or 275(2) that any of the conditions mentioned in

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- section 274(2) would be met in relation to any period, that the condition is one which will not be, or has not been, met in relation to that period,
- (c) in the case of a company approved under subsection (2) of section 275 (read with paragraph (b) of subsection (3) of that section), that the company has not met such other conditions as may be prescribed by regulations made by the Commissioners in relation to—
    - (i) the period of 3 years mentioned in that paragraph, or
    - (ii) any part of that period,
  - (d) in a case where the use of any money falls to be ignored for any accounting period in accordance with section 280(2), that—
    - (i) the first accounting period of the company for which the use of that money will not be ignored will be a period in relation to which any of the conditions mentioned in section 274(2) will fail to be met, or
    - (ii) the company has not met such other conditions as may be prescribed by regulations made by the Commissioners in relation to, or to any part of, an accounting period for which the use of that money falls to be ignored,<sup>F753</sup> ...
  - (e) that—
    - (i) the company's most recent complete accounting period or its current one is a period in relation to which there has been or will be a failure of any of the conditions mentioned in section 274(2) to be met, and
    - (ii) the failure was not or will not be one which, at the time of the approval, was allowed for in relation to that period by virtue of section 275(2).
  - <sup>F754</sup>[<sup>F755</sup>(f) that, while it has been a VCT, the company has issued shares and, before the end of the restricted period, the company, other than for the purpose of redeeming or repurchasing any of those shares, has—
    - (i) made a payment to all or any of its shareholders of an amount representing (directly or indirectly) a repayment of its share capital, whether that payment was made out of a reserve arising from a reduction of share capital or otherwise,
    - (ii) where the shares were issued at a premium, made a payment to all or any of its shareholders of an amount representing (directly or indirectly) that premium or any part of it, whether that payment was made out of a share premium reserve or otherwise, or
    - (iii) used an amount which represents (directly or indirectly) the company's share capital or an amount by which that share capital has been diminished, or, where the shares were issued at a premium, that premium (or any part of it), to pay up new shares to be allotted to all or any of its shareholders.]

<sup>F756</sup>(1A) In subsection (1)(f)—  
 “payment”—

- (a) does not include any distribution of assets made in connection with the winding up of the company, but
- (b) does include every other description of distribution of the company's assets to its members,

and for this purpose “distribution” includes (but is not limited to) a distribution within the meaning of section 989,

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“reduction of share capital” has the same meaning as in section 1027A(2) of CTA 2010, and

“the restricted period” means the period of 3 years beginning at the end of the accounting period of the company in which the shares were issued.]

- (2) Subject to subsections (3) and (4), the withdrawal of the approval of a company for the purposes of this Part has effect as from the time when notice of the withdrawal is given to the company.
- (3) If, in the case of a company approved as a VCT in the exercise of the power conferred by section 275(2), the approval is withdrawn at a time before all of the conditions mentioned in section 274(2) have been met with respect to the company concerned—
  - (a) in relation to a complete accounting period of 12 months, or
  - (b) in relation to successive complete accounting periods constituting a continuous period of at least 12 months,the withdrawal of the approval has the effect that the approval is for all purposes treated as never having been given.
- (4) A notice withdrawing the approval of a company for the purposes of this Part may specify a time falling before the time mentioned in subsection (2) as the time from which the withdrawal is to be treated as having effect for the purposes of section 100 of TCGA 1992 (exemption for venture capital trusts etc).

But the time so specified must be no earlier than the beginning of the accounting period in relation to which it appears to the Commissioners that the condition by reference to which the approval is withdrawn has not been, or will not be, met.

- (5) Despite any limitation on the time for making assessments, an assessment to any tax chargeable in consequence of the withdrawal of any VCT approval may be made at any time before the end of the period of 3 years beginning with the time when the notice of withdrawal is given.

#### **Textual Amendments**

- F753** Word in s. 281(1)(d) omitted (with effect in accordance with Sch. 10 para. 3(4) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 3\(2\)](#)
- F754** S. 281(1)(f) applied (with modifications) by SI 2004/2199 reg. 13(10) as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Venture Capital Trust \(Winding up and Mergers\) \(Tax\) \(Amendment\) Regulations 2015 \(S.I. 2015/361\)](#), regs. [1\(1\)](#), [2\(2\)](#)
- F755** S. 281(1)(f) inserted (with effect in accordance with Sch. 10 para. 3(4) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 3\(2\)](#)
- F756** S. 281(1A) inserted (with effect in accordance with Sch. 10 para. 3(4) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 3\(3\)](#)

#### **Modifications etc. (not altering text)**

- C83** S. 281(f)(i) modified (with effect in accordance with Sch. 10 para. 3(4) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 3\(5\)](#)
- C84** S. 281(f)(iii) modified (with effect in accordance with Sch. 10 para. 3(4) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 3\(5\)](#)

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## **282 Withdrawal of VCT approval in cases for which provision made under section 280(3)**

- (1) The Treasury may by regulations make provision for withdrawal of VCT approval of a company to be treated—
  - (a) in a case where the withdrawal is by reference to a condition for approval that would have been, or would be, met but for provision made under section 280(3), and
  - (b) for the purposes of enactments specified by regulations, as having taken effect as from a time specified in the notice of withdrawal that is earlier than the time when the notice is given to the company.
- (2) Provision made under subsection (1) has effect subject to the provisions of section 281(4) (retrospective effect of notices of withdrawal of VCT approval) as to the earliest time that may be specified by such a notice.
- (3) Section 324 applies in relation to—
  - (a) regulations under subsection (1), and
  - (b) any power conferred by that subsection,
 as it applies in relation to regulations under Chapter 5 and a power conferred by any provision of that Chapter.

### *Supplementary*

## **283 Time as from which VCT approval has effect**

- (1) A VCT approval has effect as from the time specified in the approval.
- (2) That time, if it falls before the time when the VCT approval is given, must be no earlier than the time when the application was made.
- (3) If the Commissioners for Her Majesty's Revenue and Customs give a VCT approval, they may stipulate that the approval is to have effect as from the time when the application for the approval was made or any subsequent time.

## **284 Power to make regulations as to procedure**

- [<sup>F757</sup>(1) Regulations under section 272 may make provision—
- (a) as to the making of applications for VCT approvals and otherwise as to the procedure to be followed in relation to any such applications and the giving of such approvals,
  - [<sup>F758</sup>(aa) for and in connection with the making by a company of an application to the Commissioners for Her Majesty's Revenue and Customs (“the Commissioners”) for relief in respect of a breach (including a future breach) of the conditions for its VCT approval to continue in force,]
  - (b) as to the procedure to be followed in connection with the withdrawal of VCT approvals,
  - (c) as to the obligations of a company which is a VCT if it should appear to the company
    - [<sup>F759</sup>(i) that the conditions for its VCT approval to continue in force are no longer met, or



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- (ii) that it is likely that those conditions will cease to be met,]
  - (d) as to the accounts, records, returns and other information to be kept, and provided or otherwise made available to the Commissioners <sup>F760</sup> ..., by companies which are or have been VCTs and by persons [<sup>F761</sup>(including nominees)] who hold or have held shares in such companies, and
  - (e) as to the persons liable to account for any tax becoming due where a VCT approval is withdrawn.]
- [<sup>F762</sup>(2) In subsection (1)(aa), the reference to relief in respect of a breach of the conditions mentioned there is to a determination by the Commissioners that they will not exercise their power to withdraw the company's VCT approval by reason of the breach for such period as they may determine (and subject to such conditions as they may determine).
- (3) The provision that may be made by virtue of subsection (1)(aa) includes—
- (a) provision as to the procedure to be followed in relation to applications and determinations,
  - (b) provision as to the grounds on which applications may be made or determined, and
  - (c) provision conferring a discretion to be exercised by the Commissioners.]

#### Textual Amendments

**F757** S. 284(1): s. 284 renumbered as s. 284(1) (19.7.2007) by Finance Act 2007 (c. 11), Sch. 16 para.

**21(1)**

**F758** S. 284(1)(aa) inserted (19.7.2007) by Finance Act 2007 (c. 11), Sch. 16 para. 21(1)(a)

**F759** Words in s. 284(1)(c) substituted (19.7.2007) by Finance Act 2007 (c. 11), Sch. 16 para. 21(1)(b)

**F760** Words in s. 284(1)(d) repealed (19.7.2007) by Finance Act 2007 (c. 11), Sch. 16 para. 21(1)(c), Sch.

**27 Pt. 2(16)**

**F761** Words in s. 284(1)(d) inserted (17.7.2014) by Finance Act 2014 (c. 26), Sch. 10 para. 5

**F762** S. 284(2)(3) inserted (19.7.2007) by Finance Act 2007 (c. 11), Sch. 16 para. 21(2)

## 285 Interpretation of Chapter

- (1) Chapter 4 has effect for interpreting references in this Chapter to a “qualifying holding”.
- (2) In this Chapter and the following Chapters of this Part “securities”, in relation to a company, includes any liability of the company in respect of a loan <sup>F763</sup> ..., except that it does not include—
- (a) any liability of the company in respect of a loan which has been made to the company on terms which allow any person to require—
    - (i) the loan to be repaid, or
    - (ii) any stock or security relating to the loan to be re-purchased or redeemed,within the period of 5 years from the making of the loan or, as the case may be, the issue of the stock or security, or
  - (b) any stock or security relating to a loan which has been made to the company on terms which allow any person to require the loan to be repaid, or the stock or security to be re-purchased or redeemed, within that period [<sup>F764</sup>, or
  - (c) any liability of the company in respect of a loan to which subsection (2A) applies that has been made to the company.]

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But see sections 317(4) and 328(2).

[<sup>F765</sup>(2A) This subsection applies to a loan if—

- (a) the return on the loan represents more than a commercial rate of return, or
- (b) the loan is made on terms which grant to a person or allow a person to acquire—
  - (i) any security or preferential rights in relation to assets of the company, or
  - (ii) the ability to control the company.

In sub-paragraph (ii) “control” has the meaning given by sections 450 and 451 of CTA 2010.

(2B) The return on a loan is not to be treated as representing more than a commercial rate for the purposes of subsection (2A)(a) if—

- (a) the return on the loan during the period of 5 years from the making of the loan does not exceed 50% of the amount lent, and
- (b) the total return on the loan does not exceed—

$$N \div A \div 10 \%$$

where—

N is the number of years (including any fraction) in the term of the loan;

A is the amount lent or, in a case where some of the loan is repaid during the term of the loan, the average amount outstanding during that term.

(2C) The Treasury may by regulations substitute a different figure for a figure that is at any time specified in subsection (2B)(a) or (b).

(2D) In subsections (2A)(a) and (2B) “return” means interest, fees, charges and other amounts payable in respect of the loan.

(2E) Where it is to any extent not known, before the end of the term of a loan, what amounts will be payable in respect of the loan—

- (a) subsections (2A)(a) and (2B) apply, until the relevant matters are ascertained, on the basis of what amounts can reasonably be expected to be payable;
- (b) when those matters are ascertained, any necessary adjustments must be made by making or amending assessments or by repayment or discharge of tax (regardless of any limitation on the time within which assessments or amendments may be made).]

[<sup>F766</sup>(3A) For the purposes of this Chapter, shares in a company are “eligible” unless they carry—

- (a) a present or future preferential right to dividends that is within subsection (3B),
- (b) a present or future preferential right to the company's assets on its winding up, or
- (c) a present or future right to be redeemed.

(3B) A preferential right to dividends carried by a share in a company is within this subsection if—

- (a) the amount of any dividends payable pursuant to the right, or the date or dates on which they are payable, depend to any extent on a decision of the company, the holder of the share or any other person, or

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- (b) the amount of any dividends that become payable at any time pursuant to the right includes any amount that became payable at any earlier time pursuant to the right, but has not been paid.]
- (4) Any reference in this Chapter to a company's investments is taken to include, so far as it would not otherwise do so—
  - (a) money in the company's possession, and
  - (b) any sum owed to the company by another person if the company has account-holder's rights over that sum.
- (5) For the purposes of subsection (4)(b) a company has “account-holder's rights” over a sum owed to the company if—
  - (a) the company has a right (whether or not the exercise of the right is subject to conditions) to require the other person to pay out the sum, or amounts out of the sum, to the company or at the company's direction, and
  - (b) the sum is owed to the company—
    - (i) as a result of amounts having been paid to the other person by or for the company, or
    - (ii) as a result of the other person having identified a sum in respect of which the company may exercise such a right.
- (6) Subsection (5) does not have effect to cause a company's investments to be taken to include anything to which the company is not beneficially entitled, but for this purpose a company is taken to be beneficially entitled to—
  - (a) sums subscribed for shares issued by it, and
  - (b) anything to which it is entitled that (directly or indirectly) represents such sums.

#### Textual Amendments

**F763** Words in s. 285(2) omitted (15.3.2018) by virtue of Finance Act 2018 (c. 3), Sch. 5 paras. 7(2)(a), 13; S.I. 2018/931, reg. 4(d) (with reg. 5)

**F764** S. 285(2)(c) and word inserted (15.3.2018) by Finance Act 2018 (c. 3), Sch. 5 paras. 7(2)(b), 13; S.I. 2018/931, reg. 4(d) (with reg. 5)

**F765** S. 285(2A)-(2E) inserted (15.3.2018) by Finance Act 2018 (c. 3), Sch. 5 paras. 7(3), 13; S.I. 2018/931, reg. 4(d) (with reg. 5)

**F766** S. 285(3A)(3B) substituted (6.4.2011) for s. 285(3) (with effect in accordance with Sch. 2 paras. 6, 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), Sch. 2 para. 2(6); S.I. 2011/662, art. 2

## CHAPTER 4

### QUALIFYING HOLDINGS

#### Introduction

#### 286 Qualifying holdings: introduction

- (1) If any shares in or securities of any company (“the relevant company”) are at any time held by another company (“the investing company”), this Chapter applies for determining whether and to what extent those shares or securities (“the relevant

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holding”) are, for the purposes of Chapter 3, to be regarded as at that time comprised in the investing company's qualifying holdings.

(2) The relevant holding is to be regarded as comprised in the investing company's qualifying holding at any time if—

- (a) all the following requirements of this Chapter are met at that time in relation to the relevant company and the relevant holding,<sup>F767</sup> ...
- (b) the relevant holding consists of shares or securities which were first issued by the relevant company to the investing company and have been held by the investing company ever since [<sup>F768</sup>, and
- (c) those shares or securities were first issued by the relevant company in order to raise money for the purposes of promoting growth and development of—
  - (i) if the relevant company is a single company, the business of that company, and
  - (ii) if it is a parent company, what would be the business of the group if the activities of the group companies taken together were regarded as one business.]

(3) The requirements are those imposed as to—

- [<sup>F769</sup>(1za) risk to capital (see section 286ZA),]
- [<sup>F770</sup>(za) UK permanent establishment (see section 286A),
- (zb) financial health (see section 286B),]
- (a) maximum qualifying investment (see section 287),
- (b) no guaranteed loan (see section 288),
- (c) proportion of eligible shares (see section 289),
- (d) trading (see section 290),
- (e) the carrying on of a qualifying activity (see section 291),
- [<sup>F771</sup>(ea) the maximum amount raised annually through risk [<sup>F772</sup>finance investments] (see section 292A),]
- [<sup>F773</sup>(eaa) the maximum risk finance investments when the relevant holding is issued (see section 292AA),
- (eab) the maximum risk finance investments during the 5-year post-investment period (see section 292AB),]
- <sup>F774</sup>(eb) .....
- (f) use of the money raised (see section 293),
- (g) the relevant company carrying on the relevant qualifying activity (see section 294),
- [<sup>F775</sup>(ga) the permitted company age requirement (see section 294A),]
- (h) unquoted status (see section 295),
- (i) control and independence (see section 296),
- (j) gross assets (see section 297),
- [<sup>F776</sup>(ja) number of employees (see section 297A),]
- [<sup>F777</sup>(jb) the proportion of skilled employees (see section 297B),]
- (k) qualifying subsidiaries (see section 298),<sup>F778</sup> ...
- (l) property managing subsidiaries (see section 299) [<sup>F779</sup>, and
- (m) no disqualifying arrangements (see section 299A)].

(4) Subject to section 293(7), subsection (5) applies if—

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- (a) the requirements of section 287, 293 or 294 would be met as to only part of the money raised by the issue of the relevant holding, and
  - (b) that holding is not otherwise capable of being treated as comprising separate holdings.
- (5) If this subsection applies, this Chapter has effect in relation to the relevant holding as if it were two separate holdings consisting of—
- (a) a holding from which the part of the money mentioned in subsection (4)(a) was raised, and
  - (b) a holding from which the remainder was raised.

Chapter 3 has effect as if the value of the relevant holding were to be apportioned between the two holdings treated as subsisting by this subsection.

#### Textual Amendments

- F767** Word in s. 286(2)(a) omitted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(2\)](#)
- F768** S. 286(2)(c) and preceding word inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(2\)](#)
- F769** S. 286(3)(1za) inserted (15.3.2018) by [Finance Act 2018 \(c. 3\)](#), [s. 14\(3\)\(a\)\(4\)](#); S.I. 2018/931, reg. 2(b)
- F770** S. 286(3)(za)(zb) inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(7\)](#); S.I. 2011/662, art. 2
- F771** S. 286(3)(ea) inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 6\(2\)](#) (with [Sch. 16 para. 6\(5\)\(6\)](#))
- F772** Words in s. 286(3)(ea) substituted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(3\)\(a\)](#)
- F773** S. 286(3)(eaa)(eab) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(3\)\(b\)](#)
- F774** S. 286(3)(eb) omitted (with effect in accordance with Sch. 6 para. 23(2) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(3\)\(c\)](#)
- F775** S. 286(3)(ga) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(3\)\(d\)](#)
- F776** S. 286(3)(ja) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 3\(2\)\(5\)](#) (with [Sch. 16 para. 3\(6\)\(7\)](#))
- F777** S. 286(3)(jb) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 6\(3\)\(e\)](#)
- F778** Word in s. 286(3)(k) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 4](#)
- F779** S. 286(3)(m) and preceding word inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 4](#)

#### *The requirements*

#### **[<sup>F780</sup>286ZA] The risk-to-capital requirement**

- (1) The requirement of this section is that, having regard to all the circumstances existing at the time of the issue of the relevant holding, it would be reasonable to conclude that—
- (a) the relevant company has objectives to grow and develop its trade in the long-term, and

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- (b) there is a significant risk that, for the investing company, there will be a loss of capital of an amount greater than its net investment return.
- (2) For the purposes of subsection (1)(b)—
- (a) the reference to a loss of capital is to a loss of some or all of the amounts given in consideration for the relevant holding, and
  - (b) the reference to the net investment return is to the net investment return to the investing company irrespective of whether the return takes the form of income, capital growth, fees or other payments or anything else.
- (3) For the purposes of subsection (1) the circumstances to which regard may be had include—
- (a) the extent to which the company's objectives include increasing the number of its employees or the turnover of its trade,
  - (b) the nature of the company's sources of income, including the extent to which there is a significant risk of the company not receiving some or all of the income,
  - (c) the extent to which the company has or is likely to have assets, or is or could become a party to arrangements for acquiring assets, that could be used to secure financing from any person,
  - (d) the extent to which the activities of the company are sub-contracted to persons who are not connected with it,
  - (e) the nature of the company's ownership structure or management structure, including the extent to which others participate in or devise the structure,
  - (f) how any opportunity for investment in the company is marketed, and
  - (g) the extent to which arrangements are in place under which opportunities for investments in the company are or may be marketed with, or otherwise associated with, opportunities for investments in other companies or entities.
- (4) If the relevant company is a parent company—
- (a) any reference in this section to the company's trade is to what would be the trade of the group if the activities of the group companies taken together were regarded as one trade, and
  - (b) any reference in subsection (3)(a) to (e) to the company is to any group company.]

#### Textual Amendments

**F780** S. 286ZA inserted (15.3.2018) by [Finance Act 2018 \(c. 3\), s. 14\(3\)\(b\)\(4\)](#); S.I. 2018/931, reg. 2(b)

#### [<sup>F781</sup>286A] The UK permanent establishment requirement

The requirement of this section, at any time on or after the issue of the relevant holding, is that the relevant company has a permanent establishment in the United Kingdom at all times from the issue of the holding to the time in question.

#### Textual Amendments

**F781** Ss. 286A, 286B inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\), Sch. 2 para. 2\(8\)](#); S.I. 2011/662, art. 2

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## 286B The financial health requirement

- (1) The requirement of this section is that the relevant company is not, at the time of the issue of the relevant holding, in difficulty.
- (2) The relevant company is “in difficulty” if it is reasonable to assume that it would be regarded as a firm in difficulty for the purposes of the Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02) [<sup>F782</sup>as those guidelines had effect in the United Kingdom immediately before IP completion day].]

### Textual Amendments

**F781** Ss. 286A, 286B inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(8\)](#); S.I. 2011/662, art. 2

**F782** Words in s. 286B(2) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, [4\(10\)](#)

## 287 The maximum qualifying investment requirement

- (1) The requirement of this section is that [<sup>F783</sup>if the condition in subsection (1A) is met,] the relevant holding did not, when it was issued, represent an investment in excess of the maximum qualifying investment for the relevant period.

[<sup>F784</sup>(1A) The condition is that—

- (a) at the time of the issue of the relevant holding the relevant company or any of its qualifying subsidiaries was a member of a partnership or a party to a joint venture,
  - (b) the trade which meets the requirement of section 291 was at that time being carried on, or to be carried on, by those partners in partnership or by the parties to the joint venture, and
  - (c) the other partners or parties to the joint venture include at least one other company.]
- (2) [<sup>F785</sup>The] maximum qualifying investment for any period is exceeded so far as the total amount of money which—
    - (a) is raised in that period, and
    - (b) is so raised by the issue to the investing company during that period of shares in or securities of the relevant company,exceeds [<sup>F786</sup>the relevant fraction of] £1 million.

[<sup>F787</sup>(2A) The relevant fraction is—

1 N

where “N” is the number of companies (including the relevant company) which, at the time when the relevant holding was issued were members of the partnership or, as the case may be, parties to the joint venture.]

- (3) If the relevant holding represented, when issued, an investment in excess of the maximum qualifying investment for the relevant period—
  - (a) the shares or securities which represented the excess are not to be regarded as part of the relevant holding, and

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- (b) the amount of money raised by those shares or securities is to be ignored for the purposes of any subsequent application of subsection (2).
- (4) For the purposes of this section, if there is any question as to whether any shares in or securities of the relevant company which are for the time being held by the investing company represent an investment in excess of the maximum qualifying investment for any period, that question is determined on the following assumption in relation to disposals by the investing company.
- (5) The assumption is that, as between shares or securities of the same description, those which represent the whole or any part of the excess are disposed of before those which do not.
- <sup>F788</sup>(6) .....
- <sup>F789</sup>(7) .....
- (8) For the purposes of this section “the relevant period” is the period beginning with whichever is the earlier of—
- the time 6 months before the issue of the relevant holding, and
  - the beginning of the tax year in which the issue of that holding took place, and (in either case) ending with the issue of that holding.

#### Textual Amendments

- F783** Words in s. 287(1) inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(2\)](#)
- F784** S. 287(1A) inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(3\)](#)
- F785** Word in s. 287(2) substituted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(4\)\(a\)](#)
- F786** Words in s. 287(2) inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(4\)\(b\)](#)
- F787** S. 287(2A) inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(5\)](#)
- F788** S. 287(6) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(6\)](#)
- F789** S. 287(7) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 5\(6\)](#)

## 288 The no guaranteed loan requirement

- (1) The requirement of this section is that there are no securities relating to a guaranteed loan in the relevant holding.
- (2) For the purposes of this section, a security relates to a guaranteed loan if (and only if) there are arrangements for the investing company to be or to become entitled to receive anything (whether directly or indirectly) from a third party in the event of the failure by any person to comply with—
- the terms of the loan to which the security relates, or
  - the terms of the security.



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- (3) For the purposes of subsection (2) it does not matter whether the arrangements apply in all cases of a failure to comply or only in some such cases.
- (4) For the purposes of this section “third party” means any person except—
  - (a) the relevant company, and
  - (b) if the relevant company is a parent company that meets the trading requirement in section 290(1)(b), the subsidiaries of that company.

## **289 The proportion of eligible shares requirement**

- (1) The requirement of this section is that eligible shares represent at least 10% by value of the totality of the shares in or securities of the relevant company (including the relevant holding) which are held by the investing company.
- (2) For the purposes of this section the value at any time of any shares in or securities of a company is taken (subject to subsection (4)) to be their value immediately after—
  - (a) any relevant event occurring at that time, or
  - (b) if no relevant event occurs at that time, the last relevant event to occur before that time.
- (3) In subsection (2) “the relevant event”, in relation to any shares in or securities of the relevant company, means—
  - (a) the acquisition by the investing company of those shares or securities,
  - (b) the acquisition by the investing company of any other shares in or securities of the relevant company which—
    - (i) are of the same description as those shares or securities, and
    - (ii) are acquired by the investing company otherwise than by being allotted to the investing company without its being liable to give any consideration, or
  - (c) the making of any such payment in discharge, in whole or in part, of any obligation attached to any shares in or securities of the relevant company held by the investing company as (by discharging that obligation) increases the value of any such shares or securities.
- (4) If at any time the value of any shares or securities held by the investing company is less than the consideration given by the investing company for those shares or securities, it is to be assumed for the purposes of this section that the value of the shares or securities at that time is equal to the amount of that consideration.
- (5) In this section “eligible shares” has the same meaning as in Chapter 3 (see section <sup>F790</sup>285(3A) and (3B)).

### **Textual Amendments**

**F790** Words in s. 289(5) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(4), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(9\)](#); [S.I. 2011/662, art. 2](#)

## **290 The trading requirement**

- (1) The requirement of this section is that—

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- (a) the relevant company, ignoring any incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, or
  - (b) the relevant company is a parent company and the business of the group does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- (2) If the relevant company intends that one or more other companies should become its qualifying subsidiaries with a view to their carrying on one or more qualifying trades—
- (a) the relevant company is treated as a parent company for the purposes of subsection (1)(b), and
  - (b) the reference in subsection (1)(b) to the group includes the relevant company and any existing or future company that will be its qualifying subsidiary after the intention in question is carried into effect.

This subsection does not apply at any time after the abandonment of that intention.

- (3) For the purposes of subsection (1)(b) the business of the group means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (4) For the purpose of determining the business of a group, activities are ignored so far as they are carried on by a mainly trading subsidiary otherwise than for its main purpose.
- (5) For the purpose of determining the business of a group, activities of a group company are ignored so far as they consist in—
- (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
  - (b) the making of loans to another group company, or
  - (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company, or
  - (d) the holding and managing of property used by a group company for the purpose of research and development from which it is intended—
    - (i) that a qualifying trade to be carried on by a group company will be derived, or
    - (ii) that a qualifying trade carried on or to be carried on by a group company will benefit.
- (6) Any reference in sub-paragraph (i) or (ii) of subsection (5)(d) to a group company includes a reference to any existing or future company which will be a group company at any future time.
- (7) In this section—
- “incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the company in question,
  - “mainly trading subsidiary” means a qualifying subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly,
  - “non-qualifying activities” means—
    - (a) excluded activities, and
    - (b) activities carried on otherwise than in the course of a trade.

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- (8) This section is supplemented by section 300 (meaning of “qualifying trade”) and sections 303 to 310 (excluded activities).

## 291 The carrying on of a qualifying activity requirement

- (1) The requirement of this section, at any time on or after the issue of the relevant holding, is that a qualifying company (whether or not the same such company at every such time) must have been carrying on a qualifying activity at all times from the issue of the holding to the time in question.
- (2) [<sup>F791</sup>Carrying on a qualifying trade] is a qualifying activity.
- (3) Preparing to carry on a qualifying trade is a qualifying activity if, at the time when the relevant holding was issued, the trade was intended to be carried on <sup>F792</sup>... by a qualifying company.

This is subject to subsections (4) and (5).

- (4) The requirement of this section is not capable of being met by virtue of subsection (3) at any time after the end of the period of two years beginning with the issue of the relevant holding unless—
- (a) the intended trade was begun to be carried on by a qualifying company before the end of that period, and
  - (b) at all times since the end of that period, a qualifying company (whether or not the same such company at every such time) has been carrying on a qualifying trade <sup>F793</sup>....
- (5) The requirement of this section is also not capable of being met by virtue of subsection (3) at any time after the abandonment, within the period mentioned in subsection (4), of the intention in question.
- (6) In determining for the purposes of subsection (4)(a) when the intended trade was begun to be carried on by a qualifying company which is a qualifying 90% subsidiary of the relevant company, any carrying on by it of the trade before it became such a subsidiary of the relevant company is ignored.
- (7) In this section “qualifying company” means the relevant company or any qualifying 90% subsidiary of that company.
- (8) The reference in subsection (7) to a qualifying company which is a qualifying 90% subsidiary of the relevant company includes, in its application to subsection (3), a reference to any existing or future qualifying company which will be a qualifying 90% subsidiary of the relevant company at any future time.

### Textual Amendments

**F791** Words in s. 291(2) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), Sch. 2 para. 2(10)(a); S.I. 2011/662, art. 2

**F792** Words in s. 291(3) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by virtue of Finance (No. 3) Act 2010 (c. 33), Sch. 2 para. 2(10)(b); S.I. 2011/662, art. 2

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**F793** Words in s. 291(4)(b) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by virtue of Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 2(10)(c)**; S.I. 2011/662, art. 2

## 292 Ceasing to meet requirements because of administration or receivership

- (1) A company is not regarded as ceasing to meet the requirement of section 290 or 291 merely because of anything done in consequence of its being in administration or receivership.
- (2) Subsection (1) applies only if—
  - (a) the entry into administration or receivership, and
  - (b) everything done as a consequence of the company being in administration or receivership,

is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### <sup>F794</sup>292A The maximum amount raised annually through risk <sup>F795</sup>finance investments requirement

- (1) The total amount of relevant investments made in the relevant company in the year ending with the date the relevant holding is issued <sup>F796</sup>must not exceed—
    - (a) if the company is a knowledge-intensive company at that date (see section 331A and subsection (6A)), £10 million, and
    - (b) in any other case, £5 million.]
  - <sup>F797</sup>(2) In subsection (1), the reference to relevant investments made in the relevant company includes—
    - (a) relevant investments made in any company that has at any time in the year mentioned there been a 51% subsidiary of the relevant company (including investments made in such a company before it became such a subsidiary but, if it was not a subsidiary at the end of that year, not those made after it last ceased to be such a subsidiary),
    - (b) any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time in that year been a 51% subsidiary of the relevant company (but, if it is not such a subsidiary at the end of that year, ignoring any money so employed after it last ceased to be such a subsidiary), and
    - (c) any other relevant investment made in a company if—
      - (i) the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
      - (ii) in that year, after that investment was made, the trade (or a part of it) became a relevant transferred trade (see subsection (2B)).
- (2A) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a relevant transferred trade, the reference in subsection (2)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.

(2B) Where—

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- (a) in the year mentioned in subsection (1) a trade is transferred—
  - (i) to the relevant company,
  - (ii) to a company that is, or has at any time during that year been, a 51% subsidiary of the relevant company, or
  - (iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, at a time in the year before the company became such a subsidiary but not where it is transferred to such a company or partnership in that year after the company last ceased to be such a subsidiary), and
- (b) that trade or a part of it was previously (at any time) carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “ relevant transferred trade ” at the time it is transferred as mentioned in paragraph (a).]

- (3) A “relevant investment” is made in a company if—
  - (a) an investment (of any kind) in the company is made by a VCT, or
  - (b) the company issues shares (money having been subscribed for them), and (at any time) the company provides—
    - (i) a compliance statement under section 205 (enterprise investment scheme), or
    - [ a compliance statement under section 257ED (seed enterprise <sup>F798</sup>(ia) investment scheme).]
    - <sup>F799</sup>(ii) .....in respect of the shares, or
  - <sup>F800</sup>(ba) [ an investment is made in the company and (at any time) the company provides a compliance statement under section 257PB (tax relief for social investments) in respect of the investment, or]
  - (c) any other investment is made in the company which is aid received by it pursuant to a measure approved by the European Commission [<sup>F801</sup>before IP completion day] as compatible with Article 107 of the Treaty on the Functioning of the European Union in accordance with the principles laid down in the [<sup>F802</sup>European Commission's Guidelines on State aid to promote risk finance investment][<sup>F803</sup>(as those guidelines had effect at the time of the approval)].

- (4) For the purposes of subsections (1) [<sup>F804</sup>to (2B)], an investment within subsection (3) (b) is regarded as made when the shares are issued.

[ Section 257KB applies in determining for those purposes when an investment within <sup>F805</sup>(4A) subsection (3)(ba) is made as it applies for the purposes of Part 5B (tax relief on social investments).]

- (5) Subsection (6) applies if, by virtue of the provision of a compliance statement under section 205 [<sup>F806</sup>, 257ED or 257PB] above <sup>F807</sup>..., the requirement of this section is not met.

- (6) The requirement is to be treated as having been met throughout the period—
  - (a) beginning with the time the relevant holding was issued, and
  - (b) ending with the time the compliance statement was provided.

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<sup>F808</sup> [ If the relevant company began to carry on a trade less than three years before the (6A) date the relevant holding is issued, section 331A as it applies for the purposes of this section has effect with the substitution of the following subsections for subsections (3) to (5A)—

“(3) The first operating costs condition is that in at least one of the relevant three succeeding years at least 15% of the relevant operating costs constitute expenditure on research and development or innovation.

(4) The second operating costs condition is that in each of the relevant three succeeding years at least 10% of the relevant operating costs constitute such expenditure.

(5) In subsections (3) and (4)—

“relevant operating costs” means—

(a) if the relevant company is a single company at the applicable time, the operating costs of that company, and

(b) if the relevant company is a parent company at the applicable time, the sum of—

(i) the operating costs of the relevant company, and

(ii) the operating costs of each company which is a qualifying subsidiary of the relevant company at that time, excluding a company's operating costs for any of the relevant three succeeding years during any part of which the company is not a qualifying subsidiary of the relevant company;

“the relevant three succeeding years” means the three consecutive years the first of which begins with the date the relevant holding is issued.”]

<sup>F809</sup> [ Section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this (7) section as it applies for the purposes of section 280B.]]

### Textual Amendments

**F794** S. 292A inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 6\(3\)](#) (with [Sch. 16 paras. 6\(5\)\(6\), 8](#))

**F795** Words in s. 292A heading substituted (with effect in accordance with [Sch. 6 para. 23\(3\)](#) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 7\(8\)](#)

**F796** Words in s. 292A(1) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 3\(2\), 10](#); [S.I. 2018/931, reg. 3\(b\)](#)

**F797** S. 292A(2)-(2B) substituted for s. 292A(2) (with effect in accordance with [Sch. 6 para. 23\(3\)](#) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 7\(2\)](#)

**F798** S. 292A(3)(b)(ia) inserted (17.7.2012) (with effect in accordance with [Sch. 6 para. 24\(1\)\(2\)](#) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 6 para. 16](#)

**F799** S. 292A(3)(b)(ii) omitted (17.7.2012) (with effect in accordance with [Sch. 8 para. 19](#) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 6\(3\)\(a\)](#)

**F800** S. 292A(3)(ba) inserted (with effect in accordance with [Sch. 6 para. 23\(3\)](#) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 7\(3\)\(a\)](#)

**F801** Words in s. 292A(3)(c) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), [regs. 1, 4\(11\)\(a\)](#)

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- F802** Words in s. 292A(3)(c) substituted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 7(3)(b)**
- F803** Words in s. 292A(3)(c) substituted (31.12.2020) by The Taxes (State Aid) (Amendments) (EU Exit) Regulations 2020 (S.I. 2020/1499), regs. 1, **4(11)(b)**
- F804** Words in s. 292A(4) substituted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 7(4)**
- F805** S. 292A(4A) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 7(5)**
- F806** Words in s. 292A(5) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 7(6)**
- F807** Words in s. 292A(5) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by virtue of Finance Act 2012 (c. 14), **Sch. 8 para. 6(4)**
- F808** S. 292A(6A) inserted (6.4.2018) by Finance Act 2018 (c. 3), **Sch. 4 paras. 3(3), 10**; S.I. 2018/931, reg. 3(b)
- F809** S. 292A(7) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 7(7)**

#### **[<sup>F810</sup>292A] Maximum risk finance investments when relevant holding is issued requirement**

- (1) The total amount of relevant investments made in the relevant company on or before the investment date must not exceed—
- if the relevant company is a knowledge-intensive company at the investment date (see section 331A), £20 million, and
  - in any other case, £12 million.
- (2) In subsection (1), the reference to relevant investments made in the relevant company includes—
- relevant investments made in any company that is at the investment date, or has at any time before that date been, a 51% subsidiary of the relevant company (including investments made in such a company before it became such a subsidiary but, if it is not such a subsidiary at the investment date, not investments made in it after it last ceased to be such a subsidiary),
  - any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time on or before the investment date been a 51% subsidiary of the relevant company (but, if it is not such a subsidiary at the investment date, ignoring any money so employed after it last ceased to be such a subsidiary), and
  - any other relevant investment made in a company if—
    - the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
    - after the investment was made, but on or before the investment date, that trade became a relevant transferred trade (see subsection (4)).
- (3) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which becomes a relevant transferred trade, the reference in subsection (2)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.
- (4) Where—
- at any time on or before the investment date, a trade is transferred—
    - to the relevant company,

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- (ii) to a company that at the investment date is, or has at any time before that date been, a 51% subsidiary of the relevant company, or
- (iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,

(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, before the company became such a subsidiary but, if the company is not such a subsidiary at the investment date, not where it is transferred to such a company or partnership after the company last ceased to be such a subsidiary), and

- (b) the trade or a part of it was previously (at any time) carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).

- (5) In this section—

“the investment date” means the date the relevant holding is issued;

“relevant investment” has the meaning given by section 292A(3), and section 292A(4) and (4A) (which determine when certain investments are made) applies for the purposes of this section;

and section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 280B.

- (6) Subsection (7) applies if, by virtue of the provision of a compliance statement under section 205, 257ED or 257PB, the requirement of this section is not met.
- (7) The requirement is to be treated as having been met throughout the period—
- (a) beginning with the investment date, and
  - (b) ending with the time the compliance statement was provided.

#### Textual Amendments

**F810** Ss. 292AA, 292AB inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 8**

### **292AB Maximum risk finance investments during the 5-year post-investment period requirement**

- (1) The requirement of this section applies if condition A or B is met.
- (2) Condition A is that—
- (a) a company becomes a 51% subsidiary of the relevant company at any time during the 5-year post-investment period,
  - (b) all or part of the money raised by the issue of the relevant holding is employed for the purposes of a relevant qualifying activity which consists wholly or in part of a trade carried on by that company, and
  - (c) that trade (or a part of it) was carried on by that company before it became a 51% subsidiary as mentioned in paragraph (a).
- (3) Condition B is that all or part of the money raised by the issue of the relevant holding is employed for the purposes of a relevant qualifying activity which consists wholly or



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in part of a trade which, during the 5-year post-investment period, becomes a relevant transferred trade (see subsection (7)).

(4) The requirement of this section is that, at all times during the 5-year post-investment period, the total of the relevant investments made in the relevant company before the time in question (“the relevant time”) must not exceed—

- (a) if the relevant company is a knowledge-intensive company at the investment date (see section 331A), £20 million, and
- (b) in any other case, £12 million.

(5) In subsection (4) the reference to relevant investments made in the relevant company includes—

- (a) any relevant investment made in any company that has at any time before the relevant time been a 51% subsidiary of the relevant company (including investments made in that company before it became such a subsidiary but, if it is not such a subsidiary at the relevant time, not investments made in it after it last ceased to be such a subsidiary),
- (b) any other relevant investment made in a company to the extent that the money raised by the investment has been employed for the purposes of a trade carried on by another company that has at any time before the relevant time been a 51% subsidiary of the relevant company (but, if it is not such a subsidiary at the relevant time, ignoring any money so employed after it last ceased to be such a subsidiary), and
- (c) any other relevant investments made in a company where—
  - (i) the money raised by the investment has been employed for the purposes of a trade carried on by that company or another person, and
  - (ii) after that investment was made, but before the relevant time, that trade (or a part of it) became a relevant transferred trade (see subsection (7)).

(6) If only a proportion of the money raised by a relevant investment is employed for the purposes of a trade which became a relevant transferred trade, the reference in subsection (5)(c) to the relevant investment is to be read as a reference to the corresponding proportion of that investment.

(7) Where—

- (a) a trade is transferred—
  - (i) to the relevant company,
  - (ii) to a company that at the relevant time is, or has before that time been, a 51% subsidiary of the relevant company, or
  - (iii) to a partnership of which a company within sub-paragraph (i) or (ii) is a member,

(including where it is transferred to a company within sub-paragraph (ii), or a partnership of which such a company is a member, before the company became such a subsidiary but, if the company is not such a subsidiary at the relevant time, not where it is transferred to such a company or partnership after the company last ceased to be such a subsidiary), and

- (b) the trade or a part of it was previously (at any time) carried on by another person,

the trade or part mentioned in paragraph (b) becomes a “relevant transferred trade” at the time it is transferred as mentioned in paragraph (a).

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- (8) In this section—
  - “5-year post-investment period” means the period of 5 years beginning with the day after the investment date;
  - “the investment date” means the date on which the relevant holding is issued;
  - “relevant investment” has the meaning given by section 292A(3), and section 292A(4) and (4A) (which determines when certain investments are made) applies for the purposes of this section;
 and section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 280B.
- (9) Subsection (10) applies if, by virtue of the provision of a compliance statement under section 205, 257ED or 257PB, the requirement of this section is not met.
- (10) The requirement is to be treated as having been met throughout the period—
  - (a) beginning with the investment date, and
  - (b) ending with the time the compliance statement was provided.]

**Textual Amendments**

**F810** Ss. 292AA, 292AB inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 8](#)

**<sup>F811</sup>292B** **The spending of money raised by SEIS investment requirement**

.....

**Textual Amendments**

**F811** S. 292B omitted (with effect in accordance with Sch. 6 para. 23(2) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 9](#)

**293 The use of the money raised requirement**

- [<sup>F812</sup>(1) The requirement of this section is that—
- (a) less than two years has passed since the trading time, or
  - (b) at least two years has passed since the trading time and all of the money raised by the issue of the relevant holding has been employed wholly for the purposes of a relevant qualifying activity.]

<sup>F813</sup>(2) .....

<sup>F813</sup>(3) .....

<sup>F813</sup>(4) .....

- (5) In subsection (1) “the trading time” means whichever is applicable of the following—
  - (a) in a case where the requirement of section 291 was met in relation to the time when the relevant holding was issued and the relevant qualifying activity falls within subsection (2) of that section, the time when the relevant holding was issued, and

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- (b) in a case where that requirement was met in relation to that time and the relevant qualifying activity falls within subsection (3) of that section, the time when the condition in subsection (4)(a) of that section was met by a qualifying company beginning to carry on the intended trade.
- [<sup>F814</sup>(5ZA) Employing money raised by the issue of the relevant holding (whether on its own or together with other money) on the acquisition, directly or indirectly, of—
- (a) an interest in another company such that a company becomes a 51% subsidiary of the relevant company,
  - (b) a further interest in a company which is a 51% subsidiary of the relevant company,
  - (c) a trade,
  - (d) intangible assets employed for the purposes of a trade, or
  - (e) goodwill employed for the purposes of a trade,
- does not amount to employing the money for the purposes of a relevant qualifying activity.
- (5ZB) The Treasury may by regulations provide that subsection (5ZA) does not apply in relation to acquisitions of intangible assets which are of a description specified, or which occur in circumstances specified, in the regulations.
- (5ZC) For the purposes of subsections (5ZA) and (5ZB)—
- “goodwill” has the same meaning as in Part 8 of CTA 2009 (see section 715(3));
  - “intangible assets” means any asset which falls to be treated as an intangible asset in accordance with generally accepted accountancy practice;
- and section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 280B.
- (5A) Also, otherwise employing money on the acquisition of shares in a company does not of itself amount to employing the money for the purposes of a relevant qualifying activity.]
- (6) For the purposes of this section money is not to be treated as employed otherwise than wholly for the purposes of a relevant qualifying activity if the only amount employed for other purposes is an amount which is not a significant amount.
- (7) Nothing in section 286(5) requires any money whose use is ignored by virtue of subsection (6) to be treated as raised by a different holding.
- (8) In this section—
- “qualifying activity” and “qualifying company” have the same meaning as in section 291, and
  - a qualifying activity is a “relevant qualifying activity” if—
- (a) it was also a qualifying activity at the time when the relevant holding was issued, or
  - (b) it is a qualifying trade and preparing to carry it on was a qualifying activity at that time.

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### Textual Amendments

- F812** S. 293(1) substituted (with effect in accordance with Sch. 8 para. 14 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 9\(2\)](#)
- F813** S. 293(2)-(4) omitted (with effect in accordance with Sch. 8 para. 14 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 8 para. 9\(3\)](#)
- F814** S. 293(5ZA)-(5A) substituted for s. 293(5A) (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 10](#)

## 294 The relevant company to carry on the relevant qualifying activity requirement

- (1) The requirement of this section is met if, at no time after the issue of the relevant holding, has the relevant qualifying activity in question been carried on by a person other than—
- (a) the relevant company, or
  - (b) a qualifying 90% subsidiary of that company.

In this subsection “the relevant qualifying activity in question” means the relevant qualifying activity by reference to which the requirement of section 293 is met.

- (2) The requirement of this section is not to be regarded as failing to be met merely because of the carrying on of the trade in question by a person other than the relevant company, or a qualifying subsidiary of that company, at any time—
- (a) after the issue of the relevant holding, and
  - (b) before the relevant company, or any qualifying 90% subsidiary of that company, carries on that trade.
- (3) The requirement of this section is not to be regarded as failing to be met merely because of the carrying on of the trade in question—
- (a) by the partners in a partnership of which the relevant company, or a qualifying 90% subsidiary of that company, is a member, or
  - (b) by the parties to a joint venture to which the relevant company, or a qualifying 90% subsidiary of that company, is a party.
- (4) The requirement of this section is not to be regarded as failing to be met if—
- (a) merely because of anything done as a consequence of the relevant company or any other company being in administration or receivership, or
  - (b) merely because of the relevant company or any other company being wound up or dissolved without winding up,

the trade in question ceases to be carried on by the relevant company or a qualifying 90% subsidiary of that company and is subsequently carried on by a person who has not been connected, at any time after the date which is 12 months before the issue of the relevant holding, with the relevant company.

- (5) Subsection (4) applies only if—
- (a) the entry into administration or receivership and everything done in consequence of the company concerned being in administration or receivership, or
  - (b) the winding up or dissolution,

is for genuine commercial reasons and is not part of a scheme or arrangement the purpose or one of the main purposes of which is the avoidance of tax.

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- (6) In this section “the trade in question” means so much of the relevant qualifying activity mentioned in subsection (1) as consists of—
- (a) a trade which was being carried on at the time when the relevant holding was issued, or
  - (b) a trade for the carrying on of which preparations were being made at that time.
- (7) The definition of “relevant qualifying activity” in subsection (8) of section 293 applies for the purposes of this section as it applies for the purposes of that section.

### **[<sup>F815</sup>294A] The permitted company age requirement**

- (1) The requirement of this section is that, if the relevant holding is issued after the initial investing period, condition A, B or C must be met.
- (2) “The initial investing period” means—
- (a) where the relevant company is a knowledge-intensive company at the investment date, the period of 10 years [<sup>F816</sup>beginning with—
    - (i) the relevant first commercial sale, or
    - (ii) if the relevant company so elects, the date by reference to which that company is treated as reaching an annual turnover of £200,000 (see section 331B),] and
  - (b) in any other case, the period of 7 years beginning with that sale.
- (3) Condition A is that—
- (a) a relevant investment was made in the relevant company before the end of the initial investing period, and
  - (b) some or all of the money raised by that investment was employed for the purposes of the relevant qualifying activity (or a part of it).
- (4) Condition B is that—
- (a) the total amount of relevant investments made in the relevant company in a period of 30 consecutive days which includes the investment date is at least 50% of the average turnover amount, and
  - (b) the money raised by those investments is employed for the purpose of entering a new product or geographical market.
- (5) Condition C is that—
- (a) condition B in subsection (4) or condition B in section 175A(4) (EIS: permitted company age requirement) was previously met in relation to one or more relevant investments made in the relevant company, and
  - (b) some or all of the money raised by those investment was employed for the purposes of the relevant qualifying activity.
- (6) “The relevant first commercial sale” means the earliest of the following—
- (a) the first commercial sale made by the relevant company,
  - (b) the first commercial sale made by a company that is at the investment date, or before that date has been, a 51% subsidiary of the relevant company (including a sale made by a company before it became such a subsidiary but, if it is not such a subsidiary at the investment date, not a sale made after it last ceased to be such a subsidiary),

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- (c) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on, on or before the investment date, by—
- (i) the relevant company, or
  - (ii) a company that is at the investment date, or before that date has been, a 51% subsidiary of the relevant company,
- (including a trade subsequently carried on by such a company before it became such a subsidiary but, if it not such a subsidiary at the investment date, not a trade which it carried on only after it last ceased to be such a subsidiary);
- (d) the first commercial sale made by a company which becomes a 51% subsidiary of the relevant company after the investment date in circumstances where all or part of the money raised by the issue of the relevant holding is employed for the purposes of an activity carried on by that subsidiary (including a sale made by such a company before it became such a subsidiary);
- (e) the first commercial sale made by any person who previously (at any time) carried on a trade which was subsequently carried on by a company mentioned in paragraph (d) (including a trade carried on by such a company before it became such a subsidiary);
- (f) if the money raised by the issue of the relevant holding (or any part of it) is employed for the purposes of a trade which has been transferred after the investment date to the relevant company or a 51% subsidiary of that company (or to a partnership of which the relevant company or such a subsidiary is a member), having previously (at any time) been carried on by another person, the first commercial sale made by that other person.
- (7) “The average turnover amount” means one fifth of the total relevant turnover amount for the [<sup>F817</sup>relevant five year period. ]
- [ Subject to subsection (7B), the relevant five year period is the five year period which
- <sup>F818</sup>(7A) ends immediately before the beginning of the last accounts filing period.
- (7B) If the last accounts filing period ends more than 12 months before the investment date, the relevant five year period is the five year period which ends 12 months before the investment date.]
- (8) In this section—
- “entering a new product or geographical market” has the same meaning as in Commission Regulation (EU) No 651/2014 (General block exemption Regulation) [<sup>F819</sup>as it had effect in the United Kingdom immediately before IP completion day];
- “first commercial sale” has the same meaning as in the European Commission's Guidelines on State aid to promote risk finance investments [<sup>F820</sup>(as those guidelines had effect in the United Kingdom immediately before IP completion day)];
- “the investment date” means the date the relevant holding is issued;
- “the last accounts filing period” means the last period for filing (within the meaning of section 442 of the Companies Act 2006) for the relevant company which ends before the date on which the relevant holding is issued;
- “relevant investment” has the meaning given by section 292A(3), and section 292A(4) and (4A) (which determines when certain investments are made) applies for the purposes of this section;

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“relevant qualifying activity” means the qualifying activity for which the money raised by the issue of the relevant holding is employed;

“the total relevant turnover amount” for a period is—

- (a) if the relevant company is a single company at the investment date, the sum of—
  - (i) the relevant company's turnover for that period,
  - (ii) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the relevant company after the investment date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and
  - (iii) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already included in calculating the amounts within subparagraphs (i) and (ii));
- (b) if the relevant company is a parent company at the investment date, the sum of—
  - (i) the relevant company's turnover for that period,
  - (ii) the turnover for that period of each company which at the investment date is a 51% subsidiary of the relevant company,
  - (iii) if all or part of the money raised by the issue of the relevant holding is employed for the purposes of an activity carried on by a company which becomes a 51% subsidiary of the relevant company after the investment date, the turnover for that period of that subsidiary (or, if there is more than one, each of them), and
  - (iv) if all or part of the money raised by the issue of the relevant shares is employed for the purposes of a transferred trade, the turnover of that trade for so much of that period as falls before the trade became a transferred trade (except to the extent that it is already included in calculating the amounts within subparagraphs (i) to (iii));

“transferred trade” means a trade which has been transferred to the company which is carrying on the trade at the time the money raised by the issue of the relevant holding is employed or to a partnership of which that company is a member;

“turnover”—

- (a) in relation to a company, has the meaning given by section 474(1) of the Companies Act 2006 and is to be determined by reference to the accounts of companies and amounts recognised for accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a company's turnover for a period);
- (b) in relation to any other person carrying on a trade, also has the meaning given by section 474(1) of that Act (reading references in that provision to a company as references to the person) and is to be determined by reference to the accounts of the person and amounts recognised for

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accounting purposes (and such apportionments of those amounts as are just and reasonable are to be made for the purpose of determining a person's turnover for a period);

(c) in relation to a transferred trade carried on by a company or other person, means such proportion of the turnover of the company or other person as it is just and reasonable to attribute to the transferred trade;

and section 280B(8) and (9) (meaning of “trade” etc) applies for the purposes of this section as it applies for the purposes of section 280B.]

#### Textual Amendments

- F815** S. 294A inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 11](#)
- F816** Words in s. 294A(2)(a) substituted (6.4.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 4 paras. 8, 10](#); S.I. 2018/931, [reg. 3\(b\)](#)
- F817** Words in s. 294A(7) substituted (retrospectively) by [Finance Act 2016 \(c. 24\)](#), [s. 29\(4\)\(a\)\(6\)](#) (with s. 30)
- F818** S. 294A(7A)(7B) inserted (retrospectively) by [Finance Act 2016 \(c. 24\)](#), [s. 29\(4\)\(b\)\(6\)](#) (with s. 30)
- F819** Words in s. 294A(8) inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), [regs. 1, 4\(12\)\(a\)](#)
- F820** Words in s. 294A(8) substituted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), [regs. 1, 4\(12\)\(b\)](#)

## 295 The unquoted status requirement

- (1) The requirement of this section is that the relevant company must be an unquoted company.
- (2) In this section “unquoted company” means a company none of whose shares, stocks, debentures or other securities are marketed to the general public.
- (3) For the purposes of subsection (2), shares, stocks, debentures or other securities are marketed to the general public if they are—
  - (a) listed on [<sup>F821</sup>a recognised stock exchange, ]
  - (b) listed on a designated exchange in a country outside the United Kingdom, or
  - (c) dealt in <sup>F822</sup>... outside the United Kingdom by such means as may be designated.
- (4) In subsection (3)(b) and (c) “designated” means designated by an order made by the Commissioners for Her Majesty's Revenue and Customs for the purposes of that provision.
- (5) An order made for the purposes of subsection (3)(b) may designate an exchange by name, or by reference to any class or description of exchanges, including a class or description framed by reference to any authority or approval given in a country outside the United Kingdom.
- (6) If—
  - (a) any shares in or securities of a company are included in the qualifying holdings of the investing company, and
  - (b) that company ceases to be an unquoted company at any time while the investing company is approved as a VCT,



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the requirements of this section are to be treated, in relation to shares or securities acquired before that time, as continuing to be met for a period of 5 years after that time.

#### Textual Amendments

- F821** Words in s. 295(3)(a) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(7\)\(a\)](#)
- F822** Words in s. 295(3)(c) repealed (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(7\)\(b\)](#), [Sch. 27 Pt. 6\(5\)](#)

### 296 The control and independence requirement

- (1) The control element of the requirement is that—
- (a) the relevant company must not control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the relevant company, and
  - (b) no arrangements must be in existence by virtue of which the relevant company could fail to meet paragraph (a).
- (2) The independence element of the requirement is that—
- (a) the relevant company must not be under the control of another company (or of another company and any other person connected with that other company), and
  - (b) no arrangements must be in existence by virtue of which the relevant company could fail to meet paragraph (a).
- (3) This section is subject to section 327(7) (exchange of shares).

### 297 The gross assets requirement

- (1) The requirement of this section in the case of a relevant company that is a single company is that the value of the company's gross assets—
- (a) did not exceed [<sup>F823</sup>£15 million] immediately before the issue of the relevant holding, and
  - (b) did not exceed [<sup>F824</sup>£16 million] immediately afterwards.
- (2) The requirement of this section in the case of a relevant company that is a parent company is that the value of the group assets—
- (a) did not exceed [<sup>F825</sup>£15 million] immediately before the issue of the relevant holding, and
  - (b) did not exceed [<sup>F826</sup>£16 million] immediately afterwards.
- (3) The value of the group assets means the sum of the values of the gross assets of each of the members of the group, ignoring any that consist in rights against, or shares in or securities of, another member of the group.

#### Textual Amendments

- F823** Words in s. 297(1)(a) substituted (19.7.2012) (with effect in accordance with Sch. 8 para. 20(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 paras. 8\(a\), 20\(2\)](#); S.I. 2012/1901, art. 2(b)
- F824** Words in s. 297(1)(b) substituted (19.7.2012) (with effect in accordance with Sch. 8 para. 20(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 paras. 8\(b\), 20\(2\)](#); S.I. 2012/1901, art. 2(b)

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**F825** Words in s. 297(2)(a) substituted (19.7.2012) (with effect in accordance with Sch. 8 para. 20(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 paras. 8\(a\), 20\(2\)](#); S.I. 2012/1901, art. 2(b)

**F826** Words in s. 297(2)(b) substituted (19.7.2012) (with effect in accordance with Sch. 8 para. 20(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 paras. 8\(b\), 20\(2\)](#); S.I. 2012/1901, art. 2(b)

## **[<sup>F827</sup>297A] The number of employees requirement**

- (1) If the relevant company is a single company, the full-time equivalent employee number for it must be less than [<sup>F828</sup>the permitted limit] when the relevant holding is issued.
- (2) If the relevant company is a parent company, the sum of—
  - (a) the full-time equivalent employee number for it, and
  - (b) the full-time equivalent employee numbers for each of its qualifying subsidiaries,
 must be less than [<sup>F829</sup>the permitted limit] when the relevant holding is issued.
- (3) The full-time equivalent employee number for a company is calculated as follows—

### *Step 1*

Find the number of full-time employees of the company.

### *Step 2*

Add, for each employee of the company who is not a full-time employee, such fraction as is just and reasonable.

The result is the full-time equivalent employee number.

[ The permitted limit” means—

- <sup>F830</sup>(3A)
  - (a) if the relevant company is a knowledge-intensive company at the time the relevant holding is issued (see section 331A), 500, and
  - (b) in any other case, 250.
- (3B) The Treasury may by regulations amend subsection (3A)(a) or (b) by substituting a different number for the number for the time being specified there.]
- (4) In this section references to an employee—
    - (a) include a director, but
    - (b) do not include—
      - (i) an employee on maternity [<sup>F831</sup>, paternity [<sup>F832</sup>, shared parental or parental bereavement]] leave, or
      - (ii) a student on vocational training.]

### **Textual Amendments**

**F827** S. 297A inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 para. 3\(3\)\(5\)](#) (with [Sch. 16 para. 3\(6\), \(7\)](#))

**F828** Words in s. 297A(1) substituted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 12\(a\)](#)

**F829** Words in s. 297A(2) substituted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 12\(a\)](#)

**F830** S. 297A(3A)(3B) inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 12\(b\)](#)

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- F831** Words in s. 297A(4)(b)(i) substituted (1.12.2014) by [Children and Families Act 2014 \(c. 6\), s. 139\(6\), Sch. 7 para. 72](#); S.I. 2014/1640, art. 5(2)(cc)
- F832** Words in s. 297A(4)(b)(i) substituted (18.1.2020) by [Parental Bereavement \(Leave and Pay\) Act 2018 \(c. 24\), s. 2\(2\), Sch. para. 54](#); S.I. 2020/45, reg. 2

## **[<sup>F833</sup>297B] The proportion of skilled employees requirement**

- (1) The requirement of this section is that, where the conditions in subsection (2) are met, at all times in the period of 3 years beginning with the issue of the relevant holding—
- (a) if the relevant company is a single company, the FTE skilled employee number must be at least 20% of the FTE employee number, and
  - (b) if the relevant company is a parent company, the FTE group skilled employee number must be at least 20% of the FTE group employee number.
- (2) The conditions are that—
- (a) the requirements one or more of sections [<sup>F834</sup>292A,] 292AA, 294A and 297A (the maximum risk finance investments when relevant holding is issued requirement and the number of employees requirement) is or are met only by reason of the relevant company being a knowledge-intensive company at the time the relevant holding was issued, and
  - (b) the innovation condition in section 331A(6) was not met by the relevant company at that time.
- (3) The requirement of this section is not to be regarded as failing to be met at a time when the relevant company, by virtue of section 292 (companies in administration or receivership), is not regarded as having ceased to meet the trading requirement.
- (4) In this section “FTE employee number”, “FTE group employee number”, “FTE skilled employee number” and “FTE group skilled employee number” have the meaning given by section 331A(10) (meaning of “knowledge-intensive company”).]

### **Textual Amendments**

- F833** S. 297B inserted (with effect in accordance with Sch. 6 para. 23(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), Sch. 6 para. 13](#)
- F834** Word in s. 297B(2)(a) inserted (6.4.2018) by [Finance Act 2018 \(c. 3\), Sch. 4 paras. 4, 10](#); S.I. 2018/931, reg. 3(b)

## **298 The qualifying subsidiaries requirement**

Any subsidiary that the relevant company has must be a qualifying subsidiary of the company.

## **299 The property managing subsidiaries requirement**

- (1) Any property managing subsidiary that the relevant company has must be a qualifying 90% subsidiary of the company.
- (2) “Property managing subsidiary” means a subsidiary of the relevant company whose business consists wholly or mainly in the holding or managing of land or any property deriving its value from land.

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- (3) In subsection (2) references to property deriving its value from land include—
- (a) any shareholding in a company deriving its value directly or indirectly from land,
  - (b) any partnership interest deriving its value directly or indirectly from land,
  - (c) any interest in settled property deriving its value directly or indirectly from land, and
  - (d) any option, consent or embargo affecting the disposition of land.

### **[<sup>F835</sup>299A] The no disqualifying arrangements requirement**

- (1) The relevant holding must not have been issued, nor any money raised by the issue employed, in consequence or anticipation of, or otherwise in connection with, disqualifying arrangements.
- (2) Arrangements are “disqualifying arrangements” if—
  - (a) the main purpose, or one of the main purposes, of the arrangements is to secure—
    - (i) that a qualifying activity is or will be carried on by the relevant company or a qualifying 90% subsidiary of that company, and
    - (ii) that shares or securities issued by the relevant company may be comprised in any company's qualifying holdings or that one or more persons may obtain relevant tax relief in respect of such shares which raise money for the purposes of that qualifying activity,
  - (b) that qualifying activity is the relevant qualifying activity by reference to which the requirement in section 293(1)(b) (money raised to be employed within two years for relevant qualifying activity) is met in relation to the relevant holding, and
  - (c) one or both of conditions A and B are met.
- (3) Condition A is that, as a (direct or indirect) result of the money raised by the issue of the relevant holding being employed as required by section 293(1)(b), an amount representing the whole or the majority of the amount raised is, in the course of the arrangements, paid to or for the benefit of a relevant person or relevant persons.
- (4) Condition B is that, in the absence of the arrangements, it would have been reasonable to expect that the whole or greater part of the component activities of the relevant qualifying activity would have been carried on as part of another business by a relevant person or relevant persons.
- (5) For the purposes of this section it is immaterial whether the relevant company is a party to the arrangements.
- (6) In this section—
 

“component activities” means—

  - (a) if the relevant qualifying activity is within section 291(2), the carrying on of a qualifying trade which constitutes that activity, and
  - (b) if the relevant qualifying activity is within section 291(3), the preparations to carry on a qualifying trade which constitute that activity;

“arrangements” includes any scheme, agreement, understanding, transaction or series of transactions (whether or not legally enforceable);

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“relevant person” means a person who is a party to the arrangements or a person connected with such a party;

“qualifying activity” has the same meaning as in section 291;

“relevant tax relief”, in respect of shares, means one or more of the following—

- (a) relief under Chapter 6 of Part 4 (losses on disposal of shares) in respect of the shares;
- (b) EIS relief (within the meaning of Part 5) in respect of the shares;
- (c) SEIS relief (within the meaning of Part 5A) in respect of the shares;
- (ca) [<sup>F836</sup>SI relief (within the meaning of Part 5B) in respect of the shares;]
- (d) relief under section 150A or 150E of TCGA 1992 (enterprise investment scheme and seed enterprise investment scheme) in respect of the shares;
- (e) relief under Schedule 5B to that Act in consequence of which deferral relief is attributable to the shares;
- (f) relief under Schedule 5BB to that Act (seed enterprise investment scheme: re-investment) in consequence of which SEIS re-investment relief is attributable to the shares (see paragraph 4 of that Schedule).]

#### Textual Amendments

**F835** S. 299A inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 10](#)

**F836** Words in s. 299A(6) inserted (with effect in accordance with Sch. 1 para. 16 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 1 para. 11\(4\)](#)

### Definitions

#### 300 Meaning of “qualifying trade”

- (1) For the purposes of this Chapter, a trade is a qualifying trade if—
  - (a) it is conducted on a commercial basis and with a view to the realisation of profits, and
  - (b) it does not consist wholly or as to a substantial part in the carrying on of excluded activities (see sections 303 to 310).
- (2) The carrying on of any activities of research and development from which it is intended—
  - [<sup>F837</sup>(a) that a trade will be derived which will be a qualifying trade, or
  - (b) that a trade will benefit which is or will be a qualifying trade,]is to be treated as the carrying on of a qualifying trade.
- (3) But preparing to carry on such activities does not count as preparing to carry on a qualifying trade.
- (4) References in this section to a trade are to be read without regard to the definition of “trade” in section 989.

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### Textual Amendments

**F837** S. 300(2)(a)(b) substituted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 2 para. 2\(11\)](#); S.I. 2011/662, art. 2

## 301 Meaning of “qualifying 90% subsidiary”

(1) For the purposes of this Chapter, a company (“the subsidiary”) is a qualifying 90% subsidiary of the relevant company at any time when the following conditions are met—

- (a) the relevant company possesses at least 90% of the issued share capital of, and at least 90% of the voting power in, the subsidiary,
- (b) the relevant company would—
  - (i) in the event of a winding up of the subsidiary, or
  - (ii) in any other circumstances,
 be beneficially entitled to receive at least 90% of the assets of the subsidiary which would then be available for distribution to equity holders of the subsidiary,
- (c) the relevant company is beneficially entitled to receive at least 90% of any profits of the subsidiary which are available for distribution to equity holders of the subsidiary,
- (d) no person other than the relevant company has control of the subsidiary, and
- (e) no arrangements are in existence by virtue of which any of the conditions in paragraphs (a) to (d) would cease to be met.

[<sup>F838</sup>(1A) For the purposes of this Chapter, a company (“company A”) which is a subsidiary of a company that is not the relevant company (“company B”) is a qualifying 90% subsidiary of the relevant company if—

- (a) company A would be a qualifying 90% subsidiary of company B (if company B were the relevant company), and company B is a qualifying 100% subsidiary of the relevant company, or
- (b) company A is a qualifying 100% subsidiary of company B, and company B is a qualifying 90% subsidiary of the relevant company.

(1B) For the purposes of subsection (1A), no account is to be taken of any control the relevant company may have of company A.

(1C) For those purposes, a company (“company X”) is a qualifying 100% subsidiary of another company (“company Y”) at any time when the conditions in subsection (1) (a) to (e) would be met if—

- (a) company X were the subsidiary,
- (b) company Y were the relevant company, and
- (c) in subsection (1) for “at least 90%” in each place there were substituted “100%”.]

(2) Subsections (3), (4) and (5) of section 302 apply in relation to the conditions in subsection (1)—

- (a) as they apply in relation to the conditions in subsection (2) of that section, but
- (b) with the omission from subsection (5) of “or (as the case may be) by another subsidiary of that company”.

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- (3) For the purposes of subsection (1)—
- (a) the persons who are equity holders of the subsidiary, and
  - (b) the percentage of the assets of the subsidiary to which an equity holder would be entitled,
- are to be determined in accordance with [F839 Chapter 6 of Part 5 of CTA 2010].
- (4) In making that determination—
- (a) references in [F840 section 166 of that Act to company A] are to be read as references to an equity holder, and
  - (b) references in that [F841 section] to a winding up are to be read as including references to any other circumstances in which assets of the subsidiary are available for distribution to its equity holders.

#### Textual Amendments

- F838** S. 301(1A)-(1C) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 17, 18](#)
- F839** Words in s. 301(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 504\(a\)](#) (with [Sch. 2](#))
- F840** Words in s. 301(4)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 504\(b\)](#) (with [Sch. 2](#))
- F841** Word in s. 301(4)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 504\(c\)](#) (with [Sch. 2](#))

### 302 Meaning of “qualifying subsidiary”

- (1) For the purposes of this Chapter, a company (“the subsidiary”) is a qualifying subsidiary of the relevant company if the following conditions are met.
- (2) The conditions are that—
- (a) the subsidiary is a 51% subsidiary of the relevant company,
  - (b) no person other than the relevant company, or another of its subsidiaries, has control of the subsidiary, and
  - (c) no arrangements are in existence by virtue of which either of the conditions in paragraphs (a) and (b) would cease to be met.
- (3) The conditions do not cease to be met merely because the subsidiary or any other company is wound up, if the winding up—
- (a) is for genuine commercial reasons, and
  - (b) is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (4) The conditions do not cease to be met merely because of anything done as a consequence of the subsidiary or any other company being in administration or receivership, if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a consequence of the company concerned being in administration or receivership,
- is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

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- (5) The conditions do not cease to be met merely because arrangements are in existence for the disposal by the relevant company or (as the case may be) by another subsidiary of that company of all its interest in the subsidiary, if the disposal—
- (a) is to be for genuine commercial reasons, and
  - (b) is not to be part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

### **[<sup>F842</sup>302] Meaning of “permanent establishment”**

- (1) This section applies for the purposes of this Chapter.
- (2) A company has a “permanent establishment” in the United Kingdom if (and only if)—
  - (a) it has a fixed place of business there through which the business of the company is wholly or partly carried on, or
  - (b) an agent acting on behalf of the company has and habitually exercises there authority to enter into contracts on behalf of the company.
- (3) For the purposes of this section “fixed place of business” includes (without prejudice to the generality of that expression)—
  - (a) a place of management,
  - (b) a branch,
  - (c) an office,
  - (d) a factory,
  - (e) a workshop,
  - (f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources, and
  - (g) a building site or construction or installation project.
- (4) If the condition in subsection (5) is met, a company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that—
  - (a) a fixed place of business is maintained there for the purpose of carrying on activities for the company, or
  - (b) an agent carries on activities there for and on behalf of the company.
- (5) The condition is that, in relation to the business of the company as a whole, the activities carried on are only of a preparatory or auxiliary character.
- (6) For this purpose “activities of a preparatory or auxiliary character” include (without prejudice to the generality of that expression)—
  - (a) the use of facilities for the purpose of storage, display or delivery of goods or merchandise belonging to the company,
  - (b) the maintenance of a stock of goods or merchandise belonging to the company for the purpose of storage, display or delivery,
  - (c) the maintenance of a stock of goods or merchandise belonging to the company for the purpose of processing by another person, and
  - (d) purchasing goods or merchandise, or collecting information, for the company.
- (7) A company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that it carries on business there through an agent of independent status (including a broker or a general commission agent) acting in the ordinary course of the agent's business.



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- (8) A company is not regarded as having a permanent establishment in the United Kingdom by reason of the fact that it controls a company that—
- (a) is resident there, or
  - (b) carries on business there (whether through a permanent establishment or otherwise).
- (9) The Treasury may by regulations amend this section.]

#### Textual Amendments

**F842** S. 302A inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by *Finance (No. 3) Act 2010 (c. 33)*, **Sch. 2 para. 2(12)**; S.I. 2011/662, art. 2

#### *Excluded activities*

### 303 Meaning of “excluded activities”

- (1) The following are excluded activities for the purposes of sections 290 and 300—
- (a) dealing in land, in commodities or futures or in shares, securities or other financial instruments,
  - (b) dealing in goods otherwise than in the course of an ordinary trade of wholesale or retail distribution,
  - (c) banking, insurance, money-lending, debt-factoring, hire-purchase financing or other financial activities,
  - (d) leasing (including letting ships on charter or other assets on hire),
  - (e) receiving royalties or licence fees,
  - (f) providing legal or accountancy services,
  - (g) property development,
  - (h) farming or market gardening,
  - (i) holding, managing or occupying woodlands, any other forestry activities or timber production,
  - [<sup>F843</sup>(ia) shipbuilding,
  - (ib) producing coal,
  - (ic) producing steel,]
  - (j) operating or managing hotels or comparable establishments or managing property used as an hotel or comparable establishment,
  - (k) operating or managing nursing homes or residential care homes or managing property used as a nursing home or residential care home,<sup>F844</sup> ...
  - [<sup>F845</sup>(ka) generating or exporting electricity or making electricity generating capacity available,
  - (kb) generating heat,
  - (kc) generating any form of energy not within paragraph (ka) or (kb),
  - (kd) producing gas or fuel, and]
  - (l) any activities which are excluded activities under section 310 (provision of services or facilities for another business).
- (2) Subsection (1) is supplemented by the following provisions—
- (a) section 304 (wholesale and retail distribution),

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- (b) section 305 (leasing of ships),
- (c) section 306 (receipt of royalties and licence fees),
- (d) section 307 (property development),
- [<sup>F846</sup>(da) section 307A (shipbuilding),
- (db) section 307B (producing coal),
- (dc) section 307C (producing steel),]
- (e) section 308 (hotels and comparable establishments), <sup>F847</sup>...
- (f) section 309 (nursing homes and residential care homes), <sup>F848</sup>... [<sup>F849</sup>and
- (g) section 309A (export of electricity).]
- <sup>F850</sup>(h) .....

#### Textual Amendments

- F843** S. 303(1)(ia)-(ic) inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 8\(a\), 10](#) (with [Sch. 11 paras. 12, 13](#))
- F844** Word in s. 303(1)(k) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 11\(2\)](#)
- F845** S. 303(1)(ka)-(kd) substituted for s. 303(1)(ka)-(kc) (with effect in accordance with s. 28(6) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 28\(2\)](#)
- F846** S. 303(2)(da)-(dc) inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 8\(b\), 10](#) (with [Sch. 11 paras. 12, 13](#))
- F847** Word in s. 303(2)(e) omitted (17.7.2012) (with effect in accordance with Sch. 8 para. 22 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 11\(3\)](#)
- F848** Word in s. 303(2)(f) omitted (with effect in accordance with s. 56(9) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [s. 56\(5\)\(b\)](#)
- F849** S. 303(2)(g) and word substituted for s. 303(2)(g) (with effect in accordance with s. 28(6) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 28\(4\)\(a\)\(i\)](#)
- F850** S. 303(2)(h) omitted (with effect in accordance with s. 28(6) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [s. 28\(4\)\(a\)\(ii\)](#)

### 304 Excluded activities: wholesale and retail distribution

- (1) This section supplements section 303(1)(b).
- (2) In this section—
  - (a) subsections (3) and (4) are for determining whether a trade is a trade of wholesale or retail distribution, and
  - (b) subsections (5) and (6) are for determining whether a trade of wholesale or retail distribution is an ordinary trade of wholesale or retail distribution.
- (3) A trade of wholesale distribution is one in which goods are offered for sale and sold to persons for resale by them, or for processing and resale by them, to members of the general public for their use or consumption.
- (4) A trade of retail distribution is one in which goods are offered or exposed for sale and sold to members of the general public for their use or consumption.
- (5) A trade of wholesale or retail distribution is not an ordinary trade of wholesale or retail distribution if—
  - (a) it consists to a substantial extent—

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- (i) in dealing in goods of a kind which are collected or held as an investment, or
    - (ii) in that activity and any other excluded activity taken together, and
  - (b) a substantial proportion of those goods are held for a period which is significantly longer than the period for which the trader would reasonably be expected to hold them while trying to dispose of them at their market value.
- (6) In determining whether a trade of wholesale or retail distribution is an ordinary trade of wholesale or retail distribution regard is to be had to the extent to which it has the following features—
- (a) the goods are bought by the trader in quantities larger than those in which the trader sells them,
  - (b) the goods are bought and sold by the trader in different markets,
  - (c) the trader employs staff and incurs expenses in the trade in addition to the cost of the goods and, in the case of a trade carried on by a company, in addition to any remuneration paid to any person connected with it,
  - (d) there are purchases or sales from or to persons who are connected with the trader,
  - (e) purchases are matched with forward sales or vice versa,
  - (f) the goods are held by the trader for longer than is normal for goods of the kind in question,
  - (g) the trade is carried on otherwise than at a place or places commonly used for wholesale or retail trade, and
  - (h) the trader does not take physical possession of the goods.
- (7) In subsection (6)—
- (a) the features in paragraphs (a) to (c) are regarded as indications that the trade is an ordinary trade of wholesale or retail distribution, and
  - (b) those in paragraphs (d) to (h) are regarded as indications to the contrary.

### **305 Excluded activities: leasing of ships**

- (1) This section supplements section 303(1)(d) so far as it relates to the leasing of ships other than offshore installations or pleasure craft.
- (2) In the following provisions “ship” accordingly means a ship other than an offshore installation or a pleasure craft.
- (3) If the requirements of subsection (4) are met, a trade is not to be regarded as consisting in the carrying on of excluded activities within section 303(1)(d) as a result only of its consisting in letting ships on charter.
- (4) The requirements of this subsection are that—
  - (a) every ship let on charter by the company carrying on the trade is beneficially owned by the company,
  - (b) every ship beneficially owned by the company is registered in the United Kingdom,
  - (c) the company is solely responsible for arranging the marketing of the services of its ships, and
  - (d) the conditions mentioned in subsection (5) are met in relation to every letting on charter by the company.

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- (5) The conditions referred to in subsection (4)(d) are—
- (a) the letting is for a period not exceeding 12 months and no provision is made at any time (whether in the charterparty or otherwise) for extending it beyond that period otherwise than at the option of the charterer,
  - (b) no provision for the grant of a new letting to end more than 12 months after the provision is made (whether in the charterparty or otherwise) is in force during the period of the letting otherwise than at the option of the charterer,
  - (c) the letting is by way of a bargain at arm's length between the company and a person who is not connected with it,
  - (d) under the terms of the charter the company is responsible as principal—
    - (i) for taking, throughout the period of the charter, management decisions in relation to the ship, other than those of a kind generally regarded by persons engaged in trade of the kind in question as matters of husbandry, and
    - (ii) for defraying all expenses in connection with the ship throughout that period, or substantially all such expenses, other than those directly incidental to a particular voyage or to the employment of the ship during that period, and
  - (e) no arrangements exist by virtue of which a person other than the company may be appointed to be responsible for the matters mentioned in paragraph (d) on behalf of the company.
- (6) If in the case of the company carrying on the trade (“the letting company”) the charterer is also a company and—
- (a) the charterer is a qualifying subsidiary of the letting company, or
  - (b) the letting company is a qualifying subsidiary of the charterer, or
  - (c) both companies are qualifying subsidiaries of a third company,
- subsection (5) has effect with the omission of paragraph (c).
- (7) If any of the requirements of subsection (4) is not met in relation to any lettings of ships, the trade is not, as a result, to be treated as consisting in the carrying on of excluded activities if—
- (a) those lettings, and
  - (b) any other excluded activities
- do not, taken together, amount to a substantial part of the trade.
- (8) In this section “pleasure craft” means any ship of a kind primarily used for sport or recreation.

### **306 Excluded activities: receipt of royalties and licence fees**

- (1) This section supplements section 303(1)(e) (receipt of royalties and licence fees).
- (2) If the requirement of subsection (3) is met, a trade is not to be regarded as consisting in the carrying on of excluded activities within section 303(1)(e) as a result only of its consisting to a substantial extent in the receiving of royalties or licence fees.
- (3) The requirement of this subsection is that the royalties or licence fees (or all but for a part that is not a substantial part in terms of value) are attributable to the exploitation of relevant intangible assets.

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- (4) For this purpose an intangible asset is a “relevant intangible asset” if the whole or greater part (in terms of value) of it has been created—
- [<sup>F851</sup>(a) by the relevant company, or]
  - [<sup>F851</sup>(b) by a company which was a qualifying subsidiary of the relevant company throughout a period during which it created the whole or greater part (in terms of value) of the intangible asset.]
- (5) In the case of an intangible asset that is intellectual property, references to the creation of an asset by a company are to its creation in circumstances in which the right to exploit it vests in the company (whether alone or jointly with others).
- (6) In this section—
- <sup>F852</sup>  
...  
“intangible asset” means any asset which falls to be treated as an intangible asset in accordance with generally accepted accountancy practice, and  
“intellectual property” means—
- (a) any patent, trade mark, registered design, copyright, design right, performer's right or plant breeder's right, or
  - (b) any rights under the law of a country or territory outside the United Kingdom which correspond or are similar to those falling within paragraph (a).
- [<sup>F853</sup>(7) If—
- (a) the relevant company acquired all the shares (“old shares”) in another company (“the old company”) at a time when the only shares issued in the relevant company were subscriber shares, and
  - (b) the consideration for the old shares consisted wholly of the issue of shares in the relevant company,
- references in subsection (4) to the relevant company include the old company.]

#### Textual Amendments

**F851** S. 306(4)(a)(b) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 12\(2\), 13](#)

**F852** Words in s. 306(6) repealed (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 12\(3\), 13](#), [Sch. 27 Pt. 2\(16\)](#)

**F853** S. 306(7) inserted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 16 paras. 12\(4\), 13](#)

### 307 Excluded activities: property development

- (1) This section supplements section 303(1)(g).
- (2) “Property development” means the development of land—
- (a) by a company which has, or at any time has had, an interest in the land, and
  - (b) with the sole or main object of realising a gain from the disposal of an interest in the land when it is developed.
- (3) For this purpose “interest in land” means, subject to subsection (4)—
- (a) any estate, interest or right in or over land, including any right affecting the use or disposition of land, or

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- (b) any right to obtain such an estate, interest or right from another which is conditional on the other's ability to grant it.
- (4) References in this section to an interest in land do not include—
- (a) the interest of a creditor (other than a creditor in respect of a rentcharge) whose debt is secured by way of mortgage, an agreement for a mortgage or a charge of any kind over land, or
  - (b) in the case of land in Scotland, the interest of a creditor in a charge or security of any kind over land.

### <sup>F854</sup>307A Excluded activities: shipbuilding

In section 303(1)(ia) “shipbuilding” has the same meaning as in the Framework on state aid to shipbuilding (2003/C 317/06), published in the Official Journal on 30 December 2003 [<sup>F855</sup>, except that references in that Framework to building in the Union are to be read as including building in the United Kingdom].

#### Textual Amendments

**F854** Ss. 307A-307C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 9, 10](#) (with [Sch. 11 paras. 12, 13](#))

**F855** Words in s. 307A inserted (31.12.2020) by [The Taxes \(State Aid\) \(Amendments\) \(EU Exit\) Regulations 2020 \(S.I. 2020/1499\)](#), regs. 1, [4\(13\)](#)

### 307B Excluded activities: producing coal

- (1) This section supplements section 303(1)(ib).
- (2) “Coal” has the meaning given by Article 2 of Council Regulation (EC) No. 1407/2002 (state aid to coal industry).
- (3) The production of coal includes the extraction of it.

#### Textual Amendments

**F854** Ss. 307A-307C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 9, 10](#) (with [Sch. 11 paras. 12, 13](#))

### 307C Excluded activities: producing steel

In section 303(1)(ic) “steel” means any of the steel products listed in Annex 1 to the Guidelines on national regional aid (2006/C 54/08), published in the Official Journal on 4 March 2006.]

#### Textual Amendments

**F854** Ss. 307A-307C inserted (retrospective to 6.4.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 11 paras. 9, 10](#) (with [Sch. 11 paras. 12, 13](#))

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**308 Excluded activities: hotels and comparable establishments**

- (1) This section supplements section 303(1)(j).
- (2) The reference to a comparable establishment is to a guest house, hostel or other establishment the main purpose of maintaining which is the provision of facilities for overnight accommodation (with or without catering services).
- (3) The activities of a person are not to be taken to fall within section 303(1)(j) unless that person has an estate or interest in, or is in occupation of, the hotel or comparable establishment in question.

**309 Excluded activities: nursing homes and residential care homes**

- (1) This section supplements section 303(1)(k).
- (2) “Nursing home” means any establishment which exists wholly or mainly for the provision of nursing care—
  - (a) for persons suffering from sickness, injury or infirmity, or
  - (b) for women who are pregnant or have given birth.
- (3) “Residential care home” means any establishment which exists wholly or mainly for the provision of residential accommodation, together with board and personal care, for persons in need of personal care because of—
  - (a) old age,
  - (b) mental or physical disability,
  - (c) past or present dependence on alcohol or drugs,
  - (d) any past illnesses, or
  - (e) past or present mental disorder.
- (4) The activities of a person are not to be taken to fall within section 303(1)(k) unless that person has an estate or interest in, or is in occupation of, the nursing home or residential care home in question.

[<sup>F856</sup>**309A** Excluded activities: <sup>F857</sup>... export of electricity

- (1) This section supplements section 303(1)(ka).
- (2) Electricity is exported if it is exported onto a distribution system or transmission system (within the meaning of section 4 of the Electricity Act 1989).

- <sup>F858</sup>(3) .....
- <sup>F858</sup>(4) .....
- <sup>F859</sup>(5) .....
- <sup>F859</sup>(6) .....
- <sup>F860</sup>(7) .....
- <sup>F860</sup>(8) .....
- <sup>F858</sup>(9) .....]

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#### Textual Amendments

- F856** S. 309A inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 8 para. 12**
- F857** Words in s. 309A heading omitted (with effect in accordance with s. 28(6) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(4)(b)(i)**
- F858** S. 309A(3)-(9) omitted (with effect in accordance with s. 28(6) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(4)(b)(ii)**
- F859** S. 309A(5)(6) omitted (with effect in accordance with Sch. 6 para. 14 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), **Sch. 6 para. 11(2)(a)**; S.I. 2015/1836, **reg. 2(b)**
- F860** S. 309A(7)(8) omitted (with effect in accordance with Sch. 6 para. 9 of the amending Act) by virtue of [Finance Act 2015 \(c. 11\)](#), **Sch. 6 para. 8(1)(b)**

### <sup>F861</sup>**309BE Excluded activities: subsidised generation of heat and subsidised production of gas or fuel**

.....

#### Textual Amendments

- F861** S. 309B omitted (with effect in accordance with s. 28(6) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **s. 28(4)(c)**

### **310 Excluded activities: provision of services or facilities for another business**

- (1) Providing services or facilities for a business carried on by another person (other than a company of which the provider of the services or facilities is a qualifying subsidiary) is an excluded activity if—
  - (a) the business consists wholly or as to a substantial part of activities falling within any of paragraphs (a) to [<sup>F862</sup>(ka)] of section 303(1), and
  - (b) a controlling interest in the business is held by a person who also has a controlling interest in the business carried on by the provider of the services or facilities.
- (2) Subsections (3) to (5) explain what is meant by a controlling interest in a business for the purposes of subsection (1)(b).
- (3) In the case of a business carried on by a company, a person (“A”) has a controlling interest in the business if—
  - (a) A controls the company,
  - (b) the company is a close company and A or an associate of A, being a director of the company, either—
    - (i) is the beneficial owner of more than 30% of the ordinary share capital of the company, or
    - (ii) is able, directly or through the medium of other companies or by any other indirect means, to control more than 30% of that share capital, or
  - (c) at least half the business could, in accordance with [<sup>F863</sup>section 942 of CTA 2010 (options for purposes of ownership condition)], be regarded as belonging to A for the purposes of [<sup>F863</sup>section 941 of that Act (trade transfers without change of ownership: ownership condition)].



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- (4) In any other case, a person has a controlling interest in a business if the person is entitled to at least half the assets used for, or of the income arising from, the business.
- (5) For the purposes of this section—
  - (a) any rights or powers of a person who is an associate of another are to be attributed to that other person, and
  - (b) “business” includes any trade, profession or vocation.

#### Textual Amendments

**F862** Word in s. 310(1)(a) substituted (17.7.2012) (with effect in accordance with Sch. 8 para. 22 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 8 para. 13](#)

**F863** Words in s. 310(3)(c) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 505](#) (with [Sch. 2](#))

### Supplementary

#### <sup>F864</sup>**311 Power to amend Chapter**

.....

#### Textual Amendments

**F864** [S. 311](#) omitted (18.11.2015) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 14](#)

#### **312 Winding up of the relevant company**

None of the requirements of this Chapter is to be regarded, at a time when the relevant company is being wound up, as being, on that account, a requirement that is not met in relation to that company if—

- (a) the requirements of this Chapter would be met in relation to that company apart from the winding up, and
- (b) the winding up is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

#### <sup>F865</sup>**312A Power to require information relating to disqualifying arrangements**

- (1) Subsection (2) applies if an officer of Revenue and Customs has reason to believe that the relevant company has issued the relevant holding to the investing company in consequence of or, or otherwise in connection with, disqualifying arrangements (within the meaning of section 299A(2)).
- (2) The officer may by notice require any person concerned to supply the officer within such time as may be specified in the notice with—
  - (a) a declaration in writing stating whether or not, according to the information which that person has or can reasonably obtain, such arrangements exist or have existed, and

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- (b) such other information as the officer may reasonably require for the purposes of section 299A and as that person has or can reasonably obtain.
- (3) The period specified in a notice under subsection (2) must be at least 60 days.
- (4) A “person concerned” means—
  - (a) the relevant company,
  - (b) the investing company,
  - (c) any person connected with either of those companies, and
  - (d) any person whom the officer has reason to believe is or was a party to the arrangements in question.]

#### Textual Amendments

**F865** S. 312A inserted (17.7.2012) (with effect in accordance with Sch. 8 para. 19 of the amending Act) by Finance Act 2012 (c. 14), [Sch. 8 para. 15](#)

### 313 Interpretation of Chapter

- (1) In this Chapter —
  - “the investing company” has the meaning given by section 286(1),
  - “the relevant company” has the meaning given by section 286(1), and
  - “the relevant holding” has the meaning given by section 286(1).
- (2) References in this Chapter to the issue of any securities, in relation to any security consisting in a liability in respect of an unsecured loan, have effect as references to the making of the loan.
- (3) References in sections 303 to 309 to a trade are to be read without regard to the definition of “trade” in section 989 (see also section 300(4)).
- (4) For the purposes of sections 296 and 310(3) and (4), the question whether a person controls a company is to be determined in accordance with [<sup>F866</sup>sections 450 and 451 of CTA 2010] with the modification given by subsection (6).
- (5) For the purposes of this Chapter [<sup>F867</sup>(other than section 312A)], section 993 (meaning of “connected persons”) applies as if references to “control” in that section were to be read in accordance with [<sup>F868</sup>sections 450 and 451 of CTA 2010] with the modification given by subsection (6).
 

[<sup>F869</sup>But section 993 does not apply for the purposes of the definition of “independent expert” in section 331A(10).]
- (6) The modification is that, in determining whether a person controls a company, the following are to be ignored—
  - (a) any person's possession of, or entitlement to acquire, fixed-rate preference shares in the company that do not carry voting rights, <sup>F870</sup> ...
  - (b) any person's possession of, or entitlement to acquire, rights as a loan creditor of the company [<sup>F871</sup>, and
  - (c) any right to dividends carried by shares in the company where the shares—
    - (i) are eligible shares, and
    - (ii) are held by the investing company.]

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- (7) In subsection (6) “fixed-rate preference shares” means shares which—
- (a) were issued wholly for new consideration,
  - (b) do not carry any right either to conversion into shares or securities of any other description or to the acquisition of any additional shares or securities, and
  - (c) do not carry any right to dividends other than dividends which—
    - (i) are of a fixed amount or at a fixed rate per cent of the nominal value of the shares, and
    - (ii) together with any sum paid on redemption, represent no more than a reasonable commercial return on the consideration for which the shares were issued,
- and in paragraph (a) “new consideration” has the meaning given by [<sup>F872</sup>section 1115 of CTA 2010].

- [<sup>F873</sup>(8) In subsection (6) “eligible shares” has the same meaning as in Chapter 3 (see section 285(3A) and (3B)).]

#### Textual Amendments

- F866** Words in s. 313(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 506(a)** (with Sch. 2)
- F867** Words in s. 313(5) inserted (17.7.2012) by Finance Act 2012 (c. 14), **Sch. 8 para. 16**
- F868** Words in s. 313(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 506(b)** (with Sch. 2)
- F869** Words in s. 313(5) inserted (18.11.2015) by Finance (No. 2) Act 2015 (c. 33), **Sch. 6 para. 15**
- F870** Word in s. 313(6)(a) omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(4), 8 of the amending Act) by virtue of Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 2(13)(a)**; S.I. 2011/662, art. 2
- F871** S. 313(6)(c) and word inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(4), 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 2(13)(a)**; S.I. 2011/662, art. 2
- F872** Words in s. 313(7) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 506(c)** (with Sch. 2)
- F873** S. 313(8) inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(4), 8 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 2(13)(b)**; S.I. 2011/662, art. 2

## CHAPTER 5

### POWERS: WINDING UP AND MERGERS OF VCTS

#### *Winding up*

#### **314 Power to treat VCT-in-liquidation as VCT**

- (1) Regulations may make provision for tax enactments specified by the regulations to have effect as if—
- (a) a VCT-in-liquidation that is not a VCT were, or were during any prescribed period of its winding up, a VCT,
  - (b) VCT approval withdrawn from a company—
    - (i) at any time during the period when it is a VCT-in-liquidation, or

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(ii) at any time during a prescribed part of that period,  
 were withdrawn at a prescribed time (and not at the time when it is actually  
 withdrawn).

(2) In this section “prescribed” means specified by, or determined under, regulations.

### **315 Power to treat conditions for VCT approval as met with respect to VCT-in-liquidation**

- (1) Regulations may make provision for conditions mentioned in section 274(2) (conditions for approval as a VCT) to be treated for the purposes of section 274(1) as met, or as conditions that will be met, with respect to a VCT-in-liquidation.
- (2) Provision under subsection (1) may be made so as to apply in relation to a VCT-in-liquidation—
  - (a) throughout its winding up, or
  - (b) during prescribed periods of its winding up.
- (3) Regulations may, for purposes of tax enactments specified by the regulations, make provision for VCT approval to be treated as having been withdrawn, with effect from a time specified by or determined under the regulations, from a VCT-in-liquidation from which the Commissioners for Her Majesty's Revenue and Customs would have power to withdraw such approval but for provision made under subsection (1).

### **316 Power to make provision about distributions by VCT-in-liquidation**

- (1) Regulations may make provision for tax enactments specified by the regulations—
  - (a) to apply in relation to distributions from a VCT-in-liquidation (including, in particular, distributions in the course of dissolving it or winding it up),
  - (b) not to apply in relation to such distributions,
  - (c) to apply in relation to such distributions with modifications specified by the regulations.
- (2) Provision under subsection (1) may be made so as to apply in relation to distributions from a VCT-in-liquidation made—
  - (a) at any time during its winding up, or
  - (b) during periods of its winding up specified by, or determined under, regulations.

### **317 Power to facilitate disposal to VCT by VCT-in-liquidation**

- (1) Regulations may make provision authorised by subsection (2) for cases where shares in or securities of a company are acquired by a VCT from a VCT-in-liquidation.
- (2) The provision that may be made under subsection (1) for such a case is—
  - (a) provision for conditions mentioned in section 274(2) (conditions for approval as a VCT) to be treated for the purposes of section 274(1) as met, or as conditions that will be met, with respect to the VCT in relation to periods ending after the acquisition,
  - (b) provision for the shares or securities acquired to be treated, at times after the acquisition when they are held by the VCT, as meeting the requirements of

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- Chapter 4 (provisions for determining whether shares or securities form part of qualifying holdings), and
- (c) provision for shares in the VCT issued in connection with the acquisition of the shares or securities from the VCT-in-liquidation and either—
    - (i) issued to a person who is a member of the VCT-in-liquidation, or
    - (ii) issued to the VCT-in-liquidation and distributed by it in the course of its winding up or dissolution to a person who is one of its members,to be treated, for the purposes of Schedule 5C to TCGA 1992 (VCTs: deferred charge on re-investment), as representing shares in the VCT-in-liquidation held by that person.
- (3) Provision under subsection (1) may be made so as to apply in relation to shares or securities acquired from a VCT-in-liquidation—
- (a) at any time during its winding up, or
  - (b) during periods of its winding up specified by, or determined under, regulations.
- (4) In this section “securities” means any securities and includes any liability that is a security in relation to a company because of section 285(2) (securities).

### **318 Power in respect of periods before and after winding up**

- (1) Any power under sections 314 to 317 to make provision in relation to a VCT-in-liquidation includes power to make corresponding or similar provision in relation to—
- (a) a company for whose winding up an application has been made to a court and which is not a VCT-in-liquidation but would be if, at the time that the application was made, the court had ordered the company's winding up to commence at that time, or
  - (b) a company that has been a VCT-in-liquidation but no longer is a VCT-in-liquidation because it has been wound up.
- (2) For the purposes of making provision in reliance on subsection (1), references in sections 314 to 317 (however expressed) to a VCT-in-liquidation's winding up, or the commencement or ending of its winding up, may be taken to be references to, or to the commencement or ending of, the extension period for a company to which subsection (1) applies.
- (3) In this section—
- “the extension period”—
    - (a) in relation to a company to which subsection (1)(a) applies, means the period beginning with the making of the application and ending with the earlier of its final determination and the company becoming a company that is being wound up, and
    - (b) in relation to a company to which subsection (1)(b) applies, means the period between the end of the company's winding up and the company's dissolution, and
- “prescribed” means specified by, or determined under, regulations.

### **319 Sections 314 to 318: supplementary**

- (1) Provision made by regulations under sections 314 to 318 applies in cases, and subject to conditions, specified by regulations.

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- (2) Such provision may (but need not) be made so as to have effect in a particular case only for such period as may be specified by, or determined under, regulations.
- (3) References in sections 314 to 318 to things done by a VCT-in-liquidation include things done by a liquidator of a VCT-in-liquidation.

### **320 Meaning of “VCT-in-liquidation”**

- (1) In this Chapter “VCT-in-liquidation” means a company—
  - (a) that is being wound up (whether or not under the law of a part of the United Kingdom and whether under the law of one, or more than one, territory),
  - (b) that was a VCT immediately before the commencement of its winding up, and
  - (c) whose winding up is for genuine commercial reasons and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (2) Regulations may, for purposes of this Chapter, make provision as to when a company's winding up is to be treated as commencing or ending in a case where it is wound up otherwise than under the law of a part of the United Kingdom or otherwise than under the law of a single territory.

### *Mergers*

### **321 Power to facilitate mergers of VCTs**

- (1) Regulations may make provision authorised by section 322 for cases where—
  - (a) there is a merger of two or more companies each of which is a VCT immediately before the merger begins to be effected, and
  - (b) the merger is for genuine commercial reasons and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.
- (2) Provision made by regulations under subsection (1) applies—
  - (a) in cases, and
  - (b) subject to conditions (including conditions requiring approvals to be obtained),
 specified by the regulations.

### **322 Provision that may be made by regulations under section 321**

- (1) The provision that may be made under section 321(1) for a case where there is a merger of two or more companies (“the merging companies”) is as follows.
- (2) Provision for the successor company, or any of the merging companies, to be treated (whether at times before, during or after the merger) as a VCT for purposes of tax enactments specified by regulations.
- (3) Provision for section 266 (loss of relief on disposal of VCT shares within 5 years of their issue) not to apply in the case of disposals of shares in a merging company made in the course of effecting the merger.

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- (4) Provision for such disposals not to be chargeable events for the purposes of Schedule 5C to TCGA 1992 (VCTs: deferred charge on re-investment).
- (5) Provision for conditions mentioned in section 274(2) (conditions for approval as a VCT) to be treated (whether at times before, during or after the merger) for purposes of section 274(1) as met, or as conditions that will be met, with respect to the successor company or any of the merging companies.
- [<sup>F874</sup>(5A) Provision for section 281(1)(f) (withdrawal of VCT approval where company has made a repayment of share capital etc) not to apply, or to apply subject to modifications, to the successor company or any of the merging companies, in relation to payments made, or amounts used to pay up new shares, in connection with or after the merger.]
- (6) Provision for shares in or securities of a company that are acquired (whether at times before, during or after the merger) by the successor company from a merging company to be treated, at times after the acquisition when they are held by the successor company, as meeting requirements of Chapter 4 (provisions for determining whether shares or securities held by a VCT form part of its qualifying holdings).
- (7) Provision for tax enactments specified by regulations to apply, with or without adaptations, in relation to the merger or transactions taking place (whether before, during or after the merger) in connection with the merger.
- (8) Provision authorising disclosure for tax purposes connected with the merger—
  - (a) by Her Majesty's Revenue and Customs,
  - (b) to any of the merging companies or the successor company,
  - (c) of any information provided to Her Majesty's Revenue and Customs by or on behalf of any of the merging companies or the successor company.

#### Textual Amendments

**F874** S. 322(5A) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 10 para. 4](#)

### 323 Meaning of “merger” and “successor company”

- (1) For the purposes of this Chapter there is a merger of two or more companies (“the merging companies”) if—
  - (a) shares in one of the merging companies (“company A”) are issued to members of the other merging company or companies, and
  - (b) the shares issued to members of the other merging company or, in the case of each of the other merging companies, the shares issued to members of that other company, are issued—
    - (i) in exchange for their shares in that other company, or
    - (ii) by way of consideration for a transfer to company A of the whole or part of the business of that other company.
- (2) For the purposes of this Chapter there is also a merger of two or more companies (“the merging companies”) if—
  - (a) shares in a company (“company B”) that is not one of the merging companies are issued to members of the merging companies, and

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- (b) in the case of each of the merging companies, the shares issued to members of that company are issued—
  - (i) in exchange for their shares in that company, or
  - (ii) by way of consideration for a transfer to company B of the whole or part of the business of that company.
- (3) In this Chapter “the successor company”—
  - (a) in relation to a merger such as is described in subsection (1), means the company that performs the role of company A, and
  - (b) in relation to a merger such as is described in subsection (2), means the company that performs the role of company B.

### *Supplementary*

#### **324 Regulations under Chapter**

- (1) Regulations under this Chapter may—
  - (a) contain such administrative provisions (including provision for advance clearance and provision for the withdrawal of clearances) as appear to the Treasury to be necessary or appropriate,
  - (b) authorise the Commissioners for Her Majesty's Revenue and Customs to give notice to any person requiring that person to provide such information, specified in the notice, as they may reasonably require in order to determine whether any conditions imposed by regulations under this Chapter are met,
  - (c) make different provision for different cases,
  - (d) contain incidental, supplemental, consequential and transitional provision and savings, and
  - (e) include provision having retrospective effect.
- (2) Without prejudice to any specific provision of this Chapter, a power conferred by any provision of this Chapter to make regulations includes power to provide for Her Majesty's Revenue and Customs to exercise a discretion in dealing with any matter.

#### **325 Interpretation of Chapter**

In this Chapter—

“regulations” means regulations made by the Treasury, and

“tax enactments” means provisions of or made under—

- (a) the Tax Acts,
- (b) TCGA 1992 or any other enactment relating to capital gains tax, or
- (c) TMA 1970.



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## CHAPTER 6

### SUPPLEMENTARY AND GENERAL

#### *Acquisitions for restructuring purposes*

#### **326 Restructuring to which [<sup>F875</sup>sections 326A, 327 and 327A apply]**

- (1) [<sup>F876</sup>Sections 326A, 327 and 327A apply] if—
- (a) arrangements are made for a company (“the new company”) to acquire all the shares (“old shares”) in another company (“the old company”),
  - (b) the acquisition provided for by the arrangements falls within subsection (2), and
  - (c) the Commissioners for Her Majesty's Revenue and Customs have, before any exchange of shares takes place under the arrangements, given an approval notification.
- (2) An acquisition of shares falls within this subsection if—
- (a) the consideration for the old shares consists wholly of the issue of shares (“new shares”) in the new company,
  - (b) new shares are issued in consideration of old shares only at times when there are no issued shares in the new company other than subscriber shares and new shares previously issued in consideration of old shares,
  - (c) the consideration for new shares of each description consists wholly of old shares of the corresponding description, and
  - (d) new shares of each description are issued to the holders of old shares of the corresponding description in respect of, and in proportion to, their holdings.
- (3) For the purposes of subsection (1)(c) an approval notification is one which, on the application of either the old company or the new company, is given to the applicant company and states that the Commissioners for Her Majesty's Revenue and Customs are satisfied that the exchange of shares under the arrangements—
- (a) will be effected for genuine commercial reasons, and
  - (b) will not form part of any such scheme or arrangements as are mentioned in section 137(1) of TCGA 1992 (schemes with avoidance purposes).
- (4) [<sup>F877</sup>Nothing in section 326A treats any of the requirements of Chapter 3 as being met, and nothing in section 327 treats any of the requirement of Chapter 4 as being met] in relation to any new shares unless the matching old shares were first issued to the company holding them and have been held by that company from the time when they were issued until they are acquired by the new company.
- (5) If, at any time after the arrangements first came into existence and before the new company acquired all the old shares, the arrangements—
- (a) cease to be arrangements for the acquisition of all the old shares by the new company, or
  - (b) cease to be arrangements for an acquisition falling within subsection (2),
- section [<sup>F878</sup>326A does not treat any requirement of Chapter 3 as being met and section] 327 does not treat any requirement of Chapter 4 as being met, and subsection (8) of that section does not apply, in the case of any new shares at any time after the arrangements have so ceased.

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### Textual Amendments

- F875** Words in s. 326 heading substituted (with effect in accordance with s. 12(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 12\(2\)\(a\)](#)
- F876** Words in s. 326(1) substituted (with effect in accordance with s. 12(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 12\(2\)\(b\)](#)
- F877** Words in s. 326(4) substituted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\), Sch. 6 para. 16\(3\)](#)
- F878** Words in s. 326(5) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\), Sch. 6 para. 16\(4\)](#)

### [<sup>F879</sup>326A] Certain requirements of Chapter 3 to be treated as met

- (1) If this section applies, subsections (2) to (6) have effect to determine the extent to which, and the time for which, the following conditions in Chapter 3 are met in relation to the old shares and the new shares—

the investment limits condition (see section 280B);  
 the permitted maximum age condition (see section 280C);  
 the no business acquisition condition (see section 280D).

- (2) If—

- (a) there is an exchange under the arrangements of any new shares for any old shares, and
- (b) those old shares are an investment in relation to which the investment limits condition, the permitted maximum age condition or the no business acquisition condition is (or is treated as being) met to any extent,

those conditions are to be treated as met to the same extent in relation to the matching new shares.

See subsections (3) to (6) for further provision about when those conditions are treated as met in relation to the old shares.

- (3) If—

- (a) the exchange occurs during the period of 5 years beginning with the day after the day on which the old shares were issued, and
- (b) those old shares are shares in relation to which section 280B(2)(c) applies, section 280B(2)(c) is to be treated as applying in relation to the matching new shares.

- (4) In determining whether section 280B(2)(c) applies in relation to the old shares—

- (a) condition A is treated as met if it would be met if the reference in section 280B(3B)(a)(i) to a company which becomes a 51% subsidiary of the relevant company during the 5-year post-investment period included a reference to a company which becomes a 51% subsidiary of the new company during that period otherwise than as a result of the exchange, and
- (b) in relation to investments made or trades transferred at or after the time of the exchange, references to the relevant company in section 280B(3C)(b) and (3F)(a) are to be read as references to the new company.

- (5) The permitted maximum age condition is met in relation to the old shares if (and only if) it would be met if—

- (a) in section 280C(5)(a)(ii) and (6)(a) the references to relevant investments made in the relevant company included a reference to the relevant investments made in the new company,

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- (b) in section 280C(7)(d) and (f) the references to the relevant company included a reference to the new company,
  - (c) in paragraphs (a)(ii) and (b)(iii) of the definition of “the total relevant turnover amount” in section 280C(9) the reference to a company which becomes a 51% subsidiary of the relevant company after the investment date included a reference to a company which becomes a 51% subsidiary of the new company after that date otherwise than as a result of the exchange.
- (6) The no business acquisition condition is met in relation to the old shares if (and only if) it would be met if, in section 280D(2), references to the relevant company were read as including a reference to the new company.]

#### Textual Amendments

**F879** S. 326A inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 17](#)

### 327 Certain requirements of Chapter 4 to be treated as met

- (1) If this section applies, subsections (2) to (8) have effect to determine the extent to which, and the times for which, the requirements of the following provisions of Chapter 4 are met in relation to the new shares—
- section 287 (the maximum qualifying investment requirement),
  - section 289 (the proportion of eligible shares requirement),
  - section 290 (the trading requirement),
  - section 291 (the carrying on of a qualifying activity requirement),
  - [<sup>F880</sup>section 292A (the maximum amount raised annually through risk finance investments requirement),
  - section 292AA (the maximum amount raised through risk finance investments when relevant holding is issued requirement),
  - section 292AB (the maximum risk finance investments during the 5-year post-investment period requirement),]
  - section 293 (the use of the money raised requirement),
  - section 294 (the relevant company to carry on the relevant qualifying activity requirement),
  - [<sup>F881</sup> section 294A (the permitted company age requirement),]
  - section 296 (the control and independence requirement), <sup>F882</sup>...
  - section 297 (the gross assets requirement), <sup>F883</sup>...
  - section 297A (the number of employees requirement) [<sup>F884</sup>, and
  - section 297B (the proportion of skilled employees requirement).]
- (2) If the requirements of sections 290 and 291 were met in relation to the old company and any old shares immediately before the beginning of the period for giving effect to the arrangements, then (so far as it would not otherwise be the case) those requirements are treated as being met in relation to the new company and the matching new shares at all times which—
- (a) fall in that period, and
  - (b) do not fall after a time when (apart from the arrangements) those requirements would have ceased by virtue of—
    - (i) section 291(4) or (5), or

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- (ii) any cessation of a trade by any company,  
 to be met in relation to the old company and the matching old shares.
- (3) For the purposes of section 291, the period of two years mentioned in subsection (4) of that section is treated, in the case of any new shares, as expiring at the same time as it would have expired (or by virtue of this subsection would have been treated as expiring) in the case of the matching old shares.
- (4) Subject to subsection (5), if—
- (a) there is an exchange under the arrangements of any new shares for any old shares, and
  - (b) those old shares are shares in relation to which the requirements of sections [F885]292A, 292AA, 292AB], 293, 294 [F886], 294A], 297 [F887], 297A and 297B] were (or were treated as being) met to any extent immediately before the exchange,
- those requirements are to be treated, at all times after that time, as met to the same extent in relation to the matching new shares.
- [F888](4A) If—
- (a) there is an exchange under the arrangements of any new shares for any old shares,
  - (b) that exchange occurs during the period of 5 years beginning with the day after the day on which the old shares were issued, and
  - (c) those old shares are shares in relation to which the requirement of section 292AB (maximum risk finance investments during 5-year post-investment period) applies and is met,
- that requirement is to be treated as applying and met in relation to the matching new shares.
- (4B) But, where that requirement applies in relation to the old shares, it is met in relation to those shares if (and only if) it would be met were—
- (a) the first reference to the relevant company in section 292AB(4), and
  - (b) the references to the relevant company in section 292AB(5) and (7)(a)(i),
- read, in relation to times in that 5 year period which fall at or after the time of the exchange, as references to the new company.
- (4C) For the purposes of subsections (4A) and (4B), the requirement in section 292AB is treated as applying in relation to the old shares if condition A or B in that section would be met if references in section 292AB(5) and (7)(a)(i) to the relevant company were read as references to the new company.
- (4D) The requirement in section 293 (the use of money raised) is met in relation to the old shares if (and only if) it would be met if references to the relevant company in section 293(5ZA) were read as including a reference to the new company.
- (4E) The requirement of section 294A (permitted company age) is met in relation to the old shares if (and only if) it would be met if—
- (a) in section 294A(4) the reference to relevant investments made in the relevant company included a reference to relevant investments made in the new company,
  - (b) in section 294A(6)(d) and (f) the references to the relevant company included a reference to the new company,

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- (c) in paragraphs (a)(ii) and (b)(iii) of the definition of “the total relevant turnover amount” in section 294A(8) the reference to a company which becomes a 51% subsidiary of the relevant company after the investment date included a reference to a company which becomes a 51% subsidiary of the new company after that date otherwise than as a result of the exchange.
- (4F) If—
- (a) there is an exchange under the arrangements of any new shares for any old shares,
  - (b) that exchange occurs during the period of 3 years beginning with the issue of the old shares, and
  - (c) those old shares are shares in relation to which the requirement of section 297B (proportion of skilled employees requirement) is met,
- that requirement is to be treated as met in relation to the matching new shares.
- (4G) The requirement of section 297B is met in relation to the old shares if (and only if) it would be met in relation to those shares were references to the relevant company, in subsections (1) and (3) of that section (and, in the definitions of the terms mentioned in subsection (4) as they apply for the purposes of those subsections), read as references to the new company in relation to times in that 3 year period which fall at or after the exchange.]
- (5) If there is a time following any exchange under the arrangements of any new shares for any old shares when (apart from the arrangements) the requirement of section 293 would have ceased under—
- (a) subsection (1) of that section, or
  - (b) this subsection,
- to be met in relation to those old shares, that requirement ceases at that time to be met in relation to the matching new shares.
- (6) For the purposes of section 287, any new shares acquired under the arrangements are to be treated as representing an investment which—
- (a) raised the same amount of money as was raised (or, by virtue of this subsection, is treated as having been raised) by the issue of the matching old shares, and
  - (b) raised that amount by an issue of shares in the new company made at the time when the issue of the matching old shares took place (or, as the case may be, is treated as having taken place).
- (7) In determining whether the requirements of section 296 are met in relation to the old company or the new company at a time in the period for giving effect to the arrangements, ignore both—
- (a) the arrangements themselves, and
  - (b) any exchange of new shares for old shares that has already taken place under the arrangements.
- (8) For the purposes of section 289, the value of the new shares, both—
- (a) immediately after the time of their acquisition, and
  - (b) immediately after the time of any subsequent relevant event occurring by virtue of the arrangements,
- is to be taken to be the same as the value, when last valued in accordance with that section, of the old shares for which they are exchanged.

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### Textual Amendments

- F880** Words in s. 327(1) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(2\)\(a\)](#)
- F881** Words in s. 327(1) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(2\)\(b\)](#)
- F882** Word in s. 327(1) repealed (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 27 Pt. 2\(16\)](#)
- F883** Word in s. 327(1) omitted (18.11.2015) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(2\)\(c\)](#)
- F884** Words in s. 327(1) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(2\)\(c\)](#)
- F885** Words in s. 327(4) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(3\)\(a\)](#)
- F886** Words in s. 327(4) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(3\)\(b\)](#)
- F887** Words in s. 327(4) substituted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(3\)\(c\)](#)
- F888** S. 327(4A)-(4G) inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 18\(4\)](#)

### [<sup>F889</sup>327A Follow-on funding

- (1) Subsections (2) and (3) apply where—
  - (a) this section applies (see section 326(1)),
  - (b) the acquisition by the new company of all the old shares, which is provided for by the arrangements mentioned in section 326(1), takes place, and
  - (c) the acquisition falls within section 326(2).
- (2) If, after the acquisition, another company makes an investment in the new company, section 280C (the permitted maximum age condition) has effect in relation to that investment as if—
  - (a) in subsection (4)(a) the reference to a relevant investment having been made in the relevant company before the end of the initial investing period included a reference to a relevant investment having been made in the old company before the acquisition and before the end of the initial investing period, and
  - (b) in subsection (6)(a) the reference to relevant investments made in the relevant company included a reference to relevant investments made in the old company before the acquisition.
- (3) In relation to any relevant holding issued by the new company after the acquisition, section 294A (the permitted company age requirement) has effect as if—
  - (a) in subsection (3)(a) the reference to a relevant investment having been made in the relevant company before the end of the initial investing period included a reference to a relevant investment having been made in the old company before the acquisition and before the end of the initial investing period, and
  - (b) in subsection (5)(a) the reference to relevant investments made in the relevant company included a reference to relevant investments made in the old company before the acquisition.
- (4) In subsection (3) “relevant holding” has the same meaning as in Chapter 4.]

### Textual Amendments

- F889** S. 327A inserted (with effect in accordance with s. 12(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [s. 12\(3\)](#)

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### **328 Supplementary**

- (1) Subject to subsection (2), references in sections 326 and 327 and this section, except in the expression “subscriber shares”, to shares in a company include references to any securities of that company.
- (2) For the purposes of subsection (1) a relevant security of the old company is not to be treated as a security of the old company if—
  - (a) the arrangements do not provide for the acquisition of the security by the new company, or
  - (b) such treatment prevents section 326(1)(b) from being met in connection with the arrangements.
- (3) In subsection (2) “relevant security” means an instrument which is a security for the purposes of Chapter 4 merely because of section 285(2).
- (4) References in section 327 to the period for giving effect to the arrangements are references to the period which—
  - (a) begins with the time when the arrangements first came into existence, and
  - (b) ends with the time when the new company completes its acquisition under the arrangements of all the old shares.
- (5) For the purposes of sections 326 and 327 and this section—
  - (a) old shares and new shares are of a corresponding description if, were they shares in the same company, they would be of the same description, and
  - (b) old shares and new shares are matching shares in relation to each other if the old shares are the shares for which the new shares are exchanged under the arrangements.

#### *Conversion of shares etc and company reorganisations*

### **329 Conversion of convertible shares and securities**

- (1) This section applies if—
  - (a) shares have been issued to a company (“the investing company”) by the exercise by it of any right of conversion attached to other shares or securities held by it (“the convertibles”),
  - (b) the shares so issued are in the same company as the convertibles to which the right was attached,
  - (c) the convertibles to which the right was attached were first issued to the investing company and were held by it from the time they were issued until converted, and
  - (d) the right was attached to the convertibles when they were first so issued and was not varied before it was exercised.
- (2) If this section applies, subsections (3) and (4) have effect to determine the extent to which, and the times for which, the requirements of the following provisions of Chapter 4 are met in relation to the shares issued to the investing company by the exercise by it of the right of conversion—
  - section 287 (the maximum qualifying investment requirement),
  - section 289 (the proportion of eligible shares requirement),
  - section 291 (the carrying on of a qualifying activity requirement),

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- section 293 (the use of the money raised requirement),
  - section 294 (the relevant company to carry on the relevant qualifying activity requirement), and
  - section 297 (the gross assets requirement).
- (3) Subsections (3) to (6) of section 327 apply in relation to the exchange of convertibles for shares by virtue of the exercise of the right of conversion as if—
- (a) that exchange were an exchange, under any arrangements to which that section applies, of new shares for old shares, and
  - (b) the references in those subsections and section 328(5)(b) to the arrangements were references to the provision conferring the right of conversion.
- (4) For the purposes of section 289 the value of the new shares immediately after the time of their acquisition by the investing company is to be taken as the same as the value, when last valued in accordance with that section, of the convertibles for which they are exchanged.

### **330 Power to facilitate company reorganisations etc involving exchange of shares**

- (1) The Treasury may by regulations make provision for cases where—
- (a) a holding of shares or securities that meets the requirements of Chapter 4 is exchanged for other shares or securities,
  - (b) the exchange is made for genuine commercial reasons and does not form part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax, and
  - (c) the new shares or securities do not meet some or all of the requirements of Chapter 4,

providing that the new shares or securities are to be treated as meeting those requirements.

- [<sup>F890</sup>(1A) The Treasury may by regulations make provision for the purposes of this Part for cases where—
- (a) a holding of shares or securities that does not meet the requirements of Chapter 4 is exchanged for other shares or securities not meeting those requirements, and
  - (b) the exchange is made for genuine commercial reasons and does not form part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.]
- (2) The references in [<sup>F891</sup>subsections (1) and (1A)] to an exchange of shares or securities include any form of company reorganisation or other arrangement which involves a holder of shares in or securities of a company receiving other shares or securities—
- (a) whether the original shares or securities are transferred, cancelled or retained, and
  - (b) whether the new shares or securities are in or of the same or another company.
- (3) [<sup>F892</sup>Regulations under subsection (1)] must specify—
- (a) the cases in which, and conditions subject to which, they apply,
  - (b) which requirements of Chapter 4 are to be treated as met, and
  - (c) the period for which those requirements are to be treated as met.

- [<sup>F893</sup>(3A) Regulations under subsection (1A) may, among other things, make provision—



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- (a) for the new shares or securities to be treated in any respect in the same way as the original shares and securities for any period;
  - (b) as to when the new shares or securities are to be regarded as having been acquired;
  - (c) as to the valuation of the original or the new shares or securities.]
- (4) [<sup>F894</sup>Regulations under this section] may contain such administrative provisions (including provision for advance clearances) as appear to the Treasury to be necessary or appropriate.
- <sup>F895</sup>(5) .....
- (6) Regulations under this section —
- (a) may make different provision for different cases,
  - (b) may contain incidental, supplemental, consequential and transitional provision and savings, and
  - (c) [<sup>F896</sup>in the case of regulations under subsection (1)] may include provision having retrospective effect.

#### Textual Amendments

- F890** S. 330(1A) inserted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(2)
- F891** Words in s. 330(2) substituted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(3)
- F892** Words in s. 330(3) substituted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(4)
- F893** S. 330(3A) inserted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(5)
- F894** Words in s. 330(4) substituted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(6)
- F895** S. 330(5) omitted (13.8.2009) by virtue of The Finance Act 2009, Schedule 47 (Consequential Amendments) Order 2009 (S.I. 2009/2035), art. 1, Sch. para. 48
- F896** Words in s. 330(6)(c) inserted (16.11.2017) by Finance (No. 2) Act 2017 (c. 32), s. 13(7)

#### [<sup>F897</sup>Nominees

#### Textual Amendments

- F897** S. 330A and cross-heading inserted (17.7.2014) by Finance Act 2014 (c. 26), Sch. 10 para. 5

### 330A Nominees

Shares subscribed for, issued to, held by or disposed of for an individual by a nominee are treated for the purposes of this Part as subscribed for, issued to, held by or disposed of by the individual.]

#### [<sup>F898</sup>Power to amend Part

#### Textual Amendments

- F898** S. 330B and cross-heading inserted (18.11.2015) by Finance (No. 2) Act 2015 (c. 33), Sch. 6 para. 19

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### **330B Powers to amend Chapters 3 and 4 by Treasury regulations**

- (1) The Treasury may by regulations add to, repeal or otherwise amend any provision of Chapter 3 or 4.
- (2) Regulations under this section may—
  - (a) make different provision for different cases or purposes;
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (3) The provision which may be made as a result of subsection (2)(b) includes provision amending any provision of this or any other Act (including an Act passed after this Act).
- (4) Regulations under this section may, so long as they do not increase any person's liability to any tax, be made to have retrospective effect in relation to any time in the tax year in which they are made or the previous tax year.
- (5) This section is without prejudice to any other power to amend any provision of this Part.
- (6) A statutory instrument containing regulations under this section may not be made unless a draft of it has been laid before and approved by a resolution of the House of Commons.]

### *Supplementary*

### **331 Meaning of a company being “in administration” or “in receivership”**

- (1) References in this Part to a company being “in administration” or “in receivership” are to be read as follows.
- (2) A company is “in administration” if—
  - (a) it is in administration within the meaning of Schedule B1 to the Insolvency Act 1986 (c. 45) or Schedule B1 to the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), or
  - (b) there is in force in relation to it under the law of a country or territory outside the United Kingdom any appointment corresponding to an appointment of an administrator under either of those Schedules.
- (3) A company is “in receivership” if there is in force in relation to it—
  - (a) an order for the appointment of an administrative receiver, a receiver and manager or a receiver under Chapter 1 or 2 of Part 3 of the Insolvency Act 1986 or Part 4 of the Insolvency (Northern Ireland) Order 1989, or
  - (b) any corresponding order under the law of a country or territory outside the United Kingdom.

### **[<sup>F899</sup>331A Meaning of “knowledge-intensive company”**

- (1) For the purposes of this Part, the relevant company is a “knowledge-intensive company” at the applicable time if the company meets—
  - (a) one or both of the operating costs conditions (see subsections (3) and (4)), and
  - (b) one or both of—

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- (i) the innovation condition (see subsection (6)), and
  - (ii) the skilled employee condition (see subsection (9)).
- (2) “The applicable time” means—
- (a) in relation to references to a knowledge-intensive company in section 280B or 280C, the date the current investment (within the meaning of the section in question) is made, and
  - (b) in relation to any other reference to a knowledge-intensive company, the date the relevant holding is issued.
- (3) The first operating costs condition is that in at least one of the relevant three preceding years at least 15% of the relevant operating costs constituted expenditure on research and development or innovation.
- (4) The second operating costs condition is that in each of the relevant three preceding years at least 10% of the relevant operating costs constituted such expenditure.
- (5) In subsections (3) and (4)—
- “relevant operating costs” means—
- (a) if the relevant company is a single company at the applicable time, the operating costs of that company, and
  - (b) if the relevant company is a parent company at the applicable time, the sum of—
    - (i) the operating costs of the relevant company, and
    - (ii) the operating costs of each company which is a qualifying subsidiary of the relevant company at that time;
- “the relevant three preceding years” <sup>F900</sup>means, subject to subsection (5A), the three consecutive years the last of which ends immediately before the beginning of the last accounts filing period.]
- [ If the last accounts filing period ends more than 12 months before the applicable time,
- <sup>F901</sup>(5A) the relevant three preceding years are the three consecutive years the last of which ends 12 months before the applicable time.]
- (6) “The innovation condition” is—
- (a) where the relevant company is a single company, that—
    - (i) the relevant company is engaged in intellectual property creation at the applicable time, and
    - (ii) it is reasonable to assume that, within 10 years of the applicable time, one or a combination of—
      - (a) the exploitation of relevant intellectual property held by the company, and
      - (b) business which results from new or improved products, processes or services utilising relevant intellectual property held by the company,will form the greater part of its business;
  - (b) where the relevant company is a parent company, that—
    - (i) the parent company or one or more of its qualifying subsidiaries (or both that company and one or more of those subsidiaries) is or are engaged in intellectual property creation at the applicable time, and
    - (ii) it is reasonable to assume that, within 10 years of the applicable time, one or a combination of—

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- (a) the exploitation of relevant intellectual property held by the parent company or any of its qualifying subsidiaries, and
- (b) business which results from new or improved products, processes or services utilising relevant intellectual property held by the parent company or any of its qualifying subsidiaries,

will form the greater part of the business of the group, if the activities of the group companies taken together are regarded as one business.

(7) For the purposes of subsection (6), a company is engaged in intellectual property creation if—

- (a) relevant intellectual property is being created by the company, or has been created by it within the previous three years,
- (b) the company is taking, or preparing to take, steps in order that relevant intellectual property will be created by it, or
- (c) the company is carrying on activity which is the subject of a written evaluation which—
  - (i) has been prepared by an independent expert, and
  - (ii) includes a statement to the effect that, in the opinion of the expert, it is reasonable to assume that relevant intellectual property will, in the foreseeable future, be created by the company.

(8) For the purposes of this section—

- (a) intellectual property is “relevant” intellectual property, in relation to a company, if the whole or greater part (in terms of value) of it is created by the company, and
- (b) intellectual property is created by a company if it is created in circumstances in which the right to exploit it vests in the company (whether alone or jointly with others).

(9) “The skilled employee condition” is that at the applicable time—

- (a) if the relevant company is a single company, the FTE skilled employee number is at least 20% of the FTE employee number, and
- (b) if the relevant company is a parent company, the FTE group skilled employee number is at least 20% of the FTE group employee number.

(10) In this section—

“FTE employee number” for a company is the full-time equivalent employee number determined in accordance with section 297A(3);

“FTE group employee number” means the sum of—

- (a) the FTE employee number for the relevant company, and
- (b) the FTE employee number for each of its qualifying subsidiaries;

“FTE group skilled employee number” means the sum of—

- (a) the FTE skilled employee number for the relevant company, and
- (b) the FTE skilled employee number for each of its qualifying subsidiaries;

“FTE skilled employee number” for a company is determined in accordance with section 297A(3) in the same way as the full-time equivalent employee number except that only employees of the company who—

- (a) hold a relevant HE qualification, and

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(b) are engaged directly in research and development or innovation activities carried on—

- (i) if the relevant company is a single company, by that company, or
- (ii) if the relevant company is a parent company, by that company or any qualifying subsidiary of that company,

are to be taken into account;

“independent expert”, in relation to an evaluation of activity of a company, means an individual who—

- (a) is not connected with the relevant company,
- (b) holds a relevant HE qualification, and
- (c) is an expert in the area of research and development or innovation being or to be pursued by the company in question,

and, for the purposes of paragraph (a), sections 167, 170 and 171 (but not section 168) apply to determine if an individual is connected with the relevant company (with references in those sections to the issuing company read as references to the relevant company);

“intellectual property” has the meaning given by section 306(6);

“the last accounts filing period” means the last period for filing (within the meaning of section 442 of the Companies Act 2006) for the relevant company which ends before the applicable time;

“operating costs”, of a company for a period, means expenses of the company which are recognised as expenses in the company's profit and loss account or income statement for that period, other than expenses relating to transactions between that company and another company at a time when both companies are members of the same group (but see also subsection (11));

“relevant HE qualification” means—

- (a) a qualification which is at level 7, or a higher level, of the framework for higher education qualifications in England, Wales and Northern Ireland (as that framework may be amended or replaced from time to time),
- (b) a qualification which is at level 11, or a higher level, of the framework for qualifications of higher education institutions in Scotland (as that framework may be amended or replaced from time to time), or
- (c) a comparable qualification to one within paragraph (a) or (b).

- (11) Such apportionments as are just and reasonable are to be made to amounts recognised in a company's profit and loss account or income statement for the purpose of determining the company's operating costs for a year.
- (12) The Treasury may by regulations amend this section for the purposes of adding, amending or removing a condition which must be met for a company to be a knowledge-intensive company.
- (13) A statutory instrument containing regulations under subsection (12) may not be made unless a draft of it has been laid before and approved by a resolution of the House of Commons.]

#### Textual Amendments

**F899** S. 331A inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 6 para. 20](#)

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**F900** Words in s. 331A(5) substituted (retrospectively) by [Finance Act 2016 \(c. 24\), s. 29\(5\)\(a\)\(6\)](#) (with s. 30)

**F901** S. 331A(5A) inserted (retrospectively) by [Finance Act 2016 \(c. 24\), s. 29\(5\)\(b\)\(6\)](#) (with s. 30)

**[<sup>F902</sup>331B Knowledge-intensive company reaching turnover of £200,000**

- (1) This section has effect for the purposes of sections 280C(3)(a)(ii) and 294A(2)(a)(ii) (alternative initial investing period in case of knowledge-intensive company).
- (2) Where—
  - (a) the annual turnover of the relevant company in relation to an accounting period (see subsection (3)) is £200,000 or more, and
  - (b) the annual turnover for the company in relation to each previous accounting period is less than £200,000,
 the company is treated as reaching an annual turnover of £200,000 or more by reference to the specified date (see subsection (4)).
- (3) The annual turnover in relation to an accounting period is—
  - (a) the turnover for that accounting period (if the accounting period is for 12 months), or
  - (b) the turnover for the period of 12 months ending when that accounting period ends (if not).
- (4) The specified date is—
  - (a) in the case of an accounting period of 12 months or less, the last day of that accounting period;
  - (b) in the case of an accounting period of more than 12 months, the last day of the period of 12 months beginning when that accounting period begins.
- (5) The turnover of the relevant company for a period (“the period”) is treated for the purposes of this section as including the relevant turnover of any company that is a member of the same group as the relevant company during the whole or any part of the period (a “group company”).
- (6) The relevant turnover of a group company is—
  - (a) its turnover for the period, if the group company is a member of the same group as the relevant company for the whole of the period;
  - (b) if the group company is a member of the same group as the relevant company for part of the period, its turnover for that part of the period.
- (7) Any necessary apportionments of turnover are to be made, on a time basis according to the respective lengths of the periods in question, for the purposes of subsections (3)(b) and (6).
- (8) In this section “turnover” has the meaning given by section 474(1) of the Companies Act 2006 and is to be determined by reference to—
  - (a) the accounts of the company, and
  - (b) amounts recognised for accounting purposes.]

**Textual Amendments**

**F902** S. 331B inserted (6.4.2018) by [Finance Act 2018 \(c. 3\), Sch. 4 paras. 9, 10; S.I. 2018/931, reg. 3\(b\)](#)

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### 332 Minor definitions etc

In this Part—

“associate” has the meaning given by section 253,

“company” includes any body corporate or unincorporated association but does not include a partnership, and is to be read in accordance with [F903 section 99] of TCGA 1992 (unit trust schemes),

“director” is read in accordance with [F904 section 452 of CTA 2010],

“group” means a parent company and its qualifying subsidiaries,

“group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries,

“ordinary shares” means shares forming part of a company's ordinary share capital,

“parent company” means a company that has one or more qualifying subsidiaries and “single company” means a company that does not,

“research and development” has the meaning given by section 1006, and

“shares” includes stock.

#### Textual Amendments

**F903** Words in s. 332 substituted (1.1.2018) by [The Collective Investment Schemes and Offshore Funds \(Amendment of the Taxation of Chargeable Gains Act 1992\) Regulations 2017 \(S.I. 2017/1204\)](#), regs. 1(1), **12(a)** (with reg. 1(2)(3)) and words in s. 332 omitted (1.1.2018) by virtue of [The Collective Investment Schemes and Offshore Funds \(Amendment of the Taxation of Chargeable Gains Act 1992\) Regulations 2017 \(S.I. 2017/1204\)](#), regs. 1(1), **12(b)** (with reg. 1(2)(3)) which amendments fall due to the omission of Finance Act, Sch. 22 para. 11(5) (with effect in accordance with reg. 1(2) of the amending S.I.) by virtue of [The Collective Investment Schemes and Offshore Funds \(Amendment of the Taxation of Chargeable Gains Act 1992\) Regulations 2017 \(S.I. 2017/1204\)](#), regs. 1(1), 13

**F904** Words in s. 332 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 507** (with Sch. 2)

## PART 7

### COMMUNITY INVESTMENT TAX RELIEF

#### Modifications etc. (not altering text)

**C85** Pt. 7 modified by 2005 c. 7, s. 54A (as inserted (10.7.2008) by [The Alternative Finance Arrangements \(Community Investment Tax Relief\) Order 2008 \(S.I. 2008/1821\)](#), arts. 1, 2)

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## CHAPTER 1

### INTRODUCTION

#### CITR

#### 333 Meaning of “CITR”

This Part provides for community investment tax relief (“CITR”), that is, entitlement to tax reductions in respect of amounts invested by individuals in community development finance institutions.

#### 334 Eligibility for CITR

- (1) An individual (“the investor”) who makes an investment (“the investment”) in a body is eligible for CITR in respect of the investment if—
  - (a) that body is accredited as a community development finance institution under Chapter 2 at the time the investment is made,
  - (b) the investment is a qualifying investment (see Chapter 3), and
  - (c) the general conditions of Chapter 4 are met.
- (2) In this Part references to “the CDFI” are to the body in which the investment is made.

#### 335 Form and amount of CITR

- (1) If the investor is eligible for CITR in respect of the investment, the investor may make a claim in respect of the investment for any one or more of the relevant tax years.
- (2) If the investor makes a claim for a relevant tax year, the investor is entitled to a tax reduction for that year of 5% of the invested amount in respect of the investment for the year.
- (3) For [F905 the purposes of this section and section 335A] the “relevant” tax years are—
  - (a) the tax year in which the investment date falls, and
  - (b) each of the 4 subsequent tax years.
- (4) The tax reduction is given effect at Step 6 of the calculation in section 23.
- (5) The investor is entitled to make a claim for CITR for a relevant tax year if—
  - (a) the investor considers that the conditions for the CITR are for the time being met, and
  - (b) the investor has received a tax relief certificate (see section 348) relating to the investment from the CDFI,
 but no claim may be made before the end of the tax year to which it relates.
- (6) Subsection (5) is subject to the following provisions—
  - (a) section 354 (loans: no claim after disposal or excessive repayments or receipts of value),
  - (b) section 355 (securities or shares: no claim after disposal or excessive receipts of value), and
  - (c) section 356 (no claim after loss of accreditation by CDFI).



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#### Textual Amendments

**F905** Words in s. 335(3) substituted (with effect in accordance with Sch. 27 para. 6 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 27 para. 2**

### [<sup>F906</sup>**335A** Carry forward of CITR

- (1) This section applies if—
  - (a) the investor is entitled to a tax reduction for a relevant tax year under section 335 in respect of the investment, but
  - (b) the amount of the tax reduction is not fully deducted at Step 6 for that relevant tax year.
- (2) The amount (“the excess amount”) not deducted is treated as follows.
- (3) For each subsequent relevant tax year for which the investor—
  - (a) is entitled to a tax reduction under section 335 in respect of the investment, and
  - (b) makes a claim under this subsection,the investor is also entitled to a tax reduction under this subsection which is given effect at Step 6.
- (4) The amount of the tax reduction under subsection (3) for any relevant tax year is the excess amount so far as it has not been deducted at Step 6 for any earlier relevant tax year by virtue of that subsection.
- (5) In this section “Step 6” means Step 6 of the calculation in section 23.]

#### Textual Amendments

**F906** S. 335A inserted (with effect in accordance with Sch. 27 para. 6 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 27 para. 3**

### *Miscellaneous*

#### **336** Meaning of “making an investment”

- (1) For the purposes of this Part, an individual makes an investment in a body at any time when—
  - (a) the individual makes a loan (whether secured or unsecured) to the body, or
  - (b) an issue of securities of or shares in the body, for which the individual has subscribed, is made to the individual.
- (2) The following provisions of this section apply for the purposes of subsection (1)(a).
- (3) An individual does not make a loan to a body if—
  - (a) the body uses overdraft facilities provided by the individual, or
  - (b) the individual subscribes for or otherwise acquires securities of the body.
- (4) If the loan agreement authorises the body to draw down amounts of the loan over a period of time, the loan is treated as made at the time when the first amount is drawn down.

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### **337 Determination of “the invested amount”**

- (1) This section applies for the purpose of determining “the invested amount” in respect of any loan, securities or shares included in the investment.

This is subject to sections 363(2) and 369 (which adjust “the invested amount” in certain cases where value is received).

- (2) In the case of a loan, the invested amount is—
- (a) for the tax year in which the investment date falls, the average capital balance for the first year of the 5 year period,
  - (b) for the next tax year, the average capital balance for the second year of the 5 year period, and
  - (c) for any subsequent tax year—
    - (i) the average capital balance for the period of 12 months beginning with the anniversary of the investment date falling in the tax year concerned, or
    - (ii) if less, the average capital balance for the period of 6 months beginning 18 months after the investment date.
- (3) In the case of securities or shares, the invested amount for a tax year is the amount subscribed by the investor for the securities or shares.
- (4) For the purposes of this section, the average capital balance of the loan for a period is the mean of the daily balances of capital outstanding during the period.

### **338 Meaning of “the 5 year period” and “the investment date”**

In this Part—

“the 5 year period” means the period of 5 years beginning with the investment date, and

“the investment date” means the day the investment is made.

### **339 Overview of other Chapters of Part**

In this Part—

- (a) Chapter 5 provides for the making of claims for CITR and the attribution of CITR to investments,
- (b) Chapter 6 provides for CITR to be withdrawn or reduced in the circumstances mentioned in that Chapter, and
- (c) Chapter 7 contains supplementary and general provision.

## **CHAPTER 2**

### ACCREDITED COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

### **340 Application and criteria for accreditation**

- (1) Applications for accreditation as a community development finance institution must be made to the Secretary of State in the form and manner specified by the Secretary of State.

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- (2) The Secretary of State is to accredit a body if (and only if) the Secretary of State is satisfied—
  - (a) that the body's principal objective is to provide (directly or indirectly)—
    - (i) finance, or
    - (ii) finance and access to business advice, for enterprises for disadvantaged communities, and
  - (b) that the body meets any other criteria specified in regulations made by the Treasury.
- (3) For the purposes of this section “enterprises for disadvantaged communities” include—
  - (a) enterprises located in disadvantaged areas, and
  - (b) enterprises owned or operated by, or designed to serve, members of disadvantaged groups.
- (4) The criteria mentioned in paragraph (b) of subsection (2) may include criteria relating to the enterprises to which the body provides or proposes to provide finance or access to business advice.
- (5) Regulations under that paragraph may make the provision authorised by that paragraph by reference to any material published by, or on behalf of, the Secretary of State (whether before or after the coming into force of this section).
- [<sup>F907</sup>(5A) Regulations under that paragraph may include provision for the purposes of Part 7 of CTA 2010 in addition to provision made for the purposes of this Part.]
- (6) Regulations under that paragraph—
  - (a) may make different provision for different cases or circumstances or in relation to different areas, and
  - (b) may, in particular, make different provision in the case of bodies whose principal objective in providing finance as mentioned in subsection (2)(a) is to invest directly in enterprises that meet the conditions of subsection (7).
- (7) An enterprise meets the conditions of this subsection if it uses the money invested in it for the purposes of its business and either—
  - (a) that business does not include the provision of finance for other enterprises, or
  - (b) if it does, the nature and extent of such provision meets any conditions prescribed by regulations made by the Treasury.
- (8) If the Secretary of State accredits a body of a kind mentioned in subsection (6)(b), the Secretary of State must specify in the accreditation that the body is accredited as a retail community development finance institution.

#### Textual Amendments

**F907** S. 340(5A) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 508](#) (with [Sch. 2](#))

### 341 Terms and conditions of accreditation

- (1) An accreditation under this Chapter must—

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- (a) be made on—
    - (i) any terms required by regulations, and
    - (ii) any other terms the Secretary of State considers appropriate, and
  - (b) be made conditional on compliance with—
    - (i) any requirements imposed by regulations, and
    - (ii) any other requirements the Secretary of State considers appropriate.
- (2) The requirements that may be imposed by virtue of subsection (1)(b) include requirements relating to the provision of information.
- (3) Regulations may—
- (a) make provision for appeals to the [<sup>F908</sup>tribunal] against refusals to grant accreditation under this Chapter,
  - (b) make provision about the consequences of a failure to comply with any requirement of an accreditation, including—
    - (i) provision for the withdrawal of the accreditation with effect from the time of the failure or a later time, and
    - (ii) provision for the imposition of penalties,
  - (c) make provision for the making of decisions by the Secretary of State as to any matter required to be decided for the purposes of the regulations,
  - (d) make different provision for different cases or circumstances or in relation to different areas, and
  - (e) contain incidental, supplemental, consequential and transitional provision and savings.
- [<sup>F909</sup>(3A) Regulations under this section may include provision for the purposes of Part 7 of CTA 2010 in addition to provision made for the purposes of this Part.]
- (4) In this section “regulations” means regulations made by the Treasury.

#### Textual Amendments

- F908** Word in s. 341(3)(a) substituted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), [Sch. 1 para. 451](#)
- F909** S. 341(3A) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 509](#) (with [Sch. 2](#))

### 342 Period of accreditation

- (1) An accreditation has effect for a period (an “accreditation period”) of 3 years beginning on the day specified in the accreditation.
- (2) Subject to subsection (4), the accreditation must not specify a day which is earlier than—
- (a) if the body is not accredited under this Chapter at the time the application is made, the day the accreditation is granted, and
  - (b) if the body is so accredited, the time the body's current accreditation expires.
- (3) Subsection (4) applies if—
- (a) the body is accredited at the time the application is made, and
  - (b) it makes a request under this subsection.

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- (4) The new accreditation may specify that the existing accreditation is to be treated for the purposes of this Part (including subsection (2)(b)) as expiring immediately before the grant of the new accreditation (if it would otherwise expire at a later time).
- (5) This section has effect subject to section 341(3)(b) (power to provide for the withdrawal of accreditation).

### **343 Delegation of Secretary of State's functions**

The Secretary of State may delegate any functions conferred on the Secretary of State by or under this Chapter.

## **CHAPTER 3**

### **QUALIFYING INVESTMENTS**

#### **344 Qualifying investments: introduction**

For the purposes of this Part the investment is a “qualifying investment” in the CDFI if—

- (a) the investment consists of—
  - (i) a loan in relation to which the conditions of section 345 are met,
  - (ii) securities in relation to which the conditions of section 346 are met, or
  - (iii) shares in relation to which the conditions of section 347 are met,
- (b) the investor receives from the CDFI a valid tax relief certificate in relation to the investment (see section 348), and
- (c) the requirements of section 349 (no pre-arranged protection against risks) are met.

#### **345 Conditions to be met in relation to loans**

- (1) Condition A of this section is that either—
  - (a) the CDFI receives from the investor, on the investment date, the full amount of the loan, or
  - (b) if the loan agreement authorises the CDFI to draw down amounts of the loan over a period of time, the end of that period is not later than 18 months after the investment date.
- (2) Condition B is that the loan must not carry any present or future right to be converted into or exchanged for a loan which is, or securities, shares or other rights which are, redeemable within the 5 year period.
- (3) Condition C is that the loan must not have been made on terms that allow any person to require—
  - (a) the repayment during the first two years of the 5 year period of any of the loan capital advanced in those two years,
  - (b) the repayment during the third year of that period of more than 25% of the loan capital outstanding at the end of those two years,
  - (c) the repayment before the end of the fourth year of that period of more than 50% of that loan capital, or

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- (d) the repayment before the end of that period of more than 75% of that loan capital.
- (4) Subsection (3) does not apply if the CDFI is required to make the repayment as a result of its failure to meet any obligation of the loan agreement which—
  - (a) is imposed merely because of the commercial risks to which the investor is exposed as lender under that agreement, and
  - (b) is no more likely to be breached than any obligation that might reasonably have been agreed in respect of the loan in the absence of this Part.
- (5) The Treasury may by order substitute any other percentage for any percentage for the time being specified in subsection (3).
- (6) Any such substitution is to have effect in relation to loans made by an individual on or after the date specified in the order.

### 346 Conditions to be met in relation to securities

- (1) Condition A of this section is that the securities must be—
  - (a) subscribed for wholly in cash, and
  - (b) fully paid for on the investment date.
- (2) Condition B is that the securities must not carry—
  - (a) any present or future right to be redeemed within the 5 year period, or
  - (b) any present or future right to be converted into or exchanged for a loan which is, or securities, shares or other rights which are, redeemable within that period.
- (3) <sup>F910</sup>For the purposes of subsection (1)(b), securities are not fully paid for] if there is any undertaking to pay cash to the CDFI at a future date in connection with the acquisition of the securities.

#### Textual Amendments

**F910** Words in s. 346(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 510](#) (with [Sch. 2](#))

### 347 Conditions to be met in relation to shares

- (1) Condition A of this section is that the shares must be—
  - (a) subscribed for wholly in cash, and
  - (b) fully paid up on the investment date.
- (2) Condition B is that the shares must not carry—
  - (a) any present or future right to be redeemed during the 5 year period, or
  - (b) any present or future right to be converted into or exchanged for a loan which is, or securities, shares or other rights which are, redeemable within that period.
- (3) Shares are not fully paid up for the purposes of subsection (1)(b) if there is any undertaking to pay cash to the CDFI at a future date in connection with the acquisition of the shares.

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### 348 Tax relief certificates

- (1) A “tax relief certificate” means a certificate issued by the CDFI in respect of the investment which is in the form specified by the Commissioners for Her Majesty’s Revenue and Customs.
- (2) The CDFI must not issue tax relief certificates under this section in respect of investments made in the CDFI in an accreditation period if the total value of—
  - (a) those investments, and
  - (b) any investments to which subsection (3) applies,will exceed the limit for that period.
- (3) This subsection applies to investments <sup>F911</sup>...—
  - (a) [<sup>F912</sup>which] have been made in the CDFI in the accreditation period, and
  - (b) in respect of which the CDFI has issued tax relief certificates under [<sup>F913</sup>section 229 of CTA 2010] (which makes in relation to corporation tax provision corresponding to that made by this section).
- (4) The limit for an accreditation period is—
  - (a) [<sup>F914</sup>£25 million] if the CDFI is accredited for the period as a retail community development finance institution (see section 340(8)), and
  - (b) [<sup>F915</sup>£100 million] in any other case.
- (5) For the purposes of subsection (2) the value of an investment made in the CDFI is—
  - (a) if the investment consists of a loan—
    - (i) the amount of the loan, or
    - (ii) if the loan agreement authorises the CDFI to draw down amounts of the loan over a period of time, the amount committed under the loan agreement, and
  - (b) if the investment consists of securities or shares, the amount subscribed for them.
- (6) The Treasury may by order substitute any other amount for any amount for the time being specified in subsection (4).
- (7) Any such substitution is to have effect in relation to such accreditation periods as may be specified in the order; and those periods may, if the substitution increases [<sup>F916</sup>an amount] for the time being specified in subsection (4), include periods beginning before the order [<sup>F917</sup>comes into force].
- (8) Any tax relief certificate issued in contravention of subsection (2) is invalid.
- (9) A body is liable to a penalty of not more than £3,000 if it issues a tax relief certificate which is made fraudulently or negligently.

#### Textual Amendments

- F911** Word in s. 348(3) repealed (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 511\(2\)\(a\)](#), [Sch. 3 Pt. 1](#) (with [Sch. 2](#))
- F912** Word in s. 348(3)(a) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 511\(2\)\(b\)](#) (with [Sch. 2](#))
- F913** Words in s. 348(3)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 511\(2\)\(c\)](#) (with [Sch. 2](#))

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- F914** Sum in s. 348(4)(a) substituted (with effect in relation to accreditation periods ending on or after 1.6.2023) by [The Community Investment Tax Relief \(Amendment of Investment Limits\) Regulations 2023 \(S.I. 2023/518\)](#), regs. 1, **2(a)**
- F915** Sum in s. 348(4)(b) substituted (with effect in relation to accreditation periods ending on or after 1.6.2023) by [The Community Investment Tax Relief \(Amendment of Investment Limits\) Regulations 2023 \(S.I. 2023/518\)](#), regs. 1, **2(b)**
- F916** Words in s. 348(7) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 511(3)(a)** (with Sch. 2)
- F917** Words in s. 348(7) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 511(3)(b)** (with Sch. 2)

### **349 No pre-arranged protection against risks**

- (1) Any arrangements—
- (a) under which the investment is made, or
  - (b) made, before the investor makes the investment, in relation to or in connection with the making of the investment,
- must not include excluded arrangements.
- (2) For the purposes of subsection (1) “excluded arrangements”—
- (a) means arrangements the main purpose or one of the main purposes of which is (by means of any insurance, indemnity or guarantee or otherwise) to provide partial or complete protection for the investor against what would otherwise be the risks attached to making the investment, but
  - (b) does not include any arrangements which are confined to the provision for the investor of any protection against those risks which might reasonably be expected to be provided for commercial reasons if the investment were made in the course of a business of banking.
- (3) For the purposes of this section “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.

## **CHAPTER 4**

### GENERAL CONDITIONS

### **350 No control of CDFI by investor**

- (1) The investor must not control the CDFI at any time during the 5 year period.
- (2) In this section references to the investor include any person connected with the investor.
- (3) If the CDFI is a body corporate, the question whether the investor controls the CDFI is, for the purposes of this section, determined in accordance with section 995.  
  
This is subject to subsection (6).
- (4) In any other case the investor is treated, for those purposes, as having control of the CDFI if the investor has power to secure, as a result of—
  - (a) the possession of voting power in the CDFI, or



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- (b) any powers conferred by the constitution of, or any other document regulating, the CDFI,  
that the affairs of the body are conducted in accordance with the investor's wishes.  
This is subject to subsections (5) and (6).

- (5) If—
  - (a) the CDFI is a partnership, and
  - (b) the investor is a member of that partnership,for the purposes of determining in accordance with this section whether the investor controls the CDFI, the other members of that partnership are not, as a result of their membership of the CDFI, treated as partners of the investor.
- (6) In determining whether the investor controls the CDFI there are attributed to the investor (so far as it would not otherwise be the case)—
  - (a) any rights or powers that the investor is entitled to acquire at a future date or will, at a future date, become entitled to acquire, and
  - (b) any rights or powers which another person holds on behalf of the investor or may be required to exercise, by direction, on the investor's behalf.

### **351 Investor must have beneficial ownership**

- (1) The investor must be the sole beneficial owner of the investment when it is made.
- (2) If the investment consists of a loan, the person beneficially entitled to repayment of the loan is treated as the beneficial owner of the loan for the purposes of this Part.

### **352 No acquisition of share in partnership**

- (1) If the CDFI is a partnership, the investment must not consist of or include any amount of capital contributed by the investor on becoming a member of the partnership.
- (2) For this purpose the amount of capital contributed by the investor on becoming a member of the partnership includes any amount which—
  - (a) purports to be provided by the investor by way of loan capital, and
  - (b) is accounted for as partners' capital in the accounts of the partnership.

### **353 No tax avoidance purpose**

The investment must not be made as part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

## **CHAPTER 5**

### **CLAIMS FOR AND ATTRIBUTION OF CITR**

#### *Claims*

### **354 Loans: no claim after disposal or excessive repayments or receipts of value**

- (1) If the investment consists of a loan, no claim may be made in respect of a tax year if—

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- (a) the investor disposes of the whole or any part of the loan before the qualifying date relating to that year,
  - (b) at any time after the investment is made but before that qualifying date, the amount of the capital outstanding on the loan is reduced to nil, or
  - (c) before that qualifying date, paragraphs (a) and (b) of section 362(1) (repayments of loan in 5 year period exceeding permitted limits) apply in relation to the investment (whether by virtue of section 363 (receipts of value treated as repayments) or otherwise).
- (2) For the purposes of subsection (1)(a) any repayment of the loan is to be ignored.
- (3) For the purposes of this section the qualifying date relating to a tax year is the next anniversary of the investment date to occur after the end of that year.

### 355 Securities or shares: no claim after disposal or excessive receipts of value

- (1) If the investment consists of securities or shares, a claim made in respect of a tax year must relate only to those securities or shares held by the investor, as sole beneficial owner, continuously throughout the period—
- (a) beginning when the investment is made, and
  - (b) ending immediately before the qualifying date relating to the tax year.
- (2) No claim for CITR may be made in relation to a tax year if before the qualifying date relating to that year paragraphs (a) to (d) of section 364(1) (receipts of value in the [F918]6] year period exceeding permitted limits) apply in relation to the investment or any part of it.
- (3) For the purposes of this section the qualifying date relating to a tax year is the next anniversary of the investment date to occur after the end of that year.

#### Textual Amendments

**F918** Figure in s. 355(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 512** (with **Sch. 2**)

### 356 No claim after loss of accreditation by the CDFI

- (1) If the CDFI ceases to be accredited under Chapter 2 with effect from a time<sup>F919</sup> ... within the 5 year period, no claim for CITR relating to the investment may be made by the investor—
- (a) for the relevant tax year, or
  - (b) for any later tax year.
- [F920](2) To find the relevant tax year proceed under the rest of this section, in which references to the time of accreditation ceasing are to the time with effect from which the CDFI ceases to be accredited.
- (3) If the time of accreditation ceasing falls within the first year of the 5 year period, the relevant tax year is the year in which the investment date fell.
- (4) In any other case the relevant tax year is—
- (a) the year in which fell the last anniversary of the investment date before the time of accreditation ceasing, or

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- (b) if the time of accreditation ceasing itself falls on an anniversary of the investment date, the year in which that anniversary falls.]

#### Textual Amendments

- F919** Words in s. 356(1) repealed (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 513\(2\), Sch. 3 Pt. 1](#) (with [Sch. 2](#))
- F920** S. 356(2)-(4) substituted for s. 356(2) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 513\(3\)](#) (with [Sch. 2](#))

### Attribution

#### 357 Attribution: general

- (1) In this Part references to the CITR attributable to any loan, securities or shares in respect of a tax year are read as references to the reduction which—
- (a) is made in the investor's liability to income tax for that year, and
  - (b) is attributed to that loan, or those securities or shares, in accordance with this section and section 358.

This is subject to the provisions of Chapter 6 for the withdrawal or reduction of CITR.

- (2) Subsections (3) and (4) apply if the investor's liability to income tax is reduced for a tax year under this Part.
- (3) If the reduction is obtained because of one loan, or securities or shares included in one issue, the amount of the tax reduction is attributed to that loan or those securities or shares.
- (4) If the reduction is obtained because of a loan or loans, securities or shares included in two or more investments, the reduction—
- (a) is apportioned between the loan or loans, securities or shares in each of those investments in the same proportions as the invested amounts in respect of the loan or loans, securities or shares for the year, and
  - (b) is attributed to that loan or those loans, securities or shares accordingly.
- [<sup>F921</sup>(4A) In the case of CITR under section 335A, in subsection (4)(a) the reference to the year is to be read as a reference to the year mentioned in section 335A(1)(a).]
- (5) If under this section an amount of any reduction of income tax is attributed to any securities in the same issue, a proportionate part of that amount is attributed to each security.
- (6) If under this section an amount of any reduction of income tax is attributed to any shares in the same issue, a proportionate part of that amount is attributed to each of those shares.
- (7) If CITR attributable to a loan or any securities or shares falls to be withdrawn under Chapter 6, the CITR attributable to that loan or each of those securities or shares is reduced to nil.

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- (8) If CITR attributable to any securities or shares falls to be reduced under that Chapter by any amount, the CITR attributable to each of those securities or shares is reduced by a proportionate part of that amount.

#### Textual Amendments

**F921** S. 357(4A) inserted (with effect in accordance with Sch. 27 para. 6 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 27 para. 4](#)

### 358 Attribution: bonus shares

- (1) This section applies if—
- (a) corresponding bonus shares are issued to the investor in respect of any shares (“the original shares”) included in the investment, and
  - (b) the original shares have been continuously held by the investor, as sole beneficial owner, from the time they were issued until the issue of the bonus shares.
- (2) A proportionate part of any amount attributed to the original shares, in respect of a tax year, immediately before the bonus shares are issued is attributed to each of the shares in the holding consisting of the original shares and the bonus shares, in respect of that year.
- (3) After the issue of the bonus shares this Part applies as if—
- (a) the original issue had included the bonus shares, and
  - (b) the bonus shares had been held by the investor, as sole beneficial owner, continuously from the time the original shares were issued until the bonus shares were issued.
- (4) In this section—
- “corresponding bonus shares” means bonus shares that are in the same company, are of the same class, and carry the same rights as the original shares,
- “original issue” means the issue of shares forming the investment.

## CHAPTER 6

### WITHDRAWAL OR REDUCTION OF CITR

#### *Introduction*

### 359 Overview of Chapter

- (1) This Chapter provides for CITR to be withdrawn or reduced under—
- (a) section 360 (disposal of loan during 5 year period),
  - (b) section 361 (disposal of securities or shares during 5 year period),
  - (c) section 362 (repayment of loan capital during 5 year period),
  - (d) section 363 (value received by investor during 6 year period: loans),
  - (e) section 364 (value received by investor during 6 year period: securities or shares),

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- (f) section 371 (CITR subsequently found not to have been due).
- (2) This Chapter also provides for the manner in which CITR is to be withdrawn or reduced (see section 372).
- (3) In this Chapter “the 6 year period” in relation to the investment is the period of 6 years beginning 12 months before the investment date.

### *Disposals*

#### **360 Disposal of loan during 5 year period**

- (1) If the investment consists of a loan and within the 5 year period—
  - (a) the investor disposes of the whole of the investment, otherwise than by way of a permitted disposal, or
  - (b) the investor disposes of a part of the investment,any CITR attributable to the investment in respect of any tax year must be withdrawn.
- (2) For the purposes of this section—
  - (a) a disposal is “permitted” if—
    - (i) it is by way of a distribution in the course of dissolving or winding up the CDFI,
    - (ii) it is a disposal within section 24(1) of TCGA 1992 (entire loss, destruction, dissipation or extinction of asset),
    - (iii) it is a deemed disposal under section 24(2) of that Act (claim that value of asset has become negligible), or
    - (iv) it is made after the CDFI has ceased to be accredited under this Part, and
  - (b) a full or partial repayment of the loan is not treated as giving rise to a disposal.

#### **361 Disposal of securities or shares during 5 year period**

- (1) This section applies if the investment consists of securities or shares and—
  - (a) the investor disposes of the whole or any part of the investment (“the former investment”) within the 5 year period,
  - (b) the CDFI has not ceased to be accredited before the disposal, and
  - (c) the disposal does not arise as a result of an event within section 366(1)(a) (repayment, redemption or repurchase of securities or shares included in the investment).
- (2) If the disposal is not a qualifying disposal, any CITR attributable to the former investment in respect of any tax year must be withdrawn.
- [<sup>F922</sup>(3) Subsections (3A) to (3H) apply if—
  - (a) the disposal is a qualifying disposal, and
  - (b) the investor has made a claim under section 335 in respect of the former investment for a tax year (“tax year X”).
- (3A) Subsection (3B) applies if the total of the following CITR does not exceed A—
  - (a) any CITR attributable to the former investment in respect of tax year X given under section 335, and

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- (b) any CITR attributable to the former investment in respect of later tax years given under section 335A where tax year X is the tax year mentioned in section 335A(1)(a).
- (3B) All CITR falling within subsection (3A)(a) or (b) must be withdrawn.
- (3C) If the total of the CITR falling within subsection (3A)(a) or (b) exceeds A, that total must be reduced by A.
- (3D) For the purposes of subsection (3C) CITR given in a later tax year must be reduced before CITR given in an earlier tax year.
- (3E) For the purposes of subsections (3A) and (3C) “A” is an amount equal to 5% of the amount or value of the consideration (if any) which the investor receives for the former investment.
- (3F) If—
  - (a) the total of the CITR falling within subsection (3A)(a) or (b) (“B”) is less than
  - (b) the amount (“C”) which is equal to 5% of the invested amount in respect of the former investment for tax year X,
 “A” is to be reduced by multiplying it by the fraction—
 
$$\frac{B}{C}$$
- (3G) If the amount of CITR attributable to the former investment in respect of a tax year has been reduced before the CITR is obtained, the amount referred to in subsection (3F) as B is to be treated for the purposes of that subsection as the amount it would have been without the reduction.
- (3H) Subsection (3G) does not apply to a reduction by virtue of section 358 (attribution: bonus shares).]
- (4) For the purposes of this section “qualifying disposal” means a disposal that is—
  - (a) by way of a bargain made at arm's length, or
  - (b) a permitted disposal (within the meaning of section 360).

- F923 (5) .....
- F923 (6) .....
- F923 (7) .....

**Textual Amendments**

**F922** S. 361(3)-(3H) substituted for s. 361(3) (with effect in accordance with Sch. 27 para. 6 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 27 para. 5\(2\)](#)

**F923** S. 361(5)-(7) omitted (with effect in accordance with Sch. 27 para. 6 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 27 para. 5\(3\)](#)

*Repayment of loans*

**362 Repayment of loan capital during 5 year period**

- (1) If the investment consists of a loan and—

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- (a) the average capital balance of the loan for the third, fourth or final year of the 5 year period is less than the permitted balance for the year in question, and
  - (b) the difference between those balances is not an amount of insignificant value,any CITR attributable to the investment in respect of any tax year must be withdrawn.
- (2) For the purposes of this section—
  - “the average capital balance” of the loan for a period is the mean of the daily balances of capital outstanding during that period, ignoring any non-standard repayments of the loan made in that period or at any earlier time, and
  - “the permitted balance” of the loan is—
    - (a) for the third year of the 5 year period, 75% of the average capital balance for the period of 6 months beginning 18 months after the investment date,
    - (b) for the fourth year of that period, 50% of that balance, and
    - (c) for the final year of that period, 25% of that balance.
- (3) For the purposes of subsection (2) a repayment of the loan is a non-standard repayment if subsection (4) or (5) applies.
- (4) This subsection applies if the repayment is made at the choice or discretion of the CDFI, and not as a direct or indirect consequence of any obligation provided for under the terms of the loan agreement.
- (5) This subsection applies if the repayment is made as a result of the failure of the CDFI to meet any obligation of the loan agreement which—
  - (a) is imposed merely because of the commercial risks to which the investor is exposed as lender under that agreement, and
  - (b) is no more likely to be breached than any obligation that might reasonably have been agreed in respect of the loan in the absence of this Part.
- (6) For the purposes of this section “an amount of insignificant value” means an amount which—
  - (a) is not more than £1,000, or
  - (b) if it is more than £1,000, is insignificant in relation to the average capital balance of the loan for the year of the 5 year period in question.

### *Receipts of value*

#### **363 Value received by investor during 6 year period: loans**

- (1) This section applies if the investment consists of a loan and the investor receives any value (other than an amount of insignificant value) from the CDFI during the 6 year period.
- (2) The investor is treated for the purposes of—
  - (a) section 337 (determination of “invested amount”), and
  - (b) section 362 (repayments of loan capital),as having received a repayment of the loan of an amount equal to the amount of the value received.
- (3) For those purposes the repayment is treated as made—

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- (a) if the value is received in the first or second year of the 6 year period, at the beginning of that second year, and
  - (b) if the value is received in a later year of that period, at the beginning of the year in question.
- (4) For the purposes of section 362 the repayment is treated as a repayment other than a non-standard repayment (within the meaning of that section).
- (5) For the purposes of this section “an amount of insignificant value” means an amount [<sup>F924</sup>of value] which—
- (a) is not more than £1,000, or
  - (b) if it is more than £1,000, is insignificant in relation to the average capital balance of the loan for the year of the 6 year period in which the value is received.
- (6) For the purposes of subsection (5)(b)—
- (a) “the average capital balance” of the loan for a year is the mean of the daily balances of capital outstanding during the year (ignoring the receipt of value in question), and
  - (b) any value received in the first year of the 6 year period is treated as received at the beginning of the second year of that period.
- (7) This section is subject to section 368 (value received if there is more than one investment).
- (8) Value received is ignored, for the purposes of this section, so far as the CITR attributable to any loan, securities or shares in respect of any one or more tax years has already been reduced or withdrawn on its account.

#### Textual Amendments

**F924** Words in s. 363(5) inserted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 515** (with Sch. 2)

### 364 Value received by investor during 6 year period: securities or shares

- (1) This section applies if the investment consists of securities or shares and—
- (a) the investor receives any value (other than an amount of insignificant value) from the CDFI during the 6 year period,
  - (b) the investment or a part of it is held by the investor at the time the value is received and has been held by the investor, as sole beneficial owner, continuously since the investment was made (“the continuing investment”),
  - (c) the receipt is wholly or partly in excess of the permitted level of receipts in respect of the continuing investment, and
  - (d) the amount of that excess <sup>F925</sup>... is not an amount of insignificant value.
- (2) Any CITR attributable to the continuing investment in respect of any tax year must be withdrawn.
- (3) For the purposes of subsection (1) the permitted level of receipts is exceeded if—
- (a) any amount of value is received by the investor (ignoring any amounts of insignificant value) in the first 3 years of the 6 year period, or



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- (b) the total amount of value received by the investor (ignoring any amounts of insignificant value)—
  - (i) before the beginning of the fifth year of that period, exceeds 25% of the invested capital,
  - (ii) before the beginning of the final year of that period, exceeds 50% of the invested capital, or
  - (iii) before the end of that period, exceeds 75% of the invested capital.
- (4) In this section—
  - “the invested capital”, in relation to the continuing investment, means the amount subscribed for the securities or shares concerned, and
  - “an amount of insignificant value” means an amount of value which—
    - (a) is not more than £1,000, or
    - (b) if it is more than £1,000, is insignificant in relation to the amount subscribed by the investor for the securities or shares included in the continuing investment.
- (5) This section is subject to section 368 (value received if there is more than one investment).
- (6) Value received is ignored, for the purposes of this section, so far as CITR attributable to any loan, securities or shares in respect of any one or more tax years has already been reduced or withdrawn on its account.

#### **Textual Amendments**

**F925** Words in s. 364(1)(d) repealed (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), Sch. 1 para. 516, **Sch. 3 Pt. 1** (with Sch. 2)

### **365 Receipts of insignificant value to be added together**

- (1) This section applies if—
  - (a) value is received (“the relevant receipt”) by the investor from the CDFI at any time during the 6 year period relating to the investment,
  - (b) the investor has received from the CDFI one or more receipts of insignificant value at a time or times—
    - (i) during that period, but
    - (ii) not later than the time of the relevant receipt, and
  - (c) the total amount of the value of the receipts within paragraph (a) and (b) is not an amount of insignificant value.
- (2) The investor is treated for the purposes of this Part as if the relevant receipt had been a receipt of an amount of value equal to that total amount.
- (3) A receipt does not fall within subsection (1)(b) if the whole or any part of it has previously formed part of a total amount falling within subsection (1)(c).
- (4) For the purposes of this section “an amount of insignificant value” means an amount of value which—
  - (a) is not more than £1,000, or
  - (b) if it is more than £1,000, is insignificant in relation to the relevant amount.

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- (5) If the investment consists of a loan, the relevant amount for the purposes of subsection (4) is—
- (a) if the relevant receipt is received in the first or second year of the 6 year period, the average capital balance of the loan for the second year of that period, and
  - (b) if the relevant receipt is received in a later year, the average capital balance of the loan for the year in question.
- (6) For the purposes of subsection (5)—
- (a) the average capital balance of the loan for a year is the mean of the daily balances of capital outstanding during the year, and
  - (b) the relevant receipt and any receipts within subsection (1)(b) are ignored when calculating the average capital balance for the year in question.
- (7) If the investment consists of securities or shares, the relevant amount for the purposes of subsection (4) is—
- (a) if the relevant receipt is received in the first year of the 6 year period, the amount subscribed for the securities or shares, and
  - (b) in any other case, the amount subscribed for such of the securities or shares as—
    - (i) are held by the investor at the time the relevant receipt is received, and
    - (ii) have been held by the investor, as sole beneficial owner, continuously since the investment was made.

[<sup>F926</sup>(8) This section is subject to section 368 (value received if there is more than one investment).]

#### Textual Amendments

**F926** S. 365(8) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 517](#) (with Sch. 2)

### 366 When value is received

- (1) For the purposes of this Chapter the investor receives value from the CDFI at any time when the CDFI—
- (a) repays, redeems or repurchases any securities or shares included in the investment,
  - (b) releases or waives any liability of the investor to the CDFI or discharges, or undertakes to discharge, any liability of the investor to a third person,
  - (c) makes a loan or advance to the investor which has not been repaid in full before the investment is made,
  - (d) provides a benefit or facility for the investor or any associate of the investor,
  - (e) disposes of an asset to the investor for no consideration or for a consideration of an amount or value which is less than the market value of the asset,
  - (f) acquires an asset from the investor for a consideration of an amount or value which is more than the market value of the asset, or
  - (g) makes a payment to the investor other than a qualifying payment.

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- (2) For the purposes of subsection (1)(b) the CDFI is treated as having released or waived a liability if the liability is not discharged within 12 months of the time when it ought to have been discharged.
- (3) For the purposes of subsection (1)(c) the following are treated as loans made by the CDFI to the investor—
  - (a) the amount of any debt due from the investor to the CDFI (other than an ordinary trade debt), and
  - (b) the amount of any debt due from the investor to a third person which has been assigned to the CDFI.
- (4) For the purposes of this section—
  - (a) references to a debt or liability do not, in relation to a person, include references to any debt or liability which would be discharged by the making by that person of a qualifying payment,
  - (b) references to a benefit or facility do not include references to any benefit or facility provided in circumstances such that, if a payment had been made of an amount equal to its value, that payment would have been a qualifying payment, and
  - (c) any reference to a payment or disposal to a person includes a reference to a payment or disposal made to that person indirectly or to that person's order or for that person's benefit.
- (5) In subsection (4) references to “a person” include references to any other person who, at any time in the 6 year period, is connected with that person, whether or not the other person is so connected at the material time.
- (6) In this section—

“qualifying payment” means—

  - (a) any payment by any person for any goods, services or facilities provided by the investor (in the course of the investor's trade or otherwise) which is reasonable in relation to the market value of those goods, services or facilities,
  - (b) the payment by any person of any interest which represents no more than a reasonable commercial return on money lent to that person,
  - (c) the payment by any company of any dividend or other distribution which does not exceed a normal return on any investment in shares in or securities of that company,
  - (d) any payment for the acquisition of an asset which does not exceed its market value,
  - (e) the payment by any person, as rent for any property occupied by the person, of an amount which is not more than a reasonable and commercial rent for the property, and
  - (f) a payment in discharge of an ordinary trade debt, and

“ordinary trade debt” means any debt for goods or services supplied in the ordinary course of a trade or business if any credit given—

  - (a) is for not more than 6 months, and
  - (b) is not longer than that normally given to customers of the person carrying on the trade or business.

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### 367 The amount of value received

In a case falling within a provision listed in column 1 of the following table, the amount of value received for the purposes of this Chapter is given by the corresponding entry in column 2 of the table.

<i>Provision</i>	<i>The amount of value received</i>
Section 366(1)(a)	The amount received by the investor
Section 366(1)(b)	The amount of the liability
Section 366(1)(c)	The amount of the loan or advance, less the amount of any repayment made before the investment is made
Section 366(1)(d)	The cost to the CDFI of providing the benefit or facility, less any consideration given for it by the investor or any associate of the investor
Section 366(1)(e) or (f)	The difference between the market value of the asset and the consideration (if any) received for it
Section 366(1)(g)	The amount of the payment

### 368 Value received if there is more than one investment

- (1) This section applies if—
- (a) the investor makes two or more investments in the CDFI,
  - (b) the investor is eligible for and claims CITR in respect of those investments, and
  - (c) the investor receives value (other than value within section 366(1)(a)) which [<sup>F927</sup>is received] within the 6 year periods relating to two or more of those investments.
- (2) Sections 363, 364, 365 and 369 have effect in relation to each investment referred to in subsection (1)(c) as if the amount of the value received were reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

- (a) A is the appropriate amount in respect of the investment in question, and
- (b) B is the sum of that amount and the appropriate amount or amounts in respect of the other investment or investments.

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- (3) If the investment consists of a loan, the appropriate amount for the purposes of subsection (2) is—
  - (a) if the value is received in the first or second year of the 6 year period, the average capital balance of the loan for the second year of that period, and
  - (b) if the value is received in a later year, the average capital balance of the loan for the year in question.
- (4) For the purposes of subsection (3)—
  - (a) the average capital balance of the loan for a year is the mean of the daily balances of capital outstanding during the year, and
  - (b) the receipt of value is ignored when calculating the average capital balance for the year in question.
- (5) If the investment consists of securities or shares, the appropriate amount for the purposes of subsection (2) is—
  - (a) if the value is received in the first year of the 6 year period, the amount subscribed for the securities or shares, and
  - (b) in any other case, the amount subscribed for such of the securities or shares as—
    - (i) are held by the investor at the time the value is received, and
    - (ii) have been held by the investor, as sole beneficial owner, continuously since the investment was made.

#### Textual Amendments

**F927** Words in s. 368(1)(c) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 518** (with Sch. 2)

### 369 Effect of receipt of value on future claims for CITR

- (1) This section applies if the investment consists of securities or shares and—
  - (a) the investor receives any value (other than an amount of insignificant value) from the CDFI during the 6 year period, and
  - (b) the investment or a part of it is held by the investor at the time the value is received and has been held by the investor, as sole beneficial owner, continuously since the investment was made (“the continuing investment”),but no CITR attributable to the continuing investment is withdrawn under section 364 as a result of the receipt.
- (2) For the purposes of calculating any CITR in respect of any securities or shares included in the continuing investment for any relevant tax year, the amount subscribed for the securities or shares included in the continuing investment is treated as reduced by the amount of the value received.
- (3) For this purpose the “relevant” tax years are—
  - (a) any tax year ending on or after the anniversary of the investment date immediately before the receipt of value, or
  - (b) if the value was received on an anniversary of the investment date, any tax year ending on or after that anniversary.

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- (4) For the purposes of this section “an amount of insignificant value” means an amount of value which—
- (a) is not more than £1,000, or
  - (b) if it is more than £1,000, is insignificant in relation to the amount subscribed by the investor for the securities or shares included in the continuing investment.

[<sup>F928</sup>(5) This section is subject to section 368 (value received if there is more than one investment).]

#### Textual Amendments

**F928** S. 369(5) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 519](#) (with [Sch. 2](#))

### 370 Receipts of value by or from connected persons

In sections 363 to 369, if the context permits, references to the investor or the CDFI include references to any person who at any time in the 6 year period relating to the investment is connected with the investor or, as the case may be, the CDFI, whether or not the person is connected at the material time.

*CITR not due*

### 371 CITR subsequently found not to have been due

If any CITR has been obtained which is subsequently found not to have been due, the CITR must be withdrawn.

*Manner of withdrawal or reduction*

### 372 Manner of withdrawal or reduction of CITR

- (1) This section applies if any CITR has been obtained which falls to be withdrawn or reduced under this Chapter.
- (2) The CITR must be withdrawn or reduced by making an assessment to income tax for the tax year for which the CITR was obtained.
- (3) No assessment may be made under subsection (2) because of any event occurring after the death of the investor.

[<sup>F929</sup>(4) An assessment under this paragraph may be made at any time not more than 6 years after the end of the tax year for which the relief was obtained.

- (5) Subsection (4) is without prejudice to section 36(1A) of TMA 1970 (loss of tax brought about deliberately etc).]

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#### Textual Amendments

**F929** S. 372(4)(5) inserted (1.4.2010) by [Finance Act 2008 \(c. 9\)](#), s. 118(2), [Sch. 39 para. 60](#); S.I. 2009/403, art. 2(2) (with art. 10)

## CHAPTER 7

### SUPPLEMENTARY AND GENERAL

#### <sup>F930</sup> *Alternative finance arrangements*

#### Textual Amendments

**F930** S. 372A and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 2 para. 51](#) (with [Sch. 9 paras. 1-9, 22](#))

### **372A** Meaning of “loan” and “interest”

- (1) In this Part and regulations made under Chapter 2 of this Part—
  - (a) references to a “loan” include references to alternative finance arrangements, and
  - (b) references to “interest” include references to alternative finance return.
- (2) In subsection (1)—

“alternative finance arrangements” means arrangements to which any of the following applies—

  - (a) section 564C (purchase and resale arrangements),
  - (b) section 564E (deposit arrangements), and
  - (c) section 564F (profit share agency arrangements), and

“alternative finance return” has the meaning given by section 564I and 564L(1) and (2).
- (3) Subsection (1) needs to be read with—
  - (a) section 372B, in the case of arrangements to which section 564C applies,
  - (b) section 372C, in the case of arrangements to which section 564E applies, and
  - (c) section 372D, in the case of arrangements to which section 564F applies.]

### <sup>F931</sup> **372B** Purchase and resale arrangements

- (1) This section applies if, under arrangements to which section 564C applies, a person (“the first purchaser”) purchases an asset that is sold to another person (“the second purchaser”).
- (2) This Part and regulations made under Chapter 2 of this Part have effect in relation to the arrangements in accordance with subsections (3) to (9).
- (3) The first purchaser is treated as making a loan to the second purchaser.

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- (4) The amount of the loan is treated as being equal to the first purchase price.
- (5) If the arrangements provide that the first purchaser will transfer ownership of the asset to the second purchaser in instalments—
  - (a) references to the loan being drawn down over a period of time include references to the asset being transferred to the second purchaser in instalments,
  - (b) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is transferred to the second purchaser, and
  - (c) references to the amount drawn down at a given date include references to the value of the instalments transferred at that date.
- (6) In calculating the amount of capital outstanding on the loan, each payment of the second purchase price (or part of the second purchase price), as reduced by any amount of alternative finance return included within each payment, is treated as repayment of the loan capital.
- (7) References to the beneficial owner of the loan include references to the person beneficially entitled to payment of the second purchase price.
- (8) References to the disposal of the whole or any part of the loan include references to the disposal of the right to receive payment of the whole or any part of the outstanding second purchase price.
- (9) If arrangements to which section 564C applies are, as a result of this section, qualifying investments under Chapter 3 of this Part, paragraph (f) of section 366(1) is to be ignored in relation to the arrangements concerned.
- (10) In this section “the first purchase price” and “the second purchase price” have the same meaning as in section 564C.]

#### Textual Amendments

**F931** S. 372B inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 2 para. 52](#) (with [Sch. 9 paras. 1-9, 22](#))

#### [<sup>F932</sup>372] **Deposit arrangements**

- (1) This section applies if, under arrangements to which section 564E applies, a person (“the depositor”) deposits money with a financial institution.
- (2) This Part and regulations made under Chapter 2 of this Part have effect in relation to the arrangements in accordance with subsections (3) to (9).
- (3) The depositor is treated as making a loan to the financial institution.
- (4) The amount of the loan is treated as being equal to the money deposited under the arrangements.
- (5) If the arrangements provide that the depositor will deposit a sum of money with the financial institution in instalments—



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- (a) references to the loan being drawn down over a period of time include references to the depositor depositing a sum of money with the financial institution in instalments,
  - (b) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is deposited with the financial institution, and
  - (c) references to the amount drawn down at a given date include references to the value of the instalments deposited with the financial institution at that date.
- (6) The capital outstanding on the loan is treated as being equal to the balance of the repayable deposit.
- (7) References to any repayment of the loan include references to any repayment of the deposit.
- (8) References to the beneficial owner of the loan include references to the person beneficially entitled to repayment of the deposit.
- (9) References to the disposal of the whole or any part of the loan include references to the disposal of the right to receive repayment of the whole or any part of the deposit.
- (10) In this section “financial institution” has the same meaning as in Part 10A (see section 564B).]

#### Textual Amendments

**F932** S. 372C inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 53](#) (with [Sch. 9 paras. 1-9, 22](#))

#### [<sup>F933</sup> 372I Profit share agency arrangements

- (1) This section applies if, under arrangements to which section 564F applies, a person (“the principal”) appoints a financial institution as agent.
- (2) This Part and regulations made under Chapter 2 of this Part have effect in relation to the arrangements in accordance with subsections (3) to (9).
- (3) The principal is treated as making a loan to the agent.
- (4) The amount of the loan is treated as being equal to the money provided by the principal to the agent under the arrangements.
- (5) If the arrangements provide that the principal will provide a sum of money to the agent in instalments—
  - (a) references to the loan being drawn down over a period of time include references to the principal providing a sum of money to the agent in instalments,
  - (b) references to the date on which the first amount of the loan is drawn down include references to the date on which the first instalment is provided to the agent, and
  - (c) references to the amount drawn down at a given date include references to the value of the instalments provided to the agent at that date.

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- (6) The capital outstanding on the loan is treated as being equal to the balance of the repayable money provided to the agent.
- (7) References to any repayment of the loan include references to any repayment of the money provided to the agent.
- (8) References to the beneficial owner of the loan include references to the person beneficially entitled to repayment of the money provided to the agent.
- (9) References to the disposal of the whole or any part of the loan include references to the disposal of the right to receive repayment of the whole or any part of the money provided to the agent.
- (10) In subsection (1) “financial institution” has the same meaning as in Part 10A (see section 564B).]

#### **Textual Amendments**

**F933** S. 372D inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 54](#) (with [Sch. 9 paras. 1-9, 22](#))

### *Miscellaneous*

#### **373 Information to be provided by the investor**

- (1) If—
  - (a) the investor has obtained CITR in respect of the investment, and
  - (b) an event occurs because of which CITR attributable to the investment [<sup>F934</sup>in respect of] any tax year falls to be withdrawn or reduced by virtue of section 360, 361, 362 or 364,
 the investor must give an officer of Revenue and Customs a notice containing particulars of the event.
- (2) Subject to subsection (3), a notice under subsection (1) must be given not later than the normal self-assessment filing date for the tax year in which the event occurred.
- (3) If—
  - (a) the investor is required to give a notice as a result of the receipt of value by a person connected with the investor (see section 370), and
  - (b) the end of the period of 60 days beginning when the investor comes to know of that event is later than the final notice date under subsection (2),
 the notice must be given before the end of that 60 day period.

#### **Textual Amendments**

**F934** Words in s. 373(1)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 520](#) (with [Sch. 2](#))

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### **374 Disclosure**

- (1) No obligation as to secrecy or other restriction on the disclosure of information imposed by statute or otherwise prevents the disclosure of information—
  - (a) by the Secretary of State to an officer of Revenue and Customs for the purpose of assisting Her Majesty's Revenue and Customs to discharge their functions under the Income Tax Acts so far as relating to matters arising under this Part, or
  - (b) by an officer of Revenue and Customs to the Secretary of State for the purpose of assisting the Secretary of State to discharge the Secretary of State's functions under this Part.
- (2) Information obtained by such disclosure is not to be further disclosed except for the purposes of legal proceedings arising out of the functions referred to.

### **375 Nominees**

- (1) For the purposes of this Part—
  - (a) loans made by or to, or disposed of by, a nominee for a person are treated as made by or to, or disposed of by, that person, and
  - (b) securities or shares subscribed for by, issued to, acquired or held by or disposed of by a nominee for a person are treated as subscribed for by, issued to, acquired or held by or disposed of by that person.
- (2) For the purposes of subsection (1) references to things done by or to a nominee for a person include things done by or to a bare trustee for a person.

### **376 Application for postponement of tax pending appeal**

No application may be made under section 55(3) or (4) of TMA 1970 (application for postponement of payment of tax pending appeal) on the ground that an individual is eligible for CITR unless a claim for the CITR has been duly made by the individual under this Part.

### **377 Identification of securities or shares on a disposal**

- (1) This section applies for the purpose of identifying the securities or shares disposed of in any case where—
  - (a) the investor disposes of part of a holding of securities or shares (“the holding”), and
  - (b) the holding includes securities or shares to which CITR is attributable in respect of one or more tax years that have been held continuously by the investor from the time they were issued until the disposal.
- (2) Any disposal by the investor of securities or shares included in the holding which have been acquired by the investor on different days is treated as relating to those acquired on an earlier day rather than to those acquired on a later day.
- (3) If there is a disposal by the investor of securities or shares included in the holding which have been acquired by the investor on the same day, any of those securities or shares—
  - (a) to which CITR is attributable, and

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- (b) which have been held by the investor continuously from the time they were issued until the time of disposal,  
 are treated as disposed of after any other securities or shares included in the holding which were acquired by the investor on that day.
- (4) For the purposes of this section a holding of securities is any number of securities of a company which—
- (a) carry the same rights,
  - (b) were issued under the same terms, and
  - (c) are held by the investor in the same capacity.

It does not matter for this purpose that the number of the securities grows or diminishes as securities carrying those rights and issued under those terms are acquired or disposed of.

- (5) For the purposes of this section a holding of shares is any number of shares in a company which—
- (a) are of the same class, and
  - (b) are held by the investor in the same capacity.

It does not matter for this purpose that the number of the shares grows or diminishes as shares of that class are acquired or disposed of.

- (6) In a case to which section 127 of TCGA 1992 (equation of original shares and new holding) applies, shares comprised in the new holding are to be treated for the purposes of subsections (2) and (3) as acquired when the original shares were acquired.
- (7) In subsection (6)—
- (a) the reference to section 127 of TCGA 1992 includes a reference to that section as it is applied by virtue of any enactment relating to chargeable gains, and
  - (b) “original shares” and “new holding” have the same meaning as in section 127 of TCGA 1992 or (as the case may be) that section as applied by virtue of the enactment in question.

### *Definitions*

#### **378 Meaning of “issue of securities or shares”**

- (1) In this Part—
- (a) references (however expressed) to an issue of securities of any body are to such securities of that body as carry the same rights and are issued under the same terms and on the same day, and
  - (b) references (however expressed) to an issue of shares in any body are to such shares in that body as are of the same class and issued on the same day.
- (2) In this Part references (however expressed) to an issue of securities of or shares in a body to an individual are to such of the securities or shares in an issue of securities of or shares in that body as are issued to that individual in one capacity.

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### **379 Meaning of “disposal”**

- (1) Subject to subsection (2), in this Part “disposal” is read in accordance with TCGA 1992, and related expressions are read accordingly.
- (2) An investor is treated as disposing of any securities or shares which but for section 151BC(1) of TCGA 1992 the investor—
  - (a) would be treated as exchanging for other securities or shares by virtue of section 136 of that Act, or
  - (b) would be so treated but for section 137(1) of that Act (which restricts section 136 to genuine reconstructions).

### **380 Construction of references to being “held continuously”**

- (1) This section applies if for the purposes of this Part it becomes necessary to determine whether the investor has held the investment (or any part of it) continuously throughout any period.
- (2) The investor is not treated as having held the investment (or any part of it) continuously throughout a period if the investor—
  - (a) is treated, under any provision of TCGA 1992, as having disposed of and immediately re-acquired the investment (or part) at any time during the period, or
  - (b) is treated as having disposed of the investment (or part) at any such time, by virtue of section 379(2).

### **381 Meaning of “associate”**

- (1) In this Part “associate”, in relation to a person, means—
  - (a) any relative or partner of that person,
  - (b) the trustee or trustees of any settlement in relation to which that person, or any relative of that person (living or dead), is or was a settlor, and
  - (c) if that person has an interest in any shares or obligations of a company which are subject to any trust or are part of the estate of a deceased person—
    - (i) the trustee or trustees of the settlement concerned or, as the case may be, the personal representatives of the deceased, and
    - (ii) if that person is a company, any other company which has an interest in those shares or obligations.
- (2) In subsection (1)(a) and (b) “relative” means spouse or civil partner, ancestor or lineal descendant.
- (3) In subsection (1)(b) “settlor” and “settlement” have the same meaning as in Chapter 5 of Part 5 of ITTOIA 2005 (see section 620 of that Act).

### **382 Minor definitions etc**

- (1) In this Part—
  - “body” includes an unincorporated association, and
  - “bonus shares” means shares which are issued otherwise than for payment (whether in cash or otherwise).

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- (2) For the purposes of this Part shares in a company are not treated as being of the same class unless they would be so treated if dealt in on [<sup>F935</sup>a recognised stock exchange].
- (3) For the purposes of this Part the market value at any time of any asset is the price which it might reasonably be expected to fetch on a sale at that time in the open market free from any interest or right which exists by way of security in or over it.
- (4) In this Part—
  - (a) references to CITR obtained by the investor in respect of any investment (or part of an investment) include references to CITR obtained by the investor in respect of that investment (or part) at any time after the investor has disposed of it, and
  - (b) references to the withdrawal or reduction of CITR obtained by the investor in respect of the investment (or any part of it) include references to the withdrawal or reduction of CITR obtained in respect of that investment (or part) at any such time.
- (5) In the case of any condition that cannot be met until a future date—
  - (a) references in this Part to a condition being met for the time being are to nothing having occurred to prevent its being met, and
  - (b) references to its continuing to be met are to nothing occurring to prevent its being met.

#### Textual Amendments

**F935** Words in s. 382(2) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\), Sch. 26 para. 12\(8\)](#)

## PART 8

### OTHER RELIEFS

#### CHAPTER 1

##### INTEREST PAYMENTS

###### *The relief: introduction*

### 383 Relief for interest payments

- (1) A person who pays interest in a tax year is entitled to relief for the tax year for the interest if—
  - (a) the loan on which the interest is payable is a loan to which a provision specified in subsection (2) applies,
  - (b) the interest is eligible for relief in accordance with this Chapter, and
  - (c) the person makes a claim.
- (2) The provisions are—
  - (a) section 388 (loan to buy plant or machinery for partnership use),

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- (b) section 390 (loan to buy plant or machinery for employment use),
  - (c) section 392 (loan to buy interest in close company [<sup>F936</sup>etc]),
  - (d) section 396 (loan to buy interest in employee-controlled company),
  - (e) section 398 (loan to invest in partnership),
  - (f) section 401 (loan to invest in co-operative), and
  - (g) section 403 (loan to pay inheritance tax).
- (3) The amount of the relief given under subsection (1) is equal to the amount of the interest eligible for relief.
- (4) The relief is given by deducting that amount in calculating the person's net income for the tax year in which the interest is paid (see Step 2 of the calculation in section 23).
- (5) This section is subject to—
- (a) section 384 (general restrictions on relief under this Chapter),
  - [<sup>F937</sup>(aa) section 384B (restriction on relief where cash basis applies),]
  - (b) section 385 (general provisions about loans),
  - (c) section 386 (loans partly meeting requirements),
  - (d) section 387 (exclusion of double relief etc), and
  - (e) section 405 (carry back and forward of relief for interest on loans within section 403).
- (6) See also [<sup>F938</sup>section 564O] (under which this Chapter applies as if arrangements [<sup>F939</sup>to which section 564C applies] were loans and alternative finance return were interest).

#### Textual Amendments

**F936** Word in s. 383(2)(c) inserted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(4\)\(a\)](#)

**F937** S. 383(5)(aa) inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 4 para. 55\(2\)](#)

**F938** Words in s. 383(6) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 221\(a\)](#) (with Sch. 9 paras. 1-9, 22)

**F939** Words in s. 383(6) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 221\(b\)](#) (with Sch. 9 paras. 1-9, 22)

### 384 General restrictions on relief under Chapter

- (1) Relief is not to be given under this Chapter for interest on a debt incurred—
- (a) by overdrawing an account, or
  - (b) by debiting the account of any person as the holder of a credit card or under similar arrangements.
- (2) If [<sup>F940</sup>the interest paid on a loan in a tax year exceeds a reasonable commercial amount of interest on the loan for the relevant period] , relief is not to be given under this Chapter for so much of the interest as represents the excess.
- [<sup>F941</sup>(3) The relevant period is the tax year or, if the loan exists for part only of the tax year, the part of the tax year for which the loan exists.

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- (4) A reasonable commercial amount of interest on the loan for the relevant period is an amount which, together with any interest paid before that period (other than unrelieved interest), represents a reasonable commercial rate of interest on the loan from the date it was made to the end of that period.
- (5) “Unrelieved interest” means interest which because of subsection (2) is not eligible for relief under this Chapter.]

#### Textual Amendments

**F940** Words in s. 384(2) substituted (21.7.2008 with effect in accordance with Sch. 22 para. 21(4) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 22 para. 21\(2\)](#)

**F941** S. 384(3)-(5) inserted (21.7.2008 with effect in accordance with Sch. 22 para. 21(4) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 22 para. 21\(3\)](#)

#### [<sup>F942</sup>384A] **Restriction on relief where arrangements minimise risk to borrower**

- (1) Relief is not to be given under this Chapter for interest paid by a person on a loan if—
- (a) the loan is made to the person (“the borrower”) as part of arrangements which appear very likely to produce a post-tax advantage, and
  - (b) the arrangements seem to have been designed to reduce any income tax or capital gains tax to which the borrower (or any person whose circumstances are like those of the borrower) would be liable apart from the arrangements.
- (2) Arrangements “appear very likely” to produce a post-tax advantage if (and only if) it would be reasonable to assume from either or both of—
- (a) the likely effect of the arrangements, and
  - (b) the circumstances in which the arrangements, or any parts of the arrangements, are entered into or effected,
- that there is no risk, or only an insignificant risk, that they will not produce a post-tax advantage.
- (3) “Produce a post-tax advantage” means give rise to a sum or sums—
- (a) payable to the borrower or a person connected with the borrower, or
  - (b) payable to any other person for the benefit of the borrower or a person connected with the borrower,
- of an amount (or aggregate amount) which, after making the appropriate tax adjustments, is equal to or greater than the relevant amount.
- (4) “The relevant amount” is the aggregate of—
- (a) the amount required to meet the borrower's obligations in respect of the loan, and
  - (b) any amount which is used by the borrower in the same way as that which entitles the borrower to relief under this Chapter in respect of the loan and is not money lent to the borrower under any loan.
- (5) If, with a view to securing that the condition in subsection (1)(a) is not met, the arrangements make provision for securing that, in all or any circumstances in which they do not produce a post-tax advantage, they will produce a broadly compensatory amount, the arrangements are to be regarded for the purposes of subsection (2)



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as making provision for securing the production of a post-tax advantage in those circumstances.

- (6) “Produce a broadly compensatory amount” means give rise to a sum or sums payable as mentioned in subsection (3) of an amount (or aggregate amount) which, after making the appropriate tax adjustments, is not significantly less than the relevant amount.
- (7) For the purposes of subsections (3) and (6) causing the value of an asset to be obtainable, directly or indirectly, by a person is to be treated as equivalent to giving rise to a sum payable to the person of an amount equal to that value.
- (8) To make the appropriate tax adjustments for the purpose of subsection (3) or (6)—
  - (a) if A exceeds B, deduct the amount of the excess from the amount (or aggregate amount), and
  - (b) if B exceeds A, add the amount of the excess to the amount (or aggregate amount).
- (9) For the purposes of subsection (8)—

A is the amount of any income tax, any capital gains tax and any tax under the law of a territory outside the United Kingdom to which the borrower is liable in consequence of the arrangements, and

B is the amount by which the borrower's liability to income tax and capital gains tax is (or apart from subsection (1) would be) reduced in consequence of the arrangements.
- (10) Arrangements seem to have been designed to reduce any income tax or capital gains tax to which the borrower (or any person whose circumstances are like those of the borrower) would be liable apart from the arrangements if (and only if) it would be reasonable to assume from either or both of—
  - (a) the likely effect of the arrangements, and
  - (b) the circumstances in which the arrangements, or any parts of the arrangements, are entered into or effected,that the arrangements, or any parts of the arrangements, are designed to do so.
- (11) In this section “arrangements” means arrangements consisting of any number of agreements, understandings, schemes, transactions or other arrangements (whether or not legally enforceable); but in subsections (1)(a), (2), (5) and (9) the references to arrangements also include any related transactions.
- (12) In subsection (11) “related transactions” means transactions in the case of which it is reasonable to assume from either or both of—
  - (a) the likely effect of the transactions, and
  - (b) the circumstances in which the transactions are entered into or effected,that the transactions would not have been entered into or effected independently of the arrangements.
- (13) Transactions are not prevented from being related transactions just because the transactions—
  - (a) are not between the same parties, or
  - (b) are not between parties to the arrangements.]

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### Textual Amendments

**F942** S. 384A inserted (with effect in accordance with Sch. 30 para. 1(2) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 30 para. 1\(1\)](#)

## [<sup>F943</sup>**384B** Restriction on relief where cash basis applies

- (1) Relief is not to be given under this Chapter for a tax year for interest paid by a person on a relevant loan if the partnership to which the loan relates has made an election under section 25A of ITTOIA 2005 (cash basis for small businesses) for the tax year [<sup>F944</sup>or if the profits of a UK property business or overseas property business carried on by the partnership are calculated on the cash basis for the tax year (see section 271D of ITTOIA 2005).]
- (2) A loan is a “relevant loan” if—
  - (a) it is a loan to which section 388 applies (loan to buy plant or machinery for partnership use), or
  - (b) it is a loan to which section 398 applies (loan to invest in partnership) and which is not used for purchasing a share in a partnership.]

### Textual Amendments

**F943** S. 384B inserted (with effect in accordance with Sch. 4 paras. 56, 57 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 4 para. 55\(3\)](#)

**F944** Words in s. 384B(1) inserted (with effect in accordance with Sch. 2 para. 64 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 2 para. 63](#)

## **385** General provisions about loans

- (1) References in this Chapter to a loan being used or used in any way—
  - (a) are references to the money lent being applied or, as the case may be, applied in that way, and
  - (b) except in section 403 include references to a loan being used to meet expenditure already incurred or, as the case may be, already incurred on such a use.
- (2) Sections 392, 396, 398, 401 and 403 apply to a loan only if it is made—
  - (a) in connection with the use of money, and
  - (b) on the occasion of its use or within what is in the circumstances a reasonable time from its use.
- (3) Those sections apply to a loan only if the loan is used as mentioned in those sections without first having been used for another purpose.
- (4) For the purposes of this Chapter the giving of credit for any money due from the purchaser under a sale is treated as the making of a loan used by the purchaser in making the purchase.

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### **386 Loans partly meeting requirements**

- (1) If, at the time a loan (“the mixed loan”) is used, only part of the mixed loan is a loan to which any of the provisions specified in section 383(2) apply, for the purposes of this Chapter that part (“the qualifying part”) is treated as a loan to which the provision in question applies.
- (2) Accordingly, the corresponding proportion of the interest on the mixed loan is eligible for relief.
- (3) If a mixed loan is partly repaid, for the purposes of this Chapter the corresponding proportion of the repayment is treated as repaying the qualifying part (but see section 406(5)).
- (4) In this section “the corresponding proportion” means the proportion that the qualifying part bears to the whole of the mixed loan at the time the mixed loan is used.

### **387 Exclusion of double relief etc**

- (1) Interest for which relief is given under this Chapter is not allowable as a deduction for any other income tax purposes.
- (2) No relief is given under this Chapter for any tax year for the payment of any interest taken into account in calculating the profits of—
  - (a) any trade, profession or vocation,
  - (b) any UK property business, or
  - (c) any overseas property business.
- (3) If interest is so taken into account, no relief is given under this Chapter for any relevant tax year for other interest on the same debt or liability.
- (4) A tax year is a relevant one if the interest has been taken into account in calculating the profits of the trade, profession, vocation or business of the tax year.
- (5) For the purposes of subsection (3) all interest which—
  - (a) is capable of being taken into account in calculating the profits of a trade, profession, vocation or business, and
  - (b) is payable by the same person on money advanced to the person on current account,is treated as interest on the same debt.
- (6) It does not matter whether the money is advanced—
  - (a) on one or more accounts, or
  - (b) by the same or separate banks or other persons.
- (7) The reference in subsections (2) to (4) to interest taken into account is a reference to interest allowed as a deduction in an assessment which can no longer be varied (whether on appeal or otherwise).

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### *Loans for plant or machinery*

#### **388 Loan to buy plant or machinery for partnership use**

- (1) This section applies to a loan that is used for capital expenditure on the provision of plant or machinery to which subsection (2) applies.
- (2) This subsection applies to plant or machinery if—
  - (a) it is in use for the purposes of a trade, profession or ordinary property business carried on by a partnership, and
  - (b) the partnership is entitled to a capital allowance or liable to a balancing charge in respect of it under section 264 of CAA 2001 (partnership using property of a partner) for the period of account in which the interest is paid.
- (3) A partnership is treated as entitled to a capital allowance or liable to a balancing charge in respect of plant or machinery for a period of account (“the later period”) for the purposes of subsection (2)(b) if—
  - (a) it has been so entitled or liable for a previous period of account, and
  - (b) no disposal value has been brought into account in respect of it in the later period or any earlier period of account.
- (4) In this section and sections 389 and 390—
  - “capital expenditure” has the meaning given in section 4 of CAA 2001,
  - “period of account” has the same meaning as in that Act (see section 6(2) to (6) of that Act), and
  - “ordinary property business” has the same meaning as in Part 2 of that Act (see section 16 of that Act).

#### **389 Eligibility requirements for interest on loans within section 388**

- (1) Interest on a loan within section 388(1) is eligible for relief if conditions A and B are met.
- (2) Condition A is that the interest is paid by an individual who is a member of the partnership referred to in section 388(2).
- (3) Condition B is that the interest falls due and payable not later than 3 years after the end of the period of account in which the loan was made.
- (4) If the machinery or plant is in use partly for the purposes of the trade, profession or ordinary property business carried on by the partnership referred to in section 388(2) (“trade purposes”) and partly for other purposes, only part of the interest is eligible for relief.
- (5) That part is such part as it is just and reasonable to attribute to trade purposes, having regard to all the relevant circumstances and, in particular, to the extent of the use for other purposes.

#### **390 Loan to buy plant or machinery for employment use**

- (1) This section applies to a loan that is used for capital expenditure on the provision of plant or machinery to which subsection (2) applies.
- (2) This subsection applies to plant or machinery if—

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- (a) it is in use for the purposes of an office or employment held by an individual in the tax year,
  - (b) the plant or machinery belongs to the individual, and
  - (c) the individual is entitled to a capital allowance or liable to a balancing charge in respect of it under Part 2 of CAA 2001 for the tax year.
- (3) An individual is treated as entitled to a capital allowance or liable to a balancing charge in respect of plant or machinery for a tax year (“the later year”) for the purposes of subsection (2)(c) if—
- (a) the individual has been so entitled or liable for a previous tax year, and
  - (b) no disposal value has been brought into account in respect of it in the later year or any earlier year.
- (4) An individual is also treated as so entitled or liable for the purposes of this section if the individual would be so entitled or liable but for a contribution made by the individual's employer.

### **391 Eligibility requirements for interest on loans within section 390**

- (1) Interest on a loan within section 390(1) is eligible for relief if conditions A and B are met.
- (2) Condition A is that the interest is paid by the individual referred to in section 390(2).
- (3) Condition B is that the interest falls due and payable not later than 3 years after the end of the tax year in which the loan was made.
- (4) If the machinery or plant is in use partly for the purposes of the office or employment referred to in section 390(2) (“employment purposes”) and partly for other purposes, only part of the interest is eligible for relief.
- (5) That part is such part as it is just and reasonable to attribute to employment purposes having regard to all the relevant circumstances and, in particular, to the extent of the use for other purposes.

*Loans for interests in close companies [F<sup>945</sup> etc]*

#### **Textual Amendments**

**F945** Word in s. 392 cross-heading inserted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(4\)\(b\)](#)

### **392 Loan to buy interest in close company [F<sup>946</sup> etc]**

- (1) This section applies to a loan to an individual that is used in one or more of the ways specified in subsection (2).
- (2) The ways are—
  - (a) acquiring any part of the ordinary share capital of a close company that is not a close investment-holding company,
  - (b) lending to such a company money which is used wholly and exclusively—
    - (i) for the purposes of the business of the company, or

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- (ii) for the purposes of the business of any associated company of the company which is also a close company that is not a close investment-holding company, or
  - (c) repaying another loan to which this section applies.
- (3) Subsection (2)(a) does not apply if at any time the individual by whom the shares are acquired or that individual's spouse or civil partner—
- (a) makes a claim for relief in respect of them under Part 5 of this Act or, in the case of shares issued before 6 April 2007, Chapter 3 of Part 7 of ICTA (enterprise investment scheme), or
  - (b) makes a claim in respect of them under Schedule 5B to TCGA 1992 (enterprise investment scheme: reinvestment).
- [<sup>F947</sup>(3A) Subsection (2) does not apply if at any time the individual by whom the shares are acquired or the money is lent, or that individual's spouse or civil partner, makes—
- (a) a claim under Part 5B of this Act for relief in respect of the amount invested in acquiring the shares or (as the case may be) in return for the debentures in respect of the money lent, or
  - (b) a claim in respect of the amount under Schedule 8B to TCGA 1992 (hold-over relief for gains re-invested in social enterprises).
- (3B) For the purposes of subsection (3A)(a) “debenture” includes any instrument creating or acknowledging indebtedness.]
- (4) In this section and section 393—
- [<sup>F948</sup>“close company” includes a company which—
  - (a) is resident in an EEA state <sup>F949</sup>..., and
  - (b) if it were UK resident, would be a close company,]
- “close investment-holding company” [<sup>F950</sup>is to be read in accordance with [<sup>F951</sup>section 393A]], and
- “associated company” has the meaning given by [<sup>F952</sup>section 449 of CTA 2010].
- (5) This section is subject to section 411 (ineligibility of interest where business is occupation of commercial woodlands).

#### Textual Amendments

- F946** Word in s. 392 heading inserted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(4\)\(c\)](#)
- F947** S. 392(3A)(3B) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\), Sch. 11 para. 10](#)
- F948** Words in s. 392(4) inserted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(2\)\(a\)](#)
- F949** Words in s. 392(4) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(3\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F950** Words in s. 392(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 521\(a\)](#) (with [Sch. 2](#))
- F951** Words in s. 392(4) substituted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(2\)\(b\)](#)
- F952** Words in s. 392(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 521\(b\)](#) (with [Sch. 2](#))

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### **393 Eligibility requirements for interest on loans within section 392**

- (1) Interest on a loan within section 392(1) to an individual is eligible for relief only if—
  - (a) when the interest is paid the company is not a close investment-holding company, and
  - (b) the capital recovery condition and either the full-time working conditions or the material interest conditions are met.
- (2) The capital recovery condition is that in the period from the use of the loan to the payment of the interest the individual has not recovered any capital from the company, apart from any amount taken into account under section 406(2) (recovered capital that is treated as a repayment of the loan).
- (3) The full-time working conditions are that—
  - (a) when the interest is paid the individual holds part of the ordinary share capital of the company, and
  - (b) in the period from the use of the loan to the payment of the interest the greater part of the individual's time has been spent in the actual management or conduct of the company or of an associated company of the company.
- (4) The material interest conditions are that—
  - (a) when the interest is paid the individual has a material interest in the company (see section 394), and
  - (b) if the company exists wholly or mainly for the purpose of holding investments or other property, either—
    - (i) the condition in subsection (3)(b) is met, or
    - (ii) no property held by the company is used as a residence by the individual.

#### **[<sup>F953</sup>393A] Close investment-holding companies**

- (1) For the purposes of sections 392 and 393, a close company (“the candidate company”) is a close investment-holding company in an accounting period unless throughout the period it exists wholly or mainly for one or more of the permitted purposes set out in subsection (2).

There is an exception to this rule in subsection (5).

- (2) The candidate company exists for a permitted purpose so far as it exists—
  - (a) for the purpose of carrying on a trade or trades on a commercial basis,
  - (b) for the purpose of making investments in land, or estates or interests in land, in cases where the land is, or is intended to be, let commercially (see subsection (3)),
  - (c) for the purpose of holding shares in and securities of, or making loans to, one or more companies each of which—
    - (i) is a qualifying company, or
    - (ii) falls within subsection (4),
  - (d) for the purpose of co-ordinating the administration of two or more qualifying companies,
  - (e) for the purpose of the making of investments as mentioned in paragraph (b)—
    - (i) by one or more qualifying companies, or
    - (ii) by a company which has control of the candidate company, or

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- (f) for the purpose of a trade or trades carried on on a commercial basis—
- (i) by one or more qualifying companies, or
  - (ii) by a company which has control of the candidate company.
- (3) For the purposes of subsection (2)(b), any letting of land is taken to be commercial unless the land is let to—
- (a) a person connected with the candidate company (“a connected person”), or
  - (b) a person who is—
    - (i) the spouse or civil partner of a connected person,
    - (ii) a relative of a connected person, or the spouse or civil partner of a relative of a connected person,
    - (iii) the relative of the spouse or civil partner of a connected person, or
    - (iv) the spouse or civil partner of a relative of a spouse or civil partner of the connected person.
- (4) A company falls within this subsection (see subsection (2)(c)(ii)) if—
- (a) it is under the control of the candidate company or of a company which has control of the candidate company, and
  - (b) it exists wholly or mainly for the purpose of holding shares in or securities of, or of making loans to, one or more qualifying companies.
- (5) If a company is wound up and was not a close investment-holding company in the accounting period that ends (by virtue of section 12(2) of CTA 2009) immediately before the winding up starts, the company is not treated for the purposes of sections 392 and 393 as being a close investment-holding company in the subsequent accounting period.
- (6) In this section “qualifying company” means a company which—
- (a) is under the control of the candidate company or of a company which has control of the candidate company, and
  - (b) exists wholly or mainly for either or both of the purposes mentioned in subsection (2)(a) and (b).
- (7) In this section—
- “accounting period” has the meaning given by section 1119 of CTA 2010,  
 “close company” includes a company which—
- (a) is resident in an EEA state <sup>F954</sup> ..., and
  - (b) if it were UK resident, would be a close company,
- “control” has the meaning given by section 450 of CTA 2010, and  
 “relative” means brother, sister, ancestor or lineal descendant.]

#### Textual Amendments

**F953** S. 393A inserted (with effect in accordance with s. 13(5) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 13\(3\)](#)

**F954** Words in s. 393A(7) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, **15(4)** (with regs. 39-41); 2020 c. 1, **Sch. 5 para. 1(1)**



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### 394 Meaning of “material interest” in section 393

- (1) For the purposes of section 393(4)(a) an individual has a material interest in a company if a relevant person meets condition A or B.
- (2) In this section “relevant person” means—
  - (a) the individual, either alone or with one or more associates (see section 395), or
  - (b) any associate of the individual with or without such other associates.
- (3) Condition A is that the relevant person is the beneficial owner of, or able directly or indirectly to control, more than 5% of the ordinary share capital of the company.
- (4) Condition B is that the relevant person possesses, or is entitled to acquire, such rights as would, in the event of the winding up of the company or in any other circumstances, give an entitlement to receive more than 5% of the assets which would then be available for distribution among the participants.
- (5) In this section—
  - “control” [<sup>F955</sup>is to be read in accordance with sections 450 and 451 of CTA 2010], and
  - “participant” has the meaning given by [<sup>F956</sup>section 454 of CTA 2010].

#### Textual Amendments

**F955** Words in s. 394(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 522\(a\)](#) (with [Sch. 2](#))

**F956** Words in s. 394(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 522\(b\)](#) (with [Sch. 2](#))

### 395 Meaning of “associate” in section 394

- (1) For the purposes of determining under section 394 whether an individual has a material interest in a company, in that section “associate”, in relation to that individual and company, means—
  - (a) a relative or partner of the individual,
  - (b) the trustees of a settlement in relation to which—
    - (i) the individual is a settlor, or
    - (ii) a relative of the individual (living or dead) is or was a settlor,
  - (c) if the individual is interested in any shares or obligations of the company which are subject to a trust, the trustees of the settlement, and
  - (d) if the individual is interested in any shares or obligations of the company which are part of the estate of a deceased person, the personal representatives.
- (2) But, despite subsection (1)(c), the trustees of an employee benefit trust are not regarded for the purposes of section 394 as the associates of an individual merely because the individual has an interest in shares or obligations of the company as a beneficiary of the trust, unless subsection (3) applies.
- (3) This subsection applies if at any time after 26 July 1989 the individual, alone or with associates, or an associate of the individual, alone or with other such associates—
  - (a) has been the beneficial owner of more than 5% of the ordinary share capital of the company, or

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- (b) has been able directly or indirectly to control more than 5% of that share capital.
- (4) In subsection (3) “associate” has the meaning given by section 549(4) of ITEPA 2003.
- (5) Sections 552 to 554 of ITEPA 2003 (attribution of interests in company) apply for the purposes of subsection (3) in relation to the individual as they apply for the purposes of the provisions listed in section 549(2) of that Act in relation to an employee.
- (6) In this section—
- “control” [<sup>F957</sup>is to be read in accordance with sections 450 and 451 of CTA 2010],
- “employee benefit trust” has the meaning given by section 550 of ITEPA 2003 except that the reference in section 550(3) of that Act to 13 March 1989 is to be read as a reference to 26 July 1989, and
- “relative” means spouse or civil partner, ancestor or lineal descendant or brother or sister.

#### Textual Amendments

**F957** Words in s. 395(6) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 523** (with Sch. 2)

### *Loans for interests in employee-controlled companies*

#### **396 Loan to buy interest in employee-controlled company**

- (1) This section applies to a loan to an individual that is used in one or more of the ways specified in subsection (2).
- (2) The ways are—
- [<sup>F958</sup>(a) acquiring part of the ordinary share capital of a company that first becomes an employee-controlled company—
- (i) after the date of acquisition, or
- (ii) not earlier than 12 months before that date, and]
- (b) repaying another loan to which this section applies.
- (3) For the purposes of this section and section 397, a company is employee-controlled at any time when—
- (a) more than 50% of the issued ordinary share capital of the company is owned beneficially by persons who are full-time employees of the company, and
- (b) more than 50% of the voting power in the company is so owned.
- (4) If an individual owns beneficially more than 10% of the issued ordinary share capital of, or voting power in, a company, for the purposes of subsection (3) the excess is treated as being owned by an individual who is not a full-time employee of the company.
- (5) In this section and section 397 “full-time employee”, in relation to a company, means an individual the greater part of whose time is spent working as an employee or director of the company or of a 51% subsidiary of the company.

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- (6) This section is subject to section 411 (ineligibility of interest where business is occupation of commercial woodlands).

#### Textual Amendments

**F958** S. 396(2)(a) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [Income Tax Act 2007 \(Amendment\) \(No.3\) Order 2007 \(S.I. 2007/3506\)](#), arts. 1(1), **3(2)**

### 397 Eligibility requirements for interest on loans within section 396

- (1) Interest on a loan within section 396 to an individual is eligible for relief only if conditions A to D are met.
- (2) Condition A is that the company is, throughout the period beginning with the date on which the shares are acquired and ending with the date on which the interest is paid (“the payment date”)—
- [<sup>F959</sup>(a) an unquoted company that is resident in the United Kingdom or [<sup>F960</sup>an]EEA state and is not resident outside the European Economic Area, and]
- (b) a trading company or the holding company of a trading group.
- (3) Condition B is that during the tax year in which the interest is paid the company either—
- (a) first becomes an employee-controlled company, or
- (b) is such a company throughout a period of at least 9 months.
- (4) Condition C is that—
- (a) the individual is a full-time employee of the company throughout the period beginning with the date on which the loan is used (“the use date”) and ending with the payment date, or
- (b) the individual ceased to be such an employee not more than 12 months before the payment date and was such an employee throughout the period beginning with the use date and ending with the date the individual ceased to be such an employee.
- (5) Condition D is that in the period from the use of the loan to the payment of the interest the individual has not recovered any capital from the company, apart from any amount taken into account under section 406(2) (recovered capital that is treated as a repayment of the loan).

- (6) In this section—

“holding company” means a company whose business (ignoring any trade carried on by it) consists wholly or mainly of the holding of shares or securities of one or more companies which are its 75% subsidiaries,

“trading company” means a company whose business consists wholly or mainly of the carrying on of a trade or trades,

“trading group” means a group the business of whose members taken together consists wholly or mainly of the carrying on of a trade or trades (taking a group to consist of a company with one or more 75% subsidiaries and those subsidiaries), and

“unquoted company” means a company none of whose shares is [<sup>F961</sup>included in the official UK list].

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### Textual Amendments

- F959** S. 397(2)(a) substituted (with effect in accordance with s. 14(2) of the amending Act) by [Finance Act 2014 \(c. 26\), s. 14\(1\)](#)
- F960** Word in s. 397(2)(a) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(5\)](#) (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)
- F961** Words in s. 397(6) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\), Sch. 26 para. 12\(9\)](#)

## *Loans for investing in partnerships*

### **398 Loan to invest in partnership**

- (1) This section applies to a loan to an individual that is used in one or more of the ways specified in subsection (2).
- (2) The ways are—
  - (a) purchasing a share in a partnership,
  - (b) contributing money to a partnership, by way of capital or premium, that is used wholly for the purposes of the trade or profession carried on by the partnership,
  - (c) advancing money to a partnership that is so used, and
  - (d) repaying another loan to which this section applies.
- (3) This section is subject to section 411 (ineligibility of interest where business is occupation of commercial woodlands).

### **399 Eligibility requirements for interest on loans within section 398**

- (1) Interest on a loan within section 398 to an individual is eligible for relief only if conditions A and B are met.
- (2) Condition A is that throughout the period from the use of the loan until the interest is paid the individual has been a member of the partnership otherwise than—
  - (a) as a limited partner in a limited partnership registered under the Limited Partnerships Act 1907 (c. 24), or
  - (b) as a member of an investment LLP.
- (3) Condition B is that in that period the individual has not recovered any capital from the partnership, apart from any amount taken into account under section 406(2) (recovered capital that is treated as a repayment of the loan).
- (4) If section 400 (film partnerships) applies in a tax year, only 40% of the interest that would otherwise be eligible for relief for that year is eligible.
- (5) For the purposes of subsection (2) an individual who is not a member of a partnership is treated as such a member if—
  - (a) the partnership carries on a profession,
  - (b) the individual is employed by the partnership in a senior capacity, and
  - (c) the individual is allowed—
    - (i) to act independently in dealing with clients of the partnership, and

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- (ii) to act generally in such a way as to be indistinguishable from the partners in relations with those clients.
- (6) For the purposes of subsection (2) “investment LLP” means a limited liability partnership—
- (a) whose business consists wholly or mainly of the making of investments, and
  - (b) the principal part of whose income is derived from investments,
- and whether a limited liability partnership is an investment LLP is determined for each period of account of the partnership.

### **[<sup>F962</sup>399A] Property partnerships: restriction of relief for investment loan interest**

- (1) This section applies to interest on a loan within section 398 if—
  - (a) the partnership concerned carries on a property business, and
  - (b) that property business or part of it is carried on for the purpose of generating income from—
    - (i) land consisting of a dwelling-house or part of a dwelling-house, or
    - (ii) an estate, interest or right in or over land within sub-paragraph (i).
- (2) Subsections (3) to (6) have effect to restrict relief under section 383(1) for so much of the interest as is referable (on a just and reasonable apportionment) to the property business or (as the case may be) the part of it within subsection (1)(b).
- (3) For the tax year 2017-18, the amount of that relief is 75% of what would be given apart from this section.
- (4) For the tax year 2018-19, the amount of that relief is 50% of what would be given apart from this section.
- (5) For the tax year 2019-20, the amount of that relief is 25% of what would be given apart from this section.
- (6) For the tax year 2020-21 and subsequent tax years, that interest is not eligible for relief under this Chapter.
- (7) Section 399(4) is to be applied in relation to the tax year to which subsection (3), (4) or (5) applies before that subsection is applied in relation to that tax year.
- (8) Anything that in the course of a property business is done for creating (by construction or adaptation) a dwelling-house, or part of a dwelling-house, from which income is to be generated is, for the purposes of subsection (1)(b), to be treated as done for the purpose mentioned in subsection (1)(b).
- (9) A property business, or part of a property business, that consists of the commercial letting of furnished holiday accommodation (as defined by Chapter 6 of Part 3 of ITTOIA 2005) is not within subsection (1)(b).
- (10) A reference in this section to a “dwelling-house” includes any land occupied or enjoyed with it as its garden or grounds.
- (11) In this section “property business” means a UK property business or an overseas property business.

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#### Textual Amendments

**F962** Ss. 399A, 399B inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 24\(7\)](#)

#### Modifications etc. (not altering text)

**C86** [S. 399A](#) excluded by S.I. 2002/2006, reg. 11(2A) (as inserted (with effect in relation to awards of tax credit for the tax year 2017-18 and subsequent years of the amending S.I.) by [The Tax Credits \(Definition and Calculation of Income\) \(Amendment\) Regulations 2017 \(S.I. 2017/396\), regs. 1, 5](#))

### 399B Property partnerships: tax reduction for non-deductible loan interest

- (1) Subsections (2) and (3) apply if for a tax year an individual would be given relief for an amount (“the relievable amount”) by section 383(1) but for section 399A.
- (2) The individual is entitled to relief under this section for the tax year in respect of the relievable amount.
- (3) The amount of the relief is given by—
 

$B R \times \text{the relievable amount}$

where BR is the basic rate of income tax for the year.]

#### Textual Amendments

**F962** Ss. 399A, 399B inserted (18.11.2015) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 24\(7\)](#)

### 400 Film partnerships

- (1) This section applies in a tax year if—
  - (a) the partnership (“the film partnership”) carries on a trade,
  - (b) the profits or losses of the trade are calculated in accordance with Chapter 9 of Part 2 of ITTOIA 2005 (films etc),
  - (c) the loan is secured on an asset or activity of another partnership (“the investment partnership”),
  - (d) the individual to whom the loan is made (“A”) is or has been a member of the investment partnership, and
  - (e) at any time in the year the proportion of the profits of the investment partnership to which A is entitled is less than the proportion of that partnership's capital contributed by A at that time.
- (2) For the purposes of subsection (1)(c), a loan is secured on an asset or activity of a partnership if there is an arrangement—
  - (a) under which such an asset may be used or relied upon wholly or partly to guarantee repayment of any part of the loan, or
  - (b) because of which any part of the loan is expected to be repaid directly or indirectly out of assets held by or income accruing to the partnership.
- (3) In subsection (1)(e)—
 

“profits” excludes any amount that would not be taken into account as, or for the purposes of calculating, income for income tax purposes, and

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- “partnership's capital” means—
- (a) anything that is, or in accordance with generally accepted accounting practice would be, accounted for as partners' capital or partners' equity, and
  - (b) amounts lent to the partnership by partners or persons connected with partners.
- (4) So far as the investment partnership's capital includes at any time any of the following amounts, they are treated as amounts contributed by A—
- (a) any amount A paid to acquire any interest in the partnership, so far as A retains the interest at that time,
  - (b) any amount made available by A directly or indirectly to another person, so far as that person retains any interest in the partnership at that time,
  - (c) any amount A lent to the partnership, so far as it has not been repaid at that time,
  - (d) any amount A made available directly or indirectly to another person, so far as any amount that person lent to the partnership has not been repaid at that time, and
  - (e) an amount made available in any other way prescribed by regulations made by the Commissioners for Her Majesty's Revenue and Customs.
- (5) Regulations under subsection (4)(e)—
- (a) may make provision having retrospective effect,
  - (b) may make provision generally or only in relation to specified cases or circumstances,
  - (c) may make different provision for different cases or circumstances,
  - (d) may make transitional, consequential or incidental provision, and
  - (e) may be made only if a draft of them has been laid before and approved by a resolution of the House of Commons.
- (6) In this section a reference to A includes a reference to a person connected with A.
- (7) Section 993 (meaning of “connected” persons) applies for the purposes of this section with the omission of subsections (3) to (7).

#### *Loans for investing in co-operatives*

### **401 Loan to invest in co-operative**

- (1) This section applies to a loan to an individual that is used in one or more of the ways specified in subsection (2).
- (2) The ways are—
- (a) acquiring shares in a body which is a co-operative,
  - (b) lending money to any such body which is used wholly and exclusively for the purposes of the business of that body or of a subsidiary of that body, and
  - (c) repaying another loan to which this section applies.
- (3) In this Chapter—

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“co-operative” means a common ownership enterprise or a co-operative enterprise as defined in section 2 of the Industrial Common Ownership Act 1976 (c. 78), and

“subsidiary”, in relation to a co-operative, has the same meaning as for the purposes of section 2 of that Act.

#### **402 Eligibility requirements for interest on loans within section 401**

- (1) Interest on a loan within section 401 to an individual is eligible for relief only if conditions A to C are met.
- (2) Condition A is that when the interest is paid the body continues to be a co-operative.
- (3) Condition B is that in the period from the use of the loan to the payment of the interest the greater part of the individual's time has been spent working as an employee of the body or of a subsidiary of the body.
- (4) Condition C is that in that period the individual has not recovered any capital from the body, apart from any taken into account under section 406(2) (recovered capital that is treated as a repayment of the loan).

#### *Loans for paying inheritance tax*

#### **403 Loan to pay inheritance tax**

- (1) This section applies to a loan to the personal representatives of a deceased person if the loan is used—
  - (a) in paying inheritance tax that meets the condition specified in subsection (2), or
  - (b) in repaying another loan to which this section applies.
- (2) The condition is that the personal representatives are obliged to pay the tax under section 226(2) of IHTA 1984 (obligation of personal representatives to pay tax on delivery of their account).
- (3) A written statement appearing to be from an officer of Revenue and Customs is sufficient evidence—
  - (a) of the amount of inheritance tax that meets the condition specified in subsection (2), and
  - (b) of any statements relevant to its calculation.
- (4) In this section references to inheritance tax include interest payable on that tax.

#### **404 Eligibility requirements for interest on loans within section 403**

Interest on a loan within section 403(1) is eligible for relief only so far as it is paid in respect of a period ending within 12 months from the making of the loan used as mentioned in section 403(1)(a).



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#### **405 Carry back and forward of relief for interest on loans within section 403**

- (1) This section applies if relief for any interest on a loan within section 403(1) that is eligible for relief cannot be given for the tax year in which the interest is paid because there is not enough income in that year.
- (2) The person paying the interest is entitled to relief for that interest—
  - (a) for the preceding tax year, or
  - (b) if there is not enough income in that year, for the tax year preceding it, and so on.
- (3) If relief cannot be given under subsection (2), it may instead be given—
  - (a) for the tax year following that in which the interest is paid, or
  - (b) if there is not enough income in that year, for the tax year following it, and so on.

#### *General and supplementary*

#### **406 Effect of recovery of capital in the case of some loans**

- (1) This section applies if the individual to whom a loan is made to which section 392, 396, 398 or 401 applies recovers any amount of capital from the company, partnership or co-operative concerned at any time after the loan is used.
- (2) The individual is treated for the purposes of this Chapter as having repaid that amount out of the loan at that time, whether or not such a repayment occurred.
- (3) Accordingly, only part of the interest that, apart from any such repayment, would be payable on the loan for any period after that time and eligible for relief is so eligible.
- (4) That part is so much of that interest as is attributable to the amount of the loan after the repayment.
- (5) In the case of a loan to which section 386 applies (loans partly meeting requirements), subsection (3) applies instead of section 386(3) (under which repayments are apportioned between the qualifying and non-qualifying parts of such loans).
- (6) The cases in which an individual is treated as having recovered an amount of capital for the purposes of this section are set out in section 407(1) to (3).

#### **407 Events counting as recovery of capital for section 406**

- (1) An individual is treated as having recovered an amount of capital from a company for the purposes of section 406 if—
  - (a) the individual receives consideration of that amount or value—
    - (i) for the sale, exchange or assignment of part of the ordinary share capital of the company,
    - (ii) by way of repayment of part of that ordinary share capital, or
    - (iii) for assigning a debt due to the individual from the company, or
  - (b) the company repays that amount of a loan or advance from the individual.
- (2) An individual is treated as having recovered an amount of capital from a partnership for those purposes if—

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- (a) the individual receives consideration of that amount or value—
    - (i) for the sale, exchange or assignment of part of the individual's interest in the partnership, or
    - (ii) for assigning a debt due to the individual from the partnership, or
  - (b) the partnership repays that amount of a loan or advance from the individual, or
  - (c) the partnership returns that amount of capital to the individual.
- (3) An individual is treated as having recovered an amount of capital from a co-operative for those purposes if—
- (a) the individual receives consideration of that amount or value—
    - (i) for the sale, exchange or assignment of part of the individual's shares in the co-operative,
    - (ii) by way of repayment of part of the individual's shares in the co-operative, or
    - (iii) for assigning a debt due to the individual from the co-operative, or
  - (b) the co-operative repays that amount of a loan or advance from the individual.
- (4) A sale or assignment that is not a bargain made at arm's length is treated for the purposes of this section as being made for a consideration of an amount equal to the market value of what is disposed of.

#### **408 Replacement loans**

- (1) This section applies to a replacement loan.
- (2) In subsection (1) “replacement loan” means a loan to which section 392, 396, 398 or 401 applies because the loan is used in repaying another loan (“the replaced loan”) to which that section applies.
- (3) This Chapter, except for sections 385 and 386, applies to the replacement loan as if that loan and the replaced loan were a single loan (subject to subsection (5)).
- (4) Accordingly, any restriction under section 406 (effect of recovery of capital in the case of some loans) which applies to the replaced loan applies to the replacement loan.
- (5) But this Chapter, except for sections 385 and 386, applies as if references to the use of the loan were references to the use of the original loan.

#### **409 Business successions between partnerships**

- (1) This section applies if—
  - (a) a loan to which section 398 applies is made to an individual,
  - (b) the partnership in question (“the old partnership”) is dissolved,
  - (c) on its dissolution another partnership of which the individual is a member (“the new partnership”) is formed to carry on the whole or part of the undertaking carried on by the old partnership, and
  - (d) interest payable on the loan for the period ending with the dissolution of the old partnership was eligible for relief (or would have been had any been payable).
- (2) This Chapter applies as if the old partnership and the new partnership were the same partnership.

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- (3) Section 399(5) (salaried partners etc treated as partners) applies for the purposes of subsection (1)(c) as it applies for the purposes of section 399(2).

#### **410 Other business successions and reorganisations**

- (1) This subsection applies if—
- (a) a loan to which one of the business loan provisions or section 398 (loan to invest in partnership) applies is made to an individual (“the original loan”),
  - (b) the company, partnership or co-operative in question is involved in a transaction as a result of which the individual acquires shares in or makes a loan to another company or a body that is a co-operative,
  - (c) interest payable on the original loan for the period ending with the time of the transaction was eligible for relief (or would have been had any been payable), and
  - (d) had the original loan been made at the time of the transaction and applied in acquiring the shares in or making the loan to the other company or the co-operative, the original loan would have fallen within one of the business loan provisions.
- (2) If subsection (1) applies, from the time of the transaction referred to in subsection (1) (b) the original loan is treated as if it had been made and applied as mentioned in subsection (1)(d).
- (3) In this section “the business loan provisions” means—
- (a) section 392 (loan to buy interest in close company),
  - (b) section 396 (loan to buy interest in employee-controlled company), and
  - (c) section 401 (loan to invest in co-operative).

#### **411 Ineligibility of interest where business is occupation of commercial woodlands**

- (1) Interest that would be eligible for relief under this Chapter apart from this section is not eligible if—
- (a) the interest is on a loan to which section 392, 396 or 398 applies, and
  - (b) the business carried on by the close company, employee-controlled company or partnership concerned consists of the occupation of commercial woodlands.
- (2) If only part of the business consists in such occupation, only part of the interest is ineligible for the relief.
- (3) That part is such part of the interest as it is just and reasonable to attribute to that part of the business having regard to all the relevant circumstances and, in particular, to the extent of the other part of the business.
- (4) For the purposes of this section two or more businesses carried on by a company or partnership are to be regarded as a single business.
- (5) In this section “commercial woodlands” means woodlands in the United Kingdom which are managed on a commercial basis and with a view to the realisation of profits.

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## 412 Information

- (1) A person (“the payer”) who claims relief under this Chapter for a payment of interest made in a tax year is entitled to request the person to whom the interest is paid to give the payer a statement in writing about that interest containing the information specified in subsection (3).
- (2) That request must be in writing.
- (3) The information is—
  - (a) the date when the debt was incurred,
  - (b) the amount of the debt when incurred,
  - (c) the interest paid in the tax year, and
  - (d) the name and address of the debtor.
- (4) The person to whom the interest is paid has a duty to comply with a request under subsection (1) and that duty is enforceable by the payer.
- (5) This section does not apply if the interest is paid to a building society or to a local authority.

## [<sup>F963</sup>CHAPTER 1A

### IRRECOVERABLE PEER-TO-PEER LOANS

#### Textual Amendments

**F963** Pt. 8 Ch. 1A inserted (15.9.2016) by Finance Act 2016 (c. 24), s. 32(2)

#### *The relief*

### 412A Relief for irrecoverable peer-to-peer loans

- (1) A person (“L”) is entitled to relief under this section if—
  - (a) L has made a peer-to-peer loan (“the relevant loan”),
  - (b) the loan was made through an operator,
  - (c) L has not assigned the right to recover the principal of the loan, and
  - (d) any outstanding amount of the principal of the loan has, on or after 6 April 2015, become irrecoverable.
- (2) But if the outstanding amount became irrecoverable before 6 April 2016 L is entitled to relief under this section only on the making of a claim.
- (3) The relief is given by deducting the outstanding amount in calculating L's net income for the tax year in which the amount became irrecoverable (see Step 2 of the calculation in section 23).
- (4) The deduction under this section is to be made only from income arising from the payment to L of interest on—
  - (a) the relevant loan, and
  - (b) any other loan within subsection (5) or (6).

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- (5) A loan is within this subsection if—
  - (a) it is a peer-to-peer loan made by L, and
  - (b) it was made through the operator through whom the relevant loan was made.
- (6) A loan is within this subsection if—
  - (a) the loan was made by someone other than L,
  - (b) the right to receive interest on the loan has been assigned to L,
  - (c) the right was assigned through the operator through whom the relevant loan was made, and
  - (d) either—
    - (i) L is a person within paragraph (a), (b) or (c) of section 412I(4), or
    - (ii) the recipient of the loan is a person within one of those paragraphs and the loan is a personal or small loan.
- (7) The amount deducted under this section is limited in accordance with section 25(4) and (5).
- (8) In this section “irrecoverable” means irrecoverable other than by legal proceedings or by the exercise of any right granted by way of security for the loan.

#### **412B Claims for additional relief: sideways relief**

- (1) A person (“L”) may make a claim for relief under this section if—
  - (a) L is entitled to relief under section 412A in respect of any outstanding amount of the principal of a loan (“the relevant loan”), but
  - (b) in the tax year in relation to which L is entitled to that relief (“the relevant year”)—
    - (i) L has no income of the kind mentioned in section 412A(4) from which to deduct the outstanding amount, or
    - (ii) L has insufficient income of that kind to enable the outstanding amount to be deducted in full under that section.
- (2) The claim is for the outstanding amount or (in a case within subsection (1)(b)(ii)) the part of the outstanding amount not capable of being deducted under section 412A to be deducted under this section in calculating L's net income for the relevant year.
- (3) The deduction under this section is to be made only from income arising from the payment to L of interest on loans within subsection (4) or (5).
- (4) A loan is within this subsection if—
  - (a) it is a peer-to-peer loan made by L, and
  - (b) it was made through an operator who is not the operator through whom the relevant loan was made.
- (5) A loan is within this subsection if—
  - (a) the loan was made by someone other than L,
  - (b) the right to receive interest on the loan has been assigned to L,
  - (c) that right was assigned through an operator who is not the operator through whom the relevant loan was made, and
  - (d) either—
    - (i) L is a person within paragraph (a), (b) or (c) of section 412I(4), or

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- (ii) the recipient of the loan is a person within one of those paragraphs and the loan is a personal or small loan.
- (6) The amount deducted under this section is limited in accordance with section 25(4) and (5).

#### **412C Claims for additional relief: carry-forward relief**

- (1) A person (“L”) may make a claim for relief under this section if—
  - (a) L is entitled to relief under section 412A in respect of any outstanding amount of the principal of a loan (“the relevant loan”), but
  - (b) in the tax year in relation to which L is entitled to that relief (“the relevant year”)—
    - (i) L has no income of the kind mentioned in section 412A(4) or section 412B(3) from which to deduct the outstanding amount, or
    - (ii) L has insufficient income of that kind to enable the outstanding amount to be deducted in full under those sections.
- (2) The claim is for the outstanding amount or (in a case within subsection (1)(b)(ii)) the part of the outstanding amount not capable of being deducted under sections 412A and 412B to be deducted under this section in calculating L's net income for the four tax years following the relevant year.
- (3) The deduction under this section is to be made only from income arising from the payment to L of interest on—
  - (a) the relevant loan, and
  - (b) any other loan within subsection (4) or (5).
- (4) A loan is within this subsection if—
  - (a) it is a peer-to-peer loan made by L, and
  - (b) it was made through an operator (whether or not that operator is the operator through whom the relevant loan was made).
- (5) A loan is within this subsection if—
  - (a) the loan was made by someone other than L,
  - (b) the right to receive interest on the loan has been assigned to L,
  - (c) that right was assigned through an operator (whether or not that operator is the operator through whom the relevant loan was made), and
  - (d) either—
    - (i) L is a person within paragraph (a), (b) or (c) of section 412I(4), or
    - (ii) the recipient of the loan is a person within one of those paragraphs and the loan is a personal or small loan.
- (6) This section needs to be read with section 412D (how relief works).

#### **412D How carry-forward relief works**

- (1) This subsection explains how deductions are to be made under section 412C.  
 The amount to be deducted at any step is limited in accordance with section 25(4) and (5).

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*Step 1* Deduct the outstanding amount or (in a case within section 412C(1)(b) (ii)) the part of the outstanding amount not capable of being deducted under sections 412A and 412B from the lending income for the first tax year following the relevant year.

*Step 2* Deduct from the lending income for the second tax year following the relevant year any part of the outstanding amount not previously deducted.

*Step 3* Apply Step 2 in relation to the lending income for the third and fourth tax years following the relevant year, stopping if all of the outstanding amount is deducted.

(2) In this section—

“lending income” means income of a kind mentioned in section 412C(3);

“relevant year” has the meaning given by section 412C(1)(b).

### *Supplementary provisions*

#### **412E Subsequent recovery of peer-to-peer loans**

(1) This section applies where—

- (a) any amount of the principal of a loan has been deducted under this Chapter in calculating a person's net income for a tax year, and
- (b) the person subsequently recovers that amount or any part of it.

(2) The amount recovered is to be treated for the purposes of this Act as if it were interest on the loan paid to the person at the time it was recovered.

(3) For the purposes of this section, a person is to be treated as recovering an amount if the person (or any other person at his or her direction) receives any money or money's worth—

- (a) in satisfaction of the person's right to recover that amount, or
- (b) in consideration of the person's assignment of the right to recover it;

and where a person assigns such a right otherwise than by way of a bargain made at arm's length the person shall be treated as receiving money or money's worth equal to the market value of the right at the time of the assignment.

#### **412F Assigned loans treated as made by the assignee etc**

(1) This section applies where—

- (a) a person (“A”) is assigned the right to recover the principal of a loan,
- (b) the right is assigned through an operator (“O”),
- (c) A makes a payment in consideration of the assignment, and
- (d) A does not further assign the right.

(2) The loan is to be treated for the purposes of section 412A(1) as—

- (a) having been made by A, and
- (b) having been made through O.

(3) The amount (if any) of the principal of the loan which is treated as irrecoverable may not exceed the amount which is arrived at by—

- (a) taking the amount of the payment mentioned in subsection (1)(c), and
- (b) deducting any amount of the principal of the loan previously recovered by A.

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#### **412G Nominees etc**

For the purposes of this Chapter—

- (a) a loan or a payment made by or to a nominee or bare trustee for a person is treated as made by or to that person, and
- (b) a right assigned by or to a nominee or bare trustee for a person is treated as assigned by or to that person.

#### **412H Interaction with other reliefs**

- (1) Subsection (2) applies in relation to a loan if any person has obtained income tax relief (other than under this Chapter) which is properly attributable to the loan.
- (2) The amount (if any) of the principal of the loan which is treated as irrecoverable may not exceed the amount which is arrived at by—
  - (a) taking the amount of the principal of the loan, and
  - (b) deducting the amount of the relief mentioned in subsection (1).

#### *Interpretation*

#### **412I Meaning of “loan”, “peer-to-peer loan” and related terms**

- (1) This section applies for the purposes of this Chapter.
- (2) “Loan” means a loan of money which—
  - (a) is made on genuine commercial terms, and
  - (b) is not part of a scheme or arrangement the main purpose or one of the main purposes of which is to obtain a tax advantage (within the meaning given by section 208 of the FA 2013).
- (3) A loan is a “peer-to-peer loan” only if it meets—
  - (a) Condition A or B, and
  - (b) Condition C.
- (4) Condition A is that the person who made the loan is—
  - (a) an individual,
  - (b) a partnership which consists of—
    - (i) two or three persons, and
    - (ii) at least one person who is not a body corporate, or
  - (c) an unincorporated body of persons which—
    - (i) is not a partnership, and
    - (ii) consists of at least one person who is not a body corporate.
- (5) Condition B is that—
  - (a) the recipient of the loan is a person within paragraph (a), (b) or (c) of subsection (4), and
  - (b) the loan is a personal or small loan.
- (6) Condition C is that, assuming interest were paid on the loan, the person who made the loan would (except for this Chapter) be liable for income tax charged on the interest.



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- (7) “Personal loan” means a loan which is not used wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the recipient of the loan.
- (8) “Small loan” means a loan of £25,000 or less.

#### **412J Meaning of “operator” and related terms**

- (1) This section applies for the purposes of this Chapter.
- (2) “Operator” means a person who—
  - (a) has permission under Part 4A of FISMA 2000 to carry on a regulated activity specified in Article 36H of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544) (operating an electronic system in relation to lending), or
  - (b) has been granted equivalent permission under the law of a territory outside the United Kingdom that is within the European Economic Area.
- (3) A loan is “made through” an operator if the person who makes the loan and the recipient of the loan enter the agreement under which the loan is made at the invitation of the operator.
- (4) A right is “assigned through” an operator if the person who assigns the right and the person to whom the right is assigned enter the agreement under which the assignment takes effect at the invitation of the operator.
- (5) A person is not to be treated as having entered an agreement at the invitation of an operator if the operator made the invitation otherwise than in the course of carrying on the activity to which the permission mentioned in subsection (2)(a) or (b) relates.]

## **CHAPTER 2**

### **GIFT AID**

#### *The relief*

#### **413 Overview of Chapter**

- (1) This Chapter gives relief for some gifts of money to charities by individuals.
- (2) The relief is set out in section 414.
- (3) The Chapter contains provisions under which, in some circumstances—
  - (a) the individual's entitlement to some other reliefs may be restricted (see section 423), and
  - (b) the individual may be charged to income tax (see section 424).
- (4) See section 430 for bodies that are treated as charities for the purposes of this Chapter.
- [<sup>F964</sup>(4A) This Chapter is subject to section 809ZM (removal of income tax relief in respect of tainted charity donations etc).]
- (5) For related reliefs for charities see Part 10 of [<sup>F965</sup>this Act and Part 11 of CTA 2010.]

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[<sup>F966</sup>(6) For related reliefs for community amateur sports clubs see Chapter 9 of Part 13 of CTA 2010.]

#### Textual Amendments

- F964** S. 413(4A) inserted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 3 para. 10](#)
- F965** Words in s. 413(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 524](#) (with [Sch. 2](#))
- F966** S. 413(6) inserted (17.7.2012) (with effect in accordance with Sch. 15 para. 17(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 15 para. 8](#)

#### 414 Relief for gifts to charity

- (1) An individual who makes a gift to a charity which is a qualifying donation is entitled to the relief set out in subsection (2).
- (2) The Income Tax Acts have effect in their application to the individual for the tax year in which the gift is made as if—
  - (a) the gift had been made after deduction of [<sup>F967</sup>income tax at the basic rate, and]
  - (b) the basic rate limit [<sup>F968</sup>and the higher rate limit] (see [<sup>F969</sup>section 10]) [<sup>F970</sup>and additionally, in the case of a Scottish taxpayer, [<sup>F971</sup>the upper limit for the Scottish basic rate and the limits for any Scottish rates above the Scottish basic rate,]] were increased by an amount equal to the grossed up amount of the gift.
- (3) See subsection (7) of section 535 of ITTOIA 2005 (gains from contracts for life insurance etc: top slicing relief) for provision about how relief under this Chapter is to be ignored for the purpose of calculating relief under that section.

#### Textual Amendments

- F967** Words in s. 414(2)(a) substituted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\)](#), arts. 1(2), [6\(4\)\(a\)](#)
- F968** Words in s. 414(2)(b) inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 6](#)
- F969** Words in s. 414(2)(b) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 20](#)
- F970** Words in s. 414(2)(b) inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Scotland Act 2016 \(Income Tax Consequential Amendments\) Regulations 2017 \(S.I. 2017/468\)](#), regs. 1(1), [10\(2\)](#)
- F971** Words in s. 414(2)(b) substituted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\)](#), arts. 1(2), [6\(4\)\(b\)](#)

#### [<sup>F972</sup>414A] Tax reduction or charge if basic rate, and devolved basic rate, differ

- (1) Subsections (3) and (4) apply if an individual makes a gift to a charity which is a qualifying donation, and for the tax year in which the gift is made—
  - (a) the individual is a Scottish taxpayer or a Welsh taxpayer,
  - (b) there is a difference between—
    - (i) the applicable devolved basic rate, and

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- (ii) the basic rate, and
  - (c) any of the individual's income is liable to the applicable devolved basic rate.
- (2) In this section—
- “the applicable devolved basic rate”—
  - (a) is the Scottish basic rate if the individual is a Scottish taxpayer, and
  - (b) is the Welsh basic rate if the individual is a Welsh taxpayer,
- “the ADBR amount” is the amount of the individual's income liable to the applicable devolved basic rate, and
- “the rate difference” means the difference between the basic rate and the applicable devolved basic rate.”
- (3) If, for the tax year in which the gift is made, the applicable devolved basic rate is above the basic rate—
- (a) the individual is entitled to a tax reduction for that tax year,
  - (b) the tax reduction is given effect at Step 6 of the calculation in section 23,
  - (c) where the ADBR amount is more than or equal to the grossed up amount of the gift, the amount of the tax reduction is equal to the grossed up amount of the gift multiplied by the rate difference, and
  - (d) otherwise, the amount of the tax reduction is equal to the ADBR amount multiplied by the rate difference.
- (4) If, for the tax year in which the gift is made, the applicable devolved basic rate is lower than the basic rate—
- (a) income tax is charged under this subsection for that tax year,
  - (b) the individual is the person liable for the tax,
  - (c) where the ADBR amount is more than or equal to the grossed up amount of the gift, the amount of the tax is equal to the grossed up amount of the gift multiplied by the rate difference, and
  - (d) otherwise, the amount of the tax is the ADBR amount multiplied by the rate difference,
- but see subsection (5).
- (5) If, in the case of an individual (and ignoring this subsection), the total amount of tax charged under subsection (4) for a tax year is greater than the individual's section 414(2)(b) tax saving for that year, the total amount of that tax is limited so as to be equal to the individual's section 414(2)(b) tax saving for that year.
- (6) For the purposes of subsection (5), the amount of an individual's “section 414(2)(b) tax saving” for a tax year is—
- (a) if the amount calculated at Step 5 of the calculation in section 23 in the individual's case for that year is less than it would be were section 414(2)(b) not to have effect, equal to the difference, and
  - (b) otherwise is nil.]

#### Textual Amendments

**F972** S. 414A inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\)](#), arts. 1(1), **12(8)**

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#### 415 Meaning of “grossed up amount”

In this Chapter references to the grossed up amount of a gift are to the amount of the gift grossed up by reference to the basic rate for the tax year in which the gift is made

<sup>F973</sup>  
... .

#### Textual Amendments

**F973** Words in s. 415 omitted (6.4.2018) by virtue of [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\)](#), arts. 1(2), 6(5)

#### 416 Meaning of “qualifying donation”

(1) A gift made to a charity by an individual is a qualifying donation for the purposes of this Chapter if—

- (a) conditions A to <sup>F974</sup>F] are met, and
- (b) the individual<sup>F975</sup>, or an intermediary representing the individual,] gives the charity<sup>F976</sup>, or an intermediary representing the charity,] a gift aid declaration relating to the gift (see section 428).

<sup>F977</sup>(1A) For the purpose of subsection (1)(b) an intermediary is—

- (a) a person authorised by the individual to give a gift aid declaration on behalf of that individual to the charity,
- (b) a person authorised by a charity to receive a gift aid declaration on behalf of that charity, or
- (c) a person authorised to perform both of the roles described in paragraphs (a) and (b).]

(2) Condition A is that the gift takes the form of a payment of a sum of money.

(3) Condition B is that the payment is not subject to any condition as to repayment.

(4) Condition C is that the payment is not a sum falling within section 713(3) of ITEPA 2003 (payroll deduction scheme).

(5) Condition D is that the payment is not deductible in calculating the individual's income from any source.

(6) Condition E is that the payment is not conditional on, associated with or part of an arrangement involving, the acquisition of property by the charity from the individual or a person connected with the individual.

An acquisition by way of gift is ignored for the purposes of this condition.

<sup>F978</sup>(6A) Condition EA is that the payment is not by way of, and does not amount in substance to, waiver by the individual of entitlement to sums (whether of principal or return) due to the individual from the charity in respect of an amount—

- (a) advanced to the charity, and
- (b) in respect of which a person, whether or not the individual, has obtained relief under Part 5B (relief for social investments).]

(7) Condition F is that—

- (a) there are no benefits associated with the gift, or

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- (b) there are benefits associated with the gift but the restrictions on those benefits are not breached.

See sections 417 to 421 for provision about benefits associated with gifts.

<sup>F979</sup>(8) .....

#### Textual Amendments

- F974** Letter in s. 416(1)(a) substituted (8.4.2010 with effect in accordance with Sch. 8 para. 8(5) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 8 para. 3(2)(a)**
- F975** Words in s. 416(1)(b) inserted (with effect in accordance with s. 20(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 20(2)(a)(i)**; S.I. 2016/1010, reg. 4
- F976** Words in s. 416(1)(b) inserted (with effect in accordance with s. 20(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 20(2)(a)(ii)**; S.I. 2016/1010, reg. 4
- F977** S. 416(1A) inserted (with effect in accordance with s. 20(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 20(2)(b)**; S.I. 2016/1010, reg. 4
- F978** S. 416(6A) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\)](#), **Sch. 11 para. 11**
- F979** S. 416(8) omitted (8.4.2010 with effect in accordance with Sch. 8 para. 8(5) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), **Sch. 8 para. 3(2)(b)**

#### 417 Meaning of “benefits associated with a gift”

A benefit is associated with a gift for the purposes of this Chapter if it is received by the individual who makes the gift, or a person connected with the individual, in consequence of making the gift.

#### *Restrictions on associated benefits*

#### 418 Restrictions on associated benefits

- (1) For the purposes of section 416(7), the restrictions on benefits associated with a gift are breached if condition A or B is met.
- (2) Condition A is that the total value of the benefits associated with the gift exceeds the variable limit, which is—
  - [<sup>F980</sup>(a) in a case where the amount of the gift is £100 or less, 25% of that amount, and
  - (b) in a case where the amount of the gift exceeds £100, the sum of £25 and 5% of the amount of the excess.]
- (3) Condition B is that the sum of—
  - (a) the total value of the benefits associated with the gift, and
  - (b) the total value of the benefits (if any) associated with each relevant prior gift, is more than [<sup>F981</sup>£2,500].
- (4) “Relevant prior gift” means a gift—
  - (a) which has already been made by the individual to the charity in the tax year, and
  - (b) which is a qualifying donation.
- (5) This section needs to be read with sections 419 to 421.

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### Textual Amendments

**F980** S. 418(2)(a)(b) substituted for s. 418(2)(a)-(c) (with effect in accordance with s. 40(2) of the amending Act) by [Finance Act 2019 \(c. 1\), s. 40\(1\)](#)

**F981** Sum in s. 418(3) substituted (19.7.2011) (with effect in accordance with s. 41(4) of the amending Act) by [Finance Act 2011 \(c. 11\), s. 41\(1\)](#)

## 419 Gifts and benefits linked to periods of less than 12 months

- (1) This section modifies the application of section 418(2) in relation to a gift if condition A, B, C or D is met.
- (2) Condition A is that a benefit associated with the gift relates to a period of less than 12 months.
- (3) Condition B is that a benefit associated with the gift consists of a right to receive benefits at intervals over a period of less than 12 months.
- (4) Condition C is that a benefit associated with the gift is one of a series of benefits which are—
  - (a) received at intervals, and
  - (b) associated with a series of gifts made at intervals of less than 12 months.
- (5) Condition D is that—
  - (a) a benefit associated with the gift is not one of a series of benefits received at intervals, and
  - (b) the gift is one of a series of gifts made at intervals of less than 12 months.
- (6) If condition A, B or C is met, then for the purposes of section 418(2)—
  - (a) the value of the benefit is taken to be the annual equivalent of its actual value, and
  - (b) the amount of the gift is taken to be the annual equivalent of its actual amount.
- (7) If condition D is met, the amount of the gift is taken for the purposes of section 418(2) to be the annual equivalent of its actual amount.
- (8) The annual equivalent of the value of a benefit, or of the amount of a gift, is calculated as follows.

### *Step 1*

Multiply the value or amount by 365.

### *Step 2*

If condition A or B is met in relation to the benefit (and neither condition C nor condition D is met in relation to it), divide the result by the number of days in the period of less than 12 months referred to in subsection (2) or (as the case may be) subsection (3).

If condition C or D is met in relation to the benefit, divide the result by the average number of days in the intervals of less than 12 months referred to in subsection (4)(b) or (as the case may be) subsection (5)(b).

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### *Admission rights*

#### **420 Disregard of certain admission rights**

- (1) A benefit associated with a gift is ignored for the purposes of this Chapter if the benefit consists of a relevant right of admission.
- (2) “Right of admission” means a right which—
  - (a) benefits the individual who makes the gift or that individual and one or more members of that individual's family (whether or not the right must be exercised by all of them at the same time),
  - (b) authorises admission to premises or property to which the public are admitted on payment of an admission fee, and
  - (c) authorises admission to those premises or that property without payment of the admission fee or on payment of a reduced fee.
- (3) A right of admission is a relevant right of admission if—
  - (a) conditions A and B are met in relation to it, and
  - (b) either condition C or condition D is met in relation to it.
- (4) Condition A is that the opportunity to make a gift and to receive the right of admission in consequence is available to the public.
- (5) Condition B is that the right of admission is a right granted by the charity for the purpose of viewing property preserved, maintained, kept or created by a charity for its charitable purposes.
- (6) The property mentioned in subsection (5) includes, in particular—
  - (a) buildings,
  - (b) grounds or other land,
  - (c) plants,
  - (d) animals,
  - (e) works of art (but not performances),
  - (f) artefacts, and
  - (g) property of a scientific nature.
- (7) Condition C is that the right of admission applies, during a period of at least 12 months, at all times at which the public can obtain admission.
- (8) Condition D is that—
  - (a) a member of the public could purchase the same right of admission, and
  - (b) the amount of the gift is greater by at least 10% than the amount the member of the public would have to pay.
- (9) This section needs to be read with section 421.

#### **421 Admission rights: supplementary**

- (1) This section applies for the purposes of section 420.
- (2) Condition C is to be treated as met even if the right does not apply on days which are specified by the charity as event days, provided no more than 5 days are so specified in relation to the applicable period.

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- (3) The applicable period is—
- (a) the period during which the right applies, in the case of a right which applies for a period of 12 months, or
  - (b) each calendar year during all or part of which the right applies, in the case of a right which applies for a period of more than 12 months.
- (4) An “event day” is a day on which an event is to take place on the premises to which the right relates.
- (5) In condition D the “same right of admission” means a right relating to the same property, classes of persons and periods of time as the right received in consequence of the gift.

*Disqualified overseas gifts*

**F982 422 Disqualified overseas gifts**

.....

**Textual Amendments**

**F982** S. 422 omitted (8.4.2010 with effect in accordance with Sch. 8 para. 8(5) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 8 para. 3\(3\)](#)

*Measures to ensure donor's liability not less than tax treated as deducted*

**423 Restriction of certain reliefs**

- (1) This section applies if—
- (a) an individual makes one or more gifts to charities in a tax year which are qualifying donations, and
  - (b) amount A is greater than amount B.
- (2) In this section—
- “amount A” means the total amount of the tax treated as deducted from the gifts under section 414, and
- “amount B” means the total amount of income tax and capital gains tax to which the individual is charged for the tax year (before applying this section).
- (3) For the purposes of this section, the total amount of income tax to which the individual is charged for the tax year is the amount calculated in accordance with section 425.
- (4) The individual's entitlement to the reliefs mentioned in subsection (5) is extinguished, so far as is necessary to ensure that the total amount of income tax and capital gains tax to which the individual is charged for the tax year (after applying this section)—
- (a) is equal to amount A, or
  - (b) if that is not possible, falls short of amount A by as little as possible.
- (5) The reliefs are—



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- (a) an allowance under Chapter 2 of Part 3 of this Act <sup>F983</sup>... (personal allowance and blind person's allowance),
- (b) a tax reduction under Chapter 3 of Part 3 of this Act <sup>F983</sup>... (tax reductions for married couples and civil partners), [<sup>F984</sup>and]
- (c) relief under section 457 or 458 of this Act <sup>F983</sup>... (payments to trade unions and police organisations), <sup>F985</sup>...
- <sup>F985</sup>(d) .....

#### Textual Amendments

- F983** Words in s. 423(5) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 1 para. 6\(o\)\(iii\)](#)
- F984** Word in s. 423(5)(b) inserted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(b\)\(i\)](#)
- F985** S. 423(5)(d) and preceding word omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(b\)\(ii\)](#)

## 424 Charge to tax

- (1) Income tax is charged under this section if—
  - (a) an individual makes one or more gifts to charity in a tax year which are qualifying donations, and
  - (b) amount A is greater than amount C.
- (2) In this section—
  - “amount A” means the total amount of the tax treated as deducted from the gifts under section 414, and
  - “amount C” means the sum of—
    - (a) the amount of income tax to which the individual is charged for the tax year, and
    - (b) [<sup>F986</sup>the amount of capital gains tax to which the individual would be chargeable for the tax year if the following were ignored—
      - (i) any relief under [<sup>F987</sup>sections 2 and 6 of TIOPA 2010]
      - (ii) any relief under [<sup>F988</sup>section 18(1)(b) and (2) of TIOPA 2010] (relief for foreign tax where no double taxation arrangements).]
- (3) For the purposes of this section, the total amount of income tax to which the individual is charged for the tax year is the amount calculated in accordance with section 425, after taking into account any restriction of relief under section 423.
- (4) The amount of the tax charged under this section is equal to the difference between amount A and amount C.
- (5) Tax charged under this section is charged for the tax year in which the gift or gifts are made.
- (6) The person liable for any tax charged under this section is the individual.

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### Textual Amendments

- F986** Words in s. 424(2) substituted (retrospective with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\)](#), **art. 4(3)**
- F987** Words in s. 424(2) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 8 para. 79(1)(2) (with Sch. 9 paras. 1-9, 22)
- F988** Words in s. 424(2) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 8 para. 79(1)(3) (with Sch. 9 paras. 1-9, 22)

## 425 Total amount of income tax to which individual charged for a tax year

- (1) For the purposes of sections 423 and 424, the total amount of income tax to which an individual is charged for a tax year is the amount calculated as follows.
- (2) Calculate the individual's liability to income tax for the tax year in accordance with section 23, as modified by subsection (3).
- (3) In applying section 23—
  - (a) at Step 6, ignore any tax reductions to which the individual is entitled for the tax year under a provision listed in subsection (4), and
  - (b) ignore Step 7.
- (4) The tax reductions to be ignored are tax reductions under—
  - (a) section 453 (qualifying maintenance payments),
  - (b) [<sup>F989</sup>sections 2 and 6 of TIOPA 2010] (double taxation arrangements: relief by agreement), or
  - (c) [<sup>F990</sup>section 18(1)(b) and (2) of TIOPA 2010] (relief for foreign tax where no double taxation arrangements).
- (5) From the amount calculated in accordance with subsections (2) to (4) deduct—
  - (a) any tax treated as having been paid under—
    - (i) section 399(2) <sup>F991</sup>... of ITTOIA 2005 (distributions from UK resident companies etc on which there is no tax credit),
    - <sup>F992</sup>(ii) .....
    - <sup>F992</sup>(iii) .....
    - (iv) section 530(1) of that Act (gains from contracts for life insurance), or
    - (v) section 685A(3) of that Act (settlor-interested settlements), <sup>F993</sup>... [<sup>F994</sup>and]
  - (b) any tax treated as deducted from estate income under section 656(3) or 657(4) of ITTOIA 2005, so far as that income is treated under section 679 of that Act as paid from sums within section [<sup>F995</sup>680(4)] of that Act <sup>F996</sup>...
  - <sup>F996</sup>(c) .....
- (6) For the purposes of this section a person is treated as being entitled to a tax reduction under [<sup>F997</sup>sections 2 and 6 of TIOPA 2010] if the person is entitled to credit against income tax under double taxation arrangements.

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### Textual Amendments

- F989** Words in s. 425(4)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 80\(2\)\(a\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F990** Words in s. 425(4)(c) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 80\(2\)\(b\)](#) (with [Sch. 9 paras. 1-9, 22](#))
- F991** Words in s. 425(5)(a)(i) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(4\)\(a\)\(i\)](#)
- F992** S. 425(5)(a)(ii)(iii) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(4\)\(a\)\(ii\)](#)
- F993** Word in s. 425(5)(a)(v) omitted (21.7.2008 with effect in accordance with s. 34(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 12 para. 24\(a\)](#)
- F994** Word in s. 425(5) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(4\)\(b\)](#)
- F995** Word in s. 425(5)(b) substituted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(4\)\(c\)](#)
- F996** S. 425(5)(c) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(4\)\(d\)](#)
- F997** Words in s. 425(6) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 80\(3\)](#) (with [Sch. 9 paras. 1-9, 22](#))

### *Election to carry back relief*

#### **426 Election by donor: gift treated as made in previous tax year**

- (1) If—
- (a) an individual makes a gift to a charity that is a qualifying donation, and
  - (b) the condition in subsection (2) is met,
- the individual may elect to be treated as if the gift had been made in the previous tax year (“year P”).
- (2) The condition is that the individual's charged amount for year P (see section 427) is at least equal to the increased total of gifts.
- (3) If an election is made, sections 414 and 423 to 425 have effect in relation to the individual as if the gift were a qualifying donation made by the individual in year P.
- (4) The increased total of gifts is the sum of—
- (a) the grossed up amount of the gift, and of any gifts that are the subject of the same election or an election made at the same time,
  - (b) the sum of the grossed up amounts of any gifts to charities made by the individual in year P which—
    - (i) are qualifying donations, and
    - (ii) are not themselves treated as made in the tax year before year P because of an election under this section, and
  - (c) the sum of the grossed up amounts of any gifts which, as a result of an earlier election under this section, are treated as made in year P.

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- (5) The grossed up amount of the gifts mentioned in paragraphs (a) and (c) of subsection (4) is to be determined as if the gifts were made in year P.
- (6) An election must be made—
- (a) on or before the date on which the individual delivers a return for year P under section 8 of TMA 1970 (personal return), and
  - (b) not later than the normal self-assessment filing date for year P.
- (7) An election does not affect the position of the recipient of the gift (see section 520 (gifts to charitable trusts: income tax treated as paid) and [F998 and sections 471 and 475 of CTA 2010 (charitable companies and eligible bodies: income tax treated as paid etc)].)
- [F999(8) . . . . .

#### **Textual Amendments**

**F998** Words in s. 426(7) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 525](#) (with [Sch. 2](#))

**F999** S. 426(8) omitted (retrospective to 6.4.2012) by virtue of [Finance Act 2012 \(c. 14\), s. 50\(2\)\(a\)\(4\)](#)

### *Supplementary*

#### **427 Meaning of “charged amount”**

- (1) For the purposes of this Chapter, an individual's charged amount is the amount calculated as follows.
  - (2) Calculate the amount of the individual's modified net income for year X (see section 1025).
  - (3) Calculate the amount on which the individual is chargeable to capital gains tax for year X.
  - (4) Add together the amounts calculated under subsections (2) and (3).
- The result is the individual's charged amount for year X.

#### **428 Meaning of “gift aid declaration”**

- (1) In this Chapter “gift aid declaration” means a declaration which—
  - (a) is given in the manner specified by regulations made by the Commissioners for Her Majesty's Revenue and Customs, and
  - (b) contains any information and any statements required by the regulations.
- (2) The regulations may provide for declarations—
  - (a) to have effect,
  - (b) to cease to have effect, or
  - (c) to be treated as never having had effect,

in any circumstances and for any purposes specified by the regulations.

[F1000(3) The regulations may also require—

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- (a) charities, or intermediaries within the meaning of section 416(1A), to keep records with respect to declarations received from individuals or from those intermediaries,
  - (b) charities or intermediaries to produce, for inspection by an officer of Revenue and Customs, any records required to be kept by those charities or intermediaries by regulations made under paragraph (a), and
  - (c) intermediaries to provide statements of account, and other specified information relating to declarations made, in such form and at such times as may be specified, to individuals who have authorised those intermediaries to give those declarations to charities on their behalf.
- (4) The regulations may also make different provision for different cases or circumstances, including—
- (a) different provision for declarations made in a different manner or by different descriptions of persons, and
  - (b) different provision depending on whether or not an intermediary, within the meaning of section 416(1A), is involved in the giving or receiving of the declaration.]
- [<sup>F1001</sup>(5) The regulations may also make provision—
- (a) for the imposition of a penalty of a specified amount (which must not exceed £3000) for a failure to comply with a specified requirement imposed by the regulations,
  - (b) for the assessment and recovery of the penalty (which may include provision about the reduction of the penalty in specified circumstances), and
  - (c) conferring a right of appeal against a decision that a penalty is payable.]

**Textual Amendments**

- F1000S.** 428(3)(4) substituted for s. 428(3) (with effect in accordance with s. 20(4) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 20\(3\)](#); S.I. 2016/1010, reg. 2
- F1001S.** 428(5) inserted (14.11.2016) by [Finance Act 2016 \(c. 24\), s. 173\(1\)\(2\)](#); S.I. 2016/1010, reg. 3

<sup>F1002</sup>**429 Giving through self-assessment return**

**Textual Amendments**

- F1002S.** 429 repealed (retrospective to 6.4.2012) by [Finance Act 2012 \(c. 14\), s. 50\(1\)\(4\)](#)

**430 “Charity” to include exempt bodies**

- (1) In this Chapter “charity” includes—
- (a) the Trustees of the National Heritage Memorial Fund, [<sup>F1003</sup>and]
  - (b) the Historic Buildings and Monuments Commission for England,
  - <sup>F1004</sup>(c) .....
  - (d) a club that is registered as a community amateur sports club for the purposes of [<sup>F1005</sup>Chapter 9 of Part 13 of CTA 2010].

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- (2) For the purposes of the application of section 414(1) in relation to clubs that are charities as a result of subsection (1)(d) of this section, membership fees are not gifts.

#### Textual Amendments

- F1003** Word in s. 430(1) inserted (1.4.2012) by [The Public Bodies \(Abolition of the National Endowment for Science, Technology and the Arts\) Order 2012 \(S.I. 2012/964\)](#), arts. 1(2), 3(1), **Sch.**
- F1004** Word and S. 430(1)(c) omitted (1.4.2012) by virtue of [The Public Bodies \(Abolition of the National Endowment for Science, Technology and the Arts\) Order 2012 \(S.I. 2012/964\)](#), arts. 1(2), 3(1), **Sch.**
- F1005** Words in s. 430(1)(d) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 526** (with **Sch. 2**)

## CHAPTER 3

### GIFTS OF SHARES, SECURITIES AND REAL PROPERTY TO CHARITIES ETC

#### *Entitlement to relief*

#### **431 Relief for gifts of shares, securities and real property to charities etc**

- (1) An individual who disposes of the whole of the beneficial interest in a qualifying investment (see section 432) to a charity is entitled to relief if—
    - (a) the disposal is otherwise than by way of a bargain made at arm's length, and
    - (b) the individual makes a claim.
  - (2) The relief is given by deducting the relievable amount in calculating the individual's net income for the tax year in which the disposal is made (see Step 2 of the calculation in section 23).
  - (3) For the calculation of the relievable amount, see section 434.
  - (4) If the qualifying investment is a qualifying interest in land (see section 433), this section is subject to—
    - section 441 (certificates),
    - section 442 (qualifying interests in land held jointly),
    - section 443 (calculation of relievable amount where joint disposal), and
    - section 444 (disqualifying events).
  - (5) See section 446 for bodies that are treated as charities for the purposes of this Chapter.
  - (6) See subsection (7) of section 535 of ITTOIA 2005 (top slicing relief) for provision about how relief under this Chapter is to be ignored for the purpose of calculating relief under that section.
- [<sup>F1006</sup>(7) This Chapter is subject to section 809ZM (removal of income tax relief in respect of tainted charity donations etc).]

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### Textual Amendments

**F1006**S. 431(7) inserted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 3 para. 11](#)

## 432 Meaning of “qualifying investment”

(1) In this Chapter “qualifying investment” means—

- (a) shares or securities which are listed [<sup>F1007</sup>on a recognised stock exchange or dealt in on any designated market in the United Kingdom],
- (b) units in an authorised unit trust,
- (c) shares in an open-ended investment company,
- (d) an interest in an offshore fund, and
- (e) a qualifying interest in land.

(2) In this section—

[<sup>F1008</sup>“designated” means designated by an order made by the Commissioners for Her Majesty's Revenue and Customs for the purposes of subsection (1)(a),]

“offshore fund” has the same meaning as in Chapter 5 of Part 17 of ICTA (see sections 756A to 756C of that Act), and

“open-ended investment company” is to be read in accordance with [<sup>F1009</sup>sections 613 and 615 of CTA 2010].

[<sup>F1010</sup>(3) An order under subsection (2) may—

- (a) designate a market by name or by reference to any class or description of market, and
- (b) vary or revoke a previous order under that subsection.]

### Textual Amendments

**F1007**Words in s. 432(1)(a) substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(10\)\(a\)](#)

**F1008**Words in s. 432(2) inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(10\)\(b\)](#)

**F1009**Words in s. 432(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 527](#) (with Sch. 2)

**F1010**S. 432(3) inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(10\)\(c\)](#)

## 433 Meaning of “qualifying interest in land”

(1) In this Chapter “qualifying interest in land” means—

- (a) a freehold interest in land in the United Kingdom, or
- (b) a leasehold interest in land in the United Kingdom which is a term of years absolute.

This is subject to subsections (2) to (5).

(2) Subsection (3) applies if an individual with a beneficial interest in a freehold or leasehold interest mentioned in subsection (1)(a) or (b) makes a disposal to a charity of—

- (a) the whole of the beneficial interest, and

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- (b) an easement, servitude, right or privilege so far as benefiting the land in question.
- (3) The disposal mentioned in subsection (2)(b) is regarded for the purposes of this Chapter as a disposal by the individual of the whole of the individual's beneficial interest in a qualifying interest in land separate from the disposal mentioned in subsection (2)(a).
- (4) If an individual who has a freehold or leasehold interest in land in the United Kingdom grants a lease for a term of years absolute to a charity of the whole or part of that land, the grant of the lease is regarded for the purposes of this Chapter as a disposal by the individual of the whole of the beneficial interest in the leasehold interest so granted.
- (5) Neither an agreement to acquire a freehold interest nor an agreement for a lease is a qualifying interest in land.
- (6) In the application of this section to Scotland—
- (a) references to a freehold interest in land are to the interest of the owner,
  - (b) references to a leasehold interest in land which is a term of years absolute are to a tenant's right over or interest in a property subject to a lease,
  - (c) references to an agreement for a lease do not include missives of let that constitute an actual lease, and
  - (d) in subsection (4) the reference to granting a lease for a term of years absolute is to granting a lease.

*Amount of relief*

**434 The relievable amount**

- (1) If the disposal is a gift, the relievable amount is given by the formula—

$$V + IC - B$$

where—

V is the value of the net benefit to the charity at, or immediately after, the time when the disposal is made, whichever is less,

IC is the amount of the incidental costs of making the disposal to the individual making it, and

B is the total value of any benefits received in consequence of making the disposal by the individual making the disposal or a person connected with the individual.

- (2) If the disposal is at an undervalue, the relievable amount is given by the formula—

$$E + C - B$$

where—



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E is the amount (if any) by which V (as defined in subsection (1)) exceeds the amount or value of the consideration for the disposal,  
C is given by subsection (4), and  
B is as defined in subsection (1).

- (3) But if the amount given by the formula in subsection (1) or (2) is a negative amount, the relievable amount is nil.
- (4) C is found by taking the following steps.

*Step 1*

Calculate the consideration for which the disposal is treated as made for the purposes of TCGA 1992 as a result of section 257(2)(a) of that Act (in case of disposal to charity etc, consideration to be such that no gain or loss accrues).

*Step 2*

Find the excess (if any) of the amount calculated at Step 1 over the amount or value of the consideration for the disposal.

If there is such an excess, C is the amount of that excess or, if less, the amount of the incidental costs of making the disposal to the individual making it.

If there is no such excess, C is nil.

- (5) This section needs to be read with—
- (a) section 435 (incidental costs of making disposal),
  - (b) section 436 (consideration), and
  - (c) sections 437 to 440 (value of net benefit to charity).

#### **435 Incidental costs of making disposal**

References in section 434 to the incidental costs of making the disposal to the individual making it are to—

- (a) fees, commission or remuneration paid for the professional services of a surveyor, valuer, auctioneer, accountant, agent or legal adviser which are wholly and exclusively incurred by the individual for the purposes of the disposal,
- (b) costs of transfer or conveyance wholly and exclusively incurred by the individual for the purposes of the disposal,
- (c) costs of advertising to find a buyer, and
- (d) costs reasonably incurred in making any valuation or apportionment required for the purposes of this Chapter.

#### **436 Consideration**

- (1) For the purposes of the formula in section 434(2) consideration for the disposal is brought into account—
- (a) without any discount for postponement of the right to receive any part of it,
  - (b) in the first instance, without regard to a risk of any part of it being irrecoverable, and
  - (c) in the first instance, without regard to the right to receive any part of it being contingent.

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- (2) If—
- (a) any part of the consideration so brought into account subsequently proves to be irrecoverable, and
  - (b) a claim is made,
- such adjustment as is required in consequence must be made.
- (3) An adjustment under subsection (2) may be made by way of discharge or repayment of tax or otherwise.

### *Value of net benefit to charity*

#### **437 Value of net benefit to charity**

- (1) For the purposes of this Chapter the value of the net benefit to a charity is—
- (a) the [<sup>F1011</sup>relevant] value of the qualifying investment, or
  - (b) if the charity is, or becomes, subject to a disposal-related obligation, the [<sup>F1011</sup>relevant] value of the qualifying investment reduced by the total amount of the disposal-related liabilities of the charity.
- [<sup>F1012</sup>(1A) In subsection (1) “relevant value” means—
- (a) where subsection (1B) applies, the lower of the market value and the acquisition value, and
  - (b) otherwise, the market value.
- (1B) This subsection applies where—
- (a) the qualifying investment, or anything from which it derives or which it represents (whether in whole or in part and whether directly or indirectly), was acquired by the individual making the disposal within the period of 4 years ending with the day on which the disposal is made,
  - (b) the acquisition was made as part of a scheme, and
  - (c) the main purpose, or one of the main purposes, of the individual in entering into the scheme was to obtain relief, or an increased amount of relief, under this Chapter.
- (1C) In subsection (1B) “scheme” includes any scheme, arrangement or understanding of any kind, whether or not legally enforceable, involving a single transaction or two or more transactions.]
- (2) This section is supplemented by—
- section 438 (market value of qualifying investments),
  - [<sup>F1013</sup>section 438A (acquisition value of qualifying investments),]
  - section 439 (meaning of “disposal-related obligation”), and
  - section 440 (meaning and amount of “disposal-related liability”).

#### **Textual Amendments**

**F1011** Word in s. 437(1) substituted (8.4.2010 with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 7 para. 2\(2\)](#)

**F1012S.** 437(1A)-(1C) inserted (8.4.2010 with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 7 para. 2\(3\)](#)

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**F1013** Words in s. 437(2) inserted (8.4.2010 with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 7 para. 2\(4\)](#)

#### **438 Market value of qualifying investments**

- (1) The market value of a qualifying investment for the purposes of this Chapter is determined in accordance with sections 272 to 274 of TCGA 1992 (subject to Part 1 of Schedule 11 to that Act).
- (2) But, in the case of an interest in an offshore fund for which separate buying and selling prices are published regularly by the managers of the fund, the market value for the purposes of this Chapter is equal to the buying price (that is the lower price) published on—
  - (a) the day of the disposal, or
  - (b) if none were published on that day, on the latest day on which the prices were published before that day.

#### **[<sup>F1014</sup>438A Acquisition value of qualifying investments**

- (1) For the purposes of this Chapter the acquisition value of a qualifying investment disposed of by an individual is—
  - (a) where the qualifying investment was acquired by the individual within the period of 4 years ending with the day on which the disposal is made, the cost to the individual of acquiring it, or
  - (b) where something from which the qualifying investment derives or which it represents was so acquired, such proportion of the cost to the individual of acquiring that thing as is just and reasonable to attribute to the qualifying investment.
- (2) A reference in subsection (1) to the cost to the individual of an acquisition is to—
  - (a) the consideration given by the individual for the acquisition, less
  - (b) any amount that is received in connection with the acquisition, by the individual or a person connected with the individual, as part of the scheme in question.]

#### **Textual Amendments**

**F1014S.** 438A inserted (8.4.2010 with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 7 para. 3](#)

#### **439 Meaning of “disposal-related obligation”**

- (1) In this Chapter an obligation is a “disposal-related obligation”, in relation to a qualifying investment, if condition A or condition B is met in relation to it.
- (2) The obligation may be to any person (whether or not the individual making the disposal or a person connected with the individual).
- (3) Condition A is that it is reasonable to suppose that the disposal of the qualifying investment to the charity would not have been made in the absence of the obligation.

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- (4) Condition B is that the obligation (whether in whole or in part) relates to, is framed by reference to, or is conditional on the charity receiving, the qualifying investment or a disposal-related investment.
- (5) In applying condition A, all the circumstances must be taken into account (including, in particular, the difference in the value of the net benefit to the charity calculated under section 437(1)(a) and that value calculated under section 437(1)(b)).
- (6) In subsection (4) “disposal-related investment” means any of the following—
  - (a) an asset of the same class or description as the qualifying investment (irrespective of size, quantity or amount),
  - (b) an asset derived from, or representing, the qualifying investment, whether in whole or in part and whether directly or indirectly, and
  - (c) an asset from which the qualifying investment is derived, or which the qualifying investment represents, whether in whole or in part and whether directly or indirectly.
- (7) In this Chapter “obligation” includes a reference to each of the following—
  - (a) a scheme, arrangement or understanding of any kind, whether or not legally enforceable, and
  - (b) a series of obligations (whether or not between the same parties).

#### **440 Meaning and amount of “disposal-related liability”**

- (1) In this Chapter a liability is a “disposal-related liability” in the case of a qualifying investment if it is a liability of the charity under a disposal-related obligation in relation to the qualifying investment.
- (2) If the disposal-related obligation is contingent, the amount to be brought into account for the purposes of section 437 at any time in respect of the disposal-related liability, so far as contingent, is—
  - (a) if the contingency occurs, the amount or value of the liability actually incurred in consequence of the occurrence of the contingency, or
  - (b) if the contingency does not occur, nil.

#### *Special provisions about qualifying interests in land*

#### **441 Certificate required from charity**

- (1) This section applies if the qualifying investment is a qualifying interest in land.
- (2) No individual may make a claim for relief under this Chapter unless the individual has received a certificate given by or on behalf of the charity.
- (3) The certificate must—
  - (a) describe the qualifying interest in land,
  - (b) specify the date of the disposal, and
  - (c) state that the charity has acquired the qualifying interest in land.

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#### 442 Qualifying interests in land held jointly

- (1) This section applies if the qualifying investment is a qualifying interest in land.
- (2) It applies if two or more persons (“the owners”)—
  - (a) are jointly beneficially entitled to the qualifying interest in land, or
  - (b) are, taken together, beneficially entitled in common to the qualifying interest in land.
- (3) Relief under this Chapter is available if—
  - (a) at least one of the owners is an individual, and
  - (b) all the owners dispose of the whole of their beneficial interests in the qualifying interest in land to the charity.
- (4) Relief under this Chapter is available to each of the owners who is an individual.
- (5) The amount of relief under this Chapter to be given to an individual is such share of the relievable amount as is allocated to the individual by an agreement made between those owners who are—
  - (a) individuals, or
  - (b) qualifying companies.
- (6) A company is a qualifying company if—
  - (a) it is not itself a charity, and
  - <sup>F1015</sup>(b) .....
- (7) If one or more of the owners is not an individual—
  - (a) for the purpose of determining whether the owners' beneficial interests are disposed of as mentioned in subsection (3)(b) of this section, subsections (2) to (4) of section 433 apply as if references to an individual included a reference to a person who is not an individual, and
  - (b) the total amount of relief [<sup>F1016</sup>given, because of the disposal of the qualifying interest in land, under this Chapter and as a result of Chapter 3 of Part 6 of CTA 2010] is not to exceed the relievable amount.

#### Textual Amendments

**F1015S.** 442(6)(b) repealed (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 27 Pt. 2\(10\)](#)

**F1016** Words in s. 442(7)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 528](#) (with [Sch. 2](#))

#### 443 Calculation of relievable amount where joint disposal of interest in land

- (1) This section applies for the purpose of calculating the relievable amount in a case where relief under this Chapter is available as a result of section 442(3).
- (2) Calculate the relievable amount as if—
  - (a) the owners were a single individual, and
  - (b) the disposals of the owners' beneficial interests were a single disposal by that single individual of the whole of the beneficial interest in the qualifying interest in land.
- (3) In particular, calculate the consideration mentioned at Step 1 in section 434(4) by—

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- (a) calculating, for each owner, the consideration for which the disposal of the owner's beneficial interest is treated as made for the purposes of TCGA 1992 as a result of section 257(2)(a) of that Act, and
  - (b) adding together all the consideration calculated under paragraph (a).
- (4) Subsection (5) applies if one or more of the owners is neither—
- (a) an individual, nor
  - (b) a qualifying company (see section 442(6)).
- (5) In calculating the relievable amount make just and reasonable adjustments to reduce the relievable amount to reflect the fact that relief under this Chapter or [F1017 as a result of Chapter 3 of Part 6 of CTA 2010] is not available to that owner or to those owners.

F1018(6) .....

#### Textual Amendments

- F1017** Words in s. 443(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 529** (with Sch. 2)
- F1018** S. 443(6) repealed (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 27 Pt. 2(10)**

#### 444 Disqualifying events

- (1) This section applies if the qualifying investment is a qualifying interest in land.
- (2) If a disqualifying event occurs at any time in the provisional period, the following are treated as never having been entitled to relief under this Chapter in respect of the disposal of the qualifying interest in land—
- (a) in a case to which section 442 does not apply, the individual who made the disposal, or
  - (b) in a case to which section 442 applies, each individual who is an owner.
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to subsection (2).
- (4) A disqualifying event occurs if a person mentioned in subsection (5) becomes, otherwise than for full consideration in money or money's worth—
- (a) entitled to an interest or right in relation to all or part of the land to which the disposal relates, or
  - (b) party to an arrangement under which the person enjoys some right in relation to all or part of that land.
- (5) The persons are—
- (a) in a case to which section 442 does not apply—
    - (i) the individual who made the disposal, or
    - (ii) a person connected with that individual, and
  - (b) in a case to which section 442 applies—
    - (i) a person who is an owner, or
    - (ii) a person connected with such a person.
- (6) A disqualifying event does not occur if a person becomes entitled to an interest or right as mentioned in subsection (4)(a) as a result of a disposition of property on

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death (whether the disposition is effected by will, under the law relating to intestacy or otherwise).

- (7) “The provisional period” is the period beginning with the date of the disposal of the qualifying interest in land and ending with the fifth anniversary of the normal self-assessment filing date for the tax year in which the disposal was made.

### Supplementary

#### 445 Prohibition against double relief

- (1) If a claim is made for relief under this Chapter in respect of a disposal—
- (a) section 108 of ITTOIA 2005 (gifts of trading stock to charities etc) does not apply in relation to the disposal, and
  - (b) no relief in respect of the disposal is allowable under any other provision of the Income Tax Acts.
- (2) For the effect on capital gains tax or corporation tax on chargeable gains where an individual is entitled to relief under this Chapter, see section 257(2A) to (2C) of TCGA 1992 (gifts to charities etc).

#### 446 “Charity” to include exempt bodies

In this Chapter “charity” includes—

- (a) the Trustees of the National Heritage Memorial Fund, <sup>F1019</sup>and]
- (b) the Historic Buildings and Monuments Commission for England, <sup>F1020</sup>...
- <sup>F1020</sup>(c) .....

#### Textual Amendments

**F1019** Word in s. 446 inserted (1.4.2012) by [The Public Bodies \(Abolition of the National Endowment for Science, Technology and the Arts\) Order 2012 \(S.I. 2012/964\)](#), arts. 1(2), 3(1), **Sch.**

**F1020** S. 446(c) and preceding word omitted (1.4.2012) by virtue of [The Public Bodies \(Abolition of the National Endowment for Science, Technology and the Arts\) Order 2012 \(S.I. 2012/964\)](#), arts. 1(2), 3(1), **Sch.**

## CHAPTER 4

### <sup>F1021</sup>ANNUAL PAYMENTS ...

#### Textual Amendments

**F1021** Words in Pt. 8 Ch. 4 heading omitted (with effect in accordance with s. 15(5) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), s. 15(4)(c)

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#### 447 Overview of Chapter

- (1) This Chapter gives relief for some of the payments from which sums representing income tax must be deducted under Chapter 6 of Part 15 (deduction from annual payments and patent royalties).
- (2) For the payments which attract relief, see sections 448 and 449.

#### 448 Relief for individuals

- (1) This section applies to a payment made in a tax year if—
  - (a) the person who makes it is an individual,
  - (b) a sum representing income tax is required by section 900(2)<sup>F1022</sup>... (deduction from annual payments<sup>F1022</sup>...) to be deducted from it, and
  - (c) the payment is not deductible in calculating the individual's income from any source.
- (2) The individual is entitled to relief for the tax year equal to the gross amount of the payment.
- (3) But this is subject to the restrictions in subsection (4)<sup>F1023</sup>....
- (4) The total amount of relief given under this section to an individual for a tax year cannot be greater than the amount of the individual's modified net income for the tax year (see section 1025).
- (5) The relief is given by deducting the amount of the relief in calculating the individual's net income for the tax year (see Step 2 of the calculation in section 23).

##### Textual Amendments

**F1022** Words in s. 448(1)(b) omitted (with effect in accordance with s. 15(5) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\), s. 15\(2\)](#)

**F1023** Words in s. 448(3) omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 66\(4\)\(l\)\(iii\)](#)

##### Modifications etc. (not altering text)

**C87** Ss. 448, 449 excluded (with effect in accordance with Sch. 18 para. 63 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 18 para. 20\(8\)](#)

#### 449 Relief for other persons

- (1) This section applies to a payment made in a tax year if—
  - (a) the person who makes it is not an individual,
  - (b) a sum representing income tax is required by section 901(3)<sup>F1024</sup>... (deduction from annual payments<sup>F1024</sup>...) to be deducted from it, and
  - (c) the payment is not deductible in calculating the person's income from any source.
- (2) The person who makes the payment is entitled to relief for the tax year equal to the gross amount of the payment.
- (3) But this is subject to the restrictions in subsections (4) and (5)<sup>F1025</sup>....



*Status: Point in time view as at 22/02/2024.*

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- (4) Relief is not given for the payment so far as it is ineligible for relief (see section 450).
- (5) The total amount of relief given under this section to a person for a tax year cannot be greater than the amount of the person's modified net income for the tax year (see section 1025).
- (6) The relief is given by deducting the amount of the relief in calculating the person's net income for the tax year (see Step 2 of the calculation in section 23).

#### **Textual Amendments**

**F1024** Words in s. 449(1)(b) omitted (with effect in accordance with s. 15(5) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\), s. 15\(3\)](#)

**F1025** Words in s. 449(3) omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 66\(4\)\(i\)\(iv\)](#)

#### **Modifications etc. (not altering text)**

**C87** Ss. 448, 449 excluded (with effect in accordance with Sch. 18 para. 63 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 18 para. 20\(8\)](#)

### **450 Other persons: payments ineligible for relief**

- (1) This section sets out the circumstances in which a payment to which section 449 applies, or part of it, is ineligible for relief.
- (2) The payment is ineligible for relief if, or so far as, it can lawfully be made only out of—
  - (a) capital, or
  - (b) income that is exempt from income tax.
- (3) If the payment or any part of it is charged to capital, the payment or that part is ineligible for relief.
- (4) If—
  - (a) the person who makes the payment treats it or any part of it as made out of income that is exempt from income tax, and
  - (b) the rights or obligations of any person are or may in the future be different from what they would have been if the payment or part had not been so treated,the payment, or the part concerned, is ineligible for relief.
- (5) If the payment or a part of it is not ultimately borne by the person who makes it, the payment or the part concerned is ineligible for relief.
- (6) But subsection (5) does not apply to a payment or part of a payment if—
  - (a) the person who makes the payment is liable to income tax on an amount, and
  - (b) it is because the person receives that amount or benefits from it in some other way that the payment or the part concerned is not ultimately borne by that person.

*Status: Point in time view as at 22/02/2024.*

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**Modifications etc. (not altering text)**

**C88** S. 450 applied (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **19(2)**

**F1026 451 Special rule for persons affected by section 733 of ICTA**

.....

**Textual Amendments**

**F1026**S. 451 omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), s. **66(4)(v)**

**452 The gross amount of a payment**

References in this Chapter to the gross amount of a payment are to the amount of the payment before deduction of the sum representing income tax deductible from it under Chapter 6 of Part 15 (deduction from annual payments and patent royalties).

**CHAPTER 5**

**QUALIFYING MAINTENANCE PAYMENTS**

**453 Tax reduction for qualifying maintenance payments**

- (1) An individual who makes a claim is entitled to a tax reduction for a tax year in which any qualifying maintenance payments made by the individual fall due.
- (2) The amount of the tax reduction is 10% of—
  - (a) the total amount of qualifying maintenance payments made by the individual which fall due in the tax year, or
  - (b) if less, the amount specified in section 43 (tax reductions for married couples and civil partners: meaning of “the minimum amount”).
- (3) The tax reduction is given effect at Step 6 of the calculation in section 23.

**454 Meaning of “qualifying maintenance payment”**

- (1) For the purposes of section 453 a payment is a “qualifying maintenance payment” if conditions A to E are met.
- (2) Condition A is that the payment is a periodical payment made by—
  - (a) one of the parties to a marriage or civil partnership (including a marriage or civil partnership which has been dissolved or annulled) to or for the benefit of the other party and for the maintenance of the other party, or
  - (b) one parent of a child to the child's other parent for the maintenance of the child by the other parent or by one person to another for the maintenance by the other of a relevant child of theirs.

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- (3) Condition B is that—
- (a) in a case falling within subsection (2)(a), either of the parties to the marriage or civil partnership was born before 6 April 1935, and
  - (b) in a case falling within subsection (2)(b), either the person who made the payment, or the person to whom it is made, was born before that date.
- (4) Condition C is that the payment is made—
- (a) under an order made by a court in [<sup>F1027</sup>the United Kingdom or] a member State, or
  - (b) under a written agreement the law applicable to which is the law of [<sup>F1028</sup>the United Kingdom or of a part of the United Kingdom or of] a member State or of a part of a member State.
- (5) Condition D is that the payment is due at a time when—
- (a) in a case falling within subsection (2)(a)—
    - (i) the two parties are not a married couple, or civil partners of each other, living together (see section 1011), and
    - (ii) the party to whom or for whose benefit the payment is made has not entered into a new marriage or a new civil partnership, and
  - (b) in a case falling within subsection (2)(b), the person making the payment and the person to whom the payment is made are not living together.
- (6) Condition E is that relief from tax in respect of the payment is not available to the person making it under any provision of the Income Tax Acts other than section 453.
- (7) In subsection (4) the reference to an order made by a court in [<sup>F1029</sup>the United Kingdom] includes a reference to a maintenance calculation.
- (8) “Maintenance calculation” means—
- (a) a maintenance calculation made under the Child Support Act 1991 (c. 48), or
  - (b) a maintenance assessment made under the Child Support (Northern Ireland) Order 1991 (S.I. 1991/2628 (N.I. 23)).
- (9) In this section—
- “child” means a person under 21 years of age,
  - “periodical payment” does not include an instalment of a lump sum, and
  - “relevant child”, in relation to any two persons, means a child who (not being a child who has been boarded out with them by a public authority or voluntary organisation) has been treated by both of them as a child of their family.

#### Textual Amendments

**F1027** Words in s. 454(4)(a) inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Income Tax \(Qualifying Maintenance Payments\) \(Amendment\) Regulations 2022 \(S.I. 2022/169\)](#), regs. 1(1), **2(2)(a)**

**F1028** Words in s. 454(4)(b) inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Income Tax \(Qualifying Maintenance Payments\) \(Amendment\) Regulations 2022 \(S.I. 2022/169\)](#), regs. 1(1), **2(2)(b)**

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**F1029** Words in s. 454(7) substituted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Income Tax \(Qualifying Maintenance Payments\) \(Amendment\) Regulations 2022 \(S.I. 2022/169\)](#), regs. 1(1), 2(3)

#### 455 Child support maintenance payments

- (1) Condition A in section 454(2) is treated as met in relation to a payment if—
- (a) it is a periodical payment made under a maintenance calculation by any person,
  - (b) another person is, for the purposes of the Child Support Act 1991 or (as the case may be) the Child Support (Northern Ireland) Order 1991 (S.I. 1991/2628 (N.I. 23)), a parent of the child or children with respect to whom the calculation has effect,
  - (c) the calculation was not made under section 7 of the Child Support Act 1991 (right of child in Scotland to apply for maintenance calculation), and
  - (d) any of the conditions mentioned in subsection (2) is met.
- (2) The conditions are that—
- (a) the payment is made to the Secretary of State in accordance with regulations made under section 29 of the Child Support Act 1991 by virtue of subsection (3)(a)(ii) of that section (collection of child support maintenance: payment to or through Secretary of State),
  - (b) the payment is retained by the Secretary of State in accordance with regulations made under section 41 of that Act (arrears of child support maintenance),
  - (c) the payment is made to the Department of Health, Social Services and Public Safety for Northern Ireland in accordance with regulations made under Article 29 of the Child Support (Northern Ireland) Order 1991 (S.I. 1991/2628 (N.I. 23)), by virtue of paragraph (3)(a)(ii) of that Article (collection of child support maintenance: payment to or through Department), or
  - (d) the payment is retained by the Department of Health, Social Services and Public Safety for Northern Ireland in accordance with regulations made under Article 38 of that Order (arrears of child support maintenance).
- (3) “Maintenance calculation” and “periodical payment” have the meanings given in section 454(8) and (9).

#### 456 Payments under orders for recovery of benefit etc

- (1) Condition A in section 454(2) is treated as met in relation to a payment made by any person if—
- (a) it is a periodical payment made to the Secretary of State or to the Department of Health, Social Services and Public Safety for Northern Ireland, and
  - (b) it is made under a recovery of benefit order.
- (2) A “recovery of benefit order” is—
- (a) one made under section 106 of the Social Security Administration Act 1992 (c. 5) or section 101 of the Social Security Administration (Northern Ireland) Act 1992 (c. 8) (recovery of expenditure on benefit from person liable for maintenance) in respect of income support claimed by any other person, or

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- (b) one made by virtue of section 23 of the Jobseekers Act 1995 (c. 18) or Article 25 of the Jobseekers (Northern Ireland) Order 1995 (S.I. 1995/2705 (N.I. 15)) (recovery of sums in respect of maintenance), in respect of an income-based jobseeker's allowance claimed by any other person.
- (3) In subsection (2) “income-based jobseeker's allowance” has the same meaning as in—
- (a) the Jobseekers Act 1995, or
  - (b) for Northern Ireland, the Jobseekers (Northern Ireland) Order 1995 (S.I. 1995/2705 (N.I. 15)).
- (4) “Periodical payment” has the meaning given in section 454(9).

## CHAPTER 6

### MISCELLANEOUS OTHER RELIEFS

#### *Payments for life insurance etc*

#### **457 Payments to trade unions**

- (1) An individual who makes a payment to a trade union in a tax year is entitled to relief for the tax year if—
- (a) part of the payment (the “qualifying amount”) is attributable to the provision of superannuation, life insurance or funeral benefits,
  - (b) the individual meets the requirements of section 460 (residence etc), and
  - (c) the individual makes a claim.
- (2) The amount of the relief is equal to half the qualifying amount.
- (3) But the maximum amount of relief under this section to which an individual is entitled for a tax year is £100.
- (4) The relief is given by deducting the amount of the relief in calculating the individual's net income for the tax year (see Step 2 of the calculation in section 23).
- (5) “Trade union” has the meaning given by section 1 of the Trade Union and Labour Relations (Consolidation) Act 1992 (c. 52).

#### **458 Payments to police organisations**

- (1) An individual who makes a payment to a police organisation in a tax year is entitled to relief for the tax year if—
- (a) part of the payment (the “qualifying amount”) is attributable to the provision of superannuation, life insurance or funeral benefits,
  - (b) the sum of the qualifying amounts for all the payments which the individual makes in the tax year is at least £20,
  - (c) the individual meets the requirements of section 460 (residence etc), and
  - (d) the individual makes a claim.
- (2) The amount of the relief is equal to half the qualifying amount.

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- (3) But the maximum amount of relief under this section to which an individual is entitled for a tax year is £100.
- (4) The relief is given by deducting the amount of the relief in calculating the individual's net income for the tax year (see Step 2 of the calculation in section 23).
- (5) “Police organisation” means an organisation of persons in police service.

**F1030 459 Payments for benefit of family members**

.....

**Textual Amendments**

**F1030S.** 459 omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(1\)](#)

**460 Residence etc of claimants**

- (1) This section applies in relation to an individual who claims—
  - (a) relief under section 457 or 458 (payments to trade unions and police organisations) for a tax year, <sup>F1031</sup> ...
  - <sup>F1031</sup>(b) .....
- (2) The individual meets the requirements of this section if the individual—
  - (a) is UK resident for the tax year, or
  - (b) meets the condition in subsection (3).
- (3) An individual meets the condition in this subsection if, at any time in the tax year, the individual—
  - (a) is resident in the Isle of Man or the Channel Islands,
  - (b) has previously resided in the United Kingdom and is resident abroad for the sake of the health of—
    - (i) the individual, or
    - (ii) a member of the individual's family who is resident with the individual,
  - (c) is a person who is or has been employed in the service of the Crown,
  - (d) is employed in the service of any territory under Her Majesty's protection,
  - (e) is employed in the service of a missionary society, or
  - (f) is a person whose late spouse or late civil partner was employed in the service of the Crown.
- <sup>F1032</sup>(4) For the effect of section 809B (claim for remittance basis to apply) applying to an individual for a tax year, see section 809G (no entitlement under section 457 [<sup>F1033</sup> or 458]).]

**Textual Amendments**

**F1031S.** 460(1)(b) and preceding word omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(c\)\(i\)](#)

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**F1032S.** 460(4) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 78](#)

**F1033** Words in s. 460(4) substituted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(c\)\(ii\)](#)

### *Patent royalty receipts*

#### **461 Spreading of patent royalty receipts**

- (1) A person who makes a claim is entitled to a tax reduction for a tax year in which the person receives a payment of a royalty or other sum if—
  - (a) the payment is in respect of the use of a patent,
  - (b) the use of the patent has extended over a period of two years or more, and
  - (c) the payment is one from which a sum representing income tax is required to be deducted under section 903.
- (2) The amount of the tax reduction is the difference between—
  - (a) the amount of income tax payable by the person in respect of the payment, and
  - (b) the total amount of income tax which would have been payable by the person in respect of the payment on the assumptions in subsection (3).
- (3) Those assumptions are that—
  - (a) the payment was made in a number of equal instalments at yearly intervals,
  - (b) the last instalment was paid on the date on which the payment was in fact made, and
  - (c) the number of instalments was the same as the number of complete years in the period over which the use of the patent extended, but subject to a maximum of 6.
- (4) The tax reduction is given effect at Step 6 of the calculation in section 23.

## **PART 9**

### **SPECIAL RULES ABOUT SETTLEMENTS AND TRUSTEES**

#### **CHAPTER 1**

##### **INTRODUCTION**

#### **462 Overview of Part**

- (1) This Part sets out special rules about settlements and trustees.
- (2) Chapter 2 contains general provision about settlements and trustees, for example, definitions of expressions relating to settlements.
- (3) Chapter 3 provides for income tax to be charged at the dividend trust rate or at the trust rate on certain amounts included in the net income of the trustees of a settlement.
- (4) Chapter 4 provides—

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- (a) for expenses of the trustees of a settlement to be set against the trustees' trust rate income (see section 463(2)), and
  - (b) consequentially, for the amount of the trust rate income to be reduced.
- (5) Chapter 5 qualifies section 479 (which is in Chapter 3) in the case of the trustees of <sup>F1034</sup>[a Schedule 2] share incentive plan.
- (6) Chapter 6 provides that the first slice of the trust rate income of the trustees of a settlement is not to be charged at the dividend trust rate or at the trust rate.
- (7) Chapter 7 deals with the treatment of payments made by the trustees of a settlement in the exercise of a discretion.

This affects the way the trustees and the recipients of such payments are taxed.

- (8) Chapter 8 deals with the treatment of expenses of the trustees of a settlement where income arising to the trustees is, before being distributed, the income of a person other than the trustees themselves.

This affects the way that other person is taxed on that income.

<sup>F1035</sup>(9) . . . . .

- (10) Chapter 10 deals with heritage maintenance settlements.
- (11) See also Part 10 for special rules about charitable trusts <sup>F1036</sup>[and section 838A for special provision about asbestos compensation settlements] .
- (12) See also Chapter 4 of Part 2 of FA 2005 for provision about trusts with vulnerable beneficiaries.

#### Textual Amendments

**F1034** Words in s. 462(5) substituted (6.4.2014) by Finance Act 2014 (c. 26), **Sch. 8 paras. 69, 89** (with **Sch. 8 paras. 90-96**)

**F1035** S. 462(9) omitted (6.4.2014) by virtue of **The Unauthorised Unit Trusts (Tax) Regulations 2013 (S.I. 2013/2819)**, **regs. 1(3), 37(5)** (with **reg. 32**)

**F1036** Words in s. 462(11) inserted (16.12.2010 with effect in accordance with Sch. 14 para. 3(4) of the amending Act) by **Finance (No. 3) Act 2010 (c. 33)**, **Sch. 14 para. 3(2)**

### 463 Interpretation of Part

- (1) In this Part—
- “other income” means income which is neither dividend income nor savings income, and
  - “the trustees of a settlement” does not include personal representatives.
- (2) References in this Part to the trust rate income for a tax year of the trustees of a settlement are references to the trustees' net income for the tax year so far as it includes amounts on which income tax is charged at the dividend trust rate or at the trust rate (ignoring Chapters 4 and 6).

### 464 Scottish trusts

- (1) This section applies if—



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- (a) income arises to trustees under a trust having effect under the law of Scotland,
  - (b) the trustees are UK resident, and
  - (c) a beneficiary under the trust (“B”) would have an equitable right in possession to the income if the trust had effect under the law of England and Wales.
- (2) B is treated for income tax purposes as having an equitable right in possession to the income (even though B has no such right under the law of Scotland).

## CHAPTER 2

### GENERAL PROVISION ABOUT SETTLEMENTS AND TRUSTEES

#### Modifications etc. (not altering text)

**C89** Pt. 9 Ch. 2 applied (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), **ss. 1169(1), 1184(1)** (with [Sch. 2](#))

#### Overview

#### 465 Overview of Chapter and interpretation

- (1) This Chapter contains general provision about settlements and trustees.
- (2) Section 466 explains what is meant by references to settled property.
- (3) Sections 467 to 473 explain what is meant by references to a settlor in relation to a settlement.
- (4) Sections 474 to 476 treat the trustees of a settlement as a single and distinct person and set out rules in relation to the residence <sup>F1037</sup>... of that person.
- (5) Section 477 relates to sub-fund elections under paragraph 1 of Schedule 4ZA to TCGA 1992.
- (6) Section 478 is about references to settled property etc in regulations.
- (7) For the purposes of this Chapter property is derived from other property if—
  - (a) it derives (directly or indirectly and wholly or partly) from that other property or any part of that other property, and
  - (b) in particular, if it derives (directly or indirectly and wholly or partly) from income from that other property or any part of that other property.
- (8) In this Chapter “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.

#### Textual Amendments

**F1037** Words in s. 465(4) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 55**

*Status: Point in time view as at 22/02/2024.*

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### *Settled property*

#### **466 Meaning of “settled property” etc**

- (1) This section applies for the purposes of the Income Tax Acts, except so far as, in those Acts, the context otherwise requires.
- (2) “Settled property” means any property held in trust other than property excluded by subsection (3).
- (3) Property is excluded for the purposes of subsection (2) if—
  - (a) it is held by a person as nominee for another person,
  - (b) it is held by a person as trustee for another person who is absolutely entitled to the property as against the trustee, or
  - (c) it is held by a person as trustee for another person who would be absolutely entitled to the property as against the trustee if that other person were not an infant or otherwise lacking legal capacity.
- (4) References, however expressed, to property comprised in a settlement are references to settled property.
- (5) A person is absolutely entitled to property as against a trustee if the person has the exclusive right to direct how the property is to be dealt with (subject to the trustees' right to use the property for the payment of duty, taxes, costs or other outgoings).
- (6) References to a person who is or would be so entitled include references to two or more persons who are or would be jointly absolutely entitled as against the trustee.

#### **Modifications etc. (not altering text)**

**C90** S. 466(4) excluded (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), **ss. 1123(3)(b)**, 1184(1) (with [Sch. 2](#))

### *Settlors*

#### **467 Meaning of “settlor” etc**

- (1) In the Income Tax Acts (except where the context otherwise requires) “settlor”, in relation to a settlement, means the person, or any of the persons, who has made the settlement.
- (2) In the Income Tax Acts (except where the context otherwise requires) a person is a settlor of property if—
  - (a) the property is settled property because of—
    - (i) the person's having made the settlement, or
    - (ii) an event which leads to the person being treated by this Chapter as having made the settlement, or
  - (b) the property derives from settled property within paragraph (a).
- (3) A person (“S”) is treated for the purposes of the Income Tax Acts as having made a settlement if—
  - (a) S has made or entered into the settlement (directly or indirectly), or

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- (b) the settled property, or property from which the settled property derives, is or includes property within subsection (4).
- (4) Property is within this subsection if—
  - (a) the settlement arose on S's death (whether by S's will, on S's intestacy or in any other way), and
  - (b) immediately before S's death, the property was property of S—
    - (i) which was disposable property (see section 468), or
    - (ii) which represented S's severable share in any property to which S was beneficially entitled as joint tenant.
- (5) In particular, S is treated for the purposes of the Income Tax Acts as having made a settlement if—
  - (a) S has provided property for the purposes of the settlement (directly or indirectly), or
  - (b) S has undertaken to do that.
- (6) If a person (“A”) makes or enters into a settlement in accordance with reciprocal arrangements with another person (“B”)—
  - (a) B is treated for the purposes of the Income Tax Acts as having made the settlement, and
  - (b) A is not to be treated for the purposes of the Income Tax Acts as having made the settlement just because of the reciprocal arrangements.
- (7) This section needs to be read with sections 469 to 473.
- (8) This section and sections 469 to 473 do not apply for the purposes of Chapter 5 of Part 5 of ITTOIA 2005 (amounts treated as income of settlors).

#### **468 Meaning of “disposable property”**

- (1) This section applies for the purposes of section 467(4)(b)(i).
- (2) Property is disposable if S could have disposed of it by S's will.
- (3) In working out whether any property could have been so disposed of—
  - (a) make the assumptions mentioned in subsection (4), and
  - (b) ignore the powers mentioned in subsection (5).
- (4) Assume that—
  - (a) S is of full age and capacity,
  - (b) the property is situated in England and Wales, and
  - (c) if S is not domiciled in the United Kingdom, S is domiciled in England and Wales.
- (5) The powers to be ignored are—
  - (a) any power of appointment giving S the right to dispose of the property, and
  - (b) any testamentary power conferred by statute to dispose of entailed interests.

#### **469 Person ceasing to be a settlor**

- (1) A person (“S”) who is a settlor in relation to a settlement ceases to be so when the following condition is met.

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- (2) The condition is that—
- (a) no property of which S is the settlor is comprised in the settlement,
  - (b) S has not undertaken to provide property (directly or indirectly) for the purposes of the settlement in the future, and
  - (c) S has not made reciprocal arrangements with another person for that other person to enter into the settlement in the future.

#### **470 Transfers between settlements**

- (1) Section 471 applies in relation to a transfer of property from the trustees of one settlement (“settlement 1”) to the trustees of another settlement (“settlement 2”) if the transfer—
- (a) is not for full consideration,
  - (b) is not by way of a bargain made at arm's length, and
  - (c) is not excluded by subsection (2).
- (2) A transfer of property is excluded for the purposes of subsection (1) if—
- (a) it occurs only because of the assignment by a beneficiary under settlement 1 of an interest in that settlement to the trustees of settlement 2,
  - (b) it occurs only because of the exercise of a general power of appointment, or
  - (c) section 473(4) applies in relation to it.
- (3) In this section “transfer of property” means—
- (a) a disposal of property by the trustees of settlement 1, and
  - (b) the acquisition by the trustees of settlement 2 of—
    - (i) property disposed of by the trustees of settlement 1, or
    - (ii) property created by the disposal.
- (4) For the purposes of subsection (3) there is an acquisition or disposal of property if there would be an acquisition or disposal of property for the purposes of TCGA 1992.

#### **471 Identification of settlor following transfer covered by section 470**

- (1) If there is a transfer of property in relation to which this section applies, then the following subsections apply for the purposes of the Income Tax Acts, except so far as, in those Acts, the context otherwise requires.
- (2) The settlor (or each settlor) of the property disposed of by the trustees of settlement 1 (“the disposed property”) is treated from the time of the disposal as having made settlement 2.
- (3) If there is more than one settlor of the disposed property, each of them is treated in relation to settlement 2 as the settlor of a proportionate part of the property acquired by the trustees of settlement 2 on the disposal.
- (4) So far as the disposed property—
- (a) was provided for the purposes of settlement 1, or
  - (b) was derived from property so provided,
- the property acquired by the trustees of settlement 2 on the disposal is treated from the time of the disposal as having been provided for the purposes of settlement 2.

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- (5) If as a result of subsection (4), property (“the transferred property”) is treated as having been provided for the purposes of settlement 2—
- (a) the person who provided the disposed property, or the property from which it was derived, for the purposes of settlement 1 is treated as having provided the transferred property for the purposes of settlement 2, and
  - (b) if more than one person provided the disposed property, or the property from which it was derived, for the purposes of settlement 1, each of them is treated as having provided a proportionate part of the transferred property for the purposes of settlement 2.

#### **472 Settlor where property becomes settled because of variation of will etc**

- (1) This section applies if—
- (a) a disposition of property following a person's death is varied, and
  - (b) section 62(6) of TCGA 1992 applies in relation to the variation.
- (2) If property becomes settled property because of the variation (and would not, but for the variation, have become settled property), a person within subsection (3) is treated for the purposes of the Income Tax Acts (except where the context otherwise requires) —
- (a) as having made the settlement, and
  - (b) as having provided the property for the purposes of the settlement.
- (3) The persons within this subsection are—
- (a) a person who immediately before the variation was entitled to the property, or to property from which it derived, absolutely as legatee,
  - (b) a person who immediately before the variation would have been so entitled if that person had not been an infant or otherwise lacking legal capacity,
  - (c) a person who, but for the variation, would have become so entitled, and
  - (d) a person who, but for the variation, would have become so entitled if that person had not been an infant or otherwise lacking legal capacity.
- (4) For the purposes of subsection (3)—
- (a) “legatee” includes a person taking property—
    - (i) under a testamentary disposition or on an intestacy or partial intestacy, whether beneficially or as trustee, or
    - (ii) under a donatio mortis causa, and
  - (b) a person who is a legatee as a result of paragraph (a)(ii) is treated as acquiring the property when the donor dies.
- (5) For the purposes of subsection (4)(a) property taken under a testamentary disposition or on an intestacy or partial intestacy includes any property appropriated by the personal representatives in or towards satisfaction of—
- (a) a pecuniary legacy, or
  - (b) any other interest or share in the property devolving under the disposition or intestacy.

#### **473 Deceased person as settlor where variation of will etc**

- (1) This section applies if—

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- (a) a disposition of property following the death of a person (“D”) is varied, and
  - (b) section 62(6) of TCGA 1992 applies in relation to the variation.
- (2) If—
- (a) property would have become comprised in a settlement within subsection (3), but
  - (b) as a result of the variation, the property, or property derived from it, becomes comprised in another settlement,
- D is treated for the purposes of the Income Tax Acts (except where the context otherwise requires) as having made the other settlement.
- (3) A settlement is within this subsection if—
- (a) it arose on D's death (whether by D's will or on D's intestacy or in any other way), or
  - (b) it was in existence immediately before D's death (whether or not D was a settlor in relation to it).
- (4) If—
- (a) immediately before the variation property is comprised in a settlement and is property of which D is a settlor, and
  - (b) immediately after the variation the property, or property derived from it, becomes comprised in another settlement,
- D is treated for the purposes of the Income Tax Acts (except where the context otherwise requires) as having made the other settlement.
- (5) A settlement treated as made by D as a result of this section is treated for the purposes of the Income Tax Acts as made by D immediately before D's death.
- (6) But subsection (5) does not apply in relation to a settlement which arose on D's death.

### *Trustees*

#### **474 Trustees of settlement to be treated as a single and distinct person**

- (1) For the purposes of the Income Tax Acts (except where the context otherwise requires), the trustees of a settlement are together treated as if they were a single person (distinct from the persons who are the trustees of the settlement from time to time).
- (2) If different parts of the settled property in relation to a settlement are vested in different bodies of trustees, subsection (1) and sections 475 and 476 apply in relation to the different bodies as if they were all one body.
- (3) The cases covered by subsection (2) include cases where settled land (within the meaning of the Settled Land Act 1925 (c. 18)) is vested in the tenant for life and investments representing capital money are vested in the trustees of the settlement.

#### **475 Residence of trustees**

- [<sup>F1038</sup>(1) This section applies for income tax purposes and explains how to work out, in relation to the trustees of a settlement, whether or not the single person mentioned in section 474(1) is UK resident.]

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- (2) If at a time either condition A or condition B is met, then at that time the single person is [<sup>F1039</sup>UK resident].
  - (3) If at a time neither condition A nor condition B is met, then at that time the single person is [<sup>F1040</sup>non-UK resident].
  - (4) Condition A is met at a time if, at that time, all the persons who are trustees of the settlement are UK resident.
  - (5) Condition B is met at a time if at that time—
    - (a) at least one person who is a trustee of the settlement is UK resident and at least one such person is non-UK resident, and
    - (b) a settlor in relation to the settlement meets condition C (see section 476).
  - (6) If at a time a person (“T”) who is a trustee of the settlement acts as trustee in the course of a business which T carries on in the United Kingdom through a branch, agency or permanent establishment there, then for the purposes of subsections (4) and (5) assume that T is UK resident at that time.
- [<sup>F1041</sup>(7) Subsection (8) applies if—
- (a) an individual becomes or ceases to be a trustee of the settlement during a tax year,
  - (b) that year is a split year as respects the individual, and
  - (c) the only period in that year when the individual is a trustee of the settlement falls wholly within the overseas part of the year.
- (8) The individual is to be treated for the purposes of subsections (4) and (5) as if he or she had been non-UK resident for the year (and hence for the period in that year when he or she was a trustee of the settlement).
  - (9) But subsection (8) is subject to subsection (6) and, accordingly, an individual who is treated under subsection (8) as having been non-UK resident is, in spite of that, to be treated as UK resident whenever the individual acts as mentioned in subsection (6).]

#### Textual Amendments

**F1038S.** 475(1) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 56\(2\)](#)

**F1039** Words in s. 475(2) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 56\(3\)](#)

**F1040** Words in s. 475(3) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 56\(4\)](#)

**F1041S.** 475(7)-(9) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 103](#)

## 476 How to work out whether settlor meets condition C

- (1) This section applies for the purpose of working out whether a settlor (“S”) in relation to a settlement meets condition C at a time.
- (2) If—
  - (a) the settlement arose on S's death (whether by S's will, on S's intestacy or in any other way), and

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(b) immediately before S's death, S was UK resident <sup>F1042</sup>... or domiciled in the United Kingdom,

then S meets condition C from the time of S's death until S ceases to be a settlor in relation to the settlement.

(3) If—

(a) the settlement is not within subsection (2)(a), and

(b) at a time when S made the settlement (or is treated for the purposes of the Income Tax Acts as making the settlement), S was UK resident <sup>F1043</sup>... or domiciled in the United Kingdom,

then S meets condition C from that time until S ceases to be a settlor in relation to the settlement.

[<sup>F1044</sup>(3A) Section 835BA (deemed domicile) applies for the purposes of subsections (2)(b) and (3)(b).]

(4) Further, if—

(a) there is a transfer of property in relation to which section 471 applies,

(b) S is a settlor in relation to settlement 2 as a result of that section, and

(c) immediately before the disposal by the trustees of settlement 1, S meets condition C as a settlor in relation to settlement 1 as a result of subsection (2) or (3) or this subsection,

then S meets condition C as a settlor in relation to settlement 2 from the time S becomes such a settlor until S ceases to be such a settlor.

(5) “Settlement 1” and “settlement 2” are to be read in accordance with section 470(1).

#### **Textual Amendments**

**F1042** Words in s. 476(2)(b) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 57\(2\)](#) (with [Sch. 46 para. 57\(4\)](#))

**F1043** Words in s. 476(3)(b) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 57\(3\)](#) (with [Sch. 46 para. 57\(5\)](#))

**F1044** [S. 476\(3A\)](#) inserted (with effect in accordance with Sch. 8 para. 12(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 12\(1\)](#)

### *Sub-funds*

#### **477 Sub-fund elections under Schedule 4ZA to TCGA 1992**

(1) This section applies for the purposes of the Income Tax Acts (except so far as, in those Acts, the context otherwise requires) if the trustees of a settlement have made a sub-fund election under paragraph 1 of Schedule 4ZA to TCGA 1992.

(2) The sub-fund settlement is treated as a settlement that is created at the relevant time.

(3) Each trustee of the trusts on which property comprised in the sub-fund settlement is held is treated as a trustee of the sub-fund settlement.

(4) A person (“T”) who is a trustee of the sub-fund settlement is treated, from the relevant time, as having ceased to be a trustee of the principal settlement unless T is also a trustee of trusts on which property comprised in the principal settlement is held.



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- (5) A person (“T”) who is a trustee of the principal settlement is not to be treated as a trustee of the sub-fund settlement unless T is also a trustee of trusts on which property comprised in the sub-fund settlement is held.
- (6) The trustees of the sub-fund settlement are treated as having become, at the relevant time, absolutely entitled to the property comprised in that settlement as against the trustees of the principal settlement.
- (7) In this section—
  - “principal settlement” has the meaning given by paragraph 1 of Schedule 4ZA to TCGA 1992,
  - “the relevant time” means the time when the sub-fund election is treated as having taken effect under paragraph 2 of that Schedule,
  - “sub-fund election” has the meaning given by paragraph 2 of that Schedule, and
  - “sub-fund settlement” has the meaning given by paragraph 1 of that Schedule.

### *Regulations*

#### **478 References to settled property etc in regulations**

For the purposes of regulations (whenever made) made under a provision of the Income Tax Acts—

- (a) references to settled property, a settlor or trustees are to be read in accordance with this Chapter, and
- (b) references to the trustees of a trust are to be read as references to the trustees of a settlement.

## **CHAPTER 3**

### **SPECIAL RATES FOR TRUSTEES' INCOME**

#### **479 Trustees' accumulated or discretionary income to be charged at special rates**

- (1) This section applies if—
  - (a) accumulated or discretionary income arises to the trustees of a settlement, and
  - (b) the income does not arise under a [<sup>F1045</sup>charitable trust].
- (2) Income tax is charged on the income at the rates referred to in this section instead of at the rates which would otherwise apply (for which see Chapter 2 of Part 2 (rates at which income tax is charged)).
- (3) Income tax is charged on the income at the dividend trust rate so far as the income is dividend income.
- (4) Otherwise, income tax is charged on the income at the trust rate.
- (5) Section 488 disapplies this section in cases relating to [<sup>F1046</sup>Schedule 2] share incentive plans.

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#### Textual Amendments

- F1045** Words in s. 479(1)(b) substituted (8.3.2012) (with effect in accordance with art. 17 of the commencing S.I.) by [Finance Act 2010 \(c. 13\)](#), [Sch. 6 paras. 23\(2\)](#), 34(2); S.I. 2012/736, art. 17
- F1046** Words in s. 479(5) substituted (6.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 8 paras. 70](#), 89 (with [Sch. 8 paras. 90-96](#))

#### Modifications etc. (not altering text)

- C91** S. 479 excluded (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\)](#), [12\(3\)\(d\)](#)

### 480 Meaning of “accumulated or discretionary income”

- (1) Income is accumulated or discretionary income so far as—
  - (a) it must be accumulated, or
  - (b) it is payable at the discretion of the trustees or any other person, and it is not excluded by subsection (3).
- (2) The cases covered by subsection (1)(b) include cases where the trustees have, or any other person has, any discretion over one or more of the following matters—
  - (a) whether, or the extent to which, the income is to be accumulated,
  - (b) the persons to whom the income is to be paid, and
  - (c) how much of the income is to be paid to any person.
- (3) Income is excluded for the purposes of subsection (1) so far as—
  - (a) before being distributed, it is the income of any person other than the trustees,
  - (b) it is income from property within subsection (4), or
  - (c) it is income from service charges [<sup>F1047</sup>which are paid in respect of dwellings in the United Kingdom and are held on trust.]
- (4) Property is within this subsection if it—
  - (a) is held for the purposes of a superannuation fund to which section 615(3) of ICTA (superannuation funds relating to undertakings outside the UK) applies, but
  - (b) is not held as a member of a property investment LLP.
- [<sup>F1048</sup>(5) In subsection (3)(c) “service charges” has the meaning given by section 18 of the Landlord and Tenant Act 1985 (but as if that section also applied in relation to dwellings in Scotland and Northern Ireland).]

#### Textual Amendments

- F1047** Words in s. 480(3)(c) substituted (with effect in accordance with s. 65(4) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [s. 65\(2\)](#)
- F1048** S. 480(5) substituted for s. 480(5)(6) (with effect in accordance with s. 65(4) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [s. 65\(3\)](#)

### 481 Other amounts to be charged at special rates for trustees

- (1) This section applies if—

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- (a) the trustees of a settlement are liable for income tax on an amount of a type set out in section 482,
  - (b) the trustees are not trustees of a unit trust scheme, and
  - (c) the amount is not income arising under a [<sup>F1049</sup>charitable trust].
- (2) Income tax is charged on the amount at one of the rates referred to in this section instead of at the rate which would otherwise apply (for which see Chapter 2 of Part 2 (rates at which income tax is charged)).
- This is subject to subsection (5).
- (3) If the amount is within Type 1 [<sup>F1050</sup>or Type 12] as set out in section 482, income tax is charged on the amount at the dividend trust rate.
  - (4) Otherwise, income tax is charged on the amount at the trust rate.
  - (5) Income tax is not to be charged as mentioned in subsection (2) so far as the amount—
    - (a) is accumulated or discretionary income,
    - (b) would be accumulated or discretionary income apart from section 480(3)(a) or (c), or
    - (c) is income from property within subsection (6).
  - (6) Property is within this subsection if it is held for the purposes of a superannuation fund to which section 615(3) of ICTA (superannuation funds relating to undertakings outside the UK) applies.

#### Textual Amendments

**F1049** Words in s. 481(1)(c) substituted (8.3.2012) (with effect in accordance with art. 17 of the commencing S.I.) by [Finance Act 2010 \(c. 13\)](#), [Sch. 6 paras. 23\(3\), 34\(2\)](#); [S.I. 2012/736, art. 17](#)

**F1050** Words in s. 481(3) inserted (with effect in accordance with s. 19(10) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [s. 19\(7\)](#)

## 482 Types of amount to be charged at special rates for trustees

The types of amount referred to in section 481 are as follows. *Type 1*

A payment—

- (a) which is made to the trustees or to which the trustees are entitled, and
- (b) which is made [<sup>F1051</sup>by way of <sup>F1052</sup>... distribution] by a company on the redemption, repayment or purchase of shares in the company or on the purchase of rights to acquire such shares.

*Type 2*

Accrued income profits treated as made by the trustees under section 628(5) or 630(2).

*Type 3*

Income treated as arising to the trustees under [<sup>F1053</sup>regulation 17 of the Offshore Funds (Tax) Regulations 2009 ([S.I. 2009/3001](#))].

*Type 4*

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Income which the trustees are treated as receiving under section 68(2) or 71(4) of FA 1989 (which relate to employee share ownership trusts).

*Type 5*

A sum to which Chapter 4 of Part 3 of ITTOIA 2005 (which provides for certain amounts to be treated as receipts of a property business) applies.

*Type 6*

A profit in relation to which the trustees are liable for income tax under section 429 of ITTOIA 2005 (profits from deeply discounted securities).

*Type 7*

A gain in relation to which the trustees are liable for income tax under section 467 of ITTOIA 2005 (gains from contracts for life insurance etc), other than a gain to which subsection (7) of that section applies.

*Type 8*

A profit or gain in relation to which the trustees are liable for income tax under section 554 of ITTOIA 2005 (transactions in deposits).

*Type 9*

A profit or gain—

- (a) in relation to which the trustees are liable for income tax under section 557 of ITTOIA 2005 (disposals of futures and options), and
- (b) which does not meet any of conditions A to C in section 568 of ITTOIA 2005.

*Type 10*

Proceeds in relation to which the trustees are liable for income tax under section 573 of ITTOIA 2005 (sales of foreign dividend coupons).

*Type 11*

Income treated as arising to the trustees under [<sup>F1054</sup>Part 9A of this Act (transactions in land)].

[<sup>F1055</sup>*Type 12*

Income treated as arising to the trustees under section 396A of ITTOIA 2005 (arrangements offering a choice of income or capital return).]

**Textual Amendments**

**F1051** Words in s. 482 inserted (with effect in accordance with s. 55(3) of the amending Act) by [Finance Act 2007 \(c. 11\), s. 55\(2\)](#)

**F1052** Word in s. 482 omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(5\)](#)

**F1053** Words in s. 482 substituted (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\), regs. 1\(1\), 129\(3\)](#)

**F1054** Words in s. 482 substituted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\), s. 79\(3\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\), s. 39\(1\)\(2\)](#))

*Status: Point in time view as at 22/02/2024.*

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**F1055** Words in s. 482 inserted (with effect in accordance with s. 19(10) of the amending Act) by [Finance Act 2015 \(c. 11\), s. 19\(8\)](#)

#### **483 Sums paid by personal representatives to trustees**

- (1) This section applies if, during or at the end of the administration period for an estate—
  - (a) the personal representatives pay the trustees of a settlement a sum representing income of the personal representatives, and
  - (b) if this Chapter had applied to personal representatives, income tax would have been charged on that income at the dividend trust rate or at the trust rate.
- (2) The sum is treated as—
  - (a) being paid as income, and
  - (b) having borne income tax at the applicable rate.
- (3) In this section—

“administration period” has the meaning given by section 653 of ITTOIA 2005, and

“the applicable rate” means the rate referred to in section 663(1) of ITTOIA 2005 (the applicable rate for grossing up basic amounts of estate income).

### **CHAPTER 4**

#### **TRUSTEES' EXPENSES AND SPECIAL RATES FOR TRUSTEES**

#### **484 Trustees' expenses to be set against trustees' trust rate income**

- (1) This section applies if the trustees of a settlement incur allowable expenses in a tax year (“the current tax year”).
- (2) The allowable expenses are to be set against the trustees' trust rate income for the current tax year in accordance with section 486.
- (3) That is to be done before working out whether section 491 applies in relation to the trustees for the current tax year.
- (4) So far as any of the trustees' trust rate income has an amount set against it in accordance with section 486, income tax is charged on it at the rate or rates which would apply apart from Chapter 3 (see Chapter 2 of Part 2).
- (5) Expenses are allowable for the purposes of this Chapter only so far as—
  - (a) they are expenses of the trustees, and
  - (b) they are properly chargeable to income, ignoring the express terms of the settlement.
- (6) Expenses are not allowable for the purposes of this Chapter if they are expenses which (apart from this section) have fallen, or may fall, to be taken into account for the purpose of calculating the trustees' liability to income tax for any tax year.

*Status: Point in time view as at 22/02/2024.*

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#### **485 Carry forward of unused expenses**

- (1) This section applies if (apart from this section) the trustees incur an allowable expense in a tax year prior to the current tax year (“the earlier tax year”).
- (2) For the purposes of this Chapter the trustees are treated as having incurred the allowable expense in the current tax year so far as conditions A and B are met in relation to the expense.
- (3) Condition A is that the allowable expense could not be set against the trustees' trust rate income for the earlier tax year only because the trustees' trust rate income was insufficient or they had no trust rate income.
- (4) Condition B is that the allowable expense has not been set against the trustees' trust rate income for a tax year prior to the current tax year as a result of this section.

#### **486 How allowable expenses are to be set against trust rate income**

- (1) Take the following steps to determine how the allowable expenses are to be set against the trustees' trust rate income for the current tax year.

##### *Step 1*

Reduce the allowable expenses by the proportion of those expenses (if any) which is excluded in accordance with section 487.

References at Steps 3 to 6 below to the allowable expenses are references to the expenses as so reduced.

##### *Step 2*

Identify the type or types of income which make up the trust rate income.

The possible types are dividend income, savings income and other income.

##### *Step 3*

If there is dividend income within subsection (2)—

- (a) gross up by reference to the dividend ordinary rate so much of the allowable expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough allowable expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the dividend income within subsection (2).

##### *Step 4*

If there are remaining expenses and there is dividend income not within subsection (2)

- (a) gross up by reference to the dividend ordinary rate so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the dividend income not within subsection (2).

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3.

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### Step 5

If there are remaining expenses and there is savings income—

- (a) gross up by reference to the [<sup>F1056</sup>basic rate] so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the savings income.

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3 or 4.

### Step 6

If there are remaining expenses and there is other income—

- (a) gross up by reference to the basic rate so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the other income.

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3, 4 or 5.

- (2) Income is within this subsection so far as it is—
  - (a) chargeable under Chapter 3 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies),
  - (b) chargeable under Chapter 5 of that Part (stock dividends from UK resident companies), or
  - (c) chargeable under Chapter 6 of that Part (release of loan to participator in close company).
- (3) If income tax would, apart from Chapter 3, be charged on any income mentioned at Steps 3 to 6 at a rate different to the rate mentioned at the step in question, for the purpose of setting any expenses against that income, gross up the expenses by reference to the different rate instead of at the rate mentioned.

#### Textual Amendments

**F1056** Words in s. 486(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 21](#)

## 487 Non-UK resident trustees

- (1) This section applies if a proportion of the income arising to the trustees in the current tax year is untaxed income.
- (2) A proportion of the allowable expenses is excluded for the purposes of section 486.
- (3) That proportion is the same as the proportion of the income arising to the trustees which is untaxed income.

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- (4) For the purposes of this section the income arising to the trustees is untaxed income so far as they are not liable to income tax on it wholly or partly because they—
- (a) have been non-UK resident, or
  - (b) have been treated as resident in a territory outside the United Kingdom under double taxation arrangements.
- (5) If the income tax charged on the income arising to the trustees is limited under Chapter 1 of Part 14 (limits on liability to income tax of non-UK residents), the untaxed income includes so much of the income so arising which is disregarded income (within the meaning of that Chapter) except so far as the disregarded income is within subsection (6).
- (6) The disregarded income is within this subsection so far as—
- (a) sums representing income tax have been deducted from the income, [<sup>F1057</sup>or]
  - (b) sums representing income tax have been treated as deducted from or paid in respect of the income, <sup>F1058</sup>...
  - <sup>F1058</sup>(c) .....

#### Textual Amendments

**F1057** Word in s. 487(6) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 1 para. 63(6)(a)**

**F1058** S. 487(6)(c) and word omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 1 para. 63(6)(b)**

## CHAPTER 5

### SHARE INCENTIVE PLANS

#### 488 Application of section 479 to trustees of [<sup>F1059</sup>Schedule 2] share incentive plans

- (1) This section applies if—
- (a) income arises to the trustees of [<sup>F1060</sup>a Schedule 2] share incentive plan, and
  - (b) the income consists of dividends or other distributions in respect of shares held by the trustees in relation to which the requirements of Part 4 of Schedule 2 to ITEPA 2003 (<sup>F1061</sup>... share incentive plans: types of shares that may be awarded) are met.
- (2) Section 479 applies in relation to the income only if and when condition A or condition B has been met.
- (3) Condition A is that—
- (a) the applicable period in relation to the shares has ended, and
  - (b) that period came to an end without the shares being awarded to a participant in accordance with the plan.
- (4) Condition B is that the trustees disposed of the shares before the end of the applicable period in relation to the shares.
- (5) For the purpose of determining whether shares are awarded to a participant within the applicable period in relation to them, shares acquired by the trustees at an earlier time



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are taken to be awarded to a participant before shares of the same class acquired by the trustees at a later time.

- (6) References in this section to shares being awarded to a participant include references to the shares being acquired on behalf of the participant as dividend shares.

#### Textual Amendments

**F1059** Words in s. 488 heading substituted (6.4.2014) by Finance Act 2014 (c. 26), Sch. 8 paras. 71(2), 89 (with Sch. 8 paras. 90-96)

**F1060** Words in s. 488(1)(a) substituted (6.4.2014) by Finance Act 2014 (c. 26), Sch. 8 paras. 71(3)(a), 89 (with Sch. 8 paras. 90-96)

**F1061** Word in s. 488(1)(b) omitted (6.4.2014) by virtue of Finance Act 2014 (c. 26), Sch. 8 paras. 71(3)(b), 89 (with Sch. 8 paras. 90-96)

#### 489 “The applicable period” in relation to shares

- (1) This section sets out how the applicable period in relation to any shares (“the relevant shares”) is determined for the purposes of section 488.
- (2) The length of the applicable period depends on whether any shares in the relevant company were readily convertible assets at the time the relevant shares were acquired by the trustees.
- (3) If any were, the applicable period is the period of two years beginning with the acquisition date.
- (4) If none were, the applicable period is—
- the period of 5 years beginning with the acquisition date, or
  - if within that period any shares in the relevant company become readily convertible assets, the period of two years beginning with the date on which they did so,
- whichever ends first.
- (5) Subsections (2) to (4) are subject to subsection (6).
- (6) If the relevant shares were acquired by the trustees by virtue of a payment in respect of which a deduction is allowed under [F1062 section 989 of CTA 2009] (deduction for contribution to plan trust), the applicable period is the period of 10 years beginning with the acquisition date.
- (7) In this section—
- “the acquisition date” means the date on which the trustees acquired the relevant shares,
  - “readily convertible assets” has, subject to subsection (8), the meaning given by sections 701 and 702 of ITEPA 2003, and
  - “the relevant company” means the company in which the relevant shares are shares.
- (8) In determining for the purposes of this section whether shares are readily convertible assets, ignore any market for the shares that—
- is created by virtue of the trustees acquiring shares for the purposes of the [F1063 Schedule 2] share incentive plan, and

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(b) exists solely for the purposes of that plan.

#### Textual Amendments

**F1062** Words in s. 489(6) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 702** (with Sch. 2 Pts. 1, 2)

**F1063** Words in s. 489(8)(a) substituted (6.4.2014) by Finance Act 2014 (c. 26), **Sch. 8 paras. 72, 89** (with Sch. 8 paras. 90-96)

## 490 Interpretation of Chapter

- (1) This Chapter forms part of the SIP code (see section 488 of ITEPA 2003 (<sup>F1064</sup>... share incentive plans)).
- (2) Therefore expressions used in this Chapter and contained in the index at the end of Schedule 2 to ITEPA 2003 have the meaning indicated by that index.
- (3) For the purposes of this Chapter shares which are subject to provision for forfeiture are treated as acquired by the trustees if and when the forfeiture occurs.

#### Textual Amendments

**F1064** Word in s. 490(1) omitted (6.4.2014) by virtue of Finance Act 2014 (c. 26), **Sch. 8 paras. 73, 89** (with Sch. 8 paras. 90-96)

## CHAPTER 6

### TRUSTEES' FIRST SLICE OF TRUST RATE INCOME

## 491 Special rates not to apply to first slice of trustees' trust rate income

- (1) If the trust rate income for a tax year of the trustees of a settlement is £1,000 or less, income tax is not charged on it at the dividend trust rate or at the trust rate.
- (2) If the trustees' trust rate income is more than £1,000, income tax is not charged on the first £1,000 of it at the dividend trust rate or at the trust rate.
- (3) Instead, income tax is charged on the trustees' trust rate income or the first £1,000 of it (as the case may be) at the rate or rates which would apply apart from Chapter 3 (see Chapter 2 of Part 2).
- (4) For the purposes of subsection (2) apply the following rules in determining the type or types of income that make up the first £1,000 of the trustees' trust rate income.

#### *Rule 1*

If the trustees' trust rate income includes amounts on which income tax would be charged at the basic rate apart from Chapter 3, treat those amounts as the lowest part of the trust rate income.

#### *Rule 2*

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If the trustees' trust rate income includes amounts on which income tax would be charged at the dividend ordinary rate apart from Chapter 3, treat those amounts as the highest part of the trust rate income.

- (5) For the purposes of this section gains chargeable under Chapter 9 of Part 4 of ITTOIA 2005 (gains from contracts for life assurance etc) are treated as if they were savings income.
- (6) Amounts on which income tax is not to be charged at the dividend trust rate or at the trust rate as a result of Chapter 4 are excluded from the trustees' trust rate income for the purposes of this section.

#### **492 Cases where settlor has made more than one settlement**

- (1) The application of section 491 in relation to the trustees of a settlement (“the relevant settlement”) for a tax year is modified in accordance with subsection (2) if the settlor in relation to the relevant settlement has made one or more other current settlements.
- (2) References to £1,000 are to be read as references to—
  - (a) £200, or
  - (b) if greater, the settlor's threshold amount.
- (3) The settlor's threshold amount is the amount calculated by dividing £1,000 by the number of current settlements (including the relevant settlement) made by the settlor.
- (4) If there is more than one settlor in relation to the relevant settlement—
  - (a) calculate the threshold amount of each of them, and
  - (b) use the lowest of those threshold amounts for the purposes of subsection (2) (b).
- (5) A settlement is current if it is in existence at a time during the tax year.

### **CHAPTER 7**

#### **DISCRETIONARY PAYMENTS**

*[<sup>F1065</sup>Payments constituting income of beneficiary (other than employment income)]*

#### **Textual Amendments**

**F1065S.** 493 cross-heading inserted (with effect in accordance with art. 3(9) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2010 \(S.I. 2010/157\)](#), arts. 1, **3(2)** (with art. 3(10))

#### **493 Discretionary payments by trustees**

- (1) Sections 494 and 495 apply for income tax purposes if—
  - (a) in a tax year the trustees of a settlement make an annual payment to a person (“the beneficiary”) in the exercise of a discretion (whether exercisable by the trustees or any other person),
  - (b) the trustees are UK resident for the tax year, and

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- (c) condition A or condition B is met.
- (2) Condition A is that what is paid to the beneficiary is, only because of the payment, income of the beneficiary for income tax or corporation tax purposes.  
 “Income” does not include employment income.
- (3) Condition B is that the payment is treated for income tax purposes as the income of a settlor under section 629 of ITTOIA 2005 (income paid to relevant children of settlor).  
 “Settlor” is to be read in accordance with section 620 of ITTOIA 2005.
- (4) The payment is referred to in sections 494 and 495 as “the discretionary payment”.
- (5) In this Chapter “payment” includes payment in money's worth.

#### 494 Grossing up of discretionary payment and payment of income tax

- (1) The discretionary payment is treated as if it were made after the deduction of a sum representing income tax at the trust rate on the grossed up amount of the discretionary payment.
- (2) The grossed up amount of the discretionary payment is the actual amount of the discretionary payment grossed up by reference to the trust rate.
- (3) The person mentioned in subsection (4) is treated as having paid income tax of an amount equal to the sum deducted as mentioned in subsection (1).
- (4) That person is—
- (a) if condition A in section 493 is met, the beneficiary, and
  - (b) if condition B in section 493 is met, the settlor.

#### Modifications etc. (not altering text)

**C92** S. 494 excluded (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **12(4)**

#### 495 Statement about deduction of income tax

- (1) If the person who is treated as having paid income tax requests it in writing, the trustees must provide that person with a statement showing—
- (a) the grossed up amount of the discretionary payment,
  - (b) the sum deducted as mentioned in section 494(1), and
  - (c) the actual amount of the discretionary payment.
- (2) A statement under this section must be in writing.
- (3) The duty to comply with a request under this section is enforceable by the person who made it.

#### Modifications etc. (not altering text)

**C93** S. 495 excluded (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **12(4)**

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## 496 Income tax charged on trustees

- (1) Income tax is charged for a tax year if—
  - (a) in the tax year the trustees of a settlement make payments as a result of which income tax is treated as having been paid under section 494, and
  - (b) amount A is greater than amount B.
- (2) Amount A is the total amount of the income tax treated under section 494 as having been paid.
- (3) Amount B is the amount of the trustees' tax pool available for the tax year (see section 497).
- (4) The amount of the tax charged under this section is equal to the difference between amounts A and B.
- (5) The trustees are liable for the tax.

*<sup>F1066</sup>Payments constituting employment income of beneficiary*

### Textual Amendments

**F1066**Ss. 496A, 496B and cross-heading inserted (with effect in accordance with art. 3(7) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2010 \(S.I. 2010/157\)](#), arts. 1, **3(3)** (with art. 3(10))

## 496A Discretionary payments by trustees: employment income

- (1) Section 496B applies if—
  - (a) in a tax year the trustees of a settlement make a discretionary employment income payment, and
  - (b) the trustees are UK resident for the tax year.
- (2) In this section and section 496B, “discretionary employment income payment” means a payment to a person (“the beneficiary”) that—
  - (a) is made in the exercise of a discretion (whether exercisable by the trustees or any other person),
  - (b) is made out of income, and
  - (c) meets conditions A and B.
- (3) Condition A is that what is paid to the beneficiary—
  - (a) is, only because of the payment, employment income of the beneficiary, but
  - (b) is not exempt income (as defined in section 8 of ITEPA 2003).
- (4) Condition B is that the payment is made at a time when the settlement is an employee benefit settlement.
- (5) A settlement is an employee benefit settlement if the trusts on which the settled property is held do not permit the settled property to be applied otherwise than—
  - (a) for the benefit of persons of one or more relevant classes, or
  - (b) for the benefit of such persons and for charitable purposes.
- (6) “Relevant class” means a class defined by reference to one or more of the following—

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- (a) employment in a particular trade or profession,
  - (b) employment by, or holding office with, a body carrying on a trade, profession or undertaking, or
  - (c) marriage to or civil partnership with, or relationship to, or dependence on, persons of a class mentioned in paragraph (a) or (b).
- (7) Where the trusts on which the settled property is held do not permit the settled property to be applied otherwise than as described in subsection (5) during a period (however defined), the settlement is an employee benefit settlement during (and only during) that period.

#### 496B Relief for trustees

- (1) The trustees of a settlement are entitled (on making a claim in respect of a tax year) to repayment of an amount of income tax equal to the lesser of amount A and amount B.

- (2) Amount A is—

$$TEI \times TR$$

where—

TEI is the total of the amounts that are employment income of beneficiaries of the settlement because of discretionary employment income payments made in the tax year by the trustees, and

TR is the trust rate in force for the tax year.

- (3) Amount B is the amount of the trustees' tax pool available for the tax year (see section 497) reduced (but not so that it goes below nil) by the total amount of income tax (if any) treated under section 494 as having been paid as a result of payments made by the trustees in the tax year.

- (4) A claim under this section may not be made before the end of the tax year to which it relates.]

#### Modifications etc. (not altering text)

**C94** S. 496B excluded (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **12(4)**

*[<sup>F1067</sup>Tax pool]*

#### Textual Amendments

**F1067S.** 497 cross-heading inserted (with effect in accordance with art. 3(7) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2010 \(S.I. 2010/157\)](#), arts. 1, **3(4)** (with art. 3(10))

#### 497 Calculation of trustees' tax pool

- (1) Take the following steps to calculate the amount of the trustees' tax pool available for a tax year (“the current tax year”).

This is subject to subsections (2) and (3).

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### Step 1

Take the amount of the trustees' tax pool available for the previous tax year and deduct from that amount (but not so that it goes below nil)<sup>F1068</sup>—

- (a) the total amount of income tax treated under section 494 as having been paid as a result of payments made by the trustees in the previous tax year<sup>F1069</sup>, and
- (b) the amount to which the trustees are entitled under section 496B in respect of the previous tax year.]

### Step 2

Add together all amounts of income tax for which the trustees are liable for the current tax year and which are of a type set out in section 498.

### Step 3

Add the sum calculated at Step 2 to the amount resulting from Step 1.

- (2) If the trustees were non-UK resident for the previous tax year, references in subsection (1) to the previous tax year are to be read as references to the last tax year prior to the current tax year for which the trustees were UK resident.
- (3) If—
  - (a) the current tax year is the tax year during which the settlement is established, or
  - (b) the trustees have been UK resident for no tax year prior to the current tax year, ignore Steps 1 and 3 and, accordingly, the trustees' tax pool available for the current tax year is the sum calculated at Step 2.

#### Textual Amendments

**F1068** Word in s. 497(1) inserted (with effect in accordance with art. 3(8) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2010 \(S.I. 2010/157\)](#), arts. 1, **3(5)(a)** (with art. 3(10))

**F1069** Words in s. 497(1) inserted (with effect in accordance with art. 3(8) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2010 \(S.I. 2010/157\)](#), arts. 1, **3(5)(b)** (with art. 3(10))

## 498 Types of income tax for the purposes of section 497

- (1) The types of amount referred to at Step 2 in section 497 are as follows.

### Type 1

The amount of any tax on income (other than income of a kind mentioned below in relation to Type <sup>F1070</sup>[<sup>F1071</sup> ... 3A]) charged at the dividend trust rate or at the trust rate.

<sup>F1072</sup> ...

<sup>F1072</sup> ...

### <sup>F1073</sup>Type 3A

The amount of tax at the nominal rate on any amount in respect of which—

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- (a) the trustees are liable to income tax under section 467 of ITTOIA 2005 (gains from contracts for life insurance etc),
- (b) the trustees are liable to income tax at the trust rate by virtue of section 482 above, and
- (c) tax at the [<sup>F1074</sup>basic rate] is treated as having been paid by virtue of section 530 of ITTOIA 2005 (life insurance).]

*Type 4*

The amount of any tax on income on which tax is charged <sup>F1075</sup> ... <sup>F1076</sup> ... as a result of section 491.

*Type 5*

The amount of tax on any income determined in accordance with section 26 of FA 2005 (special tax treatment for trusts for the benefit of vulnerable persons).

<sup>F1077</sup>(2) .....

[<sup>F1078</sup>(2A) In relation to Type 3A, the reference to the nominal rate is a reference to a rate equal to the difference between the trust rate and the [<sup>F1079</sup>basic rate] .]

- (3) In relation to Types 1 to 4, references to income do not include income the tax on which is reduced in accordance with section 26 of FA 2005.

**Textual Amendments**

- F1070** Words in s. 498(1) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(7)(a)(i)**
- F1071** Words in s. 498(1) substituted (21.7.2008 with effect in accordance with s. 56(4) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), **s. 56(2)(a)**
- F1072** Words in s. 498(1) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(7)(a)(ii)**
- F1073** Words in s. 498(1) inserted (21.7.2008 with effect in accordance with s. 56(4) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), **s. 56(2)(b)**
- F1074** Words in s. 498(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 22(2)**
- F1075** Words in s. 498(1) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(7)(a)(iii)**
- F1076** Words in s. 498(1) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 22(3)**
- F1077** S. 498(2) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(7)(b)**
- F1078** S. 498(2A) inserted (21.7.2008 with effect in accordance with s. 56(4) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), **s. 56(3)**
- F1079** Words in s. 498(2A) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 22(4)**



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## CHAPTER 8

### TRUSTEES' EXPENSES AND BENEFICIARY'S INCOME

#### 499 Application of Chapter

- (1) This Chapter applies if—
  - (a) in a tax year (“the current tax year”) income arises to the trustees of a settlement, and
  - (b) before being distributed, some or all of that income is income of another person (“the beneficiary”).
- (2) It contains provision about how the beneficiary's income mentioned in subsection (1)(b) (“the beneficiary's income”) can be reduced for income tax purposes by reference to expenses of the trustees.

#### 500 Restrictions on use of trustees' expenses to reduce the beneficiary's income

- (1) Expenses of the trustees can be used to reduce the beneficiary's income for income tax purposes only so far as—
  - (a) the expenses are incurred by the trustees in the current tax year or in an earlier tax year, and
  - (b) as a result of the expenses being chargeable to income as mentioned in subsection (2) or (3), the beneficiary's entitlement to the beneficiary's income is reduced by reference to the expenses.
- (2) Expenses are chargeable to income for the purposes of subsection (1)(b) if they are chargeable to income by the trustees under a term of the settlement (subject to any overriding law which prevents the expenses from being so chargeable).
- (3) Expenses are also chargeable to income for the purposes of subsection (1)(b) if they—
  - (a) are not chargeable to income by the trustees under a term of the settlement, but
  - (b) are chargeable to income by the trustees in accordance with any law (subject to any overriding term of the settlement which prevents the expenses from being so chargeable).
- (4) Expenses cannot be used to reduce the beneficiary's income for income tax purposes so far as they are expenses which have fallen, or may fall, to be taken into account for the purpose of calculating the trustees' liability to income tax for any tax year.

#### **Modifications etc. (not altering text)**

**C95** S. 500 applied (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), [ss. 611\(2\)](#), [1184\(1\)](#) (with [Sch. 2](#))

#### 501 Non-UK resident beneficiaries

- (1) This section applies if—
  - (a) expenses of the trustees are to be used to reduce the beneficiary's income for income tax purposes, and
  - (b) a proportion of the beneficiary's income is untaxed income (see section 502).

*Status: Point in time view as at 22/02/2024.*

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- (2) A proportion of those expenses is not to be so used.
- (3) That proportion is the same as the proportion of the beneficiary's income which is untaxed income.
- (4) In subsection (3) the references to the beneficiary's income and untaxed income do not, in either case, include so much (if any) of that income as is equal to the amount of income tax, or of any foreign tax, for which the trustees are liable on that income.
- (5) "Foreign tax" means any tax which—
  - (a) is of a similar character to income tax, and
  - (b) is imposed by the laws of a territory outside the United Kingdom.

## 502 Meaning of "untaxed income" in section 501

- (1) For the purposes of section 501 the beneficiary's income is untaxed income so far as the beneficiary is not liable to income tax on it wholly or partly because the beneficiary—
  - (a) has been non-UK resident, or
  - (b) has been treated as resident in a territory outside the United Kingdom under double taxation arrangements.
- (2) If the income tax charged on the beneficiary for the beneficiary's income is limited under Chapter 1 of Part 14 (limits on liability to income tax of non-UK residents), the untaxed income includes so much of the beneficiary's income which is disregarded income (within the meaning of that Chapter) except so far as the disregarded income is within subsection (3).
- (3) The disregarded income is within this subsection so far as—
  - (a) sums representing income tax have been deducted from the income, [<sup>F1080</sup>or]
  - (b) sums representing income tax have been treated as deducted from or paid in respect of the income, <sup>F1081</sup>...
  - <sup>F1081</sup>(c) .....

### Textual Amendments

**F1080** Word in s. 502(3) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 1 para. 63(8)(a)**

**F1081** S. 502(3)(c) and word omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 1 para. 63(8)(b)**

## 503 How beneficiary's income is reduced

- (1) This section applies if the beneficiary's income is to be reduced for income tax purposes by expenses of the trustees.
- (2) The beneficiary's income is to be reduced in the following order—
  - first, reduce dividend income within subsection (3) (if any),
  - second, reduce dividend income not within that subsection (if any),
  - third, reduce savings income (if any), and
  - fourth, reduce other income (if any).

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- (3) Income is within this subsection so far as it is—
- (a) chargeable under Chapter 3 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies),
  - (b) chargeable under Chapter 5 of that Part (stock dividends from UK resident companies), or
  - (c) chargeable under Chapter 6 of that Part (release of loan to participator in close company).
- (4) If the trustees are liable for income tax charged on a component of the beneficiary's income at a particular rate, then any reduction of that component is to be made in accordance with the steps set out in subsection (5).
- (5) Here are the steps.

*Step 1*

Deduct from the component the amount of income tax charged on it at the particular rate for which the trustees are liable.

*Step 2*

Take the result from Step 1 and reduce it (but not below nil) by the amount of the trustees' expenses so far as they have not already been used to reduce other components of the beneficiary's income.

*Step 3*

Take the result from Step 2 and gross it up by reference to the particular rate.

The result is the reduced amount of the component of the beneficiary's income.

**Modifications etc. (not altering text)**

**C96** S. 503 applied (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), **ss. 611(2)**, 1184(1) (with [Sch. 2](#))

## CHAPTER 9

### UNAUTHORISED UNIT TRUSTS

#### <sup>F1082</sup>**504 Treatment of income of unauthorised unit trust**

.....

**Textual Amendments**

**F1082**Ss. 504-505 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), **regs. 1(3)**, **37(6)** (with [reg. 32](#))

#### <sup>F1082</sup>**504A Treatment of capital expenditure of unauthorised unit trust**

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*Status: Point in time view as at 22/02/2024.*

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**Textual Amendments**

**F1082**Ss. 504-505 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(6)** (with reg. 32)

**F1082 505 Relief for trustees of unauthorised unit trust**

.....

**Textual Amendments**

**F1082**Ss. 504-505 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(6)** (with reg. 32)

**F1083 506 Special rules for trustees affected by section 733 of ICTA**

.....

**Textual Amendments**

**F1083**S. 506 omitted (21.7.2008 with effect in accordance with s. 66(8) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), s. **66(4)(I)(vii)**

**CHAPTER 10**

HERITAGE MAINTENANCE SETTLEMENTS

*Introduction*

**507 Overview of Chapter**

- (1) This Chapter makes provision about income arising from heritage maintenance property comprised in a heritage maintenance settlement.
- (2) In this Chapter—
  - “heritage body” means a body or charity of a kind mentioned in paragraph 3(1)(a)(ii) of Schedule 4 to IHTA 1984 (maintenance funds for historic buildings etc),
  - “heritage direction” means a direction under paragraph 1 of that Schedule,
  - “heritage maintenance property” means any property in respect of which a heritage direction has effect,
  - “heritage maintenance settlement” means a settlement which comprises heritage maintenance property, and
  - “property maintenance purpose” means any of the purposes mentioned in paragraph 3(1)(a)(i) of that Schedule.
- (3) If a settlement comprises both heritage maintenance property and other property, the heritage maintenance property and the other property are treated as comprised in

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separate settlements for the purposes of Chapters 2 to 8 of this Part and the following provisions—

- (a) sections 64 to 66 and sections 75 to 79 (trade loss relief against general income),
- (b) sections 83 to 88 (carry-forward trade loss relief), and
- (c) Chapter 5 of Part 5 of ITTOIA 2005.

*Trustees' election in respect of income etc*

**508 Election by trustees**

- (1) The trustees of a heritage maintenance settlement may elect for this section to have effect for a tax year.
- (2) If an election under subsection (1) has effect for a tax year, the rules in subsections (3) and (4) apply.
- (3) Income arising in the year from the heritage maintenance property comprised in the settlement, which would otherwise be treated as income of the settlor under Chapter 5 of Part 5 of ITTOIA 2005, is not to be so treated.
- (4) Any sum applied out of the heritage maintenance property in the year for a property maintenance purpose, which would otherwise be treated for income tax purposes as the income of a person—
  - (a) because of the person's interest in (or occupation of) the property in respect of which the sum is applied, or
  - (b) under section 633 of ITTOIA 2005 (capital sums paid to settlor by trustees of settlement),is not to be so treated.
- (5) An election under subsection (1) must be made on or before the first anniversary of the normal self-assessment filing date for the tax year to which it relates.

**509 Change of circumstances during a tax year**

- (1) If a change of circumstances arises during a tax year—
  - (a) the part of the year before the change and the part of the year after the change are to be treated as separate tax years for the purposes of section 508, this section and section 510, and
  - (b) separate elections under section 508(1) may be made for each part.
- (2) A change of circumstances arises if conditions A and B are met.
- (3) Condition A is that for any part of the tax year—
  - (a) a heritage direction has effect, and
  - (b) income arising from the heritage maintenance property comprised in the settlement is treated as income of the settlor under Chapter 5 of Part 5 of ITTOIA 2005.
- (4) Condition B is that for the remaining part of the year one or both of the following paragraphs applies—
  - (a) no heritage direction has effect, and

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- (b) no income arising from property comprised in the settlement is treated as income of the settlor under Chapter 5 of Part 5 of ITTOIA 2005.

*Absence of election and income treated as income of settlor: special rules*

## **510 Sums applied for property maintenance purposes**

- (1) This section applies if—
- (a) income arises from the heritage maintenance property comprised in a heritage maintenance settlement in a tax year in respect of which no election is made under section 508,
  - (b) the income is treated under Chapter 5 of Part 5 of ITTOIA 2005 as income of the settlor, and
  - (c) a sum in excess of the income is applied for a property maintenance purpose in the year.
- (2) Any such sum which is so applied in that year, which would otherwise be treated for income tax purposes as the income of a person—
- (a) because of the person's interest in (or occupation of) the property in respect of which the sum is applied, or
  - (b) under section 633 of ITTOIA 2005 (capital sums paid to settlor by trustees of settlement),
- is not to be so treated.

## **511 Prevention of double taxation: reimbursement of settlor**

- (1) This section applies to income arising from heritage maintenance property if—
- (a) the income is treated under Chapter 5 of Part 5 of ITTOIA 2005 as income of the settlor,
  - (b) the income is applied in reimbursing the settlor for expenditure incurred by the settlor for a property maintenance purpose, and
  - (c) the expenditure is deductible in calculating the profits of—
    - (i) a trade, or
    - (ii) a UK property business,
 carried on by the settlor.
- (2) Any such income—
- (a) is not to be brought into account as a receipt in calculating the profits of that trade or business, and
  - (b) is not to be treated as income of the settlor otherwise than under Chapter 5 of Part 5 of ITTOIA 2005.

*Application of property for non-heritage purposes: charge to tax*

## **512 Charge to tax on some settlements**

- (1) Income tax is charged in respect of a heritage maintenance settlement on any of the occasions described in cases A to D, subject to sections 516 and 517.

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- (2) Case A is where any of the property comprised in the settlement (whether capital or income) is applied otherwise than—
  - (a) for a property maintenance purpose, or
  - (b) as respects income not so applied and not accumulated, for the benefit of a heritage body.
- (3) Case B is where any of that property, on ceasing to be comprised in the settlement, devolves otherwise than on a heritage body.
- (4) Case C is where the heritage direction ceases to have effect in respect of the settlement.
- (5) Case D is where any of the property comprised in the settlement, on ceasing at any time to be comprised in the settlement—
  - (a) devolves on a heritage body, and
  - (b) at or before that time an interest under the settlement is or has been acquired for a consideration in money or money's worth by that or another such body.
- (6) For the purposes of subsection (5)(b) any acquisition from another such body is to be ignored.

### **513 Income charged**

- (1) Tax is charged under section 512 on the whole of the income—
  - (a) which has arisen in the relevant period from the property comprised in the settlement, and
  - (b) which has not been applied (whether or not it has been first accumulated) for a property maintenance purpose or for the benefit of a heritage body.
- (2) In this section “relevant period” means—
  - (a) if tax has become chargeable under section 512 in respect of the settlement on a previous occasion, the period since the last occasion, and
  - (b) in any other case, the period since the settlement took effect.
- (3) Tax charged under section 512 is in addition to any tax otherwise chargeable.
- (4) All the provisions of the Income Tax Acts relating to assessments and to the collection and recovery of income tax (so far as applicable) are to apply to that charge.

### **514 Persons liable**

The persons liable for any tax charged under section 512 are the trustees of the settlement.

### **515 Rate of tax**

Tax is charged under section 512 at the rate found by—

- (a) taking the [<sup>F1084</sup>additional rate] for the tax year during which the charge arises, and
- (b) reducing it by the trust rate for that year.

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### Textual Amendments

**F1084** Words in s. 515(a) substituted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 2 para. 7**

## 516 Transfer of property between settlements

- (1) This section applies if the whole of the property comprised in a settlement becomes comprised in another settlement because of a tax-free transfer.
- (2) The occasion of charge under section 512, which would otherwise occur at the time of transfer, occurs when tax first becomes chargeable under that section in respect of any settlement comprising the transferred property (“the chargeable settlement”).
- (3) For the purposes of section 513(1) as it applies to the chargeable settlement, the relevant period is adjusted so that it begins—
  - (a) on the occasion when tax last became chargeable under section 512 in respect of any previous settlement from which the property was transferred, or
  - (b) if there has been no such occasion, when such previous settlement (or the first of them) took effect.
- (4) In this section “tax-free transfer” means a transfer of property from one settlement into another in either of the following cases—
  - (a) where paragraph 9(1) of Schedule 4 to IHTA 1984 provides (or, but for paragraph 9(4) of that Schedule, would provide) an exception from charge in respect of the property, or
  - (b) where, both immediately before and immediately after the transfer, the property is heritage maintenance property.

## 517 Exemption for income treated as income of settlor

- (1) Tax is not chargeable under section 512 in respect of income which is treated under section 624 or 629 of ITTOIA 2005 as income of the settlor.
- (2) If such income arises in a tax year, any sums applied in the year—
  - (a) for a property maintenance purpose, or
  - (b) for the benefit of a heritage body,
 are to be treated as paid first out of that income and, so far as there is any excess, out of income that does not fall within subsection (1).

## [<sup>F1085</sup>PART 9A

### TRANSACTIONS IN UK LAND

### Textual Amendments

**F1085** Pt. 9A inserted (with effect in relation to disposals on or after 5.7.2016) by Finance Act 2016 (c. 24), **s. 79(1), 82(1)** (with s. 82(2)-(15)); which insertion also has effect so far as it would not otherwise have effect in accordance with Finance (No. 2) Act 2017 (c. 32), **s. 39(1)(2)**



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## Introduction

### 517A Overview of Part

This Part contains provision about the income tax treatment of certain profits and gains realised from disposals concerned with land in the United Kingdom.

### *Amounts treated as profits of a trade*

### 517B Disposals of land in the United Kingdom

- (1) Section 517C(1) applies (subject to subsection (3) of that section) if—
  - (a) a person within subsection (2)(a), (b) or (c) realises a profit or gain from a disposal of any land in the United Kingdom, and
  - (b) any of conditions A to D is met in relation to the land.
- (2) The persons referred to in subsection (1) are—
  - (a) the person acquiring, holding or developing the land,
  - (b) a person who is associated with the person in paragraph (a) at a relevant time, and
  - (c) a person who is a party to, or concerned in, an arrangement within subsection (3).
- (3) An arrangement is within this subsection if—
  - (a) it is effected with respect to all or part of the land, and
  - (b) it enables a profit or gain to be realised—
    - (i) by any indirect method, or
    - (ii) by any series of transactions.
- (4) Condition A is that the main purpose, or one of the main purposes, of acquiring the land was to realise a profit or gain from disposing of the land.
- (5) Condition B is that the main purpose, or one of the main purposes, of acquiring any property deriving its value from the land was to realise a profit or gain from disposing of the land.
- (6) Condition C is that the land is held as trading stock.
- (7) Condition D is that (in a case where the land has been developed) the main purpose, or one of the main purposes, of developing the land was to realise a profit or gain from disposing of the land when developed.
- (8) In this section “relevant time” means any time in the period beginning when the activities of the project begin and ending 6 months after the disposal mentioned in subsection (1).
- (9) In this section “the project” means all activities carried out for any of the following purposes—
  - (a) the purposes of dealing in or developing the land, and
  - (b) any other purposes mentioned in Conditions A to D.
- (10) For the purposes of this section a person (“A”) is associated with another person (“B”) if—

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- (a) A is connected with B by virtue of any of subsections (2) to (4) of section 993 (read in accordance with section 994), or
- (b) A is related to B (see section 517U).

#### **517C Disposals of land: profits treated as trading profits**

- (1) The profit or gain is to be treated for income tax purposes as profits of a trade carried on by the chargeable person.
- (2) If the chargeable person is non-UK resident, that trade is the person's trade of dealing in or developing UK land (as defined in section 6B of ITTOIA 2005).
- (3) But subsection (1) does not apply to a profit or gain so far as it would (apart from this section) be brought into account as income in calculating profits (of any person)—
  - (a) for income tax purposes, or
  - (b) for corporation tax purposes.
- (4) The profits are treated as arising in the tax year in which the profit or gain is realised.
- (5) This section applies in relation to gains which are capital in nature as it applies in relation to other gains.

#### **517D Disposals of property deriving its value from land in the United Kingdom**

- (1) Section 517E(1) applies (subject to subsection (3) of that section) if—
  - (a) a person realises a profit or gain from a disposal of any property which (at the time of the disposal) derives at least 50% of its value from land in the United Kingdom,
  - (b) the person is a party to, or concerned in, an arrangement concerning some or all of the land mentioned in paragraph (a) (“the project land”), and
  - (c) the arrangement meets the condition in subsection (2).
- (2) The condition is that the main purpose, or one of the main purposes, of the arrangement is to—
  - (a) deal in or develop the project land, and
  - (b) realise a profit or gain from a disposal of property deriving the whole or part of its value from that land.

#### **517E Disposals within section 517D: profits treated as trading profits**

- (1) The relevant amount is to be treated for income tax purposes as profits of a trade carried on by the chargeable person.
- (2) If the chargeable person is non-UK resident, that trade is the chargeable person's trade of dealing in or developing UK land.
- (3) But subsection (1) does not apply to an amount so far as it would (apart from this section) be brought into account as income in calculating profits (of any person)—
  - (a) for income tax purposes, or
  - (b) for corporation tax purposes.
- (4) The profits are treated as arising in the tax year in which the profit or gain is realised.

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- (5) In this section the “relevant amount” means so much (if any) of the profit or gain mentioned in section 517D(1) as is attributable, on a just and reasonable apportionment, to the relevant UK assets.
- (6) In this section “the relevant UK assets” means any land in the United Kingdom from which the property mentioned in section 517D(1) derives any of its value (at the time of the disposal mentioned in that subsection).
- (7) This section applies in relation to gains which are capital in nature as it applies in relation to other gains.

#### **517F Profits and losses**

- (1) Sections 517B to 517E have effect as if they included provision about losses corresponding to the provision they make about profits and gains.
- (2) Accordingly, in the following sections of this Part references to a “profit or gain” include a loss.

*Person to whom profits attributed*

#### **517G The chargeable person**

- (1) For the purposes of sections 517C and 517E the general rule is that the “chargeable person” is the person (“P”) that realises the profit or gain (as mentioned in section 517B(1) or 517D(1)).
- (2) The general rule in subsection (1) is subject to the special rules in subsections (4) to (6).
- (3) But those special rules do not apply in relation to a profit or gain to which section 517H(3) (fragmented activities) applies.
- (4) If all or any part of the profit or gain accruing to P is derived from value provided directly or indirectly by another person (“B”), B is the “chargeable person”.
- (5) Subsection (4) applies whether or not the value is put at the disposal of P.
- (6) If all or any part of the profit or gain accruing to P is derived from an opportunity of realising a profit or gain provided directly or indirectly by another person (“D”), D is “the chargeable person” (unless the case falls within subsection (4)).
- (7) For the meaning of “another person” see section 517P.

*Anti-fragmentation*

#### **517H Fragmented activities**

- (1) Subsection (3) applies if—
  - (a) a person (“P”) disposes of any land in the United Kingdom,
  - (b) any of conditions A to D in section 517B is met in relation to the land, and
  - (c) a person (“R”) who is associated with P at a relevant time has made a relevant contribution to activities falling within subsection (2).

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- (2) The following activities fall within this subsection—
- (a) the development of the land,
  - (b) any other activities directed towards realising a profit or gain from the disposal of the land.
- (3) For the purposes of this Part, the profit or gain (if any) realised by P from the disposal is to be taken to be what that profit or gain would be if R were not a distinct person from P (and, accordingly, as if everything done by or in relation to R had been done by or in relation to P).
- (4) Subsection (5) applies to any amount which is paid (directly or indirectly) by R to P for the purposes of meeting or reimbursing the cost of income tax which P is liable to pay as a result of the application of subsection (3) in relation to R and P.
- (5) The amount—
- (a) is not to be taken into account in calculating profits or losses of either R or P for the purposes of income tax or corporation tax, and
  - (b) is not for any purpose of the Corporation Tax Acts to be regarded as a distribution.
- (6) In subsection (1) “relevant time” means any time in the period beginning when the activities of the project begin and ending 6 months after the disposal.
- (7) For the purposes of this section any contribution made by P to activities falling within subsection (2) is a “relevant contribution” unless the profit made or to be made by P in respect of the contribution is insignificant having regard to the size of the project.
- (8) In this section “contribution” means any kind of contribution, including, for example—
- (a) the provision of professional or other services, or
  - (b) a financial contribution (including the assumption of a risk).
- (9) For the purposes of this section R is “associated” with P if—
- (a) R is connected with P by virtue of any of subsections (2) to (4) of section 993 (read in accordance with section 994), or
  - (b) R is related to P (see section 517U).
- (10) In this section “the project” means all activities carried out for any of the following purposes—
- (a) the purposes of dealing in or developing the land, and
  - (b) any other purposes mentioned in Conditions A to D in section 517B.

### *Calculation of profit or gain on disposal*

#### **517I Calculation of surplus on a disposal of land**

For the purposes of this Part, the profit or gain (if any) from a disposal of any property is to be calculated according to the principles applicable for calculating the profits of a trade under Part 2 of ITTOIA 2005, subject to any modifications that may be appropriate (and for this purpose the same rules are to apply in calculating losses from a disposal as apply in calculating profits).

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## **517J Appportionments**

Any apportionment (whether of expenditure, consideration or any other amount) that is required to be made for the purposes of this Part is to be made on a just and reasonable basis.

### *Arrangements for avoiding tax*

## **517K Arrangements for avoiding tax**

- (1) Subsection (3) applies if an arrangement has been entered into the main purpose or one of the main purposes of which is to enable a person to obtain a relevant tax advantage.
- (2) In subsection (1) the reference to obtaining a relevant tax advantage includes obtaining a relevant tax advantage by virtue of any provisions of double taxation arrangements, but only in a case where the relevant tax advantage is contrary to the object and purpose of the provisions of the double taxation arrangements (and subsection (3) has effect accordingly, regardless of anything in section 6(1) of TIOPA 2010).
- (3) The tax advantage is to be counteracted by means of adjustments.
- (4) For this purpose adjustments may be made (whether by an officer of Revenue and Customs or by the person) by way of an assessment, the modification of an assessment, amendment or disallowance of a claim, or otherwise.
- (5) In this section “relevant tax advantage” means an advantage in relation to income tax charged (or which would, if the tax advantage were not obtained, be charged) in respect of amounts treated as profits of a trade by virtue of this Part.
- (6) In this section “advantage” includes—
  - (a) a relief or increased relief from tax,
  - (b) repayment or increased repayment of tax,
  - (c) avoidance or reduction of a charge to tax or an assessment to tax,
  - (d) avoidance of a possible assessment to tax,
  - (e) deferral of a payment of tax or advancement of a repayment of tax, and
  - (f) avoidance of an obligation to deduct or account for tax.

### *Exemptions*

## **517L Gain attributable to period before intention to develop formed**

- (1) Subsection (2) applies if—
  - (a) subsection (1) of section 517C applies because Condition D in section 517B is met (land developed with purpose of realising a gain from its disposal when developed), and
  - (b) part of the profit or gain mentioned in that subsection is fairly attributable to a period before the intention to develop was formed.
- (2) Section 517C(1) has effect as if the person mentioned in section 517B(1) had not realised that part of the profit or gain.
- (3) Subsection (4) applies if—
  - (a) section 517E(1) applies, and

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- (b) part of the profit or gain mentioned in section 517E(5) is fairly attributable to a period before the person mentioned in section 517D(1) was a party to, or concerned in, the arrangement in question.
- (4) Section 517E has effect as if the person had not realised that part of the profit or gain.
- (5) In applying this section account must be taken of the treatment under Part 2 of ITTOIA 2005 (trading income) of a person who appropriates land as trading stock.

### **517M Private residences**

No liability to income tax arises under this Part in respect of a gain accruing to an individual if—

- (a) the gain is exempt from capital gains tax as a result of sections 222 to 226 of TCGA 1992 (private residences), or
- (b) it would be so exempt but for section 224(3) of that Act (residences acquired partly with a view to making a gain).

#### *Other supplementary provisions*

### **517N Tracing value**

- (1) This section applies if it is necessary to determine the extent to which the value of any property or right is derived from any other property or right for the purposes of this Part.
- (2) Value may be traced through any number of companies, partnerships, trusts and other entities or arrangements.
- (3) The property held by a company, partnership or trust must be attributed to the shareholders, partners, beneficiaries or other participants at each stage in whatever way is appropriate in the circumstances.
- (4) In this section—
  - “partnership” includes an entity established under the law of a country or territory outside the United Kingdom of a similar nature to a partnership; and
  - “partners”, in relation to such arrangements, is to be construed accordingly;
  - “trust” includes arrangements—
    - (a) which have effect under the law of a country or territory outside the United Kingdom; and
    - (b) under which persons acting in a fiduciary capacity hold and administer property on behalf of other persons,
  - and “beneficiaries”, in relation to such arrangements, is to be construed accordingly.

### **517O Relevance of transactions, arrangements, etc**

- (1) In determining whether section 517C(1) or 517E(1) applies, account is to be taken of any method, however indirect, by which—
  - (a) any property or right is transferred or transmitted, or
  - (b) the value of any property or right is enhanced or diminished.

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- (2) Accordingly—
- (a) the occasion of the transfer or transmission of any property or right, however indirect, and
  - (b) the occasion when the value of any property or right is enhanced, may be an occasion on which section 517C(1) or 517E(1) applies.
- (3) Subsections (1) and (2) apply in particular—
- (a) to sales, contracts and other transactions made otherwise than for full consideration or for more than full consideration,
  - (b) to any method by which any property or right, or the control of any property or right, is transferred or transmitted by assigning—
    - (i) share capital or other rights in a company,
    - (ii) rights in a partnership, or
    - (iii) an interest in settled property,
  - (c) to the creation of an option affecting the disposition of any property or right and the giving of consideration for granting it,
  - (d) to the creation of a requirement for consent affecting such a disposition and the giving of consideration for granting it,
  - (e) to the creation of an embargo affecting such a disposition and the giving of consideration for releasing it, and
  - (f) to the disposal of any property or right on the winding up, dissolution or termination of a company, partnership or trust.

### *Interpretation*

#### **517P “Another person”**

- (1) In this Part references to “other” persons are to be interpreted in accordance with subsections (2) to (4).
- (2) A partnership or partners in a partnership may be regarded as a person or persons distinct from the individuals or other persons who are for the time being partners.
- (3) The trustees of settled property may be regarded as persons distinct from the individuals or other persons who are for the time being the trustees.
- (4) Personal representatives may be regarded as persons distinct from the individuals or other persons who are for the time being personal representatives.

#### **517Q “Arrangement”**

- (1) In this Part “arrangement” (except in the phrase “double taxation arrangements”) includes any agreement, understanding, scheme, transaction or series of transactions, whether or not legally enforceable.
- (2) For the purposes of this Part any number of transactions may be regarded as constituting a single arrangement if—
  - (a) a common purpose can be discerned in them, or
  - (b) there is other sufficient evidence of a common purpose.

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### **517R “Disposal”**

- (1) In this Part references to a “disposal” of any property include any case in which the property is effectively disposed of (whether wholly or in part, as mentioned in subsection (2))—
  - (a) by one or more transactions, or
  - (b) by any arrangement.
- (2) For the purposes of this Part—
  - (a) references to a disposal of land or any other property include a part disposal of the property, and
  - (b) there is a part disposal of property (“the asset”) where on a person making a disposal, any form of property derived from the asset remains undisposed of (including in cases where an interest or right in or over the asset is created by the disposal, as well as where it subsists before the disposal).

### **517S “Land” and related expressions**

- (1) In this Part “land” includes—
  - (a) buildings and structures,
  - (b) any estate, interest or right in or over land, and
  - (c) land under the sea or otherwise covered by water.
- (2) In this Part references to property deriving its value from land include—
  - (a) any shareholding in a company deriving its value directly or indirectly from land,
  - (b) any partnership interest deriving its value directly or indirectly from land,
  - (c) any interest in settled property deriving its value directly or indirectly from land, and
  - (d) any option, consent or embargo affecting the disposition of land.

### **517T References to realising a gain**

- (1) For the purposes of sections 517B(1) and 517D(1) it does not matter whether the person (“P”) realising the profit or gain in question realises it for P or another person.
- (2) For the purposes of subsection (1), if, for example by a premature sale, a person (“A”) directly or indirectly transmits the opportunity of realising a profit or gain to another person (“B”), A realises B's profit or gain for B.

### **517U Related parties**

- (1) For the purposes of this Part a person (“A”) is related to another person (“B”)—
  - (a) throughout any period for which A and B are consolidated for accounting purposes,
  - (b) on any day on which the participation condition is met in relation to them, or
  - (c) on any day on which the 25% investment condition is met in relation to them.
- (2) A and B are consolidated for accounting purposes for a period if—
  - (a) their financial results for a period are required to be comprised in group accounts,



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- (b) their financial results for the period would be required to be comprised in group accounts but for the application of an exemption, or
  - (c) their financial results for a period are in fact comprised in group accounts.
- (3) In subsection (2) “group accounts” means accounts prepared under—
- (a) section 399 of the Companies Act 2006, or
  - (b) any corresponding provision of the law of a territory outside the United Kingdom.
- (4) The participation condition is met in relation to A and B (“the relevant parties”) on a day if, within the period of 6 months beginning with that day—
- (a) one of the relevant parties directly or indirectly participates in the management, control or capital of the other, or
  - (b) the same person or persons directly or indirectly participate in the management, control or capital of each of the relevant parties.
- (5) The 25% investment condition is met in relation to A and B if—
- (a) one of them has a 25% investment in the other, or
  - (b) a third person has a 25% investment in each of them.
- (6) Section 259NC of TIOPA 2010 applies for the purposes of determining whether a person has a “25% investment” in another person for the purposes of this section as it applies for the purposes of section 259NB(2) of that Act.
- (7) In Chapter 2 of Part 4 of TIOPA 2010, sections 157(2), 158(4), 159(2) and 160(2) (which are about the interpretation of references to direct and indirect participation) apply in relation to subsection (4) as they apply in relation to subsection (4) of section 259NA of that Act.]

## PART 10

### SPECIAL RULES ABOUT CHARITABLE TRUSTS ETC

#### *Introduction*

#### **518 Overview of Part**

- (1) This Part makes provision about some gifts and payments made to charitable trusts, including provision imposing charges to income tax and conferring exemptions from those charges (see sections 520 to 523).
- (2) This Part also provides for some of the income of charitable trusts and others to be exempt from charges to income tax (see sections 524 to 537).
- (3) In the provisions of this Part containing exemptions, references to total income of a charitable trust are to the total income of the trustees of the charitable trust concerned.
- (4) See [F1086sections 538 and 538A] for provision about making claims for the exemptions under this Part.
- (5) In the case of a charitable trust which has a non-exempt amount for a tax year (see section 540), the exemptions under this Part are subject to restrictions (see section 539).

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- (6) The non-exempt amount for a tax year depends on the charitable trust's attributable income and gains for the tax year and its non-charitable expenditure for the tax year (see sections 540 and 543 to 564).

**Textual Amendments**

**F1086** Words in s. 518(4) substituted (8.4.2010 with effect in accordance with Sch. 8 para. 8(6) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), **Sch. 8 para. 5(2)**

**F1087** **519 Meaning of “charitable trust”**

**Textual Amendments**

**F1087** S. 519 omitted (8.3.2012) (with effect in accordance with art. 17 of the commencing S.I.) by virtue of [Finance Act 2010 \(c. 13\)](#), **Sch. 6 paras. 23(4), 34(2)**; [S.I. 2012/736](#), art. 17

*Gifts and other payments*

**520 Gifts entitling donor to gift aid relief: income tax treated as paid**

- (1) This section applies if a gift is made to a charitable trust by an individual and the gift is a qualifying donation for the purposes of Chapter 2 of Part 8 (gift aid).
- (2) The charitable trust is treated as receiving, under deduction of income tax at the basic rate for the tax year in which the gift is made, a gift of an amount equal to the grossed up amount of the gift.
- (3) The grossed up amount of the gift is the amount of the gift grossed up by reference to the basic rate for the tax year in which the gift is made.
- (4) The income tax treated as deducted is treated as income tax paid by the trustees of the charitable trust.

**521 Gifts entitling donor to gift aid relief: income tax liability and exemption**

- (1) This section applies if gifts are made to charitable trusts by individuals and the gifts are qualifying donations for the purposes of Chapter 2 of Part 8 (gift aid).
- (2) Income tax is charged on the gifts under this section.
- (3) It is charged on the grossed up amount of the gifts arising in the tax year.
- (4) But a gift is not taken into account in calculating total income so far as it is applied to charitable purposes only.
- (5) The grossed up amount of a gift is the amount of the gift grossed up by reference to the basic rate for the tax year in which the gift is made.
- (6) The trustees of the charitable trust are liable for any tax charged under this section.

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[<sup>F1088</sup>(7) Schedule 19 to FA 2008 contains provision for transitional payments to charitable trusts in respect of gifts made in the tax years 2008-09 to 2010-11.]

#### Textual Amendments

**F1088S.** 521(7) inserted (21.7.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 19 para. 9](#)

### [<sup>F1089</sup>**521 Gifts under payroll deduction schemes: income tax liability and exemption**

- (1) This section applies if gifts are made to charitable trusts by individuals and the gifts are donations for the purposes of Part 12 of ITEPA 2003 (payroll giving).
- (2) Income tax is charged on the gifts under this section.
- (3) It is charged on the full amount of the gifts arising in the tax year.
- (4) But a gift is not taken into account in calculating total income so far as it is applied to charitable purposes only.
- (5) The trustees of the charitable trust are liable for any tax charged under this section.]

#### Textual Amendments

**F1089S.** 521A inserted (8.4.2010 with effect in accordance with Sch. 8 para. 8(1) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 8 para. 1\(1\)](#)

### **522 Gifts of money from companies: income tax liability and exemption**

- (1) This section applies if gifts of sums of money are made to charitable trusts by companies.
- (2) But this section does not apply to a gift of a sum of money made by a company that is itself a charity (see section 523).
- (3) Income tax is charged on the gifts under this section.
- (4) It is charged on the full amount of the gifts arising in the tax year.
- (5) But a gift is not taken into account in calculating total income so far as it is applied to charitable purposes only.
- (6) The trustees of the charitable trust are liable for any tax charged under this section.

### **523 Payments from other charities: income tax liability and exemption**

- (1) This section applies to payments which—
  - (a) are received by charitable trusts from other charities,
  - (b) are not made for full consideration in money or money's worth,
  - (c) are not charged to income tax, apart from this section, and
  - (d) are not of a description which (on a claim) would be exempt from income tax under any of the exemptions conferred by this Part.

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- (2) This section does not apply to a payment which arises from a source outside the United Kingdom.
- (3) Income tax is charged under this section on the payments.
- (4) It is charged on the full amount of the payments arising in the tax year.
- (5) But a payment is not taken into account in calculating total income so far as it is applied to charitable purposes only.
- (6) The amount charged under this section in the case of certain payments made by the trustees of a charitable trust in the exercise of a discretion is subject to section 494 (grossing up of discretionary payments from trusts).
- (7) The trustees of the charitable trust are liable for any tax charged under this section.

#### *Other exemptions*

### **524 Exemption for profits etc of charitable trades**

- (1) The income mentioned in subsection (2) is not taken into account in calculating total income if conditions A and B are met.
- (2) The income referred to in subsection (1) is—
  - (a) the profits of a trade carried on by a charitable trust,
  - (b) amounts treated as adjustment income of a charitable trust under section 228 of ITTOIA 2005 in respect of a trade carried on by the trust, and
  - (c) post-cessation receipts arising from a trade carried on by a charitable trust which are received by the trustees of the trust or to which they are entitled.
- (3) Condition A is—
  - (a) in the case of the profits of a trade, that the profits are profits of a tax year in relation to which the trade is a charitable trade,
  - (b) in the case of an amount treated as adjustment income, that the amount arises in a tax year in relation to which the trade is a charitable trade, and
  - (c) in the case of a post-cessation receipt, that the trade was a charitable trade in relation to the tax year in which the cessation occurred.

See section 525 as to when a trade is a charitable trade in relation to a tax year.

- (4) Condition B is that the profits are, or the amount or post-cessation receipt is, (as the case may be) applied to the purposes of the charitable trust only.
- (5) Sections 232(1) and (2), 235 and 236 of ITTOIA 2005 (when adjustment income is treated as arising) apply for the purposes of subsection (3) as they apply for the purposes of Chapter 17 of Part 2 of that Act.
- (6) In this section “post-cessation receipt” means an amount that is a post-cessation receipt for the purposes of Chapter 18 of Part 2 of ITTOIA 2005 (post-cessation receipts) (see sections 246 to 253 of that Act).

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## **525 Meaning of “charitable trade”**

- (1) For the purposes of this Part a trade carried on by a charitable trust is a charitable trade in relation to a tax year if throughout the basis period for the tax year—
  - (a) the trade is exercised in the course of carrying out a primary purpose of the charitable trust, or
  - (b) the work in connection with the trade is mainly carried out by beneficiaries of the charitable trust.
- (2) For the purposes of subsection (1)(a), if a trade is exercised partly in the course of carrying out a primary purpose of the charitable trust and partly otherwise, each part is to be treated as a separate trade.
- (3) For the purposes of subsection (1)(b), if work in connection with a trade is carried out partly but not mainly by beneficiaries, the part in connection with which work is carried out by beneficiaries and the other part are to be treated as separate trades.
- (4) If different parts of a trade are treated as separate trades under subsection (2) or (3), a just and reasonable apportionment is to be made for that purpose of—
  - (a) expenses and receipts of the trade, and
  - (b) any amounts which are treated as adjustment income under section 228 of ITTOIA 2005 in respect of the trade, or which are post-cessation receipts arising from the trade for the purposes of Chapter 18 of Part 2 of that Act.
- (5) For the rules about basis periods, see Chapter 15 of Part 2 of ITTOIA 2005.

## **526 Exemption for profits etc of small-scale trades**

- (1) The income mentioned in subsection (2) is not taken into account in calculating total income if conditions A and B are met.
- (2) The income referred to in subsection (1) is—
  - (a) the profits of a trade carried on by a charitable trust,
  - (b) amounts treated as adjustment income of a charitable trust under section 228 of ITTOIA 2005 in respect of a trade carried on by the trust, and
  - (c) post-cessation receipts arising from a trade carried on by a charitable trust which are received by the trustees of the trust or to which they are entitled.
- (3) Subsection (1) does not apply in respect of—
  - (a) profits of a trade that are, apart from this section, exempt from income tax chargeable under Part 2 of ITTOIA 2005,
  - (b) amounts treated as adjustment income that are, apart from this section, exempt from income tax chargeable under Chapter 17 of Part 2 of that Act, or
  - (c) post-cessation receipts that are, apart from this section, exempt from income tax chargeable under Chapter 18 of Part 2 of that Act.
- (4) Condition A is—
  - (a) in the case of the profits of a trade, that the profits are profits of a tax year in relation to which the condition specified in section 528 (condition as to trading and miscellaneous incoming resources) is met,
  - (b) in the case of an amount treated as adjustment income, that the amount arises in such a tax year, and
  - (c) in the case of a post-cessation receipt, that it is received in such a tax year.

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- (5) Condition B is that the profits are, or the amount or post-cessation receipt is, (as the case may be) applied to the purposes of the charitable trust only.
- (6) Sections 232(1) and (2), 235 and 236 of ITTOIA 2005 (when adjustment income is treated as arising) apply for the purposes of subsection (4) as they apply for the purposes of Chapter 17 of Part 2 of that Act.
- (7) In this section “post-cessation receipt” means an amount that is a post-cessation receipt for the purposes of Chapter 18 of Part 2 of that Act (post-cessation receipts) (see sections 246 to 253 of that Act).

### 527 Exemption from charges under provisions to which section 1016 applies

- (1) Any income or gains of a charitable trust that is or are chargeable to income tax under or by virtue of any provision to which section 1016 applies is not or are not taken into account in calculating total income if conditions A and B are met.
- (2) Subsection (1) does not apply in respect of any income or gains chargeable to income tax by virtue of any of—
  - (a) [<sup>F1090</sup>section 1086(2) of CTA 2010] (chargeable payments connected with exempt distributions),
  - <sup>F1091</sup>(b) .....
  - (c) Chapter 9 of Part 4 of ITTOIA 2005 (gains from contracts for life insurance etc),
  - (d) Chapter 5 of Part 5 of that Act (settlements: amounts treated as income of settlor), [<sup>F1092</sup>and]
  - <sup>F1093</sup>(e) .....
  - (f) any other enactment specified in an order made by the Treasury.
- (3) Subsection (1) does not apply in respect of any income that is, or gains that are, apart from this section, exempt from income tax chargeable under or by virtue of any provision to which section 1016 applies.
- (4) Condition A is that the income is, or the gains are, for a tax year in relation to which the condition specified in section 528 is met.
- (5) Condition B is that the income is, or the gains are, applied to the purposes of the charitable trust only.

#### Textual Amendments

**F1090** Words in s. 527(2)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 530** (with Sch. 2)

**F1091** S. 527(2)(b) repealed (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), Sch. 8 para. 81, **Sch. 10 Pt. 1** (with Sch. 9 paras. 1-9, 22)

**F1092** Word in s. 527(2)(d) inserted (with effect in accordance with s. 82 of the amending Act) by Finance Act 2016 (c. 24), s. 79(4)(a) (and also with effect in accordance with Finance (No. 2) Act 2017 (c. 32), s. 39(1)(2))

**F1093** S. 527(2)(e) omitted (with effect in accordance with s. 82 of the amending Act) by virtue of Finance Act 2016 (c. 24), s. 79(4)(b) (and also with effect in accordance with Finance (No. 2) Act 2017 (c. 32), s. 39(1)(2))

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**Modifications etc. (not altering text)**

C97 Ss. 527, 528 modified (22.7.2020) by Finance Act 2020 (c. 14), Sch. 16 para. 6(5)

**528 Condition as to trading and miscellaneous incoming resources**

- (1) The condition in this section is met in relation to a tax year if—
- (a) the sum of the charitable trust's trading incoming resources and miscellaneous incoming resources for the tax year does not exceed the requisite limit for the tax year, or
  - (b) the trustees of the charitable trust had, at the beginning of the tax year, a reasonable expectation that it would not do so.
- (2) The charitable trust's "trading incoming resources" for the tax year are—
- (a) the incoming resources which are required to be taken into account in calculating the profits of, or losses made in, the basis period for the tax year of any non-exempt trade carried on by the charitable trust, and
  - (b) the incoming resources which are treated as adjustment income under section 228 of ITTOIA 2005 in respect of such a trade, or which are post-cessation receipts arising from such a trade.
- "Post-cessation receipt" has the meaning given by section 526(7).
- (3) For the purposes of subsection (2) a trade is a "non-exempt trade" if any profits of the trade would not, apart from section 526, be exempt from income tax chargeable under Part 2 of ITTOIA 2005.
- (4) The charitable trust's "miscellaneous incoming resources" for the tax year are the incoming resources which are required to be taken into account in calculating non-exempt miscellaneous income or non-exempt miscellaneous losses for the tax year.
- (5) In this section—
- "non-exempt miscellaneous income" means income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies that is not, or are not, apart from section 526 or 527, exempt from income tax chargeable under or by virtue of that provision, and
  - "non-exempt miscellaneous losses" means losses arising from a transaction which is of such a nature that if income or gains had arisen from it the income would have been non-exempt miscellaneous income.
- (6) The requisite limit—
- (a) is 25% of the charitable trust's total incoming resources for the tax year, but
  - (b) must not be less than [<sup>F1094</sup>£8,000] or more than [<sup>F1095</sup>£80,000.]

**Textual Amendments**

**F1094** Sum in s. 528(6)(b) substituted (with effect in accordance with s. 41(2) of the amending Act) by Finance Act 2019 (c. 1), s. 41(1)(a)

**F1095** Sum in s. 528(6)(b) substituted (with effect in accordance with s. 41(2) of the amending Act) by Finance Act 2019 (c. 1), s. 41(1)(b)

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**Modifications etc. (not altering text)**

C97 Ss. 527, 528 modified (22.7.2020) by [Finance Act 2020 \(c. 14\)](#), [Sch. 16 para. 6\(5\)](#)

**529 Exemption for profits from fund-raising events**

- (1) The profits of a trade carried on by a charitable trust are not taken into account in calculating total income so far as they arise from a VAT-exempt event.
- (2) Subsection (1) applies so far as the profits are [<sup>F1096</sup>either applied for charitable purposes or transferred to another charity].
- (3) An event is a VAT-exempt event if the supply of goods and services by the charitable trust in connection with the event would be exempt from value added tax under Group 12 of Schedule 9 to the Value Added Tax Act 1994 (c. 23) (fund-raising events by charities and other qualifying bodies).

**Textual Amendments**

**F1096** Words in s. 529(2) substituted (1.4.2011) (with effect in accordance with art. 14(2) of the amending S.I.) by [The Enactment of Extra-Statutory Concessions Order 2011 \(S.I. 2011/1037\)](#), arts. 1, [14\(1\)](#)

**530 Exemption for profits from lotteries**

- (1) The profits accruing to a charitable trust from a lottery are not taken into account in calculating total income if conditions A and B are met.
- (2) Condition A is that—
  - [<sup>F1097</sup>(a) the lottery is an exempt lottery within the meaning of the Gambling Act 2005 by virtue of Part 1 or 4 of Schedule 11 to that Act,
  - (ab) the lottery is promoted in accordance with a lottery operating licence within the meaning of Part 5 of that Act, or]
  - (b) the lottery is promoted and conducted in accordance with Article 133 or 135 of the Betting, Gaming, Lotteries and Amusements (Northern Ireland) Order 1985 (S.I. 1985/1204 (N.I. 11)).
- (3) Condition B is that the profits are applied to the purposes of the charitable trust only.

**Textual Amendments**

**F1097** S. 530(2)(a)(ab) substituted for s. 530(2)(a) (1.9.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 25 para. 2, 23\(2\)](#); [S.I. 2007/2532, art. 2](#)

**531 Exemption for property income etc**

- (1) Income which is chargeable to income tax under Part 2 of ITTOIA 2005 (trading income) as a result of section 261 of that Act is not taken into account in calculating total income so far as—
  - (a) it arises in respect of rents or other receipts from an estate, interest or right in or over land, and



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- (b) the estate, interest or right is vested in any person in trust for a charitable trust or for charitable purposes.
- (2) Income which is chargeable to income tax under Part 3 of ITTOIA 2005 (property income) is not taken into account in calculating total income so far as—
  - (a) it arises in respect of an estate, interest or right in or over land, and
  - (b) the estate, interest or right is vested in any person in trust for a charitable trust or for charitable purposes.
- [<sup>F1098</sup>(2A) Distributions to which [<sup>F1099</sup>section 548 of CTA 2010] (Real Estate Investment Trusts: distributions) applies and which are chargeable to income tax under Part 2 or Part 3 of ITTOIA 2005 are not taken into account in calculating total income so far as they arise in respect of shares vested in a person in trust for a charitable trust or for charitable purposes.]
- (3) Subsection (1) [<sup>F1100</sup>to (2A)] apply so far as the income is applied to charitable purposes only.

#### Textual Amendments

**F1098S.** 531(2A) inserted (with effect in accordance with s. 52(2) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 17 para. 18\(a\)](#)

**F1099** Words in s. 531(2A) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 531](#) (with [Sch. 2](#))

**F1100** Words in s. 531(3) substituted (with effect in accordance with s. 52(2) of the amending Act) by [Finance Act 2007 \(c. 11\)](#), [Sch. 17 para. 18\(b\)](#)

## 532 Exemption for savings and investment income

- (1) The income mentioned in subsection (2) is not taken into account in calculating total income if—
  - (a) it is income of a charitable trust, or
  - (b) it is required, under an Act, court judgment, charter, trust deed or will, to be applied to charitable purposes only.
- (2) The income referred to in subsection (1) is—
  - (a) interest,
  - (b) a dividend or other distribution of a UK resident company,
  - (c) a dividend of a non-UK resident company,
  - (d) an annuity payment under a purchased life annuity,
  - (e) profits on the disposal of deeply discounted securities, or
  - (f) income treated for the purposes of [<sup>F1101</sup>regulation 15 of the Unauthorised Unit Trusts (Tax) Regulations 2013 as received by a unit holder from an exempt unauthorised unit trust].
- (3) Subsection (1) applies only so far as the income falls within, and is dealt with under, Part 4 of ITTOIA 2005 (see section 366 of that Act as to provisions given priority over Part 4).
- (4) Subsection (1) applies so far as the income is applied to charitable purposes only.
- (5) In this section—

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“deeply discounted security” has the same meaning as in Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities) (see section 430 of that Act),

“disposal”, in relation to a deeply discounted security, has the same meaning as in Chapter 8 of Part 4 of that Act (see section 437(1) of that Act),

“dividend”, in relation to a UK resident company, has the same meaning as in Chapter 3 of Part 4 of that Act (dividends etc from UK resident companies etc) (see section 382(4) of that Act),

“interest” includes anything treated as interest for the purposes of Chapter 2 of Part 4 of that Act (interest), and

“purchased life annuity” has the same meaning as in Chapter 7 of Part 4 of that Act (purchased life annuity payments) (see section 423 of that Act).

#### Textual Amendments

**F1101** Words in s. 532(2)(f) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(7)** (with reg. 32)

### 533 Exemption for public revenue dividends

- (1) Public revenue dividends on securities which are in the name of trustees are not taken into account in calculating total income so far as the dividends are applicable and applied only for the repair of—
  - (a) a cathedral, college, church or chapel, or
  - (b) a building used only for the purposes of divine worship.
- (2) In this section “public revenue dividends” means—
  - (a) income from securities which is payable out of the public revenue of the United Kingdom or Northern Ireland, or
  - (b) income from securities issued by or on behalf of a government or a public or local authority in a country outside the United Kingdom.

### 534 Exemption for transactions in deposits

- (1) Profits or gains arising to a charitable trust from the disposal of exempt deposit rights are not taken into account in calculating total income.
- (2) Subsection (1) applies so far as the profits or gains are applied to charitable purposes only.
- (3) For the purposes of this section, the exercise of an exempt deposit right is a disposal of it, except so far as the right is a right to receive interest.
- (4) In this section “exempt deposit rights” means—
  - (a) a right to receive, with or without interest, a principal amount stated in, or determined in accordance with, the current terms of issue of an eligible debt security, where in accordance with those terms the issue of uncertificated units of the eligible debt security corresponds to the issue of a certificate of deposit,
  - (b) a right to receive the principal amount stated in a certificate of deposit, with or without interest, and

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- (c) an uncertificated right to receive a principal amount, with or without interest, as a result of a deposit of money.

(5) In this section—

“eligible debt security” has the meaning given in regulation 3(1) of the Uncertificated Securities Regulations 2001 (S.I. 2001/3755),

“uncertificated”, in relation to a unit, has the meaning given in regulation 3(1) of the Uncertificated Securities Regulations 2001,

“uncertificated right” means a right in respect of which no certificate of deposit has been issued, although the person for the time being entitled to it is entitled to call for the issue of such a certificate, and

“unit” has the meaning given in regulation 3(1) of the Uncertificated Securities Regulations 2001.

### 535 Exemption for offshore income gains

- (1) Offshore income gains accruing to a charitable trust are not taken into account in calculating total income.
- (2) Subsection (1) applies if the gain is applicable and applied to charitable purposes only.
- (3) In this section “offshore income gain” has the same meaning as in [<sup>F1102</sup>Chapter 5 of Part 2 of the Offshore (Tax) Funds Regulations 2009 (S.I. 2009/3001)].
- (4) See [<sup>F1103</sup>regulation 31(3) to (5) of the Offshore Funds (Tax) Regulations 2009 (S.I. 2009/3001)], which—
  - (a) applies where property held on charitable trusts ceases to be subject to charitable trusts, and
  - (b) provides for any gain accruing under that subsection to be treated as an offshore income gain not accruing to a charity.

#### Textual Amendments

**F1102** Words in s. 535(3) substituted (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), **129(4)(a)**

**F1103** Words in s. 535(4) substituted (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), **129(4)(b)**

### 536 Exemption for certain miscellaneous income

- (1) The income mentioned in subsection (3) is not taken into account in calculating total income if—
  - (a) it is income of a charitable trust, or
  - (b) it is required, under an Act, court judgment, charter, trust deed or will, to be applied to charitable purposes only.
- (2) Subsection (1) applies so far as the income is applied to charitable purposes only.
- (3) The income referred to in subsection (1) is—
  - (a) royalties and other income from intellectual property that do not fall within Chapter 2 of Part 2 of ITTOIA 2005 (receipts of a trade etc),

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- (b) income derived from a relevant telecommunication right that is not income falling within Chapter 2 of Part 2 of ITTOIA 2005 (receipts of a trade etc),
  - (c) annual payments charged to tax under Chapter 7 of Part 5 of ITTOIA 2005, and
  - (d) relevant foreign distributions.
- (4) In this section—
- “intellectual property” has the same meaning as in section 579 of ITTOIA 2005,
  - “relevant foreign distribution” means a distribution of a non-UK resident company which—
    - (a) is not chargeable to tax under Chapter 4 of Part 4 of ITTOIA 2005 (dividends from non-UK resident companies), but
    - (b) would be chargeable to tax under Chapter 3 of that Part of that Act (dividends etc from UK resident companies etc) if the company were a UK resident company, and
  - “relevant telecommunication right” has the same meaning as in Chapter 10 of Part 2 of that Act (trade profits: certain telecommunications rights) (see section 146 of that Act).

**537 Exemption for income from estates in administration**

- (1) If the person liable under section 659 of ITTOIA 2005 for any income tax charged under section 649 of that Act (charge to tax on estate income) is the trustee of a charitable trust, the estate income is not taken into account in calculating total income.
- (2) Subsection (1) applies so far as the estate income is applied to the purposes of the charitable trust only.
- (3) In this section “estate income” has the same meaning as in Chapter 6 of Part 5 of ITTOIA 2005 (beneficiaries' income from estates in administration) (see section 649(2) of that Act).

*Claims*

**538 Requirement to make claim**

- (1) The exemptions under this Part require a claim.
- (2) Subsection (1) does not apply to an exemption under—
  - (a) section 534 (exemption for transactions in deposits), or
  - (b) section 535 (exemption for offshore income gains).

<sup>F1104</sup>(3) .....

<sup>F1105</sup>(4) .....

**Textual Amendments**

**F1104**S. 538(3) omitted (retrospective to 6.4.2012) by virtue of [Finance Act 2012 \(c. 14\), s. 50\(2\)\(b\)\(4\)](#)

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**F1105**S. 538(4) omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), [Sch. 1 para. 452](#)

[<sup>F1106</sup>**538** **Claims in relation to gift aid relief** [<sup>F1107</sup> etc]

[ This section applies to claims for—

- <sup>F1108</sup>(A1) (a) repayment of income tax treated as having been paid by virtue of section 520(4) (gift aid relief: income tax treated as paid by trustees of charitable trust), or
- (b) repayment of income tax deducted at source from income to which any of the following applies—
- (i) section 532 (exemption for savings and investment income),
  - (ii) section 533 (exemption for public revenue dividends),
  - (iii) section 536 (exemption for certain miscellaneous income), or
  - (iv) section 537 (exemption for income from estates in administration).]

(1) This section [<sup>F1109</sup> also ] applies to claims for amounts to be exempt from tax [<sup>F1110</sup> by virtue of—

- (a) section 521(4) (gifts entitling donor to gift aid relief: charitable trusts), or
- (b) any of the provisions mentioned in subsection (A1)(b).]

(2) A claim to which this section applies may be made—

- (a) to an officer of Revenue and Customs, or
- (b) by being included in a return under section 8A of TMA 1970 (trustee's self-assessment return).

(3) In this section—

“free-standing claim” means a claim made as mentioned in subsection (2) (a), and

“tax return claim” means a claim made as mentioned in subsection (2)(b).

(4) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision—

- (a) limiting the number of free-standing claims that may be made by a person in a tax year, or
- (b) requiring a claim for an amount below an amount specified in the regulations to be made as a tax return claim.

(5) The regulations may make different provision for different cases or purposes.]

**Textual Amendments**

**F1106**S. 538A inserted (8.4.2010) by [Finance Act 2010 \(c. 13\)](#), [Sch. 8 para. 5\(3\)](#)

**F1107** Word in s. 538A heading inserted (retrospective to 8.4.2010) by [Finance Act 2012 \(c. 14\)](#), [Sch. 15 paras. 1\(4\), 17\(1\)](#)

**F1108**S. 538A(A1) inserted (retrospective to 8.4.2010) by [Finance Act 2012 \(c. 14\)](#), [Sch. 15 paras. 1\(2\), 17\(1\)](#)

**F1109** Word in s. 538A(1) inserted (retrospective to 8.4.2010) by [Finance Act 2012 \(c. 14\)](#), [Sch. 15 paras. 1\(3\)\(a\), 17\(1\)](#)

**F1110** Words in s. 538A(1) substituted (retrospective to 8.4.2010) by [Finance Act 2012 \(c. 14\)](#), [Sch. 15 paras. 1\(3\)\(b\), 17\(1\)](#)

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### *Restrictions on exemptions*

#### **539 Restrictions on exemptions**

- (1) This section applies if a charitable trust has a non-exempt amount for a tax year (see section 540).
- (2) The exemptions under this Part do not apply, and are treated as never having applied, to so much of any income of the charitable trust for the tax year as is attributed under section 541 to the non-exempt amount.
- (3) Section 256(4) of TCGA 1992 contains corresponding restrictions which apply in relation to section 256(1) of that Act (gains accruing to charities not to be chargeable gains).

#### **540 The non-exempt amount**

- (1) A charitable trust has a non-exempt amount for a tax year if it has—
  - (a) non-charitable expenditure for the tax year (amount A), and
  - (b) attributable income and gains for the tax year (amount B).
- (2) The non-exempt amount for the tax year is—
  - (a) amount A, or
  - (b) if less, amount B.
- (3) For the purposes of this Part—
  - (a) a charitable trust's “attributable income” for a tax year is the charitable trust's income for the tax year that is exempt from income tax as a result of any of the exemptions under this Part,
  - (b) a charitable trust's “attributable gains” for a tax year are any gains accruing to the charitable trust in the tax year that as a result of <sup>F1111</sup>section 256(1) of TCGA 1992, are not chargeable gains, and
  - (c) a charitable trust's “attributable income and gains” for a tax year is the sum of its attributable income for the tax year and its attributable gains for the tax year.
- (4) In applying subsection (3)(a) ignore any restrictions on the exemptions under this Part which result from section 539(2).
- (5) In applying subsection (3)(b) ignore any restriction on the exemption under section 256(1) of TCGA 1992 which results from section 256(4) of that Act.

#### **Textual Amendments**

**F1111** Words in s. 540(3)(b) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [Income Tax Act 2007 \(Amendment\) \(No.3\) Order 2007 \(S.I. 2007/3506\), arts. 1\(1\), 3\(3\)](#)

#### **541 Attributing income to the non-exempt amount**

- (1) This section applies if a charitable trust has a non-exempt amount for a tax year.
- (2) Attributable income of the charitable trust for the tax year may be attributed to the non-exempt amount but only so far as the non-exempt amount has not been used up.

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- (3) The non-exempt amount can be used up (in whole or in part) by—
  - (a) attributable income being attributed to it under this section, or
  - (b) attributable gains being attributed to it under section 256A of TCGA 1992.
- (4) The whole of the non-exempt amount must be used up by—
  - (a) attributable income being attributed to the whole of it under this section,
  - (b) attributable gains being attributed to the whole of it under section 256A of TCGA 1992, or
  - (c) a combination of attributable income being attributed to some of it under this section and attributable gains being attributed to the rest of it under section 256A of TCGA 1992.
- (5) See section 542 for the way in which income is to be attributed to the non-exempt amount under this section.

#### **542 How income is attributed to the non-exempt amount**

- (1) This section is about the ways in which attributable income can be attributed to a non-exempt amount under section 541.
- (2) The trustees of the charitable trust may specify the attributable income that is to be attributed to the non-exempt amount.
- (3) A specification under subsection (2) is made by notice to an officer of Revenue and Customs.
- (4) Subsection (6) applies if—
  - (a) an officer of Revenue and Customs requires the trustees of a charitable trust to make a specification under this section, and
  - (b) the trustees have not given notice under subsection (3) of the specification before the end of the required period.
- (5) The required period is 30 days beginning with the day on which the officer made the requirement.
- (6) An officer of Revenue and Customs may determine the attributable income that is to be attributed to the non-exempt amount.

#### *Non-charitable expenditure*

#### **543 Meaning of “non-charitable expenditure”**

- (1) For the purposes of this Part a charitable trust's non-charitable expenditure for a tax year is—
  - (a) any loss made in the tax year in a trade carried on by the charitable trust unless—
    - (i) the trade is a charitable trade in relation to the tax year, or
    - (ii) the trade is not a charitable trade in relation to the tax year but profits of the trade arising in the tax year would be exempt from income tax as a result of one of the exemptions in sections 526, 529 or 530,

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- (b) any payment made in the tax year by the charitable trust in connection with a trade in circumstances where relief is available under section 96 (post-cessation trade relief) unless—
  - (i) the trade was a charitable trade in relation to the tax year in which the cessation occurred, or
  - (ii) the trade was not a charitable trade in relation to that tax year but profits of the trade arising immediately before the cessation would have been exempt from income tax as a result of one of the exemptions in sections 526, 529 or 530,
- (c) any loss made in the tax year in a trade, or in a UK property business or an overseas property business, carried on by the charitable trust, if—
  - (i) the loss relates to land, and
  - (ii) profits of the trade, or income of the business, generated from the land in the tax year would not be exempt from income tax as a result of the exemptions in section 531,
- (d) any payment made in the tax year by the charitable trust in connection with a trade or UK property business in circumstances where relief is available under section 96 or 125 (post-cessation trade or property relief), if—
  - (i) the payment relates to land, and
  - (ii) profits of the trade, or income of the business, generated from the land immediately before the cessation would not have been exempt from income tax as a result of the exemptions in section 531,
- (e) any loss made in the tax year in a miscellaneous transaction entered into by the charitable trust otherwise than in the course of carrying out a charitable purpose,
- (f) any expenditure incurred by the charitable trust in the tax year, not falling within paragraphs (b) or (d), which is not incurred for charitable purposes only and is not required to be taken into account in calculating—
  - (i) the profits of, or losses made in, any trade, UK property business or overseas property business carried on by the charitable trust, or
  - (ii) the profit or loss made in any miscellaneous transaction entered into by the charitable trust,

<sup>F1112</sup>(g) .....

<sup>F1112</sup>(h) .....

- (i) the amount of any of the charitable trust's funds that is invested in the tax year in an investment which is not an approved charitable investment (see section 558), and
- (j) any amount lent in the tax year by the charitable trust, if the loan is neither an investment nor an approved charitable loan (see section 561).

But anything which falls within more than one of the above paragraphs counts as non-charitable expenditure only once.

- (2) An amount may also be non-charitable expenditure for a tax year as a result of section 562 (excess expenditure treated as non-charitable expenditure of earlier years).
- (3) This section needs to be read with—
  - section 525 (meaning of “charitable trade”),
  - sections 544 to 548 (supplementary provision in relation to this section, in particular in relation to subsection (1)(f), (i) and (j)),



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sections 549 to 557 (transactions with substantial donors),  
section 558 (approved charitable investments), and  
section 561 (approved charitable loans).

#### **Textual Amendments**

**F1112** S. 543(1)(g)(h) omitted (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by virtue of [Finance Act 2011 \(c. 11\)](#), [Sch. 3 para. 12](#)

#### **Modifications etc. (not altering text)**

**C98** S. 543(1)(f) modified by [Income and Corporation Taxes Act 1988 \(c. 1\)](#), [s. 339\(3B\)\(a\)](#) (as inserted by The Enactment of Extra-Statutory Concessions Order 2010 (S.I. 2010/157), arts. 1, 5(1)(2))

### **544 Section 543: supplementary**

- (1) This section applies for the purposes of section 543.
- (2) For rules about the calculation of losses, see—
  - (a) section 26 of ITTOIA 2005 (losses of a trade calculated on same basis as profits),
  - (b) section 272 of that Act (which applies section 26 of that Act, so that losses of a UK property business or overseas property business are calculated on the same basis as profits), and
  - (c) section 872 of that Act (losses from miscellaneous transactions calculated on same basis as miscellaneous income).
- (3) A transaction is a miscellaneous transaction if it is of such a nature that, if income or gains had arisen from it—
  - (a) ignoring section 527 (exemption from charges under provisions to which section 1016 applies), it would have been charged to income tax under or by virtue of any provision to which section 1016 applies, and
  - (b) the trustees of the charitable trust would have been liable for any tax so chargeable.
- (4) References to a charitable trust making a loss in a trade in a tax year are to the charitable trust making a loss in the trade in the basis period for the tax year.

### **545 Section 543(1)(f): meaning of expenditure**

- (1) For the purposes of section 543(1)(f) “expenditure” includes expenditure of a capital nature.
- (2) None of the following is “expenditure” for those purposes—
  - (a) the investment of any of the charitable trust's funds,
  - (b) the making of a loan by the charitable trust, or
  - (c) the repayment by the charitable trust of the whole or a part of a loan made to it.

### **546 Section 543(1)(f): tax year in which certain expenditure treated as incurred**

- (1) This section applies for the purposes of section 543(1)(f).

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- (2) Subsection (3) applies to expenditure which is referable to commitments (whether or not of a contractual nature) that the charitable trust has entered into before or during a tax year.
- (3) The expenditure is treated as incurred in the tax year if, had the charitable trust been required to draw up accounts that met the requirements mentioned in subsection (4), the expenditure would have been required to be taken into account in preparing those accounts.
- (4) The requirements referred to in subsection (3) are—
  - (a) that the accounts are drawn up for the tax year, and
  - (b) that UK generally accepted accounting practice applies with respect to them.

#### 547 Section 543(1)(f): payment to body outside the UK

A payment made, or to be made, to a body situated outside the United Kingdom is non-charitable expenditure under section 543(1)(f) if—

- (a) it is incurred for charitable purposes only, but
- (b) the trustees of the charitable trust have not taken such steps as [<sup>F1113</sup>the Commissioners for Her Majesty's Revenue and Customs consider ] are reasonable in the circumstances to ensure that the payment will be applied for charitable purposes.

#### Textual Amendments

**F1113** Words in s. 547(b) inserted (8.4.2010 with effect in accordance with Sch. 8 para. 8(3) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 8 para. 2\(1\)](#)

#### 548 Section 543(1)(i) and (j): investments and loans

- (1) Subsection (2) applies if in a tax year a charitable trust—
  - (a) realises the whole or part of an investment which was made in the tax year and is not an approved charitable investment (see section 558), or
  - (b) is repaid the whole or part of a loan which was made in the tax year and is neither an investment nor an approved charitable loan (see section 561).
- (2) Any further investment or lending in the tax year of the sum realised or repaid, so far as it does not exceed the sum originally invested or lent, is not non-charitable expenditure as a result of section 543(1)(i) or (j).

*Substantial donor transactions*

#### <sup>F1114</sup>549 Transactions with substantial donors

.....

*Status: Point in time view as at 22/02/2024.*

*Changes to legislation: Income Tax Act 2007 is up to date with all changes known to be in force on or before 24 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

**Textual Amendments**

**F1114** Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114 550 Meaning of “relievable gift”**

.....

**Textual Amendments**

**F1114** Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114 551 Non-charitable expenditure in substantial donor transactions**

.....

**Textual Amendments**

**F1114** Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114 552 Adjustment if section 551(1) and (2) applied to single transaction**

.....

**Textual Amendments**

**F1114** Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114 553 Section 551: certain payments and benefits to be ignored**

.....

**Textual Amendments**

**F1114** Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

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**F1114<sup>554</sup> Transactions: exceptions**

.....

**Textual Amendments**  
F1114 Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114<sup>555</sup> Donors: exceptions**

.....

**Textual Amendments**  
F1114 Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114<sup>556</sup> Connected charities**

.....

**Textual Amendments**  
F1114 Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

**F1114<sup>557</sup> Substantial donor transactions: supplementary**

.....

**Textual Amendments**  
F1114 Ss. 549-557 repealed (19.7.2011) (with effect in accordance with Sch. 3 para. 27 of the amending Act) by Finance Act 2011 (c. 11), **Sch. 3 para. 13** (with Sch. 3 para. 29 and S.I. 2012/700, art. 1(3), **Sch. para. 8**)

*Approved charitable investments and loans*

**558 Approved charitable investments**

An investment is an approved charitable investment for the purposes of section 543 (meaning of “non-charitable expenditure”) if it is an investment of any of the following types.

*Type 1*

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*Status: Point in time view as at 22/02/2024.*

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An investment to which section 559 applies.

*Type 2*

An investment in a common investment fund established under—

- (a) section 22 of the Charities Act 1960 (c. 58),
- (b) section 24 of the Charities Act 1993 (c. 10),
- (bb) [<sup>F1115</sup>section 96 of the Charities Act 2011, or]
- (c) section 25 of the Charities Act (Northern Ireland) 1964.

*Type 3*

An investment in a common deposit fund established under—

- (a) section 22A of the Charities Act 1960, <sup>F1116</sup>...
- (b) section 25 of the Charities Act 1993 [<sup>F1117</sup>or
- (c) section 100 of the Charities Act 2011.]

*Type 4*

An investment in a fund which—

- (a) is similar to a fund mentioned in relation to Type 2 or 3, and
- (b) is established for the exclusive benefit of charities by or under a provision relating to any particular charities or class of charities contained in an Act.

*Type 5*

An interest in land, other than an interest held as security for a debt.

*Type 6*

Any of the following issued by Her Majesty's Government in the United Kingdom—

- (a) bills,
- (b) Certificates of Tax Deposit,
- (c) Savings Certificates, and
- (d) Tax Reserve Certificates.

*Type 7*

Northern Ireland Treasury Bills.

*Type 8*

Units in a unit trust scheme (as defined in section 237(1) of FISMA 2000) or in a recognised scheme (as defined in section 237(3) of FISMA 2000).

“Units” is defined in section 237(2) of FISMA 2000.

*Type 9*

A deposit with a bank (as defined in section 991)—

- (a) in respect of which interest is payable at a commercial rate, and
- (b) which is not made as part of an arrangement under which a loan is made by the bank to some other person.

*Type 10*

A deposit with—

- (a) the National Savings Bank,
- (b) a building society, or
- (c) a credit institution which operates on mutual principles and which is authorised by an appropriate governmental body in the territory in which the deposit is taken.

*Type 11*

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Certificates of deposit (including uncertificated eligible debt security units as defined in section 986(3)).

*Type 12*

A loan or other investment as to which an officer of Revenue and Customs is satisfied, on a claim, that it is made for the benefit of the charitable trust and not for the avoidance of tax (whether by the trust or any other person).

#### Textual Amendments

**F1115** Words in s. 558 substituted (14.3.2012) by [Charities Act 2011 \(c. 25\)](#), s. 355, [Sch. 7 para. 126\(2\)](#) (with s. 20(2), [Sch. 8](#))

**F1116** Word in s. 558 omitted (14.3.2012) by virtue of [Charities Act 2011 \(c. 25\)](#), s. 355, [Sch. 7 para. 126\(3\)](#), [Sch. 10](#) (with s. 20(2), [Sch. 8](#))

**F1117** Words in s. 558 inserted (14.3.2012) by [Charities Act 2011 \(c. 25\)](#), s. 355, [Sch. 7 para. 126\(3\)](#) (with s. 20(2), [Sch. 8](#))

### 559 Securities which are approved charitable investments

- (1) The investments to which this section applies are investments in securities—
- (a) issued or guaranteed by [<sup>F1118</sup>Her Majesty’s Government in the United Kingdom or by] the government of a member State of the European Union,
  - (b) issued or guaranteed by the government or a governmental body of any territory or part of a territory,
  - (c) issued by an international entity listed in the Annex to Council Directive [2003/48/EC](#) (directive on taxation of interest payments),
  - (d) issued by an entity meeting the four criteria set out at the end of that Annex,
  - (e) issued by a building society,
  - (f) issued by a credit institution which operates on mutual principles and which is authorised by an appropriate governmental body in the territory in which the securities are issued,
  - (g) issued by an open-ended investment company,
  - (h) issued by a company and listed on a recognised stock exchange, or
  - (i) issued by a company but not listed on a recognised stock exchange.
- (2) Subsection (1) is subject to section 560.
- (3) In this section and in section 560—
- “debentures” includes—
- (a) debenture stock and bonds (whether constituting a charge on assets or not), and
  - (b) loan stock or notes,
- “open-ended investment company” is to be read in accordance with [<sup>F1119</sup>sections 613 and 615 of CTA 2010],
- “securities” includes shares and debentures, and
- “shares” includes stocks.

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### Textual Amendments

**F1118** Words in s. 559(1)(a) inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/689), regs. 1, **15(6)** (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

**F1119** Words in s. 559(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010](#) (c. 4), s. 1184(1), **Sch. 1 para. 536** (with Sch. 2)

## 560 Conditions to be met for some securities

(1) Section 559 does not apply to an investment by virtue of subsection (1)(b), (c) or (d) of that section unless—

- (a) condition A is met in relation to the securities, and
- (b) if the securities are shares or debenture stock, condition B is met in relation to the securities.

But see subsection (3) of this section.

(2) In the case of an investment in securities issued by a company which is incorporated, section 559 does not apply to the investment by virtue of subsection (1)(i) of that section unless—

- (a) condition A is met in relation to the securities,
- (b) if the securities are shares or debenture stock, condition B is met in relation to the securities, and
- (c) condition C is met in relation to the company.

But see subsection (3) of this section.

(3) Conditions A and B need not be met if the securities are traded or quoted on a money market supervised by the government or a governmental body of any territory or part of a territory.

(4) Condition A is that the securities are traded or quoted on—

- (a) a recognised investment exchange (as defined in section 285(1) of FISMA 2000), or
- (b) an investment exchange which constitutes the principal or only market established in a territory on which securities admitted to official listing are dealt in or traded.

(5) Condition B is that—

- (a) the securities are fully paid up,
- (b) the terms of the issue of the securities require them to be fully paid up within the period of 9 months beginning with the day after the day on which they are issued, or
- (c) the securities are shares issued with no nominal value.

(6) Condition C is that—

- (a) throughout the last business day before the investment day, the company has total issued and paid up share capital of at least £1,000,000 (or the equivalent of £1,000,000 in some other currency), and
- (b) in each of the five years immediately before the calendar year in which the investment day falls, the company paid a dividend on all the shares issued by the company (excluding any shares issued after the dividend was declared

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and any shares which by their terms of issue did not rank for dividend for that year).

- (7) For the purposes of the words in brackets in subsection (6)(a) use the exchange rate prevailing in the United Kingdom at the close of business on the last business day before the investment day.
- (8) For the purposes of subsection (6)(b) a company formed—
- (a) to take over the business of another company or other companies, or
  - (b) to acquire the securities of, or control of, another company or other companies,
- is treated as having paid a dividend in any year in which a dividend has been paid by the other company or all of the other companies (as the case may be).
- (9) It is irrelevant that the company is formed for other purposes in addition to those mentioned in paragraph (a) or (b) of subsection (8).
- (10) In this section—
- “business day” means, in relation to an investment, a business day in the place where the investment is made, and
- “the investment day” means, in relation to an investment, the day on which the investment is made.

## **561 Approved charitable loans**

- (1) A loan is an approved charitable loan for the purposes of section 543 (meaning of “non-charitable expenditure”) if it meets conditions A and B.
- (2) Condition A is that the loan is not made by way of investment.
- (3) Condition B is that either—
- (a) the loan is made to another charity for charitable purposes only,
  - (b) it is made to a beneficiary of the charitable trust in the course of carrying out the purposes of the charitable trust,
  - (c) it consists of money placed on current account with a bank otherwise than as part of an arrangement under which a loan is made by a bank to some other person, or
  - (d) an officer of Revenue and Customs is satisfied, on a claim, that the loan is made for the benefit of the charitable trust and not for the avoidance of tax (whether by the charitable trust or by some other person).
- (4) In this section “bank” has the meaning given by section 991.

*Carry back of excess non-charitable expenditure*

## **562 Excess expenditure treated as non-charitable expenditure of earlier years**

- (1) This section applies if a charitable trust's non-charitable expenditure for a tax year exceeds its available income and gains for the tax year.
- (2) The excess is the charitable trust's “excess expenditure” for the tax year.



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- (3) The charitable trust's excess expenditure for the tax year is treated for the purposes of this Part as non-charitable expenditure for earlier tax years so far as it can be attributed to earlier tax years under section 563.
- (4) For the purposes of this Part a charitable trust's "available income and gains" for a tax year is the sum of—
  - (a) the charitable trust's total income for the tax year (ignoring any restrictions on the exemptions under this Part which result from sections 539(2) and 541),
  - (b) any chargeable gains accruing to the charitable trust in the tax year (ignoring any restriction on the exemption under section 256(1) of TCGA 1992 which results from section 256(4) of that Act),
  - (c) the charitable trust's attributable income and gains for the tax year (see section 540), and
  - (d) any non-taxable sums received by the charitable trust in the tax year.
- (5) In subsection (4) "non-taxable sums" means donations, legacies and other sums of a similar nature which, ignoring exemptions from income tax under this Part and from capital gains tax under section 256 of TCGA 1992, are not liable to income tax or capital gains tax.

### **563 Rules for attributing excess expenditure to earlier years**

- (1) The rules in this section apply for attributing a charitable trust's excess expenditure for a tax year to earlier tax years under section 562.
- (2) The excess expenditure for a tax year may be attributed to an earlier tax year if—
  - (a) the earlier tax year ends not more than 6 years before the end of the tax year in question, and
  - (b) the charitable trust's available income and gains for the earlier tax year exceed its non-charitable expenditure for the earlier tax year.
- (3) If the conditions in subsection (2) are met in the case of more than one earlier tax year, the excess expenditure is to be attributed to a later tax year in priority to an earlier tax year.
- (4) The amount of excess expenditure that is to be attributed to an earlier tax year must not be greater than the amount by which the charitable trust's available income and gains for the earlier tax year exceed its non-charitable expenditure for the earlier tax year.
- (5) For the purposes of subsections (2)(b) and (4) the charitable trust's non-charitable expenditure for the earlier tax year includes any excess expenditure attributed to the earlier tax year as a result of a previous operation of this section, but ignores the attribution in question.

### **564 Adjustments in consequence of section 562**

Such adjustments must be made (whether by way of the making of assessments or otherwise) as may be required in consequence of section 562.

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## [<sup>F1120</sup>PART 10A

### ALTERNATIVE FINANCE ARRANGEMENTS

#### Textual Amendments

**F1120**Pt. 10A inserted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 2 para. 2** (with Sch. 9 paras. 1-9, 22)

#### *Introduction*

#### **564A Introduction**

- (1) This Part—
  - (a) contains provisions about the treatment as interest for certain income tax purposes of alternative finance return under alternative finance arrangements <sup>F1121</sup>... (see sections 564M to 564Q), and
  - (b) contains some special provisions about the treatment of investment bond arrangements (see sections 564R to 564U) and some other rules about alternative finance arrangements (see sections 564V to 564Y).
- (2) In this Part “alternative finance arrangements” means—
  - (a) purchase and resale arrangements,
  - (b) diminishing shared ownership arrangements,
  - (c) deposit arrangements,
  - (d) profit share agency arrangements, and
  - (e) investment bond arrangements.
- (3) In this Part—
  - (a) “purchase and resale arrangements” means arrangements to which section 564C applies,
  - (b) “diminishing shared ownership arrangements” means arrangements to which section 564D applies,
  - (c) “deposit arrangements” means arrangements to which section 564E applies,
  - (d) “profit share agency arrangements” means arrangements to which section 564F applies, and
  - (e) “investment bond arrangements” means arrangements to which section 564G applies.
- (4) For the meaning of “alternative finance return”, see sections 564I to 564L.
- (5) For the meaning of “financial institution”, see section 564B.
- (6) Also, see section 366 of TIOPA 2010 (power to extend this Part and other provisions to other arrangements by order).]

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### Textual Amendments

**F1121** Words in s. 564A(1)(a) omitted (24.5.2022) by virtue of [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\)](#), arts. 1(2), **8(4)** (with art. 1(3))

### [<sup>F1122</sup>**564B** Meaning of “financial institution”

(1) In this Part “financial institution” means—

- (a) a bank, as defined by section 991,
- (b) a building society,
- (c) a wholly-owned subsidiary—
  - (i) of a bank within paragraph (a), or
  - (ii) of a building society,

[<sup>F1123</sup>(d) a person with permission under Part 4A of the Financial Services and Markets Act 2000 to enter into, or to exercise or have the right to exercise rights and duties under, a contract of the kind mentioned in paragraph 23 or paragraph 23B of Schedule 2 to that Act (credit agreements and contracts for hire of goods);]

- (e) a bond-issuer, within the meaning of section 564G, but only in relation to any bond assets which are rights under purchase and resale arrangements, diminishing shared ownership arrangements or profit share agency arrangements,
- (f) a person authorised in a jurisdiction outside the United Kingdom—
  - (i) to receive deposits or other repayable funds from the public, and
  - (ii) to grant credits for its own account,
- (g) an insurance company as defined in [<sup>F1124</sup>section 65 of FA 2012], or
- (h) a person who is authorised in a jurisdiction outside the United Kingdom to carry on a business which consists of effecting or carrying out contracts of insurance or substantially similar business but not an insurance special purpose vehicle as defined in [<sup>F1125</sup>section 139(1) of FA 2012].

[ Subsection (1)(d) must be read with—

- <sup>F1126</sup>(1A) (a) section 22 of the Financial Services and Markets Act 2000,  
(b) any relevant order under that section, and  
(c) Schedule 2 to that Act.]

(2) For the purposes of subsection (1)(c) a company is a wholly-owned subsidiary of a bank or building society (“the parent”) if it has no members except—

- (a) the parent or persons acting on behalf of the parent, and
- (b) the parent's wholly-owned subsidiaries or persons acting on behalf of the parent's wholly-owned subsidiaries.]

### Textual Amendments

**F1122** S. 564B inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 2 para. 3** (with Sch. 9 paras. 1-9, 22)

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- F1123** S. 564B(1)(d) substituted (26.7.2013 for specified purposes, 1.4.2014 in so far as not already in force) by [The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No.2\) Order 2013 \(S.I. 2013/1881\)](#), art. 1(2)(6), **Sch. para. 12(a)**
- F1124** Words in s. 564B(1)(g) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), **Sch. 16 para. 133(a)**
- F1125** Words in s. 564B(1)(h) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), **Sch. 16 para. 133(b)**
- F1126** S. 564B(1A) inserted (26.7.2013 for specified purposes, 1.4.2014 in so far as not already in force) by [The Financial Services and Markets Act 2000 \(Regulated Activities\) \(Amendment\) \(No.2\) Order 2013 \(S.I. 2013/1881\)](#), art. 1(2)(6), **Sch. para. 12(b)**

### *[<sup>F1127</sup>Arrangements that are alternative finance arrangements*

#### **Textual Amendments**

- F1127** S. 564C and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 2 para. 4** (with [Sch. 9 paras. 1-9, 22](#))

#### **564C Purchase and resale arrangements**

- (1) This section applies to arrangements if—
- (a) they are entered into between two persons (“the first purchaser” and “the second purchaser”), [<sup>F1128</sup>and—
    - (i) at least one of those persons is a financial institution, or
    - (ii) the arrangements are regulated electronic system facilitated arrangements, and]
  - (b) under the arrangements—
    - (i) the first purchaser purchases an asset and sells it to the second purchaser,
    - (ii) the sale occurs immediately after the purchase or in the circumstances mentioned in subsection (2),
    - (iii) all or part of the second purchase price is not required to be paid until a date later than that of the sale,
    - (iv) the second purchase price exceeds the first purchase price, and
    - (v) the excess equates, in substance, to the return on an investment of money at interest.
- (2) The circumstances are that—
- (a) the first purchaser is a financial institution, and
  - (b) the asset referred to in subsection (1)(b)(i) was purchased by the first purchaser for the purpose of entering into arrangements within this section.

- [ Arrangements are regulated electronic system facilitated arrangements if—
- <sup>F1129</sup>(2A) (a) the arrangements substantially consist of an article 36H agreement in relation to the deferral of the payment of all or part of the second purchase price,
- (b) the first purchaser would be regarded, for the purposes of that agreement, as the lender under it,
  - (c) the second purchaser would be regarded, for the purposes of that agreement, as the borrower under it, and

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- (d) those purchasers becoming parties to the agreement was facilitated by an electronic system operated by a person who has permission under Part 4A of FISMA 2000 to carry on, in relation to that system, the regulated activity specified in article 36H(1) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544) (operating an electronic system in relation to lending).]
- (3) In this section—
- “the first purchase price” means the amount paid by the first purchaser in respect of the purchase,<sup>F1130</sup> ...
- “the second purchase price” means the amount payable by the second purchaser in respect of the sale.
- [<sup>F1131</sup>“article 36H agreement” has the meaning given by article 36H(4) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, and
- “borrower” and “lender” are to be construed in accordance with article 36H(9) of that Order.]
- (4) This section is subject to section 564H (provision not at arm's length: exclusion of arrangements from this section and sections 564D to 564G).]

#### Textual Amendments

- F1128** Words in s. 564C(1)(a) substituted (24.5.2022) by [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\)](#), arts. 1(2), **5(2)** (with art. 1(3))
- F1129** S. 564C(2A) inserted (24.5.2022) by [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\)](#), arts. 1(2), **5(3)** (with art. 1(3))
- F1130** Word in s. 564C(3) omitted (24.5.2022) by virtue of [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\)](#), arts. 1(2), **5(4)(a)** (with art. 1(3))
- F1131** Words in s. 564C(3) inserted (24.5.2022) by [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\)](#), arts. 1(2), **5(4)(b)** (with art. 1(3))

#### [<sup>F1132</sup>564D] Diminishing shared ownership arrangements

- (1) This section applies to arrangements if under them—
- (a) a [<sup>F1133</sup>person] (“the first owner”) acquires a beneficial interest in an asset,
- [<sup>F1134</sup>(aa) either—
- (i) the first owner is a financial institution or a regulated home purchase plan provider, or
- (ii) the arrangements are regulated electronic system facilitated arrangements,]
- (b) another person (“the eventual owner”) also acquires a beneficial interest in it,
- (c) the eventual owner is to make payments to the first owner amounting in aggregate to the consideration paid for the acquisition of the first owner's beneficial interest (but subject to any adjustment required for such a reduction as is mentioned in subsection (5)),
- (d) the eventual owner is to acquire the first owner's beneficial interest (whether or not in stages) as a result of those payments,
- (e) the eventual owner is to make other payments to the first owner (whether under a lease forming part of the arrangements or otherwise),

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- (f) the eventual owner has the exclusive right to occupy or otherwise to use the asset, and
  - (g) the eventual owner is exclusively entitled to any income, profit or gain arising from or attributable to the asset (including, in particular, an increase in its value).
- [ Arrangements are regulated electronic system facilitated arrangements if—
- <sup>F1135</sup>(1A) (a) the arrangements substantially consist of an article 36H agreement in relation to the enjoyment by the eventual owner of the rights referred to in subsection (1)(f) and (g) before the eventual owner’s acquisition of the first owner’s beneficial interest,
- (b) the eventual owner would be regarded, for the purposes of that agreement, as the borrower under it,
- (c) the first owner would be regarded, for the purposes of that agreement, as the lender under it, and
- (d) those owners becoming parties to the agreement was facilitated by an electronic system operated by a person who has permission under Part 4A of FISMA 2000 to carry on, in relation to that system, the regulated activity specified in article 36H(1) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ([S.I. 2001/544](#)) (operating an electronic system in relation to lending).]
- (2) For the purposes of subsection (1)(a) it does not matter if—
- (a) the first owner acquires its beneficial interest from the eventual owner,
  - (b) the eventual owner, or another person who is not the first owner, also has a beneficial interest in the asset, or
  - (c) the first owner also has a legal interest in it.
- (3) Subsection (1)(f) does not prevent the eventual owner from granting an interest or right in relation to the asset if the conditions in subsection (4) are met.
- (4) The conditions are that—
- (a) the grant is not to—
    - (i) the first owner,
    - (ii) a person controlled by the first owner, or
    - (iii) a person controlled by a person who also controls the first owner, and
  - (b) the grant is not required by the first owner or arrangements to which the first owner is a party.
- (5) Subsection (1)(g) does not prevent the first owner from—
- (a) having responsibility for any reduction in the asset’s value, or
  - (b) having a share in a loss arising out of any such reduction.
- (6) This section is subject to section 564H (provision not at arm’s length: exclusion of arrangements from section 564C, this section and sections 564E to 564G).]
- <sup>F1136</sup>(7) In this section—
- “article 36H agreement” has the meaning given by article 36H(4) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001;
  - “borrower” and “lender” are to be construed in accordance with article 36H(9) of that Order;
  - “regulated home purchase plan provider” means a person who—

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- (a) is carrying on the regulated activity specified in article 63F(1) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (entering into regulated home purchase plans as home purchase provider), and
- (b) has permission under Part 4A of FISMA 2000 to do so.]

#### Textual Amendments

- F1132** S. 564D inserted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 2 para. 5** (with Sch. 9 paras. 1-9, 22)
- F1133** Word in s. 564D(1)(a) substituted (24.5.2022) by The Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022 (S.I. 2022/572), arts. 1(2), **2(2)(a)** (with art. 1(3))
- F1134** S. 564D(1)(aa) inserted (24.5.2022) by The Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022 (S.I. 2022/572), arts. 1(2), **2(2)(b)** (with art. 1(3))
- F1135** S. 564D(1A) inserted (24.5.2022) by The Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022 (S.I. 2022/572), arts. 1(2), **2(3)** (with art. 1(3))
- F1136** S. 564D(7) inserted (24.5.2022) by The Alternative Finance (Income Tax, Capital Gains Tax and Corporation Tax) Order 2022 (S.I. 2022/572), arts. 1(2), **2(4)** (with art. 1(3))

#### [<sup>F1137</sup>**564D** Deposit arrangements

- (1) This section applies to arrangements if under them—
  - (a) a person (“the depositor”) deposits money with a financial institution,
  - (b) the money, together with money deposited with the institution by other persons, is used by it with a view to producing a profit,
  - (c) from time to time the institution makes or credits a payment to the depositor out of profit resulting from the use of the money,
  - (d) the payment is in proportion to the amount deposited by the depositor, and
  - (e) the payments so made or credited by the institution equate, in substance, to the return on an investment of money at interest.
- (2) This section is subject to section 564H (provision not at arm's length: exclusion of arrangements from sections 564C and 564D, this section and sections 564F and 564G).]

#### Textual Amendments

- F1137** S. 564E inserted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 2 para. 6** (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1138</sup>**564P** Profit share agency arrangements

- (1) This section applies to arrangements if under them—
  - (a) a person (“the principal”) appoints an agent,
  - (b) one or both of the principal and agent is a financial institution,
  - (c) the agent uses money provided by the principal with a view to producing a profit,

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- (d) the principal is entitled, to a specified extent, to profits resulting from the use of the money,
  - (e) the agent is entitled to any additional profits resulting from its use (and may also be entitled to a fee paid by the principal), and
  - (f) payments made because of the principal's entitlement to profits equate, in substance, to the return on an investment of money at interest.
- (2) This section is subject to section 564H (provision not at arm's length: exclusion of arrangements from sections 564C to 564E, this section and section 564G).]

#### Textual Amendments

**F1138**S. 564F inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 2 para. 7** (with [Sch. 9 paras. 1-9, 22](#))

### [<sup>F1139</sup>564G] Investment bond arrangements

- (1) This section applies to arrangements if—
- (a) they provide for one person (“the bond-holder”) to pay a sum of money (“the capital”) to another (“the bond-issuer”),
  - (b) they identify assets, or a class of assets, which the bond-issuer will acquire for the purpose of generating income or gains directly or indirectly (“the bond assets”),
  - (c) they specify a period at the end of which they cease to have effect (“the bond term”),
  - (d) the bond-issuer undertakes under the arrangements—
    - (i) to dispose at the end of the bond term of any bond assets which are still in the bond-issuer's possession,
    - (ii) to make a repayment of the capital (“the redemption payment”) to the bond-holder during or at the end of the bond-term (whether or not in instalments), and
    - (iii) to pay to the bond-holder other payments on one or more occasions during or at the end of the bond term (“additional payments”),
  - (e) the amount of the additional payments does not exceed an amount which would be a reasonable commercial return on a loan of the capital,
  - (f) under the arrangements the bond-issuer undertakes to arrange for the management of the bond assets with a view to generating income sufficient to pay the redemption payment and additional payments,
  - (g) the bond-holder is able to transfer the rights under the arrangements to another person (who becomes the bond-holder because of the transfer),
  - (h) the arrangements are a listed security on a recognised stock exchange [<sup>F1140</sup>or admitted to trading on a multilateral trading facility operated by [<sup>F1141</sup>a regulated] recognised stock exchange], and
  - (i) the arrangements are wholly or partly treated in accordance with international accounting standards as a financial liability of the bond-issuer, or would be if the bond-issuer applied those standards.
- (2) For the purposes of subsection (1)—



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- (a) the bond-issuer may acquire bond assets before or after the arrangements take effect,
- (b) the bond assets may be property of any kind, including rights in relation to property owned by someone other than the bond-issuer,
- (c) the identification of the bond assets mentioned in subsection (1)(b) and the undertakings mentioned in subsection (1)(d) and (f) may (but need not) be described as, or accompanied by a document described as, a declaration of trust,
- (d) a reference to the management of assets includes a reference to disposal,
- (e) the bond-holder may (but need not) be entitled under the arrangements to terminate them, or participate in terminating them, before the end of the bond term,
- (f) the amount of the additional payments may be—
  - (i) fixed at the beginning of the bond term,
  - (ii) determined wholly or partly by reference to the value of or income generated by the bond assets, or
  - (iii) determined in some other way,
- (g) if the amount of the additional payments is not fixed at the beginning of the bond term, the reference in subsection (1)(e) to the amount of the additional payments is a reference to the maximum amount of the additional payments,
- (h) the amount of the redemption payment may (but need not) be subject to reduction in the event of a fall in the value of the bond assets or in the rate of income generated by them, <sup>F1142</sup> ... [<sup>F1143</sup> and]
- <sup>F1143</sup> [ entitlement to the redemption payment may (but need not) be capable of being satisfied (whether or not at the option of the bond-issuer or the bond-holder) by the issue or transfer of shares or other securities.
- <sup>F1144</sup> (j) .....
- <sup>F1145</sup> (k) .....

<sup>F1146</sup> (2A) [ In subsection (1)—  
“regulated recognised stock exchange” means a recognised stock exchange that is regulated in the United Kingdom, the European Economic Area or Gibraltar;

“multilateral trading facility” means—  
(a) a UK multilateral trading facility within the meaning given by Article 2.1(14A) of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments,  
(b) an EU multilateral trading facility within the meaning given by Article 2.1(14B) of that Regulation, and  
(c) [<sup>F1147</sup> a Gibraltar multilateral trading facility within the meaning given by Article 26(11)(b)(ii) of that Regulation.]

<sup>F1148</sup> ...]

(3) This section is subject to section 564H (provision not at arm's length: exclusion of arrangements from sections 564C to 564F and this section).]]

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### Textual Amendments

- F1139** S. 564G inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 8](#) (with [Sch. 9 paras. 1-9, 22](#))
- F1140** Words in s. 564G(1)(h) inserted (with effect in accordance with s. 34(4) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 34\(2\)\(a\)](#)
- F1141** Words in s. 564G(1)(h) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(7\)\(a\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1142** Word in s. 564G(2)(h) omitted (with effect in accordance with s. 34(4) of the amending Act) by virtue of [Finance Act 2018 \(c. 3\), s. 34\(2\)\(b\)\(i\)](#)
- F1143** Word in s. 564G(2)(h) inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(7\)\(b\)\(i\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1144** S. 564G(2)(j) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(7\)\(b\)\(ii\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1145** S. 564G(2)(k) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(7\)\(b\)\(ii\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1146** S. 564G(2A) inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(7\)\(c\)](#) (with [regs. 39-41](#)); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1147** Words in s. 564G(2A) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) \(No. 2\) Regulations 2019 \(S.I. 2019/818\), regs. 1\(3\), 6\(3\)\(a\)](#); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)
- F1148** Words in s. 564G(2A) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) \(No. 2\) Regulations 2019 \(S.I. 2019/818\), regs. 1\(3\), 6\(3\)\(b\)](#); 2020 c. 1, [Sch. 5 para. 1\(1\)](#)

### [<sup>F1149</sup>564] Provision not at arm's length: exclusion of arrangements from sections 564C to 564G

- (1) Arrangements to which this section applies are not—
  - (a) purchase and resale arrangements,
  - (b) diminishing shared ownership arrangements,
  - (c) deposit arrangements,
  - (d) profit share agency arrangements, or
  - (e) investment bond arrangements.
- (2) This section applies to arrangements if—
  - (a) apart from this section they would be alternative finance arrangements,
  - (b) subsection (3) or (5) of section 147 of TIOPA 2010 (tax calculations to be based on arm's length, not actual, provision) requires the profits and losses of a person who is a party to the arrangements to be calculated for tax purposes as if the arm's length provision (within the meaning of that section) had been made or imposed rather than in accordance with the arrangements,
  - (c) any person who is an affected person for the purposes of Part 4 of that Act (“the affected person”) is entitled to—
    - (i) relevant return in relation to the arrangements, or
    - (ii) an amount representing relevant return in relation to them, and
  - (d) the affected person is not subject—
    - (i) to income tax or corporation tax, or
    - (ii) to any corresponding tax under the law of a territory outside the United Kingdom,

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on the relevant return or the amount representing it.

- (3) In this section “relevant return”, in relation to arrangements, means any amount which would be alternative finance return if the arrangements were alternative finance arrangements.]

#### Textual Amendments

**F1149S.** 564H inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 9](#) (with Sch. 9 paras. 1-9, 22)

*[<sup>F1150</sup>Meaning of “alternative finance return”*

#### Textual Amendments

**F1150S.** 564I and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 10](#) (with Sch. 9 paras. 1-9, 22)

### **564I Purchase and resale arrangements**

- (1) In the case of purchase and resale arrangements, so much of the second purchase price as is specified under the following provisions of this section is alternative finance return for the purposes of this Part.
- (2) If under the arrangements the whole of the second purchase price is paid on one day, the alternative finance return equals the amount by which the second purchase price exceeds the first purchase price.
- (3) If under the arrangements the second purchase price is paid by instalments, the alternative finance return in each instalment equals the appropriate amount.
- (4) The appropriate amount is an amount equal to the interest which would have been included in the instalment on the assumptions in subsection (5).
- (5) The assumptions are that—
- interest is payable on a loan by the first purchaser to the second purchaser of an amount equal to the first purchase price,
  - the total interest payable on the loan is equal to the amount by which the second purchase price exceeds the first purchase price,
  - the instalment is a part repayment of the principal of the loan with interest, and
  - the loan is made on arm's length terms and accounted for under generally accepted accounting practice.
- (6) In this section expressions used in section 564C have the same meaning as in that section.]

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### **[<sup>F1151</sup>564] Purchase and resale arrangements where return in foreign currency**

- (1) If, in the case of purchase and resale arrangements, alternative finance return is paid in a currency other than sterling—
  - (a) by or to a person other than a company, and
  - (b) otherwise than for the purposes of a trade, profession or vocation or a property business,
 subsections (2) and (3) apply as respects that person.
- (2) The amount of the excess referred to in section 564I(2) and (5)(b) and the appropriate amount for the purposes of section 564I(3) and (4) are to be calculated in that other currency.
- (3) The amount of each payment of alternative finance return is to be translated into sterling at a spot rate of exchange for the day on which the payment is made.]

#### **Textual Amendments**

**F1151** S. 564J inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 11](#) (with Sch. 9 paras. 1-9, 22)

### **[<sup>F1152</sup>564] Diminishing shared ownership arrangements**

- (1) In the case of diminishing shared ownership arrangements, payments by the eventual owner under the arrangements are alternative finance return for the purposes of this Part, except so far as subsection (2) or (3) applies to them.
- (2) This subsection applies to the payments so far as they amount to payments of the kind described in section 564D(1)(c) (payments to be made by the eventual owner to the [<sup>F1153</sup>first owner], amounting to the consideration paid for the acquisition of the [<sup>F1154</sup>first owner's] beneficial interest).
- (3) This subsection applies to the payments so far as they amount to payments in respect of any arrangement fee or legal or other expenses which the eventual owner is required under the arrangements to pay.
- (4) In this section “the eventual owner” has the same meaning as in section 564D.]

#### **Textual Amendments**

**F1152** S. 564K inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 12](#) (with Sch. 9 paras. 1-9, 22)

**F1153** Words in s. 564K(2) substituted (24.5.2022) by [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\), arts. 1\(2\), 8\(5\)\(a\)](#) (with art. 1(3))

**F1154** Words in s. 564K(2) substituted (24.5.2022) by [The Alternative Finance \(Income Tax, Capital Gains Tax and Corporation Tax\) Order 2022 \(S.I. 2022/572\), arts. 1\(2\), 8\(5\)\(b\)](#) (with art. 1(3))

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## **[<sup>F1155</sup>564J] Other arrangements**

- (1) In the case of deposit arrangements, amounts paid or credited as mentioned in section 564E(1)(c) by a financial institution under the arrangements (payments to depositor out of profits resulting from use of money) are alternative finance return for the purposes of this Part.
- (2) In the case of profit share agency arrangements, amounts paid or credited by a financial institution in accordance with such an entitlement as is mentioned in section 564F(1)(d) (principal's entitlement to profits under the arrangements) are alternative finance return for the purposes of this Part.
- (3) In the case of investment bond arrangements, the additional payments under the arrangements are alternative finance return for the purposes of this Part, but subject to subsection (4).
- (4) If any part of the additional payments in respect of investment bond arrangements equates in substance to discount, that part is not treated as alternative finance return for income tax purposes.
- (5) In this section “additional payments” has the same meaning as in section 564G (see subsection (1)(d)(iii) of that section).
- (6) For the treatment of the part of the additional payments to which subsection (4) applies, see section 564R (treatment of discount).]

### **Textual Amendments**

**F1155S.** 564L inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 13](#) (with Sch. 9 paras. 1-9, 22)

## **[<sup>F1156</sup>Treatment of alternative finance return as interest etc**

### **Textual Amendments**

**F1156S.** 564M and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 14](#) (with Sch. 9 paras. 1-9, 22)

## **564M Treatment of alternative finance return as interest for ITTOIA 2005**

- (1) Alternative finance return is treated as interest for the purposes of ITTOIA 2005.
- (2) References to interest in section 380 of that Act (funding bonds) include references to alternative finance return.]

## **[<sup>F1157</sup>564N] Alternative finance return under arrangements for trade or property business purposes**

- (1) This section applies so far as a person is a party to alternative finance arrangements for the purposes of—

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- (a) a trade, profession or vocation carried on by that person, or
  - (b) a property business of that person.
- (2) Alternative finance return paid by that person is treated as an expense of the trade, profession, vocation or business.
- (3) In section 58 of ITTOIA 2005—
- (a) references to a loan include references to alternative finance arrangements, and
  - (b) references to interest include references to alternative finance return.]

#### Textual Amendments

**F1157**S. 564N inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 15](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1158</sup>**564Q** Relief for some alternative finance return under Chapter 1 of Part 8 etc

- (1) Chapter 1 of Part 8 of this Act (interest payments) has effect as if—
- (a) purchase and resale arrangements involved the making of a loan, and
  - (b) alternative finance return were interest.
- (2) Section 412 (information) has effect accordingly.]

#### Textual Amendments

**F1158**S. 564O inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 16](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1159</sup>**564H** Tax relief schemes and arrangements

Section 809ZG (tax relief schemes and arrangements) applies to alternative finance return as it applies to interest.]

#### Textual Amendments

**F1159**S. 564P inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 17](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1160</sup>**564Q** Deduction of income tax at source under Part 15

- (1) Chapter 2 of Part 15 [<sup>F1161</sup>and section 876] (deduction of income tax at source: [<sup>F1162</sup>exception for deposit-takers]), and Chapter 19 of that Part so far as it has effect for the purposes of Chapter 2 of that Part [<sup>F1163</sup>and section 876], have effect as if—
- (a) relevant alternative finance arrangements were a deposit,

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- (b) for the purposes of section 866(2)(a) such arrangements were a deposit consisting of a loan, and
  - (c) alternative finance return payable under such arrangements were interest.
- (2) For the purposes of subsection (1) alternative finance arrangements are relevant unless they are purchase and resale arrangements where the second purchaser is not a financial institution.
- (3) In subsection (2) “the second purchaser” has the same meaning as in section 564C.
- (4) In Chapter 12 of Part 15 (funding bonds) references to interest include references to alternative finance return.
- (5) Chapters 3 to 5 of Part 15 [<sup>F1164</sup>except section 876], and Chapter 19 of that Part so far as it has effect for the purposes of [<sup>F1165</sup>those provisions], apply to alternative finance return as they apply to interest.]

#### Textual Amendments

- F1160** S. 564Q inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 18](#) (with Sch. 9 paras. 1-9, 22)
- F1161** Words in s. 564Q(1) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 6 para. 20\(1\)\(a\)](#)
- F1162** Words in s. 564Q(1) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 6 para. 20\(1\)\(b\)](#)
- F1163** Words in s. 564Q(1) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 6 para. 20\(1\)\(c\)](#)
- F1164** Words in s. 564Q(5) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 6 para. 20\(2\)\(a\)](#)
- F1165** Words in s. 564Q(5) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 6 para. 20\(2\)\(b\)](#)

#### <sup>F1166</sup>Special rules for investment bond arrangements

#### Textual Amendments

- F1166** S. 564R and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 19](#) (with Sch. 9 paras. 1-9, 22)

#### 564R Treatment of discount

- (1) This section applies if any part of the additional payments in respect of investment bond arrangements is excluded from being alternative finance return by section 564L(4) because it equates in substance to discount.
- (2) That part is treated in accordance with section 381 of ITTOIA 2005 (discounts) unless subsection (3) applies.

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- (3) If the arrangements are deeply discounted securities for the purposes of Chapter 8 of Part 4 of that Act (profits from deeply discounted securities), that part is treated in accordance with that Chapter.
- (4) In this section “additional payments” has the same meaning as in section 564G of this Act (see subsection (1)(d)(iii) of that section).]

### [<sup>F1167</sup>564S] **Treatment of bond-holder and bond-issuer**

- (1) This section applies for the purposes of the Income Tax Acts and irrespective of the position for other purposes.
- (2) The bond-holder under investment bond arrangements is not treated as having a legal or beneficial interest in the bond assets.
- (3) The bond-issuer under such arrangements is not treated as a trustee of the bond assets.
- (4) Profits accruing to the bond-issuer in connection with the bond assets are profits of the bond-issuer and not of the bond-holder (and do not arise to the bond-issuer in a fiduciary or representative capacity).
- (5) Payments made by the bond-issuer by way of redemption payment or additional payment are not made in a fiduciary or representative capacity.
- (6) The bond-holder is not entitled to relief for capital expenditure in connection with the bond assets.
- (7) Expressions used in this section have the same meaning as in section 564G.]

#### **Textual Amendments**

**F1167** S. 564S inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 20](#) (with Sch. 9 paras. 1-9, 22)

#### **Modifications etc. (not altering text)**

**C99** S. 564S applied by 2009 c. 10, Sch. 61 para. 2 (as substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 229\(3\)](#) (with Sch. 9 paras. 1-9, 22))

**C100** S. 564S applied (S.) (1.4.2015) by [Land and Buildings Transaction Tax \(Scotland\) Act 2013 \(asp 11\), s. 70\(2\), sch. 8 para. 6](#) (with s. 69); S.S.I. 2015/108, art. 2

### [<sup>F1168</sup>564T] **Treatment as securities**

- (1) Investment bond arrangements are securities for the purposes of the Income Tax Acts (including Chapters 1 to 5 of Part 7 of ITEPA 2003).
- (2) For those purposes—
  - (a) a reference in an enactment to redemption is to be taken as a reference to making the redemption payment, and
  - (b) a reference in an enactment to interest is to be taken as a reference to alternative finance return.



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- (3) In subsection (2) “the redemption payment” has the same meaning as in section 564G (see subsection (1)(d)(ii) of that section).]

#### Textual Amendments

**F1168**S. 564T inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 21](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1169</sup>564U] Arrangements not unit trust scheme or offshore fund

Investment bond arrangements are not—

- (a) a unit trust scheme for the purposes of section 1007 of this Act, or
- (b) an offshore fund for the purposes of section 354 of TIOPA 2010 so far as relating to income tax.]

#### Textual Amendments

**F1169**S. 564U inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 22](#) (with Sch. 9 paras. 1-9, 22)

#### Modifications etc. (not altering text)

**C101** S. 564U(b) modified (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 9 para. 38](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1170</sup>Other rules

#### Textual Amendments

**F1170**S. 564V and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 23](#) (with Sch. 9 paras. 1-9, 22)

#### 564V Exclusion of alternative finance return from consideration for sale of assets

- (1) If under purchase and resale arrangements an asset is sold by one party to the arrangements to the other party, the alternative finance return is excluded in determining the consideration for the sale and purchase of the asset for the purposes of the Income Tax Acts (apart from section 564C).
- (2) If under diminishing shared ownership arrangements an asset is sold by one party to the arrangements to the other party, the alternative finance return is excluded in determining the consideration for the sale and purchase of the asset for the purposes of the Income Tax Acts (apart from section 564D).
- (3) If under investment bond arrangements an asset is sold by one party to the arrangements to the other party, the alternative finance return is excluded in

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determining the consideration for the sale and purchase of the asset for the purposes of the Income Tax Acts (apart from section 564G).

- (4) Subsections (1) to (3) do not affect the operation of any provision of the Tax Acts or TCGA 1992 that provides that the consideration for a sale or purchase is taken for any purpose to be an amount other than the actual consideration.]

### [<sup>F1171</sup>564W] **Diminishing shared ownership arrangements not partnerships**

Diminishing shared ownership arrangements are not treated as a partnership for the purposes of the Income Tax Acts.]

#### **Textual Amendments**

**F1171** S. 564W inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 24](#) (with Sch. 9 paras. 1-9, 22)

### [<sup>F1172</sup>564X] **Treatment of principal under profit share agency arrangements**

- (1) The principal under profit share agency arrangements is not treated for the purposes of the Income Tax Acts as entitled to profits to which the agent is entitled in accordance with section 564F(1)(e).
- (2) And the agent under such arrangements is treated for those purposes as entitled to those profits and the profits specified in section 564F(1)(d).
- (3) In this section “the principal” and “the agent” are to be read in accordance with section 564F.]

#### **Textual Amendments**

**F1172** S. 564X inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 2 para. 25](#) (with Sch. 9 paras. 1-9, 22)

### [<sup>F1173</sup>564Y] **Provision not at arm's length: relevant return**

- (1) This section applies if arrangements to which section 564H (provision not at arm's length: exclusion of arrangements from sections 564C to 564G) applies would, but for that section, be alternative finance arrangements.
- (2) A person paying relevant return under the arrangements is not entitled to—
  - (a) any deduction in respect of the relevant return in calculating profits or other income for income tax purposes, or
  - (b) any deduction in respect of the relevant return in calculating net income.
- (3) In this section “relevant return” has the same meaning as in section 564H (see subsection (3) of that section).]

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**Textual Amendments**

**F1173**S. 564Y inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 2 para. 26** (with Sch. 9 paras. 1-9, 22)

**PART 11**

MANUFACTURED PAYMENTS AND REPOS

**CHAPTER 1**

INTRODUCTION

**<sup>F1174</sup>565 Overview of Part**

.....

**Textual Amendments**

**F1174**Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para. 18(a)**

**<sup>F1174</sup>566 Meaning of “UK shares” and “UK securities”**

.....

**Textual Amendments**

**F1174**Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para. 18(a)**

**<sup>F1174</sup>567 Meaning of “overseas shares”, “overseas securities” and “overseas dividend”**

.....

**Textual Amendments**

**F1174**Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para. 18(a)**

**<sup>F1174</sup>568 Meaning of “stock lending arrangement”**

.....

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**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**F1174 569 Meaning of “repo”**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**F1174 570 Meaning of “buying back” securities etc**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**F1174 571 Meaning of “related” agreements**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**CHAPTER 2**

**MANUFACTURED PAYMENTS**

*Introduction*

**F1174 572 Overview of Chapter**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

*Status: Point in time view as at 22/02/2024.*

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**F1174 572 Meaning of “avoidance arrangements”**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

*Manufactured dividends on UK shares*

**F1174 573 Manufactured dividends on UK shares**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 574 Allowable deductions...**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 575 Allowable deductions: restriction on double-counting**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 576 Manufactured dividends on UK shares: Real Estate Investment Trusts**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

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## <sup>F1174</sup>**577 Statements about manufactured dividends**

.....

### **Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

### *Manufactured interest on UK securities*

## <sup>F1174</sup>**578 Manufactured interest on UK securities**

.....

### **Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

## <sup>F1174</sup>**579 Allowable deductions...**

.....

### **Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

## <sup>F1174</sup>**580 Allowable deductions: restriction on double counting**

.....

### **Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

### *Manufactured overseas dividends*

## <sup>F1174</sup>**581 Manufactured overseas dividends**

.....

*Status: Point in time view as at 22/02/2024.*

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**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 581 Avoidance arrangements**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 582 Powers about manufactured overseas dividends**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

*Special cases*

**F1174 583 Manufactured payments exceeding underlying payments**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 584 Manufactured payments less than underlying payments**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, [Sch. 29 para. 18\(a\)](#)

**F1174 585 Power to deal with other special cases**

.....

*Status: Point in time view as at 22/02/2024.*

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**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

*General regulation-making powers*

**F1174 586 Powers about administrative provisions**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**F1174 587 Power for manufactured payments to be eligible for relief**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

**F1174 588 Regulation-making powers: general**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)

*Interpretation*

**F1174 589 Meaning of “gross amount”: interest and manufactured overseas dividends**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 18(a)



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**F1174<sup>4</sup>590 Meaning of “relevant withholding tax”**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

**F1174<sup>4</sup>591 Interpretation of other terms used in Chapter**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

**CHAPTER 3**

**TAX CREDITS: STOCK LENDING ARRANGEMENTS AND REPOS**

*Stock lending arrangements*

**F1174<sup>4</sup>592 No tax credits for borrower under stock lending arrangement**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

*Repos*

**F1174<sup>4</sup>593 No tax credits for interim holder under repo**

.....

**Textual Amendments**

F1174 Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

**F1174<sup>4</sup>594 No tax credits for original owner under repo**

.....

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**Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

*Interpretation*

**<sup>F1174</sup>595 Meaning of “manufactured dividend”**

.....

**Textual Amendments**

**F1174** Ss. 565-595 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(a\)](#)

**CHAPTER 4**

DEEMED MANUFACTURED PAYMENTS

*Stock lending arrangements*

**596 Deemed manufactured payments: stock lending arrangements**

- <sup>F1175</sup>(1)** .....
- <sup>F1175</sup>(1A)** .....
- <sup>F1175</sup>(1B)** .....
- <sup>F1175</sup>(1C)** .....
- <sup>F1175</sup>(2)** .....
- <sup>F1175</sup>(3)** .....
- <sup>F1175</sup>(4)** .....
- <sup>F1176</sup>(5)** .....

**Textual Amendments**

**F1175** S. 596(1)-(4) omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 18\(b\)](#)

**F1176** S. 596(5) omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 12 para. 15\(2\)\(a\)](#)

**<sup>F1177</sup>597 Deemed interest: cash collateral under stock lending arrangements**

.....

*Status: Point in time view as at 22/02/2024.*

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**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 598 Cash collateral under stock lending arrangements: supplementary**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 599 Sections 597 and 598: quasi-stock lending arrangements and quasi-cash collateral**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 600 Meaning of “quasi-stock lending arrangements” and “quasi-cash collateral”**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

*Repos*

**F1177 601 Repo cases in which deeming rules apply**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 602 Deemed manufactured payments: repos**

.....

*Status: Point in time view as at 22/02/2024.*

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**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 603 Deemed deductions of tax**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 604 Deemed increase in repurchase price: price differences under repos**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

**F1177 605 Deemed increase in repurchase price: other income tax purposes**

.....

**Textual Amendments**

F1177 Ss. 597-605 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(b)**

*Interpretation*

**606 Interpretation of Chapter**

- F1178(1) .....
- F1178(2) .....
- F1178(3) .....
- F1179(4) .....
- F1178(5) .....
- F1178(6) .....
- F1178(6A) .....

*Status: Point in time view as at 22/02/2024.*

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F1178(7) .....  
F1180(8) .....  
F1181(9) .....  
F1181(10) .....

**Textual Amendments**

**F1178**S. 606(1)-(7) omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 12 para. 15(2)(c)**

**F1179**S. 606(4) repealed (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 544\(b\)](#), **Sch. 3 Pt. 1** (with Sch. 2)

**F1180**S. 606(8) omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), **Sch. 29 para. 18(c)**

**F1181**S. 606(9)(10) omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 12 para. 15(2)(c)**

**Modifications etc. (not altering text)**

**C102** Ss. 601-610 applied (with modifications) (with effect in accordance with reg. 1(2) of the amending S.I.) by [Sale and Repurchase of Securities \(Modification of Enactments\) Regulations 2007 \(S.I. 2007/2486\)](#), regs. 1(1), **2(2)**, 3

**CHAPTER 5**

PRICE DIFFERENCES UNDER REPOS

*Main tax treatment*

**F1182** **607 Treatment of price differences under repos**

.....

**Textual Amendments**

**F1182**Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 12 para. 15(2)(d)**

**F1182** **608 Exceptions to section 607**

.....

**Textual Amendments**

**F1182**Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 12 para. 15(2)(d)**

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### *Additional tax treatment*

#### **F1182 609 Additional income tax consequences of price differences**

.....

##### **Textual Amendments**

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

### *Interpretation*

#### **F1182 610 Repurchase price in deemed manufactured payment case**

.....

##### **Textual Amendments**

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

### *Power to modify*

#### **F1182 611 Power to modify Chapter in non-arm's length case**

.....

##### **Textual Amendments**

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

## CHAPTER 6

### POWERS TO MODIFY REPO PROVISIONS

#### **F1182 612 Non-standard repo cases**

.....

##### **Textual Amendments**

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

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## <sup>F1182</sup>613 Redemption arrangements

### Textual Amendments

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

## <sup>F1182</sup>614 Sections 612 and 613: supplementary

### Textual Amendments

**F1182** Ss. 607-614 omitted (with effect in accordance with Sch. 12 para. 18(1) of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 12 para. 15(2)(d)**

## <sup>F1183</sup>PART 11ZA

### MANUFACTURED PAYMENTS

### Textual Amendments

**F1183** Pt. 11ZA inserted (with effect in accordance with Sch. 29 para. 51 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 29 para. 1**

## 614ZA Overview of Part

This Part deals with the application of the Income Tax Acts to manufactured payment relationships and payments representative of dividends or interest.

## 614ZB Key definitions

- (1) For the purposes of the Income Tax Acts a person has a manufactured payment relationship if conditions A to C are met.
- (2) Condition A is that under any arrangements—
  - (a) an amount is payable by or to the person, or
  - (b) any other benefit is given by or to the person (including the release of the whole or part of any liability to pay an amount).
- (3) Condition B is that the arrangements relate to the transfer of securities.
- (4) Condition C is that the amount or value of the other benefit—
  - (a) is representative of a dividend or interest on the securities, or
  - (b) will fall to be treated as representative of such a dividend or interest when it is paid or given.

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- (5) In subsection (2) the reference to an amount being payable, or other benefit being given, by the person includes a reference to an amount being payable, or other benefit being given, by another person on behalf of the person in question.
- (6) In this Part—
- “manufactured payment”, in relation to a manufactured payment relationship, means an amount, or the value of a benefit, within subsection (2), and
- “securities” means—
- (a) shares in a company, and
  - (b) loan stock or any similar security (whether the security is of the government of the United Kingdom, any other government, any public or local authority in the United Kingdom or elsewhere, or any other company or body).

#### **614ZC Treatment of payer of manufactured payment**

- (1) This section applies where a person has a manufactured payment relationship under which a manufactured payment is paid by or on behalf of the person.
- (2) No deduction is allowed in respect of the manufactured payment in calculating any profits or other income of the person for income tax purposes (subject to subsection (3)).
- (3) Subsection (2) does not apply in relation to the person so far as the manufactured payment is brought into account under Part 2 of ITTOIA 2005 in calculating the profits of a trade carried on by the person.
- (4) But nothing in subsection (3) affects the question whether (apart from that provision) a deduction in calculating the profits of a trade carried on by the person is allowed.

#### **614ZD Treatment of recipient of manufactured payment**

- (1) Subsection (2) applies if a person has a manufactured payment relationship under which a manufactured payment is payable to the person.
- (2) For the purposes of the charge to income tax on the person's income, the Income Tax Acts apply to the person as if the manufactured payment were a dividend or interest on the securities (as the case may require).
- (3) Subsection (2) is subject to subsections (4) [<sup>F1184</sup>and (5)].
- (4) Subsection (2) does not apply in relation to the person so far as the manufactured payment is brought into account under Part 2 of ITTOIA 2005 in calculating the profits of a trade carried on by the person.
- (5) Subsection (2) does not apply in relation to the person for the purposes of determining entitlement to double taxation relief in respect of any dividend or interest.
- <sup>F1185</sup>(6) .....
- (7) For the purposes of this section “double taxation relief” means any relief given under or as a result of Part 2 of TIOPA 2010.]



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### Textual Amendments

**F1184** Words in s. 614ZD(3) substituted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(9\)\(a\)](#)

**F1185** S. 614ZD(6) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(9\)\(b\)](#)

## [<sup>F1186</sup>PART 11A

### LEASING ARRANGEMENTS: FINANCE LEASES AND LOANS

### Textual Amendments

**F1186** Pt. 11A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 3 para. 2](#) (with [Sch. 9 paras. 1-9, 22](#))

## CHAPTER 1

### INTRODUCTION

#### *Introduction*

#### **614A Overview of Part**

- (1) This Part makes provision for the purposes of income tax about the taxation of leasing arrangements.
- (2) Chapter 2 makes provision in relation to certain arrangements involving the lease of assets where the conditions in section 614BC are or have been met, so far as the lease is not regarded as a long-funding lease for the purposes of Part 2 of CAA 2001 in accordance with Chapter 6A of that Part (see sections 614BB to 614BE).
- (3) Chapter 3 makes provision in relation to arrangements involving the lease of assets that are not within Chapter 2, so far as the lease is not so regarded (see sections 614C and 614CB).
- (4) The remaining provisions of this Chapter explain some expressions about rent for the purposes of this Part.
- (5) Chapter 4 contains further provisions supplementing this Part, including more about its interpretation.

#### *Meaning of expressions about rent*

#### **614AA Normal rent**

- (1) For the purposes of this Part, the “normal rent” in respect of a lease for a period of account of the lessor (“L”) is the amount specified in subsection (2).

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- (2) That amount is the amount that L would, apart from this Part, bring into account as rent from the lease that arises to L in that period of account for the purpose of determining L's liability to income tax for the related tax year or years.
- (3) For the meaning of “related tax year”, see section 614DB(4).

#### **614AB Accountancy rental earnings**

- (1) For the purposes of this Part, the “accountancy rental earnings” in respect of a lease for a period of account of the lessor (“L”) is the greatest of the amounts specified in subsection (2).
- (2) Those amounts are—
  - (a) the rental earnings for that period in respect of the lease in L's case,
  - (b) the rental earnings for that period in respect of the lease in the case of a person connected with L, and
  - (c) the rental earnings for that period in respect of the lease for the purposes of consolidated group accounts of a group of companies of which L is a member.
- (3) For the meaning of “the rental earnings”, see section 614AC.

#### **614AC Rental earnings**

- (1) In this Part “the rental earnings” for any period in respect of a lease of an asset in the case of any person or any consolidated group accounts is the amount specified in subsection (2).
- (2) That amount is the amount that falls for accounting purposes to be treated, in accordance with generally accepted accounting practice, as the gross return for that period on investment in respect of a finance lease or loan in respect of the leasing arrangements.
- (3) For the meaning of “for accounting purposes”, see section 614DG.]

## [<sup>F1187</sup>CHAPTER 2

### FINANCE LEASES WITH RETURN IN CAPITAL FORM

#### **Textual Amendments**

**F1187**Pt. 11A Ch. 2 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 3 para. 3](#) (with Sch. 9 paras. 1-9, 22)

#### *Introduction*

#### **614B Arrangements to which this Chapter applies**

- (1) This Chapter applies to arrangements involving the lease of an asset that meet conditions A and B.

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- (2) Condition A is that in accordance with generally accepted accounting practice the arrangements fall to be treated as a finance lease or loan.
- (3) Condition B is that the effect of the arrangements is that some or all of the return on investment in respect of the finance lease or loan—
  - (a) is or may be in the form of a sum that is not rent, and
  - (b) would not, apart from this Part and Part 21 of CTA 2010, be wholly brought into account for tax purposes as rent from the lease of the asset.
- (4) It does not matter—
  - (a) when the arrangements are or have been entered into, or
  - (b) whether they are or have been entered into by companies or other persons.

#### **614BA Purposes of this Chapter**

- (1) This section sets out the main purposes of this Chapter where there are any arrangements to which this Chapter applies.
- (2) The first main purpose is to charge any person entitled to the lessor's interest under the lease of the asset to income tax on amounts of income determined as mentioned in subsections (3) and (4).
- (3) The amounts referred to in subsection (2) are determined by reference to the amounts that fall for accounting purposes to be treated, in accordance with generally accepted accounting practice, as the income return on and after 26 November 1996 on investment in respect of the finance lease or loan.
- (4) The amounts referred to in subsection (2) are also determined taking into account the substance of the matter as a whole, including, in particular, the state of affairs—
  - (a) as between connected persons, or
  - (b) within a group of companies,as reflected or falling to be reflected in accounts of any of those persons or in consolidated group accounts.
- (5) The second main purpose of this Chapter is, if the sum mentioned in section 614B(3)
  - (a) that is not rent falls due, to recover by reference to that sum the whole or any part of the capital expenditure reliefs.
- (6) In subsection (5) “the capital expenditure reliefs” means any reliefs, allowances or deductions that are or have been allowed or made in respect of capital expenditure incurred in respect of the leased asset.

*Leases to which this Chapter applies*

#### **614BB Application of this Chapter**

- (1) This Chapter applies if—
  - (a) a lease of an asset is or has been granted, and
  - (b) the conditions in section 614BC are or have been met in relation to the lease at some time in a period of account of the current lessor.

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- (2) But this Chapter does not apply so far as, in relation to the current lessor, the lease falls to be regarded as a long funding lease for the purposes of Part 2 of CAA 2001 (plant and machinery allowances) in accordance with Chapter 6A of that Part (interpretation of provisions about long funding leases) (see section 70G of that Act).
- (3) If the conditions in section 614BC have been met at some time in a period of account of the person who was at that time the lessor, they are taken to continue to be met for the purposes of this Chapter unless and until one of the conditions in subsection (4) is met.
- (4) The conditions are that—
  - (a) the asset ceases to be leased under the lease, or
  - (b) the lessor's interest under the lease is assigned to a person who is not connected with any of the persons specified in subsection (5).
- (5) Those persons are—
  - (a) the assignor,
  - (b) any person who was the lessor at some time before the assignment, and
  - (c) any person who at some time after the assignment becomes the lessor pursuant to arrangements made by a person who was the lessor, or was connected with the lessor, at some time before the assignment.
- (6) If at any time the person who was the lessor at that time was a person within the charge to corporation tax on income, the reference in subsection (3) to the conditions in section 614BC having been met at that time includes a reference to the conditions in section 902 of CTA 2010 having been so met.
- (7) Nothing in subsection (3) prevents this Chapter from applying again in relation to the lease where the lessor's interest is assigned if the conditions for its application are met after the assignment.

#### **614BC The conditions referred to in section 614BB(1)**

- (1) This section sets out the conditions required by section 614BB(1) to be met for this Chapter to apply (conditions A to E).
- (2) Condition A is that at the relevant time—
  - (a) the leasing arrangements fall for accounting purposes to be treated, in accordance with generally accepted accounting practice, as a finance lease or a loan, and
  - (b) subsection (3) or (4) applies.
- (3) This subsection applies if the lessor (“L”), or a person connected with L, falls for accounting purposes to be treated, in accordance with generally accepted accounting practice, as the finance lessor in relation to the finance lease or loan.
- (4) This subsection applies if the finance lease or loan falls for accounting purposes to be treated, in accordance with generally accepted accounting practice, as subsisting for the purposes of consolidated group accounts of a group of companies of which L is a member.
- (5) Condition B is that, under the leasing arrangements, there is or may be payable to L, or to a person connected with L, a sum (a “major lump sum”) that is not rent but falls for accounting purposes to be treated, in accordance with generally accepted accounting practice—

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- (a) as to part, as repayment of some or all of the investment in respect of a finance lease or loan, and
  - (b) as to part, as a return on investment in respect of a finance lease or loan.
- (6) Condition C is that not all of that part of the sum that falls within subsection (5)(b) would, apart from this Chapter, fall to be brought into account for income tax purposes in tax years ending with the relevant tax year as the normal rent from the lease for periods of account of L.
- (7) Condition D is that, in relation to L at the relevant time—
- (a) the period of account of L in which the relevant time falls, or
  - (b) an earlier period of account of L during which L was the lessor,
- is a period of account for which the accountancy rental earnings in respect of the lease exceed the normal rent for the period.
- (8) Condition E is that at the relevant time—
- (a) arrangements within section 614BE(1) exist, or
  - (b) paragraph (a) does not apply and circumstances within section 614BE(3) exist.
- (9) Section 614BD supplements this section.

#### **614BD Provisions supplementing section 614BC**

- (1) In section 614BC—
- “the relevant tax year”, in relation to a major lump sum, means—
- (a) the tax year which is related to the period of account of the lessor (“L”) in which the major lump sum is or may be payable in accordance with the leasing arrangements, or
  - (b) if there are two or more such tax years, the latest of them, and
- “the relevant time” means the time as at which it must be determined for the purposes of section 614BB(1) or (3) whether the conditions in section 614BC are or, as the case may be, were met.
- (2) For the meaning of a tax year being related to a period of account, see section 614DB(4).
- (3) Subsection (4) applies for determining the normal rent for a period of account for the purpose of determining whether condition D in section 614BC is met as respects L unless subsection (5) applies.
- (4) Rent that falls to be brought into account for income tax purposes as it falls due is treated—
- (a) as accruing evenly throughout the period to which, in accordance with the terms of the lease, each payment falling due relates, and
  - (b) as falling due as it so accrues.
- (5) This subsection applies if any such payment as is mentioned in subsection (4)(a) falls due more than 12 months after the time at which any of the rent to which that payment relates is treated as accruing under subsection (4)(a).

#### **614BE The arrangements and circumstances referred to in section 614BC(8)**

- (1) The arrangements referred to in section 614BC(8)(a) are arrangements under which—

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- (a) the lessee or a person connected with the lessee may acquire, whether directly or indirectly, the leased asset or an asset representing the leased asset from the lessor or a person connected with the lessor, and
  - (b) in connection with that acquisition, the lessor or a person connected with the lessor may receive, whether directly or indirectly, a qualifying lump sum from the lessee or a person connected with the lessee.
- (2) In this section “qualifying lump sum” means any sum that is not rent but at least part of which would fall for accounting purposes to be treated, in accordance with generally accepted accounting practice, as a return on investment in respect of a finance lease or loan.
- (3) The circumstances referred to in section 614BC(8)(b) are circumstances which make it more likely—
- (a) that the events described in subsection (4) will occur, than
  - (b) that the event described in subsection (5) will occur.
- (4) The events mentioned in subsection (3)(a) are—
- (a) that the lessee or a person connected with the lessee will acquire, whether directly or indirectly, the leased asset or an asset representing the leased asset from the lessor or a person connected with the lessor, and
  - (b) that, in connection with that acquisition, the lessor or a person connected with the lessor will receive, whether directly or indirectly, a qualifying lump sum from the lessee or a person connected with the lessee.
- (5) The event mentioned in subsection (3)(b) is that, before any such acquisition as is mentioned in subsection (4) takes place, the leased asset or, as the case may be, the asset representing the leased asset, will have been acquired, in a sale on the open market, by an independent third party.
- (6) In subsection (5) “independent third party” means a person who—
- (a) is not the lessor or the lessee, and
  - (b) is not connected with either of them.
- (7) For the meaning of an asset representing the leased asset, see section 614DD.

*Current lessor taxed by reference to accountancy rental earnings*

#### **614BF Current lessor taxed by reference to accountancy rental earnings**

- (1) This section applies if, in the case of any period of account of the current lessor (“L”)—
- (a) this Chapter applies in relation to the lease, and
  - (b) the accountancy rental earnings in respect of the lease for that period of account exceed the normal rent for that period.
- (2) For income tax purposes, L is treated as if in that period of account L had been entitled to, and there had arisen to L, rent from the lease of an amount equal to those accountancy rental earnings (instead of the normal rent referred to in subsection (1)(b)).
- (3) Such rent from the lease of an asset is treated for income tax purposes—
- (a) as if it had accrued at an even rate throughout so much of the period of account as falls within the period for which the asset is leased, and

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- (b) as if L had become entitled to it as it accrued.

*Reduction of taxable rent by cumulative rental excesses*

**614BG Reduction of taxable rent by cumulative rental excesses: introduction**

- (1) This section and sections 614BH to 614BK provide for reductions of the taxable rent of a current lessor (“L”) under a lease to which this Chapter applies.
- (2) In this section and sections 614BH to 614BK “taxable rent”, in relation to a period of account of L, means the amount that would, apart from those sections, be treated for income tax purposes as rent from the lease that arises to L in that period of account for the purpose of determining L's liability to tax for the related tax year or years.
- (3) The reductions of taxable rent under sections 614BH to 614BK depend on there being—
  - (a) a cumulative accountancy rental excess for the period of account of L in question, or
  - (b) a cumulative normal rental excess for the period of account of L in question.
- (4) For the meaning of “cumulative accountancy rental excess” and “cumulative normal rental excess”, see sections 614BH and 614BJ respectively.

**614BH Meaning of “accountancy rental excess” and “cumulative accountancy rental excess”**

- (1) For the purposes of this Chapter, there is an “accountancy rental excess” in relation to the lease for a period of account of the current lessor (“L”) if the taxable rent in relation to the lease for the period is as a result of section 614BF (current lessor taxed by reference to accountancy rental earnings) an amount equal to the accountancy rental earnings.
- (2) The amount of the accountancy rental excess for the period is equal to the difference between the accountancy rental earnings for the period and the normal rent for the period.
- (3) But if the taxable rent for the period is reduced under section 614BK (reduction of taxable rent by the cumulative normal rental excess), there is only an accountancy rental excess for the period if—
  - (a) the accountancy rental earnings, reduced by an amount equal to the reduction under that section, exceed
  - (b) the normal rent.
- (4) And in that case the amount of the accountancy rental excess for the period is equal to that excess.
- (5) In this Chapter the “cumulative accountancy rental excess”, in relation to the lease and a period of account of L, means so much of the total of the accountancy rental excesses for previous periods of account of L (as increased under section 614BM: recovery of bad debts following reduction under section 614BL) as has not been—
  - (a) set off under section 614BI (reduction of taxable rent by the cumulative accountancy rental excess) against the taxable rent for any such previous period,

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- (b) reduced under section 614BL (relief for bad debts: reduction of cumulative accountancy rental excess), or
- (c) set off under section 37A of TCGA 1992 (consideration on disposal of certain leases) against the consideration for a disposal.

#### **614BI Reduction of taxable rent by the cumulative accountancy rental excess**

- (1) This section applies if a period of account of the current lessor (“L”) is one for which—
  - (a) the normal rent in relation to the lease exceeds the accountancy rental earnings, and
  - (b) there is a cumulative accountancy rental excess.
- (2) The taxable rent for the period of account is reduced by setting against it the cumulative accountancy rental excess (but not so as to reduce that rent below the amount of the accountancy rental earnings).
- (3) But see section 614BL(3) and (4) (under which the amount of the cumulative accountancy rental excess which may be set against the taxable rent is limited in some circumstances).

#### **614BJ Meaning of “normal rental excess” and “cumulative normal rental excess”**

- (1) For the purposes of this Chapter, there is a “normal rental excess” in relation to a lease for any period of account of the current lessor (“L”) throughout which the leasing arrangements fall for accounting purposes to be treated, in accordance with generally accepted accounting practice, as a finance lease or loan if—
  - (a) the normal rent for the period, exceeds
  - (b) the accountancy rental earnings for the period.
- (2) The amount of the normal rental excess for that period is equal to that excess.
- (3) But if the taxable rent for the period is reduced under section 614BI (reduction of taxable rent by the cumulative accountancy rental excess), there is only a normal rental excess for the period if—
  - (a) the normal rent, reduced by an amount equal to the reduction under that section, exceeds
  - (b) the accountancy rental earnings.
- (4) And in that case the amount of the normal rental excess for the period is equal to that excess.
- (5) In this Chapter “cumulative normal rental excess”, in relation to the lease and a period of account of L, means so much of the total of the normal rental excesses for previous periods of account of L (as increased under section 614BO: recovery of bad debts following reduction under section 614BN) as has not been—
  - (a) set off under section 614BK (reduction of taxable rent by the cumulative normal rental excess) against the taxable rent for any such previous period, or
  - (b) reduced under section 614BN (relief for bad debts: reduction of cumulative normal rental excess).

#### **614BK Reduction of taxable rent by the cumulative normal rental excess**

- (1) This section applies if a period of account of the current lessor (“L”) is one for which—



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- (a) the taxable rent in relation to the lease is as a result of section 614BF (current lessor taxed by reference to accountancy rental earnings) an amount equal to the accountancy rental earnings, and
  - (b) there is a cumulative normal rental excess.
- (2) The taxable rent for the period of account is reduced by setting against it the cumulative normal rental excess (but not so as to reduce that rent below the amount of the normal rent).
- (3) But see section 614BN(3) and (4) (under which the amount of the cumulative normal rental excess which may be set against the taxable rent is limited in some circumstances).

#### *Relief for bad debts by reduction of cumulative rental excesses*

### **614BL Relief for bad debts: reduction of cumulative accountancy rental excess**

- (1) This section applies if in relation to the lease for any period of account of the current lessor—
- (a) there is a cumulative accountancy rental excess, and
  - (b) a bad debt deduction falls to be made in respect of rent from the lease.
- (2) If for that period—
- (a) the accountancy rental earnings in relation to the lease exceed the normal rent, and
  - (b) the amount of the bad debt deduction exceeds the amount of the accountancy rental earnings,
- the cumulative accountancy rental excess for that period is reduced by the amount of the excess of that deduction over those earnings (but not so as to reduce the amount of that rental excess below nil).
- (3) Subsections (4) and (5) apply if for that period the accountancy rental earnings in relation to the lease do not exceed the normal rent.
- (4) The amount of the cumulative accountancy rental excess that may be set against the taxable rent for that period under section 614BI(2) (reduction of taxable rent by the cumulative accountancy rental excess) is limited to the amount (if any) by which the normal rent exceeds the bad debt deduction.
- (5) If for that period the bad debt deduction exceeds the normal rent, the cumulative accountancy rental excess for that period is reduced by the amount of that excess (but not so as to reduce the amount of that rental excess below nil).
- (6) In this section—
- “bad debt deduction”, in relation to a period of account of the lessor, means the total of any sums falling within section 35(1)(a), (b) or (c) of ITTOIA 2005 in respect of amounts in respect of rents from the lease of the asset which are deductible as expenses for that period, and
  - “taxable rent” has the meaning given in section 614BG(2).

### **614BM Recovery of bad debts following reduction under section 614BL**

- (1) This section applies if in relation to the lease—

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- (a) the cumulative accountancy rental excess for any period of account of the current lessor (“L”) has been reduced under section 614BL(2) or (5) because of a bad debt deduction,
  - (b) in a subsequent period of account of L, an amount (“the relevant credit”) is recovered or credited in respect of the amount which constituted the bad debt deduction, and
  - (c) there is a cumulative accountancy rental excess for that subsequent period.
- (2) The cumulative accountancy rental excess for the subsequent period is increased.
  - (3) If the relevant credit does not exceed the total of the reductions under section 614BL(2) or (5), the increase is by the relevant credit.
  - (4) Otherwise, the increase is limited to that total.
  - (5) In this section “bad debt deduction” has the meaning given in section 614BL(6).

#### **614BN Relief for bad debts: reduction of cumulative normal rental excess**

- (1) This section applies if in relation to the lease for any period of account of the current lessor—
  - (a) there is a cumulative normal rental excess, and
  - (b) a bad debt deduction falls to be made in respect of rent from the lease.
- (2) If for that period—
  - (a) the accountancy rental earnings in the case of the lease do not exceed the normal rent, and
  - (b) the amount of the bad debt deduction exceeds the amount of that rent,
 the cumulative normal rental excess for that period is reduced by the amount of the excess of that deduction over that rent (but not so as to reduce the amount of that rental excess below nil).
- (3) Subsections (4) and (5) apply if for that period the accountancy rental earnings in relation to the lease exceed the normal rent.
- (4) The amount of the cumulative normal rental excess that may be set against the taxable rent for that period under section 614BK (reduction of taxable rent by the cumulative normal rental excess) is limited to the amount (if any) by which the accountancy rental earnings exceed the bad debt deduction.
- (5) If for that period the bad debt deduction exceeds the accountancy rental earnings, the cumulative normal rental excess for that period is reduced by the amount of the excess (but not so as to reduce the amount of that rental excess below nil).
- (6) In this section, in relation to a period of account of the lessor—
 

“bad debt deduction” has the meaning given in section 614BL(6), and

“taxable rent” has the meaning given in section 614BG(2).

#### **614BO Recovery of bad debts following reduction under section 614BN**

- (1) This section applies if in relation to the lease—
  - (a) the cumulative normal rental excess for any period of account of the current lessor (“L”) has been reduced under section 614BN(2) or (5) as a result of a bad debt deduction,

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- (b) in a subsequent period of account of L, an amount (“the relevant credit”) is recovered or credited in respect of the amount which constituted the bad debt deduction, and
  - (c) there is a cumulative normal rental excess for that subsequent period.
- (2) The cumulative normal rental excess for the subsequent period is increased.
- (3) If the relevant credit does not exceed the total of the reductions under section 614BN(2) or (5), the increase is by the relevant credit.
- (4) Otherwise, the increase is limited to that total.
- (5) In this section “bad debt deduction” has the meaning given in section 614BL(6).

### *Effect of disposals*

#### **614BP Effect of disposals of leases: general**

- (1) This section applies if the current lessor (“L”) or a person connected with L disposes of—
- (a) the lessor's interest under the lease,
  - (b) the leased asset, or
  - (c) an asset representing the leased asset (see section 614DD).
- (2) This Part has effect as if immediately before the disposal a period of account of L ended and another began.
- (3) If—
- (a) two or more disposals within subsection (1) are made at the same time, and
  - (b) there is any cumulative accountancy rental excess for any period of account of L in which the disposal occurs,
- subsection (2) has effect in relation to those disposals as if they together constituted a single disposal.
- (4) In this section “dispose” and “disposal” are to be read in accordance with TCGA 1992.
- (5) In cases where there is any cumulative accountancy rental excess for L's period of account in which the disposal occurs, section 37A of that Act (consideration on disposal of certain leases) makes provision for the purposes of that Act about the reduction of the consideration for the disposal by that excess in determining if a gain has accrued.

#### **614BQ Assignments on which neither a gain nor a loss accrues**

- (1) This section applies if—
- (a) the current lessor (“L”) assigns the lessor's interest under the lease, and
  - (b) the assignment is a disposal on which, as a result of any of the no gain/no loss provisions, neither a gain nor a loss accrues.
- (2) This Part has effect as if—
- (a) a period of account of L (“L's period”) ended with the assignment, and
  - (b) a period of account of the assignee (“A's period”) began with the assignment.

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- (3) Any cumulative accountancy rental excess for L's period becomes the cumulative accountancy rental excess for A's period.
- (4) Any cumulative normal rental excess for L's period becomes the cumulative normal rental excess for A's period.
- (5) If the assignee is a company subject to the charge to corporation tax on income, so far as this section relates to the assignee, it applies for the purposes of Part 21 of CTA 2010 as it would otherwise apply for the purposes of this Part.
- (6) In this section “the no gain/no loss provisions” has the same meaning as in TCGA 1992 (see section 288(3A) of that Act).

*Capital allowances: claw-back of major lump sum*

#### **614BR Effect of capital allowances: introduction**

- (1) This section and sections 614BS to 614BW apply if an occasion occurs on which a major lump sum falls to be paid in relation to the lease of the asset.
- (2) In those sections the occasion is called “the relevant occasion”.

#### **614BS Cases where expenditure taken into account under Part 2, 5 or 8 of CAA 2001**

- (1) This section applies if capital expenditure incurred by the current lessor (“L”) in respect of the leased asset is or has been taken into account for the purposes of any allowance or charge under—
  - (a) Part 2 of CAA 2001 (plant and machinery allowances),
  - (b) Part 5 of that Act (mineral extraction allowances), or
  - (c) Part 8 of that Act (patent allowances).
- (2) The Part of that Act in question (“the relevant Part”) has effect as if the relevant occasion were an event (“the relevant event”) as a result of which a disposal value is to be brought into account of an amount equal to the amount or value of the major lump sum (but subject to any applicable limiting provision).
- (3) In this section “limiting provision” means a provision to the effect that the disposal value of the asset in question is not to exceed an amount (“the limit”) described by reference to capital expenditure incurred in respect of the asset.
- (4) Subsection (5) applies if—
  - (a) as a result of subsection (2), a disposal value (“the relevant disposal value”) falls or has fallen to be brought into account by a person in respect of the leased asset for the purposes of the relevant Part, and
  - (b) a limiting provision has effect in the case of that Part.
- (5) The limiting provision has effect (so far as it would not otherwise do so), in relation to the relevant disposal value and any simultaneous or later disposal value, as if—
  - (a) it did not limit any particular disposal value, but
  - (b) it limited the total amount of all the disposal values brought into account for the purposes of the relevant Part by L in respect of the leased asset.

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- (6) In subsection (5) “simultaneous or later disposal value” means any disposal value which falls to be brought into account by L in respect of the leased asset as a result of any event occurring at the same time as, or later than, the relevant event.

#### **614BT Cases where expenditure taken into account under other provisions of CAA 2001**

- (1) This section applies if any allowance is or has been given in respect of capital expenditure incurred by the current lessor (“L”) in respect of the leased asset under any provision of CAA 2001 other than—
- (a) Part 2 of CAA 2001 (plant and machinery allowances),
  - (b) Part 5 of that Act (mineral extraction allowances), or
  - (c) Part 8 of that Act (patent allowances).
- (2) The amount specified in subsection (3) is treated, in relation to L, as if it were a balancing charge to be made on L for the chargeable period in which the relevant occasion falls.
- (3) That amount is an amount equal to—
- (a) the total of the allowances given as mentioned in subsection (1) (so far as not previously recovered or withdrawn), or
  - (b) if it is less, the amount or value of the major lump sum.
- (4) In this section “chargeable period” has the meaning given by section 6 of CAA 2001.

#### **614BU Capital allowances deductions: waste disposal and cemeteries**

- (1) This section applies if any deduction is or has been allowed to the current lessor (“L”) in respect of capital expenditure incurred in connection with the leased asset as a result of—
- (a) section 165 or 168 of ITTOIA 2005 (preparation and restoration expenditure in relation to waste disposal site), or
  - (b) section 170 of that Act (cemeteries and crematoria: deduction for capital expenditure).
- (2) L is treated as if trading receipts arose to L from the trade in question on the relevant occasion.
- (3) The amount of those receipts is equal to the lesser of—
- (a) the amount or value of the major lump sum, and
  - (b) the deductions previously allowed.

#### **614BV Capital allowances deductions: films and sound recordings**

- (1) This section applies if—
- (a) any relevant deduction has been allowed to the current lessor (“L”) in respect of expenditure incurred in connection with the leased asset, and
  - (b) the amount or value of the major lump sum exceeds so much of that sum as was treated as receipts of a revenue nature under section 134(2) of ITTOIA 2005 (disposal proceeds of original master version of film or sound recording treated as receipt of a revenue nature).
- (2) In subsection (1) “relevant deduction” means any deduction as a result of—

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- (a) section 135 of ITTOIA 2005 (allocation of expenditure on master versions of films or sound recordings to periods), or
  - (b) section 138, 138A, 139 or 140 of that Act (relief for production or acquisition expenditure in respect of films).
- (3) L is treated as if receipts of a revenue nature arose to L from the trade or business in question on the relevant occasion.
- (4) The amount of those receipts is equal to the excess mentioned in subsection (1)(b).

### **614BW Contributors to capital expenditure**

- (1) This section applies if—
- (a) section 614BS or 614BT applies in relation to a leased asset,
  - (b) allowances are or have been made to a person (“the contributor”) as a result of sections 537 to 542 of CAA 2001 (allowances in respect of contributions to capital expenditure), and
  - (c) those allowances are or were in respect of the contributor's contribution of a capital sum to expenditure on the provision of the leased asset.
- (2) Section 614BS or, as the case may be, section 614BT has effect in relation to the contributor and those allowances as it has effect in relation to the current lessor and allowances in respect of capital expenditure incurred by the current lessor in respect of the leased asset.

*Schemes to which this Chapter does not at first apply*

### **614BX Pre-26 November 1996 schemes where this Chapter does not at first apply**

- (1) This section applies if—
- (a) the lease of an asset forms part of a pre-26 November 1996 scheme, but
  - (b) the conditions in section 614BC become met after 26 November 1996.
- (2) For the meaning of “forming part of a pre-26 November 1996 scheme”, see section 614D.
- (3) This Part has effect as if—
- (a) a period of account (“period 1”) of the current lessor (“L”) ended immediately before the time at which those conditions become met,
  - (b) another period of account of L (“period 2”) began immediately before that time and ended immediately after that time, and
  - (c) another period of account of L began immediately after that time.
- (4) If, on the continuous application assumption (see subsection (9)), there would be an amount of cumulative accountancy rental excess for period 2, that amount is the cumulative accountancy rental excess for period 2.
- (5) If subsection (4) applies, L is treated for income tax purposes as if in period 1 L had been entitled to, and there had arisen to L, rent from the lease of an amount equal to that cumulative accountancy rental excess.
- (6) The amount of rent mentioned in subsection (5)—
- (a) is in addition to any other rent from the lease for period 1, and

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- (b) is left out of account for the purposes of section 614BF (current lessor taxed by reference to accountancy rental earnings).
- (7) Rent within subsection (5) is treated for income tax purposes as if it had accrued and L had become entitled to it immediately before the end of period 1.
- (8) If, on the continuous application assumption, there would be an amount of cumulative normal rental excess for period 2, that amount is the cumulative normal rental excess for period 2.
- (9) In this section “the continuous application assumption” means the assumption that this Chapter (other than this section) had applied in the case of the lease at all times on or after 26 November 1996.
- (10) If at any time the person who was the lessor at that time was a person within the charge to corporation tax on income, the reference in subsection (9) to this Chapter (other than this section) includes a reference to Chapter 2 of Part 21 of CTA 2010 (other than section 923 of that Act).

#### **614BY Post-25 November 1996 schemes to which Chapter 3 applied first**

- (1) This section applies if—
  - (a) the conditions in section 614BC become met in the case of the lease of the asset, and
  - (b) immediately before those conditions become met, Chapter 3 applied.
- (2) Subsection (3) applies for the purpose of determining—
  - (a) the cumulative accountancy rental excess for any period of account ending after those conditions become met, or
  - (b) the cumulative normal rental excess for any such period.
- (3) This Part has effect as if this Chapter had applied in relation to the lease at any time when Chapter 3 applied in relation to it.
- (4) If at any time the person who was the lessor at that time was a person within the charge to corporation tax on income—
  - (a) the reference in subsection (1)(a) to the conditions in section 614BC becoming met at that time includes a reference to the conditions in section 902 of CTA 2010 becoming so met,
  - (b) the reference in subsection (1)(b) to Chapter 3 applying immediately before that time includes a reference to Chapter 3 of Part 21 of that Act so applying, and
  - (c) the reference in subsection (3) to Chapter 3 applying at that time includes a reference to Chapter 3 of that Part so applying.]

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## [<sup>F1188</sup>CHAPTER 3

### OTHER FINANCE LEASES

#### Textual Amendments

**F1188**Pt. 11A Ch. 3 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 3 para. 4** (with [Sch. 9 paras. 1-9, 22](#))

#### *Introduction*

#### **614C Introduction to Chapter**

- (1) This Chapter applies to arrangements involving the lease of an asset that—
  - (a) fall to be treated, in accordance with generally accepted accounting practice, as a finance lease or loan, but
  - (b) are not arrangements to which Chapter 2 applies.
- (2) It does not matter whether the arrangements are or have been entered into by companies or other persons.

#### **614CA Purpose of this Chapter**

- (1) The main purpose of this Chapter where there are arrangements to which this Chapter applies is to charge a person entitled to the lessor's interest under the lease of the asset to income tax on amounts of income determined as mentioned in subsection (2).
- (2) The amounts referred to in subsection (1) are determined by reference to the amounts that fall for accounting purposes to be treated, in accordance with generally accepted accounting practice, as the income return on and after 26 November 1996 on investment in respect of the finance lease or loan.
- (3) The amounts referred to in subsection (1) are also determined taking into account the substance of the matter as a whole, including, in particular, the state of affairs—
  - (a) as between connected persons, or
  - (b) within a group of companies,
 as reflected or falling to be reflected in accounts of any of those persons or in consolidated group accounts.

#### *Leases to which this Chapter applies*

#### **614CB Leases to which this Chapter applies**

- (1) This Chapter applies if—
  - (a) a lease of an asset is or has been granted on or after 26 November 1996,
  - (b) the lease forms part of a post-25 November 1996 scheme,
  - (c) condition A in section 614BC is or has been met at some time on or after 26 November 1996 in relation to the lease in a period of account of the current lessor (“L”), and



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- (d) Chapter 2 does not apply in relation to the lease because of the other conditions in that section not all being, or having been, met as mentioned in section 614BB.
- (2) For the meaning of “forming part of a post-25 November 1996 scheme”, see section 614D.
- (3) This Chapter does not apply so far as, in relation to L, the lease falls to be regarded as a long funding lease for the purposes of Part 2 of CAA 2001 (plant and machinery allowances) in accordance with Chapter 6A of that Part (interpretation of provisions about long funding leases) (see section 70G of that Act).
- (4) If condition A in section 614BC has been met at any time on or after 26 November 1996 in a period of account of the person who was at that time the lessor, it is taken to continue to be met unless and until one of the conditions in subsection (5) is met.
- (5) The conditions are that—
- (a) the asset ceases to be leased under the lease, or
  - (b) the lessor's interest under the lease is assigned to a person who is not connected with any of the persons specified in subsection (6).
- (6) Those persons are—
- (a) the assignor,
  - (b) any person who was the lessor at some time before the assignment, and
  - (c) any person who at some time after the assignment becomes the lessor pursuant to arrangements made by a person who was the lessor, or was connected with the lessor, at some time before the assignment.
- (7) If at any time the person who was the lessor at that time was a person within the charge to corporation tax on income—
- (a) the reference in subsection (4) to condition A in section 614BC having been met at that time includes a reference to condition A in section 902 of CTA 2010 having been so met, and
  - (b) the reference in subsection (1)(d) to the other conditions in section 614BC not having been met as mentioned in section 614BB includes a reference to the other conditions in section 902 of that Act not having been met as mentioned in section 901 of that Act.
- (8) Nothing in subsection (4) prevents this Chapter from applying again in relation to the lease where the lessor's interest is assigned if the conditions for its application are met after the assignment.

*Current lessor taxed by reference to accountancy rental earnings*

#### **614CC Current lessor taxed by reference to accountancy rental earnings**

- (1) This section applies if, in the case of any period of account of the current lessor (“L”)—
- (a) this Chapter applies in relation to the lease, and
  - (b) the accountancy rental earnings in respect of the lease for that period of account exceed the normal rent for that period.
- (2) For income tax purposes, L is treated as if in that period of account L had been entitled to, and there had arisen to L, rent from the lease of an amount equal to those

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accountancy rental earnings (instead of the normal rent referred to in subsection (1)(b)).

- (3) Such rent from the lease of an asset is treated for income tax purposes—
- (a) as if it had accrued at an even rate throughout so much of the period of account as falls within the period for which the asset is leased, and
  - (b) as if L had become entitled to it as it accrued.

*Application of provisions of Chapter 2 for purposes of this Chapter*

### **614CD Application of provisions of Chapter 2 for purposes of this Chapter**

Sections 614BG to 614BQ apply for the purposes of this Chapter as they apply for the purposes of Chapter 2, but taking the references in sections 614BH(1) and 614BK(1)(a) to section 614BF as references to section 614CC.]

## [<sup>F1189</sup>CHAPTER 4

### SUPPLEMENTARY PROVISIONS

#### **Textual Amendments**

**F1189**Pt. 11A Ch. 4 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 3 para. 5](#) (with [Sch. 9 paras. 1-9, 22](#))

### **614D Pre-26 November 1996 schemes and post-25 November 1996 schemes**

- (1) For the purposes of this Part, a lease of an asset—
- (a) forms part of a pre-26 November 1996 scheme if (and only if) the conditions in subsection (2) or (3) are met, and
  - (b) in any other case, forms part of a post-25 November 1996 scheme.
- (2) The conditions in this subsection are that—
- (a) a contract in writing for the lease of the asset was made before 26 November 1996,
  - (b) either—
    - (i) the contract was unconditional, or
    - (ii) if the contract was conditional, the conditions were met before that date, and
  - (c) no terms remain to be agreed on or after that date.
- (3) The conditions in this subsection are that—
- (a) a contract in writing for the lease of the asset was made before 26 November 1996,
  - (b) the condition in subsection (2)(b) or (c) was not met in the case of the contract,
  - (c) either—
    - (i) the contract was unconditional, or

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- (ii) if the contract was conditional, the conditions were met before the end of the finalisation period or within such further period as the Commissioners for Her Majesty's Revenue and Customs may allow in the particular case,
  - (d) no terms remain to be agreed after the end of the finalisation period or such further period as those Commissioners may so allow, and
  - (e) the contract in its final form was not materially different from the contract as it stood when it was made before 26 November 1996.
- (4) In subsection (3) “the finalisation period” means the period which ended with the later of—
- (a) 31 January 1997, and
  - (b) the end of the period of six months beginning with the day after that on which the contract was made as mentioned in subsection (3)(a).

#### **614DA Time apportionment where periods of account do not coincide**

- (1) Subsection (2) applies if a period of account of the lessor (“L”) does not coincide with a period of account of a person connected with L.
- (2) Any amount which falls for the purposes of this Part to be found for L's period of account but by reference to the connected person is found by making such apportionments as may be necessary between two or more periods of account of the connected person.
- (3) Subsection (4) applies if a period of account of L does not coincide with a period for which consolidated group accounts of a group of companies of which L is a member fall to be prepared.
- (4) Any amount which falls for the purposes of this Part to be found for L's period of account but by reference to the consolidated group accounts is found by making such apportionments as may be necessary between two or more periods for which consolidated group accounts of the group fall to be prepared.
- (5) Any apportionment under subsection (2) or (4) must be made in proportion to the number of days in the respective periods that fall within L's period of account.

#### **614DB Periods of account and related periods of account and tax years**

- (1) In this Part “period of account” means a period for which accounts are made up.
- (2) Except for the purposes of sections 614BB to 614BE and subsection (3), in this Part “period of account” does not include a period that begins before 26 November 1996.
- (3) But this Part applies in relation to a period of account that begins before 26 November 1996 and ends on or after that date as if—
  - (a) so much of the period as falls before that date, and
  - (b) so much of the period as falls on or after that date,were separate periods of account.
- (4) For the purposes of this Part, a tax year is related to a period of account if the tax year consists of or includes the whole or any part of the period of account.

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- (5) For the purposes of this Part a period of account is related to a tax year if the tax year is related to the period of account.

#### 614DC Connected persons

- (1) For the purposes of this Part in its application as a result of any leasing arrangements, if a person (“A”) is connected with another (“B”) at some time during the relevant period A is treated as being connected with B throughout that period.
- (2) The relevant period is the period that—
- (a) begins at the earliest time at which any of the arrangements were made, and
  - (b) ends when the current lessor finally ceases to have an interest in the asset or any arrangements relating to it.

#### **Modifications etc. (not altering text)**

**C103** S. 614DC applied by [Taxation of Chargeable Gains Act 1992 \(c. 12\), s. 37A\(11\)](#) (as inserted (with effect in accordance with s. 381(1)) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 3 para. 7 (with Sch. 9 paras. 1-9, 22))

#### 614DD Assets which represent the leased asset

- (1) For the purposes of this Part, the assets described in subsection (2) are treated as representing the leased asset.
- (2) Those assets are—
- (a) any asset derived from the leased asset or created out of it,
  - (b) any asset from which the leased asset was derived or out of which the leased asset was created,
  - (c) any asset derived from or created out of an asset within paragraph (b), and
  - (d) any asset that derives the whole or a substantial part of its value from the leased asset or an asset that itself represents the leased asset.

#### 614DE Parent undertakings and consolidated group accounts

- (1) This Part has effect in relation to a body corporate that—
- (a) is a parent undertaking, but
  - (b) for accounting purposes is not required to prepare consolidated group accounts in accordance with generally accepted accounting practice, as if it were so required.
- (2) For the purposes of subsection (1) it does not matter where the body corporate is incorporated.
- (3) In subsection (1) “parent undertaking” is to be read in accordance with section 1162 of the Companies Act 2006.

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## **614DF Assessments and adjustments**

All such assessments and adjustments must be made as are necessary to give effect to this Part.

## **614DG Interpretation**

In this Part, unless the context otherwise requires—

“accountancy rental earnings” has the meaning given by section 614AB(1),

“accountancy rental excess” is to be read—

(a) for the purposes of Chapter 2, in accordance with section 614BH(1) to (4), and

(b) for the purposes of Chapter 3, in accordance with section 614BH(1) to (4) as it has effect as a result of section 614CD,

“asset” means any form of property or rights,

“asset representing the leased asset” is to be read in accordance with section 614DD,

“cumulative accountancy rental excess” is to be read—

(a) for the purposes of Chapter 2, in accordance with section 614BH(5), and

(b) for the purposes of Chapter 3, in accordance with section 614BH(5) as it has effect as a result of section 614CD,

“cumulative normal rental excess” is to be read—

(a) for the purposes of Chapter 2, in accordance with section 614BJ(5), and

(b) for the purposes of Chapter 3, in accordance with section 614BJ(5) as it has effect as a result of section 614CD,

“the current lessor”, in relation to a lease of an asset, means the person who is for the time being entitled to the lessor's interest under the lease,

“finance lessor” means a person who for accounting purposes is treated, in accordance with generally accepted accounting practice, as the person with—

(a) the grantor's interest in relation to a finance lease, or

(b) the lender's interest in relation to a loan,

“for accounting purposes” means for the purposes of—

(a) accounts of companies incorporated in any part of the United Kingdom, or

(b) consolidated group accounts for groups all the members of which are companies so incorporated,

“lease”—

(a) in relation to land, includes an underlease, sublease, tenancy or licence, and any agreement for a lease, underlease, sublease, tenancy or licence and, in the case of land outside the United Kingdom, any interest corresponding to a lease as so defined, and

(b) in relation to any form of property or right other than land, means any kind of agreement or arrangement under which payments are made for the use of, or otherwise in respect of, an asset,

and “rent” is to be read accordingly,

“the leasing arrangements”, in relation to a lease of an asset, means—

(a) the lease,

(b) any arrangements relating to or connected with the lease, and

(c) any other arrangements of which the lease forms part,

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and includes a reference to any of the leasing arrangements,

“the lessee”, in relation to a lease of an asset, means (except in the expression “the lessee's interest under the lease”) the person entitled to the lessee's interest under the lease,

“the lessor”, in relation to a lease of an asset, means (except in the expression “the lessor's interest under the lease”) the person entitled to the lessor's interest under the lease,

“major lump sum” is to be read in accordance with section 614BC(5),

“normal rent” is to be read in accordance with section 614AA,

“normal rental excess” is to be read—

(a) for the purposes of Chapter 2, in accordance with section 614BJ(1) to (4), and

(b) for the purposes of Chapter 3, in accordance with section 614BJ(1) to (4) as it has effect as a result of section 614CD,

“period of account” is to be read in accordance with section 614DB(1) to (3),

“post-25 November 1996 scheme” is to be read in accordance with section 614D(1)(b),

“pre-26 November 1996 scheme” is to be read in accordance with section 614D(1)(a),

“related period of account” is to be read in accordance with section 614DB(5),

“related tax year” is to be read in accordance with section 614DB(4),

“the rental earnings”, in relation to a lease of an asset and any period, has the meaning given by section 614AC, and

“sum” includes any money or money's worth (and “pay” and related expressions are to be read accordingly).]

## PART 12

### ACCRUED INCOME PROFITS

#### CHAPTER 1

##### INTRODUCTION

### 615 Overview of Part

- (1) This Part makes provision about—
  - (a) accrued income profits and losses, and
  - (b) exemptions which apply where there is interest on securities.
- (2) In this Part “accrued income profits” means profits which under Chapter 2 are treated as made where securities which carry or have carried interest are transferred.
- (3) See sections 628, 630 and 670(2) and (3) for when such profits are treated as made.
- (4) In this Part “accrued income losses” means losses which under Chapter 2 are treated as made where securities which carry or have carried interest are transferred.

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- (5) See section 628 for when such losses are treated as made.
- (6) For the meaning of “securities”, “transfer” and “interest”, see sections 619, 620 and 671 respectively.

## CHAPTER 2

### ACCRUED INCOME PROFITS AND LOSSES

#### *Charge to tax*

#### **616 Charge to tax on accrued income profits**

Income tax is charged on accrued income profits.

#### **617 Income charged**

- (1) Tax is charged under this Chapter on the full amount of the accrued income profits treated as made in the tax year.
- (2) Accrued income profits within section 628(5) (profits treated as made where the settlement day falls within an interest period) are treated as made in the tax year in which the last day of the interest period in which the profits are treated as made falls.
- (3) Accrued income profits within section 630(2) (profits treated as made where the settlement day falls after the end of the securities' last interest period) are treated as made in the tax year in which the settlement day for the transfer falls.
- (4) Accrued income profits within section 670(2) or (3) (withdrawal of relief for unremittable transfer proceeds) are treated as made in the tax year in which the proceeds cease to be unremittable.
- (5) Section 668(5) (when proceeds are unremittable) applies for the purposes of subsection (4) as it applies for the purposes mentioned in section 668(5).
- (6) For the meaning of “interest period” and “the settlement day”, see sections 673 and 674 respectively.

[<sup>F1190</sup>(7) Subsection (1) is subject to section 832 of ITTOIA 2005 (relevant foreign income charged on remittance basis).]

#### **Textual Amendments**

**F1190**S. 617(7) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 160 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 157](#)

#### **618 Person liable**

- (1) The person liable for any tax charged under this Chapter is the person treated as making the accrued income profits.
- (2) But see section 666 (under which nominees and trustees may be disregarded).

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*Securities to which Chapter applies*

**619 Meaning of “securities” and when securities are of the same kind**

- (1) In this Chapter “securities” includes—
  - (a) any loan stock or similar security other than an excluded security, and
  - (b) shares in a building society which are qualifying shares for the purposes of section 117(4) of TCGA 1992 (qualifying corporate bonds),
 but (subject to paragraph (b)) it does not include any shares in a company.
- (2) For the purposes of subsection (1)(a), it does not matter—
  - (a) whether the security is of the government of the United Kingdom, any other government, any public or local authority in the United Kingdom or elsewhere, or any company or other body,
  - (b) whether or not the security is secured,
  - (c) whether or not the security carries a right to interest of a fixed amount or at a fixed rate percentage of the nominal value of the security, or
  - (d) whether or not the security is in bearer form.
- (3) In this section “excluded securities” means—
  - (a) national savings certificates (including Ulster Savings Certificates as defined in section 693(7) of ITTOIA 2005),
  - (b) war savings certificates,
  - (c) uncertificated eligible debt security units as defined in section 986,
  - (d) certificates of deposit (see section 1019),
  - (e) a security which is a right falling within section 552(1)(c) of ITTOIA 2005 at the time of the transfer in question,
  - (f) a security that meets the redemption conditions (see subsection (5)), and
  - (g) a security that is a deeply discounted security within the meaning of Chapter 8 of Part 4 of ITTOIA 2005.
- (4) But subsection (3)(g) does not include a security if, on its transfer, Chapter 8 of Part 4 of ITTOIA 2005 would apply subject to the rules in sections 454 to 456 of that Act (listed securities held since 26 March 2003).
- (5) The redemption conditions are that—
  - (a) the security is redeemable,
  - (b) the amount payable on its redemption exceeds its issue price, and
  - (c) no return other than the amount of that excess is payable on it.
- (6) Securities are treated as being of the same kind for the purposes of this Chapter if they—
  - (a) are treated as being of the same kind by the practice of a recognised stock exchange, or
  - (b) would be so treated if dealt in on such an exchange.



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### *Transfers to which Chapter applies*

## **620 Transactions which are transfers: general**

- (1) References in this Chapter to the transfer of securities are—
  - (a) to the transfer of securities by way of sale, exchange, gift or otherwise,
  - (b) to the conversion of securities in any case where there is no transfer of the securities within paragraph (a),
  - <sup>F1191</sup>(c) to the redemption of variable rate securities in any case where there has been a transfer of the securities at any time before redemption, or]
  - (d) to a transaction or event treated as a transfer under—
    - (i) section 648(1) or (3) (strips of gilt-edged securities),
    - (ii) section 649(4) (new securities issued with extra return),
    - (iii) section 650(2), (4) or (6) (trading stock appropriations etc),
    - (iv) section 651(2) (owner becoming entitled to securities as trustee), or
    - (v) section 652(2) (securities ceasing to be held on charitable trusts).
- (2) But subsection (1)(a) does not include—
  - (a) the vesting of securities in personal representatives on death, or
  - (b) the transfer of a security to which Chapter 8 of Part 4 of ITTOIA 2005 applies subject to the rules in sections 454 to 456 of that Act.
- (3) For the purposes of this Chapter—
  - (a) a transfer of securities under an agreement takes place when the agreement is made, and
  - (b) the person to whom they are to be transferred under the agreement becomes entitled to them at that time.
- (4) But in the case of a conversion of securities within subsection (1)(b), the transfer takes place on the day of the conversion.
- (5) And in the case of a redemption of securities within subsection (1)(c), the transfer takes place on the day of the redemption.
- (6) Subsection (1) is subject to—
  - section 648(7) (transactions forming part of exchanges concerning strips of gilt-edged securities),
  - section 653 (stock lending), and
  - section 655 (transfers under sale and repurchase arrangements).
- (7) In this Chapter “conversion”, in relation to securities, has the meaning given by section 132 of TCGA 1992.

### **Textual Amendments**

**F1191** S. 620(1)(c) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [Income Tax Act 2007 \(Amendment\) \(No.2\) Order 2007 \(S.I. 2007/1820\)](#), arts. 1(1), **4(2)**

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## **621 Transferors and transferees**

- (1) In this Chapter “transferor” and “transferee” are to be read in accordance with section 620 (but this is subject to subsections (2) to (4)).
- (2) In the case of a conversion of securities within section 620(1)(b)—
  - (a) the person who was entitled to the securities immediately before the conversion is treated as the transferor, but
  - (b) no one is treated as the transferee.
- (3) In the case of a redemption of securities within section 620(1)(c)—
  - (a) the person who was entitled to the securities immediately before the redemption is treated as the transferor, but
  - (b) no one is treated as the transferee.
- (4) The following provisions also contain rules about who is the transferor or the transferee for certain transfers—
  - section 648(1) to (4) (strips of gilt-edged securities),
  - section 649(4) and (5) (new securities issued with extra return),
  - section 650 (trading stock appropriations etc),
  - section 651(2) and (3) (owner becoming entitled to securities as trustee),
  - section 652(2) and (3) (securities ceasing to be held on charitable trusts), and
  - section 666 (certain transfers by or to nominees or trustees treated as made by or to others).
- (5) See also sections 638 to 647 (excluded transferors and transferees).

## **622 Application of Chapter to different kinds of transfer**

- (1) Different rules apply under this Chapter for the different kinds of transfer specified in subsection (2).
- (2) The transfers are—
  - (a) transfers with accrued interest (see section 623),
  - (b) transfers without accrued interest (see section 624),
  - (c) transfers with unrealised interest (see section 625), and
  - (d) transfers of variable rate securities (see section 626).
- (3) If a transfer is both a transfer with unrealised interest and a transfer of a kind specified in subsection (2)(a), (b) or (d), both the provisions of this Chapter applicable to transfers with unrealised interest and the provisions applicable to the other kind of transfer apply to the transfer.

## **623 Transfers with accrued interest**

- (1) The general rule is that securities are transferred with accrued interest for the purposes of this Chapter if they are transferred with the right to receive interest payable—
  - (a) in a case where the settlement day is an interest payment day, on the settlement day, and
  - (b) in any other case, on the first interest payment day after the settlement day.

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- (2) But, in the case of the transfers specified in subsection (3), subsection (4) applies instead of subsection (1).
- (3) The transfers are those treated as made under—
  - (a) section 620(1)(b) (conversion),
  - (b) section 650 (trading stock appropriations etc),
  - (c) section 651 (owner becoming entitled to securities as trustee), and
  - (d) section 652 (securities ceasing to be held on charitable trusts).
- (4) If the person treated as the transferor had the right to receive interest payable as mentioned in subsection (1)(a) or (b), the securities are treated as transferred with accrued interest.
- (5) This section is subject to section 626 (transfers of variable rate securities).
- (6) See also—
  - section 648(6) (certain exchanges of strips treated as transfers with accrued interest), and
  - section 649(4) (issue of new securities with extra return treated as transfer with accrued interest).

#### **624 Transfers without accrued interest**

- (1) The general rule is that securities are transferred without accrued interest for the purposes of this Chapter if they are transferred without the right to receive interest payable as mentioned in section 623(1)(a) or (b).
- (2) But, in the case of the transfers specified in subsection (3), subsection (4) applies instead of subsection (1).
- (3) The transfers are those treated as made under—
  - (a) section 620(1)(b) (conversion),
  - (b) section 650 (trading stock appropriations etc),
  - (c) section 651 (owner becoming entitled to securities as trustee), and
  - (d) section 652 (securities ceasing to be held on charitable trusts).
- (4) If the person treated as the transferor did not have the right to receive interest payable as mentioned in section 623(1)(a) or (b), the securities are treated as transferred without accrued interest.
- (5) This section is subject to section 626 (transfers of variable rate securities).
- (6) See also section 648(5) (certain exchanges of strips treated as transfers without accrued interest).

#### **625 Transfers with unrealised interest**

- (1) For the purposes of this Chapter securities are transferred with unrealised interest if they are transferred with the right to receive interest payable on an interest payment day falling before the settlement day.
- (2) Such interest is referred to in this Chapter as “unrealised interest”.

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## **626 Transfers of variable rate securities**

- (1) Sections 623 and 624 do not apply to transfers of variable rate securities.
- (2) Such transfers are not treated as transfers with accrued interest or transfers without accrued interest.

## **627 Meaning of “variable rate securities”**

- (1) For the purposes of this Chapter securities are “variable rate securities” unless their terms of issue provide that throughout the period from issue to redemption (whenever redemption might occur) they are to carry interest at a rate which falls into one, and one only, of the categories specified in subsection (2).
- (2) The categories are—
  - (a) a fixed rate which is the same throughout the period,
  - (b) a rate which bears the same fixed relationship to a standard published base rate throughout the period, and
  - (c) a rate which bears the same fixed relationship to a published index of prices throughout the period.
- (3) In subsection (2) “published index of prices” means the retail prices index or any similar general index of prices which is published by the government of any territory outside the United Kingdom or by an agent of such a government.
- (4) In determining whether new securities (within the meaning of section 649 (new securities issued with extra return)) are variable rate securities, the interest payable on them on the first interest payment day after their issue is treated as payable in respect of the period beginning with the relevant period and ending with that day.
- (5) In subsection (4) “the relevant period” has the meaning given by section 649(8).

### *Calculating accrued income profits and losses*

## **628 Making accrued income profits and losses: general rule**

- (1) This section sets out the general rule for determining whether a person is treated as making accrued income profits or accrued income losses where securities are transferred by or to the person.
- (2) This section does not apply in a case where section 630 applies.
- (3) A separate calculation is to be made for each kind of security that is transferred by or to the person and for each interest period of each such kind of security.
- (4) Each such calculation is to find—
  - (a) the total amount (“A”) of the payments treated under this Chapter as made to the person in the interest period in question in respect of transfers of securities of the particular kind, and
  - (b) the total amount (“B”) of the payments treated under this Chapter as made by the person in that period in respect of such transfers.
- (5) A person is treated as making accrued income profits in an interest period as a result of transfers of securities of a particular kind if A exceeds B.

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- (6) A person is treated as making accrued income losses in an interest period as a result of transfers of securities of a particular kind if B exceeds A.
- (7) For the payments that are treated as made on transfers of different kinds, see—
  - section 632 (payment on transfer with accrued interest),
  - section 633 (payment on transfer without accrued interest),
  - section 634 (payment on transfer with unrealised interest),
  - section 635 (payment on transfer of variable rate securities), and
  - section 637(2) (accrued income losses treated as payment on transfer in next interest period).
- (8) See also—
  - section 638(2) (no account to be taken of any payment treated as made by or to excluded transferor or transferee), and
  - Chapter 3 (exemptions relating to interest on securities).

## **629 Calculating accrued income profits and losses where section 628 applies**

- (1) If section 628(5) applies, the amount of the accrued income profits treated as made is equal to the excess mentioned in section 628(5).
- (2) If section 628(6) applies, the amount of the accrued income losses treated as made is equal to the excess mentioned in section 628(6).

## **630 Making accrued income profits: settlement day outside interest period**

- (1) This section applies if—
  - (a) there is a transfer of securities with unrealised interest or a transfer of variable rate securities, and
  - (b) the settlement day for the transfer falls after the end of the only or last interest period of the securities.
- (2) The transferor is treated as making accrued income profits.
- (3) See also—
  - section 638(3) (no account to be taken of transfer if transferor is excluded transferor), and
  - section 681 (exemption for unrealised interest received by transferee after transfer).

## **631 Amount of accrued income profits where section 630 applies**

- (1) In the case of a transfer of securities with unrealised interest to which section 630 applies, the amount of the accrued income profits treated as made is equal to the unrealised interest.
- (2) Subsection (1) is subject to section 660 (transfers with unrealised interest: interest in default).
- (3) In the case of a transfer of variable rate securities to which section 630 applies, the amount of the accrued income profits treated as made is such amount as is just and reasonable.

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*The payments treated as made on transfers*

**632 Payment on transfer with accrued interest**

- (1) In the case of a transfer of securities with accrued interest, for the purposes of this Chapter a payment is treated as made by the transferee to the transferor in the interest period in which the settlement day falls.
- (2) The amount of that payment depends on whether the transfer is under an arrangement by which the transferee accounts to the transferor separately—
  - (a) for the consideration for the securities, and
  - (b) for gross interest accruing to the settlement day.
- (3) If the transfer is under such an arrangement, the amount of the payment is the amount of gross interest which the transferee accounts for.
- (4) If—
  - (a) the transfer is not under such an arrangement, and
  - (b) the settlement day is itself an interest payment day for the securities,
 the amount of the payment is the amount of interest payable on the securities on that day.
- (5) If—
  - (a) the transfer is not under such an arrangement, and
  - (b) the settlement day is not an interest payment day for the securities,
 the amount of the payment is an amount equal to—

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

where—

I is the interest payable on the securities on the first interest payment day after the settlement day (“the payment day”),

A is the number of days in the period beginning with the first day on which that interest accrues and ending with the settlement day, and

B is the number of days in the period beginning with the first day on which that interest accrues and ending with the payment day.

- (6) For the purposes of subsection (5), the first day on which that interest accrues is taken to be—
  - (a) the day after the last interest payment day before the settlement day, or
  - (b) if there was no interest payment day before the settlement day, the first day of the first interest period of the securities.
- (7) In a case where no one is treated as the transferor (see sections 648(4) and 649(5)), this section has effect as if—
  - (a) in subsection (1) the words “to the transferor” were omitted, and

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- (b) subsections (2), (3), (4)(a) and (5)(a) were omitted.
- (8) In a case where no one is treated as the transferee (see sections 621(2) and (3) and 648(2)), this section has effect as if—
  - (a) in subsection (1) the words “by the transferee” were omitted, and
  - (b) subsections (2), (3), (4)(a) and (5)(a) were omitted.
- (9) Subsections (2) to (5) are subject to section 662 (new securities issued with extra return: special rules about payments).
- (10) Subsections (4) and (5) are subject to section 659 (transfers with or without accrued interest: interest in default).

### **633 Payment on transfer without accrued interest**

- (1) In the case of a transfer of securities without accrued interest, for the purposes of this Chapter a payment is treated as made by the transferor to the transferee in the interest period in which the settlement day falls.
- (2) The amount of that payment depends on whether the transfer is under an arrangement by which the transferor accounts to the transferee for gross interest accruing from the settlement day to the next interest payment day.
- (3) If the transfer is under such an arrangement, the amount of the payment is the amount of gross interest which the transferor accounts for.
- (4) If—
  - (a) the transfer is not under such an arrangement, and
  - (b) the settlement day is itself an interest payment day for the securities,the amount of the payment is nil.
- (5) If—
  - (a) the transfer is not under such an arrangement, and
  - (b) the settlement day is not an interest payment day for the securities,the amount of the payment is an amount equal to—

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

where—

I is the interest payable on the securities on the first interest payment day after the settlement day (“the payment day”),

A is the number of days in the period beginning with the day after the settlement day and ending with the payment day, and

B is the number of days in the period beginning with the first day on which that interest accrues and ending with the payment day.

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- (6) For the purposes of subsection (5), the first day on which that interest accrues is taken to be—
- (a) the day after the last interest payment day before the settlement day, or
  - (b) if there is no interest payment day before the settlement day, the first day of the first interest period of the securities.
- (7) In a case where no one is treated as the transferor (see section 648(4)), this section has effect as if—
- (a) in subsection (1) the words “by the transferor” were omitted, and
  - (b) subsections (2), (3), (4)(a) and (5)(a) were omitted.
- (8) In a case where no one is treated as the transferee (see sections 621(2) and (3) and 648(2)), this section has effect as if—
- (a) in subsection (1) the words “to the transferee” were omitted, and
  - (b) subsections (2), (3), (4)(a) and (5)(a) were omitted.
- (9) Subsection (5) is subject to section 659 (transfers with or without accrued interest: interest in default).
- (10) See also section 663(2) (reduction of amount of payment under this section where transfer to maker of manufactured payments).

#### **634 Payment on transfer with unrealised interest**

- (1) In the case of a transfer of securities with unrealised interest where the settlement day falls within an interest period, for the purposes of this Chapter a payment is treated as made to the transferor in that period.
- (2) The amount of the payment is equal to the unrealised interest.
- (3) Subsection (2) is subject to section 660 (transfers with unrealised interest: interest in default).
- (4) No one is treated as making the payment.
- (5) Accordingly, the payment is not brought into account in determining whether the transferee is treated as making accrued income profits or losses under section 628.
- (6) But see section 681 (exemption for unrealised interest received by transferee after transfer).
- (7) See section 630 for the rules that apply to transfers of securities with unrealised interest where the settlement day falls outside an interest period.

#### **635 Payment on transfer of variable rate securities**

- (1) In the case of a transfer of variable rate securities where the settlement day falls within an interest period, for the purposes of this Chapter a payment is treated as made to the transferor in that period.
- (2) The amount of the payment is such amount as is just and reasonable.
- (3) No one is treated as making the payment.



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- (4) Accordingly, the payment is not brought into account in determining whether the transferee is treated as making accrued income profits or losses under section 628.
- (5) See section 630 for the rules that apply to transfers of variable rate securities where the settlement day falls outside an interest period.

*Exception where there is a transfer to a legatee*

**636 Exception where there is a transfer to a legatee**

- (1) This section applies if—
  - (a) an individual who is entitled to securities dies, and
  - (b) the securities are transferred by the personal representatives to a legatee.
- (2) If the securities are transferred in the interest period in which the death occurs, no payment is treated as made under this Chapter as a result of the transfer.
- (3) If the securities are variable rate securities and the deceased dies after the end of the only or last interest period of the securities, no accrued income profits are treated as made under section 630(2).
- (4) In this section “legatee” includes any person taking (whether beneficially or as trustee)  
—
  - (a) under a testamentary disposition, or
  - (b) on an intestacy or partial intestacy.
- (5) 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.

*Relief for losses*

**637 Accrued income losses treated as payments in next interest period**

- (1) This section applies if—
  - (a) a person is treated as making accrued income losses in an interest period as a result of transfers of securities, and
  - (b) the period does not end with an interest payment day.
- (2) For the purposes of this Chapter the person is treated as making a payment on a transfer of the securities in the next interest period equal to the amount of the losses.
- (3) For cases where the period does end with an interest payment day, see sections 678 to 680 (exemptions for interest on securities involving accrued income losses).

*Excluded transferors and transferees*

**638 Excluded persons: disregard of certain payments and transfers**

- (1) This section applies if there is a transfer of securities in relation to which a person (“P”) is an excluded transferor or excluded transferee.

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- (2) In determining whether P has made accrued income profits or accrued income losses under section 628 (making accrued income profits and losses: general rule) and the amount of any such profits or losses, no account is to be taken of any payment treated as made by or to P on the transfer.
- (3) In determining whether P has made accrued income profits under section 630 (making accrued income profits: settlement day outside interest period) and the amount of any such profits, no account is to be taken of the transfer if P is an excluded transferor in relation to it.
- (4) For the cases where a person is an excluded transferor or excluded transferee in relation to a transfer, see—
  - section 639 (small holdings: individuals),
  - section 640 (small holdings: personal representatives),
  - section 641 (small holdings: trustees of a disabled person's trusts),
  - section 642 (traders),
  - section 643 (non-residents),
  - section 644 (individuals to whom the remittance basis applies),
  - section 645 (charitable trusts etc),
  - section 646 (pension scheme trustees), and
  - section 647 (makers of manufactured payments).
- (5) Whether a person is an excluded transferee is also relevant to the application of section 681 (exemption for unrealised interest received by transferee after transfer).

### **639 Small holdings: individuals**

- (1) In relation to a transfer with accrued interest or transfer without accrued interest, an individual is an excluded transferor or excluded transferee unless the nominal value of securities held by the individual exceeds £5,000 on any day—
  - (a) in the tax year in which the interest period ends, or
  - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest, an individual is an excluded transferor or excluded transferee unless the nominal value of securities held by the individual exceeds £5,000 on any day—
  - (a) in the tax year in which the settlement day falls, or
  - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities, an individual is an excluded transferor unless the nominal value of securities held by the individual exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In subsection (3) “the relevant tax year” means—
  - (a) if the settlement day falls in an interest period, the tax year in which the interest period ends, or
  - (b) otherwise, the tax year in which the settlement day falls.
- (5) For the purposes of this section, if—
  - (a) an individual holds securities at a particular time, and

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- (b) any interest on them which became payable at that time would be treated for income tax purposes as part of another individual's income, each of those individuals is treated as holding at that time the securities which the other holds, as well as those which that individual actually holds.

#### **640 Small holdings: personal representatives**

- (1) In relation to a transfer with accrued interest or transfer without accrued interest of securities that form part of a deceased person's estate, the deceased's personal representatives are an excluded transferor or excluded transferee unless the nominal value of securities held by the deceased's personal representatives as such exceeds £5,000 on any day—
  - (a) in the tax year in which the interest period ends, or
  - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest of securities that form part of a deceased person's estate, the deceased's personal representatives are an excluded transferor or excluded transferee unless the nominal value of securities held by the deceased's personal representatives as such exceeds £5,000 on any day—
  - (a) in the tax year in which the settlement day falls, or
  - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities that form part of a deceased person's estate, the deceased's personal representatives are an excluded transferor unless the nominal value of securities held by the deceased's personal representatives as such exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In subsection (3) “the relevant tax year” has the meaning given by section 639(4).

#### **641 Small holdings: trustees of a disabled person's trusts**

- (1) In relation to a transfer with accrued interest or transfer without accrued interest of securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor or excluded transferee unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day—
  - (a) in the tax year in which the interest period ends, or
  - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest of securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor or excluded transferee unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day—
  - (a) in the tax year in which the settlement day falls, or
  - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In this section—

“disabled person's trusts” means trusts falling within [F1192] paragraph 3 of Schedule 1C] to TCGA 1992 (application of annual exempt amount), and

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“the relevant tax year” has the meaning given by section 639(4).

#### Textual Amendments

**F1192** Words in s. 641(4) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by Finance Act 2019 (c. 1), **Sch. 1 para. 100**

### 642 Traders

- (1) In relation to a transfer of securities by a person carrying on a trade, the person is an excluded transferor if the transfer is taken into account for income tax purposes in calculating the profits or losses of the trade.
- (2) In relation to a transfer of securities at any time to a person carrying on a trade, the person is an excluded transferee if, had the transfer been made by the person at that time, it would have been taken into account for income tax purposes in calculating the profits or losses of the trade.

### 643 Non-residents

- (1) A person is—
  - (a) an excluded transferor in relation to a transfer by the person, and
  - (b) an excluded transferee in relation to a transfer to the person,
 if the person is non-UK resident throughout the tax year in which the transfer occurs  
F1193  
 ....
- (2) In the case of a person who is carrying on a trade in the United Kingdom through a branch or agency during any part of that year (“a UK branch trader”), subsection (1) is subject to subsections (3) and (4).
- (3) A UK branch trader is not an excluded transferor under subsection (1) if the securities transferred were situated in the United Kingdom and used or held for the purposes of the branch or agency at or before the time of the transfer.
- (4) A UK branch trader is not an excluded transferee under subsection (1) if the securities transferred were situated in the United Kingdom at the time of the transfer and were acquired for use by or for the purposes of the branch or agency.
- (5) In this section “branch or agency” has the meaning given by [<sup>F1194</sup>section 1B(5)] of TCGA 1992.
- (6) The place where securities are situated is determined for the purposes of this section in accordance with sections 275(1) and (2)(b) and 275C of TCGA 1992.
- (7) Further provision about trustees who are non-UK resident is made in section 667 (trustees' accrued income profits treated as settlement income).

#### Textual Amendments

**F1193** Words in s. 643(1) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 46 para. 58**

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**F1194** Words in s. 643(5) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by Finance Act 2019 (c. 1), Sch. 1 para. 101

**F1195 644 Individuals to whom the remittance basis applies**

.....

**Textual Amendments**

**F1195** S. 644 omitted (21.7.2008 with effect in accordance with Sch. 7 para. 160 of the amending Act) by virtue of Finance Act 2008 (c. 9), Sch. 7 para. 158

**645 Charitable trusts etc**

- (1) A person is—
  - (a) an excluded transferor in relation to a transfer of securities by the person, and
  - (b) an excluded transferee in relation to a transfer of securities to the person, if condition A or B is met.
- (2) Condition A is that if the person—
  - (a) became entitled to any interest on the securities, and
  - (b) applied it for charitable purposes only, exemption could be granted in respect of the interest under section 532 (exemption for certain savings and investment income that belongs to a charitable trust and is applicable and applied to charitable purposes only).
- (3) Condition B is that if the person—
  - (a) became entitled to any interest on the securities, and
  - (b) applied it for the purposes mentioned in section 533 (exemption for public revenue dividends that are applied only for the repair of college or church buildings etc), exemption could be granted in respect of the interest under that section.
- (4) For the transfer treated as occurring where charitable trusts over securities cease, see section 652 (securities ceasing to be held on charitable trusts).

**646 Pension scheme trustees**

A person is—

- (a) an excluded transferor in relation to a transfer of securities by the person, and
- (b) an excluded transferee in relation to a transfer of securities to the person, if, were the person to become entitled to interest on the securities, exemption in respect of it would be allowable under section 186 of FA 2004 (exemption for income from investments held for the purposes of a registered pension scheme).

**647 Makers of manufactured payments**

- (1) This section applies if the manufactured payments conditions are met.
- (2) The manufactured payments conditions are that—

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- (a) securities are transferred without accrued interest to a person (“the seller”),
  - (b) the seller makes a contract for the sale of securities of that kind (“the seller’s contract”), and
  - (c) any contract under which the securities are transferred to the seller, or the seller’s contract itself, is a manufactured payments contract.
- (3) The seller is an excluded transferee in relation to the transfer to the seller if the nominal value of the securities subject to the seller’s contract equals or exceeds that of the securities transferred to the seller.
- (4) The seller is an excluded transferor in relation to the transfer of securities under the seller’s contract.
- (5) See section 663 (transfers without accrued interest to makers of manufactured payments) for cases where that nominal value is less than that of the securities transferred to the seller.
- [<sup>F1196</sup>(6) In this section “manufactured payments contract” means a contract under which—
- (a) the seller is required to pay another person an amount which is representative of a periodical payment of interest on UK securities under an arrangement between them for the transfer of the securities, or
  - (b) the seller is required to pay another person an amount which is representative of an overseas dividend on overseas securities under an arrangement between them for the transfer of the securities.
- (7) In this section—
- (a) “overseas securities” means shares, stock or other securities issued by—
    - (i) a government, local authority or other public authority of a territory outside the United Kingdom, or
    - (ii) another non-UK resident body of persons,
 and includes shares in a non-UK resident company,
  - (b) “overseas dividend” means any interest, dividend or other annual payment payable in respect of overseas securities, and
  - (c) “UK securities” means securities of—
    - (i) the government of the United Kingdom,
    - (ii) a local authority in the United Kingdom,
    - (iii) another public authority in the United Kingdom, or
    - (iv) a UK resident company or other UK resident body,
 but does not include shares in a UK resident company.]

#### **Textual Amendments**

**F1196**S. 647(6)(7) substituted for s. 647(6) (1.1.2014) by [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 19](#)

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### *Further transactions treated as transfers*

#### **648 Strips of gilt-edged securities**

- (1) The exchange of a gilt-edged security for strips of that security is treated for the purposes of this Chapter as a transfer of the security by the person who exchanges the security.
- (2) But no one is treated as the transferee.
- (3) The exchange of strips of a gilt-edged security for a single gilt-edged security consolidating those strips is treated for the purposes of this Chapter as a transfer of the single security to the person who exchanges those strips.
- (4) But no one is treated as the transferor.
- (5) An exchange within subsection (1) or (3) is treated as a transfer without accrued interest if it is made at any time after the balance has been struck for a dividend on the security but before the day on which that dividend is payable.
- (6) In any other case, such an exchange is treated as a transfer with accrued interest.
- (7) If an exchange is treated as a transfer under subsection (1) or (3), any transaction forming part of the exchange is not itself a transfer for the purposes of this Chapter.
- (8) In this section “strip” has the meaning given by section 444 of ITTOIA 2005.
- (9) For the meaning of “gilt-edged security”, see section 1024.

#### **649 New securities issued with extra return**

- (1) This section applies if—
  - (a) securities (“old securities”) of a particular kind are issued by way of an original issue of securities of that kind,
  - (b) on a later occasion securities (“new securities”) of the same kind are issued,
  - (c) a sum (“the extra return”) is payable in respect of the new securities by the issuer of them to reflect the fact that interest is accruing on the old securities,
  - (d) the issue price of the new securities includes an element (whether or not separately identified) representing payment for the extra return, and
  - (e) the extra return is equal to the amount of interest mentioned in subsection (2).
- (2) The amount of interest referred to in subsection (1)(e) is—
  - (a) the amount of interest payable for the relevant period on so many old securities as there are new, or
  - (b) if there are more new securities than old, the amount of interest which would be so payable if there were as many old securities as new.
- (3) This section does not apply if the new securities are variable rate securities.
- (4) The new securities are treated as transferred with accrued interest to the person to whom they are issued on the new issue day.
- (5) But no one is treated as the transferor.
- (6) For the purposes of this Chapter, the settlement day for the transfer is taken to be the new issue day.

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- (7) See section 662 for the amount of the payment treated as made in the case of the transfer.
- (8) In this section—
- “the relevant period” is the period beginning with the day after—
- (a) the only or last interest payment day before the new issue day, or
- (b) if there is no interest payment day before the new issue day, the day on which the old securities are issued,
- and ending with the new issue day, and
- “the new issue day” is the day on which the new securities are issued.

## **650 Trading stock appropriations etc**

- (1) Subsection (2) applies if a person—
- (a) acquires securities otherwise than as trading stock of a trade the person carries on, and
- (b) appropriates the securities as trading stock for the purposes of such a trade (whether on the start of the trade or otherwise).
- (2) The person is treated for the purposes of this Chapter as transferring the securities otherwise than in the course of the trade, and re-acquiring them in the course of the trade, on the day of appropriation.
- (3) Subsection (4) applies if securities—
- (a) form part of the trading stock of a person's trade, and
- (b) are appropriated by the person for any other purpose.
- (4) The person is treated for the purposes of this Chapter as transferring the securities in the course of the trade, and re-acquiring them otherwise than in the course of the trade, on the day of appropriation.
- (5) Subsection (6) applies if securities—
- (a) form part of the trading stock of a person's trade, and
- (b) are retained by the person on ceasing to carry on the trade.
- (6) The person is treated for the purposes of this Chapter as transferring the securities in the course of the trade, and re-acquiring them otherwise than in the course of the trade, on the day of cessation.
- (7) See sections 623(2) to (4) and 624(2) to (4) for cases where securities are treated as transferred with or without accrued interest where this section applies.

## **651 Owner becoming entitled to securities as trustee**

- (1) This section applies if a person entitled to securities otherwise than as trustee becomes trustee of them.
- (2) The person is treated for the purposes of this Chapter as transferring the securities at the time the person becomes trustee of them.
- (3) The transfer is treated as being made—
- (a) by the person in a capacity other than trustee, and



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- (b) to the person and, if there are any other trustees, to the others in the capacity of trustees.
- (4) See sections 623(2) to (4) and 624(2) to (4) for cases where securities are treated as transferred with or without accrued interest where this section applies.

## **652 Securities ceasing to be held on charitable trusts**

- (1) This section applies if securities held on charitable trusts cease to be subject to those trusts.
- (2) The trustees are treated for the purposes of this Chapter as transferring the securities at the time when the securities cease to be so subject.
- (3) The transfer is treated as being made by the trustees in their capacity as charitable trustees to themselves in another capacity.
- (4) See sections 623(2) to (4) and 624(2) to (4) for cases where securities are treated as transferred with or without accrued interest where this section applies.

### *Excluded transfers*

## **653 Stock lending**

This Chapter does not apply to transfers of securities in circumstances such that any disposal and acquisition are disregarded for the purposes of capital gains tax as a result of section 263B(2) of TCGA 1992 (capital gains tax exemption for disposals in pursuance of stock lending arrangements).

## **654 Sale and repurchase arrangements**

- (1) This section applies for the purposes of sections 655 to 658.
- (2) There is a sale and repurchase arrangement in respect of securities if the securities are transferred under an agreement to sell them and—
  - (a) the transferor (“T”) or a person connected with T is required to buy back the securities by the agreement or a related agreement,
  - (b) T or a person connected with T is required to buy back the securities as a result of the exercise of an option acquired under the agreement or a related agreement, or
  - (c) T or a person connected with T exercises an option to buy back the securities which was acquired under the agreement or a related agreement.
- (3) Agreements are related for the purposes of this section if they are entered into in pursuance of the same arrangement (regardless of the date on which either agreement is entered into).
- (4) References in this section to buying back securities include—
  - (a) buying similar securities, and
  - (b) in the case of a person connected with T, buying the securities sold by T or similar securities.

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- (5) Subsection (4) applies even if the person buying the securities has not held them before.
- (6) References in sections 656 and 657 to repurchase are to be read accordingly.
- (7) Securities are similar for the purposes of subsection (4) if they give their holders—
  - (a) the same rights against the same persons as to capital and interest, and
  - (b) the same remedies to enforce those rights.
- (8) Subsection (7) applies even if there is a difference in—
  - (a) the total nominal amounts of the securities,
  - (b) the form in which they are held, or
  - (c) the manner in which they can be transferred.

### **655 Transfers under sale and repurchase arrangements**

- (1) If there is a sale and repurchase arrangement in respect of securities, this Chapter does not apply to the transfer by T or the transfer back under the arrangement.
- (2) But subsection (1) does not apply if section 608 prevents section 607 (treatment of price differences under repos) from applying in relation to the arrangement.

### **656 Power to modify: non-standard sale and repurchase arrangements**

- (1) The Treasury may by regulations provide for section 655 to apply with modifications in relation to cases involving non-standard sale and repurchase arrangements.
- (2) A case involves a non-standard sale and repurchase arrangement if—
  - (a) there is a sale and repurchase arrangement in respect of securities,
  - (b) T makes a sale of the securities under the agreement to sell them (“the original sale”),
  - (c) the securities are UK shares, UK securities or overseas securities, and
  - (d) any of conditions A to E is met in relation to the sale and repurchase arrangement.
- (3) Condition A is that—
  - (a) the obligation to buy back the securities is not performed, or
  - (b) the option to buy them back is not exercised.
- (4) Condition B is that provision is made by or under an agreement for different or additional UK shares, UK securities or overseas securities to be treated as (or as included with) representative securities.
- (5) Condition C is that provision is made by or under an agreement for any UK shares, UK securities or overseas securities to be treated as not included with representative securities.
- (6) Condition D is that provision is made by or under an agreement for the sale price or repurchase price to be decided or varied wholly or partly by reference to post-agreement fluctuations.

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- (7) Condition E is that provision is made by or under an agreement for a person to be required, in a case where there are post-agreement fluctuations, to make a payment in the period—
  - (a) beginning immediately after the making of the agreement for the original sale, and
  - (b) ending when the repurchase price becomes due.
- (8) “Post-agreement fluctuations” are fluctuations in the value of —
  - (a) securities transferred in pursuance of the original sale, or
  - (b) representative securities,which occur in the period after the making of the agreement for the original sale.
- (9) “Representative securities” are UK shares, UK securities or overseas securities which, for the purposes of the repurchase, are to represent securities transferred in pursuance of the original sale.

#### **657 Power to modify: redemption arrangements**

- (1) The Treasury may by regulations provide for section 655 to apply with modifications in relation to cases involving redemption arrangements.
- (2) A case involves redemption arrangements if—
  - (a) arrangements, corresponding to those made in cases where there is a sale and repurchase arrangement in respect of securities, are made by an agreement, or one or more related agreements, in relation to securities that are to be redeemed in the period after their sale,
  - (b) the securities are UK shares, UK securities or overseas securities, and
  - (c) the arrangements are such that the seller or a person connected with the seller (instead of being required to repurchase the securities or acquiring an option to do so) is granted rights in respect of the benefits that will result from the redemption.

#### **658 Powers to modify: supplementary**

- (1) Regulations under section 656 or 657 may make different provision for different cases.
- (2) Regulations under either section may contain incidental, supplemental, consequential and transitional provision and savings.
- (3) In this section and sections 656 and 657 “modifications” includes exceptions and omissions.
- (4) Accordingly, a power in sections 656 and 657 to provide for a provision to apply with modifications in relation to a particular case includes power to provide for the provision not to apply in relation to that case.
- <sup>F1197</sup>(5) Subsections (6) to (10) apply for the purposes of sections 656 and 657 and this section.
- (6) “UK shares” means shares in a UK resident company.
- (7) “UK securities” means securities of—
  - (a) the government of the United Kingdom,
  - (b) a local authority in the United Kingdom,

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- (c) another public authority in the United Kingdom, or
  - (d) a UK resident company or other UK resident body.
- (8) But “UK securities” does not include UK shares.
- (9) “Overseas securities” means shares, stock or other securities issued by—
- (a) a government, local authority or other public authority of a territory outside the United Kingdom, or
  - (b) another non-UK resident body of persons.
- (10) “Overseas securities” includes shares in a non-UK resident company.]

#### Textual Amendments

**F1197S.** 658(5)-(10) substituted for s. 658(5) (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 20](#)

### *Special rules about some calculations*

#### **659 Transfers with or without accrued interest: interest in default**

- (1) This section applies if—
- (a) the amount of the payments treated as made on a transfer of securities is to be determined under section 632(4) or (5), 633(5) or 662(4) (cases where interest is not accounted for separately),
  - (b) there has been a failure to pay interest due on the securities, and
  - (c) as a result of the failure, on the interest payment day which is or follows the settlement day the value of the right to receive the interest payable on the securities is less than the interest payable.
- (2) The calculation under section 632(4) or (5), 633(5) or 662(4) is to be made by reference to that value instead of the interest.

#### **660 Transfers with unrealised interest: interest in default**

- (1) This section applies if—
- (a) securities are transferred with unrealised interest,
  - (b) there has been a failure to pay interest due on the securities transferred, and
  - (c) as a result of the failure, on the day of the transfer the value of the right to receive the unrealised interest (“the unrealised interest value”) is less than the unrealised interest.
- (2) The amount of the payment treated as made to the transferor under section 634(2) is taken to be the unrealised interest value instead of the amount of the unrealised interest.
- (3) The amount of accrued income profits under section 631(1) is taken to be the unrealised interest value instead of the amount of the unrealised interest.
- (4) Subsections (2) and (3) are subject to section 661 (successive transfers with unrealised interest in default).

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- (5) For the purposes of this section and section 661, a person is treated as transferring securities of a particular kind which the person acquired later before securities of that kind acquired earlier.
- (6) See also section 681 (exemption for unrealised interest received by transferee after transfer).

#### **661 Successive transfers with unrealised interest in default**

- (1) The amount taken as the unrealised interest value for the purposes of section 660(2) or (3) is reduced if the person (“T”) who makes the transfer referred to in section 660(1) also acquired the securities with the right to receive unrealised interest.
- (2) The amount of the reduction depends on whether subsection (3) applies.
- (3) This subsection applies if—
  - (a) T has received, as transferee, some or all of that unrealised interest, and
  - (b) T is liable for income tax on it for the tax year in which it was received.
- (4) If subsection (3) applies, the reduction is equal to the value on the day of the transfer to T of the right to receive the unrealised interest (“the earlier value”) less the total so received.
- (5) If subsection (3) does not apply, the reduction is equal to the earlier value.
- (6) But if the reduction under subsection (4) or (5) exceeds the amount mentioned in subsection (1), that amount is treated as reduced to nil.

#### **662 New securities issued with extra return: special rules about payments**

- (1) In the case of a transfer treated as made under section 649 (new securities issued with extra return), the amount of the payment treated as made under section 632(1) (payment on transfer with accrued interest) is not determined under section 632(2) to (5).
- (2) Instead, that amount depends on whether under the issue arrangements the person to whom the new securities are issued accounts to the issuer separately—
  - (a) for the extra return, and
  - (b) for the rest of the issue price.
- (3) If the person does account for them separately, the amount of the payment is the amount of the extra return separately accounted for.
- (4) If the person does not account for them separately, the amount of the payment is an amount equal to—

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

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where—

I is the interest payable on the new securities on the first interest payment day after the new issue day (“the payment day”),

A is the number of days in the relevant period, and

B is the number of days in the period beginning with the first day of the relevant period and ending with the payment day.

- (5) Subsection (4) is subject to section 659 (transfers with or without accrued interest: interest in default).
- (6) In this section “the extra return”, “the new issue day”, “new securities” and “the relevant period” have the same meaning as in section 649.

### **663 Transfers without accrued interest to makers of manufactured payments**

- (1) This section applies if—
  - (a) the manufactured payments conditions are met (see section 647(2)), and
  - (b) the nominal value of the securities subject to the seller's contract is less than that of the securities transferred to the seller.
- (2) The amount of the payment treated as made to the seller under section 633 on the transfer of the securities to the seller is reduced.
- (3) The reduction is by so much of that amount as is attributable to securities (“the matched securities”) of a nominal value equal to that of the securities subject to the seller's contract.
- (4) If there is more than one transfer of securities to the seller, those transferred to the seller earlier are treated as the matched securities before those transferred later.
- (5) In this section “the seller” and “the seller's contract” have the same meaning as in section 647.
- (6) For cases where subsection (1)(b) does not apply, see section 647(3) (under which the seller is treated as an excluded transferee).

### **664 Foreign currency securities: sterling equivalent of payments on transfers**

- (1) The sterling equivalent of the amount of the payment treated as made on a transfer of securities is determined in accordance with this section if interest on the securities is payable in a currency other than sterling (“a foreign currency”).
- (2) If the payment is determined under section 632(3), 633(3) or 662(3) (transfers under an arrangement by which interest is accounted for separately), the amount of the payment depends on whether the sterling equivalent of the interest separately accounted for is shown in an agreement for transfer.
- (3) If the sterling equivalent is so shown, the amount of the payment is taken to be that sterling equivalent.
- (4) If the sterling equivalent is not so shown, the amount is taken to be the sterling equivalent on the settlement day of the interest separately accounted for.

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- (5) If the amount of the payment treated as made is determined under any other provision (except section 660 (transfers with unrealised interest: interest in default)), the amount is taken to be its sterling equivalent on the settlement day.
- (6) For the purposes of this section, the sterling equivalent of an amount or value in a foreign currency is to be calculated by reference to the London closing rate of exchange for the day concerned.

#### **665 Foreign currency securities: unrealised interest payable in foreign currency**

- (1) This section applies if unrealised interest is payable in a currency other than sterling (“a foreign currency”).
- (2) For the purposes of section 631(1) (amount of accrued income profits where settlement day outside interest period) the amount of the unrealised interest is taken to be its sterling equivalent on the settlement day.
- (3) For the purposes of sections 660 (transfers with unrealised interest: interest in default) and 661 (successive transfers with unrealised interest in default), the value on any day of the right to receive unrealised interest is the sterling equivalent on that day of that value in the foreign currency.
- (4) For the purposes of those sections unrealised interest received in a foreign currency is taken to be the sterling equivalent on the day of receipt of the amount received.
- (5) For the purposes of this section, the sterling equivalent of an amount or value in a foreign currency is to be calculated by reference to the London closing rate of exchange for the day concerned.

#### *Nominees and trustees*

#### **666 Certain transfers by or to nominees or trustees treated as made by or to others**

- (1) Transfers of securities by or to a person as nominee for another person (“A”) are treated for the purposes of this Chapter as transfers by or to A.
- (2) Transfers of securities by or to a person (“T”) as trustee for another person (“B”) are treated for the purposes of this Chapter as transfers by or to B if B is absolutely entitled as against T.
- (3) For the purposes of subsection (2) where T is the transferor, B is absolutely entitled as against T if immediately before the transfer B has the exclusive right to direct how the securities are to be dealt with.
- (4) For the purposes of subsection (2) where T is the transferee, B is absolutely entitled as against T if immediately after the transfer B has that exclusive right.
- (5) For the purposes of subsections (3) and (4), a right to direct how securities are to be dealt with is treated as an exclusive right despite being subject to satisfying any outstanding charge, lien or other right of the trustee to resort to the securities for payment of duty, taxes, costs or other outgoings.
- (6) Subsection (1) applies to a transfer of securities by or to a person as nominee for two or more persons as it applies to a transfer of securities by or to a person as nominee for one person, taking the references to A as references to the two or more persons.

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- (7) This section applies to a transfer of securities by or to a person as trustee for two or more persons as it applies to a transfer of securities as trustee for one person, taking—
  - (a) the references to B as references to the two or more persons, and
  - (b) the references to B being absolutely entitled as references to the two or more persons being jointly absolutely entitled.
- (8) The fact that a person is an infant or otherwise lacks legal capacity is to be disregarded in determining for the purposes of this section whether the person is absolutely entitled as against T.

### **667 Trustees' accrued income profits treated as settlement income**

- (1) If the trustees of a settlement are treated as making qualifying accrued income profits, those profits are to be taken to be income arising under the settlement for the purposes of Chapter 5 of Part 5 of ITTOIA 2005 (settlements: amounts treated as income of settlor).
- (2) Subsection (3) applies if the trustees of a settlement—
  - (a) are non-UK resident or domiciled outside the United Kingdom throughout a tax year in which an interest period or part of an interest period falls, and
  - (b) would have been treated as making an amount or an additional amount of qualifying accrued income profits in the interest period if the trustees had been UK resident or domiciled in the United Kingdom during a part of each such tax year.
- (3) The amount or additional amount of qualifying accrued income profits that the trustees would have been treated as making is to be taken to be income arising under the settlement for the purposes of Chapter 5 of Part 5 of ITTOIA 2005.
- (4) In this section—
  - (a) “qualifying accrued income profits” means accrued income profits which are treated as made—
    - (i) under section 628(5), or
    - (ii) under section 630(2) in respect of a transfer of variable rate securities, and
  - (b) in any case where there are no trustees of a settlement, references to such trustees are to any persons entitled to securities comprised in the settlement.
- (5) In the case of qualifying accrued income profits within subsection (4)(a)(ii)—
  - (a) the reference in subsection (2)(a) to an interest period is to the period—
    - (i) beginning with the day after the last day of the only or last interest period of the securities, and
    - (ii) ending with the settlement day, and
  - (b) the reference in subsection (2)(b) to making qualifying accrued income profits in the interest period is to be read as making them in the tax year in which settlement day falls.



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### *Relief where transfer proceeds unremittable*

#### **668 Relief for unremittable transfer proceeds: general**

- (1) This section applies if—
  - (a) a person is liable for income tax on accrued income profits,
  - (b) the profits are calculated by reference to payments treated as made to the person in an interest period,
  - (c) the payments are so treated as a result of the person making transfers of foreign securities of a particular kind, and
  - (d) the proceeds of the transfers are unremittable in the tax year.
- (2) If the person makes a claim for relief under this section—
  - (a) the profits are reduced by the amount of the payments treated as made to the person, or
  - (b) if that amount exceeds the profits, the profits are reduced to nil.
- (3) But see section 670 (withdrawal of relief).
- (4) In this section and section 669 “foreign securities” means securities which are situated outside the United Kingdom.
- (5) For the purposes of this section and sections 669 and 670, proceeds of transfers of foreign securities are unremittable in relation to a person if the person is prevented from transferring them to the United Kingdom because of—
  - (a) the laws of the territory where the securities are situated,
  - (b) executive action of its government, or
  - (c) the impossibility of obtaining there currency that could be transferred to the United Kingdom.
- (6) For the purposes of this section the place where securities are situated is to be determined in accordance with sections 275(1) and (2)(b) and 275C of TCGA 1992.
- (7) Any claim under this section must be made <sup>F1198</sup>not more than 4 years after the end of] the tax year for which the profits would be chargeable to tax if no claim were made.
- (8) A person's personal representatives may make any claim under this section which the person might have made.

#### **Textual Amendments**

**F1198** Words in s. 668(7) substituted (1.4.2010) by [Finance Act 2008 \(c. 9\)](#), s. 118(2), [Sch. 39 para. 61](#); [S.I. 2009/403](#), art. 2(2) (with art. 10)

#### **669 Relief for unremittable transfer proceeds: section 630 profits**

- (1) This section applies if—
  - (a) a person is liable for income tax on accrued income profits within section 630(2) (making accrued income profits: settlement day outside interest period),
  - (b) the person is so liable as a result of making transfers of foreign securities of a particular kind, and

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- (c) the proceeds of the transfers are unremittable in the tax year.
- (2) If the person makes a claim for relief under this section the profits are reduced to nil.
- (3) But see section 670 (withdrawal of relief).
- (4) Any claim under this section must be made [<sup>F1199</sup>not more than 4 years after the end of] the tax year for which the profits would be chargeable to tax if no claim were made.
- (5) A person's personal representatives may make any claim under this section which the person might have made.

#### Textual Amendments

**F1199** Words in s. 669(4) substituted (1.4.2010) by Finance Act 2008 (c. 9), s. 118(2), Sch. 39 para. 62; S.I. 2009/403, art. 2(2) (with art. 10)

### 670 Withdrawal of relief

- (1) This section applies if—
  - (a) a claim under section 668(2) or 669(2) has been made in relation to profits, and
  - (b) the proceeds of the transfers cease to be unremittable.
- (2) The claimant is treated as making accrued income profits of an amount equal to the reduction under that section.
- (3) If the claimant has died, the claimant's personal representatives are so treated.

*[<sup>F1200</sup>Individuals to whom remittance basis applies*

#### Textual Amendments

**F1200S.** 670A and cross-heading inserted (21.7.2008 with effect in accordance with Sch. 7 para. 160 of the amending Act) by Finance Act 2008 (c. 9), Sch. 7 para. 159

### 670A Individuals to whom remittance basis applies

- (1) This section applies if—
  - (a) accrued income profits are made by an individual as a result of a transfer of foreign securities, and
  - (b) section 809B, 809D or 809E (remittance basis) applies to the individual for the tax year in which the profits are made.
- (2) Treat the accrued income profits as relevant foreign income of the individual.
- (3) For the purposes of Chapter A1 of Part 14 (remittance basis)—
  - (a) if the individual is the transferor—
    - (i) treat any consideration for the transfer as deriving from the accrued income profits, and
    - (ii) if on the transfer the individual does not receive consideration of an amount equal to (or exceeding) the market value of the securities, treat the securities as deriving from the accrued income profits, and

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- (b) if the individual is the transferee, treat the securities as deriving from the accrued income profits.
- (4) For the purposes of this section securities are “foreign” if income from them would be relevant foreign income.]

### *Interpretation*

#### **671 Meaning of “interest”**

- (1) In this Chapter “interest” includes dividends and any other return (however described).
- (2) But it does not include a return consisting of the difference between the amount payable on a security's redemption and its issue price.

#### **672 Meaning of “interest payment day”**

- (1) In this Chapter “interest payment day”, in relation to securities of any kind, means a day on which interest on those securities is payable.
- (2) If a particular payment of interest may be made on one of a number of days, the first of them is the interest payment day.

#### **673 Meaning of “interest period”**

- (1) The general rule is that for the purposes of this Chapter—
  - (a) the first interest period of securities of any kind begins with the day after that on which those securities are first issued and ends with the first interest payment day or, if it is earlier, the expiry of 12 months, and
  - (b) any other interest period of those securities begins with the day after the last day of their previous interest period and ends with the next interest payment day or, if it is earlier, the expiry of 12 months.
- (2) Subsection (1) is subject to subsections (3) and (4).
- (3) The last interest period of securities of any kind ends with the last interest payment day for those securities, unless subsection (4) applies.
- (4) An interest period of securities of any kind in which either of the events specified in subsection (5) occurs is treated as ending on the day on which it would have ended apart from that event.
- (5) The events are—
  - (a) a conversion of those securities, and
  - (b) if those securities are gilt-edged securities, the exchange of those securities for strips of those securities.
- (6) In this section “strip” has the meaning given by section 444 of ITTOIA 2005.
- (7) See also section 667(5) (construction of reference to “interest period” in section 667(2)).

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## 674 Meaning of “the settlement day”

- (1) For the purposes of this Chapter the settlement day for a transfer of securities in accordance with the rules of a recognised market is—
  - (a) the day on which the transferee agrees to settle, or
  - (b) if the transferee may settle on one of a number of days, the day on which settlement actually occurs.
- (2) The settlement day for a transfer of securities which is not in accordance with such rules is determined in accordance with subsection (3), (4) or (6) (and see also section 649(6): settlement day where new securities issued with extra return).
- (3) If—
  - (a) the consideration for the transfer is money alone, and
  - (b) the transferee agrees to pay the whole of it on or before the first interest payment day after an agreement for the transfer is made,
 the settlement day is the day on which the transferee agrees to make the payment or, if payment may be made on one of a number of days, or on a number of different days, the latest of them.
- (4) If—
  - (a) there is no consideration for the transfer, or
  - (b) the transfer is a transfer because of a provision specified in subsection (5),
 the settlement day is the day on which the securities are transferred.
- (5) The provisions are—
  - section 620(1)(b) or (c) (conversion, or redemption of variable rate securities),
  - section 648(1) or (3) (exchanges relating to strips of gilt-edged securities),
  - section 650 (trading stock appropriations etc),
  - section 651 (owner becoming entitled to securities as trustee), and
  - section 652 (securities ceasing to be held on charitable trusts).
- (6) If neither subsection (3) nor (4) applies, the settlement day is such day as an officer of Revenue and Customs decides.
- [<sup>F1201</sup>(7) On any appeal that is notified to the tribunal, the jurisdiction of the tribunal includes jurisdiction to affirm or replace such a decision.]

### Textual Amendments

**F1201**S. 674(7) substituted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 454**

## 675 The holding of securities

- (1) For the purposes of this Chapter, a person holds securities—
  - (a) at a particular time if the person is entitled to them at that time, and
  - (b) on a particular day if the person is entitled to them throughout that day or becomes and does not cease to be entitled to them on that day.
- (2) A person acquires securities when the person becomes entitled to them.

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- (3) If a Scottish partnership carries on a trade or business—
- (a) any partnership dealings are treated as dealings by the partners and not by the partnership as such, and
  - (b) the partners are treated as being entitled to securities held by the partnership.

#### **676 Nominal value of securities: general**

- (1) If the interest on securities is expressed to be payable by reference to a given value, for the purposes of this Chapter their nominal value is that value.
- (2) In any other case, the nominal value of securities for those purposes is their price when they were issued.
- (3) See section 677 if the nominal value of the securities is expressed in a currency other than sterling.

#### **677 Nominal value: foreign currency securities**

- (1) If the nominal value of securities is expressed in a currency other than sterling (“a foreign currency”), for the purposes of this Chapter their nominal value on any day is taken to be the sterling equivalent on that day of that value.
- (2) For the purposes of this section, the sterling equivalent of a value in a foreign currency is to be calculated by reference to the London closing rate of exchange for the day concerned.

### **CHAPTER 3**

#### **EXEMPTIONS RELATING TO INTEREST ON SECURITIES**

#### **678 Exemptions relating to interest on securities: preliminary**

- (1) This Chapter confers exemptions relating to interest on securities.
- (2) Expressions used in this Chapter and in Chapter 2 have the same meaning as in that Chapter.
- (3) Accordingly, for the meanings of the following expressions see the sections indicated—
  - “interest” see section 671,
  - “interest payment day” see section 672,
  - “interest period” see section 673,
  - “makes accrued income losses” see section 628(6),
  - “securities” see section 619,
  - “transfer with unrealised interest” see section 625(1),
  - “transferee” see section 621,
  - “transfer” see section 620, and
  - “unrealised interest” see section 625(2).

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- (4) Section 666 (certain transfers by or to nominees or trustees treated as made by or to others) applies for the purposes of this Chapter as it applies for the purposes of Chapter 2.

**679 Interest on securities involving accrued income losses: general**

- (1) This section applies if—
- (a) a person is liable for income tax on interest on securities of any kind which is due at the end of an interest period of the securities,
  - (b) in that period accrued income losses are made as a result of transfers of those securities, and
  - (c) the period ends with an interest payment day.
- (2) No liability to income tax arises in respect of the interest to the extent that it does not exceed the losses.
- (3) If, apart from this subsection, a person would be entitled to the exemption under this section in more than one tax year, the person is so entitled only in the tax year in which the interest period ends.
- (4) For cases where the interest period does not end with an interest payment day, see section 637 (accrued income losses treated as payments in next interest period).

**680 Interest on securities involving accrued income losses: foreign trustees**

- (1) This section applies if—
- (a) the trustees of a settlement are non-UK resident or domiciled outside the United Kingdom throughout a tax year in which an interest period or part of an interest period of securities falls,
  - (b) the trustees' income is or includes interest from those securities,
  - (c) the interest falls due at the end of that interest period, and
  - (d) had the trustees been UK resident, or domiciled in the United Kingdom, during a part of each such tax year the interest would have been wholly or partly exempt from income tax under section 679.
- (2) No liability to income tax arises as a result of Chapter 5 of Part 5 of ITTOIA 2005 (settlements: amounts treated as income of settlor) in respect of so much of the interest as would have been exempt from income tax under section 679.
- (3) For cases where the interest period does not end with an interest payment day, see section 637 (accrued income losses treated as payments in next interest period).

**681 Unrealised interest received by transferee after transfer**

- (1) This section applies if—
- (a) securities are transferred with unrealised interest,
  - (b) the transferee is not an excluded transferee in relation to the transfer for the purposes of Chapter 2 (see sections 638 to 647),
  - (c) the transferee receives some or all of the unrealised interest, and
  - (d) apart from this section, the transferee would be liable to income tax on the unrealised interest.

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- (2) No liability to income tax arises in respect of the unrealised interest received by the transferee, unless conditions A and B are met.
- (3) Condition A is that section 660 (transfers with unrealised interest: interest in default) applies on the transfer.
- (4) Condition B is that the unrealised interest received by the transferee exceeds the residual value of the interest.
- (5) In this section “the residual value of the interest” means—
  - (a) the value on the day of the transfer of the right to receive the unrealised interest, less
  - (b) the total amount of any of that unrealised interest received previously by the transferee.
- (6) If conditions A and B are met, no liability to income tax arises in respect of the unrealised interest to the extent that it does not exceed the residual value of the interest.
- (7) Section 665 (foreign currency securities: unrealised interest payable in foreign currency) applies for the purposes of this section as it applies for the purposes of sections 660 and 661.

## [<sup>F1202</sup>PART 12A

### SALE AND LEASE-BACK ETC

#### Textual Amendments

**F1202**Pt. 12A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 4 para. 2](#) (with Sch. 9 paras. 1-9, 22)

## CHAPTER 1

### PAYMENTS CONNECTED WITH TRANSFERRED LAND

#### *Overview*

#### **681A Overview**

This Chapter provides that in certain circumstances where a transfer is made regarding land, and the transferor or an associate becomes liable to make a payment connected with the land, income tax relief for the payment is restricted.

#### *Application of the Chapter*

#### **681AA Transferor or associate becomes liable for payment of rent**

- (1) Section 681AD has effect if—

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- (a) land, or an estate or interest in land, is transferred,
  - (b) the transferor, or a person associated with the transferor, becomes liable to make a payment of rent under a lease of the land or part of it, and
  - (c) a deduction by way of relevant income tax relief (see section 681AC) is allowed for the payment.
- (2) Section 681AE has effect if—
- (a) land, or an estate or interest in land, is transferred,
  - (b) the transferor, or a person associated with the transferor, becomes liable to make a payment of rent under a lease of the land or part of it, and
  - (c) a relevant deduction from earnings (see section 681AC) is allowed for the payment.
- (3) The reference in subsection (1)(a) or (2)(a) to a transfer of an estate or interest in land includes a reference to any of the following—
- (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,
  - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
  - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.
- (4) In relation to a transaction or series of transactions mentioned in subsection (3)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person—
- (a) is an owner before the transaction or transactions, and
  - (b) is not the sole owner afterwards.
- (5) The liability mentioned in subsection (1)(b) or (2)(b) is one resulting from—
- (a) a lease, of the land or part of it, granted (at the time of the transfer or later) by the transferee to the transferor, or
  - (b) another transaction or series of transactions affecting the land or an estate or interest in it.
- (6) The liability mentioned in subsection (1)(b) or (2)(b) is one arising at the time of the transfer or later.
- (7) The reference in subsection (1)(a) or (2)(a) to a transfer does not include a transfer on or before 14 April 1964.

### **681AB Transferor or associate becomes liable for payment other than rent**

- (1) Section 681AD has effect if—
- (a) land, or an estate or interest in land, is transferred,
  - (b) the transferor, or a person associated with the transferor, becomes liable to make a payment which is not rent under a lease but is otherwise connected with the land or part of it (whether it is a payment under a rentcharge or under some other transaction), and
  - (c) a deduction by way of relevant income tax relief (see section 681AC) is allowed for the payment.



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- (2) Section 681AE has effect if—
  - (a) land, or an estate or interest in land, is transferred,
  - (b) the transferor, or a person associated with the transferor, becomes liable to make a payment which is not rent under a lease but is otherwise connected with the land or part of it (whether it is a payment under a rentcharge or under some other transaction), and
  - (c) a relevant deduction from earnings (see section 681AC) is allowed for the payment.
- (3) The reference in subsection (1)(a) or (2)(a) to a transfer of an estate or interest in land includes a reference to any of the following—
  - (a) the granting of a lease or another transaction involving the creation of a new estate or interest in the land,
  - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
  - (c) a transaction or series of transactions affecting land or an estate or interest in land, such that some person is the owner or one of the owners before and after the transaction or transactions but another person becomes or ceases to be one of the owners.
- (4) In relation to a transaction or series of transactions mentioned in subsection (3)(c), a person is to be regarded as a transferor for the purposes of this Chapter if the person—
  - (a) is an owner before the transaction or transactions, and
  - (b) is not the sole owner afterwards.
- (5) The liability mentioned in subsection (1)(b) or (2)(b) is one resulting from a transaction or series of transactions affecting the land or an estate or interest in it.
- (6) The liability mentioned in subsection (1)(b) or (2)(b) is one arising at the time of the transfer or later.
- (7) The reference in subsection (1)(a) or (2)(a) to a transfer does not include a transfer on or before 14 April 1964.

### **681AC Relevant income tax relief and relevant deduction from earnings**

- (1) For the purposes of this Chapter each of the following is a deduction by way of relevant income tax relief—
  - (a) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
  - (b) a deduction in calculating the profits of a UK property business for income tax purposes, and
  - (c) a deduction in calculating any loss for which relief is given under section 152 (losses from miscellaneous transactions), or in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies.
- (2) For the purposes of this Chapter each of the following is a relevant deduction from earnings—
  - (a) a deduction under section 336 of ITEPA 2003 (expenses), and
  - (b) a deduction from earnings in calculating losses in an employment for income tax purposes.

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*Relief: restriction and carrying forward*

**681AD Relevant income tax relief: deduction not to exceed commercial rent**

- (1) The rules in subsection (3) apply to the calculation of the deduction by way of relevant income tax relief allowed in a relevant period—
- (a) for the non-excluded element of the payment within section 681AA(1) or 681AB(1), or
  - (b) if there are two or more such payments, for the non-excluded elements of those payments.
- (2) For the purposes of this section—
- (a) in relation to a deduction within section 681AC(1)(a) “relevant period” means—
    - (i) a period of account of the trade, profession or vocation concerned, or
    - (ii) if no accounts of the trade, profession or vocation are drawn up for a period, the basis period of a tax year,
  - (b) in relation to a deduction within section 681AC(1)(b) or (c) “relevant period” means—
    - (i) a period of account of the business or person concerned, or
    - (ii) if no accounts of the business are drawn up for a period or the person does not draw up accounts for a period, a tax year, and
  - (c) the non-excluded element of a payment is the element of the payment not excluded under section 681AI (service charges etc).
- (3) The rules are—

*Rule 1 — meaning of amount E* For any relevant period, amount E (which may be nil) is the expense or total expenses to be brought, in accordance with generally accepted accounting practice, into account in the period in respect of—

- (a) the non-excluded element of the payment, or
- (b) the non-excluded elements of the payments.

*Rule 2 — calculations* For every relevant period—

- (a) calculate the total of amount E for the period and amount E for every previous relevant period ending on or after the date of the transfer mentioned in section 681AA(1)(a) or 681AB(1)(a),
- (b) calculate the total of the deductions by way of relevant income tax relief for every previous relevant period ending on or after the date of that transfer, and
- (c) subtract the total at (b) from the total at (a) to give the cumulative unrelieved expenses for the period.

*Rule 3 — meaning of post-spread period* A relevant period is a post-spread period if for that relevant period, and every later relevant period, there are no payments within section 681AA(1) or 681AB(1).

*Rule 4 — the deduction allowed in a relevant period* If a relevant period is not a post-spread period, the deduction allowed for the period is equal to the cumulative unrelieved expenses for the period, but is the commercial rent for the period if that is less (see section 681AJ or 681AK).

*Rule 5 — relevant periods in which no deduction allowed* If a relevant period is a post-spread period, no deduction is allowed for the period.

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*Certain deductions from earnings: restriction and carrying forward of relief*

**681AE Deduction from earnings not to exceed commercial rent**

- (1) Subsection (3) applies to the calculation of the relevant deduction from earnings allowed for the non-excluded element of the payment within section 681AA(2) or 681AB(2).
- (2) For the purposes of this section the non-excluded element of a payment is the element of the payment not excluded under section 681AI (service charges etc).
- (3) The deduction must not exceed the commercial rent for the period for which the payment is made (see section 681AJ or 681AK).

**681AF Carrying forward parts of payments**

- (1) This section applies if—
  - (a) section 681AE has effect, and
  - (b) conditions A and B are met.
- (2) Condition A is that under section 681AE part of a payment which would otherwise be allowed as a relevant deduction from earnings is not allowed.
- (3) Condition B is that one or more later payments are made, by the transferor or a person associated with the transferor, under—
  - (a) the lease (if section 681AE has effect because of section 681AA(2)), or
  - (b) the rentcharge or other transaction mentioned in section 681AB(2)(b) (if section 681AE has effect because of section 681AB(2)).
- (4) The part of the payment mentioned in subsection (2) may be carried forward and treated for the purposes of a relevant deduction from earnings as if it were made—
  - (a) when the next of the later payments is made, and
  - (b) for the period for which that later payment is made.
- (5) So far as a part of a payment carried forward under this section is not allowed as a relevant deduction from earnings, it may be carried forward again under this section.

**681AG Aggregation and apportionment of payments**

- (1) This section applies for the purposes of section 681AE.
- (2) If more than one payment is made for the same period, the payments must be taken together.
- (3) If payments are made for periods which overlap—
  - (a) the payments must be apportioned, and
  - (b) the apportioned payments which belong to the common part of the overlapping periods must be taken together.
- (4) References in subsections (2) and (3) to payments include references to parts of payments which under section 681AF are treated as if made later than they were made.

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### **681AH Payments made for later periods**

- (1) This section applies for the purposes of sections 681AE to 681AG.
- (2) For the purposes of this section the relevant year, in relation to a payment, is the year which begins with the date it is made.
- (3) If a payment is made for a period all of which is after the relevant year, it must be treated as made for the relevant year.
- (4) If a payment is made for a period part of which is after the relevant year, it must be treated as if a corresponding part of it was made for the relevant year (and no part for a later period).

*Interpretation etc*

### **681AI Exclusion of service charges etc**

- (1) This section applies for the purposes of sections 681AD and 681AE.
- (2) A payment must be excluded so far as it is in respect of any of the following—
  - (a) services,
  - (b) the use of relevant assets, and
  - (c) rates usually borne by the tenant.
- (3) The amount excluded must be just and reasonable.
- (4) If a lease or agreement contains provisions fixing the payments or parts of payments which are in respect of services or the use of assets, those provisions are not conclusive.
- (5) A relevant asset is any description of property or rights other than land or an interest in land.

### **681AJ Commercial rent: comparison with rent under a lease**

- (1) Subsection (3) applies—
  - (a) for the purpose of making a comparison under rule 4 of section 681AD(3) if section 681AD has effect because of section 681AA(1), and
  - (b) for the purpose of making a comparison under section 681AE(3) if section 681AE has effect because of section 681AA(2).
- (2) In this section “the actual lease” means the lease mentioned in section 681AA(1)(b) or (2)(b).
- (3) The commercial rent is the rent which might be expected to be paid under a lease, of the land in respect of which the payment mentioned in section 681AA(1)(b) or (2)(b) is made, which—
  - (a) was negotiated in the open market when the actual lease was created,
  - (b) is of the same duration as the actual lease,
  - (c) is subject to the terms and conditions of the actual lease as respects liability for maintenance and repairs, and
  - (d) provides for rent payable at uniform intervals and at an appropriate rate.
- (4) Rent is payable at an appropriate rate if—

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- (a) it is payable at a uniform rate, or
- (b) in a case where the rent payable under the actual lease is rent at a progressive rate (and such that the amount of rent payable for a year is never less than the amount payable for a previous year), it progresses by gradations proportionate to those provided by the actual lease.

### **681AK Commercial rent: comparison with payments other than rent**

- (1) Subsection (2) applies—
  - (a) for the purpose of making a comparison under rule 4 of section 681AD(3) if section 681AD has effect because of section 681AB(1), and
  - (b) for the purpose of making a comparison under section 681AE(3) if section 681AE has effect because of section 681AB(2).
- (2) The commercial rent is the rent which might be expected to be paid under a lease, of the land in respect of which the payment mentioned in section 681AB(1)(b) or (2)(b) is made, which—
  - (a) was negotiated in the open market when the rentcharge or other transaction mentioned in section 681AB(1)(b) or (2)(b) was effected,
  - (b) is a tenant's repairing lease, and
  - (c) is of an appropriate duration.
- (3) A tenant's repairing lease is a lease where the lessee is under an obligation to maintain and repair the whole (or substantially the whole) of the premises comprised in the lease.
- (4) To see whether a lease is of an appropriate duration, take the period over which payments are to be made under the rentcharge or other transaction, and—
  - (a) if that period is 200 years or more (or the obligation to make the payments is perpetual) an appropriate duration is 200 years, or
  - (b) if that period is less than 200 years, an appropriate duration is the same duration as that period.

### **681AL Lease and rent**

- (1) This section applies for the purposes of this Chapter.
- (2) A reference to a lease includes a reference to any of the following—
  - (a) an underlease, sublease, tenancy or licence, and
  - (b) an agreement for a lease, underlease, sublease, tenancy or licence, and
  - (c) in the case of land outside the United Kingdom, an interest corresponding to a lease (as defined here).
- (3) A reference to rent includes a reference to any payment under a lease.
- (4) A reference to rent under a lease includes a reference to expenses which the tenant under the lease is treated as incurring in respect of the land subject to the lease under any of—
  - (a) sections 61 to 67 of ITTOIA 2005 (land occupied for trade purposes), and
  - (b) sections 292 to 297 of that Act (taxed leases).

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- (5) Expenses within subsection (4) must be treated as having been paid as soon as they were incurred.

### **681AM Associated persons**

- (1) This section applies for the purposes of this Chapter.
- (2) The following persons are associated with one another—
  - (a) the transferor in an affected transaction and the transferor in another affected transaction, if the two persons are acting in concert or if the two transactions are in any way reciprocal, and
  - (b) any person who is an associate of either of those associated transferors.
- (3) Two or more bodies corporate are associated with one another if they participate in, or are incorporated for the purposes of, a scheme—
  - (a) for the reconstruction of any body or bodies corporate, or
  - (b) for the amalgamation of any two or more bodies corporate.
- (4) Persons are associated with one another if they are associates as defined in section 681DL (relatives, settlements, persons controlling bodies, joint owners etc).
- (5) In subsection (2) “affected transaction” means a transaction within—
  - (a) section 681AA(1) or (2) or 681AB(1) or (2), or
  - (b) section 835(1) or (2) or 836(1) or (2) of CTA 2010.

### **681AN Land outside the UK**

In the case of land outside the United Kingdom, expressions in this Chapter relating to interests in land and their disposition must be taken to relate to corresponding interests and dispositions.]

## [<sup>F1203</sup>CHAPTER 2

### NEW LEASE OF LAND AFTER ASSIGNMENT OR SURRENDER

#### **Textual Amendments**

**F1203**Pt. 12A Ch. 2 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 4 para. 3](#) (with [Sch. 9 paras. 1-9, 22](#))

#### *Overview*

### **681B Overview**

- (1) This Chapter provides that in certain circumstances where a lease of land is assigned or surrendered and another lease is granted or assigned—

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- (a) consideration received for the assignment or surrender of the first lease is taxed as a receipt of a trade, profession or vocation or charged to income tax, and
  - (b) tax relief is allowed for rent under the other lease.
- (2) The Chapter provides that in certain circumstances where a lease is varied it is treated as surrendered and another lease is treated as granted.

### *Application of the Chapter*

#### **681BA New lease after assignment or surrender**

- (1) This Chapter has effect if each of conditions A to E is met.
- (2) Condition A is that—
- (a) a person (“L”) is a lessee of land under a lease which has 50 years or less to run (“the original lease”), and
  - (b) L is entitled in respect of the rent under the original lease to a deduction by way of relevant income tax relief.
- (3) Condition B is that—
- (a) L assigns the original lease to another person or surrenders it to L's landlord, and
  - (b) the consideration for the assignment or surrender would not (apart from this Chapter) be taxable except as capital in L's hands.
- (4) Condition C is that—
- (a) another lease (“the new lease”) is granted, or assigned, to L or a person linked to L, and
  - (b) the new lease is for a term of 15 years or less.
- (5) Condition D is that the new lease—
- (a) is of all or part of the land which was the subject of the original lease, or
  - (b) includes all or part of the land which was the subject of the original lease.
- (6) Condition E is that neither L nor a person linked to L had, before 22 June 1971, a right enforceable at law or in equity to the grant of the new lease.
- (7) If each of conditions A to D is met but condition E is not met, see the relevant provisions in Schedule 2 to CTA 2010 and Schedule 9 to TIOPA 2010.

### *Taxation of consideration*

#### **681BB Taxation of consideration**

- (1) An appropriate amount must be found under subsection (3) or (4) of—
- (a) the consideration received by L for the assignment or surrender, or
  - (b) each instalment of the consideration (if it is paid in instalments).
- (2) For the purposes of the Income Tax Acts the appropriate amount must be treated in accordance with subsections (6) to (8) and not as a capital receipt.

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- (3) If the term of the new lease is one year or less, the appropriate amount of the consideration or instalment is the whole of it.
- (4) If the term of the new lease is more than one year, the appropriate amount of the consideration or instalment is the proportion of it found by the formula—  

$$16—N15$$
- (5) In subsection (4) N is the term of the new lease expressed in years (taking part of a year as an appropriate proportion of a year).
- (6) The way the appropriate amount must be treated depends on whether the following conditions are met—
  - (a) the consideration is received by L in the course of a trade, profession or vocation, and
  - (b) the rent payable by L, or a person linked to L, under the new lease is allowable as a deduction in calculating profits or losses of a trade, profession or vocation for tax purposes.
- (7) If the conditions are met the appropriate amount must be treated as a receipt of the trade, profession or vocation mentioned in subsection (6)(a).
- (8) If the conditions are not met the appropriate amount must be treated as an amount chargeable to income tax.
- (9) If income tax is charged under subsection (8)—
  - (a) it must be charged on the proportion of the appropriate amount arising in the tax year,
  - (b) the person liable for the tax is L, and
  - (c) the amount charged must be treated for income tax purposes as an amount of income.

### **681BC Position where new lease does not include all original property**

- (1) This section applies for the purposes of section 681BB if the property which is the subject of the new lease does not include all the property which was the subject of the original lease.
- (2) The consideration received by L must be treated as reduced to the portion of it found under subsection (3).
- (3) The portion is that which is reasonably attributable to such part of the original property as—
  - (a) consists of the property which is the subject of the new lease, or
  - (b) is included in the property which is the subject of the new lease.
- (4) The original property is the property which was the subject of the original lease.

### *Relief for rent under new lease*

### **681BD Relief for rent under new lease**

- (1) This section applies if the rent under the new lease is payable by a person within the charge to income tax.



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- (2) This section also applies if—
  - (a) Chapter 2 of Part 19 of CTA 2010 (provision for corporation tax corresponding to this Chapter) has effect, and
  - (b) the rent under the new lease is payable by a person within the charge to income tax.
- (3) The provisions of ITTOIA 2005 providing for deductions or allowances by way of income tax relief in respect of payments of rent apply in relation to the rent under the new lease.
- (4) In subsection (2), and in subsection (3) as applied by subsection (2), references to the new lease and rent are to be read as in Chapter 2 of Part 19 of CTA 2010.

*New lease treated as ending*

**681BE New lease treated as ending**

- (1) Sections 681BF to 681BH treat the new lease as ending in certain circumstances for the purposes of this Chapter.
- (2) If any of those provisions apply in a given case, and the new lease is treated as ending on different dates, it must be treated as ending on the earlier or earliest of them.

**681BF Position where rent reduces**

- (1) If the rent for a relevant period exceeds the rent for the following comparable period, the term of the new lease must be treated as ending on the date when the relevant period ends.
- (2) For the purposes of this section—
  - (a) a relevant period is a rental period of the new lease ending before its fifteenth anniversary,
  - (b) the following comparable period (in relation to a relevant period) is the rental period which is of the same duration as the relevant period and which begins on the day following the end of the relevant period,
  - (c) the rent for a period is the total rent payable under the new lease in respect of the period,
  - (d) a rental period is a period in respect of which a payment of rent is to be made, and
  - (e) the fifteenth anniversary of the new lease is the fifteenth anniversary of the date on which its term begins.
- (3) For the purposes of this section—
  - (a) all rental periods of a quarter must be treated as being of the same duration, and
  - (b) all rental periods of a month must be treated as being of the same duration.

**681BG Position where lease may be ended**

- (1) This section applies if under the new lease the lessor, or L or a person linked to L, has power to end the lease before the end of the term for which it was granted.

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- (2) The term of the lease must be treated as ending on the earliest date with effect from which the lessor, or L or a person linked to L, could end the lease by exercising the power.

#### **681BH Position where lease may be varied**

- (1) This section applies if under the new lease L, or a person linked to L, has power to vary, in a manner beneficial to L or a person linked to L, obligations under the lease that are obligations of L or a person linked to L.
- (2) The term of the lease must be treated as ending on the earliest date with effect from which L, or a person linked to L, could vary the obligations by exercising the power.

#### **681BI Lease treated as ending: rentcharge**

- (1) Subsection (2) applies if a rentcharge payable by L, or a person linked to L, is secured on all or part of the property subject to the new lease.
- (2) For the purposes of sections 681BF to 681BH the rent payable under the new lease must be treated as equal to the sum of the rentcharge and the rent payable under the lease.

*Lease varied to provide for increased rent*

#### **681BJ Lease varied to provide for increased rent**

- (1) This section applies if each of conditions A to D is met.
- (2) Condition A is that—
- (a) a person (“the lessee”) is a lessee of land under a lease which has 50 years or less to run (“the original lease”), and
  - (b) the lessee is entitled in respect of the rent under the original lease to a deduction by way of relevant income tax relief.
- (3) Condition B is that (by agreement with the landlord) the lessee varies the original lease.
- (4) Condition C is that under the variation—
- (a) the lessee agrees to pay a rent greater than that payable under the original lease, and
  - (b) the lessee agrees to pay the greater rent in return for a consideration which would not (apart from this Chapter) be taxable except as capital in the lessee's hands.
- (5) Condition D is that under the variation the period during which the greater rent is to be paid ends 15 years or less after the date on which—
- (a) the consideration is paid to the lessee, or
  - (b) the last instalment of the consideration is paid to the lessee (if it is paid in instalments).
- (6) If this section applies the lessee must be treated for the purposes of this Chapter—
- (a) as having surrendered the original lease for the consideration mentioned in subsection (4)(b), and

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- (b) as having been granted a new lease for a term of 15 years or less but otherwise on the terms of the original lease varied as mentioned in subsection (3).

### *Interpretation*

#### **681BK Relevant income tax relief**

For the purposes of this Chapter each of the following is a deduction by way of relevant income tax relief—

- (a) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
- (b) a deduction in calculating the profits of a UK property business for income tax purposes,
- (c) a deduction in calculating any loss for which relief is given under section 152 (losses from miscellaneous transactions), or in calculating profits or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies, and
- (d) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.

#### **681BL Linked persons**

- (1) In this Chapter references to a person linked to L are to a person who is—
  - (a) a partner of L,
  - (b) an associate of L, or
  - (c) an associate of a partner of L.
- (2) “Associate” must be read in accordance with section 681DL (relatives, settlements, persons controlling bodies, joint owners etc).

#### **681BM Lease, lessee, lessor and rent**

- (1) This section applies for the purposes of this Chapter.
- (2) “Lease” includes—
  - (a) an agreement for a lease, and
  - (b) any tenancy.
- (3) “Lease” does not include a mortgage.
- (4) A reference to a lessee or lessor—
  - (a) is to be read in accordance with subsections (2) and (3), and
  - (b) includes a reference to the successors in title of a lessee or lessor.
- (5) “Rent” includes a payment by a tenant for work to maintain or repair leased premises which the lease does not require the tenant to carry out; and “premises” here includes land.
- (6) In the application of this section to Scotland “mortgage” means—
  - (a) a standard security, or

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- (b) a heritable security, as defined in the Conveyancing (Scotland) Act 1924, but including a security constituted by ex facie absolute disposition or assignation.]

**Modifications etc. (not altering text)**

**C104** S. 681BM applied (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 9 para. 41\(4\)](#) (with Sch. 9 paras. 1-9, 22)

[<sup>F1204</sup>CHAPTER 3

LEASED TRADING ASSETS

**Textual Amendments**

**F1204**Pt. 12A Ch. 3 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 4 para. 4](#) (with Sch. 9 paras. 1-9, 22)

*Overview*

**681C Overview**

This Chapter provides that, in certain circumstances where a payment is made under a lease of a trading asset, income tax relief for the payment is restricted.

*Application of the Chapter*

**681CA Professions and vocations**

In this Chapter a reference to a trade includes a reference to a profession or vocation.

**681CB Leased trading assets**

- (1) Section 681CC has effect if—
  - (a) condition A is met, and
  - (b) condition B or C is met.
- (2) Condition A is that—
  - (a) a payment is made by a person under a lease of a relevant asset, and
  - (b) a deduction is allowed for the payment in calculating the profits of a trade for income tax purposes.
- (3) Condition B is that—
  - (a) at a time before the lease's creation the asset was used for the purposes of the trade, and
  - (b) when it was so used it was owned by the person then carrying on the trade.

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- (4) Condition C is that—
- (a) at a time before the lease's creation the asset was used for the purposes of another trade,
  - (b) when it was so used it was owned by the person then carrying on the other trade, and
  - (c) when it was so used, or later, that person was carrying on the trade mentioned in subsection (2).
- (5) The reference in subsection (2)(a) to a lease does not include a lease created on or before 14 April 1964.
- (6) In this section references to a person carrying on a trade are to the person carrying on the trade for the time being.

*Relief: restriction and carrying forward*

### **681CC Tax deduction not to exceed commercial rent**

- (1) The rules in subsection (3) apply to the calculation of the deduction by way of relevant income tax relief allowed in a relevant period—
- (a) for the non-excluded element of the payment within section 681CB(2), or
  - (b) if there are two or more such payments, for the non-excluded elements of those payments.
- (2) For the purposes of this section—
- (a) “relevant period” means—
    - (i) a period of account of the trade, or
    - (ii) if no accounts of the trade are drawn up for a period, the basis period of a tax year, and
  - (b) the non-excluded element of a payment is the element of the payment not excluded under section 681CD (long funding finance leases).
- (3) The rules are—
- Rule 1 — meaning of amount E* For any relevant period, amount E (which may be nil) is the expense or total expenses to be brought, in accordance with generally accepted accounting practice, into account in the period in respect of—
- (a) the non-excluded element of the payment, or
  - (b) the non-excluded elements of the payments.
- Rule 2 — calculations* For every relevant period—
- (a) calculate the total of amount E for the period and amount E for every previous relevant period ending on or after the date of the creation of the lease mentioned in section 681CB(2)(a),
  - (b) calculate the total of the deductions by way of relevant income tax relief for every previous relevant period ending on or after that date, and
  - (c) subtract the total at (b) from the total at (a) to give the cumulative unrelieved expenses for the period.
- Rule 3 — meaning of post-spread period* A relevant period is a post-spread period if for that relevant period, and every later relevant period, there are no payments within section 681CB(2).

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*Rule 4 — the deduction allowed in a relevant period* If a relevant period is not a post-spread period, the deduction allowed for the period is equal to the cumulative unrelieved expenses for the period, but is the commercial rent for the period if that is less (see section 681CE).

*Rule 5— relevant periods in which no deduction allowed* If a relevant period is a post-spread period, no deduction is allowed for the period.

### **681CD Long funding finance leases**

- (1) This section applies for the purposes of section 681CC.
- (2) A payment must be excluded so far as, in the case of the lessee, it is to be regarded in accordance with Chapter 6A of Part 2 of CAA 2001 as a payment under a lease which is a long funding finance lease for the purposes of that Part.

### **681CE Commercial rent**

- (1) Subsection (3) applies for the purpose of making a comparison under rule 4 of section 681CC(3).
- (2) In this section “the actual lease” means the lease mentioned in section 681CB(2)(a).
- (3) The commercial rent is the rent which might at the relevant time be expected to be paid under a lease of the asset if—
  - (a) the lease were for the rest of the asset's expected normal working life,
  - (b) the rent were payable at uniform intervals and at a uniform rate, and
  - (c) the rent gave a reasonable return for the asset's market value at the relevant time, taking account of the actual lease's terms and conditions.
- (4) The relevant time is the time when the actual lease was created.
- (5) An asset's expected normal working life is the period which might be expected, when it is first put into use, to pass before it is finally put out of use as being unfit for further use.
- (6) In applying subsection (5) it must be assumed that the asset will be used in the normal way, and to the normal extent, throughout the period.
- (7) If the asset is used at the same time partly for the purposes of the trade mentioned in section 681CB(2)(b) and partly for other purposes, the commercial rent as defined in subsection (3) is to be determined by reference to what would be paid for such partial use.

### *Interpretation*

### **681CF Lease**

- (1) This section applies for the purposes of this Chapter.
- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.
- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

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## 681CG Relevant asset

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.]

# [<sup>F1205</sup>CHAPTER 4

## LEASED ASSETS: CAPITAL SUMS

### Textual Amendments

**F1205**Pt. 12A Ch. 4 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 4 para. 5](#) (with [Sch. 9 paras. 1-9, 22](#))

### Overview

## 681D Overview

This Chapter provides that in certain circumstances where a payment is made under a lease of an asset, and a capital sum is obtained in respect of an interest in the asset, income tax is charged on an amount not greater than the capital sum.

### Application of the Chapter

## 681DA Application of the Chapter

This Chapter applies if—

- (a) condition A is met (see section 681DB), and
- (b) condition B, C, D or E is met (see section 681DC).

## 681DB Payment under lease

(1) Condition A is that—

- (a) a payment is made under a lease of a relevant asset, and
- (b) the payment is one for which a deduction by way of relevant tax relief is allowed.

(2) Condition A is not met if section 681CC (leased trading assets: tax deductions)—

- (a) applies to the payment, or
- (b) would apply to it but for its being excluded under section 681CD (long funding finance leases).

(3) Condition A is not met if section 865 of CTA 2010 (provision for corporation tax corresponding to section 681CC)—

- (a) applies to the payment, or
- (b) would apply to it but for its being excluded under section 866 of that Act (long funding finance leases).

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- (4) The reference in subsection (1)(a) to a lease does not include a lease created on or before 14 April 1964.

### **681DC Sum obtained**

- (1) Condition B is that the person making the payment—
- (a) obtains a capital sum in respect of the lessee's interest in the lease, and
  - (b) is within the charge to income tax.
- (2) Condition C is that an associate of the person making the payment—
- (a) obtains a capital sum by way of consideration in respect of the lessee's interest in the lease, and
  - (b) is within the charge to income tax.
- (3) Condition D is that—
- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
  - (b) the associate obtains a capital sum in respect of the interest, and
  - (c) the associate is within the charge to income tax.
- (4) Condition E is that—
- (a) the lessor's interest in the lease, or any other interest in the asset, belongs to an associate of the person making the payment,
  - (b) an associate of that associate obtains a capital sum by way of consideration in respect of the interest, and
  - (c) the associate obtaining the sum is within the charge to income tax.
- (5) Condition B, C, D or E may be met before, at or after the time when the payment is made.
- (6) Condition B or C is not met if—
- (a) the lease is a hire-purchase agreement for plant or machinery, and
  - (b) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.
- (7) Condition D or E is not met if—
- (a) the capital sum is obtained in respect of the lessee's interest in the lease,
  - (b) the lease is a hire-purchase agreement for plant or machinery, and
  - (c) the capital sum is required to be brought into account as the whole or part of the disposal value of the plant or machinery under section 68 of CAA 2001.

### *Charge to income tax*

### **681DD Charge to income tax**

- (1) The person obtaining the capital sum is charged to income tax, for the tax year in which the sum is obtained, on the amount given by subsection (2).
- (2) That amount is—
- (a) the amount of the payment for which a deduction by way of relevant tax relief is allowed, or



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- (b) the total amount of such payments (if more than one).
- (3) But subsections (1) and (2) have effect subject to—
  - (a) subsections (4) to (7), and
  - (b) section 681DE(3) (hire-purchase agreements).
- (4) The amount on which tax is charged under this section is not to exceed the capital sum obtained (but see section 681DE(4)).
- (5) Subsection (6) applies if—
  - (a) income tax is charged under this section in respect of a capital sum, and
  - (b) a payment or part of a payment is taken into account in deciding the amount on which the tax is charged.
- (6) The payment or part must be left out of account in deciding—
  - (a) whether income tax is to be charged under this section in respect of another capital sum, and
  - (b) the amount on which the tax is to be charged (if any is to be charged).
- (7) The order in which subsections (5) and (6) are applied is the order in which capital sums are obtained.
- (8) An amount on which income tax is charged under this section is treated for income tax purposes as an amount of income.

#### **681DE Hire-purchase agreements**

- (1) This section applies if—
  - (a) the lease is a hire-purchase agreement (as defined in section 998A), and
  - (b) the capital sum is obtained in respect of the lessee's interest in the lease (whether it is obtained by the person making the payment or by an associate).
- (2) Find the total of the following amounts—
  - (a) so much of any payment made under the lease by the person obtaining the capital sum as is not a payment for which a deduction by way of relevant tax relief is allowed, and
  - (b) if the lessee's interest was assigned to the person obtaining the capital sum, any capital payment made by that person as consideration for the assignment.
- (3) If the total of the amounts found under subsection (2) is equal to or greater than the capital sum, income tax is not charged under section 681DD in respect of the capital sum.
- (4) If the total of those amounts is less than the capital sum, in applying section 681DD(4) that total must be deducted from the capital sum.
- (5) If the capital sum is the consideration for part only of the lessee's interest in the lease—
  - (a) any amount found under subsection (2) (and still unallowed) must be reduced to a just and reasonable proportion of it, and
  - (b) in calculating that proportion account must be taken of the degree to which the payments mentioned in subsection (2) have contributed to the value of what is disposed of in return for the capital sum.
- (6) Subsection (7) applies if—

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- (a) more than one capital sum is (or is treated as) obtained by the same person in respect of the lessee's interest in the lease, and
  - (b) in arriving at a total under subsection (2) a payment is taken into account in respect of one of the capital sums.
- (7) So far as the payment is so taken into account it must not be taken into account in applying subsection (2) to another of the capital sums.
- (8) The order in which subsections (6) and (7) are applied is the order in which capital sums are obtained.
- (9) If the capital sum is obtained by the personal representatives of a deceased person, the reference in subsection (2)(a) to any payment made under the lease by the person obtaining the capital sum includes any payment made under the lease by the deceased.

#### **681DF Adjustments where sum obtained before payment made**

- (1) This section applies if a capital sum is obtained as mentioned in section 681DC and later a payment is made as mentioned in section 681DB.
- (2) Adjustments must be made if they are needed to give effect to a charge to income tax under section 681DD in respect of the capital sum.
- (3) An adjustment may be made within the period ending with the fifth anniversary of the 31 January following the tax year in which the payment is made.
- (4) Subsection (3) applies despite any time limit specified in the Income Tax Acts.

#### *Obtaining of sum*

#### **681DG Sum obtained in respect of interest**

A reference in this Chapter to a sum obtained in respect of an interest in an asset (whether the lessee's interest in a lease of the asset or the lessor's interest or any other interest) includes a reference to—

- (a) insurance money obtained in respect of the interest, and
- (b) sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions disposing of it.

#### **681DH Sum obtained in respect of lessee's interest**

- (1) This section applies to a reference in this Chapter to a sum obtained in respect of the lessee's interest in a lease of an asset.
- (2) The reference includes a reference to sums representing the consideration in money or money's worth obtained on any of the following occasions—
  - (a) a surrender of the interest to the lessor,
  - (b) an assignment of the lease, and
  - (c) the creation of a sublease or another interest out of the lease.
- (3) The reference also includes a reference to sums representing money or money's worth obtained in respect of the interest by a transaction or series of transactions under which

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the lessee's rights are merged in any way with the lessor's rights or with any other rights as respects the asset.

- (4) Subsection (3) applies so far as the money or money's worth is attributable to the lessee's rights under the lease.

### **681DI Disposal of interest to associate**

- (1) This section applies for the purposes of this Chapter if a person disposes of an interest in an asset to a person who is the first person's associate (and the interest may be the lessee's interest in a lease of the asset or the lessor's interest or any other interest).
- (2) The person disposing of the interest must be treated as obtaining in respect of it the greatest of—
- (a) the sum in fact obtained by the person,
  - (b) the value of the interest in the open market, and
  - (c) the value of the interest to the person to whom it is in effect transferred.
- (3) The disposal—
- (a) may be direct or indirect, and
  - (b) may be effected by a transaction or series of transactions described in section 681DG(b) or 681DH(3).

### *Apportionment*

### **681DJ Apportionment of payments made and of sums obtained**

- (1) This section applies for the purposes of this Chapter.
- (2) Subsection (3) applies if—
- (a) a payment is made,
  - (b) it is one for which a deduction by way of relevant tax relief is allowed, and
  - (c) it is made by persons carrying on a trade or profession in partnership.
- (3) The payment must be apportioned in a manner which is just and reasonable.
- (4) Subsection (5) applies if—
- (a) a sum is obtained in respect of an interest in an asset,
  - (b) the sum is obtained by persons carrying on a trade or profession in partnership, and
  - (c) the asset is and continues to be used for the purposes of the trade or profession.
- (5) The sum must be apportioned between the partners in the shares in which they are entitled to the profits of the trade or profession at the time the sum is obtained.
- (6) Subsection (7) applies if—
- (a) a sum is obtained in respect of an interest in an asset, and
  - (b) the sum is obtained by persons jointly entitled to the interest.
- (7) The sum must be apportioned according to their respective rights in the interest.
- (8) Subsections (6) and (7) are subject to subsections (4) and (5).

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### **681DK Manner of apportionment**

- (1) Subsections (2) and (3) apply if—
  - (a) a payment or sum is to be apportioned under section 681DJ or under section 880 of CTA 2010,
  - (b) at the time of the apportionment it appears that it is material to the liability to tax (whether income tax or corporation tax, and for whatever period) of two or more persons (in this section referred to collectively as “the set”),
  - (c) a question arises as to the manner in which the payment or sum is to be apportioned, and
  - (d) at the time of the apportionment, it appears that the apportionment is material to the income tax liability (for whatever period) of—
    - (i) a person, or some two or more persons, in the set, or
    - (ii) all the persons in the set.
- (2) For the purposes of income tax of the person or persons mentioned in subsection (1) (d), the question is to be determined in the same way as an appeal.
- (3) All the persons in the set are entitled to be a party to the proceedings.

### *Interpretation*

### **681DL Associates**

- (1) This section applies for the purposes of this Chapter.
- (2) Persons are associates if they are associated with each other.
- (3) The following are associated with each other—
  - (a) an individual and the individual's spouse or civil partner or relative,
  - (b) an individual and a spouse or civil partner of a relative of the individual,
  - (c) an individual and a relative of the individual's spouse or civil partner,
  - (d) an individual and a spouse or civil partner of a relative of the individual's spouse or civil partner.
- (4) The following are associated with each other—
  - (a) a person as trustee of a settlement and an individual who (in relation to the settlement) is a settlor,
  - (b) a person as trustee of a settlement and a person associated with an individual who (in relation to the settlement) is a settlor.
- (5) The following are associated with each other—
  - (a) a person and a body of persons of which the person has control,
  - (b) a person and a body of persons of which persons associated with the person have control,
  - (c) a person and a body of persons of which the person and persons associated with the person have control,
  - (d) two or more bodies of persons associated with the same person under paragraphs (a) to (c).
- (6) In relation to a disposal by joint owners, the joint owners and any person associated with any of them are associated with each other.

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- (7) For the purposes of this section—
- (a) a relative is a brother, sister, ancestor or lineal descendant,
  - (b) a body of persons includes a partnership, and
  - (c) “settlement” and “settlor” have the meanings given by section 620 of ITTOIA 2005.

### **681DM Capital sum**

For the purposes of this Chapter a capital sum is any sum of money, or any money's worth, except so far as it or any part of it—

- (a) is to be treated for income tax purposes as a receipt to be taken into account in calculating the profits or losses of a trade, profession or vocation, or
- (b) is (apart from this Chapter) chargeable to income tax under or by virtue of any provision to which section 1016 applies.

### **681DN Lease**

- (1) This section applies for the purposes of this Chapter.
- (2) A lease is (in relation to an asset) an agreement or arrangement under which payments are made for the use of or otherwise in respect of the asset.
- (3) In particular it includes an agreement or arrangement under which the payments (or any of them) represent instalments of a purchase price or payments towards it.

### **681DO Relevant asset**

For the purposes of this Chapter a relevant asset is any description of property or rights other than land or an interest in land.

### **681DP Relevant tax relief**

For the purposes of this Chapter each of the following is a deduction by way of relevant tax relief—

- (a) a deduction in calculating profits or losses of a trade for corporation tax purposes,
- (b) a deduction in calculating any loss for which relief is given under section 91 of CTA 2010 (losses from miscellaneous transactions), or in calculating profits or gains chargeable to corporation tax under or by virtue of any provision to which section 1173 of CTA 2010 applies (miscellaneous charges),
- <sup>[F1206]</sup>(c) a deduction of an amount which for the purposes of section 73 of FA 2012 is adjusted BLAGAB management expenses of an insurance company for an accounting period,]
- (d) a deduction under section 1219 of CTA 2009 (expenses of management of a company's investment business),
- (e) a deduction in calculating profits or losses of a trade, profession or vocation for income tax purposes,
- (f) a deduction in calculating any loss for which relief is allowed under section 152 (losses from miscellaneous transactions), or in calculating profits

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or other income or gains chargeable to income tax under or by virtue of any provision to which section 1016 applies, and

- (g) a deduction from earnings allowed under section 336 of ITEPA 2003 (expenses) or allowed in calculating losses in an employment for income tax purposes.]

**Textual Amendments**

**F1206S.** 681DP(c) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 16 para. 134](#)

**PART 13**

TAX AVOIDANCE

**CHAPTER 1**

TRANSACTIONS IN SECURITIES

*<sup>F1207</sup>Introduction*

**Textual Amendments**

**F1207Ss.** 682-687 and cross-headings substituted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) for s. 682-694 and cross-headings by [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 2](#)

**682 Overview of Chapter**

This Chapter makes provision for counteracting income tax advantages from transactions in securities.

**683 Provisions of Chapter**

- (1) Sections 684 to 687 specify when a person is liable to counteraction of income tax advantages from transactions in securities.
- (2) Sections 695 to 700 make provision about the procedure for counteraction of such income tax advantages.
- (3) Sections 701 and 702 make provision for a clearance procedure.
- (4) Section 705 makes provision for appeals against counteraction notices.
- (5) Sections 712 deals with cases in which a person liable to counteraction dies.
- (6) Section 713 contains interpretative provisions.

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### *Person liable to counteraction of income tax advantages*

#### **684 Person liable to counteraction of income tax advantage**

- (1) This section applies to a person [<sup>F1208</sup>(“the party”)] where—
- (a) the person is a party to a transaction in securities or two or more transactions in securities (see subsection (2)),
  - (b) the circumstances are covered by section 685 and not excluded by section 686,
  - (c) the main purpose, or one of the main purposes, of <sup>F1209</sup>... the transaction in securities, or any of the transactions in securities, is to obtain an income tax advantage, and
  - (d) [<sup>F1210</sup>the party or any other person] obtains an income tax advantage in consequence of the transaction or the combined effect of the transactions.
- (2) In this Chapter “transaction in securities” means a transaction, of whatever description, relating to securities, and includes in particular—
- (a) the purchase, sale or exchange of securities,
  - (b) issuing or securing the issue of new securities,
  - (c) applying or subscribing for new securities, <sup>F1211</sup>...
  - (d) altering or securing the alteration of the rights attached to securities.
  - [<sup>F1212</sup>(e) a repayment of share capital or share premium, and
  - (f) a distribution in respect of securities in a winding up.]
- (3) Section 687 defines “income tax advantage”.
- [<sup>F1213</sup>(4) This section is subject to no-counteraction notices issued under section 698A.]

#### **Textual Amendments**

**F1208** Words in s. 684(1) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(2\)\(a\)](#) (with s. 33(9)(10))

**F1209** Words in s. 684(1)(c) omitted (with effect in accordance with s. 33(8) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 33\(2\)\(b\)](#) (with s. 33(9)(10))

**F1210** Words in s. 684(1)(d) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(2\)\(c\)](#) (with s. 33(9)(10))

**F1211** Word in s. 684(2)(c) omitted (with effect in accordance with s. 33(8) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 33\(3\)\(a\)](#) (with s. 33(9)(10))

**F1212** S. 684(2)(e)(f) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(3\)\(b\)](#) (with s. 33(9)(10))

**F1213** S. 684(4) substituted (with effect in accordance with s. 34(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 34\(7\)](#)

#### **Modifications etc. (not altering text)**

**C105** S. 684 disapplied (24.2.2022) by [Finance Act 2022 \(c. 3\), Sch. 2 para. 49](#)

#### **685 Receipt of consideration in connection with distribution by or assets of close company**

- (1) The circumstances covered by this section are circumstances where condition A or condition B is met.

*Status: Point in time view as at 22/02/2024.*

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- (2) Condition A is that, as a result of the transaction in securities or any one or more of the transactions in securities, [<sup>F1214</sup>a relevant person] receives relevant consideration in connection with—
- (a) the distribution, transfer or realisation of assets of a close company,
  - (b) the application of assets of a close company in discharge of liabilities, or
  - (c) the direct or indirect transfer of assets of one close company to another close company,
- and [<sup>F1215</sup>the relevant person] does not pay or bear income tax on the consideration (apart from this Chapter).
- (3) Condition B is that—
- (a) [<sup>F1216</sup>a relevant person] receives relevant consideration in connection with the transaction in securities or any one or more of the transactions in securities,
  - (b) two or more close companies are concerned in the transaction or transactions in securities concerned, and
  - (c) [<sup>F1217</sup>the relevant person] does not pay or bear income tax on the consideration (apart from this Chapter).
- [<sup>F1218</sup>(3A) In subsections (2) and (3) “relevant person” means—
- (a) the party, or
  - (b) any person other than the party in relation to whom the condition in section 684(1)(d) is met.]
- (4) In a case within subsection (2)(a) or (b) “relevant consideration” means consideration which—
- (a) is or represents the value of—
    - (i) assets which are available for distribution by way of dividend by the company, or
    - (ii) assets which would have been so available apart from anything done by the company,
  - (b) is received in respect of future receipts of the company, or
  - (c) is or represents the value of trading stock of the company.
- (5) In a case within subsection (2)(c) or (3) “relevant consideration” means consideration which consists of any share capital or any security issued by a close company and which is or represents the value of assets which—
- (a) are available for distribution by way of dividend by the company,
  - (b) would have been so available apart from anything done by the company, or
  - (c) are trading stock of the company.
- [<sup>F1219</sup>(6) . . . . .
- (7) So far as subsection (2)(c) or (3) relates to share capital other than redeemable share capital, it applies only so far as the share capital is repaid (on a winding up or otherwise); and for this purpose any distribution made in respect of any shares on a winding up or dissolution of the company is to be treated as a repayment of share capital.
- [<sup>F1220</sup>(7A) The references in subsection (4)(a)(i) and (ii) to assets do not include assets shown to represent return of sums paid by subscribers on the issue of securities merely because the law of the country in which the company is incorporated allows assets of that description to be available for distribution by way of dividend.



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- (7B) The references in subsections (4)(a)(i) and (5)(a) to assets which are available for distribution by way of dividend by the company include assets which are available for distribution to the company by way of dividend by any other company it controls.]
- (8) References in this section to the receipt of consideration include references to the receipt of any money or money's worth.
- (9) In this section—  
“security” includes securities not creating or evidencing a charge on assets;  
“share” includes stock and any other interest of a member in a company.

#### Textual Amendments

- F1214** Words in s. 685(2) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(a\)\(i\)](#) (with s. 33(9)(10))
- F1215** Words in s. 685(2) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(a\)\(ii\)](#) (with s. 33(9)(10))
- F1216** Words in s. 685(3)(a) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(b\)\(i\)](#) (with s. 33(9)(10))
- F1217** Words in s. 685(3)(c) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(b\)\(ii\)](#) (with s. 33(9)(10))
- F1218** S. 685(3A) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(c\)](#) (with s. 33(9)(10))
- F1219** S. 685(6) omitted (with effect in accordance with s. 33(8) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 33\(4\)\(d\)](#) (with s. 33(9)(10))
- F1220** S. 685(7A)(7B) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(4\)\(e\)](#) (with s. 33(9)(10))

#### 686 Excluded circumstances: fundamental change of ownership

- (1) Circumstances are excluded by this section if—
- immediately before the transaction in securities (or the first of the transactions in securities) [<sup>F1221</sup>the party] holds shares or an interest in shares in the close company, and
  - there is a fundamental change of ownership of the close company.
- [<sup>F1222</sup>(2) There is a fundamental change of ownership of the close company if, as a result of the transaction or transactions in securities, the condition in subsection (3) is met.
- (3) The condition in this subsection is that the original shareholder or original shareholders taken together with any associate or associates—
- do not directly or indirectly hold more than 25% of the ordinary share capital of the close company,
  - do not directly or indirectly hold shares in the close company carrying an entitlement to more than 25% of the distributions which may be made by the close company, and
  - do not directly or indirectly hold shares in the close company carrying more than 25% of the total voting rights in the close company.
- (4) In this section “original shareholder” means a person who, immediately before the transaction in securities (or the first of the transactions in securities), held any ordinary share capital of the close company.

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- (5) For the purposes of this section, shares of or share capital in the close company which are held by a person controlled by an original shareholder, or by two or more original shareholders taken together, count as shares or share capital held by that original shareholder or those original shareholders.]

#### Textual Amendments

**F1221** Words in s. 686(1)(a) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(5\)\(a\)](#) (with s. 33(9)(10))

**F1222** S. 686(2)-(5) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(5\)\(b\)](#) (with s. 33(9)(10))

### 687 Income tax advantage

- (1) For the purposes of this Chapter [<sup>F1223</sup> a person] obtains an income tax advantage if—
- (a) the amount of any income tax which would be payable by the person in respect of the relevant consideration if it constituted a <sup>F1224</sup>... distribution exceeds the amount of any capital gains tax payable in respect of it, or
  - (b) income tax would be payable by the person in respect of the relevant consideration if it constituted a <sup>F1224</sup>... distribution and no capital gains tax is payable in respect of it.
- (2) So much of the relevant consideration as exceeds the maximum amount that could in any circumstances have been paid to the person [<sup>F1225</sup> or an associate of the person] by way of a <sup>F1224</sup>... distribution at the time when [<sup>F1226</sup> Condition A or B in section 685 is met] is to be left out of account for the purposes of subsection (1).
- (3) The amount of the income tax advantage is the amount of the excess or (if no capital gains tax is payable) the amount of the income tax which would be payable.
- (4) In this section [<sup>F1227</sup> —
- (a) “distribution” does not include a distribution which is a distribution for the purposes of the Corporation Tax Acts only because it falls within paragraph C or D in section 1000(1) of CTA 2010 (redeemable share capital or security issued as bonus in respect of shares in, or securities of, the company), and
  - (b) “relevant consideration” has the same meaning as in section 685.]

#### Textual Amendments

**F1223** Words in s. 687(1) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(6\)\(a\)](#) (with s. 33(9)(10))

**F1224** Word in s. 687 omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(10\)\(a\)](#)

**F1225** Words in s. 687(2) inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(6\)\(b\)\(i\)](#) (with s. 33(9)(10))

**F1226** Words in s. 687(2) substituted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 33\(6\)\(b\)\(ii\)](#) (with s. 33(9)(10))

**F1227** Words in s. 687(4) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(10\)\(b\)](#)

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**F1207 688 Receipt of consideration representing company's assets, future receipts or trading stock (circumstance C)**

.....

**F1207 689 Receipt of consideration in connection with relevant company distribution (circumstance D)**

.....

**F1207 690 Receipt of assets of relevant company (circumstance E)**

.....

**F1207 691 Meaning of “relevant company” in sections 689 and 690**

.....

**F1207 692 Abnormal dividends: general**

.....

**F1207 693 Abnormal dividends: the excessive return condition**

.....

**F1207 694 Abnormal dividends: the excessive accrual condition**

.....

*Procedure for counteraction of income tax advantages*

**[<sup>F1228</sup>695] Notice of enquiry**

- (1) An officer of Revenue and Customs may enquire into a transaction or transactions if—
  - (a) the officer has reason to believe that section 684 (person liable to counteraction of income tax advantage) may apply to a person (“the taxpayer”) in respect of the transaction or transactions, and
  - (b) the officer notifies the taxpayer of his intention to do so.
- (2) The notification may be given at any time not more than 6 years after the end of the tax year to which the income tax advantage in question relates.]

**Textual Amendments**

**F1228S.** 695 substituted (with effect in accordance with s. 34(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 34\(2\)](#)

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## <sup>F1229</sup>696 Opposed notifications: statutory declarations

.....

### Textual Amendments

**F1229**Ss. 696, 697 omitted (with effect in accordance with s. 34(8)(9) of the amending Act) by virtue of Finance Act 2016 (c. 24), s. 34(3)

## <sup>F1229</sup>697 Opposed notifications: determinations by tribunal

.....

### Textual Amendments

**F1229**Ss. 696, 697 omitted (with effect in accordance with s. 34(8)(9) of the amending Act) by virtue of Finance Act 2016 (c. 24), s. 34(3)

## 698 Counteraction notices

[<sup>F1230</sup>(1) If on an enquiry under section 695 an officer of Revenue and Customs determines that section 684 applies to the taxpayer, the income tax advantage in question is to be counteracted by adjustments, unless the officer is of the opinion that no counteraction is required.]

(2) The adjustments required to be made to counteract the income tax advantage and the basis on which they are to be made are to be specified in a notice served on the person by an officer of Revenue and Customs.

(3) In this Chapter such a notice is referred to as a “counteraction notice”.

(4) Any of the following adjustments may be specified—

- (a) an assessment,
- (b) the nullifying of a right to repayment,
- (c) the requiring of the return of a repayment already made, or
- (d) the calculation or recalculation of profits or gains or liability to income tax.

[<sup>F1231</sup>(5) An assessment may be made in accordance with a counteraction notice at any time (without regard to any time limit on making the assessment that would otherwise apply).]

(6) This section is subject to—

<sup>F1232</sup>  
...

section 700 (timing of assessments <sup>F1233</sup> ...), and

section 702(2) (effect of clearance notification under section 701).

(7) But no other provision in the Income Tax Acts is to be read as limiting the powers conferred by this section.

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#### Textual Amendments

**F1230S.** 698(1) substituted (with effect in accordance with s. 34(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 34\(4\)](#)

**F1231S.** 698(5) substituted (with effect in accordance with s. 34(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 34\(5\)](#)

**F1232** Words in s. 698(6) omitted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\), Sch. 12 para. 3\(a\)](#)

**F1233** Words in s. 698(6) omitted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\), Sch. 12 para. 3\(b\)](#)

#### [<sup>F1234</sup>**698A** **No-counteraction notices**

- (1) If on an enquiry under section 695 an officer of Revenue and Customs is of the opinion that no counteraction is required, the officer must serve notice on the person (a “no-counteraction notice”) stating that no counteraction is required and why.
- (2) The taxpayer may apply to the tribunal for a direction requiring an officer of Revenue and Customs to issue one of the following within a specified period—
  - (a) a counteraction notice;
  - (b) a no-counteraction notice.
- (3) Any such application is to be subject to the relevant provisions of Part 5 of TMA 1970 (see, in particular, section 48(2)(b) of that Act).
- (4) The tribunal must give the direction applied for unless satisfied that there are reasonable grounds for not serving either a counteraction notice or a no-counteraction notice within a specified period.]

#### Textual Amendments

**F1234S.** 698A inserted (with effect in accordance with s. 34(8)(9) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 34\(6\)](#)

#### <sup>F1235</sup>**699** **Limit on amount assessed in section 689 and 690 cases**

.....

#### Textual Amendments

**F1235S.** 699 omitted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\), Sch. 12 para. 4](#)

#### **700** **Timing of assessments** <sup>F1236</sup> ...

- (1) This section applies if section 684 (person liable to counteraction of income tax advantage) applies to a person because the person is in a position to obtain or has obtained an income tax advantage by falling within the circumstances mentioned in section [<sup>F1237</sup>685(2)(c) or (3)] when share capital is repaid.

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- (2) An assessment to income tax made in accordance with a counteraction notice must be an assessment for the tax year in which the repayment occurs.
- (3) The references in this section to the repayment of share capital include references to any distribution made in respect of any shares in a winding up or dissolution of the company.
- (4) In subsection (3) “shares” includes stock and any other interest of a member in a company.

#### Textual Amendments

**F1236** Words in s. 700 heading omitted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 5\(b\)](#)

**F1237** Words in s. 700(1) substituted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 5\(a\)](#)

*Clearance procedure* <sup>F1238</sup> ...

#### Textual Amendments

**F1238** Words in s. 701 heading omitted (retrospective to 1.4.2009) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 12 paras. 6, 15\(2\)](#)

### 701 Application for clearance of transactions

- (1) A person may provide the Commissioners for Her Majesty's Revenue and Customs with particulars of a transaction or transactions effected or to be effected by the person in order to obtain a notification about them under this section.
- (2) If the Commissioners consider that the particulars, or any further information provided under this subsection, are insufficient for the purposes of this section, they must notify the person what further information they require for those purposes within 30 days of receiving the particulars or further information.
- (3) If any such further information is not provided within 30 days from the notification, or such further time as the Commissioners allow, they need not proceed further under this section.
- (4) The Commissioners must notify the person whether they are satisfied that the transaction or transactions, as described in the particulars, were or will be such that no counteraction notice ought to be served about the transaction or transactions.
- (5) The notification must be given within 30 days of receipt of the particulars, or, if subsection (2) applies, of all further information required.

### 702 Effect of clearance notification under section 701

- (1) This section applies if the Commissioners for Her Majesty's Revenue and Customs notify a person under section 701 that they are satisfied that a transaction or transactions, as described in the particulars provided under that section, were or will

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be such that no counteraction notice ought to be served about the transaction or transactions.

- (2) No such notice may be served on the person in respect of the transaction or transactions.
- (3) But the notification does not prevent such a notice being served on the person in respect of transactions including not only the ones to which the notification relates but also others.
- (4) The notification is void if the particulars and any further information given under section 701 about the transaction or transactions do not fully and accurately disclose all facts and considerations which are material for the purposes of that section.

<sup>F1239</sup>**703 Power to obtain information**

.....

**Textual Amendments**

**F1239S.** 703 omitted (13.8.2009) by virtue of [The Finance Act 2009, Schedule 47 \(Consequential Amendments\) Order 2009 \(S.I. 2009/2035\)](#), art. 1, **Sch. para. 49**

*F1240* ...

**Textual Amendments**

**F1240S.** 704 and cross-heading omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 458**

<sup>F1240</sup>**704 The tribunal**

.....

*Appeals*

**705 Appeals against counteraction notices**

- (1) A person on whom a counteraction notice has been served may appeal <sup>F1241</sup>... on the grounds that—
  - (a) section 684 (person liable to counteraction of income tax advantage) does not apply to the person in respect of the transaction or transactions in question, or
  - (b) the adjustments directed to be made are inappropriate.
- (2) Such an appeal may be made only by giving notice to the Commissioners for Her Majesty's Revenue and Customs within 30 days of the service of the counteraction notice.
- (3) On an appeal under this section [<sup>F1242</sup>that is notified to the tribunal, the tribunal] may—
  - (a) affirm, vary or cancel the counteraction notice, or
  - (b) affirm, vary or quash an assessment made in accordance with the notice.

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- (4) But the bringing of an appeal under this section <sup>F1243</sup>... does not affect—
  - (a) the validity of the counteraction notice, or
  - (b) the validity of any other thing done under or in accordance with section 698 (counteraction notices),
 pending the determination of the proceedings.

**Textual Amendments**

- F1241** Words in s. 705(1) omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 459(2)**
- F1242** Words in s. 705(3) substituted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 459(3)**
- F1243** Words in s. 705(4) omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 459(4)**

<sup>F1244</sup>**706 Rehearing by tribunal of appeal against counteraction notice**

.....

**Textual Amendments**

- F1244** Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

<sup>F1244</sup>**707 Statement of case by tribunal for opinion of High Court or Court of Session**

.....

**Textual Amendments**

- F1244** Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

<sup>F1244</sup>**708 Cases before High Court or Court of Session**

.....

**Textual Amendments**

- F1244** Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

<sup>F1244</sup>**709 Effect of appeals against tribunal's determination under section 706**

.....



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**Textual Amendments**

F1244Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

**F1244 710 Appeals from High Court or Court of Session**

.....

**Textual Amendments**

F1244Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

**F1244 711 Proceedings in Northern Ireland**

.....

**Textual Amendments**

F1244Ss. 706-711 omitted (1.4.2009) by virtue of [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 460**

*Supplementary*

**712 Application of Chapter where individual within section 684 dies**

- (1) This section applies if an individual to whom section 684 (person liable to counteraction of income tax advantage) applies (or may apply) has died.
- (2) Any notice or notification to the individual under this Chapter may be given to the individual's personal representatives.
- (3) The provisions of this Chapter relating to any such notice or notification, to the making of a statutory declaration, to rights of appeal and to the giving of information must be read accordingly.

**713 Interpretation of Chapter**

[<sup>F1245</sup>(1)] In this Chapter—

[<sup>F1246</sup>“associate” is to be construed in accordance with section 681DL, but as if subsection (4) of that section also included, as persons associated with each other, a person as trustee of a settlement and an individual, where one or more beneficiaries of the settlement are connected or associated with the individual;]

[<sup>F1247</sup>“close company” includes a company that would be a close company if it were resident in the United Kingdom,]

“company” includes any body corporate,

“dividends” includes references to other <sup>F1248</sup>... distributions and to interest,

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“securities”—

- (a) includes shares and stock, and
  - (b) in relation to a company not limited by shares (whether or not it has a share capital) also includes a reference to the interest of a member of the company as such, whatever the form of that interest,
- “trading stock” has the meaning given by section 174 of ITTOIA 2005, and
- F1249**  
...

[<sup>F1250</sup>(2) In the definition of “dividends” given by subsection (1), “other distributions” does not include a distribution which is a distribution for the purposes of the Corporation Tax Acts only because it falls within paragraph C or D in section 1000(1) (redeemable share capital or security issued as bonus in respect of shares in, or securities of, the company).]

#### Textual Amendments

- F1245S.** 713 renumbered as s. 713(1) (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(11\)\(a\)](#)
- F1246** Words in s. 713 inserted (with effect in accordance with s. 33(8) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 33\(7\)](#) (with s. 33(9)(10))
- F1247** Words in s. 713 inserted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 7\(2\)](#)
- F1248** Word in s. 713(1) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(11\)\(b\)](#)
- F1249** Words in s. 713 omitted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) by virtue of [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 7\(3\)](#)
- F1250S.** 713(2) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(11\)\(c\)](#)

## CHAPTER 2

### TRANSFER OF ASSETS ABROAD

#### Modifications etc. (not altering text)

- C106** Pt. 13 Ch. 2 applied by 1988 c. 1, s. 762ZA (as inserted (21.7.2008 with effect in accordance with Sch. 7 para. 98 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 94](#))
- C107** Pt. 13 Ch. 2 applied (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), [21](#)

#### *Introduction*

### 714 Overview of Chapter

- (1) This Chapter imposes a charge to income tax on—
- (a) individuals to whom income is treated as arising under section 721 (individuals with power to enjoy income as a result of relevant transactions),
  - (b) individuals to whom income is treated as arising under section 728 (individuals receiving capital sums as a result of relevant transactions), and

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- (c) individuals to whom income is treated as arising under section 732 (non-transferors receiving a benefit as a result of relevant transactions).
- (2) The charges apply only if a relevant transfer occurs, and they operate by reference to income of a person abroad that is connected with the transfer or another relevant transaction.
- (3) For the meaning of “relevant transaction”, “relevant transfer” and “person abroad”, see sections 715, 716 and 718 respectively.
- (4) In this Chapter references to individuals include their spouses or civil partners.

### **715 Meaning of “relevant transaction”**

- (1) A transaction is a relevant transaction for the purposes of this Chapter if it is—
  - (a) a relevant transfer, or
  - (b) an associated operation.
- (2) For the meaning of “relevant transfer” and “associated operation”, see sections 716 and 719 respectively.

### **716 Meaning of “relevant transfer” and “transfer”**

- (1) A transfer is a relevant transfer for the purposes of this Chapter if—
  - (a) it is a transfer of assets, and
  - (b) as a result of—
    - (i) the transfer,
    - (ii) one or more associated operations, or
    - (iii) the transfer and one or more associated operations,income becomes payable to a person abroad.
- (2) In this Chapter “transfer”, in relation to rights, includes the creation of the rights.
- (3) For the meaning of “assets”, see section 717.

### **717 Meaning of “assets” etc**

In this Chapter—

- (a) “assets” includes property or rights of any kind, and
- (b) references to assets representing any assets, income or accumulations of income include references to—
  - (i) shares in or obligations of any company to which the assets, income or accumulations are or have been transferred, or
  - (ii) obligations of any other person to whom the assets, income or accumulations are or have been transferred.

### **718 Meaning of “person abroad” etc**

[<sup>F1251</sup>(1) In this Chapter “person abroad” means—

- (a) a person who is resident outside the United Kingdom, or
- (b) an individual who is domiciled outside the United Kingdom.]

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(2) For the purposes of this Chapter, the following persons are treated as resident outside the United Kingdom—

- <sup>F1252</sup>(a) .....
- (b) the person treated as [<sup>F1253</sup>non-UK resident] under section 475(3) (trustees of settlements), and
- (c) persons treated as non-UK resident under section 834(4) (personal representatives).

[<sup>F1254</sup>(3) Section 835BA (deemed domicile) applies for the purposes of subsection (1)(b).]

#### Textual Amendments

**F1251S.** 718(1) substituted (with effect in accordance with Sch. 10 para. 9(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 2(2)**

**F1252S.** 718(2)(a) omitted (with effect in accordance with Sch. 10 para. 9(1) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 2(3)**

**F1253** Words in s. 718(2)(b) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 59** (with [Sch. 46 para. 73](#))

**F1254S.** 718(3) inserted (with effect in accordance with Sch. 8 para. 13(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 13(1)**

## 719 Meaning of “associated operation”

- (1) In this Chapter “associated operation”, in relation to a transfer of assets, means an operation of any kind effected by any person in relation to—
- (a) any of the assets transferred,
  - (b) any assets directly or indirectly representing any of the assets transferred,
  - (c) the income arising from any assets within paragraph (a) or (b), or
  - (d) any assets directly or indirectly representing the accumulations of income arising from any assets within paragraph (a) or (b).
- (2) It does not matter whether the operation is effected before, after or at the same time as the transfer.

*Charge where power to enjoy income*

## 720 Charge to tax on income treated as arising under section 721

- (1) The charge under this section applies for the purpose of preventing the avoiding of liability to income tax by individuals who are <sup>F1255</sup>... UK resident by means of relevant transfers.
- (2) Income tax is charged on income treated as arising to such an individual under section 721 (individuals with power to enjoy income as a result of relevant transactions).
- (3) Tax is charged under this section on the amount of income treated as arising in the tax year.

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- (4) But see section 724 (special rules where benefit provided out of income of person abroad) [<sup>F1256</sup>and section 726 (non-UK domiciled individuals to whom remittance basis applies)].
- (5) The person liable for any tax charged under this section is the individual to whom the income is treated as arising.
- (6) For rules about the reduction in the amount charged in some circumstances and the availability of deductions and reliefs, see—
  - section 725 (reduction in amount charged where controlled foreign company involved), and
  - section 746 (deductions and reliefs where individual charged under this section or section 727).
- (7) For exemptions from the charge under this section, see sections 736 to [<sup>F1257</sup>742A] (exemptions where no tax avoidance purpose or genuine commercial transaction [<sup>F1258</sup>etc]).

#### Textual Amendments

**F1255** Word in s. 720(1) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 60](#) (with [Sch. 46 para. 73](#))

**F1256** Words in s. 720(4) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 164](#)

**F1257** Word in s. 720(7) substituted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 3\(a\)](#)

**F1258** Word in s. 720(7) inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 3\(b\)](#)

## 721 Individuals with power to enjoy income as a result of relevant transactions

- (1) Income is treated as arising to such an individual as is mentioned in section 720(1) in a tax year for income tax purposes if [<sup>F1259</sup>conditions A to C] are met.
- (2) Condition A is that the individual has power in the tax year to enjoy income of a person abroad as a result of—
  - (a) a relevant transfer,
  - (b) one or more associated operations, or
  - (c) a relevant transfer and one or more associated operations.
- (3) Condition B is that the income [<sup>F1260</sup>of the person abroad] would be chargeable to income tax if it were the individual's and received by the individual in the United Kingdom.

[<sup>F1261</sup>(3A) Condition C is that the individual is UK resident for the tax year.]

[<sup>F1262</sup>[<sup>F1263</sup>(3B) The amount of the income treated as arising under subsection (1) is (subject to sections 724 and 725) given by the following rules—

*Rule 1* The amount is equal to the amount of the income of the person abroad if the individual—

- (a) is domiciled in the United Kingdom at any time in the tax year, or

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- (b) is at any time in the tax year regarded for the purposes of section 718(1) (b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.

*Rule 2* In any other case, the amount is equal to so much of the income of the person abroad as is not protected foreign-source income (see section 721A).

(3BA) In a case in which rule 2 of subsection (3B) applies, so much of the income of the person abroad as is protected foreign-source income for the purposes of that rule counts as “protected income” for the purposes of section 733A(1)(b)(i).]

(3C) Subsection (1) does not apply if—

- (a) the individual is liable for income tax charged on the income of the person abroad by virtue of a charge not contained in this Chapter, and  
(b) all that income tax has been paid.]

(4) For the purposes of subsection (2), it does not matter whether the income [<sup>F1264</sup>of the person abroad] may be enjoyed immediately or only later.

(5) It does not matter for the purposes of this section—

<sup>F1265</sup>(a) . . . . .

[<sup>F1266</sup>(b) whether the individual is UK resident for the tax year in which the relevant transfer is made (if different from the tax year mentioned in subsection (1)), or]

(c) whether the avoiding of liability to income tax is a purpose for which the transfer is effected.

(6) For the circumstances in which an individual is treated as having the power to enjoy income for the purposes of this section, see section 722.

#### Textual Amendments

**F1259** Words in s. 721(1) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 61\(2\)](#) (with [Sch. 46 para. 73](#))

**F1260** Words in s. 721(3) inserted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 10\(2\)](#)

**F1261** S. 721(3A) inserted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 61\(3\)](#) (with [Sch. 46 para. 73](#))

**F1262** S. 721(3B)(3BA) substituted for s. 721(3B) (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 28](#)

**F1263** S. 721(3B)(3C) inserted (with effect in accordance with Sch. 10 paras. 20, 21(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 10\(3\)](#)

**F1264** Words in s. 721(4) inserted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 10\(4\)](#)

**F1265** S. 721(5)(a) omitted (with effect in accordance with Sch. 10 paras. 20, 21(2) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 10\(5\)](#)

**F1266** S. 721(5)(b) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 61\(4\)](#) (with [Sch. 46 para. 73](#))

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## **[<sup>F1267</sup>721] Meaning of “protected foreign-source income” in section 721**

- (1) This section has effect for the purposes of rule 2 of section 721(3B) (cases where the individual is not UK domiciled and is not deemed domiciled by virtue of Condition A in section 835BA).
- (2) The income of the person abroad is “protected foreign-source income” so far as it is within subsection (3) or (4).
- (3) Income is within this subsection if—
  - (a) it would be relevant foreign income if it were the individual's,
  - (b) the person abroad is the trustees of a settlement,
  - (c) the trustees are non-UK resident for the tax year,
  - (d) when the settlement is created, the individual is—
    - (i) not domiciled in the United Kingdom, and
    - (ii) if the settlement is created on or after 6 April 2017, not deemed domiciled in the United Kingdom, and
  - (e) no property or income is provided directly or indirectly for the purposes of the settlement by the individual, or by the trustees of any other settlement of which the individual is a beneficiary or settlor, at a time in the period—
    - (i) beginning with the start of 6 April 2017 or, if later, the creation of the settlement, and
    - (ii) ending with the end of the tax year,when the individual is domiciled or deemed domiciled in the United Kingdom.
- (4) Income is within this subsection if—
  - (a) it would be relevant foreign income if it were the individual's,
  - (b) the person abroad is a company,
  - (c) the trustees of a settlement—
    - (i) are participators in the person abroad, or
    - (ii) are participators in the first in a chain of two or more companies where the last company in the chain is the person abroad and where each company in the chain (except the last) is a participator in the next company in the chain,
  - (d) the individual's power to enjoy the income results from the trustees being participators as mentioned in paragraph (c)(i) or (ii),
  - (e) the trustees are not UK resident for the tax year,
  - (f) when the settlement is created, the individual is—
    - (i) not domiciled in the United Kingdom, and
    - (ii) if the settlement is created on or after 6 April 2017, not deemed domiciled in the United Kingdom, and
  - (g) no property or income is provided directly or indirectly for the purposes of the settlement by the individual, or by the trustees of any other settlement of which the individual is a beneficiary or settlor, at a time in the period—
    - (i) beginning with the start of 6 April 2017 or, if later, the creation of the settlement, and
    - (ii) ending with the end of the tax year,when the individual is domiciled or deemed domiciled in the United Kingdom.

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- (5) For the purposes of subsections (3)(e) and (4)(g), the addition of value to property comprised in the settlement is to be treated as the direct provision of property for the purposes of the settlement.
- (6) Section 721B (tainting) contains further provision for the purposes of subsections (3)(e) and (4)(g).
- (7) In this section—
- “participator”, in relation to a company, has the meaning given by section 454 of CTA 2010;
- “deemed domiciled” means regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA of ITA 2007 having effect.

#### Textual Amendments

F1267Ss. 721A, 721B inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), [Sch. 8 para. 29](#)

### 721B Section 721A: tainting

- (1) This section applies for the purposes of subsections (3)(e) and (4)(g) of section 721A.
- (2) Ignore—
- (a) property or income provided under a transaction, other than a loan, where the transaction is entered into on arm's length terms,
  - (b) property or income provided, otherwise than under a loan, without any intention by the person providing it to confer a gratuitous benefit on any person,
  - (c) the principal of a loan which is made to the trustees of the settlement on arm's length terms,
  - (d) the payment of interest to the trustees of the settlement under a loan made by them on arm's length terms,
  - (e) repayment to the trustees of the settlement of the principal of a loan made by them,
  - (f) property or income provided in pursuance of a liability incurred by any person before 6 April 2017, and
  - (g) where the settlement's expenses relating to taxation and administration for a tax year exceed its income for that year, property or income provided towards meeting that excess if the value of any such property and income is not greater than the amount of—
    - (i) the excess, or
    - (ii) if greater, the amount by which such expenses exceed the amount of such expenses which may be paid out of the settlement's income.
- (3) Where—
- (a) a loan is made to the trustees of the settlement by the settlor or the trustees of a settlement connected with the settlor, and
  - (b) the loan is on arm's length terms, but
  - (c) a relevant event occurs,



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the principal of the loan is to be regarded as having been provided to the trustees at the time of that event (despite subsection (2)).

- (4) In subsection (3) “relevant event” means—
- (a) capitalisation of interest payable under the loan,
  - (b) any other failure to pay interest in accordance with the terms of the loan, or
  - (c) variation of the terms of the loan such that they cease to be arm's length terms.
- (5) Subsection (6) applies (subject to subsection (7)) where—
- (a) the settlor becomes deemed domiciled in the United Kingdom on or after 6 April 2017,
  - (b) before the date on which the settlor becomes deemed domiciled in the United Kingdom (“the deemed domicile date”), a loan has been made to the trustees of the settlement by—
    - (i) the settlor, or
    - (ii) the trustees of a settlement connected with the settlor,
  - (c) the loan is not entered into on arm's length terms, and
  - (d) any amount that is outstanding under the loan on the deemed domicile date (“the outstanding amount”) is payable or repayable on demand on or after that date.
- (6) Where this subsection applies, the outstanding amount is to be regarded as property directly provided on the deemed domicile date by the lender for the purposes of the settlement (despite subsection (2)).
- (7) But if the deemed domicile date is 6 April 2017, subsection (6) does not apply if—
- (a) the principal of the loan is repaid, and all interest payable under the loan is paid, before 6 April 2018, or
  - (b) the loan becomes a loan on arm's length terms before 6 April 2018 and—
    - (i) before that date interest is paid to the lender in respect of the period beginning with 6 April 2017 and ending with 5 April 2018 as if those arm's length terms had been terms of the loan in relation to that period, and
    - (ii) interest continues to be payable from 6 April 2018 in accordance with those terms.
- (8) For the purposes of this section, a loan is on “arm's length terms”—
- (a) in the case of a loan made to the trustees of a settlement, only if interest at the official rate or more is payable at least annually under the loan;
  - (b) in the case of a loan made by the trustees of a settlement, only if any interest payable under the loan is payable at no more than the official rate.
- (9) For the purposes of this section—
- a settlement is “connected” with a person if the person is the settlor or a beneficiary of it;
  - “deemed domiciled” has the same meaning as in section 721A;
  - “official rate”, in relation to interest, means the rate of interest applicable from time to time under section 178 of FA 1989 for the purposes of Chapter 7 of Part 3 of ITEPA 2003.]

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### Textual Amendments

**F1267**Ss. 721A, 721B inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 8 para. 29**

## 722 When an individual has power to enjoy income of person abroad

- (1) For the purposes of section 721, an individual is treated as having power to enjoy income of a person abroad if any of the enjoyment conditions are met.
- (2) In subsection (1) “the enjoyment conditions” means conditions A to E as specified in section 723.
- (3) In determining whether an individual has power to enjoy income for the purposes of section 721, regard must be had to the substantial result and effect of all the relevant transactions.
- (4) In making that determination all benefits which may at any time accrue to the individual as a result of the transfer and any associated operations must be taken into account, irrespective of—
  - (a) the nature or form of the benefits, or
  - (b) whether the individual has legal or equitable rights in respect of the benefits.

## 723 The enjoyment conditions

- (1) Condition A is that the income is in fact so dealt with by any person as to be calculated at some time to enure for the benefit of the individual, whether in the form of income or not.
- (2) Condition B is that the receipt or accrual of the income operates to increase the value to the individual—
  - (a) of any assets the individual holds, or
  - (b) of any assets held for the individual's benefit.
- (3) Condition C is that the individual receives or is entitled to receive at any time any benefit provided or to be provided out of the income or related money.
- (4) In subsection (3) “related money” means money which is or will be available for the purpose of providing the benefit as a result of the effect or successive effects—
  - (a) on the income, and
  - (b) on any assets which directly or indirectly represent the income, of the associated operations referred to in section 721(2).
- (5) Condition D is that the individual may become entitled to the beneficial enjoyment of the income if one or more powers are exercised or successively exercised.
- (6) For the purposes of subsection (5) it does not matter—
  - (a) who may exercise the powers, or
  - (b) whether they are exercisable with or without the consent of another person.
- (7) Condition E is that the individual is able in any manner to control directly or indirectly the application of the income.

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## 724 Special rules where benefit provided out of income of person abroad

- (1) This section applies if an individual has power to enjoy income of a person abroad for the purposes of section 721 because of receiving any such benefit as is referred to in section 723(3) (benefit provided out of income of person abroad).
- (2) Despite anything in section 720, the individual is liable to income tax under that section for the tax year in which the benefit is received on [<sup>F1268</sup>an amount equal to] the whole of the amount or value of that benefit.
- (3) But subsection (2) does not apply so far as it is shown that the benefit derives directly or indirectly from income [<sup>F1269</sup>by reference to] which the individual has already been charged to income tax for that tax year or a previous tax year [<sup>F1270</sup>under this Chapter].

### Textual Amendments

**F1268** Words in s. 724(2) inserted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 10 para. 11(2)**

**F1269** Words in s. 724(3) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 10 para. 11(3)(a)**

**F1270** Words in s. 724(3) inserted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by Finance Act 2013 (c. 29), **Sch. 10 para. 11(3)(b)**

## 725 Reduction in amount charged where controlled foreign company involved

- [<sup>F1271</sup>(1) This section applies if—
- (a) under Part 9A of TIOPA 2010 (controlled foreign companies), the CFC charge is charged in relation to a CFC's accounting period,
  - [<sup>F1272</sup>(b) an amount of income is treated as arising to an individual under section 721 for a tax year, and
  - (c) the income mentioned in section 721(2) is or includes a sum forming part of the CFC's chargeable profits for that accounting period.]]
- (2) The amount of income so treated is reduced by—

$$S \times \frac{CA}{CP}$$

where—

S is the sum forming part of the [<sup>F1273</sup>CFC's] chargeable profits for that accounting period,

CA is the [<sup>F1274</sup>CFC's chargeable profits for that accounting period so far as apportioned to chargeable companies at step 3 in section 371BC(1) of TIOPA 2010], and

CP is the [<sup>F1273</sup>CFC's] chargeable profits for that accounting period.

- [<sup>F1275</sup>(2A) In a case in which section 724 applies, the reference to S in the formula in subsection (2) is to be read as a reference to X% of S.

*Status: Point in time view as at 22/02/2024.*

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(2B) “X%” is determined as follows—

$$100 \% \times A I$$

where—

A is the amount on which the individual is liable as determined under section 724(2), and

I is the amount of the income mentioned in section 721(2).]

[<sup>F1276</sup>(3) Terms used in this section which are defined in Part 9A of TIOPA 2010 have the same meaning as in that Part.]

#### Textual Amendments

**F1271S.** 725(1) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 20 para. 22\(2\)](#) (with [Sch. 20 para. 50\(9\)](#))

**F1272S.** 725(1)(b)(c) substituted for s. 725(1)(b) (with effect in accordance with [Sch. 10 para. 20](#) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 12\(2\)\(4\)](#) (with [Sch. 10 para. 12\(4\)\(5\)](#))

**F1273** Words in s. 725(2) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 20 para. 22\(3\)\(a\)](#) (with [Sch. 20 para. 50\(9\)](#))

**F1274** Words in s. 725(2) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 20 para. 22\(3\)\(b\)](#) (with [Sch. 20 para. 50\(9\)](#))

**F1275S.** 725(2A)(2B) inserted (with effect in accordance with [Sch. 10 para. 20](#) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 12\(3\)](#)

**F1276S.** 725(3) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 20 para. 22\(4\)](#) (with [Sch. 20 para. 50\(9\)](#))

#### [<sup>F1277</sup>726] Non-UK domiciled individuals to whom remittance basis applies

[<sup>F1278</sup>(1) This section applies in relation to income treated under section 721 as arising to an individual in a tax year (“the deemed income”) if section 809B, 809D or 809E (remittance basis) applies to the individual for that year.]

(2) For the purposes of this section the deemed income is “foreign” if (and to [<sup>F1279</sup>the corresponding extent] that) the income mentioned in section 721(2) would be relevant foreign income if it were the individual's.

(3) Treat the foreign deemed income as relevant foreign income of the individual.

(4) For the purposes of Chapter A1 of Part 14 (remittance basis) treat so much of the income within section 721(2) as would be relevant foreign income if it were the individual's as deriving from the foreign deemed income.

[<sup>F1280</sup>(5) In the application of section 832 of ITTOIA 2005 to the foreign deemed income, subsection (2) of that section has effect with the omission of paragraph (b).]

[<sup>F1281</sup>(6) In addition, where the tax year in which any foreign deemed income arises is earlier than the tax year 2017-18, section 832 of ITTOIA 2005 does not apply to the foreign deemed income so far as it—

- (a) is remitted to the United Kingdom in the tax year 2017-18 or a later tax year, and
- (b) is transitionally protected income.

*Status: Point in time view as at 22/02/2024.*

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(7) In subsection (6)—

“remitted to the United Kingdom” is to be read in accordance with Chapter A1 of Part 14, and

“transitionally protected income” means any foreign deemed income where the income mentioned in section 721(2)—

- (a) arises in a tax year earlier than the tax year 2017-18,
- (b) would be protected foreign-source income as defined by section 721A if section 721A—
  - (i) had effect for tax years earlier than the tax year 2017-18, and
  - (ii) so had effect with the omission of its subsections (3)(e), (4)(g), (5) and (6), and
- (c) has not prior to 6 April 2017 been distributed by the trustees of the settlement concerned.]]

#### Textual Amendments

**F1277S.** 726 substituted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 165](#)

**F1278S.** 726(1) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 19](#) (with [Sch. 46 para. 26](#))

**F1279** Words in s. 726(2) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 13](#)

**F1280S.** 726(5) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 91\(2\)](#)

**F1281S.** 726(6)(7) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 30](#)

### *Charge where capital sums received*

#### **727 Charge to tax on income treated as arising under section 728**

- (1) The charge under this section applies for the purpose of preventing the avoiding of liability to income tax by individuals who are <sup>F1282</sup>... UK resident by means of relevant transfers.
- (2) Income tax is charged on income treated as arising to such an individual under section 728 (individuals receiving capital sums as a result of relevant transactions).
- (3) Tax is charged under this section on the amount of income treated as arising in the tax year.

[<sup>F1283</sup>(3A) But see section 730 (non-UK domiciled individuals to whom remittance basis applies).]

- (4) The person liable for any tax charged under this section is the individual to whom the income is treated as arising.
- (5) For exemptions from the charge under this section, see sections 736 to [<sup>F1284</sup>742A] (exemptions where no tax avoidance purpose or genuine commercial transaction [<sup>F1285</sup>, etc]).

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- (6) For rules about the availability of deductions and reliefs where income is charged under this section, see section 746 (deductions and reliefs where individual charged under section 720 or this section).

#### Textual Amendments

- F1282** Word in s. 727(1) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 62](#) (with [Sch. 46 para. 73](#))
- F1283** S. 727(3A) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 166](#)
- F1284** Word in s. 727(5) substituted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 4\(a\)](#)
- F1285** Word in s. 727(5) inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 4\(b\)](#)

## 728 Individuals receiving capital sums as a result of relevant transactions

- (1) Income is treated as arising to such an individual as is referred to in section 727(1) in a tax year for income tax purposes if—
- (a) income has become the income of a person abroad as a result of—
    - (i) a relevant transfer,
    - (ii) one or more associated operations, or
    - (iii) a relevant transfer and one or more associated operations, <sup>F1286</sup> ...
  - (b) the capital receipt conditions are met in respect of the individual in the tax year (see section 729) [<sup>F1287</sup>, and
  - (c) the individual is UK resident for the tax year].
- <sup>F1288</sup>(1A) The amount of the income treated as arising under subsection (1) is (subject to subsection (2)) given by the following rules—
- Rule 1* The amount is equal to the amount of the income of the person abroad if the individual—
- (a) is domiciled in the United Kingdom at any time in the tax year, or
  - (b) is at any time in the tax year regarded for the purposes of section 718(1) (b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.
- Rule 2* In any other case, the amount is equal to so much of the income of the person abroad as is not protected foreign-source income (see section 729A).
- (1B) In a case in which rule 2 of subsection (1A) applies, so much of the income of the person abroad as is protected foreign-source income for the purposes of that rule counts as “protected income” for the purposes of section 733A(1)(b)(i).]
- (2) Section 725 (reduction in amount charged where controlled foreign company involved) applies for determining the amount of income treated as arising under subsection (1) as [<sup>F1289</sup>if—
- (a) in subsection (1) of that section—
    - (i) the reference to section 721 were a reference to this section, and
    - (ii) the reference to section 721(2) were a reference to subsection (1)(a) of this section, and
  - (b) subsections (2A) and (2B) of that section were omitted.]

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- [<sup>F1290</sup>(2A) Subsection (1) does not apply if—
- (a) the individual is liable for income tax charged on the income of the person abroad by virtue of a charge not contained in this Chapter, and
  - (b) all that income tax has been paid.]
- (3) It does not matter for the purposes of this section—
- <sup>F1291</sup>(a) . . . . .
  - [<sup>F1292</sup>(b) whether the individual is UK resident for the tax year in which the relevant transfer abroad is made (if different from the tax year mentioned in subsection (1)), or]
  - (c) whether the avoiding of liability to income tax is a purpose for which that transfer is effected.

#### Textual Amendments

- F1286** Word in s. 728(1)(a)(iii) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 63(2)(a)** (with [Sch. 46 para. 73](#))
- F1287** S. 728(1)(c) and word inserted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 63(2)(b)** (with [Sch. 46 para. 73](#))
- F1288** S. 728(1A)(1B) substituted for s. 728(1A) (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 31**
- F1289** Words in s. 728(2) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 14(3)**
- F1290** S. 728(2A) inserted (with effect in accordance with Sch. 10 paras. 20, 21(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 14(4)**
- F1291** S. 728(3)(a) omitted (with effect in accordance with Sch. 10 paras. 20, 21(2) of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 14(5)**
- F1292** S. 728(3)(b) substituted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 63(3)(b)** (with [Sch. 46 para. 73](#))

## 729 The capital receipt conditions

- (1) For the purposes of section 728(1), the capital receipt conditions are met in respect of the individual in a tax year (“the relevant year”) if—
- (a) either—
    - (i) in the relevant year the individual receives or is entitled to receive any capital sum, whether before or after the relevant transfer, or
    - (ii) in any earlier tax year the individual has received any capital sum, whether before or after the relevant transfer, and
  - (b) the payment of that sum is (or, in the case of an entitlement, would be) in any way connected with any relevant transaction.
- (2) But subsection (1)(a)(ii) does not apply merely because of the receipt of a sum by way of loan if the loan is wholly repaid before the relevant year begins.
- (3) In subsection (1) “capital sum” means—
- (a) any sum paid or payable by way of loan or repayment of a loan, and
  - (b) any other sum paid or payable—
    - (i) otherwise than as income, and
    - (ii) not for full consideration in money or money's worth.

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- (4) For the purposes of subsection (1), a sum is treated as a capital sum which the individual (“A”) receives or is entitled to receive if another person receives or is entitled to receive it—
- (a) at A's direction, or
  - (b) as a result of the assignment by A of A's right to receive it.

**[<sup>F1293</sup>729] Meaning of “protected foreign-source income” in section 728**

- (1) This section has effect for the purposes of rule 2 of section 728(1A) (cases where the individual is not UK domiciled and is not deemed domiciled by virtue of Condition A in section 835BA).
- (2) The income of the person abroad is “protected foreign-source income” so far as it is within subsection (3) or (4).
- (3) Income is within this subsection if—
  - (a) it would be relevant foreign income if it were the individual's,
  - (b) the person abroad is the trustees of a settlement,
  - (c) the trustees are non-UK resident for the tax year,
  - (d) when the settlement is created, the individual is—
    - (i) not domiciled in the United Kingdom, and
    - (ii) if the settlement is created on or after 6 April 2017, not deemed domiciled in the United Kingdom, and
  - (e) no property or income is provided directly or indirectly for the purposes of the settlement by the individual, or by the trustees of any other settlement of which the individual is a beneficiary or settlor, at a time in the period—
    - (i) beginning with the start of 6 April 2017 or, if later, the creation of the settlement, and
    - (ii) ending with the end of the tax year,
 when the individual is domiciled or deemed domiciled in the United Kingdom.
- (4) Income is within this subsection if—
  - (a) it would be relevant foreign income if it were the individual's,
  - (b) the person abroad is a company,
  - (c) the trustees of a settlement—
    - (i) are participators in the person abroad, or
    - (ii) are participators in the first in a chain of two or more companies where the last company in the chain is the person abroad and where each company in the chain (except the last) is a participator in the next company in the chain,
  - (d) the condition in paragraph (c) is met as a result of a relevant transaction (whether or not it is also met otherwise than as a result of a relevant transaction),
  - (e) the income has become the income of the person abroad as a result of that relevant transaction,
  - (f) the trustees are not UK resident for the tax year,
  - (g) when the settlement is created, the individual is—
    - (i) not domiciled in the United Kingdom, and



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- (ii) if the settlement is created on or after 6 April 2017, not deemed domiciled in the United Kingdom, and
  - (h) no property or income is provided directly or indirectly for the purposes of the settlement by the individual, or by the trustees of any other settlement of which the individual is a beneficiary or settlor, at a time in the period—
    - (i) beginning with start of 6 April 2017 or, if later, the creation of the settlement, and
    - (ii) ending with the end of the tax year,when the individual is domiciled or deemed domiciled in the United Kingdom.
- (5) For the purposes of subsections (3)(e) and (4)(h), the addition of value to property comprised in the settlement is to be treated as the direct provision of property for the purposes of the settlement.
- (6) Section 721B (tainting) applies for the purposes of subsections (3)(e) and (4)(h) as it applies for the purposes of section 721A(3)(e) and (4)(g).
- (7) In this section—
  - “participator”, in relation to a company, has the meaning given by section 454 of CTA 2010, and
  - “deemed domiciled” means regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA of ITA 2007 having effect.]

#### Textual Amendments

**F1293S.** 729A inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 32](#)

#### <sup>F1294</sup>**730 Non-UK domiciled individuals to whom remittance basis applies**

- <sup>F1295</sup>(1) This section applies in relation to income treated under section 728 as arising to an individual in a tax year (“the deemed income”) if section 809B, 809D or 809E (remittance basis) applies to the individual for that year.]
- (2) For the purposes of this section the deemed income is “foreign” if (and to <sup>F1296</sup>the corresponding extent] that) the income mentioned in section 728(1)(a) would be relevant foreign income if it were the individual's.
- (3) Treat the foreign deemed income as relevant foreign income of the individual.
- (4) For the purposes of Chapter A1 of Part 14 (remittance basis) treat so much of the income within section 728(1)(a) as would be relevant foreign income if it were the individual's as deriving from the foreign deemed income.
- <sup>F1297</sup>(5) In the application of section 832 of ITTOIA 2005 to the foreign deemed income, subsection (2) of that section has effect with the omission of paragraph (b).]
- <sup>F1298</sup>(6) In addition, where the tax year in which any foreign deemed income arises is earlier than the tax year 2017-18, section 832 of ITTOIA 2005 does not apply to the foreign deemed income so far as it—
  - (a) is remitted to the United Kingdom in the tax year 2017-18 or a later tax year, and

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(b) is transitionally protected income.

(7) In subsection (6)—

“remitted to the United Kingdom” is to be read in accordance with Chapter A1 of Part 14, and

“transitionally protected income” means any foreign deemed income where the income mentioned in section 728(1)(a)—

- (a) arises in a tax year earlier than the tax year 2017-18,
- (b) would be protected foreign-source income as defined by section 729A if section 729A—
  - (i) had effect for tax years earlier than the tax year 2017-18, and
  - (ii) so had effect with the omission of its subsections (3)(e), (4)(h), (5) and (6), and
- (c) has not prior to 6 April 2017 been distributed by the trustees of the settlement concerned.]]

#### Textual Amendments

**F1294S.** 730 substituted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 167](#)

**F1295S.** 730(1) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 20](#) (with [Sch. 46 para. 26](#))

**F1296** Words in s. 730(2) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 15](#)

**F1297S.** 730(5) inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 91\(3\)](#)

**F1298S.** 730(6)(7) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 33](#)

#### *Charge where benefit received*

### 731 Charge to tax on income treated as arising under section 732

(1) Income tax is charged on income treated as arising to an individual under section 732 ([<sup>F1299</sup> individuals] receiving a benefit as a result of relevant transactions).

[<sup>F1300</sup>(1A) But where the individual is non-UK resident for the tax year in which a benefit is received, there is a charge to tax under this section on any matched deemed income—

- (a) only so far as that matched deemed income would under section 735A (if it applied also for this purpose) be matched with an amount of relevant income that is protected income for the purposes of section 733A(1)(b)(i) (see sections 721(3BA) and 728(1B)), and
- (b) only if—
  - (i) the individual is the settlor of the settlement concerned, or
  - (ii) the benefit is received by the individual at a time when the individual is a close member of the family of the settlor of that settlement.

(1B) For the purposes of subsection (1A)—

- (a) “matched deemed income” means income which—
  - (i) is treated by section 732 as arising to the individual, and

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- (ii) would, if section 735A applied also for this purpose, be matched under that section with the benefit, and
- (b) a person is a close member of the family of the settlor of a settlement if the person is—
- (i) the settlor's spouse or civil partner, or
  - (ii) a child of the settlor, or of a person within sub-paragraph (i), if the child has not reached the age of 18;
- and section 733A(7) (persons living together) applies also for the purposes of paragraph (b).]
- [<sup>F1301</sup>(1C) Subsection (1A) does not restrict the charge to tax under this section on income treated as arising to the individual by section 733C or 733E (onward gifts: recipient or settlor treated as individual to whom income is treated as arising).]
- (2) Tax is charged under this section on the amount of income treated as arising for the tax year.
- [<sup>F1302</sup>(2A) But see [<sup>F1303</sup>sections 735, 735B and 735C] (non-UK domiciled individuals to whom remittance basis applies).]
- (3) The person liable for any tax charged under this section is the individual to whom the income is treated as arising [<sup>F1304</sup>, but this is subject to section 733A.]
- (4) For exemptions from the charge under this section, see sections 736 to [<sup>F1305</sup>742A] (exemptions where no tax avoidance purpose or genuine commercial transaction [<sup>F1306</sup>, etc]).

#### Textual Amendments

- F1299** Word in s. 731(1) substituted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 34(2)**
- F1300** S. 731(1A)(1B) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 34(3)**
- F1301** S. 731(1C) inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 13(2), 21(1)**
- F1302** S. 731(2A) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 7 para. 168**
- F1303** Words in s. 731(2A) substituted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 13(3), 21(1)**
- F1304** Words in s. 731(3) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 34(4)**
- F1305** Word in s. 731(4) substituted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 5(a)**
- F1306** Word in s. 731(4) inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 5(b)**

#### 732 [<sup>F1307</sup>Individuals] receiving a benefit as a result of relevant transactions

- (1) This section applies if—
- (a) a relevant transfer occurs,
  - (b) an individual [<sup>F1308</sup>receives a benefit in a tax year],

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- (c) the benefit is provided out of assets which are available for the purpose as a result of—
    - (i) the transfer, or
    - (ii) one or more associated operations,
  - <sup>F1309</sup>(d) where there is a time in the year when the individual is relevantly domiciled, the individual is not liable to income tax under section 720 or 727 by reference to the transfer, and]
  - (e) the individual is not liable to income tax <sup>F1310</sup>, under any provision that is none of section 731 of this Act and sections 643A, 643J and 643L of ITTOIA 2005,] on the amount or value of the benefit <sup>F1311</sup>....
- (2) Income is treated as arising to the individual for income tax purposes for any tax year for which section 733 provides that income arises.
- (3) Also see that section for the amount of income treated as arising for any such tax year.
- <sup>F1312</sup>(4) For the purposes of subsection (1)(d), the individual is “relevantly domiciled” at any time if at that time—
- (a) the individual is domiciled in the United Kingdom, or
  - (b) the individual is regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.]

#### Textual Amendments

- F1307** Word in s. 732 heading substituted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 35(4)**
- F1308** Words in s. 732(1)(b) substituted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 35(2)(a)**
- F1309** S. 732(1)(d) substituted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 35(2)(b)**
- F1310** Words in s. 732(1)(e) inserted (with effect according to Sch. 10 para. 21(1) of the amending Act) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 para. 14(a)**,
- F1311** Words in s. 732(1)(e) omitted (with effect according to Sch. 10 para. 21(1) of the amending Act) by virtue of [Finance Act 2018 \(c. 3\)](#), **Sch. 10 para. 14(b)**
- F1312** S. 732(4) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 35(3)**

### 733 Income charged under section 731

- (1) To find the amount (if any) of the income treated as arising under section 732(2) for any tax year in respect of benefits provided as mentioned in section 732(1)(c) take the following steps.

#### Step 1

Identify the amount or value of such benefits received by the individual in the tax year and in any earlier tax years in which section 732 has applied.

The sum of those amounts and values is “the total benefits”.

#### Step 2

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*Status: Point in time view as at 22/02/2024.*

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Deduct from the total benefits the total amount of income treated as arising to the individual under section 732(2) for earlier tax years as a result of the relevant transfer or associated operations.

The result is “the total untaxed benefits” <sup>[F1313]</sup> except that, where any of that income is matched deemed income for the purposes of section 731(1A), that matched deemed income is to be deducted only so far as it is matched deemed income on which tax has been charged under section 731 for an earlier tax year.]

### *Step 3*

Identify the amount of any income which—

- (a) arises in the tax year to a person abroad, and
- (b) as a result of the relevant transfer or associated operations can be used directly or indirectly for providing a benefit for the individual.

That amount is “the relevant income of the tax year” in relation to the individual and the tax year.

### *Step 4*

Add together the relevant income of the tax year and the relevant income of earlier tax years in relation to the individual (identified as mentioned in Step 3).

The sum of those amounts is “total relevant income”.

### *Step 5*

Deduct from total relevant income—

- (a) the amount deducted at Step 2, and
- (b) any other amount which may not be taken into account because of section 743(1) and (2) (no duplication of charges).

The result is “the available relevant income”.

### *Step 6*

Compare the total untaxed benefits and the available relevant income.

The amount of the income treated as arising under section 732(2) for any tax year is the total untaxed benefits unless the available relevant income is lower.

If the available relevant income is lower, it is the amount of income treated as so arising.

- (2) Subsection (1) is subject to section 734 (reduction in amount charged: previous capital gains tax charge).
- (3) See also section 740(5) to (7) (which makes provision about relevant income and benefits where relevant transactions include both transactions before 5 December 2005 and transactions after 4 December 2005 and exemptions under this Chapter cease to apply).

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### Textual Amendments

**F1313** Words in s. 733(1) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 8 para. 35(5)**

### <sup>F1314</sup> **733 Settlor liable for section 731 charge on closely-related beneficiary**

- (1) Subsections (2) and (3) apply if—
- (a) an amount of income is treated as arising to an individual under section 732 for a tax year,
  - (b) under section 735A (if it applied also for this purpose) that amount would be matched—
    - (i) with an amount of relevant income that is protected income for the purposes of this sub-paragraph (see sections 721(3BA) and 728(1B)), and
    - (ii) with a benefit received by the individual at a time when the individual was a close member (see subsection (7)) of the family of the settlor of the settlement concerned,
  - (c) there is no time in the year when the trustees of the settlement are resident in the United Kingdom,
  - (d) there is a time in the year when the settlor is resident in the United Kingdom,
  - (e) there is no time in the year when the settlor is domiciled in the United Kingdom, and
  - (f) there is no time in the year when the settlor is regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.
- (2) If—
- (a) the individual is not resident in the United Kingdom at any time in the year, or
  - (b) section 809B, 809D or 809E (remittance basis) applies to the individual for the year and none of the amount mentioned in subsection (1)(a) of this section is remitted to the United Kingdom in the year,
- the settlor is liable for the tax charged under section 731 on that amount as if that amount were income arising to the settlor in the year (and the individual is not liable in any later year for income tax on that amount).
- (3) If—
- (a) section 809B, 809D or 809E (remittance basis) applies to the individual for the year, and
  - (b) part only of the amount mentioned in subsection (1)(a) of this section is remitted to the United Kingdom in the year,
- the settlor is liable for the tax charged under section 731 on the remainder of that amount as if that remainder were income arising to the settlor in the year (and the individual is not liable in any later year for income tax on that remainder).
- (4) The amount mentioned in subsection (1)(a) may be the whole, or part only, of the amount treated as arising to the individual under section 732 for the year in the case of the relevant transfer and its associated operations.

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- (5) Where any tax for which the settlor is liable as a result of subsection (2) or (3) is paid, the settlor is entitled to recover the amount of the tax from the individual.
- (6) For the purpose of recovering that amount, the settlor is entitled to require an officer of Revenue and Customs to give the settlor a certificate specifying—
- (a) the amount of the income concerned, and
  - (b) the amount of tax paid,
- and any such certificate is conclusive evidence of the facts stated in it.
- (7) For the purposes of subsection (1)(b)(ii), a person is a close member of the family of the settlor <sup>F1315</sup>at any time if the settlor is living at that time and—
- (a) the person is the settlor's spouse or civil partner at that time, or
  - (b) the person—
    - (i) is a child of the settlor, or of a person who at that time is the settlor's spouse or civil partner, and
    - (ii) at that time has not reached the age of 18.]
- <sup>F1316</sup>(8) For the purposes of subsection (7), two people living together as if they were a married couple or civil partners are treated as if they were spouses or civil partners of each other.]
- (9) Sections 809L to 809Z6 (remittance basis: rules about when income is remitted, including rule treating pre-arising remittances of deemed income as made when the income arises) apply for the purposes of this section.]

#### Textual Amendments

**F1314**S. 733A inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 36](#)

**F1315**Words in s. 733A(7) substituted (with effect for the tax year 2017-18 and tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 15, 21\(1\)\(5\)](#)

**F1316**S. 733A(8) substituted (2.12.2019) by [The Civil Partnership \(Opposite-sex Couples\) Regulations 2019 \(S.I. 2019/1458\)](#), [reg. 1\(2\)](#), [Sch. 3 para. 29\(2\)](#)

#### <sup>F1317</sup>**733 Recipients of onward gifts**

- (1) Sections 733C to 733E apply if—
- (a) an amount of income is treated as arising under section 732 to an individual (“the original beneficiary”) in a tax year (“the arising year”) but neither by section 733C nor by section 733E,
  - (b) under section 735A (if it applied also for this purpose) that amount would be matched—
    - (i) with an amount of relevant income that is protected income for the purposes of section 733A(1)(b)(i) (see sections 721(3BA) and 728(1B)), and
    - (ii) with the whole or part of a benefit received by the original beneficiary,
  - (c) at the time that benefit is received by the original beneficiary (“the distribution time”)—

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- (i) there are arrangements, or there is an intention, as regards the (direct or indirect) passing-on of the whole or part of that benefit to another person, and
  - (ii) it is reasonable to expect that, in the event of the whole or part of that benefit being passed on to another person as envisaged by the arrangements or intention, that other person will be UK resident when they receive at least part of what is passed on to them,
  - (d) the original beneficiary makes, directly or indirectly, a gift (“the onward payment”) to a person (“the subsequent recipient”)—
    - (i) at the distribution time, or at any later time in the 3 years beginning with the start time, or
    - (ii) at any time before the distribution time and, it is reasonable to assume, in anticipation of receipt of the benefit mentioned in paragraph (b)(ii),
  - (e) the gift is of or includes—
    - (i) the whole or part of the benefit mentioned in paragraph (b)(ii),
    - (ii) anything that (wholly or in part, and directly or indirectly) derives from, or represents, the whole or part of that benefit, or
    - (iii) any other property, but only if the benefit mentioned in paragraph (b)(ii) is provided with a view to enabling or facilitating, or otherwise in connection with, the making of the gift of the property to the subsequent recipient,
  - (f) except where an individual is liable as a result of section 733A(2) or (3) for the tax charged under section 731 on the amount mentioned in paragraph (a), either—
    - (i) the original beneficiary is non-UK resident for the arising year, or
    - (ii) section 809B or 809D or 809E (remittance basis) applies to the original beneficiary for the arising year and none of the amount mentioned in paragraph (a) is relevantly remitted before the end of the charging year, and
  - (g) where an individual is liable as a result of section 733A(2) or (3) for the tax charged under section 731 on the amount mentioned in paragraph (a), section 809B or 809D or 809E applies to that individual for the arising year and none of the amount mentioned in paragraph (a) is relevantly remitted before the end of the charging year.
- (2) If—
- (a) the amount mentioned in subsection (1)(a) is not treated as arising by section 733D (and neither by section 733C nor by section 733E),
  - (b) except where an individual is liable as a result of section 733A(2) or (3) for the tax charged under section 731 on that amount, section 809B or 809D or 809E applies to the original beneficiary for the arising year,
  - (c) where an individual is liable as a result of section 733A(2) or (3) for the tax charged under section 731 on that amount, section 809B or 809D or 809E applies to that individual for the arising year, and
  - (d) part only of that amount is relevantly remitted before the end of the charging year,
- subsection (1)(a) is to be treated as referring instead only to the remainder of that amount.



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- (3) The original beneficiary is not liable to tax for any year after the charging year on so much of the amount mentioned in subsection (1)(a) as is—
- (a) treated as arising to the subsequent recipient by section 733C, or
  - (b) treated as arising to the settlor by section 733E;
- and the settlor is not is liable under section 733A(2) or (3) to tax for any year after the charging year on so much of the amount mentioned in subsection (1)(a) as is treated as arising to the subsequent recipient by section 733C.
- (4) For the purposes of subsection (1)(d)(i)—
- (a) if the amount mentioned in subsection (1)(a) is not one that is treated as arising by section 733D, “the start time” is the time the benefit mentioned in subsection (1)(b) is provided to the original beneficiary, and
  - (b) if the amount mentioned in subsection (1)(a) is one that is treated as arising by section 733D in connection with the operation of this section on a previous occasion, “the start time” is the time given by this subsection as the start time on that occasion.
- (5) Where the onward payment is made as mentioned in subsection (1)(d)(ii), the onward payment is to be treated—
- (a) for the purposes of the provisions of this section following subsection (1)(d), and
  - (b) for the purposes of sections 733C to 733E,
- as made immediately after, and in the tax year containing, the distribution time.
- (6) Where subsection (1)(d) and (e) are met in any case, it is to be presumed (unless the contrary is shown) that subsection (1)(c) is also met in that case.
- (7) In this section—
- “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),
  - “the charging year” means the gift year or, if later, the matching year,
  - “gift” includes any benefit,
  - “the gift year” means the tax year in which the onward payment is made, but see subsection (5),
  - “make”, in relation to a gift that is a benefit, means provide,
  - “the matching year” means the first tax year in which the matching mentioned in subsection (1)(b) would occur,
  - “relevantly remitted” means remitted to the United Kingdom in a tax year for which the original beneficiary is UK resident but, where an individual is liable as a result of section 733A(2) or (3) for the tax charged under section 731 on the amount mentioned in subsection (1)(a), means remitted to the United Kingdom in a tax year for which that individual is UK resident, and
  - “the settlor” means the settlor of the settlement, mentioned in section 721A(3) or (4) or 729A(3) or (4), which because of subsection (1)(b) (i) is the settlement concerned.
- (8) Sections 742C to 742E (value of benefit provided to a person) apply in relation to the onward payment as if references in those sections to a benefit provided were references to a gift made.

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- (9) Sections 809L to 809Z6 (remittance basis: rules about when income is remitted, including rule treating pre-arising remittances of deemed income as made when the income arises)—
- (a) apply for the purposes of this section and sections 733C to 733E, and
  - (b) apply for those purposes in relation to references to remittance of the onward payment as if the onward payment were relevant foreign income of the subsequent recipient.

#### Textual Amendments

**F1317Ss.** 733B-733E inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 16, 21\(1\)](#)

### 733C Cases where income treated as arising to recipient of onward gift

- (1) Subsection (3) applies if—
- (a) this section applies (see section 733B(1)), and
  - (b) the subsequent recipient is UK resident for the gift year, and
  - (c) the subsequent recipient is UK resident for the matching year if that is later than the gift year, and
  - (d) none of sections 809B, 809D and 809E applies to the subsequent recipient for the charging year.
- (2) Subsection (3) also applies if—
- (a) this section applies (see section 733B(1)), and
  - (b) the subsequent recipient is UK resident for the gift year, and
  - (c) the subsequent recipient is UK resident for the matching year if that is later than the gift year, and
  - (d) section 809B, 809D or 809E applies to the subsequent recipient for the charging year, and
  - (e) the whole, or part only, of the onward payment is remitted to the United Kingdom in the charging year.
- (3) Section 731 has effect—
- (a) as if the subsequent recipient were an individual to whom income is treated as arising under section 732 for the charging year, and
  - (b) as if, subject to subsection (4), the amount of that income—
    - (i) were equal to the amount or value of so much of the onward payment as is within any of sub-paragraphs (i) to (iii) of section 733B(1)(e), or
    - (ii) were, where this subsection applies because of subsection (2) and part only of that much of the onward payment is remitted to the United Kingdom in the charging year, equal to the amount or value of that part.
- (4) The amount given by subsection (3) (before adjustment under this subsection) is to be adjusted as follows—
- (a) deduct any part of the amount on which the subsequent recipient is liable to income tax otherwise than under this section, and

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- (b) if following any adjustment under paragraph (a) the amount exceeds the amount mentioned in section 733B(1)(a), deduct the excess.

#### Textual Amendments

F1317Ss. 733B-733E inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 16, 21\(1\)](#)

### 733D Cases where deemed income attributed to recipient of onward gift

- (1) Subsection (3) applies if this section applies (see section 733B(1)) and—
- (a) the subsequent recipient is non-UK resident for the gift year, or
  - (b) the matching year is later than the gift year and the subsequent recipient is UK resident for the gift year but non-UK resident for the matching year.
- (2) Subsection (3) also applies if—
- (a) this section applies (see section 733B(1)), and
  - (b) the subsequent recipient is UK resident for the gift year, and
  - (c) the subsequent recipient is UK resident for the matching year if that is later than the gift year, and
  - (d) section 809B, 809D or 809E applies to the subsequent recipient for the charging year, and
  - (e) none, or part only, of the onward payment is remitted to the United Kingdom in the charging year.
- (3) Section 733B(1)(a) has effect—
- (a) as if the subsequent recipient were an individual to whom income is treated as arising under section 732 for the charging year, and
  - (b) as if, subject to subsection (4), the amount of that income—
    - (i) were equal to the amount or value of so much of the onward payment as is within any of sub-paragraphs (i) to (iii) of section 733B(1)(e) and is not treated as arising to someone other than the subsequent recipient as a result of the operation of section 733E, or
    - (ii) were, where this subsection applies because of subsection (2) and part only of that much of the onward payment is remitted to the United Kingdom in the charging year, equal to the amount or value of the remainder of that much of the onward payment.
- (4) The amount given by subsection (3) (before adjustment under this subsection) is to be adjusted as follows: if that amount exceeds the amount mentioned in section 733B(1)(a) in the case of the original beneficiary, deduct the excess.
- (5) Where the amount mentioned in section 733B(1)(a) is one treated as arising by this section in connection with the operation of section 733B and this section on a previous occasion, section 733B(1) has effect—
- (a) with the omission of its paragraphs (b) and (c),
  - (b) as if the reference in its paragraph (d) to the benefit mentioned in its paragraph (b)(ii) were, instead, to what was the onward payment on that previous occasion,
  - (c) as if the references in its paragraph (d) to the distribution time were, instead, to the time when that onward payment was made, and

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- (d) as if the references in its paragraph (e) to the benefit mentioned in its paragraph (b)(ii) were, instead, to so much of that onward payment as was on that previous occasion within any of sub-paragraphs (i) to (iii) of its paragraph (e).

#### Textual Amendments

**F1317**Ss. 733B-733E inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 16, 21\(1\)](#)

### 733E Cases where settlor liable following onward gift

- (1) Subsection (3) applies if—
- (a) this section applies (see section 733B(1)),
  - (b) the subsequent recipient is a close member of the settlor's family when the onward payment is made,
  - (c) the subsequent recipient is UK resident for the charging year,
  - (d) section 809B, 809D or 809E applies to the subsequent recipient for the charging year,
  - (e) none, or part only, of the onward payment is remitted to the United Kingdom in the charging year,
  - (f) there is a time in the charging year when the settlor is UK resident,
  - (g) there is no time in the charging year when the settlor is domiciled in the United Kingdom, and
  - (h) there is no time in the charging year when the settlor is regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.
- (2) Subsection (3) also applies if—
- (a) this section applies (see section 733B(1)),
  - (b) the subsequent recipient is a close member of the settlor's family when the onward payment is made,
  - (c) the subsequent recipient is non-UK resident for the charging year,
  - (d) there is a time in the charging year when the settlor is UK resident,
  - (e) there is no time in the charging year when the settlor is domiciled in the United Kingdom, and
  - (f) there is no time in the charging year when the settlor is regarded for the purposes of section 718(1)(b) as domiciled in the United Kingdom as a result of section 835BA having effect because of Condition A in that section being met.
- (3) Section 731 applies—
- (a) as if the settlor were an individual to whom income is treated as arising under section 732 for the charging year, and
  - (b) as if, subject to subsection (4), the amount of that income—
    - (i) were equal to the amount or value of so much of the onward payment as is within any of sub-paragraphs (i) to (iii) of section 733B(1)(e), or

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- (ii) were, where this subsection applies because of subsection (1) in a case where part only of that much of the onward payment is remitted to the United Kingdom in the charging year, equal to the amount or value of the remainder of that much of the onward payment.
- (4) The amount given by subsection (3)(b) (before adjustment under this subsection) is to be adjusted as follows—
  - (a) deduct any part of the amount on which the settlor is liable to income tax otherwise than under this section, and
  - (b) if following any adjustment under paragraph (a) the amount exceeds the amount mentioned in section 733B(1)(a), deduct the excess.
- (5) Where any tax for which the settlor is liable as a result of subsections (3) and (4) is paid, the settlor is entitled to recover the amount of the tax from the subsequent recipient.
- (6) For the purpose of recovering that amount, the settlor is entitled to require an officer of Revenue and Customs to give the settlor a certificate specifying—
  - (a) the amount of the income concerned, and
  - (b) the amount of tax paid,and any such certificate is conclusive evidence of the facts stated in it.
- (7) In this section—
  - (a) “the settlor” means the settlor of the settlement, mentioned in section 721A(3) or (4) or 729A(3) or (4), which because of section 733B(1)(b)(i) is the settlement concerned, and
  - (b) “close member”, in relation to the family of the settlor, is to be read in accordance with section 733A(7) and (8).]

#### Textual Amendments

F1317Ss. 733B-733E inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 16, 21\(1\)](#)

### 734 Reduction in amount charged: previous capital gains tax charge

- (1) This section applies if—
  - (a) benefits provided as mentioned in section 732(1)(c) are received in a tax year,
  - <sup>F1318</sup>(b) .....
  - <sup>F1318</sup>(c) .....
  - <sup>F1319</sup>(d) chargeable gains are treated by section 87, 87K, 87L or 89(2) of, or paragraph 8 of Schedule 4C to, TCGA 1992 as accruing to a person in that or a subsequent tax year by reference (direct or indirect) to the whole or part of any benefits so provided.]
- (2) For any tax year after one in which such chargeable gains are so treated, the amount of income treated as arising to the individual under section 732(2) in respect of benefits provided as mentioned in section 732(1)(c) as a result of the transfer or operations in question is calculated as follows.
- (3) The amount is calculated under section 733(1) as if the total untaxed benefits were reduced by the amount of those gains.

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- (4) In this section “the total untaxed benefits” [<sup>F1320</sup>has] the same meaning as in section 733(1) (see [<sup>F1321</sup>Step 2] ).
- [<sup>F1322</sup>(5) References in this section to chargeable gains treated as accruing to an individual include offshore income gains treated as arising to the individual (see [<sup>F1323</sup>regulations 20 and 22 to 24 of the Offshore Funds (Tax) Regulations 2009 (S.I. 2009/3001)].)]

#### Textual Amendments

- F1318S.** 734(1)(b)(c) omitted (with effect for the tax year 2018-19 and subsequent years) by virtue of [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 17\(a\)](#), 21(1)
- F1319S.** 734(1)(d) substituted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 17\(b\)](#), 21(1)
- F1320** Word in s. 734(4) substituted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 17\(c\)\(i\)](#), 21(1)
- F1321** Words in s. 734(4) substituted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 17\(c\)\(ii\)](#), 21(1)
- F1322S.** 734(5) inserted (21.7.2008 with effect in accordance with Sch. 7 para. 98 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 97](#)
- F1323** Words in s. 734(5) substituted (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), [regs. 1\(1\)](#), [129\(5\)](#)

#### [<sup>F1324</sup>734] **Reduction in amount charged: previous settlements charge**

- (1) This section applies if—
- (a) benefits provided as mentioned in section 732(1)(c) are received in a tax year, and
  - (b) income is treated by section 643A, 643J or 643L of ITTOIA 2005 as arising to a person in that or a subsequent tax year by reference (direct or indirect) to the whole or part of any benefits so provided.
- (2) For any tax year after one in which such income is so treated, the amount of income treated as arising to the individual under section 732(2) in respect of benefits provided as mentioned in section 732(1)(c) as a result of the transfer or operations in question is calculated as follows.
- (3) The amount is calculated under section 733(1) as if the total untaxed benefits were reduced by the amount of that income.
- (4) In this section “the total untaxed benefits” has the same meaning as in section 733(1) (see Step 2).]

#### Textual Amendments

- F1324S.** 734A inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 18](#), 21(1)

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## <sup>F1325</sup>**735 Non-UK domiciled individuals to whom remittance basis applies**

- <sup>F1326</sup>(1) This section applies in relation to income treated under section 732 as arising to an individual in a tax year (“the deemed income”) if section 809B, 809D or 809E (remittance basis) applies to the individual for that year.]
- (2) For the purposes of this section the deemed income is “foreign” if (and to the extent that) the relevant income to which it relates would be relevant foreign income if it were the individual's.
- (3) Treat the foreign deemed income as relevant foreign income of the individual.
- (4) For the purposes of Chapter A1 of Part 14 (remittance basis) treat relevant income, or a benefit, that relates to any part of the foreign deemed income as deriving from that part of the foreign deemed income.
- <sup>F1327</sup>(5) In the application of section 832 of ITTOIA 2005 to the foreign deemed income, subsection (2) of that section has effect with the omission of paragraph (b).]

### **Textual Amendments**

**F1325Ss. 735, 735A** substituted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) for s. 735 by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 169](#)

**F1326S. 735(1)** substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 21](#) (with [Sch. 46 para. 26](#))

**F1327S. 735(5)** inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 91\(4\)](#)

## **735A Section 735: relevant income and benefits relating to foreign deemed income**

- (1) For the purposes of section 735—
- place the benefits mentioned in Step 1 in the order in which they were received by the individual (starting with the earliest benefit received),
  - deduct from those benefits so much of any benefit within section 734(1)(b) as gives rise as mentioned in section 734(1)(d) to chargeable gains or offshore income gains,
  - place the income mentioned in Step 3 for the tax years mentioned in Step 4 (“the relevant income”) in the order determined under subsection (3),
  - deduct from that income any income that may not be taken into account because of section 743(1) or (2) (no duplication of charges),
  - place the income treated under section 732(2) as arising to the individual in respect of the benefits in the order in which it is treated as arising (starting with the earliest income treated as having arisen), and
  - treat the income mentioned in paragraph (e) as related to—
    - the benefits, and
    - the relevant income,by matching that income with the benefits and the relevant income (in the orders mentioned in paragraphs (a), (c) and (e)).
- (2) In subsection (1) references to a step are to a step in section 733(1).
- (3) The order referred to in subsection (1)(c) is arrived at by taking the following steps.

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*Step 1*

Find the relevant income for the earliest tax year (of the tax years referred to in subsection (1)(c)).

*Step 2*

Place so much of that income as is not foreign in the order in which it arose (starting with the earliest income to arise).

*Step 3*

After that, place so much of that income as is foreign in the order in which it arose (starting with the earliest income to arise).

*Step 4*

Repeat Steps 1 to 3.

For this purpose, read references to the relevant income for the earliest tax year as references to the relevant income for the first tax year after the last tax year in relation to which those Steps have been undertaken.

- (4) For the purposes of subsection (3) relevant income is “foreign” where it would be relevant foreign income if it were the individual's.
- (5) For those purposes treat income for a period as arising immediately before the end of the period.
- (6) Subsection (1)(d) does not apply if the income may not be taken into account because the individual<sup>[F1328]</sup>, or as a result of section 733A another person,] has been charged to income tax under section 731 by reason of the income.]

**Textual Amendments**

**F1325**Ss. 735, 735A substituted (21.7.2008 with effect in accordance with Sch. 7 para. 170 of the amending Act) for s. 735 by [Finance Act 2008 \(c. 9\)](#), [Sch. 7 para. 169](#)

**F1328**Words in s. 735A(6) inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 37](#)

**[<sup>F1329</sup>735B] Settlor liable under section 733A and remittance basis applies**

- (1) This section applies in relation to income if—
  - (a) the income is treated by section 732 as arising to an individual (“the beneficiary”) for a tax year,
  - (b) another individual (“the settlor”) is under section 733A(2) or (3) liable for tax on the income, and
  - (c) section 809B, 809D or 809E (remittance basis) applies to the settlor for that year.
- (2) The income (“the transferred-liability deemed income”) is treated as relevant foreign income of the settlor.
- (3) If, for the purposes of section 735 as it applies in relation to the beneficiary, any benefit or relevant income relates to any part of the transferred-liability deemed income then,



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for the purposes of Chapter A1 of Part 14 as it applies in relation to the settlor, that benefit or relevant income is to be treated as deriving from that part of the transferred-liability deemed income.

- (4) In the application of section 832 of ITTOIA 2005 in relation to the income, subsection (2) of that section has effect with the omission of its paragraph (b).]

#### Textual Amendments

**F1329S.** 735B inserted (with effect in accordance with Sch. 8 para. 39 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 38](#)

#### [<sup>F1330</sup>735C] Person liable under section 733C or 733E and remittance basis applies

- (1) This section applies in relation to income if—
- (a) the income is treated as arising to an individual for a tax year—
    - (i) as a result of the operation of section 733C(3) and (4) where section 733C(3) applies because of section 733C(2), or
    - (ii) as a result of the operation of section 733E, and
  - (b) section 809B, 809D or 809E (remittance basis) applies to the individual for that year.
- (2) The income is treated as relevant foreign income of the individual.
- (3) For the purposes of Chapter A1 of Part 14 (remittance basis) treat the onward payment, or (as the case may be) the part of it whose amount or value is equal to the amount of the income, as deriving from the income.
- (4) In the application of section 832 of ITTOIA 2005 in relation to the income, subsection (2) of that section has effect with the omission of its paragraph (b).]

#### Textual Amendments

**F1330S.** 735C inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 19, 21\(1\)](#)

*Exemptions: no tax avoidance purpose or genuine commercial transaction*

#### 736 Exemptions: introduction

- (1) Sections 737 to [<sup>F1331</sup>742A] deal with exemptions from liability under this Chapter.
- (2) Some exemptions apply according to whether the relevant transactions are all pre-5 December 2005 transactions or all post-4 December 2005 transactions or include both (see sections 737, 739 and 740).
- [<sup>F1332</sup>(2A) The exemption given by section 742A applies only in the case of a relevant transaction effected on or after 6 April 2012.]
- (3) In this section and sections 737 to 742—  
“post-4 December 2005 transaction” means a relevant transaction effected on or after 5 December 2005, and

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“pre-5 December 2005 transaction” means a relevant transaction effected before 5 December 2005.

#### Textual Amendments

**F1331** Word in s. 736(1) substituted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 6(2)**

**F1332**S. 736(2A) inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 6(3)**

### 737 Exemption: all relevant transactions post-4 December 2005 transactions

- (1) This section applies if all the relevant transactions are post-4 December 2005 transactions.
- (2) An individual is not liable to income tax under this Chapter for the tax year by reference to the relevant transactions if the individual satisfies an officer of Revenue and Customs—
  - (a) that Condition A is met, or
  - (b) in a case where Condition A is not met, that Condition B is met.
- (3) Condition A is that it would not be reasonable to draw the conclusion, from all the circumstances of the case, that the purpose of avoiding liability to taxation was the purpose, or one of the purposes, for which the relevant transactions or any of them were effected.
- (4) Condition B is that—
  - (a) all the relevant transactions were genuine commercial transactions (see section 738), and
  - (b) it would not be reasonable to draw the conclusion, from all the circumstances of the case, that any one or more of those transactions was more than incidentally designed for the purpose of avoiding liability to taxation.
- (5) In determining the purposes for which the relevant transactions or any of them were effected, the intentions and purposes of any person within subsection (6) are to be taken into account.
- (6) A person is within this subsection if, whether or not for consideration, the person—
  - (a) designs or effects, or
  - (b) provides advice in relation to,
 the relevant transactions or any of them.
- (7) In this section—
 

“revenue” includes taxes, duties and national insurance contributions,  
 “taxation” includes any revenue for whose collection and management the Commissioners for Her Majesty's Revenue and Customs are responsible.
- (8) If—
  - (a) apart from this subsection, an associated operation would not be taken into account for the purposes of this section, and
  - (b) the conditions in subsections (2) to (4) are not met if it is taken into account, because of—

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- (i) the associated operation, or
  - (ii) the associated operation taken together with any other relevant transactions,
- it must be taken into account for those purposes.

### **738 Meaning of “commercial transaction”**

- (1) For the purposes of section 737, a relevant transaction is a commercial transaction only if it meets the conditions in subsections (2) and (3).
- (2) It must be effected—
  - (a) in the course of a trade or business and for its purposes, or
  - (b) with a view to setting up and commencing a trade or business and for its purposes.
- (3) It must not—
  - (a) be on terms other than those that would have been made between persons not connected with each other dealing at arm's length, or
  - (b) be a transaction that would not have been entered into between such persons so dealing.
- (4) For the purposes of subsection (2), making investments, managing them or making and managing them is a trade or business only so far as—
  - (a) the person by whom it is done, and
  - (b) the person for whom it is done,are persons not connected with each other and are dealing at arm's length.

### **739 Exemption: all relevant transactions pre-5 December 2005 transactions**

- (1) This section applies if all the relevant transactions are pre-5 December 2005 transactions.
- (2) An individual is not liable for income tax under this Chapter for the tax year by reference to the relevant transactions if the individual satisfies an officer of Revenue and Customs that condition A or B is met.
- (3) Condition A is that the purpose of avoiding liability to taxation was not the purpose, or one of the purposes, for which the relevant transactions or any of them were effected.
- (4) Condition B is that the transfer and any associated operations—
  - (a) were genuine commercial transactions, and
  - (b) were not designed for the purpose of avoiding liability to taxation.

### **740 Exemption: relevant transactions include both pre-5 December 2005 and post-4 December 2005 transactions**

- (1) This section applies if the relevant transactions include both pre-5 December transactions and post-4 December transactions.
- (2) An individual is not liable to tax under this Chapter for the tax year by reference to the relevant transactions if—

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- (a) the condition in section 737(2) (exemption where all relevant transactions are post-4 December 2005 transactions) is met by reference to the post-4 December 2005 transactions, and
  - (b) the condition in section 739(2) (exemption where all relevant transactions are pre-5 December 2005 transactions) is met by reference to the pre-5 December transactions.
- (3) If subsection (2)(b) applies but subsection (2)(a) does not, this Chapter applies with the modifications in subsections (4) to (6).
- (4) For the purposes of sections 720 to 730, any income arising before 5 December 2005 must not be brought into account as income of the person abroad.
- (5) In determining the relevant income of an earlier tax year for the purposes of section 733(1) (see Step 4), it does not matter whether that year was a year for which the individual was not liable under section 731 because of section 739 or this section.
- (6) For the purposes of Step 1 in section 733(1), a benefit received by the individual in or before the tax year 2005-06 is to be left out of account.
- (7) But, in the case of a benefit received in the tax year 2005-06, subsection (6) applies only so far as, on a time apportionment basis, the benefit fell to be enjoyed in any part of the year that fell before 5 December 2005.

#### **741 Application of section 742 (partial exemption)**

- (1) Section 742 (partial exemption where later associated operations fail conditions) applies if—
- (a) an individual is liable to tax because of section 720 or 727 for a tax year (the “taxable year”) because condition B in section 737(4) (genuine commercial transaction: post-4 December 2005 transactions) is not met, and
  - (b) subsections (2) and (3) apply.
- (2) This subsection applies if—
- (a) since the relevant transfer there has been at least one tax year for which the individual was not so liable by reference to the relevant transactions effected before the end of the year, and
  - (b) the individual was not so liable for that year because—
    - (i) condition B in section 737(4) was met, or
    - (ii) condition B in section 739(4) (genuine commercial transaction: pre-5 December 2005 transactions) was met.
- (3) This subsection applies if the income by reference to which the individual is liable to tax for the taxable year is attributable—
- (a) partly to relevant transactions by reference to which one of those conditions was met for the last exempt tax year, and
  - (b) partly to associated operations not falling within paragraph (a).
- (4) For the purposes of this section a tax year is exempt if—
- (a) it is one of the tax years mentioned in subsection (2), and
  - (b) there is no earlier tax year for which the individual was liable to tax because of section 720 or 727 by reference to the relevant transactions or any of them.

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- (5) References in this section to a person being liable to tax for a tax year because of section 720 or 727 include references to the individual being so liable had any income been treated as arising to the individual for that year under section 721 or 728.

#### **742 Partial exemption where later associated operations fail conditions**

- (1) If this section applies, the individual is liable to tax under this Chapter only in respect of part of the income for which the individual would otherwise be liable.
- (2) That part is so much of the income as appears to an officer of Revenue and Customs to be justly and reasonably attributable to the operations mentioned in section 741(3)(b) in all the circumstances of the case.
- (3) Those circumstances include how far those operations or any of them directly or indirectly affect—
- (a) the nature or amount of any person's income, or
  - (b) any person's power to enjoy any income.

#### **[<sup>F1333</sup>742] Post-5 April 2012 transactions: exemption for genuine transactions**

- (1) Subsection (2) applies for the purpose of determining the liability of an individual to tax under this Chapter by reference to a relevant transaction if—
- (a) the transaction is effected on or after 6 April 2012, and
  - (b) conditions A and B are met.
- (2) Income is to be left out of account so far as the individual satisfies an officer of Revenue and Customs that it is attributable to the transaction.
- (3) Condition A is that—
- (a) were, viewed objectively, the transaction to be considered to be a genuine transaction having regard to any arrangements under which it is effected and any other relevant circumstances, and
  - (b) were the individual to be liable to tax under this Chapter by reference to the transaction,
- the individual's liability to tax would, in contravention of a relevant treaty provision, constitute an unjustified and disproportionate restriction on a freedom protected under that relevant treaty provision.
- (4) In subsection (3) “relevant treaty provision” means—
- (a) Title II or IV of Part Three of the Treaty on the Functioning of the European Union,
  - (b) Part II or III of the EEA agreement, or
  - (c) the provision of any subsequent treaty replacing a provision mentioned in paragraph (a) or (b).
- (5) Condition B is that the individual satisfies an officer of Revenue and Customs that, viewed objectively, the transaction must be considered to be a genuine transaction having regard to any arrangements under which it is effected and any other relevant circumstances.
- (6) Without prejudice to the generality of subsection (3)(a) or (5), in order for the transaction to be considered to be a genuine transaction the transaction must not—

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- (a) be on terms other than those that would have been made between persons not connected with each other dealing at arm's length, or
  - (b) be a transaction that would not have been entered into between such persons so dealing,
- having regard to any arrangements under which the transaction is effected and any other relevant circumstances.
- (7) Subsection (8) applies if any asset or income falling within subsection (12) is used for the purposes of, or is received in the course of, activities carried on in a territory outside the United Kingdom by a person (“the relevant person”) through a business establishment which the relevant person has in that territory.
- (8) Without prejudice to the generality of subsection (3)(a) or (5), in order for the transaction to be considered to be a genuine transaction the activities mentioned in subsection (7) must consist of the provision by the relevant person of goods or services to others on a commercial basis and involve—
- (a) the use of staff in numbers, and with competence and authority,
  - (b) the use of premises and equipment, and
  - (c) the addition of economic value, by the relevant person, to those to whom the goods or services are provided,
- commensurate with the size and nature of those activities.
- (9) In subsection (8)(a) “staff” means employees, agents or contractors of the relevant person.
- (10) To determine if a person has a “business establishment” in a territory outside the United Kingdom, apply sections 1141, 1142(1) and 1143 of CTA 2010 as if in those provisions—
- (a) references to a company were to a person, and
  - (b) references to a permanent establishment were to a business establishment.
- (11) Subsection (6) does not apply if—
- (a) the relevant transfer is made by an individual who makes it wholly—
    - (i) for personal reasons (and not commercial reasons), and
    - (ii) for the personal benefit (and not the commercial benefit) of other individuals, and
  - (b) no consideration is given (directly or indirectly) for the relevant transfer or otherwise for any benefit received by any individual mentioned in paragraph (a)(ii),
- and all assets and income falling within subsection (12) are dealt with accordingly.
- (12) The assets and income falling within this subsection are—
- (a) any of the assets transferred by the relevant transfer;
  - (b) any assets directly or indirectly representing any of the assets transferred;
  - (c) any income arising from any assets within paragraph (a) or (b);
  - (d) any assets directly or indirectly representing the accumulations of income arising from any assets within paragraph (a) or (b).
- (13) In subsections (11) and (12) references to the relevant transfer are to—
- (a) if the transaction mentioned in subsection (1) is a relevant transfer, the transfer,
- or

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- (b) if the transaction so mentioned is an associated operation, the relevant transfer to which it relates.
- (14) Subsection (15) applies if—
- (a) subsection (2) would apply in relation to a transaction but for the individual being unable to satisfy an officer of Revenue and Customs for the purposes of condition B that the transaction meets the requirements set out in subsection (6), but
  - (b) the individual does satisfy an officer of Revenue and Customs that those requirements are met in relation to a part of the transaction.
- (15) Subsection (2) applies as if the reference to the transaction were to that part of the transaction.]

#### Textual Amendments

**F1333S.** 742A inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 7](#)

#### *[<sup>F1334</sup>Value of certain benefits*

#### Textual Amendments

**F1334Ss.** 742B-742E and cross-heading inserted (with effect in accordance with Sch. 9 para. 3 of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 9 para. 2](#)

### **742B Value of certain benefits**

Sections 742C to 742E apply where it is necessary, for the purpose of calculating a charge to income tax under the preceding provisions of this Chapter, to determine the value of a benefit provided to a person by way of—

- (a) a payment by way of loan (see section 742C),
- (b) making available movable property without any transfer of the property in it (see section 742D), or
- (c) making available land for use without transferring the whole interest in it (see section 742E).

### **742C Value of benefit provided by a payment by way of loan**

- (1) The value of the benefit provided to a person (P) by a payment by way of loan to P is, for each tax year in which the loan is outstanding, the amount (if any) by which—
  - (a) the amount of interest that would have been payable in that year on the loan if interest had been payable on the loan at the official rate, exceeds
  - (b) the amount of interest (if any) actually paid by P in that year on the loan.
- (2) In this section and section 742D the “official rate”, in relation to interest, means the rate applicable from time to time under section 178 of the Finance Act 1989 for the purposes of Chapter 7 of Part 3 of ITEPA 2003.

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**Modifications etc. (not altering text)**

- C108** Ss. 742C-742E applied by 2005 c. 5, s. 643B(3) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C109** Ss. 742C-742E applied by 2005 c. 5, s. 643I(8) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**742D Value of benefit provided by making movable property available**

- (1) The value of the benefit provided by making movable property available, without any transfer of the property in it, to a person (P) is, for each tax year in which the benefit is provided to P—

$$(CC \times R \times D Y) - T$$

where—

CC is the capital cost of the movable property on the date when the property is first made available to P in the tax year,

D is the number of days in the tax year on which the property is made available to P (the relevant period),

R is the official rate of interest for the relevant period (but see subsection (3)),

T is the total of the amounts (if any) paid in the tax year by P—

- (a) to the person providing the benefit, in respect of the availability of the movable property, or
- (b) so far as not within paragraph (a), in respect of the repair, insurance, maintenance or storage of the movable property, and

Y is the number of days in the tax year.

- (2) In subsection (1), in the meaning of CC, the “capital cost” of the movable property means an amount equal to the total of—

- (a) the amount which is the greater of—
  - (i) the amount or value of the consideration given for the acquisition of the movable property by, or on behalf of, the person (A) providing the benefit, and
  - (ii) its market value at the time of that acquisition, and
- (b) the amount of any expenditure wholly and exclusively incurred by, or on behalf of, A for the purpose of enhancing the value of the movable property.

- (3) If the official rate of interest changes during the relevant period, then in subsection (1) R is the average official rate of interest for the period calculated as follows.

*Step 1* Multiply each official rate of interest in force during the relevant period by the number of days when it is in force.

*Step 2* Add together the products found in Step 1.

*Step 3* Divide the total found in Step 2 by the number of days in the relevant period.

- (4) In subsections (1) and (2), “movable property” means any tangible movable property other than money.



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**Modifications etc. (not altering text)**

- C108** Ss. 742C-742E applied by 2005 c. 5, s. 643B(3) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C109** Ss. 742C-742E applied by 2005 c. 5, s. 643I(8) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**742E Value of benefit provided by making land available**

- (1) The value of the benefit provided by making land available for the use of a person (P) is, for each tax year in which the benefit is provided to P, the amount by which—
- (a) the rental value of the land for the period of the tax year during which the land is made available to P, exceeds
  - (b) the total of the amounts (if any) paid in the tax year by P—
    - (i) to the person providing the benefit, in respect of the availability of the land, or
    - (ii) so far as not within sub-paragraph (i), in respect of costs of repair, insurance or maintenance relating to the land.
- (2) Subsection (1) does not apply in the case where the person providing the benefit transfers the whole of the person's interest in the land to P.
- (3) In subsection (1) “the rental value” of the land for a period means the rent which would have been payable for the period if the land had been let to P at an annual rent equal to the annual value.
- (4) For the purposes of subsection (3) “the annual value” of land is the rent that might reasonably be expected to be obtained on a letting from year to year if—
- (a) the tenant undertook to pay all taxes, rates and charges usually paid by a tenant, and
  - (b) the landlord undertook to bear the costs of the repairs and insurance and the other expenses (if any) necessary for maintaining the property in a state to command that rent.
- (5) For the purposes of subsection (4) that rent—
- (a) is to be taken to be the amount that might reasonably be expected to be so obtained in respect of a letting of the land, and
  - (b) is to be calculated on the basis that the only amounts that may be deducted in respect of services provided by the landlord are amounts in respect of the costs to the landlord of providing any relevant services.
- (6) In subsection (5) “relevant service” means a service other than the repair, insurance or maintenance of the property.]

**Modifications etc. (not altering text)**

- C108** Ss. 742C-742E applied by 2005 c. 5, s. 643B(3) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C109** Ss. 742C-742E applied by 2005 c. 5, s. 643I(8) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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### General

#### 743 No duplication of charges

- (1) No amount of income may be taken into account more than once in charging income tax under this Chapter.
- (2) If there is a choice about the persons in relation to whom any amount of income may be taken into account in charging income tax under this Chapter, it is to be taken into account—
  - (a) in relation to such one or more of them as appears to an officer of Revenue and Customs to be just and reasonable, and
  - (b) if more than one, in such respective proportions as appears to the officer to be just and reasonable.
- [<sup>F1335</sup>(2A) Subsection (2B) applies if—
  - (a) in the case of an individual, an amount of income is taken into account in charging income tax under section 720 or 727, and
  - (b) the individual subsequently receives that income.
- (2B) The income received is treated as not being the individual's income for income tax purposes.]
- (3) For the meaning of references in [<sup>F1336</sup>this section] to an amount of income taken into account in charging tax, see section 744.
- <sup>F1337</sup>(4) .....

#### Textual Amendments

**F1335S.** 743(2A)(2B) inserted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by

[Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 16\(2\)](#)

**F1336** Words in s. 743(3) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act)

by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 16\(3\)](#)

**F1337S.** 743(4) omitted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by virtue of

[Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 16\(4\)](#)

#### 744 Meaning of taking income into account in charging income tax for section 743

- (1) References in section [<sup>F1338</sup>743] (no duplication of charges) to an amount of income taken into account in charging income tax are to be read as follows.
- (2) In the case of tax charged on income under section 720 (charge where income enjoyed as a result of relevant transactions)—
  - (a) if section 724(1) (benefit provided out of income of person abroad) applies, they are references to an amount of the income out of which the benefit is provided equal to the amount <sup>F1339</sup>... charged, and
  - (b) otherwise they are references to the amount of [<sup>F1340</sup>the income mentioned in section 721(2)].
- (3) In the case of tax charged on income under section 727 (charge where capital sums received as a result of relevant transactions), they are references to the amount of [<sup>F1341</sup>the income mentioned in section 728(1)(a)].

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- (4) In the case of tax charged under section 731 (charge to tax on income treated as arising to non-transferors where benefit received as a result of relevant transfers), they are references to the amount of relevant income taken into account under section 733 (income charged under section 731) in calculating the amount to be charged in respect of the benefit for the tax year in question.

#### Textual Amendments

- F1338** Word in s. 744(1) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 17\(2\)](#)
- F1339** Words in s. 744(2)(a) omitted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 17\(3\)\(a\)](#)
- F1340** Words in s. 744(2)(b) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 17\(3\)\(b\)](#)
- F1341** Words in s. 744(3) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 10 para. 17\(4\)](#)

#### 745 Rates of tax applicable to income charged under sections 720 and 727 etc

- (1) Income tax at the basic rate, [<sup>F1342</sup>or the [<sup>F1343</sup>starting rate for savings]]<sup>F1344</sup> when that rate is more than 0%,<sup>F1345</sup>... is not charged under section 720 or 727 in respect of any income [<sup>F1346</sup>if (and to the corresponding extent that) the income mentioned in section 721(2) or 728(1)(a)] has borne tax at that rate by deduction or otherwise.
- [<sup>F1347</sup>(1A) Income tax at a Scottish rate above 0% and below, or equal to, the basic rate is not charged under section 720 or 727 in respect of any income if (and to the corresponding extent that) the income mentioned in section 721(2) or 728(1)(a) has borne tax at the basic rate.]
- [<sup>F1348</sup>(1B) Income tax at the Welsh basic rate when that rate is above 0% and below, or equal to, the basic rate is not charged under section 720 or 727 in respect of any income if (and to the corresponding extent that) the income mentioned in section 721(2) or 728(1)(a) has borne tax at the basic rate.]
- (2) [<sup>F1349</sup>Subsections (1) [<sup>F1350</sup>, (1A) and (1B)] do] not affect the tax charged if section 724(2) applies (benefit provided out of income of person abroad charged in year of receipt).
- [<sup>F1351</sup>(3) Subsection (4) applies to income treated as arising to an individual under section 721 or 728 so far as [<sup>F1352</sup>none of subsections (1), (1A) and (1B)] applies to it.
- (4) The charge to income tax under section 720 or 727 operates by treating the income as if it were income within section 19(2) (meaning of “dividend income”) if the income mentioned in section 721(2) or 728(1)(a) would be dividend income were it the income of the individual.]

#### Textual Amendments

- F1342** Word in s. 745(1) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(12\)\(a\)](#)
- F1343** Words in s. 745(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 24](#)

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- F1344** Words in s. 745(1) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(9\)\(17\)](#)
- F1345** Words in s. 745(1) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), Sch. 1 para. 63\(12\)\(b\)](#)
- F1346** Words in s. 745(1) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 10 para. 18\(2\)](#)
- F1347** S. 745(1A) inserted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\), arts. 1\(2\), 6\(6\)\(a\)](#)
- F1348** S. 745(1B) inserted (with effect according to art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1\(1\), 12\(9\)\(a\)](#)
- F1349** Words in s. 745(2) substituted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\), arts. 1\(2\), 6\(6\)\(b\)](#)
- F1350** Words in s. 745(2) substituted (with effect according to art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1\(1\), 12\(9\)\(b\)](#)
- F1351** S. 745(3)(4) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 10 para. 18\(3\)](#)
- F1352** Words in s. 745(3) substituted (with effect according to art. 1(2) of the amending S.I.) by [The Devolved Income Tax Rates \(Consequential Amendments\) Order 2019 \(S.I. 2019/201\), arts. 1\(1\), 12\(9\)\(c\)](#)

## 746 Deductions and reliefs where individual charged under section 720 or 727

- (1) This section applies for the purpose of calculating the liability to income tax of an individual charged under section 720 or 727.
- [<sup>F1353</sup>(2) For the purpose of determining the deductions and reliefs allowed to the individual, the individual is to be treated as if the individual had actually received the amount by reference to which the income treated as arising to the individual under section 721 or 728 is determined.]

### Textual Amendments

- F1353** S. 746(2) substituted (with effect in accordance with Sch. 10 para. 20 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 10 para. 19](#)

## 747 Amounts corresponding to accrued income profits and related interest

- (1) This subsection applies if a person—
- (a) would have been treated as—
    - (i) making qualifying accrued income profits, or
    - (ii) making qualifying accrued income profits of a greater amount, in an interest period, but
  - (b) is not so treated because of being resident or domiciled outside the United Kingdom throughout any tax year in which the interest period (or part of it) falls.
- (2) If subsection (1) applies, this Chapter applies as if the amount which the person would be treated as making or, as the case may be, the additional amount were income becoming payable to the person.

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- (3) Accordingly, any reference in this Chapter to income of (or payable or arising to) a person abroad must be read as including a reference to such an amount.
- (4) This subsection applies if income consisting of interest which falls due at the end of an interest period—
  - (a) would have been income as respects which a person is entitled to an exemption, or an exemption of a greater amount, from liability to income tax under section 679 (interest on securities involving accrued income losses: general), but
  - (b) is not such income because it is income of a person who is resident or domiciled outside the United Kingdom throughout any tax year in which the interest period (or part of it) falls.
- (5) If subsection (4) applies, for the purposes of this Chapter the interest is treated as reduced by the amount of the exemption or, as the case may be, the additional exemption.
- (6) In this section—
  - (a) expressions which are also used in Chapter 2 of Part 12 (accrued income profits) have the same meaning as in that Chapter (but see subsection (7)), and
  - (b) “qualifying accrued income profits” means accrued income profits which are treated as made—
    - (i) under section 628(5), or
    - (ii) under section 630(2) in respect of a transfer of variable rate securities.
- (7) In the case of qualifying accrued income profits within sub-paragraph (ii) of the definition of that expression in subsection (6)(b)—
  - (a) references in subsection (1)(a) to making qualifying accrued income profits in an interest period are to be read as making them in the tax year in which the settlement day falls, and
  - (b) the reference in subsection (1)(b) to the interest period is to the period—
    - (i) beginning with the day after the last day of the only or last interest period of the securities, and
    - (ii) ending with the settlement day.

### *Supplementary*

#### **748 Power to obtain information**

- (1) An officer of Revenue and Customs may by notice require any person to provide the officer with such particulars as the officer may reasonably require for the purposes of this Chapter.
- (2) The officer may direct the time within which the particulars must be provided and that time must be at least 30 days.
- (3) The particulars which a person must provide under this section, if required to do so by a notice under subsection (1), include particulars about—
  - (a) transactions with respect to which the person is or was acting on behalf of others,

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- (b) transactions which in the opinion of the officer should properly be investigated for the purposes of this Chapter even though in the person's opinion no liability to income tax arises under this Chapter, and
  - (c) whether the person has taken or is taking any part and, if so, what part in transactions of a description specified in the notice.
- (4) A [<sup>F1354</sup>relevant lawyer] is not treated as having taken part in a transaction for the purposes of subsection (3)(c) merely because of giving professional advice to a client about it.
- [<sup>F1355</sup>(4A) In this section “relevant lawyer” means a barrister, advocate, solicitor or other legal representative communications with whom may be the subject of a claim to professional privilege or, in Scotland, protected from disclosure in legal proceedings on grounds of confidentiality of communication.]
- (5) This section is subject to—
- section 749 (restrictions on particulars to be provided by [<sup>F1356</sup>relevant lawyers]),
  - and
  - section 750 (restrictions on particulars to be provided by banks).

#### Textual Amendments

- F1354** Words in s. 748(4) substituted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 158\(a\)](#) (with [ss. 29, 192, 193](#)); S.I. 2009/3250, art. 2(h)
- F1355** S. 748(4A) inserted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 158\(b\)](#) (with [ss. 29, 192, 193](#)); S.I. 2009/3250, art. 2(h)
- F1356** Words in s. 748(5) substituted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 158\(c\)](#) (with [ss. 29, 192, 193](#)); S.I. 2009/3250, art. 2(h)

#### 749 Restrictions on particulars to be provided by [<sup>F1357</sup>relevant lawyers]

- (1) In relation to anything done by a [<sup>F1358</sup>relevant lawyer] on behalf of a client who does not consent to the information otherwise required from the [<sup>F1358</sup>relevant lawyer] under section 748 being provided, the [<sup>F1358</sup>relevant lawyer] may not be compelled under that section to do more than—
  - (a) state that the [<sup>F1358</sup>relevant lawyer] is or was acting on behalf of a client, and
  - (b) give the name and address of the client and any relevant person.
- (2) In the case of anything done by the [<sup>F1358</sup>relevant lawyer] in connection with the transfer of any asset by or to an individual who is <sup>F1359</sup>... UK resident to or by a body corporate to which subsection (6) applies, the transferor and the transferee are relevant persons.
- (3) In the case of anything done by the [<sup>F1358</sup>relevant lawyer] in connection with any associated operation in relation to any such transfer, the persons concerned in the associated operations are relevant persons.
- (4) In the case of anything done by the [<sup>F1358</sup>relevant lawyer] in connection with the formation or management of a body corporate to which subsection (6) applies, the body corporate is a relevant person.
- (5) In the case of anything done by the [<sup>F1358</sup>relevant lawyer] in connection with—

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- (a) the creation of any settlement as a result of which income becomes payable to a person abroad, or
  - (b) the execution of the trusts of any such settlement,
- the settlor and that person are relevant persons.
- (6) This subsection applies to bodies corporate resident or incorporated outside the United Kingdom which—
- (a) are, or if UK resident would be, close companies, and
  - (b) are not companies whose business consists wholly or mainly of the carrying on of a trade or trades.
- [<sup>F1360</sup>(7) In this section—
- “relevant lawyer” means a barrister, advocate, solicitor or other legal representative communications with whom may be the subject of a claim to professional privilege or, in Scotland, protected from disclosure in legal proceedings on grounds of confidentiality of communication;
  - “settlement” and “settlor” have the meanings given by section 620 of ITTOIA 2005.]
- (8) In the application of this section to Scotland, any reference to the trusts of a settlement is a reference to the purposes of the settlement.

#### Textual Amendments

- F1357** Words in s. 749 heading substituted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 159\(a\)](#) (with [ss. 29, 192, 193](#)); [S.I. 2009/3250, art. 2\(h\)](#)
- F1358** Words in s. 749 substituted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 159\(b\)](#) (with [ss. 29, 192, 193](#)); [S.I. 2009/3250, art. 2\(h\)](#)
- F1359** Word in s. 749(2) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\), Sch. 46 para. 65\(1\)](#) (with [Sch. 46 paras. 65\(2\), 73](#))
- F1360** S. 749(7) substituted (1.1.2010) by [Legal Services Act 2007 \(c. 29\), s. 211\(2\), Sch. 21 para. 159\(c\)](#) (with [ss. 29, 192, 193](#)); [S.I. 2009/3250, art. 2\(h\)](#)

#### 750 Restrictions on particulars to be provided by banks

- (1) Section 748 does not oblige a bank to provide any particulars of any ordinary banking transactions between the bank and a customer carried out in the ordinary course of banking business, unless subsection (2) or (3) applies.
- (2) This subsection applies if the bank has acted or is acting on behalf of the customer in connection with—
- (a) the creation of any settlement as a result of which income becomes payable to a person abroad, or
  - (b) the execution of the trusts of any such settlement.
- (3) This subsection applies if the bank has acted or is acting on behalf of the customer in connection with the formation or management of a body corporate to which section 749(6) applies.
- (4) In this section—
- “bank” has the meaning given by section 991, and
  - “settlement” has the meaning given by section 620 of ITTOIA 2005.

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- (5) In the application of this section to Scotland, any reference to the trusts of a settlement is a reference to the purposes of the settlement.

## 751 <sup>F1361</sup>The tribunal's] jurisdiction on appeals

<sup>F1362</sup>On any appeal that is notified to the tribunal, the jurisdiction of the tribunal] includes jurisdiction to affirm or replace any decision taken by an officer of Revenue and Customs in exercise of the officer's functions under—

- (a) section 737 (exemption: all relevant transactions post-4 December 2005 transactions),
- (b) section 738 (meaning of “commercial transaction”),
- (c) section 739 (exemption: all relevant transactions pre-5 December 2005 transactions),
- (d) section 742 (partial exemption where later associated operations fail conditions),
- <sup>F1363</sup>(da) section 742A (post-5 April 2012 transactions: exemption for genuine transactions),]
- (e) section 743(2) (no duplication of charges: choice of persons in relation to whom income is taken into account).

### Textual Amendments

**F1361** Words in s. 751 heading substituted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 461(2)**

**F1362** Words in s. 751 substituted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 461(3)**

**F1363** S. 751(da) inserted (with effect in accordance with Sch. 10 para. 9(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 10 para. 8**

## <sup>F1364</sup>CHAPTER 3

### TRANSACTIONS IN LAND

### Textual Amendments

**F1364** Pt. 13 Ch. 3 omitted (with effect in relation to disposals on or after 5.7.2016) by virtue of [Finance Act 2016 \(c. 24\)](#), **ss. 79(5), 82(1)** (with [s. 82\(2\)-\(15\)](#)); which omission also has effect so far as it would not otherwise have effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **s. 39(1)(2)**

### *Introduction*

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### *Charge on gains from transactions in land*

.....

### *Further provisions relevant to the charge*

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*Exemptions*

.....

*Recovery of tax*

.....

*Clearances and power to obtain information*

.....

*Interpretation*

.....

**CHAPTER 4**

SALES OF OCCUPATION INCOME

*Introduction*

**773 Overview of Chapter**

- (1) This Chapter imposes a charge to income tax—
  - (a) on individuals to whom income is treated as arising under section 778 (income arising where capital amount other than derivative property or right obtained), and
  - (b) on individuals to whom income is treated as arising under section 779 (income arising where derivative property or right obtained).
- (2) Income is treated as arising under those sections only if—
  - (a) transactions are effected or arrangements made to exploit the earning capacity of an individual in an occupation, and
  - (b) the main object or one of the main objects of the transactions or arrangements is the avoidance or reduction of liability to income tax.

**774 Meaning of “occupation”**

In this Chapter references to an occupation, in relation to an individual, are references to any activities of a kind undertaken in a profession or vocation, regardless of whether the individual—

- (a) is carrying on a profession or vocation on the individual's own account, or
- (b) is an employee or office-holder.

**775 Priority of other tax provisions**

This Chapter has effect subject to—

- (a) Chapter 5 of Part 5 of ITTOIA 2005 (settlements: amounts treated as income of settlor), and
- (b) any other provision of the Tax Acts treating income as belonging to a particular person.

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### *Charge on sale of occupation income*

#### **776 Charge to tax on sale of occupation income**

- (1) Income tax is charged on income treated as arising under—
  - (a) section 778 (income arising where capital amount other than derivative property or right obtained), or
  - (b) section 779 (income arising where derivative property or right obtained).
- (2) Tax is charged under this section on the full amount of income treated as arising in the tax year.
- (3) The person liable for any tax charged under this section is the individual to whom the income is treated as arising.
- (4) This section is subject to section 784 (exemption for sales of going concerns).

#### **777 Conditions for sections 778 and 779 to apply**

- (1) Sections 778 and 779 apply only if conditions A to C are met in respect of an individual.
- (2) Condition A is that the individual carries on an occupation wholly or partly in the United Kingdom.
- (3) Condition B is that transactions are effected or arrangements made to exploit the individual's earning capacity in the occupation by putting another person (see section 782) in a position to enjoy—
  - (a) all or part of the income or receipts derived from the individual's activities in the occupation, or
  - (b) anything derived directly or indirectly from such income or receipts.
- (4) The reference in subsection (3) to income or receipts derived from the individual's activities includes a reference to payments for any description of copyright or licence or franchise or other right deriving its value from the individual's activities (including past activities).
- (5) Condition C is that as part of, or in connection with, or in consequence of, the transactions or arrangements a capital amount is obtained by the individual for the individual or another person.
- (6) For the purposes of subsection (5), the cases where an individual (“A”) obtains a capital amount for another person (“B”) include cases where A has put B in a position to receive the capital amount by providing B with something of value derived, directly or indirectly, from A's activities in the occupation.
- (7) In this Chapter “capital amount” means an amount in money or money's worth which does not fall to be included in a calculation of income for <sup>F1365</sup>purposes of the Tax Acts otherwise than as a result of] this Chapter.

#### **Textual Amendments**

**F1365** Words in s. 777(7) substituted (retrospective with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\)](#), [art. 4\(5\)](#)

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### **778 Income arising where capital amount other than derivative property or right obtained**

- (1) This section applies if the capital amount obtained as mentioned in section 777(5) does not consist of—
  - (a) property which derives substantially the whole of its value from the individual's activities, or
  - (b) a right which does so.
- (2) The capital amount is treated for income tax purposes as income arising to the individual.
- (3) The income is treated as arising in the tax year in which the capital amount is receivable.
- (4) A capital amount is not regarded as having become receivable by a person for the purposes of this section until the person can effectively enjoy or dispose of it.

### **779 Income arising where derivative property or right obtained**

- (1) This section applies if—
  - (a) the capital amount obtained as mentioned in section 777(5) consists of—
    - (i) property which derives substantially the whole of its value from the activities of an individual, or
    - (ii) a right which does so, and
  - (b) the property or right is sold or otherwise realised.
- (2) For the purposes of subsection (1), it does not matter whether the capital amount is obtained on one occasion or on two or more occasions (for example, because the individual acquires a stock option and subsequently exercises it).
- (3) Income of an amount equal to the proceeds of sale or the realised value is treated for income tax purposes as income arising to the individual.
- (4) The income is treated as arising in the tax year in which the property or right is sold or otherwise realised.

*Further provisions relevant to the charge*

### **780 Transactions, arrangements, sales and realisations relevant for Chapter**

- (1) For the purposes of this Chapter, account is to be taken of any method, however indirect, by which—
  - (a) any property or right is transferred or transmitted, or
  - (b) the value of any property or right is enhanced or diminished.
- (2) Accordingly—
  - (a) the occasion of the transfer or transmission of any property or right however indirect, and
  - (b) the occasion when the value of any property or right is enhanced, may be an occasion when tax is charged under this Chapter.
- (3) Subsections (1) and (2) apply in particular—

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- (a) to sales, contracts and other transactions made otherwise than for full consideration or for more than full consideration,
- (b) to any method by which any property or right, or the control of any property or right, is transferred or transmitted by assigning—
  - (i) share capital or other rights in a company,
  - (ii) rights in a partnership, or
  - (iii) an interest in settled property,
- (c) to the creation of an option and the giving of consideration for granting it,
- (d) to the creation of a requirement for consent and the giving of consideration for granting it,
- (e) to the creation of an embargo affecting the disposition of any property or right and the giving of consideration for releasing it, and
- (f) to the disposal of any property or right on the winding up, dissolution or termination of a company, partnership or trust.

### **781 Tracing value**

- (1) This section applies if it is necessary to determine the extent to which the value of any property or right is derived from any other property or right for the purposes of this Chapter.
- (2) Value may be traced through any number of companies, partnerships and trusts.
- (3) The property held by a company, partnership or trust must be attributed to the shareholders, partners or beneficiaries at each stage in such manner as is appropriate in the circumstances.

### **782 Meaning of “other person”**

- (1) For the purposes of this Chapter references to other persons are to be read in accordance with subsections (2) to (4).
- (2) A partnership or partners in a partnership may be regarded as a person or persons distinct from the individuals or other persons who are for the time being partners.
- (3) The trustees of settled property may be regarded as persons distinct from the individuals or other persons who are for the time being trustees.
- (4) Personal representatives may be regarded as persons distinct from the individuals or other persons who are for the time being personal representatives.

### **783 Valuations and apportionments**

- (1) All such valuations are to be made as are appropriate to give effect to this Chapter.
- (2) For the purposes of this Chapter, any expenditure, receipt, consideration or other amount may be apportioned by such method as is just and reasonable in the circumstances.

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### *Exemption for sales of going concerns*

#### **784 Exemption for sales of going concerns**

- (1) This section applies if a capital amount is obtained from the disposal—
  - (a) of assets (including any goodwill) of a profession or vocation,
  - (b) of a share in a partnership which is carrying on a profession or vocation, or
  - (c) of shares in a company.
- (2) An individual is not liable to income tax under this Chapter in respect of the capital amount so far as the going concern condition is met (see subsections (4) and (5)).
- (3) Subsection (2) is subject to section 785 (restriction on exemption: sales of future earnings).
- (4) In the case of a disposal within subsection (1)(a) or (b), the going concern condition is that the value of what is disposed of at the time of disposal is attributable to the value of the profession or vocation as a going concern.
- (5) In the case of a disposal within subsection (1)(c), the going concern condition is that the value of what is disposed of at the time of disposal is attributable to the value of the company's business as a going concern.
- (6) In subsection (5) the reference to the company's business includes a reference to the business of any other company in which it holds shares directly or indirectly.

#### **785 Restriction on exemption: sales of future earnings**

- (1) This section applies if the value as a going concern mentioned in section 784(4) or (5) is derived to a material extent from prospective income or receipts derived directly or indirectly from the individual's activities in the occupation.
- (2) The exemption under section 784 applies to the value so derived only if the future earnings condition is met.
- (3) The future earnings condition is met if, ignoring all capital amounts, the individual will receive full consideration for the prospective income or receipts, whether as a partner in a partnership or as an employee or otherwise.
- (4) The references in subsections (1) and (3) to income or receipts include references to payments for any description of copyright, licence, franchise or other right deriving its value from the individual's activities (including past activities).

### *Recovery of tax*

#### **786 Recovery of tax where consideration receivable by person not assessed**

- (1) This section applies if a person (“A”) is assessed to tax under this Chapter in respect of consideration receivable by another person (“B”).
- (2) Consideration is not regarded as having become receivable by B for this purpose until B can effectively enjoy or dispose of it.
- (3) A is entitled to recover from B any part of the tax which A has paid.

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- (4) If any part of the tax remains unpaid at the end of the period of 6 months beginning with the date when it became due and payable, it is recoverable from B as if B were the person assessed.
- (5) Subsection (4) does not affect the right to recover the tax from A.
- (6) For the purposes of this section, any income which an individual is treated as having as a result of this Chapter (the “occupation income”) is treated as the highest part of the individual's total income.
- (7) But if in the tax year—
  - (a) more than one capital amount is treated as the individual's occupation income, or
  - (b) the individual is also treated as having income as a result of Chapter 3 (transactions in land),
 only a just and reasonable proportion of each capital amount treated as occupation income is to be treated as the highest part of the individual's total income.
- (8) See section 1012 for the relationship between—
  - (a) the rules in subsections (6) and (7), and
  - (b) other rules requiring particular income to be treated as the highest part of a person's total income.

#### **787 Recovery of tax: certificates of tax paid etc**

- (1) For the purposes of section 786(3), an officer of Revenue and Customs must, if requested to do so, produce a certificate specifying—
  - (a) the amount of income in respect of which tax has been paid, and
  - (b) the amount of tax paid.
- (2) The certificate is conclusive evidence of any facts stated in it.
- (3) See also section 944 (under which directions may be given for payments within this Chapter to non-UK residents to be subject to a duty to deduct income tax).

#### *Power to obtain information*

#### **<sup>F1366</sup>788 Power to obtain information**

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#### **Textual Amendments**

**F1366S.** 788 omitted (13.8.2009) by virtue of [The Finance Act 2009, Schedule 47 \(Consequential Amendments\) Order 2009 \(S.I. 2009/2035\)](#), art. 1, [Sch. para. 50](#)

#### *Interpretation*

#### **789 Minor definitions**

In this Chapter—

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“company” includes any body corporate, and  
“share” includes stock.

## CHAPTER 5

### AVOIDANCE INVOLVING TRADING LOSSES

#### *Introduction*

#### **790 Overview of Chapter**

- (1) This Chapter imposes charges to income tax on—
  - (a) individuals who are treated as receiving income under section 792 (individuals in partnership claiming excess relief),
  - (b) individuals who are treated as receiving income under section 797 (individuals claiming relief for film-related trading losses), and
  - (c) individuals who are treated as receiving income under section 805 (individuals in partnership claiming relief for licence-related trading losses).
- (2) The charges apply if (among other things) the individual makes a loss in a trade for which the individual claims sideways relief or capital gains relief.
- (3) For the purposes of this Chapter sideways relief is—
  - (a) trade loss relief against general income (see sections 64 to 70), or
  - (b) early trade losses relief (see sections 72 to 74).
- (4) For the purposes of this Chapter—
  - (a) capital gains relief is, in relation to a loss, the treatment of the loss as an allowable loss by virtue of section 261B of TCGA 1992 (use of trading loss as a CGT loss), and
  - (b) capital gains relief is claimed for a loss when a claim under that section is made in relation to the loss.
- (5) References in this Chapter to a firm are to be read in the same way as references to a firm in Part 9 of ITTOIA 2005 (which contains special provision about partnerships).

#### *Individuals in partnership: recovery of excess relief*

#### **791 Charge to tax on income treated as received under section 792**

- (1) Income tax is charged on income treated as received by an individual under section 792.
- (2) Tax is charged under this section on the amount of the income treated as received in the tax year.
- (3) The person liable for any tax charged under this section is the individual treated as receiving the income.

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## **792 Partners claiming excess sideways or capital gains relief**

- (1) This section applies if—
- (a) an individual carrying on a trade (“the relevant trade”) as a partner in a firm makes post-1 December 2004 losses in the relevant trade for which the individual claims relief within subsection (2),
  - (b) any of sections 104, 107 and 110 applies in relation to the relief (whether or not any of those sections restricts the amount of the relief), and
  - (c) after the individual makes the claim or claims, a chargeable event occurs.
- (2) The relief within this subsection is—
- (a) sideways relief but only if the whole or part of the relief is claimed against income of the individual apart from profits of the relevant trade, and
  - (b) capital gains relief.
- (3) A chargeable event occurs whenever—
- (a) the amount of the individual's contribution to the firm is reduced as a result of the application of regulations made under section 114, and
  - (b) that reduction in the individual's contribution to the firm immediately results in—
    - (i) the total amount of trade losses claimed (less any reclaimed relief) becoming greater than the contribution, or
    - (ii) an increase in the amount by which the total amount of trade losses claimed (less any reclaimed relief) exceeds the contribution.
- (4) The individual is treated as receiving an amount of income every time a chargeable event occurs.

The income is treated as arising otherwise than as profits of a trade.

- (5) The amount of the income is calculated in accordance with section 793.
- (6) If—
- (a) the firm is carrying on, or has carried on, more than one trade, and
  - (b) subsection (1)(a) and (b) applies in relation to losses made by the individual in one or more of those trades as a partner in the firm,

the firm's trades are taken together for the purpose of determining whether a chargeable event occurs at any time after a claim in relation to any of those losses has been made and, if one does occur, the amount of income treated as received by the individual at that time.

See section 794(6) for modifications giving effect to this.

- (7) References in this section to an individual being a partner in a firm include a reference to an individual being a limited partner within the meaning of section [F1367]103A] as a result of subsection (1)(c) of that section.
- (8) And, accordingly, in the case of an individual who is such a limited partner, in this section and in sections 793 to 795 references to the individual's firm are references to the relationship between the individual and the other persons mentioned in section [F1368]103A(3)(a)].



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### Textual Amendments

**F1367** Word in s. 792(7) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 17\(a\), 21](#)

**F1368** Word in s. 792(8) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 17\(b\), 21](#)

## 793 Calculating the amount of income treated as received

- (1) The amount of income treated as received by the individual under section 792 when the chargeable event occurs is the lowest of amounts A to C.
- (2) Amount A is the amount by which the individual's contribution to the firm is reduced as a result of the application of regulations made under section 114.
- (3) Amount B is the amount given by—
  - (a) taking, at the time immediately after the chargeable event occurs, the total amount of trade losses claimed that are post-1 December 2004 losses, and
  - (b) reducing that amount (but not below nil) by any reclaimed relief.
- (4) Amount C is the amount given by—
  - (a) taking the amount by which, at the time immediately after the chargeable event occurs, the total amount of trade losses claimed exceeds the individual's contribution to the firm, and
  - (b) reducing that amount (but not below nil) by any reclaimed relief.

## 794 Meaning of “the total amount of trade losses claimed” etc

- (1) In sections 792 and 793 “the total amount of trade losses claimed” means the total amount of losses within subsection (2) for which the individual has claimed sideways relief or capital gains relief.
- (2) The losses within this subsection are losses made by the individual in the relevant trade—
  - (a) in a tax year at a time during which the individual carries on the relevant trade as a limited partner or as a member of an LLP, or
  - (b) in an early tax year during which the individual carries on the relevant trade as a non-active partner.

Expressions used in this subsection are to be read as if contained in Chapter 3 of Part 4.

- (3) In sections 792 and 793 “reclaimed relief” means the total amount of income treated as received by the individual under section 792 as a result of that section being previously applied in relation to claims for relief for losses made by the individual in the relevant trade.
- (4) In sections 792 and 793 “the individual's contribution to the firm” at any time means the individual's contribution to the firm or the LLP (as the case may be) at that time as calculated for the purposes of the relevant restriction provision.
- (5) The “relevant restriction provision” means—
  - (a) whichever of sections 104, 107 and 110 applied as mentioned in section 792(1)
  - (b), or

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- (b) if more than one of those sections applied as mentioned in section 792(1)(b), the section which so applied to the amount of relief which could be given for the loss most recently made by the individual in the relevant trade.
- (6) In a case to which section 792(6) applies, for the purpose of determining the total amount of trade losses claimed, the amount of the reclaimed relief and the relevant restriction provision—
- (a) apply subsections (1) and (2) in relation to each of the trades that the firm is carrying on, or has carried on, and then add the results together, and
  - (b) apply subsections (3) and (5)(b) as if references to the relevant trade were references to any of the trades that the firm is carrying on, or has carried on.
- But if a trade is of the kind mentioned in section 110(8), do not apply subsection (2)(b) in relation to it.

### **795 Meaning of “post-1 December 2004 loss”**

- (1) For the purposes of sections 792 and 793 a “post-1 December 2004 loss” means—
- (a) any loss made by an individual in a trade in a tax year the basis period for which begins on or after 2 December 2004, or
  - (b) the post-1 December 2004 part of any loss made by an individual in a trade in a tax year the basis period for which includes 2 December 2004 (but begins before that date).
- (2) The “post-1 December 2004 part” of any loss made by an individual in a trade means the individual's share of any losses made by the relevant firm in the trade in the period—
- (a) beginning with 2 December 2004, and
  - (b) ending with the end of the basis period for the tax year concerned.
- (3) For this purpose “the relevant firm” means the firm in which the individual carried on the trade, and—
- (a) the losses of that firm are calculated as if that period were one for which profits and losses had to be calculated for the purposes of section 849 of ITTOIA 2005 (calculation of firm's profits or losses), and
  - (b) the individual's share of the losses is determined in accordance with the individual's interest in the firm during that period.
- (4) In this section “basis period”, in relation to an individual with a notional trade, means the basis period for the notional trade (within the meaning of Part 9 of ITTOIA 2005).

#### *Individuals claiming relief for film-related trading losses*

### **796 Charge to tax on income treated as received under section 797**

- (1) Income tax is charged on income treated as received by an individual under section 797.
- (2) Tax is charged under this section on the amount of the income treated as received in the tax year.
- (3) The person liable for any tax charged under this section is the individual treated as receiving the income.

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## **797 Individuals claiming sideways or capital gains relief for film-related losses**

- (1) This section applies if—
- (a) an individual makes a film-related loss (see section 800) in a trade for which the individual claims sideways relief or capital gains relief (a “relevant claim”),
  - (b) there is a disposal of a right of the individual to profits arising from the trade (a “relevant disposal”) (see section 799), and
  - (c) an exit event occurs.
- (2) An exit event occurs whenever—
- (a) the individual receives any non-taxable consideration (see section 798) for a relevant disposal, or
  - (b) an increase in the individual's claimed film-related losses (see section 800) or a decrease in the individual's capital contribution (see section 801) results in—
    - (i) those losses becoming greater than that contribution, or
    - (ii) an increase in the amount by which those losses exceed that contribution.
- (3) The individual is treated as receiving an amount of income every time a chargeable event occurs.

The income is treated as arising otherwise than as profits of the trade.

- (4) A chargeable event occurs whenever—
- (a) the individual makes a relevant claim (if by that time a relevant disposal and an exit event have occurred),
  - (b) a relevant disposal occurs (if by that time an exit event has occurred and the individual has made a relevant claim), or
  - (c) an exit event occurs (if by that time a relevant disposal has occurred and the individual has made a relevant claim).
- (5) The amount of income treated as received when a chargeable event occurs is equal to the sum of—
- (a) the total amount or value of all non-taxable consideration received by the individual for relevant disposals, and
  - (b) the amount (if any) by which the individual's claimed film-related losses exceed the individual's capital contribution.

The calculation in this subsection is made immediately after the chargeable event occurs and is subject to section 803.

- (6) For the purposes of this section it does not matter—
- (a) if the individual (or anyone else) is still carrying on the trade when a chargeable event occurs, or
  - (b) if the individual receives both non-taxable and taxable consideration for a relevant disposal.

## **798 Meaning of “non-taxable consideration” etc**

- (1) This section applies for the purposes of section 797.

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- (2) Consideration is non-taxable if (apart from section 796) it is not chargeable to income tax.
- (3) Non-taxable consideration from which a deduction within subsection (4) is made is treated as received free of the deduction.
- (4) A deduction is within this subsection if it is in consideration of any person's agreeing to, or facilitating, any relevant disposal or exit event.

### **799 Meaning of “disposal of a right of the individual to profits” etc**

- (1) For the purposes of section 797 any reference to a disposal of a right of an individual to profits arising from a trade includes, in particular, any of events A to D.
- (2) Event A is the disposal, giving up or loss by—
  - (a) the individual, or
  - (b) a firm in which the individual is a partner,
 of a right arising from the trade to income (or any part of any income).  
 It does not matter if the right is disposed of, given up or lost as part of a larger disposal, giving up or loss.
- (3) Event B is the disposal, giving up or loss of the individual's interest in a firm that carries on the trade (including the dissolution of the firm).
- (4) Event C is a default in the payment of income to which—
  - (a) the individual, or
  - (b) a firm in which the individual is a partner,
 has a right arising from the trade.
- (5) Event D is a change in the individual's entitlement to any profits or losses arising from the trade the effect of which is that—
  - (a) the individual's share of any profits is reduced (including to nil), or
  - (b) the individual becomes entitled to a share, or a greater share, of any losses without becoming entitled to a corresponding share of profits.
- (6) The changes covered by event D include cases where there is an agreement under which the individual is entitled—
  - (a) to a particular share of any profits or losses arising from the trade in a period (including a nil share), and
  - (b) to a different share of any such profits or losses in a succeeding period (including a nil share).
- (7) In such cases the change in the individual's entitlement is treated for the purposes of section 797 as occurring at the beginning of the succeeding period.

### **800 Meaning of “film-related losses” etc**

- (1) This section applies for the purposes of sections 797, 801 and 802.
- (2) A loss is a “film-related loss” if the calculation of profits or losses that it results from is made in accordance with any provision of Chapter 9 of Part 2 of ITTOIA 2005.
- (3) “The individual's claimed film-related losses” means—

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- (a) the total amount of film-related losses made by the individual in the trade so far as they are losses for which the individual has made a relevant claim, less
  - (b) the amount of any relevant recovered relief.
- (4) “The amount of any relevant recovered relief” means—
- (a) amount A, or
  - (b) if less, amount B.
- (5) Amount A is the total amount of income treated as received by the individual under section 792 (recovery of excess relief) as a result of the application of that section in relation to claims for relief for losses made by the individual in the trade.
- (6) Amount B is the total amount of film-related losses within subsection (7) for which the individual has made a relevant claim.
- (7) A loss is within this subsection if it is made by the individual in the trade—
- (a) in a tax year at a time during which the individual carries on the trade as a member of an LLP or as a limited partner, or
  - (b) in an early tax year during which the individual carries on the trade as a non-active partner.
- (8) Expressions used in subsection (7) are to be read as if contained in Chapter 3 of Part 4.
- (9) Subsection (10) applies if—
- (a) the individual has made a relevant claim for a film-related loss made in the trade as a partner in a firm, and
  - (b) the firm is carrying on, or has carried on, more than one trade.
- (10) For the purpose of determining the individual's claimed film-related losses—
- (a) apply subsection (3)(a) in relation to each of the trades and then add the results together,
  - (b) apply subsection (5) as if the reference to the trade were a reference to any of the trades, and
  - (c) apply subsections (6) and (7) in relation to each of the trades and then add the results together.

## **801 Meaning of “capital contribution”**

- (1) This section applies for the purposes of section 797.
- (2) The individual's capital contribution is the amount which the individual has contributed to the trade as capital less so much of that amount (if any) as is within subsection (6).

This is subject to subsection (3).

- (3) If the individual has made a relevant claim for a film-related loss made in the trade as a partner in a firm, the individual's capital contribution is the amount which the individual has contributed to the firm as capital less so much of that amount (if any) as is within subsection (6).
- (4) In particular, the individual's share of any profits of the firm is to be included for the purposes of subsection (3) in the amount which the individual has contributed to the firm as capital so far as that share has been added to the firm's capital.

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- (5) In subsection (4) the reference to profits are to profits calculated in accordance with generally accepted accounting practice (before any adjustment required or authorised by law in calculating profits for income tax purposes).
- (6) An amount of capital is within this subsection if it is an amount which—
  - (a) the individual has previously drawn out or received back,
  - (b) the individual is entitled to draw out or receive back,
  - (c) another person has reimbursed to the individual, or
  - (d) the individual is entitled to require another person to reimburse to the individual.
- (7) But if a chargeable event occurs, anything treated for the purposes of section 797(5)(a) as consideration received by the individual for a relevant disposal is not to be treated as capital within subsection (6) in calculating the individual's capital contribution for the purposes of section 797(5)(b).
- (8) In this section—
  - (a) any reference to drawing out, receiving back or reimbursing an amount is to doing so directly or indirectly,
  - (b) any reference to drawing out or receiving back an amount does not include drawing out or receiving back an amount which, because of its being drawn out or received back, is chargeable to income tax as profits of a trade, and
  - (c) any reference to reimbursing an amount includes discharging or assuming all or part of a liability of the individual,
 but the express provision made by paragraph (c) does not affect what counts as the receipt back or reimbursement of an amount.
- (9) This section needs to be read with any regulations made under section 802 (specified amounts to be excluded in calculating a partner's capital contribution for the purposes of section 797).

## **802 Exclusion of amounts in calculating capital contribution by a partner**

- (1) This section applies if an individual makes a relevant claim for a film-related loss made by the individual in a trade as a partner in a firm.
- (2) The Commissioners for Her Majesty's Revenue and Customs may by regulations provide that any amount of a specified description is to be excluded in calculating the individual's capital contribution for the purposes of section 797.
- (3) “Specified” means specified in the regulations.
- (4) The regulations may—
  - (a) make provision having retrospective effect,
  - (b) contain incidental, supplemental, consequential and transitional provision and savings, and
  - (c) make different provision for different cases or purposes.
- (5) The provision which may be made as a result of subsection (4)(b) includes provision amending or repealing any provision of an Act passed before FA 2005.
- (6) No regulations may be made under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.

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### **803 Prohibition against double counting**

- (1) Subsections (2) and (3) apply for the purpose of calculating the amount of income received under section 797 on a chargeable event in respect of the individual and the trade.
- (2) If chargeable events have previously occurred in respect of the individual and the trade, any consideration taken into account in calculating the amount of income received on an earlier chargeable event is left out of account.
- (3) If chargeable events have previously occurred in respect of the individual and the trade, the amount of income received as a result of section 797(5)(b) is reduced (but not below nil) by the total amount of income received on earlier chargeable events as a result of that provision.
- (4) In a case to which section 800(10) (cases in which firm is carrying on, or has carried on, more than one trade) applies—
  - (a) subsections (2) and (3) of this section have effect as if references to the trade were references to any of the firm's trades, and
  - (b) if chargeable events in respect of the individual and any of the firm's trades occur at the same time, to find the total amount of income received under section 797 at that time on those chargeable events—
    - (i) calculate separately the income received on each chargeable event ignoring the other chargeable events,
    - (ii) add the results from sub-paragraph (i) together, and
    - (iii) reduce the total amount of income resulting from sub-paragraph (ii) so far as necessary to ensure that no amount is included more than once in that total.

*Individuals in partnership claiming relief for licence-related trading losses*

### **804 Charge to tax on income treated as received under section 805**

- (1) Income tax is charged on income treated as received by an individual under section 805.
- (2) Tax is charged under this section on the amount of the income treated as received in the tax year.
- (3) The person liable for any tax charged under this section is the individual treated as receiving the income.

### **805 Partners claiming relief for licence-related trading losses**

- (1) This section applies if—
  - (a) an individual carries on a trade as a non-active partner during an early tax year,
  - (b) the individual makes a loss in the trade in that tax year for which the individual claims sideways relief or capital gains relief (a “relevant claim”),
  - (c) the loss derives to any extent from expenditure incurred in the trade in exploiting a licence acquired in carrying on the trade, and
  - (d) there is a relevant disposal of the licence.

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- (2) For the purposes of this section and section 806 there is a relevant disposal of the licence whenever the individual receives non-taxable consideration for—
- (a) a disposal of the licence, or
  - (b) a disposal of a right to income under an agreement related to or containing the licence.
- (3) If one or more chargeable events occur in any tax year, the individual is treated as receiving an amount of income in the tax year.
- The income is treated as arising otherwise than as profits of the trade.
- (4) For the purposes of this section and section 806 a chargeable event occurs whenever—
- (a) there is a relevant disposal of the licence (if by that time the individual has made a relevant claim), or
  - (b) the individual makes a relevant claim (if by that time there has been a relevant disposal of the licence).
- (5) For the purposes of this section and section 806 consideration is non-taxable if—
- (a) (apart from section 804) it is not chargeable to income tax, and
  - (b) its receipt is not an exit event for the purposes of section 797.
- (6) For the purposes of this section and section 806 it does not matter—
- (a) if the individual (or anyone else) is still carrying on the trade when a chargeable event occurs,
  - (b) if the individual receives both non-taxable and taxable consideration for a relevant disposal of the licence, or
  - (c) if a relevant disposal of the licence is part of a larger disposal.

## **806 Calculation of amount of income treated as received by the individual**

The amount of income treated under section 805 as received by the individual in the tax year is calculated by taking the following steps. *Step 1*

Calculate, at the end of the tax year, the total amount of the claimed losses (so far as relating to the licence) made by the individual in the trade in any early tax year during which the individual carried on the trade as a non-active partner.

### *Step 2*

Calculate, at the end of the tax year, the total amount of the profits (so far as relating to the licence) made by the individual in the trade in any tax year.

### *Step 3*

Deduct the total calculated at Step 2 from the total calculated at Step 1.

The result is “the net licence-related loss”.

If the net licence-related loss is nil or a negative figure—

- (a) the income treated as received in the tax year is nil, and
- (b) ignore Steps 4 and 5.

### *Step 4*



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Calculate, at the end of the tax year, the total amount or value of all non-taxable consideration received by the individual for relevant disposals (including consideration received in previous tax years).

*Step 5*

Deduct from—

- (a) the net licence-related loss, or
- (b) if less, the total calculated at Step 4,

the total amount of all income treated under section 805 as received by the individual in previous tax years as a result of chargeable events.

The result is the amount of the income treated as received in the tax year.

(If the result is a negative figure, the income is nil.)

**807 Supplementary provision relating to calculation in section 806**

- (1) This section applies for the purposes of section 806.
- (2) For the purposes of Step 1, the amount of a loss made in a tax year that relates to the licence is so much of the loss in the tax year as derives from expenditure incurred in the trade in exploiting the licence.
- (3) The amount of the loss that derives from such expenditure is determined on a just and reasonable basis.
- (4) For the purposes of Step 1, a loss is a claimed loss if the individual has claimed sideways relief or capital gains relief for the loss.
- (5) For the purposes of Step 2, the amount of profits made in a tax year that relates to the licence is so much of the individual's profits from the trade in the tax year as derives from income arising from an agreement related to or containing the licence.
- (6) The amount of the profits that derives from such income is determined on a just and reasonable basis.

**808 Meaning of “disposal of the licence” etc**

- (1) For the purposes of section 805 any reference to—
  - (a) a disposal of a licence acquired in carrying on a trade, or
  - (b) a disposal of a right to income under an agreement related to or containing a licence acquired in carrying on a trade (“a licence-related agreement”),includes, in particular, any of events A to E.
- (2) Event A is the revocation of the licence.
- (3) Event B is the disposal, giving up or loss of—
  - (a) a right under the licence, or
  - (b) a right to income (or any part of any income) under a licence-related agreement,by the individual or by a firm in which the individual is a partner.

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It does not matter if the right is disposed of, given up or lost as part of a larger disposal, giving up or loss.

- (4) Event C is the disposal, giving up or loss of the individual's interest in a firm that has the licence or a right to income under a licence-related agreement (including the dissolution of the firm).
- (5) Event D is a default in the payment of income to which—
  - (a) the individual, or
  - (b) a firm in which the individual is a partner, has a right under a licence-related agreement.
- (6) Event E is a change in the individual's entitlement to any profits or losses relating to the licence the effect of which is that—
  - (a) the individual's share of any profits is reduced (including to nil), or
  - (b) the individual becomes entitled to a share, or a greater share, of any losses without becoming entitled to a corresponding share of profits.
- (7) The changes covered by event E include cases where there is an agreement under which the individual is entitled—
  - (a) to a particular share of any profits or losses relating to the licence in a period (including a nil share), and
  - (b) to a different share of any such profits or losses in a succeeding period (including a nil share).
- (8) In such cases the change in the individual's entitlement is treated for the purposes of section 805 as occurring at the beginning of the succeeding period.
- (9) For the purposes of this section—
  - (a) references to any profits relating to the licence are to any profits deriving to any extent from income to which the individual has a right under a licence-related agreement, and
  - (b) references to any losses relating to the licence are to losses deriving to any extent from expenditure incurred in exploiting the licence.

## 809 Other definitions

- (1) References in sections 805 and 806 to an individual carrying on a trade as a non-active partner in an early tax year are to be read as if those sections were contained in Chapter 3 of Part 4 (see, in particular, section [F<sup>1369</sup>103B]).
- (2) But for that purpose, section [F<sup>1370</sup>103B(1)(b)] (which contains a requirement that the individual does not carry on the trade as a limited partner at any time during the tax year) is treated as if it were omitted.
- (3) For the purposes of sections 805 to 808 an agreement is related to a licence if the agreement and licence are entered into under the same arrangement (regardless of when the agreement or licence is entered into).
- (4) For the purposes of sections 805 to 808 an agreement, or part of an agreement, is not prevented from being a licence merely because it imposes an obligation to do a thing (rather than merely gives authority to do it).

References to exploiting a licence are to be read in that light.

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#### Textual Amendments

**F1369** Word in s. 809(1) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 18\(a\), 21](#)

**F1370** Word in s. 809(2) substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 18\(b\), 21](#)

## [<sup>F1371</sup>CHAPTER 5A

### TRANSFERS OF INCOME STREAMS

#### Textual Amendments

**F1371** Pt. 13 Ch. 5A inserted (with effect in accordance with Sch. 25 para. 10 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 25 para. 7](#)

#### 809AZA Application of Chapter

- (1) This Chapter applies where—
  - (a) a person within the charge to income tax (“the transferor”) makes a transfer to another person (“the transferee”) of a right to relevant receipts (see subsection (2)), and
  - (b) (subject to subsection (3)) the transfer of the right is not a consequence of the transfer to the transferee of an asset from which the right to relevant receipts arises.
- (2) “Relevant receipts” means any income—
  - (a) which (but for the transfer) would be charged to income tax as income of the transferor, or
  - (b) which (but for the transfer) would be brought into account in calculating profits of the transferor for the purposes of income tax.
- (3) Despite paragraph (b) of subsection (1), this Chapter applies if the transfer of the right is a consequence of the transfer to the transferee of all rights under an agreement for annual payments; and for the purposes of that paragraph the transfer of an asset under a sale and repurchase agreement is not to be regarded as a transfer of the asset.
- (4) Section 809AZB makes provision as to the consequences of this Chapter applying.
- (5) For exclusions from this Chapter, see—
  - (a) section 809AZC (amount otherwise taxed),
  - (b) section 809AZD (certain annuities), and
  - (c) section 809AZE (transfer by way of security).
- (6) Section 809AZF makes special provision about transfers of partnership shares.
- (7) Section 809AZG contains supplementary provisions.

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### **809AZB Value of transferred income stream treated as income**

- (1) The relevant amount (see subsection (2)) is to be treated as income of the transferor chargeable to income tax in the same way and to the same extent as that in which the relevant receipts—
  - (a) would have been chargeable to income tax, or
  - (b) would have been brought into account in calculating any profits for the purposes of income tax,
 but for the transfer of the right to relevant receipts.
- (2) The relevant amount is—
  - (a) (except where paragraph (b) applies) the amount of the consideration for the transfer of the right, or
  - (b) where the amount of any such consideration is substantially less than the market value of the right at the time when the transfer takes place (or where there is no consideration for the transfer of the right), the market value of the right at that time.
- (3) The income under subsection (1) is to be treated as arising in the chargeable period of the transferor in which the transfer takes place.
- (4) But subsection (5) applies if (apart from the transfer) any of the relevant receipts—
  - (a) would have been brought into account in accordance with Part 2 or 3 of ITTOIA 2005 (trading income and property income) in calculating any profits for the purposes of income tax, and
  - (b) in accordance with generally accepted accounting practice, would have been recognised otherwise than wholly in the chargeable period in which the transfer takes place.
- (5) If this subsection applies, the income under subsection (1) is to be treated as arising—
  - (a) to the extent that it does not exceed the amount of the consideration for the transfer of the right, in the chargeable period or periods for which, in accordance with generally accepted accounting practice, the consideration for the transfer is recognised for accounting purposes in a profit and loss account or income statement of the transferor, and
  - (b) otherwise, in the chargeable period or periods for which, in accordance with generally accepted accounting practice, the consideration for the transfer would be so recognised if it were of an amount equal to the market value of the right at the time when the transfer takes place.
- (6) But if in a case where the transferor is a company it at any time becomes reasonable to assume that the income (to any extent) is not, or would not be, treated by subsection (5) as arising in an accounting period of the transferor, the income is to that extent to be treated as arising immediately before that time.

### **809AZC Exception: amount otherwise taxed**

This Chapter does not apply if and to the extent that the income under section 809AZB(1) is (apart from this Chapter)—

- (a) charged to tax as income of the transferor,
- (b) brought into account in calculating the profits of the transferor, or
- (c) brought into account under CAA 2001.

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### 809AZD Exception: certain annuities

This Chapter does not apply to a transfer of a right to—

- (a) annual payments under a life annuity as defined in section 473(2) of ITTOIA 2005, or
- (b) annual payments under an annuity which is pension income within the meaning of Part 9 of ITEPA 2003 (see section 566(2) of that Act).

### <sup>F1372</sup> 809AZE Exception: transfer by way of security

(1) This Chapter does not apply if—

- (a) the consideration for the transfer is the advance under a type 1 finance arrangement, and
- (b) the transferor is, or is a member of a partnership which is, the borrower in relation to the arrangement.

(2) This Chapter does not apply if—

- (a) the consideration for the transfer is the advance under a type 2 finance arrangement or a type 3 finance arrangement, and
- (b) the transferor is a member of the partnership which receives that advance under the arrangement.

(3) In this section—

“type 1 finance arrangement” has the meaning given for the purposes of Chapter 5B by section 809BZA,

“type 2 finance arrangement” has the meaning given for the purposes of Chapter 5B by section 809BZF, and

“type 3 finance arrangement” has the meaning given for the purposes of Chapter 5B by section 809BZJ.]

#### Textual Amendments

**F1372**S. 809AZE substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 273](#) (with Sch. 9 paras. 1-9, 22)

### 809AZF Partnership shares

(1) For the purposes of this Chapter a transfer of a right to relevant receipts consisting of the reduction in a transferor's share in the profits or losses of a partnership is to be regarded as a consequence of a transfer of an asset from which the right arose (that is, the partnership property) <sup>F1373</sup>....

<sup>F1374</sup>(2) .....

<sup>F1374</sup>(3) .....

#### Textual Amendments

**F1373**Words in s. 809AZF(1) omitted (with effect in accordance with Sch. 17 para. 23(4) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\), Sch. 17 para. 23\(2\)](#)

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**F1374S.** 809AZF(2)(3) omitted (with effect in accordance with Sch. 17 para. 23(4) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 23\(3\)](#)

### 809AZG Interpretation

- (1) For the purposes of this Chapter—
  - (a) the grant or surrender of a lease of land is to be regarded as a transfer of the land, and
  - (b) the disposal of an interest in an oil licence (within the meaning of section 809 of CTA 2009) is to be regarded as a transfer of the oil licence.
- (2) The Treasury may by order make other provision for securing that other transactions are to be regarded as transfers of assets for those purposes.
- (3) In this Chapter—
  - (a) references to a transfer include sale, exchange, gift and assignment (or assignation) and any other arrangement which equates in substance to a transfer, and
  - (b) references to a transfer taking place are, in the case of an arrangement other than a sale, exchange, gift or assignment (or assignation), to the making of the arrangement.
- (4) A transfer to or by any partnership of which the transferor or transferee is a member, and a transfer to the trustees of any trust of which the transferor is a beneficiary, counts as a transfer in relation to which this Chapter applies.]

## [<sup>F1375</sup> CHAPTER 5AA

### DISPOSALS OF INCOME STREAMS THROUGH PARTNERSHIPS

#### Textual Amendments

**F1375**Pt. 13 Ch. 5AA inserted (with effect in accordance with Sch. 17 para. 24(2) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 17 para. 24\(1\)](#)

### 809AAZ Application of Chapter

- (1) This Chapter applies (subject to subsection (2)) if directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a person within the charge to income tax (“the transferor”) and another person (“the transferee”)—
  - (a) there is, or is in substance, a disposal of a right to relevant receipts by the transferor to the transferee,
  - (b) the disposal is effected (wholly or partly) by or through a partnership (“the relevant partnership”),
  - (c) at any time—
    - (i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and
    - (ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and

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- (d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.
- (2) This Chapter does not apply if—
  - (a) the transferor is the spouse or civil partner of the transferee and they are living together, or
  - (b) the transferor is a brother, sister, ancestor or lineal descendant of the transferee.
- (3) In subsection (1)(a) the reference to a disposal of a right to relevant receipts includes anything constituting a disposal of such a right for the purposes of TCGA 1992.
- (4) For the purposes of subsection (1)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).
- (5) For the purposes of subsection (1)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.
- (6) For the purposes of subsection (1)(c) a partnership is “associated” with the relevant partnership if—
  - (a) it is a member of the relevant partnership, or
  - (b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).
- (7) In subsections (1)(c) and (5) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.
- (8) In this Chapter—
  - “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),
  - “partnership” includes a limited liability partnership whether or not section 863(1) of ITTOIA 2005 applies in relation to it,
  - “relevant receipts” means any income—
    - (a) which (but for the disposal) would be charged to income tax as income of the transferor (whether directly or as a member of a partnership), or
    - (b) which (but for the disposal) would be brought into account as income in calculating profits of the transferor (whether directly or as a member of a partnership) for income tax purposes, and
  - “tax advantage” means a tax advantage, as defined in section 1139 of CTA 2010, in relation to income tax or the charge to corporation tax on income.

### **809AAZ** Relevant amount to be treated as income

- (1) The relevant amount is to be treated as income of the transferor chargeable to income tax in the same way and to the same extent as that in which the relevant receipts—
  - (a) would have been chargeable to income tax as income of the transferor, or
  - (b) would have been brought into account as income in calculating profits of the transferor for income tax purposes,but for the disposal.

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- (2) In subsection (1) “the relevant amount” is to be read in accordance with section 809AZB(2) and section 809AZB(3) to (6) applies for the purpose of determining when income under subsection (1) is treated as arising.
- (3) For this purpose, in section 809AZB(2) to (6) references to the transfer of the right are to be read as references to the disposal of the right.
- (4) If, apart from this subsection and section 809DZB(3)—
- (a) both this Chapter and Chapter 5D would apply in relation to the disposal, and
  - (b) Chapter 5D would give a greater amount of income of the transferor chargeable to income tax,
- this Chapter is not to apply in relation to the disposal.]

## [<sup>F1376</sup>CHAPTER 5B

### FINANCE ARRANGEMENTS

#### Textual Amendments

**F1376** Pt. 13 Ch. 5B inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 5 para. 2** (with [Sch. 9 paras. 1-9, 22](#))

#### Modifications etc. (not altering text)

**C110** Pt. 13 Ch. 5B restricted by 2004 s. 12 s. 196I(5)(6) (as inserted 17.7.2012 (with effect in accordance with [Sch. 13 para. 17](#) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 13 para. 15** (with [Sch. 13 Pt. 4](#)))

**C111** Pt. 13 Ch. 5B restricted by 2004 c. 12, s. 196G(2)(3) (as inserted 17.7.2012 (with effect in accordance with [Sch. 13 para. 3](#) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 13 para. 1** (with [Sch. 13 Pt. 2](#)))

### *Type 1 arrangements*

#### **809BZA** Type 1 finance arrangement defined

- (1) For the purposes of this Chapter an arrangement is a type 1 finance arrangement if conditions A and B are met.
- (2) Condition A is that under the arrangement—
- (a) a person (“the borrower”) receives money or another asset (“the advance”) from another person (“the lender”),
  - (b) the borrower or a person connected with the borrower makes a disposal of an asset (“the security”) to or for the benefit of the lender or a person connected with the lender, and
  - (c) the lender or a person connected with the lender is entitled to payments in respect of the security.

[ For the purposes of subsection (2)(c) it does not matter if an entitlement of the lender <sup>F1377</sup>(2A) or a person connected with the lender is subject to any condition.]



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- (3) Condition B is that in accordance with generally accepted accounting practice—
  - (a) the borrower's accounts for the period in which the advance is received record a financial liability in respect of it, and
  - (b) the payments reduce the amount of the financial liability.
- (4) If the borrower is a partnership the reference to the borrower's accounts includes a reference to the accounts of any member of the partnership.
- (5) For the purposes of this section the borrower and the lender are not connected with one another.

#### Textual Amendments

**F1377S.** 809BZA(2A) inserted (17.7.2012) (with effect in accordance with Sch. 13 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 13 para. 33](#)

### **809BZBCertain tax consequences not to have effect**

- (1) This section applies if a type 1 finance arrangement would have the relevant effect (ignoring this section).
- (2) The arrangement is not to have that effect.
- (3) The relevant effect is that—
  - (a) an amount of income on which the borrower or a person connected with the borrower would otherwise have been charged to income tax is not so charged,
  - (b) an amount which would otherwise have been brought into account in calculating for income tax purposes any income of the borrower or of a person connected with the borrower is not so brought into account, or
  - (c) the borrower or a person connected with the borrower becomes entitled to an income deduction.
- (4) But if the borrower is a partnership the relevant effect is that—
  - (a) an amount of income on which a member of the partnership would otherwise have been charged to income tax is not so charged,
  - (b) an amount which would otherwise have been brought into account in calculating for income tax purposes any income of a member of the partnership is not so brought into account, or
  - (c) a member of the partnership becomes entitled to an income deduction.
- (5) For the purposes of this section the borrower and the lender are not connected with one another.
- (6) An income deduction is—
  - (a) a deduction in calculating income for income tax purposes, or
  - (b) a deduction from total income.

### **809BZCPayments treated as borrower's income**

- (1) This section applies if—

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- (a) a type 1 finance arrangement would not have the relevant effect (ignoring section 809BZB(2)),
  - (b) that arrangement would not have the corresponding corporation-tax effect (ignoring section 759(2) of CTA 2010), and
  - (c) the borrower is—
    - (i) within the charge to income tax, or
    - (ii) a partnership at least one member of which is within the charge to income tax.
- (2) The payments mentioned in section 809BZA(2)(c) must be treated for income tax purposes as income of the borrower payable in respect of the security.
- (3) Subsection (2) applies whether or not the payments are also the income of another person for tax purposes.
- (4) Subsections (3) to (6) of section 809BZB (meaning of relevant effect) apply for the purposes of this section as for those of that.
- (5) In subsection (1)(b) “the corresponding corporation-tax effect” means the relevant effect as defined by section 759(3) to (6) of CTA 2010 (provision for corporation tax corresponding to section 809BZB(3) to (6)).

#### **809BZD Deemed interest if borrower is not a partnership**

- (1) This section applies if—
- (a) there is a type 1 finance arrangement,
  - (b) the borrower is not a partnership,
  - (c) the arrangement is prevented by section 809BZB from having the relevant effect in relation to the borrower, or section 809BZC applies to the borrower, and
  - (d) in accordance with generally accepted accounting practice the borrower's accounts record an amount as a finance charge in respect of the advance.
- (2) For income tax purposes the borrower may treat the amount as interest payable on a loan.
- (3) If an amount is treated as interest (“deemed interest”) under subsection (2), to find out when it is paid—
- (a) treat the payments mentioned in section 809BZA(2)(c) as consisting of amounts for repaying the advance and amounts (“the interest elements”) in respect of interest on the advance,
  - (b) treat the interest elements of the payments as paid when the payments are paid, and
  - (c) treat the deemed interest as paid at the times when the interest elements are treated as paid.

#### **809BZE Deemed interest if borrower is a partnership**

- (1) This section applies if each of conditions A to C is met.
- (2) Condition A is that—
- (a) there is a type 1 finance arrangement, and

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- (b) the borrower is a partnership.
- (3) Condition B is that—
  - (a) the arrangement is prevented by section 809BZB from having the relevant effect in relation to a person who is a member of the partnership, or
  - (b) section 809BZC applies to the partnership (in which event “the person” in subsections (4) and (5) means the person within the charge to income tax who is a member of the partnership).
- (4) Condition C is that in accordance with generally accepted accounting practice the person's accounts, or the partnership's accounts, record an amount as a finance charge in respect of the advance.
- (5) For income tax purposes the person may treat the amount as interest payable by the partnership on a loan.
- (6) If an amount is treated as interest (“deemed interest”) under subsection (5), to find out when it is paid—
  - (a) treat the payments mentioned in section 809BZA(2)(c) as consisting of amounts for repaying the advance and amounts (“the interest elements”) in respect of interest on the advance,
  - (b) treat the interest elements of the payments as paid when the payments are paid, and
  - (c) treat the deemed interest as paid at the times when the interest elements are treated as paid.]

### *[<sup>F1378</sup>Type 2 arrangements*

#### **Textual Amendments**

**F1378**Ss. 809BZF-809BZI and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 5 para. 3](#) (with [Sch. 9 paras. 1-9, 22](#))

#### **809BZF Type 2 finance arrangement defined**

- (1) For the purposes of this Chapter an arrangement is a type 2 finance arrangement if conditions A and B are met.
- (2) Condition A is that—
  - (a) under the arrangement a person (“the transferor”) makes a disposal of an asset (“the security”) to a partnership,
  - (b) the transferor [<sup>F1379</sup>or a person connected with the transferor] is a member of the partnership immediately after the disposal (whether or not a member immediately before it),
  - (c) under the arrangement the partnership receives money or another asset (“the advance”) from another person (“the lender”),
  - (d) there is a relevant change in relation to the partnership (see section 809BZG), and

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- (e) under the arrangement the share in the partnership's profits of the person involved in the change is determined by reference (wholly or partly) to payments in respect of the security.

<sup>F1380</sup> [ For the purposes of subsection (2)(e) it does not matter if any determination of the (2A) share in the partnership's profits of the person involved in the relevant change as mentioned is subject to any condition.]

- (3) Condition B is that in accordance with generally accepted accounting practice—
- (a) the partnership's accounts for the period in which the advance is received record a financial liability in respect of it, and
  - (b) the payments reduce the amount of the financial liability.
- (4) The reference to the partnership's accounts includes a reference to the transferor's accounts.

#### Textual Amendments

**F1379** Words in s. 809BZF(2)(b) inserted (17.7.2012) (with effect in accordance with Sch. 13 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 13 para. 34\(2\)](#)

**F1380** S. 809BZF(2A) inserted (17.7.2012) (with effect in accordance with Sch. 13 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 13 para. 34\(3\)](#)

#### 809BZG Relevant change in relation to partnership

- (1) For the purposes of this Chapter there is a relevant change in relation to a partnership if condition A or condition B is met.
- (2) Condition A is that in connection with the arrangement the lender or a person connected with the lender becomes a member of the partnership at any time.
- (3) Condition B is that—
  - (a) in connection with the arrangement there is at any time a change in a member's share in the partnership's profits, and
  - (b) the member is the lender or a person connected with the lender or a person who in connection with the arrangement becomes at any time connected with the lender.
- (4) An event occurs in connection with the arrangement if it occurs directly or indirectly in consequence of it or otherwise in connection with it.
- (5) If there is a relevant change in relation to a partnership, a reference in this Chapter to the person involved in the change is—
  - (a) if it is condition A that is met, to the person who becomes a member of the partnership, and
  - (b) if it is condition B that is met, to the member of the partnership in whose share in the partnership's profits there is a change.

#### 809BZH Certain tax consequences not to have effect

- (1) This section applies if—
  - (a) there is a type 2 finance arrangement, and

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- (b) any relevant change in relation to the partnership would have the relevant effect (ignoring this section).
- (2) In such a case—
- (a) Part 9 of ITTOIA 2005 (partnerships) is to have effect in relation to the transferor [<sup>F1381</sup>or the person connected with the transferor] as if the relevant change in relation to the partnership had not occurred, and
  - (b) accordingly the finance arrangement is not to have the relevant effect.
- (3) The relevant effect is that—
- (a) an amount of income on which the transferor [<sup>F1381</sup>or the person connected with the transferor] would otherwise have been charged to income tax is not so charged,
  - (b) an amount which would otherwise have been brought into account in calculating for income tax purposes any income of the transferor [<sup>F1381</sup>or the person connected with the transferor] is not so brought into account, or
  - (c) the transferor [<sup>F1381</sup>or the person connected with the transferor] becomes entitled to an income deduction.
- (4) In deciding whether subsection (1)(b) is met assume that amounts of income equal to the payments mentioned in section 809BZF(2)(e) were payable to the partnership before the relevant change in relation to it occurred.
- (5) An income deduction is—
- (a) a deduction in calculating income for income tax purposes, or
  - (b) a deduction from total income.

#### Textual Amendments

**F1381** Words in s. 809BZH inserted (17.7.2012) (with effect in accordance with Sch. 13 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 13 para. 35](#)

#### 809BZI Deemed interest

- (1) This section applies if—
- (a) there is a type 2 finance arrangement,
  - (b) the transferor is a person within the charge to income tax, and
  - (c) in accordance with generally accepted accounting practice the partnership's accounts record an amount as a finance charge in respect of the advance.
- (2) For income tax purposes the transferor may treat the amount as interest payable by the transferor on a loan.
- (3) The reference in subsection (1) to the partnership's accounts includes a reference to the transferor's accounts.
- (4) If an amount is treated as interest (“deemed interest”) under subsection (2), to find out when it is paid—
- (a) treat the payments mentioned in section 809BZF(2)(e) as consisting of amounts for repaying the advance and amounts (“the interest elements”) in respect of interest on the advance,

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- (b) treat the interest elements of the payments as paid when the payments are paid, and
- (c) treat the deemed interest as paid at the times when the interest elements are treated as paid.]

### *[<sup>F1382</sup>Type 3 arrangements*

#### **Textual Amendments**

**F1382**Ss. 809BZJ-809BZL and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 5 para. 4](#) (with [Sch. 9](#) paras. 1-9, 22)

### **809BZJ Type 3 finance arrangement defined**

- (1) For the purposes of this Chapter an arrangement is a type 3 finance arrangement if conditions A and B are met.
- (2) Condition A is that—
  - (a) a partnership holds an asset (“the security”) as a partnership asset at any time before the arrangement is made,
  - (b) under the arrangement the partnership receives money or another asset (“the advance”) from another person (“the lender”),
  - (c) there is a relevant change in relation to the partnership (see section 809BZG), and
  - (d) under the arrangement the share in the partnership's profits of the person involved in the change is determined by reference (wholly or partly) to payments in respect of the security.

[ For the purposes of subsection (2)(d) it does not matter if any determination of the <sup>F1383</sup>(2A) share in the partnership's profits of the person involved in the relevant change as mentioned is subject to any condition.]

- (3) Condition B is that in accordance with generally accepted accounting practice—
  - (a) the partnership's accounts for the period in which the advance is received record a financial liability in respect of it, and
  - (b) the payments reduce the amount of the financial liability.
- (4) The reference to the partnership's accounts includes a reference to the accounts of any person who is a member of the partnership immediately before the arrangement is made.

#### **Textual Amendments**

**F1383**S. 809BZJ(2A) inserted (17.7.2012) (with effect in accordance with Sch. 13 para. 42 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 13 para. 36](#)

### **809BZKCertain tax consequences not to have effect**

- (1) This section applies if—

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- (a) there is a type 3 finance arrangement, and
  - (b) any relevant change in relation to the partnership would have the relevant effect (ignoring this section).
- (2) The relevant effect is that—
- (a) an amount of income on which a relevant member would otherwise have been charged to income tax is not so charged,
  - (b) an amount which would otherwise have been brought into account in calculating for income tax purposes any income of a relevant member is not so brought into account, or
  - (c) a relevant member becomes entitled to an income deduction.
- (3) A relevant member is a person who—
- (a) was a member of the partnership immediately before the relevant change in relation to it occurred, and
  - (b) is not the lender.
- (4) If this section applies—
- (a) Part 9 of ITTOIA 2005 (partnerships) is to have effect in relation to any relevant member as if the relevant change in relation to the partnership had not occurred, and
  - (b) accordingly the finance arrangement is not to have the relevant effect.
- (5) In deciding whether subsection (1)(b) is met assume that amounts of income equal to the payments mentioned in section 809BZJ(2)(d) were payable to the partnership before the relevant change in relation to it occurred.
- (6) An income deduction is—
- (a) a deduction in calculating income for income tax purposes, or
  - (b) a deduction from total income.

### **809BZL Deemed interest**

- (1) This section applies if—
- (a) there is a type 3 finance arrangement,
  - (b) a relevant member is a person within the charge to income tax, and
  - (c) in accordance with generally accepted accounting practice the partnership's accounts record an amount as a finance charge in respect of the advance.
- (2) For income tax purposes the relevant member may treat the amount as interest payable by the partnership on a loan.
- (3) The reference in subsection (1) to the partnership's accounts includes a reference to the accounts of any relevant member.
- (4) If an amount is treated as interest (“deemed interest”) under subsection (2), to find out when it is paid—
- (a) treat the payments mentioned in section 809BZJ(2)(d) as consisting of amounts for repaying the advance and amounts (“the interest elements”) in respect of interest on the advance,
  - (b) treat the interest elements of the payments as paid when the payments are paid, and

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- (c) treat the deemed interest as paid at the times when the interest elements are treated as paid.
- (5) A relevant member is a person who—
  - (a) was a member of the partnership immediately before the relevant change in relation to it occurred, and
  - (b) is not the lender.]

### *F<sup>1384</sup>Exceptions*

#### **Textual Amendments**

**F1384**Ss. 809BZM-809BZP and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 5 para. 5](#) (with [Sch. 9 paras. 1-9, 22](#))

#### **809BZMExceptions: preliminary**

- (1) Sections 809BZN to 809BZP make provision for finance arrangement codes not to apply in certain circumstances.
- (2) For the purposes of those sections each of the following groups of provisions is a finance arrangement code—
  - (a) sections 809BZA to 809BZE (type 1 arrangements),
  - (b) sections 809BZF to 809BZI (type 2 arrangements), and
  - (c) sections 809BZJ to 809BZL (type 3 arrangements).

#### **809BZNEExceptions**

- (1) A finance arrangement code does not apply if the whole of the advance under the arrangement—
  - (a) is charged to tax on a relevant person as an amount of income,
  - (b) is brought into account in calculating for tax purposes any income of a relevant person, or
  - (c) is brought into account for the purposes of any provision of CAA 2001 as a disposal receipt, or proceeds from a balancing event or disposal event, of a relevant person.
- (2) Treat subsection (1)(c) as not met if—
  - (a) the receipt gives rise, or proceeds give rise, to a balancing charge, and
  - (b) the amount of the balancing charge is limited by any provision of CAA 2001.
- (3) A finance arrangement code does not apply if at all times the whole of the advance under the arrangement—
  - (a) is a debtor relationship of a relevant person for the purposes of Part 5 of CTA 2009 (loan relationships), or
  - (b) would be a debtor relationship of a relevant person for those purposes if that person were a company within the charge to corporation tax.



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- (4) In subsection (3) references to a debtor relationship do not include references to a relationship to which Chapter 2 of Part 6 of CTA 2009 applies (relevant non-lending relationships).
- (5) A finance arrangement code does not apply so far as—
  - (a) section 263A of TCGA 1992 applies in relation to the arrangement (agreements for sale and repurchase of securities), or
  - (b) Schedule 13 to FA 2007 or Chapter 10 of Part 6 of CTA 2009 applies in relation to the arrangement (sale and repurchase of securities, and repos).
- (6) A finance arrangement code does not apply so far as Part 10A of this Act, Chapter 4 of Part 4 of TCGA 1992 or Chapter 6 of Part 6 of CTA 2009 has effect in relation to the arrangement (alternative finance arrangements).
- (7) A finance arrangement code does not apply so far as the security is plant or machinery which is the subject of a sale and finance leaseback.
- (8) For the purposes of subsection (7) apply section 221 of CAA 2001 to determine whether plant or machinery is the subject of a sale and finance leaseback.
- (9) A finance arrangement code does not apply so far as sections 228B and 228C of CAA 2001 (finance leaseback) apply in relation to the arrangement.
- [ A finance arrangement code does not apply if the arrangement is a right-of-use lease—<sup>F1385</sup>(9A)
  - (a) under which the relevant person is a lessee, and
  - (b) which, were that person required under generally accepted accounting practice to determine whether the lease falls to be treated in the accounts of that person as a finance lease or loan, would not fall to be so treated.
- (9B) In subsection (9A) “right-of-use lease” has the same meaning as in Part 2 of CAA 2001 (see section 70YI(1) of that Act).]
- (10) Section 809BZO defines a relevant person for the purposes of this section.

#### Textual Amendments

**F1385S.** 809BZN(9A)(9B) inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 3](#)

#### 809BZO Exceptions: relevant person

- (1) This section defines a relevant person for the purposes of section 809BZN.
- (2) If (apart from sections 809BZN and 809BZP) sections 809BZA to 809BZE would apply, each of the following is a relevant person—
  - (a) the borrower, and
  - (b) a person connected with the borrower or (if the borrower is a partnership) a member of the partnership.
- (3) If (apart from sections 809BZN and 809BZP) sections 809BZF to 809BZI would apply, the transferor is a relevant person.
- (4) If (apart from sections 809BZN and 809BZP) sections 809BZJ to 809BZL would apply, a relevant member as there defined is a relevant person.

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- (5) For the purposes of subsection (2)(b) the persons connected with the borrower include any persons who under section 993 (meaning of “connected”) are connected with the borrower.

### **809BZP Power to make further exceptions**

- (1) The Treasury may make regulations prescribing other circumstances in which a finance arrangement code is not to apply.
- (2) The regulations may amend sections 809BZN and 809BZO.
- (3) The power to make regulations includes—
  - (a) power to make provision that has effect in relation to times before the making of the regulations (but not times before 6 June 2006),
  - (b) power to make different provision for different cases or different purposes, and
  - (c) power to make incidental, supplemental, consequential and transitional provision and savings.]

*<sup>F1386</sup>Supplementary*

#### **Textual Amendments**

**F1386**Ss. 809BZQ-809BZS and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 5 para. 6](#) (with [Sch. 9 paras. 1-9, 22](#))

### **809BZQ Accounts**

- (1) This section applies for the purposes of this Chapter.
- (2) A reference to the accounts of a person includes (if the person is a company) a reference to the consolidated group accounts of a group of companies of which it is a member.
- (3) In determining whether accounts record an amount as a financial liability in respect of an advance, assume that the period in which the advance is received ended immediately after the receipt of the advance.
- (4) If a person does not draw up accounts in accordance with generally accepted accounting practice, assume that the person drew up the accounts in accordance with that practice.

### **809BZR Arrangements**

A reference in this Chapter to an arrangement includes a reference to an agreement or understanding (whether or not legally enforceable).

### **809BZS Assets**

- (1) This section applies for the purposes of this Chapter.

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- (2) A reference to a person receiving an asset includes—
  - (a) a reference to the person obtaining (directly or indirectly) the value of an asset or otherwise deriving (directly or indirectly) a benefit from it, and
  - (b) a reference to the discharge (in whole or part) of a liability of the person.
- (3) A reference to a disposal of an asset includes a reference to anything constituting a disposal of it for the purposes of TCGA 1992.
- (4) A reference to payments in respect of an asset includes—
  - (a) a reference to payments in respect of another asset substituted for it under the arrangement, and
  - (b) a reference to obtaining (directly or indirectly) the value of an asset or otherwise deriving (directly or indirectly) a benefit from it.]

## [<sup>F1387</sup> CHAPTER 5C

### LOAN OR CREDIT TRANSACTIONS

#### Textual Amendments

**F1387**Pt. 13 Ch. 5C inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 5 para. 7** (with [Sch. 9 paras. 1-9, 22](#))

#### **809CZALoan or credit transaction defined**

- (1) This section defines a loan or credit transaction for the purposes of sections 809CZB and 809CZC.
- (2) A transaction is a loan or credit transaction if it is—
  - (a) effected with reference to the lending of money or the varying of the terms on which money is lent, or
  - (b) effected with a view to enabling or facilitating an arrangement concerning the lending of money or the varying of the terms on which money is lent.
- (3) A transaction is a loan or credit transaction if it is—
  - (a) effected with reference to the giving of credit or the varying of the terms on which credit is given, or
  - (b) effected with a view to enabling or facilitating an arrangement concerning the giving of credit or the varying of the terms on which credit is given.
- (4) Subsection (2) has effect whether the transaction is effected—
  - (a) between the lender and borrower,
  - (b) between either of them and a person connected with the other, or
  - (c) between a person connected with one and a person connected with the other.
- (5) Subsection (3) has effect whether the transaction is effected—
  - (a) between the creditor and debtor,
  - (b) between either of them and a person connected with the other, or
  - (c) between a person connected with one and a person connected with the other.

*Status: Point in time view as at 22/02/2024.*

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### 809CZBCertain payments treated as yearly interest

- (1) This section applies if a loan or credit transaction provides for a payment which is not interest but is—
  - (a) an annuity or other annual payment falling within Part 5 of ITTOIA 2005 and chargeable to income tax otherwise than as relevant foreign income, or
  - (b) an annuity or other annual payment which is from a source in the United Kingdom and chargeable to corporation tax under <sup>F1388</sup>Chapter 7 of Part 10 of CTA 2009 (annual payments not otherwise charged) or regulation 15 of the Unauthorised Unit Trusts (Tax) Regulations 2013].
- (2) The payment must be treated for the purposes of the Income Tax Acts as if it were a payment of yearly interest (see, in particular, section 874).

#### Textual Amendments

**F1388** Words in s. 809CZB(1)(b) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(8)** (with reg. 32)

### 809CZCTax charged on income transferred

- (1) This section applies if—
  - (a) under a loan or credit transaction a person transfers income arising from property,
  - (b) the person is not, as a result of Chapter 5B (finance arrangements), chargeable to income tax on the income transferred, and
  - (c) the person is within the charge to income tax.
- (2) In such a case—
  - (a) income tax is charged under this section,
  - (b) the tax is charged on an amount equal to the full amount of the income transferred,
  - (c) the tax is charged for the tax year in which the transfer takes place, and
  - (d) the person who transfers the income is liable for the tax.
- (3) This section does not prejudice the liability of any other person to tax.
- (4) For the purposes of this section a person transfers income if the person surrenders, waives or forgoes it.
- (5) Subsection (6) applies for the purposes of this section if—
  - (a) credit is given for the purchase price of property, and
  - (b) the rights attaching to the property are such that the buyer's rights to income from the property are suspended or restricted during the life of the debt.
- (6) The buyer must be treated as surrendering income of an amount equal to the income the buyer in effect forgoes by obtaining the credit.
- (7) For the purposes of this section an amount of income payable subject to deduction of income tax must be taken as the amount before deduction of tax.]

*Status: Point in time view as at 22/02/2024.*

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## <sup>F1389</sup> CHAPTER 5D

### DISPOSALS OF ASSETS THROUGH PARTNERSHIPS

#### Textual Amendments

**F1389**Pt. 13 Ch. 5D inserted (with effect in accordance with Sch. 17 para. 25(2) of the amending Act) by Finance Act 2014 (c. 26), **Sch. 17 para. 25(1)**

#### 809DZA Application of Chapter

- (1) This Chapter applies if conditions A and B are met.
- (2) Condition A is (subject to subsection (3)) that directly or indirectly in consequence of, or otherwise in connection with, arrangements involving a person within the charge to income tax (“the transferor”) and another person (“the transferee”)—
  - (a) there is, or is in substance, a disposal of an asset (“the transferred asset”) by the transferor to the transferee,
  - (b) the disposal is effected (wholly or partly) by or through a partnership (“the relevant partnership”),
  - (c) at any time—
    - (i) the transferor is a member of the relevant partnership or of a partnership associated with the relevant partnership, and
    - (ii) the transferee is a member of the relevant partnership or of a partnership associated with the relevant partnership, and
  - (d) the main purpose, or one of the main purposes, of one or more steps taken in effecting the disposal is the obtaining of a tax advantage for any person.
- (3) Condition A is not met if—
  - (a) the transferor is the spouse or civil partner of the transferee and they are living together, or
  - (b) the transferor is a brother, sister, ancestor or lineal descendant of the transferee.
- (4) In subsection (2)(a) the reference to a disposal of an asset includes anything constituting a disposal of an asset for the purposes of TCGA 1992.
- (5) For the purposes of subsection (2)(b) the disposal might, in particular, be effected by an acquisition or disposal of, or an increase or decrease in, an interest in the relevant partnership (including a share of the profits or assets of the relevant partnership or an interest in such a share).
- (6) For the purposes of subsection (2)(c) it does not matter if the transferor and the transferee are not members of a partnership as mentioned at the same time.
- (7) For the purposes of subsection (2)(c) a partnership is “associated” with the relevant partnership if—
  - (a) it is a member of the relevant partnership, or
  - (b) it is a member of a partnership which is associated with the relevant partnership (whether by virtue of paragraph (a) or this paragraph).

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- (8) In subsections (2)(c) and (6) references to the transferor include a person connected with the transferor and references to the transferee include a person connected with the transferee.
- (9) Condition B is that it is reasonable to assume that, had the transferred asset instead been disposed of directly by the transferor to the transferee, the relevant amount (or any part of it)—
- (a) would have been chargeable to income tax as income of the transferor, or
  - (b) would have been brought into account as income in calculating profits of the transferor for income tax purposes.
- (10) In this Chapter “the relevant amount” means the amount of the consideration received by the transferor for the disposal.
- (11) If the transferor receives—
- (a) no consideration for the disposal, or
  - (b) consideration which is substantially less than the market value of the transferred asset,
- assume for the purposes of subsection (10) that the transferor receives consideration of an amount equal to the market value of the transferred asset.
- (12) In subsection (11) references to the market value of the transferred asset are to that value at the time of the disposal.
- (13) In this Chapter—
- “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable),
- “partnership” includes a limited liability partnership whether or not section 863(1) of ITTOIA 2005 applies in relation to it, and
- “tax advantage” means a tax advantage, as defined in section 1139 of CTA 2010, in relation to income tax or the charge to corporation tax on income.

### **809DZB Relevant amount to be treated as income**

- (1) The relevant amount is to be treated as income of the transferor chargeable to income tax in the same way and to the same extent as that in which it—
- (a) would have been chargeable to income tax as income of the transferor, or
  - (b) would have been brought into account as income in calculating profits of the transferor for income tax purposes,
- as mentioned in section 809DZA(9).
- (2) Section 809AZB(3) to (6) applies for the purpose of determining when income under subsection (1) is treated as arising (reading references to the transfer of the right as references to the disposal of the transferred asset).
- (3) If, apart from this subsection and section 809AAZB(4)—
- (a) both this Chapter and Chapter 5AA would apply in relation to the disposal, and
  - (b) Chapter 5AA would give the same amount, or a greater amount, of income of the transferor chargeable to income tax,
- this Chapter is not to apply in relation to the disposal.]

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## [<sup>F1390</sup>CHAPTER 5E

### DISGUISED INVESTMENT MANAGEMENT FEES

#### Textual Amendments

**F1390**Pt. 13 Ch. 5E inserted (with effect in accordance with s. 21(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [s. 21\(1\)](#)

#### **809EZADisguised investment management fees: charge to income tax**

- (1) Where one or more disguised fees arise to an individual in a tax year from one or more investment schemes (whether or not by virtue of the same arrangements), the individual is liable for income tax for the tax year in respect of the disguised fee or fees as if—
- (a) the individual were carrying on a trade for the tax year,
  - (b) the disguised fee or fees were the profits of the trade of the tax year, and
  - (c) the individual were the person receiving or entitled to those profits.
- (2) For the purposes of subsection (1) the trade is treated as carried on—
- (a) in the United Kingdom, to the extent that the individual performs the relevant services in the United Kingdom;
  - (b) outside the United Kingdom, to the extent that the individual performs the relevant services outside the United Kingdom;
- and for this purpose “the relevant services” means the investment management services by virtue of which the disguised fee or fees arise to the individual in the tax year.

[ Subsection (2B) applies instead of subsections (1) and (2) where—

- <sup>F1391</sup>(2A) (a) one or more disguised fees arise to an individual in a tax year (“the relevant tax year”) from one or more investment schemes (whether or not by virtue of the same arrangements),
- (b) the disguised fees consist of carried interest which is income-based carried interest,
  - (c) the individual is UK resident in the relevant tax year,
  - (d) before the relevant tax year, the individual was not UK resident for a period of at least five consecutive tax years (“the period of non-residence”), and
  - (e) either—
    - (i) the relevant tax year is the first tax year immediately after the end of the period of non-residence, or
    - (ii) the relevant tax year is the second, third, or fourth tax year after the end of that period and the individual has been UK resident in all the intervening tax years.
- (2B) To the extent that the income-based carried interest arises by virtue of pre-arrival services, the individual is liable for income tax for the relevant tax year in respect of it as if—
- (a) in relation to pre-arrival services performed in the United Kingdom—
    - (i) the individual were carrying on a trade for the relevant year consisting of the performance of those services,

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- (ii) the income-based carried interest, so far as arising by virtue of those services, were profits of that trade, and
- (iii) the individual were the person receiving or entitled to those profits, and
- (b) in relation to pre-arrival services performed outside the United Kingdom—
  - (i) the individual were carrying on a trade for the relevant tax year consisting of the performance of those services,
  - (ii) the income-based carried interest, so far as arising by virtue of those services, were profits of that trade, and
  - (iii) the individual were the person receiving or entitled to those profits.
- (2C) In subsection (2B) “pre-arrival services” means investment management services performed before the end of the period of non-residence.]
- (3) For the purposes of this Chapter a “disguised fee” arises to an individual in a tax year from an investment scheme if—
  - (a) the individual [<sup>F1392</sup>at any time performs or is to perform] investment management services directly or indirectly in respect of the scheme under any arrangements,
  - <sup>F1393</sup>(b) .....
  - (c) under the arrangements, a management fee arises to the individual <sup>F1394</sup>... from [<sup>F1395</sup>an investment scheme] in the tax year (see section 809EZB), and
  - (d) some or all of the management fee is untaxed;
 and the amount of the disguised fee is so much of the management fee as is untaxed.
- (4) For the purposes of subsection (3) the management fee is “untaxed” if and to the extent that the fee would not (apart from this section)—
  - (a) be charged to tax under ITEPA 2003 as employment income of the individual for any tax year, or
  - (b) be brought into account in calculating the profits of a trade of the individual for the purposes of income tax for any tax year.
- (5) In subsection (4) “trade” includes profession or vocation.
- (6) In this Chapter “investment scheme” means—
  - (a) a collective investment scheme, or
  - (b) an investment trust.
- <sup>F1396</sup>(7) [ The reference in subsection (6)(a) to a collective investment scheme includes—
  - (a) arrangements which permit an external investor to participate in investments acquired by the collective investment scheme without participating in the scheme itself, and
  - (b) arrangements under which sums arise to an individual performing investment management services in respect of the collective investment scheme without those sums arising from the scheme itself.]

#### Textual Amendments

**F1391**S. 809EZA(2A)-(2C) inserted (with effect in accordance with s. 38(2) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 38\(1\)](#)

**F1392**Words in s. 809EZA(3)(a) substituted (with effect in accordance with s. 36(5) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 36\(2\)\(a\)](#)



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- F1393S.** 809EZA(3)(b) omitted (with effect in accordance with s. 36(5) of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 36\(2\)\(b\)](#)
- F1394**Words in s. 809EZA(3)(c) omitted (with effect in accordance with s. 45(3) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\), s. 45\(2\)](#)
- F1395**Words in s. 809EZA(3)(c) substituted (with effect in accordance with s. 36(5) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 36\(2\)\(c\)](#)
- F1396S.** 809EZA(7) inserted (with effect in accordance with s. 36(5) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 36\(3\)](#)

### **809EZB Meaning of “management fee” in section 809EZA**

- (1) Subject as follows, for the purposes of section 809EZA “management fee” means any sum (including a sum in the form of a loan or advance or an allocation of profits) except so far as the sum constitutes—
- (a) a repayment (in whole or part) of an investment made directly or indirectly by the individual in the scheme,
  - (b) an arm's length return on an investment made directly or indirectly by the individual in the scheme, or
  - [<sup>F1397</sup>(c) carried interest which is not income-based carried interest (see sections 809EZC and 809EZD for carried interest, and Chapter 5F for income-based carried interest).]
- (2) For the purposes of subsection (1)(b) a return on an investment is “an arm's length return” if—
- (a) the return is on an investment which is of the same kind as investments in the scheme made by external investors,
  - (b) the return on the investment is reasonably comparable to the return to external investors on those investments, and
  - (c) the terms governing the return on the investment are reasonably comparable to the terms governing the return to external investors on those investments.
- [ For the purposes of subsection (2)(b), the return on the investment is reasonably <sup>F1398</sup>(2A) comparable to the return to external investors on the investments referred to in subsection (2)(a) if (and only if)—
- (a) the rate of return on the investment is reasonably comparable to the rate of return to external investors on those investments, and
  - (b) any other factors relevant to determining the size of the return on the investment are reasonably comparable to the factors determining the size of the return to external investors on those investments.]
- (3) In this Chapter “sum” includes any money or money's worth (and other expressions are to be construed accordingly).
- (4) Where—
- (a) a sum in the form of money's worth arises to the individual from the scheme in the ordinary course of the scheme's business, and
  - (b) the individual gives the scheme money in exchange for the sum,
- the sum constitutes a “management fee” only to the extent that its market value at the time it arises exceeds the amount of the money given by the individual.

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### Textual Amendments

**F1397S.** 809EZB(1)(c) substituted (with effect in accordance with s. 37(4) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 37\(1\)](#)

**F1398S.** 809EZB(2A) inserted (with effect in accordance with s. 44(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 44\(1\)](#)

### 809EZC Meaning of “carried interest” in section 809EZB

- (1) For the purposes of section 809EZB “carried interest” means a sum which arises to the individual under the arrangements by way of profit-related return.

This is subject to subsections (3) to (8) (sums where no significant risk of not arising); and see also section 809EZF (sums treated as carried interest).

- (2) A sum which arises to the individual under the arrangements does so by way of “profit-related return” if under the arrangements—

- (a) the sum is to, or may, arise only if—
  - (i) there are profits for a period on the investments, or on particular investments, made for the purposes of the scheme, or
  - (ii) there are profits arising from a disposal of the investments, or of particular investments, made for those purposes,
- (b) the amount of the sum which is to, or may, arise is variable, to a substantial extent, by reference to those profits, and
- (c) returns to external investors are also determined by reference to those profits; but where any part of the sum does not meet these conditions, that part is not to be regarded as arising by way of “profit-related return”.

- (3) Where—

- (a) one or more sums (“actual sums”) arise to the individual under the arrangements by way of profit-related return in a tax year, and
- (b) there was no significant risk that a sum of at least a certain amount (“the minimum amount”) would not arise to the individual,

so much of the actual sum, or of the aggregate of the actual sums, as is equal to the minimum amount is not “carried interest”.

(See subsections (7) and (8) as to how the minimum amount is to be apportioned between the actual sums where more than one actual sum arises in the tax year.)

- (4) For the purposes of subsection (3)(b) assess the risk both—

- (a) in relation to each actual sum (and the investments to which it relates) individually, taking into account also any other sums that might have arisen to the individual under the arrangements instead of that sum, and
- (b) in relation to the actual sum or sums and any other sums that might have arisen to the individual under the arrangements by way of profit-related return in the tax year (and the investments to which all those sums relate) taken as a whole;

(so that, in a particular case, some of the minimum amount may arise by assessing the risk in accordance with paragraph (a) and some by assessing it in accordance with paragraph (b)).

- (5) For the purposes of subsection (3)(b) assess the risk as at the latest of—

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- (a) the time when the individual becomes party to the arrangements,
  - (b) the time when the individual begins to perform investment management services directly or indirectly in respect of the scheme under the arrangements, and
  - (c) the time when a material change is made to the arrangements so far as relating to the sums which are to, or may, arise to the individual.
- (6) For the purposes of subsection (3)(b) ignore any risk that a sum is prevented from arising to the individual (by reason of insolvency or otherwise).
- (7) Where more than one actual sum arises in the tax year, the minimum amount is to be apportioned between the actual sums as follows for the purposes of subsection (3)—
- (a) so much of the minimum amount as is attributable to a particular actual sum is to be apportioned to that actual sum, and
  - (b) so much of the minimum amount as is not attributable to any particular actual sum is to be apportioned between the actual sums on a just and reasonable basis.
- (8) For the purpose of subsection (7) any part of the minimum amount is attributable to a particular actual sum to the extent that there was no significant risk that that part would not arise to the individual in relation to that actual sum, assessing the risk in accordance with subsection (4)(a).

#### **809EZDSums treated as “carried interest” for purposes of section 809EZB**

- (1) A sum falling within subsection (2) or (3)—
- (a) is to be assumed to meet the requirements of section 809EZC, and
  - (b) accordingly, is to be treated as constituting “carried interest” for the purposes of section 809EZB.
- (2) A sum falls within this subsection if, under the arrangements, it is to, or may, arise to the individual out of profits on the investments made for the purposes of the scheme, but only after—
- (a) all, or substantially all, of the investments in the scheme made by the participants have been repaid to the participants, and
  - (b) each external investor has received a preferred return on all, or substantially all, of the investor's investments in the scheme.
- (3) A sum falls within this subsection if, under the arrangements, it is to, or may, arise to the individual out of profits on a particular investment made for the purposes of the scheme, but only after—
- (a) all, or substantially all, of the relevant investments made by participants have been repaid to those participants, and
  - (b) each of those participants who is an external investor has received a preferred return on all, or substantially all, of the investor's relevant investments;
- and for this purpose “relevant investments” means those investments in the scheme to which the particular investment made for the purposes of the scheme is attributable.
- (4) In this section “preferred return” means a return of not less than the amount that would be payable on the investment by way of interest if—
- (a) compound interest were payable on the investment for the whole of the period during which it was invested in the scheme, and

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- (b) the interest were calculated at a rate of 6% per annum, with annual rests.

### **809EZDA Sums arising to connected persons other than companies**

**F1399**

- (1) This section applies in relation to an individual (“A”) if—
- (a) a sum arises to a person (“B”) who is connected with A,
  - (b) B is not a company,
  - (c) income tax is not charged on B in respect of the sum by virtue of this Chapter,
  - (d) capital gains tax is not charged on B in respect of the sum by virtue of Chapter 5 of Part 3 of TCGA 1992, and
  - (e) the sum does not arise to A apart from this section.
- (2) The sum referred to in subsection (1)(a) arises to A for the purposes of this Chapter.
- (3) Where a sum arises to A by virtue of this section, it arises to A at the time the sum referred to in subsection (1)(a) arises to B.
- (4) Section 993 (meaning of “connected”) applies for the purposes of this section, but as if—
- (a) subsection (4) of that section were omitted, and
  - (b) partners in a partnership in which A is also a partner were not “associates” of A for the purposes of sections 450 and 451 of CTA 2010 (“control”).

#### **Textual Amendments**

**F1399**Ss. 809EZDA, 809EZDB inserted (with effect in accordance with s. 45(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), s. 45(1)

### **809EZDB Sums arising to connected company or unconnected person**

- (1) This section applies in relation to an individual (“A”) if—
- (a) a sum arises to—
    - (i) a company connected with A, or
    - (ii) a person not connected with A,
  - (b) any of the enjoyment conditions is met, and
  - (c) the sum does not arise to A apart from this section.
- (2) The enjoyment conditions are—
- (a) the sum, or part of the sum, is in fact so dealt with by any person as to be calculated at some time to enure for the benefit of A or a person connected with A;
  - (b) the arising of the sum operates to increase the value to A or a person connected with A of any assets which—
    - (i) A or the connected person holds, or
    - (ii) are held for the benefit of A or the connected person;
  - (c) A or a person connected with A receives or is entitled to receive at any time any benefit provided or to be provided out of the sum or part of the sum;
  - (d) A or a person connected with A may become entitled to the beneficial enjoyment of the sum or part of the sum if one or more powers are exercised or successively exercised (and for these purposes it does not matter who

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may exercise the powers or whether they are exercisable with or without the consent of another person);

- (e) A or a person connected with A is able in any manner to control directly or indirectly the application of the sum or part of the sum.

In this subsection, in a case where the sum referred to in subsection (1)(a) arises to a company connected with A, references to a person connected with A do not include that company.

- (3) There arises to A for the purposes of this Chapter—
  - (a) the sum referred to in subsection (1)(a), or
  - (b) if the enjoyment condition in subsection (2)(a), (c), (d) or (e) is met in relation to part of the sum, that part of that sum, or
  - (c) if the enjoyment condition in subsection (2)(b) is met, such part of that sum as is equal to the amount by which the value of the assets referred to in that condition is increased.
- (4) Where a sum (or part of a sum) arises to A by virtue of this section, it arises to A at the time it arises to the person referred to in subsection (1)(a)(i) or (ii) (whether the enjoyment condition was met at that time or at a later date).
- (5) In determining whether any of the enjoyment conditions is met in relation to a sum or part of a sum—
  - (a) regard must be had to the substantial result and effect of all the relevant circumstances, and
  - (b) all benefits which may at any time accrue to a person as a result of the sum arising as specified in subsection (1)(a) must be taken into account, irrespective of—
    - (i) the nature or form of the benefits, or
    - (ii) whether the person has legal or equitable rights in respect of the benefits.
- (6) The enjoyment condition in subsection (2)(b), (c) or (d) is to be treated as not met if it would be met only by reason of A holding shares or an interest in shares in a company.
- (7) The enjoyment condition in subsection (2)(a) or (e) is to be treated as not met if the sum referred to in subsection (1)(a) arises to a company connected with A and—
  - (a) the company is liable to pay corporation tax in respect of its profits and the sum is included in the computation of those profits, or
  - (b) paragraph (a) does not apply but—
    - (i) the company is a CFC and the exemption in Chapter 14 of Part 9A of TIOPA 2010 applies for the accounting period in which the sum arises, or
    - (ii) the company is not a CFC but, if it were, that exemption would apply for that period.

In this subsection “CFC” has the same meaning as in Part 9A of TIOPA 2010.

- (8) But subsections (6) and (7) do not apply if the sum referred to in subsection (1)(a) arises to the company referred to in subsection (1)(a)(i) or the person referred to in subsection (1)(a)(ii) as part of arrangements where—
  - (a) it is reasonable to assume that in the absence of the arrangements the sum or part of the sum would have arisen to A or an individual connected with A, and

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- (b) it is reasonable to assume that the arrangements have as their main purpose, or one of their main purposes, the avoidance of a liability to pay income tax, capital gains tax, inheritance tax or corporation tax.
- (9) The condition in subsection (8)(b) is to be regarded as met in a case where the sum is applied directly or indirectly as an investment in a collective investment scheme.
- (10) Section 993 (meaning of “connected”) applies for the purposes of this section, but as if—
  - (a) subsection (4) of that section were omitted, and
  - (b) partners in a partnership in which A is also a partner were not “associates” of A for the purposes of sections 450 and 451 of CTA 2010 (“control”).]

#### Textual Amendments

**F1399**Ss. 809EZDA, 809EZDB inserted (with effect in accordance with s. 45(3) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 45\(1\)](#)

#### Modifications etc. (not altering text)

**C112** S. 89EZDB excluded by [1992 c. 12, s. 103KG\(2\)\(4\)](#) (as inserted (with effect in accordance with [s. 43\(2\)-\(4\)](#) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\), s. 43\(1\)](#))

### 809EZE Interpretation of Chapter

(1) In this Chapter—

“arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable);

“collective investment scheme” has the meaning given by section 235 of FISMA 2000;

“external investor”, in relation to an investment scheme and any arrangements, means a participant in the scheme other than—

- (a) an individual who [<sup>F1400</sup>at any time performs or is to perform] investment management services directly or indirectly in respect of the scheme, or
- (b) a person through whom sums are to, or may, arise directly or indirectly to such an individual from the scheme under the arrangements;

“investment management services”, in relation to an investment scheme, includes—

- (a) seeking funds for the purposes of the scheme from participants or potential participants,
- (b) researching potential investments to be made for the purposes of the scheme,
- (c) acquiring, managing or disposing of property for the purposes of the scheme, and
- (d) acting for the purposes of the scheme with a view to assisting a body in which the scheme has made an investment to raise funds;

“investment trust” means a company in relation to which conditions A to C in section 1158 of CTA 2010 are met (or treated as met); and for this purpose “company” has the meaning given by section 1121 of CTA 2010;

“market value” has the same meaning as in TCGA 1992 (see sections 272 and 273 of that Act);

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“participant”—

- (a) in relation to a collective investment scheme, is construed in accordance with section 235 of FISMA 2000;
- (b) in relation to an investment trust, means a member of the investment trust;

“profits”, in relation to an investment made for the purposes of an investment scheme, means profits (including unrealised profits) arising from the acquisition, holding, management or disposal of the investment (taking into account items of a revenue nature and items of a capital nature).

- (2) In this Chapter a reference to an investment made by a person in an investment scheme is a reference to a contribution by the person (whether by way of capital, loan or otherwise) towards the property subject to the scheme (but does not include a sum committed but not yet invested).
- (3) For the purposes of subsection (2) a person who holds a share in an investment scheme which is a company limited by shares and who acquired the share from a person other than the scheme is to be taken to have made a contribution towards the property subject to the scheme equal to—
  - (a) the consideration given by the person for the acquisition of the share, or
  - (b) if less, the market value of the share at the time of the acquisition.
- (4) In this Chapter, in relation to an investment scheme which is a company limited by shares—
  - (a) references to a repayment of, or a return on, an investment in the scheme include a repayment of, or a return on, an investment represented by a share in the scheme resulting from—
    - (i) the purchase of the share by the scheme,
    - (ii) the redemption of the share by the scheme,
    - (iii) the distribution of assets in respect of the share on the winding up of the scheme, or
    - (iv) any similar process;
  - (b) references to a return on an investment in the scheme include a dividend or similar distribution in respect of a share in the scheme representing the investment.

#### **Textual Amendments**

**F1400** Words in s. 809EZE(1) substituted (with effect in accordance with s. 36(5) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 36\(4\)](#)

### **809EZF Disguised investment management fees: anti-avoidance**

In determining whether section 809EZA applies in relation to an individual, no regard is to be had to any arrangements the main purpose, or one of the main purposes, of which is to secure that that section does not apply in relation to—

- (a) the individual, or
- (b) the individual and one or more other individuals.

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### 809EZG Disguised investment management fees: avoidance of double taxation

- (1) This section applies where—
  - (a) income tax is charged on an individual by virtue of section 809EZA in respect of a disguised fee, and
  - (b) at any time, a tax (whether income tax or another tax) is charged on the individual [<sup>F1401</sup>or another person] otherwise than by virtue of section 809EZA in relation to the disguised fee.
- (2) This section also applies where—
  - (a) income tax is charged on an individual by virtue of section 809EZA in respect of a disguised fee which arises to the individual under the arrangements by way of a loan or advance,
  - (b) at any time, a tax (whether income tax or another tax) is charged on the individual in relation to another sum which arises to the individual under the arrangements, and
  - (c) some or all of the loan or advance has to be repaid as a result of the other sum having arisen to the individual.
- (3) In order to avoid a double charge to tax, the individual may make a claim for one or more consequential adjustments to be made in respect of the tax charged as mentioned in subsection (1)(b) or (2)(b).
- (4) On a claim under this section an officer of Revenue and Customs must make such of the consequential adjustments claimed (if any) as are just and reasonable.
- (5) The value of any consequential adjustments must not exceed the lesser of the income tax charged on the individual as mentioned in subsection (1)(a) or (2)(a) and—
  - (a) where subsection (1) applies, the tax charged as mentioned in subsection (1)(b);
  - (b) where subsection (2) applies, the tax charged as mentioned in subsection (2)(b) in relation to so much of the other sum as does not exceed the amount of the loan or advance that has to be repaid as mentioned in subsection (2)(c).
- (6) Consequential adjustments may be made—
  - (a) in respect of any period,
  - (b) by way of an assessment, the modification of an assessment, the amendment of a claim, or otherwise, and
  - (c) despite any time limit imposed by or under any enactment.

#### Textual Amendments

**F1401** Words in s. 809EZG(1)(b) inserted (with effect in accordance with s. 44(3) of the amending Act) by Finance (No. 2) Act 2015 (c. 33), s. 44(2)

### 809EZHPowers to amend Chapter

- (1) The Treasury may by regulations amend this Chapter—
  - (a) so as to change the definition of “investment scheme” for the purposes of this Chapter;
  - (b) so as to change the definition of “participant” for those purposes;
  - (c) so as to change what is “carried interest” for the purposes of section 809EZB.



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- (2) Regulations under this section may—
  - (a) make different provision for different purposes, and
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (3) A statutory instrument containing regulations under this section to which subsection (4) applies may not be made unless a draft of the instrument has been laid before and approved by a resolution of the House of Commons.
- (4) This subsection applies if the regulations contain any provision which has or may have the effect of increasing any person's liability to tax.
- (5) Any other statutory instrument containing regulations under this section is subject to annulment in pursuance of a resolution of the House of Commons.]

## [<sup>F1402</sup>CHAPTER 5F

### INCOME-BASED CARRIED INTEREST

#### Textual Amendments

**F1402**Pt. 13 Ch. 5F inserted (with effect in accordance with s. 37(4) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 37\(2\)](#)

#### *Income-based carried interest*

#### 809FZA Overview

- (1) This Chapter determines when carried interest arising to an individual from an investment scheme is “income-based carried interest” for the purposes of Chapter 5E (and, in particular, section 809EZB(1)(c)).
- (2) Section 809FZB contains the general rule, under which the extent to which carried interest is income-based carried interest depends on the average holding period of the investment scheme.
- (3) Sections 809FZC to 809FZP contain further provision relating to average holding periods.
- (4) Sections 809FZQ and 809FZR contain a particular rule for direct lending funds.
- (5) Sections 809FZS and 809FZT contain an exception to the general rule for carried interest which is conditionally exempt from income tax.
- (6) Sections 809FZU to 809FZZ contain supplementary and interpretative provision.
- (7) Nothing in this Chapter affects the liability to any tax of—
  - (a) the investment scheme, or
  - (b) external investors in the investment scheme.

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### 809FZB Income-based carried interest: general rule

- (1) “Income-based carried interest” is the relevant proportion of a sum of carried interest arising to an individual from an investment scheme.
- (2) The relevant proportion is determined by reference to the investment scheme's average holding period as follows.

<i>Average holding period</i>	<i>Relevant proportion</i>
Less than 36 months	100%
At least 36 months but less than 37 months	80%
At least 37 months but less than 38 months	60%
At least 38 months but less than 39 months	40%
At least 39 months but less than 40 months	20%
40 months or more	0%

- (3) This section is subject to the following provisions of this Chapter.

#### *Average holding period*

### 809FZC Average holding period

- (1) The average holding period of an investment scheme, in relation to a sum of carried interest, is the average length of time for which relevant investments have been held for the purposes of the scheme.
- (2) In this section, “relevant investments” means investments—
  - (a) which are made for the purposes of the scheme, and
  - (b) by reference to which the carried interest is calculated.
- (3) The average holding period is calculated by reference to the time the carried interest arises.
- (4) It is calculated as follows.
 

*Step 1* For each relevant investment, multiply the value invested at the time the investment was made by the length of time for which the investment has been held.

*Step 2* Add together the amounts produced under *step 1* in respect of all relevant investments.

*Step 3* Divide the amount produced under *step 2* by the total value invested in all relevant investments.
- (5) Disregard intermediate holdings or intermediate holding structures (including intermediate investment schemes) by or through which investments are made or held—
  - (a) when identifying, for the purpose of determining the average holding period of an investment scheme, what relevant investments are held for the purposes of an investment scheme, and
  - (b) for any other purpose relating to the determination of the average holding period.

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This is subject to the following provisions of this Chapter.

- (6) In this section, references to the length of time for which a relevant investment has been held are—
  - (a) in the case of an investment which has been disposed of before the carried interest arises, references to the time for which it was held before being disposed of, and
  - (b) in any other case, references to the time for which it has been held up to the time the carried interest arises.
- (7) For the purposes of this Chapter, carried interest which is deferred carried interest in relation to a person within the meaning of section 103KG of TCGA 1992 is to be treated as arising to that person at the time it would have arisen had it not been deferred as specified in section 103KG(3)(a) or (b) of that Act.
- (8) Sections 809FZD to 809FZP apply for the purposes of determining the average holding period of an investment scheme.

*Average holding period: disposals*

#### **809FZD Disposals**

- (1) An investment or part of an investment is disposed of where—
  - (a) there is a disposal of the investment or the part of the investment for the purposes of the investment scheme,
  - (b) there is a disposal for the purposes of the investment scheme of an intermediate holding or intermediate holding structure (including an intermediate investment scheme) by or through which the investment is held, or
  - (c) in any other case, there is a deemed disposal under subsection (2).
- (2) There is a deemed disposal of an investment or part of an investment under this subsection where—
  - (a) under any arrangements—
    - (i) the scheme in substance closes its position on the investment or the part of the investment, or
    - (ii) the scheme ceases to be exposed to risks and rewards in the respect of the investment or the part of the investment, and
  - (b) it is reasonable to suppose that the arrangements were designed to secure that result.
- (3) In the case of a disposal of part of a holding of securities in a company which are of the same class, suppose for the purposes of determining which investments have been disposed of that the disposal affects the securities in the order in which they were acquired (that is, on a first in first out basis).
- (4) The references in subsection (1)(a) and (b) to a disposal are to something which is a disposal for the purposes of TCGA 1992; but for the purposes of subsection (1)(a) disregard section 116 of TCGA 1992 (which disapplies sections 127 to 130 of that Act in relation to qualifying corporate bonds).

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### 809FZE Part disposals

- (1) Where there is a disposal of part of an investment, the part disposed of and the part not disposed of are to be treated as two separate investments which were made at the same time.
- (2) The value of each of those two separate investments is the appropriate proportion of the value first invested in the whole investment.
- (3) The appropriate proportion is the proportion of the value of the part in question to the value of the whole investment at the time of the disposal.
- (4) The disposal of part of an asset includes the disposal of an interest in or right over the asset (and “part disposed of” is to be construed accordingly).

### 809FZF Unwanted short-term investments

- (1) The making and disposal of an investment for the purposes of an investment scheme are to be disregarded if—
  - (a) the investment is an unwanted short-term investment, and
  - (b) the unwanted short-term investment is excludable.
- (2) An investment is an unwanted short-term investment where—
  - (a) the investment is made as part of a transaction under which one or more other investments are made for the purposes of the scheme,
  - (b) the value of the investment does not exceed that of the other investments taken together,
  - (c) it is reasonable to suppose that the investment had to be made in order for the other investments to be made,
  - (d) at the time the investment is made, managers of the scheme have a firm, settled and evidenced intention to dispose of the investment for the purposes of the scheme within the relevant period,
  - (e) the investment is disposed of for the purposes of the scheme within the relevant period, and
  - (f) any profit resulting from the disposal has no bearing on whether a sum of carried interest arises or on the amount of any sum of carried interest which does arise.
- (3) An unwanted short-term investment is excludable if it constitutes—
  - (a) an investment in land,
  - (b) an investment in securities in an unlisted company,
  - (c) the making of a direct loan where the other investments specified in subsection (2)(b) are shares or other securities in an unlisted company, or
  - (d) the making of a direct loan which is a qualifying loan within the meaning given by section 809FZR(2).
- (4) In subsection (2)(e) “relevant period” means—
  - (a) for an investment within subsection (3)(a), 12 months;
  - (b) for an investment within subsection (3)(b) or (c), 6 months;
  - (c) for an investment within subsection (3)(d), 120 days.
- (5) But if at any time it becomes reasonable to suppose that, when the scheme ceases to invest, 25% or more of the capital of the investment scheme will have been invested in

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unwanted short-term investments which are excludable, subsection (1) does not apply to any investment made subsequently for the purposes of the scheme.

*Average holding period: derivatives and hedging*

## **809FZG Derivatives**

- (1) A derivative contract entered into for the purposes of an investment scheme is an investment, subject to the following provisions of this section.
- (2) The value invested in the derivative contract is—
  - (a) where the contract is an option, the cost of acquiring the option (whether from the grantor or another person),
  - (b) where the contract is a future, the price specified in the contract for the underlying subject matter, or
  - (c) where the contract is a contract for differences, the notional principal of the contract.
- (3) But where entering into a derivative contract constitutes a deemed disposal of an investment or part of an investment by virtue of section 809FZD(2)(a)(ii)—
  - (a) the derivative contract is not an investment, and
  - (b) the subsequent disposal of the derivative contract without a corresponding disposal of the investment or part investment is to be regarded as the making of a new investment to the extent that the scheme becomes materially exposed to risks and rewards in respect of the investment or part investment.
- (4) For the purposes of this Chapter, references to disposal, in the case of a derivative contract, include any of the following events (to the extent that the event is not otherwise a disposal under section 809FZD(1) or (2))—
  - (a) the expiry of the contract,
  - (b) the termination of the contract (whether or not in accordance with its terms),
  - (c) the disposal, substantial variation, loss or cancellation of the investment scheme's rights under the contract, and
  - (d) in the case of a derivative contract which is an option, the exercise of the option,but do not include the renewal of the contract with the same counterparty on substantially the same terms.
- (5) The substantial variation of an investment scheme's rights under a derivative contract constitutes (in addition to the disposal of the contract as originally entered into (see subsection (4)(c)) a new investment consisting of the contract as varied.

## **809FZH Hedging: exchange gains and losses**

- (1) This section applies where—
  - (a) an investment scheme has a hedging relationship between a relevant instrument and a relevant investment, and
  - (b) the hedging relationship relates to exchange gains or losses.
- (2) In this section—

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- “relevant instrument” means a derivative contract or a liability representing a loan relationship, and
- “relevant investment” means—
- (a) where the relevant instrument is a derivative contract, an investment made for the purposes of the scheme or a liability representing a loan relationship;
  - (b) where the relevant instrument is a liability representing a loan relationship, an investment made for the purposes of the scheme.
- (3) An investment scheme has a hedging relationship between a relevant instrument and a relevant investment if or to the extent that—
- (a) the instrument and the investment are designated by the scheme as a hedge, or
  - (b) in any other case, the instrument is intended to act as a hedge of exposure to—
    - (i) changes in fair value of the investment or an identified portion of the investment, or
    - (ii) variability in cash flows,
 where the exposure is attributable to exchange gains or losses and could affect profit or loss of the investment scheme.
- (4) Entering into the hedging relationship is not a deemed disposal of the relevant investment under section 809FZD(2).
- (5) The relevant instrument is not an investment for the purposes of the investment scheme to the extent that the conditions in subsection (3)(a) and (b) are met.
- (6) But the termination of the hedging relationship is the making of an investment constituting the relevant instrument if or to the extent that that instrument continues to subsist.

### **809FZI Hedging: interest rates**

- (1) This section applies where an investment scheme has a hedging relationship between—
- (a) an interest rate contract, and
  - (b) a qualifying investment held for the purposes of the fund.
- (2) An investment scheme has a hedging relationship between an interest rate contract and a qualifying investment if or to the extent that—
- (a) the interest rate contract and the investment are designated by the scheme as a hedge, or
  - (b) in any other case, the interest rate contract is intended to act as a hedge of exposure to—
    - (i) changes in fair value of the investment or an identified portion of the investment, or
    - (ii) variability in cash flows,
 where the exposure is attributable to interest rates and could affect profit or loss of the investment scheme.
- (3) Entering into the hedging relationship is not a deemed disposal of the relevant investment under section 809FZD(2).

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- (4) The interest rate contract is not an investment for the purposes of the investment scheme to the extent that the conditions in subsection (2)(a) and (b) are met.
- (5) But the termination of the hedging relationship is the making of an investment constituting the interest rate contract if or to the extent that the interest rate contract continues to subsist.
- (6) In this section “qualifying investment” means—
  - (a) money placed at interest,
  - (b) securities (excluding shares issued by companies),
  - (c) alternative finance arrangements, and
  - (d) a liability representing a loan relationship.

*Average holding period: aggregation of acquisitions and disposals*

### **809FZJ Significant interests**

- (1) Where an investment scheme has a controlling interest in a trading company or the holding company of a trading group—
  - (a) any investment made for the purposes of the scheme in that company after the time when the controlling interest was acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the scheme of an investment in the company after the time the controlling interest was acquired is to be regarded as not being made until a relevant disposal is made.
- (2) In subsection (1)(b) “relevant disposal”, in relation to a company, means a disposal which (apart from subsection (1)) has the effect that the investment scheme ceases to have a 40% interest in the company.
- (3) For the purposes of this section, in determining whether an investment scheme has a controlling interest or a 40% interest in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the investment scheme.

### **809FZK Venture capital funds**

- (1) Where a venture capital fund has a relevant interest in a trading company or the holding company of a trading group—
  - (a) any venture capital investment made for the purposes of the scheme in the company after the time the relevant interest was acquired (and before a relevant disposal) is to be regarded as having been made at the time the relevant interest was acquired, and
  - (b) any disposal for the purposes of the scheme of a venture capital investment in the company after that time is to be regarded as not being made until—
    - (i) a relevant disposal is made, or
    - (ii) the scheme director condition ceases to be met.
- (2) For the purposes of subsection (1) a venture capital fund has a relevant interest in a company if—

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- (a) by virtue of its venture capital investments the fund has at least a 5% interest in the company, or
  - (b) venture capital investments held for the purposes of the scheme in the company have a value of more than £1 million.
- (3) For the purposes of subsection (1) “relevant disposal” means a disposal which (apart from subsection (1)) has the effect that the venture capital fund has disposed of more than 80% of the greatest amount invested at any one time in the company for the purposes of the fund.
- (4) In this Chapter, “venture capital fund” means an investment scheme in relation to which the condition in subsection (5) is met.
- (5) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
- (a) at least two-thirds of the total value invested for the purposes of the scheme will be invested in venture capital investments, and
  - (b) at least two-thirds of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (6) In determining whether subsection (5)(b) is met in relation to an investment scheme, apply the rule in subsection (1) to the scheme.
- (7) In this section, “venture capital investment”, in relation to an investment scheme, means an investment in a trading company or the holding company of a trading group where—
- (a) at the time the investment is made the company is unlisted and is likely to remain so,
  - (b) at least 75% of the total value of the investment is invested in—
    - (i) newly issued shares or
    - (ii) newly issued securities convertible into shares,
  - (c) the investment is used in a trade carried on by the trading company or the trading group—
    - (i) to support its growth, or
    - (ii) for the development of new products or services,
 and is not used directly or indirectly to acquire shares in the company which are not newly issued,
  - (d) if the investment is the first investment made in the company for the purposes of the scheme, the trading company or group has not carried on that trade for more than 7 years, and
  - (e) the scheme director condition is met.
- (8) In this Chapter, the scheme director condition, in relation to an investment scheme and a company, is that—
- (a) the scheme (or the scheme and one or more investment schemes acting together) are entitled to appoint a director (“the scheme director”) of—
    - (i) the company, or
    - (ii) a company which controls the company, and
  - (b) the scheme director is entitled to exercise rights within subsection (9).
- (9) Those rights are rights which—
- (a) are rights conferred under contractual arrangements—



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- (i) to which some or all of the investors in the company are parties, and
  - (ii) which it would be reasonable to suppose would not otherwise be capable of being exercised by the scheme director,
- (b) relate to the conduct of the business and affairs of the company, and
  - (c) are at least equivalent to the rights which it is reasonable to suppose a prudent investor would have obtained on making an investment in the company at arm's length of the same size and nature as that held in the company for the purposes of the investment scheme.
- (10) In determining whether the condition in subsection (2)(a) or (b) is met in relation to a venture capital fund, any share capital of a company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the venture capital fund.

### **809FZL Significant equity stake funds**

- (1) Where a significant equity stake fund has a significant equity stake investment in a trading company or the holding company of a trading group—
- (a) any investment made for the purposes of the fund in that company made after the time the significant equity stake investment was acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the fund of an investment in the company after that time is to be regarded as not being made until—
    - (i) a relevant disposal is made, or
    - (ii) the scheme director condition ceases to be met.
- (2) In subsection (1)(b) “relevant disposal” means a disposal which (apart from subsection (1)) has the effect that the significant equity stake fund ceases to have a 15% interest in the company.
- (3) In this Chapter, “significant equity stake fund” means an investment scheme—
- (a) which is not a venture capital fund, and
  - (b) in relation to which the condition in subsection (4) is met.
- (4) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
- (a) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are significant equity stake investments, and
  - (b) more than 50% of that value will be invested in investments which are held for 40 months or more.
- (5) In determining whether subsection (4)(b) is met in relation to an investment scheme, apply the rule in subsection (1) to the scheme.
- (6) In this section, “significant equity stake investment”, in relation to an investment scheme, means an investment in a trading company or the holding company of a trading group where—
- (a) at the time the investment is made, the company is unlisted and likely to remain so,
  - (b) by virtue of the investment (on its own or with other investments) the scheme has a 20% interest in the company, and
  - (c) the scheme director condition is met.

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- (7) For the purposes of this section, in determining whether a significant equity stake fund has an interest of a particular percentage in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the significant equity stake fund.

### **809FZM Controlling equity stake funds**

- (1) Where a controlling equity stake fund has a 25% interest in a trading company or the holding company of a trading group—
- (a) any investment made for the purposes of the controlling equity stake fund in the company after the time the 25% interest was acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the controlling equity stake fund of an investment in the company after that time is to be regarded as not being made until a relevant disposal is made.
- (2) In subsection (1)(b), “relevant disposal”, in relation to a company, means a disposal which (apart from subsection (1)) has the effect that the controlling equity stake fund ceases to have a 25% interest in the company.
- (3) In this Chapter, “controlling equity stake fund” means an investment scheme—
- (a) which is not a venture capital fund or significant equity stake fund, and
  - (b) in relation to which the condition in subsection (4) is met.
- (4) The condition is that when the scheme starts to invest it is reasonable to suppose that, over the investing life of the scheme—
- (a) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are controlling interests in trading companies or holding companies of trading groups, and
  - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
- (5) In determining whether subsection (4)(b) is met in relation to an investment scheme, apply the rule in subsection (1) to the scheme.
- (6) For the purposes of this section, in determining whether a controlling equity stake fund has a controlling interest or an interest of a particular percentage in a company, any share capital of the company which is held for the purposes of an associated investment scheme is to be regarded as held for the purposes of the controlling equity stake fund.

### **809FZN Real estate funds**

- (1) Where a real estate fund has a major interest in any land—
- (a) any investment made for the purposes of the fund in that land after the time the major interest was acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the fund of an investment in the land after that time is to be regarded as not being made until a relevant disposal is made.
- (2) In subsection (1)(b) “relevant disposal” means a disposal which (apart from subsection (1)) has the effect that the real estate fund has disposed of more than 50%

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- of the greatest amount invested at any one time in the land for the purposes of the real estate fund.
- (3) Where a real estate fund has a major interest in any land (“the original land”) and subsequently acquires a major interest in any adjacent land—
    - (a) the acquisition is an investment in the original land for the purposes of subsection (1)(a), and
    - (b) after the acquisition, the adjacent land is to be regarded as part of the original land for the purposes of subsections (1) and (2).
  - (4) In this Chapter, “real estate fund” means an investment scheme—
    - (a) which is not a venture capital fund, significant equity stake fund or controlling equity stake fund, and
    - (b) in relation to which the condition in subsection (5) is met.
  - (5) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
    - (a) more than 50% of the total value invested for the purposes of the scheme will be invested in land, and
    - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more.
  - (6) In determining whether subsection (5)(b) is met in relation to an investment scheme, apply the rule in subsection (1) to the scheme.

### **809FZO Funds of funds**

- (1) Section 809FZC(5) (disregard of intermediate holdings and holding structures) does not apply to an investment made for the purposes of a fund of funds in a collective investment scheme (and, accordingly, such an investment is regarded as an investment in the collective investment scheme itself).
- (2) Subsection (1) does not apply in relation to a fund of funds in relation to a collective investment scheme if it is reasonable to suppose that the main purpose or one of the main purposes of the making of any investment in any collective investment scheme for the purposes of the fund of funds is to reduce the proportion of carried interest arising to any person which is income-based carried interest.
- (3) Where by virtue of subsection (1) a fund of funds has a significant investment in a collective investment scheme (“the underlying scheme”)—
  - (a) any qualifying investment made for the purposes of the fund in the underlying scheme after the time the significant investment was acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the fund of a qualifying investment in the underlying scheme after that time is to be regarded as not being made until a relevant disposal is made.
- (4) In subsection (3)(b) “relevant disposal”, in relation to an underlying scheme, means a disposal which (apart from subsection (3)) has the effect that—
  - (a) the fund of funds has (by virtue of disposals of its interest in the underlying scheme) disposed of at least 50% of the greatest amount invested for its purposes at any one time in the underlying scheme, or

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- (b) the fund of fund's investment in the underlying scheme is worth less than whichever is the greater of—
  - (i) £1 million, or
  - (ii) 5% of the total value of the investments made before the disposal for the purposes of the fund of funds in the underlying scheme.
- (5) In this Chapter, “fund of funds” means an investment scheme in relation to which the condition in subsection (6) is met.
- (6) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
  - (a) substantially all of the total value invested for the purposes of the scheme will be invested in collective investment schemes of which the scheme holds less than 50% by value,
  - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more, and
  - (c) more than 75% of the total value invested in the scheme will be invested by external investors.
- (7) In determining whether subsection (6)(b) is met in relation to an investment scheme, apply the rule in subsection (3) to the scheme.
- (8) In this section, “significant investment”, in relation to a collective investment scheme, means—
  - (a) an investment of a least £1 million in the scheme, or
  - (b) an investment of at least 5% of the total amounts raised or to be raised from external investors in the scheme.
- (9) In this section, “qualifying investment” means an investment made for the purposes of an investment scheme in a collective investment scheme (“the underlying scheme”) where—
  - (a) the investment is held on the same terms as other investments made by external investors in the underlying scheme,
  - (b) the fund of funds, together with any connected funds, does not hold more than 30% by value of the underlying scheme,
  - (c) the underlying scheme has not made an investment in the fund of funds,
  - (d) no person providing investment management services to the underlying scheme provides investment management services to the fund of funds, and
  - (e) it is reasonable to suppose that the investment in the underlying scheme is not part of arrangements the main purpose or one of the main purposes of which is to reward any person involved in providing investment management services to the underlying scheme or a scheme connected with that underlying scheme.

### **809FZP Secondary funds**

- (1) Section 809FZC(5) (disregard of intermediate holdings and holding structures) does not apply to investments acquired for the purposes of a secondary fund in a collective investment scheme (and, accordingly, such an investment is regarded as an investment in the collective investment scheme itself).
- (2) Subsection (1) does not apply in relation to a secondary fund in relation to a collective investment scheme if it is reasonable to suppose that the main purpose or one of the

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main purposes of the making of any investment in any collective investment scheme for the purposes of the secondary fund is to reduce the proportion of carried interest arising to any person which is income-based carried interest.

- (3) Where by virtue of subsection (1) a secondary fund has a significant investment in a collective investment scheme (“the underlying scheme”)—
  - (a) any qualifying investment acquired for the purposes of the fund in the underlying scheme after the time when the significant investment is acquired is to be regarded as having been made at that time, and
  - (b) any disposal for the purposes of the fund of a qualifying investment in the underlying scheme after that time is to be regarded as not being made until a relevant disposal is made.
- (4) In subsection (3)(b) “relevant disposal” means a disposal which (apart from subsection (3)) has the effect that—
  - (a) the secondary fund has (by virtue of disposals of its interest in the underlying scheme) disposed of at least 50% of the greatest amount invested for its purposes at any one time in the underlying scheme, or
  - (b) the secondary fund's investment in the underlying scheme is worth less than whichever is the greater of—
    - (i) £1 million, or
    - (ii) 5% of the total value of the investments held immediately before the disposal for the purposes of the secondary fund in the underlying scheme.
- (5) In this Chapter, “secondary fund” means an investment scheme in relation to which the condition in subsection (6) is met.
- (6) The condition is that when the scheme starts to invest it is reasonable to suppose that over the investing life of the scheme—
  - (a) substantially all of the total value invested for the purposes of the scheme will be in the acquisition of investments in, or the acquisition of portfolios of investments from, unconnected collective investment schemes,
  - (b) more than 50% of the total value invested for the purposes of the scheme will be invested in investments which are held for 40 months or more, and
  - (c) more than 75% of the total amount invested in the scheme will be invested by external investors.
- (7) In determining whether subsection (6)(b) is met in relation to an investment scheme, apply the rule in subsection (3) to the scheme.
- (8) In this section, “significant interest”, in relation to a collective investment scheme, means—
  - (a) an investment of at least £1 million in the scheme, or
  - (b) an investment of at least 5% of the total amounts raised or to be raised from external investors in the scheme.
- (9) In this section, “qualifying investment” means an investment in a collective investment scheme (“the underlying scheme”) acquired for the purposes of a secondary fund where—
  - (a) the investment acquired was originally made on the same terms as investments in the underlying scheme made by external investors,

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- (b) the terms on which the investment was acquired or investments made in the underlying scheme were made by external investors have not significantly changed since the investment was acquired,
- (c) the secondary fund, together with any connected funds, does not hold more than 30% by value of the underlying scheme,
- (d) no person providing investment management services to the underlying scheme provides investment management services to the secondary fund, and
- (e) it is reasonable to suppose that the investment in the underlying scheme is not part of arrangements the main purpose or one of the main purposes of which is to reward any person involved in providing investment management services to the underlying scheme or a scheme connected with that underlying scheme.

### *Direct lending funds*

#### **809FZQ Direct lending funds**

- (1) Carried interest arising from an investment scheme which is a direct lending fund is income-based carried interest in its entirety.

Subsections (2) to (4) apply for the purposes of this Chapter.

- (2) A direct lending fund is an investment scheme—
- (a) which is not a venture capital fund, significant equity stake fund, controlling equity stake fund or real estate fund, and
  - (b) in relation to which it is reasonable to suppose that, when the scheme ceases to invest, a majority of the investments made for the purposes of the scheme (calculated by reference to value invested) will have been direct loans made by the scheme.
- (3) An investment scheme makes a direct loan if for the purposes of the scheme money is advanced at interest or for any other return determined by reference to the time value of money.
- (4) The acquisition of a direct loan is to be regarded as the making of a direct loan if the loan is acquired within the period of 120 days beginning with the day on which the money is first advanced.

#### **809FZR Direct lending funds: exception**

- (1) Section 809FZQ does not apply to carried interest arising from a direct lending fund if—
- (a) the fund is a limited partnership,
  - (b) the carried interest is a sum falling within section 809Ezd(2) or (3), and
  - (c) it is reasonable to suppose that, when investments cease to be made for the purposes of the fund, at least 75% of the direct loans made by the fund (calculated by reference to value advanced) will have been qualifying loans.
- (2) In this section “qualifying loan” means a direct loan made by an investment scheme where—
- (a) the borrower is not connected with the investment scheme,
  - (b) the money is advanced under a genuine commercial loan agreement negotiated at arm's length,

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- (c) repayments are fixed and determinable,
  - (d) maturity is fixed,
  - (e) the scheme has the positive intention and ability to hold the loan to maturity, and
  - (f) the relevant term of the loan is at least four years.
- (3) In this section “relevant term”, in relation to a loan, means the period which—
- (a) begins with the time when the money is advanced, and
  - (b) ends with the time by which, under the terms of the loan, at least 75% of the principal due under the loan must be repaid.
- (4) For the purposes of determining the average holding period of a scheme, where—
- (a) a qualifying loan made by an investment scheme is repaid by the borrower to any extent before the end of 40 months from the time the loan is made, and
  - (b) it is reasonable to suppose that the borrower's decision to repay was not affected by considerations relating to the application of this Chapter,
- the loan is, to the extent it is repaid by the borrower before the end of 40 months from the time it is made, to be treated as held for 40 months.
- (5) In determining for the purposes of subsection (1)(b) whether a sum falls within section 809EZD(2) or (3), read section 809EZD(4)(b) as if the reference to 6% were to 4%.
- (6) Section 809FZB applies to carried interest to which, by virtue of subsection (1), section 809FZQ does not apply.

#### *Conditionally exempt carried interest*

### **809FZS Conditionally exempt carried interest**

- (1) Carried interest which—
- (a) arises to an individual from an investment scheme, and
  - (b) is conditionally exempt from income tax,
- is to be treated as if it were not income-based carried interest to any extent.
- (2) Carried interest is conditionally exempt from income tax if Conditions A to D are met.
- (3) Condition A is that the carried interest arises to the individual in the period of—
- (a) four years beginning with the day on which the scheme starts to invest, or
  - (b) ten years beginning with that day if the carried interest is calculated on the realisation model.
- (4) Condition B is that the carried interest would, apart from this section, be income-based carried interest to any extent.
- (5) Condition C is that it is reasonable to suppose that, were the carried interest to arise to the individual at the relevant time (but by reference to the same relevant investments), it would not be income-based carried interest to any extent.
- (6) The “relevant time” is whichever is the earliest of—
- (a) the time when it is reasonable to suppose that the investment scheme will be wound up;

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- (b) the end of the period of four years beginning with the time when it is reasonable to suppose that the scheme will cease to invest;
  - (c) the end of the period of—
    - (i) four years beginning with the day on which the sum of carried interest arises to the individual, or
    - (ii) ten years beginning with that day if the carried interest was calculated on the realisation model;
  - (d) the end of the period of four years beginning with the end of the period by reference to which the amount of the carried interest was determined.
- (7) Subsection (5) does not affect what would otherwise be the time at which an investment is disposed of for the purposes of this Chapter.
- (8) Condition D is that the individual makes a claim under this section for the carried interest to be conditionally exempt from income tax.

### **809FZT Carried interest which ceases to be conditionally exempt**

- (1) Carried interest which is conditionally exempt from income tax ceases to be conditionally exempt from income tax at whichever is the earliest of—
- (a) the time when the investment scheme is wound up;
  - (b) the end of the period of four years beginning with the time the scheme ceases to invest;
  - (c) the end of the period of—
    - (i) four years beginning with the day on which the sum of carried interest arises to the individual, or
    - (ii) ten years beginning with that day if the carried interest was calculated on the realisation model;
  - (d) the end of the period of four years beginning with the end of the period by reference to which the amount of the carried interest is determined;
  - (e) the time at which Condition C in section 809FZS(5) ceases to be met.
- (2) Carried interest which ceases to be conditionally exempt from income tax is to be treated as having been income-based carried interest at the time it arose to the individual if or to the extent that, had it arisen to the individual at the time it ceased to be conditionally exempt (but in relation to the same relevant investments) it would have been income-based carried interest.
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to subsection (2).
- (4) Any amount paid by way of capital gains tax in respect of carried interest which is conditionally exempt from income tax is to be treated as if it had been paid in respect of any income tax liability arising under subsection (2).

### *Supplementary*

### **809FZU Employment-related securities**

This Chapter does not apply in relation to carried interest arising to an individual in respect of employment-related securities as defined by section 421B(8) of ITEPA 2003.



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### **809FZV “Loan to own” investments**

- (1) This section applies where—
  - (a) an investment scheme acquires a debt,
  - (b) the debt is to any extent uncollectable or otherwise impaired,
  - (c) the debt is acquired at a discount with a view to securing direct or indirect ownership of any assets which are—
    - (i) owned by a company which is the debtor in respect of the debt, or
    - (ii) subject to a security interest in respect of the debt, and
  - (d) the fund acquires ownership of the assets within three months of the acquisition of the debt.
- (2) For the purposes of this Chapter—
  - (a) the debt and the assets are to be treated as a single investment, and
  - (b) the value invested in that single investment is the amount paid for the debt.
- (3) In this section “security interest” means an interest or right (other than a rentcharge) held for the purpose of securing the payment of money or the performance of any obligation.

### **809FZW Anti-avoidance**

- (1) For the purposes mentioned in subsection (2), no regard is to be had to any arrangements the main purpose of which, or one of the main purposes of which, is to reduce the proportion of carried interest which is income-based carried interest.
- (2) The purposes referred to in subsection (1) are—
  - (a) determining the average holding period, or
  - (b) determining whether an investment scheme is a venture capital fund, significant equity stake fund, controlling equity stake fund, real estate fund, fund of funds or secondary fund.
- (3) In determining to what extent carried interest is income-based carried interest, no regard is to be had to any arrangements the main purpose, or one of the main purposes, of which is to secure that section 809EZA(1) (charge to income tax) does not apply in relation to some or all of the carried interest.

### **809FZX Treasury regulations**

- (1) The Treasury may by regulations make—
  - (a) provision relating to the calculation of the average holding period in some or all cases;
  - (b) provision repealing, or restricting the application of, section 809FZU (employment-related securities).
- (2) The provision referred to in subsection (1)(a) includes in particular—
  - (a) provision for a method of calculating that period which is different from that in section 809FZC;
  - (b) provision as to what is and is not to be regarded as an investment;
  - (c) provision as to when an investment is to be regarded as made or disposed of;
  - (d) anti-avoidance provision.

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- (3) Regulations under this section may—
- (a) amend this Chapter;
  - (b) make different provision for different purposes;
  - (c) contain incidental, supplemental, consequential and transitional provision and savings.

### **809FZY “Reasonable to suppose”**

- (1) For the purposes of this Chapter, in determining what it is reasonable to suppose in relation to an investment scheme, regard is to be had to all the circumstances.
- (2) Those circumstances include in particular any prospectus or other document which—
  - (a) is made available to external investors in the investment scheme, and
  - (b) on which external investors may reasonably be supposed to have relied or been able to rely.

### *Interpretation*

### **809FZZ Interpretation of Chapter 5F**

- (1) In this Chapter—
  - “5% interest”, “15% interest”, “20% interest”, “25% interest” and “40% interest” are to be construed in accordance with subsection (4);
  - “act together”: two or more investment schemes act together in relation to a company if—
    - (a) they enter into contractual arrangements (with or without other persons) in relation to the conduct of the company's affairs,
    - (b) the arrangements are negotiated on arm's length terms, and
    - (c) the investment schemes act together to secure greater control or influence over the company's affairs than they would be able to secure individually;
  - “alternative finance arrangements” has the same meaning as in Part 6 of CTA 2009 (see section 501(2) of that Act);
  - “arrangements” has the same meaning as in Chapter 5E (see section 809EZE);
  - “associated”: two (or more) investment schemes are “associated if—
    - (a) the same or substantially the same individuals provide investment management services to both schemes;
    - (b) the investment schemes have the same or substantially the same investments, and
    - (c) the schemes act together in relation to all or substantially all of the investments they acquire;
  - “carried interest” has the same meaning as in section 809EZB (see sections 809EZC and 809EZD);
  - “collective investment scheme” has the same meaning as in Chapter 5E (see section 809EZE);
  - “connected” and “unconnected” are to be construed in accordance with subsections (6) and (7);

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“contract for differences” has the same meaning as in Part 7 of CTA 2009 (see section 582 of that Act);

“controlling equity stake fund” has the meaning given in section 809FZM;

“controlling interest” has the meaning given in subsection (3);

“derivative contract” has the same meaning as in Part 7 of CTA 2009 (but see below);

“designated” has the same meaning as for accounting purposes;

“direct lending fund” and “direct loan” have the meanings given in section 809FZQ;

“exchange gain or loss” is to be construed in accordance with section 475 of CTA 2009;

“external investor” has the same meaning as in Chapter 5E (see section 809EZE);

“fund of funds” has the meaning given in section 809FZO;

“future” has the same meaning as in Part 7 of CTA 2009 (see section 581 of that Act);

“interest rate contract” means—

- (a) a derivative contract whose underlying subject-matter is, or includes, interest rates, or
- (b) a swap contract in which payments fall to be made by reference to a rate of interest;

“investing life” is to be construed in accordance with subsection (2);

“investment” does not include—

- (a) cash awaiting investment, or
- (b) cash representing the proceeds of the disposal of an investment, where the cash is to be distributed as soon as reasonably practicable to investors in the scheme;

“investment scheme” has the same meaning as in Chapter 5E (see section 809EZA(6));

“limited partnership” means—

- (a) a limited partnership registered under the Limited Partnerships Act 1907,
- (b) a limited liability partnership formed under the Limited Liability Partnerships Act 2000 or the Limited Liability Partnerships Act (Northern Ireland) 2002 (c.12 (N.I.)), or
- (c) a firm or entity of a similar character to any of those mentioned in paragraph (a) or (b) formed under the law of a country or territory outside the United Kingdom;

“loan relationship” has the meaning given by section 302 of CTA 2009 (but see below);

“major interest”, in relation to land, has the meaning given by section 96 of the Value Added Tax Act 1994;

“option” has the same meaning as in Part 7 of CTA 2009, disregarding section 580(2) of that Act;

“real estate fund” has the meaning given by section 809FZN;

“realisation model”: a sum of carried interest is calculated on the “realisation model” if it falls within section 809EZD(2) or (3) (disregarding section 809EZD(2)(b) and (3)(b));

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“scheme director condition” has the meaning given by section 809FZK(8) and (9);

“secondary fund” has the meaning given by section 809FZP;

“significant equity stake fund” has the meaning given by section 809FZL;

“sum” has the same meaning as in Chapter 5E (see section 809EZB(3));

“trading company” and “trading group” have the meanings given by paragraphs 20 and 21 of Schedule 7AC to TCGA 1992;

“underlying subject matter” has the same meaning as in Part 7 of CTA 2009;

“unlisted”: a company is unlisted if—

(a) no shares of any class issued by the company are listed on any stock exchange, and

(b) there are no other trading arrangements in place in respect of shares of any class issued by the company;

“venture capital fund” has the meaning given by section 809FZK.

(2) In this Chapter—

(a) references to when a scheme starts or ceases to invest are to the time when investments start or cease to be made for the purposes of the scheme, and

(b) references to the investing life of the scheme are to the time between when a scheme starts and ceases to invest.

(3) For the purposes of this Chapter, an investment scheme has a controlling interest in a company if share capital of the company is held for the purposes of the scheme which—

(a) amounts to more than 50% of the ordinary share capital of the company, and

(b) carries an entitlement to more than 50% of—

(i) voting rights in the company,

(ii) profits available for distribution to shareholders, and

(iii) assets of the company available for distribution to shareholders in a winding-up.

(4) For the purposes of this Chapter, an investment scheme has an interest of a particular percentage in a company (for example, a 40% interest) if share capital of the company is held for the purposes of the scheme which—

(a) amounts to at least that percentage of the ordinary share capital of the company, and

(b) carries an entitlement to at least that percentage of—

(i) voting rights in the company,

(ii) profits available for distribution to shareholders, and

(iii) assets of the company available for distribution to shareholders in a winding-up.

(5) For the purposes of subsections (3) and (4) any share capital held by a company controlled by an investment scheme is to be regarded as held for the purposes of the investment scheme.

(6) For the purposes of this Chapter, an investment scheme (A) is connected with another investment scheme or person (B) if—

(a) A directly or indirectly has control of B, or

(b) the same person, directly or indirectly, has control of A and B.

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- (7) For the purposes of subsection (6) “control”—
- (a) in the case of control of a company, is to be read in accordance with sections 450 and 451 of CTA 2010;
  - (b) in the case of control of a partnership, has the meaning given in section 995(3);
  - (c) in the case of control of an investment scheme which is not a company or partnership, or of any other person which is not a company or partnership, means the ability to secure that the affairs of that scheme or other person are conducted in accordance with one's wishes.
- (8) For the purposes of the definition of “derivative contract”, read Part 7 of CTA 2009 as if—
- (a) references to a company were references to an investment scheme, and
  - (b) references to a contract of a company were references to a contract for the purposes of an investment scheme.
- (9) For the purposes of the definition of “loan relationship”, read Part 5 of CTA 2009 as if—
- (a) references to a company were references to an investment scheme, and
  - (b) references to a loan relationship of a company were references to a loan relationship for the purposes of an investment scheme.]

## [<sup>F1403</sup>CHAPTER 6

### AVOIDANCE INVOLVING LEASES OF PLANT AND MACHINERY

#### Textual Amendments

**F1403**Pt. 13 Ch. 6 inserted (21.7.2008 with effect in accordance with Sch. 20 para. 2(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 20 para. 2\(1\)](#) (with [Sch. 20 para. 2\(3\)](#))

#### **809ZA Plant and machinery leases: capital receipts to be treated as income**

- (1) This section applies if—
- (a) there is an unconditional obligation, under a lease of plant or machinery or a relevant arrangement, to make a relevant capital payment (at any time), or
  - (b) a relevant capital payment is made under such a lease or arrangement otherwise than in pursuance of such an obligation.
- (2) The lessor is treated for income tax purposes as receiving income attributable to the lease of an amount equal to the amount of the capital payment.
- [<sup>F1404</sup>(3) If subsection (1)(a) applies, the income is treated as income for the period of account in which there is first an obligation of the kind mentioned there.
- (4) If subsection (1)(b) applies, the income is treated as income for the period of account in which the capital payment is made.
- (5) For the meaning of “capital payment” and “relevant capital payment”, see section 809ZE.

*Status: Point in time view as at 22/02/2024.*

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- (6) For the meaning of other expressions used in this section or section 809ZC, 809ZD or 809ZE, see section 809ZF.]

#### Textual Amendments

**F1404S.** 809ZA(3)-(6) substituted for s. 809ZA(3) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 548](#) (with [Sch. 2](#))

#### **F1405** ~~809ZB~~ **Section 809ZA: interpretation**

#### Textual Amendments

**F1405S.** 809ZB repealed (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 549, Sch. 3 Pt. 1](#) (with [Sch. 2](#))

#### **809ZC Section 809ZA: lease of plant and machinery and other property**

- (1) This section applies if section 809ZA applies in relation to a lease of plant or machinery and other property (see [<sup>F1406</sup>section 809ZF(3)]).
- (2) The relevant capital payment is to be apportioned, on a just and reasonable basis, between—
  - (a) the plant and machinery, and
  - (b) the other property.
- (3) If the income (if any) received by the lessor that is attributable to any of the plant or machinery is chargeable to tax under Part 3 of ITTOIA 2005 (property income), treat that plant or machinery as falling within subsection (2)(b) (and not subsection (2)(a)).
- (4) Section 809ZA(2) has effect as if the reference to the amount of the capital payment were to such amount as is apportioned under subsection (2) in respect of the plant or machinery within subsection (2)(a).

#### Textual Amendments

**F1406** Words in s. 809ZC(1) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 550](#) (with [Sch. 2](#))

#### **809ZD Section 809ZA: expectation that relevant capital payment will not be paid**

- (1) This section applies for income tax purposes if—
  - (a) section 809ZA applies by virtue of subsection (1)(a) of that section, and
  - (b) at any time, the lessor reasonably expects that the relevant capital payment will not be paid (or will not be paid in full).
- (2) For the purposes of calculating the profits of the lessor, a deduction is allowed for the period of account which includes that time.

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- (3) The amount of the deduction is equal to the amount reasonably expected not to be paid.
- (4) No other deduction is allowed in respect of the matters mentioned in subsection (1).]

#### [<sup>F1407</sup>809Z Capital payment”, “relevant capital payment” etc

- (1) This section gives the meaning of “capital payment”, “relevant capital payment” and references to payment for the purposes of sections 809ZA to 809ZD and this section.
- (2) “Capital payment” means any payment except one which, if made to the lessor—
  - (a) would fall to be included in a calculation of the lessor's income for income tax purposes, or
  - (b) would so fall but for section 148A of ITTOIA 2005 (rental earnings under long funding finance lease).
- (3) A capital payment, in relation to a lease or relevant arrangement, is “relevant” if condition A or B is met (but this is subject to subsections (6) and (7)).
- (4) Condition A is that the capital payment is payable (or paid), directly or indirectly, by or on behalf of the lessee to the lessor or another person on the lessor's behalf in connection with—
  - (a) the grant, assignment, novation or termination of the lease, or
  - (b) any provision of the lease or relevant arrangement (including the variation or waiver of any such provision).
- (5) Condition B is that rentals payable under the lease are less than, or payable later than, they might reasonably be expected to be if there were no obligation to make the capital payment and it were not made.
- (6) A capital payment is not “relevant” so far as it—
  - (a) reduces the amount of expenditure incurred by the lessor for the purposes of CAA 2001 in respect of the plant or machinery in question or would reduce it but for section 536 of that Act (contributions not made by public bodies and not eligible for tax relief), or
  - (b) is compensation for loss resulting from damage to, or damage caused by, the plant or machinery in question.
- (7) If—
  - (a) a capital payment is an initial payment under a long funding lease for the purposes of Part 2 of CAA 2001 (see section 70YI of that Act), and
  - (b) under section 61 of that Act (disposal events and disposal values) the commencement of the term of the lease (as defined in section 70YI of that Act) is an event that requires the lessor to bring a disposal value into account, the capital payment is only “relevant” so far as it exceeds the amount that is the disposal value for the purposes of Part 2 of that Act.
- (8) References to payment include the provision of value by any means other than the making of a payment.
- (9) Accordingly—
  - (a) references to the making of a payment include the passing of value by any other means, and
  - (b) references to the amount of the payment include the value passed.

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#### Textual Amendments

F1407Ss. 809ZE, 809ZF inserted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 551** (with **Sch. 2**)

### 809ZF Further interpretation of section 809ZA etc

- (1) This section applies for the purposes of sections 809ZA to 809ZE and this section.
- (2) “Lease” includes—
  - (a) a licence, and
  - (b) the letting of a ship or aircraft on charter or the letting of any other asset on hire,
 and “lessor” and “lessee” must be read accordingly.
- (3) “Lease of plant or machinery” includes a lease of plant or machinery and other property, but does not include a lease to which subsection (4) or (5) applies.
- (4) This subsection applies to a lease if any income attributable to it and received by the lessor would be chargeable to tax under Part 3 of ITTOIA 2005 (property income).
- (5) This subsection applies to a lease of plant or machinery if the lessor has incurred on the plant or machinery what would be qualifying expenditure within the meaning of Part 2 of CAA 2001 but for section 34A of that Act (expenditure on plant or machinery for long funding leasing not qualifying expenditure).
- (6) “Relevant arrangement” means any agreement or arrangement relating to a lease of plant or machinery, including one made before the lease is entered into or after it has ended.
- (7) Accordingly, “lessor” and “lessee” include prospective and former lessors and lessees.]

#### Textual Amendments

F1407Ss. 809ZE, 809ZF inserted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 551** (with **Sch. 2**)

### [<sup>F1408</sup>809ZBA] Consideration for taking over payment obligations as lessee treated as income

- (1) This section applies where under any arrangements—
  - (a) a person within the charge to income tax (P) agrees to take over obligations of another person (Q) as lessee under a lease of plant or machinery,
  - (b) as a result of that agreement P, or a person connected with P, becomes entitled to income deductions (whether deductions in calculating income or from total profits), and
  - (c) a payment is payable to P, or a person connected with P, by way of consideration for that agreement.
- (2) The payment is treated for the purposes of income tax as income received by P in the tax year in which P takes over the obligations mentioned in subsection (1)(a).



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- (3) Subsection (2) does not apply if and to the extent that the consideration is (apart from this section)—
- (a) charged to tax on P, or a person connected with P, as an amount of income,
  - (b) brought into account in calculating for tax purposes any income of P or a person connected with P, or
  - (c) brought into account for the purposes of any provision of CAA 2001 as a disposal receipt, or proceeds from a balancing event or disposal event, of P or a person connected with P.
- (4) It does not matter how P takes over the obligations of Q (whether by assignment, novation, variation or replacement of the contract, by operation of law or otherwise).
- (5) In this section—
- “arrangements” include any scheme, arrangement, understanding, transaction or series of transactions (whether or not legally enforceable);
  - “lease of plant or machinery” means any kind of agreement or arrangement under which sums are paid for the use of, or otherwise in respect of, plant or machinery;
  - “payment” includes the provision of any benefit, the assumption of any liability or the transfer of money or money's worth (and “payable” is to be construed accordingly);
  - “payment by way of consideration” includes a payment made, directly or indirectly, in consequence of or otherwise in connection with, the agreement mentioned in subsection (1)(a), where it is reasonable to assume the agreement would not have been made unless the arrangements included provision for the payment.
- (6) Any priority rule (other than section 212(1) of FA 2013 (general anti-abuse rule to have priority over other rules)) has effect subject to this section, despite the terms of the priority rule.
- (7) For that purpose “priority rule” is a rule (however expressed) to the effect that particular provisions have effect to the exclusion of, or otherwise in priority to, anything else.
- (8) An example of a priority rule is section 6(1) of TIOPA 2010 (effect to be given to double taxation arrangements despite anything in any enactment).]

#### **Textual Amendments**

**F1408S.** 809ZFA inserted (with application in accordance with s. 68(3) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 68\(2\)](#)

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## [<sup>F1409</sup>CHAPTER 7

### AVOIDANCE INVOLVING OBTAINING TAX RELIEF FOR INTEREST

#### Textual Amendments

**F1409**Pt. 13 Ch. 7 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 7 para. 52** (with [Sch. 9 paras. 1-9, 22](#))

#### 809ZG Tax relief schemes and arrangements

- (1) Relief is not to be given under any provision of the Income Tax Acts to a person in respect of a payment of interest if a tax relief scheme has been effected, or tax relief arrangements have been made, in relation to the transaction under which the interest is paid.
- (2) Subsection (1) applies whether the tax relief scheme is effected, or the tax relief arrangements are made, before or after the transaction.
- (3) A scheme is a tax relief scheme in relation to a transaction for the purposes of subsection (1) if it is such that the sole or main benefit that might be expected to accrue to the person from the transaction is the obtaining of a reduction in tax liability by means of relief under the Income Tax Acts.
- (4) Arrangements are tax relief arrangements in relation to a transaction for the purposes of subsection (1) if they are such that the sole or main benefit that might be expected to accrue to the person from the transaction is the obtaining of a reduction in tax liability by means of relief under the Income Tax Acts.
- (5) In this section “relief” means relief by way of—
  - (a) deduction in calculating profits or gains, or
  - (b) deduction or set off against income.]

## [<sup>F1410</sup>CHAPTER 8

### TAINTED CHARITY DONATIONS

#### Textual Amendments

**F1410**Pt. 13 Ch. 8 inserted (19.7.2011) (with effect in accordance with [Sch. 3 para. 27 28](#) of the amending Act) by [Finance Act 2011 \(c. 11\)](#), **Sch. 3 para. 1**

#### *Introduction*

#### 809ZH Overview of Chapter

- (1) This Chapter makes provision for removing entitlement to income tax reliefs, and counteracting income tax advantages, where a person makes a relievable charity donation which is a tainted donation.

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- (2) See section 257A of TCGA 1992 and Part 21C of CTA 2010 for the removal of entitlement to other reliefs where a person makes a relievable charity donation which is a tainted donation.

### **809ZI Relievable charity donations**

- (1) In this Chapter “relievable charity donation” means a gift or other disposal which—
- (a) is made by a person to a charity, and
  - (b) is eligible for tax relief.
- (2) A gift or other disposal is eligible for tax relief if one or both of the following apply—
- (a) (ignoring the tainted donation provisions) tax relief would be available in respect of it under a relevant relieving provision;
  - (b) the charity is entitled to claim a repayment of tax in respect of it.
- (3) “The tainted donation provisions” are—
- (a) this Chapter,
  - (b) section 257A of TCGA 1992 (tainted charity donations: disapplication of section 257), and
  - (c) Part 21C of CTA 2010 (tainted charity donations: removal of corporation tax reliefs).
- (4) The following are “relevant relieving provisions”—
- (a) section 257 of TCGA 1992 (gifts of chargeable assets),
  - (b) section 63(2)(a), (aa) and (ab) of CAA 2001 (gifts of plant and machinery),
  - (c) Part 12 of ITEPA 2003 (payroll giving),
  - (d) section 108 of ITTOIA 2005 (gifts of trading stock),
  - (e) Chapters 2 and 3 of Part 8 of this Act (gift aid and gifts of shares),
  - (f) section 105 of CTA 2009 (gifts of trading stock), and
  - (g) Part 6 of CTA 2010 (charitable donations relief).
- (5) For the purposes of this Chapter, an amount of income which arises under a UK settlement and to which a charity is entitled under the terms of the settlement is to be regarded as an amount gifted to the charity by the trustees of the settlement.

“UK settlement” has the same meaning as in section 628 of ITTOIA 2005.

### *Tainted donations*

### **809ZJ Tainted donations**

- (1) For the purposes of this Chapter, a relievable charity donation is a tainted donation if (and only if) Conditions A, B and C are met.
- (2) Condition A is that—
- (a) a linked person enters into arrangements (whether before or after the donation is made), and
  - (b) it is reasonable to assume from either or both of—
    - (i) the likely effects of the donation and the arrangements, and

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- (ii) the circumstances in which the donation is made and the circumstances in which the arrangements are entered into,  
that the donation would not have been made and the arrangements would not have been entered into independently of one another.
- (3) “Linked person” means—
- (a) the person who made the donation (“the donor”), or
  - (b) a person connected with the donor at a relevant time.
- (4) In subsection (3) “relevant time” means a time during the period which begins with the earliest, and ends with the latest, of the following times—
- (a) the time when the arrangements are entered into as mentioned in subsection (2);
  - (b) the time when the relievable charity donation is made;
  - (c) the time when the arrangements are first materially implemented.
- (5) Condition B is that the main purpose, or one of the main purposes, of the linked person in entering into the arrangements is to obtain a financial advantage—
- (a) directly or indirectly from the charity to which the donation is made or a connected charity,
  - (b) for one or more linked persons who are not charities (each of whom is referred to in this Chapter as “a potentially advantaged person”).
- (6) Condition C is that the donor is not—
- (a) a qualifying charity-owned company, or
  - (b) a relevant housing provider linked with the charity to which the donation is made.
- (7) For the purposes of subsection (6)(b) a relevant housing provider is linked with the charity if (and only if)—
- (a) one is wholly owned, or subject to control, by the other, or
  - (b) both are wholly owned, or subject to control, by the same person.
- (8) In this section—
- “qualifying charity-owned company”, in relation to a relievable charity donation, means a company which—
- (a) is wholly owned by one or more charities, at least one of which is the charity to which the donation is made or a connected charity, and
  - (b) has not previously been under the control of, and does not carry on a trade or business previously carried on by, one or more of the following—
    - (i) a potentially advantaged person;
    - (ii) a person (other than a charity) who, at any time within the period of 4 years ending with the day on which paragraph (a) was first satisfied, was connected with a person who is a potentially advantaged person;
- “relevant housing provider” means a body which is—
- (a) a non-profit registered provider of social housing, or
  - (b) entered on a register maintained under section 1 of the Housing Act 1996, section 20 of the Housing (Scotland) Act 2010 (asp 17) or Article

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14 of the Housing (Northern Ireland) Order 1992 (S.I. 1992/1725 (N.I. 15)).

- (9) Section 200 of CTA 2010 (company wholly owned by a charity) applies for the purposes of subsection (8), and for those purposes references in that section to “charity” include a registered club within the meaning of section 658(6) of that Act.
- (10) This section is subject to section 809ZL (certain financial advantages to be ignored).

**Modifications etc. (not altering text)**

C113 S. 809ZJ(8) modified (temp.) (19.7.2011) by [Finance Act 2011 \(c. 11\)](#), Sch. 3 para. 31(a)

**809ZK Circumstances in which financial advantage deemed to be obtained**

- (1) This section applies for the purposes of Condition B.
- (2) Subsection (3) applies where the arrangements entered into by the linked person (as mentioned in Condition A) involve a transaction to which—
- (a) that or any other linked person (“X”), and
  - (b) another person (“Y”),
- are parties.
- (3) X obtains a financial advantage from the charity to which the donation is made or a connected charity if—
- (a) the terms of the transaction are less beneficial to Y or more beneficial to X (or both) than those which might reasonably be expected in a transaction concluded between parties dealing at arm's length, or
  - (b) the transaction is not of a kind which a person dealing at arm's length and in place of Y might reasonably be expected to make.
- (4) Nothing in this section is intended to limit the circumstances in which a linked person may be regarded as obtaining a financial advantage for the purposes of section 809ZJ.
- (5) In this section—
- “Condition A” and “Condition B” have the same meaning as in section 809ZJ;
  - “linked person” has the meaning given by section 809ZJ(3);
  - “transaction” includes (for example)—
- (a) the sale or letting of property,
  - (b) the provision of services,
  - (c) the exchange of property,
  - (d) the provision of a loan or any other form of financial assistance, and
  - (e) investment in a business.

**809ZL Certain financial advantages to be ignored**

- (1) When determining whether a relievable charity donation is a tainted donation, a financial advantage within subsection (2), (3), (4) or (5) is to be ignored.
- (2) A financial advantage is within this subsection if the person for whom it is obtained applies the advantage for charitable purposes only.

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- (3) A financial advantage is within this subsection if (ignoring the tainted donation provisions) it is—
- (a) a benefit associated with a gift which is a qualifying donation for the purposes of Chapter 2 of Part 8 (gift aid), or
  - (b) a benefit associated with a payment which is a qualifying payment for the purposes of Chapter 2 of Part 6 of CTA 2010 (charitable donations relief: payments to charity).
- (4) A financial advantage is within this subsection if (ignoring the tainted donation provisions)—
- (a) the relievable charity donation is a disposal in respect of which tax relief would be available under Chapter 3 of Part 8 of this Act (gifts of shares, securities and real property to charities etc) or Chapter 3 of Part 6 of CTA 2010 (charitable donations: certain disposals to charity), and
  - (b) the advantage is a benefit the value of which would be taken into account in determining the relievable amount in respect of the disposal for the purposes of the Chapter in question.
- (5) A financial advantage is within this subsection if (ignoring the tainted donation provisions)—
- (a) the relievable charity donation is a gift in respect of which tax relief would be available under section 108 of ITTOIA 2005 or section 105 of CTA 2009 (gifts of trading stock to charities etc), and
  - (b) the advantage is a benefit attributable to the making of the gift in respect of which an amount would be brought into account under section 109 of ITTOIA 2005 or section 108 of CTA 2009 (receipt of benefits by donor or connected person).
- (6) In this section—
- “benefit associated with a gift” has the meaning given by section 417;
  - “benefit associated with a payment” has the meaning given by section 196 of CTA 2010;
  - “the tainted donation provisions” has the meaning given by section 809ZI(3).

*Removal of reliefs and imposition of charge to tax*

**809ZM Removal of income tax relief in respect of tainted donations etc**

- (1) This section applies where a tainted donation is made by a person.
- (2) Where (ignoring this Chapter) income tax relief would be available in respect of the tainted donation, that relief is not available.
- (3) Where—
  - (a) (ignoring this Chapter) income tax relief would be available in respect of an associated donation, and
  - (b) entitlement to that relief is not withdrawn by subsection (2), that relief is not available.
- (4) In this section—

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“associated donation”, in relation to a tainted donation, means a relievable charity donation made—

- (a) in accordance with the relevant arrangements, and
- (b) by a person, other than—
  - (i) a qualifying charity-owned company in relation to that relievable charity donation, or
  - (ii) a relevant housing provider linked (within the meaning of section 809ZJ(7)) with the charity to which that donation is made;

“income tax relief” means relief under—

- (a) section 63(2)(a), (aa) or (ab) of CAA 2001 (gifts of plant and machinery), so far as it applies in relation to income tax,
- (b) Part 12 of ITEPA 2003 (payroll giving),
- (c) section 108 of ITTOIA 2005 (gifts of trading stock),
- (d) Chapter 2 of Part 8 of this Act (gift aid), or
- (e) Chapter 3 of that Part (gifts of shares etc);

“qualifying charity-owned company” has the meaning given by section 809ZJ(8) (except that paragraph (b) of that definition does not apply);

“relevant housing provider” has the meaning given by section 809ZJ(8);

“the relevant arrangements”, in relation to a tainted donation, means the arrangements by reference to which Conditions A and B in section 809ZJ are met.

- (5) Where entitlement to relief is withdrawn under this section in respect of a donation—
  - (a) subsections (6) and (7) apply if the relief is under Chapter 2 of Part 8 (gift aid), and
  - (b) subsection (8) applies if the relief is under Part 12 of ITEPA 2003 (payroll giving).
- (6) For the purposes of Step 2 in section 58(1), the donation is not a qualifying donation for the purposes of Chapter 2 of Part 8.
- (7) But—
  - (a) the donation remains a qualifying donation for the purposes of—
    - (i) Part 10 (special rules about charitable trusts etc),
    - (ii) section 899(5) (meaning of “qualifying annual payment”),
    - (iii) Chapter 2 of Part 11 of CTA 2010 (charitable companies: gifts and other payments),
    - (iv) section 664 of that Act (community amateur sports clubs: exemption for interest and gift aid income), and
  - (b) accordingly, section 414(2)(a) (donation treated as made after deduction of basic rate income tax) applies for the purposes of section 520(4) (income tax treated as deducted to be treated as income tax paid by charitable trust).
- (8) The donation remains a donation for the purposes of Part 12 of ITEPA 2003 for the purposes of—
  - (a) section 521A (gifts under payroll deduction scheme: income tax liability and exemption), and
  - (b) section 472A of CTA 2010 (gifts under payroll reduction scheme: corporation tax liability and exemption).

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### **809ZN Income tax charge where gift aid is withdrawn**

- (1) Income tax is charged under this section if—
  - (a) a person makes a tainted donation in a tax year,
  - (b) (ignoring this Chapter) relief would have been available under Chapter 2 of Part 8 in respect of the tainted donation or an associated donation (“the gift aid donation”), and
  - (c) the charity to which the gift aid donation is made is entitled to claim a repayment of tax in respect of that donation.
- (2) The amount of the tax charged under this section is equal to the amount of the repayment of tax which the charity is entitled to claim in respect of the gift aid donation (whether or not such a claim is made).
- (3) Each of the persons mentioned in subsection (4) is liable for any tax charged under this section, and the liability of those persons is joint and several.
- (4) The persons are—
  - (a) the donor in respect of the gift aid donation,
  - (b) if different, the donor in respect of the tainted donation,
  - (c) each potentially advantaged person under the relevant arrangements relating to the tainted donation, and
  - (d) any charity to which the gift aid donation or (if different) the tainted donation is made, or any connected charity, which falls within subsection (5).
- (5) A charity falls within this subsection if the charity—
  - (a) is or was party to the relevant arrangements relating to the tainted donation, and
  - (b) was aware, at the time it entered into those arrangements, that a linked person was entering (or had entered or was likely to enter) into the arrangements in circumstances falling within Condition B in section 809ZJ.
- (6) No liability to income tax arises under this section in respect of a repayment of tax, if (and to the extent that) the repayment is itself repaid to the Commissioners for Her Majesty's Revenue and Customs under any other provision of the Tax Acts.
- (7) In this section—
  - “associated donation” has the same meaning as in section 809ZM;
  - “linked person” has the same meaning as in section 809ZJ;
  - “the relevant arrangements” has the same meaning as in section 809ZM.

### **809ZO Income tax charge where payment of trust income to charity**

- (1) Income tax is charged under this section if—
  - (a) a person makes a tainted donation in a tax year,
  - (b) the tainted donation or an associated donation is a payment by the trustees of a settlement of income arising under the settlement (“the trust donation”), and
  - (c) the charity to which the trust donation is made is entitled to claim a repayment of tax in respect of that donation.
- (2) The amount of the tax charged under this section is equal to the amount of the repayment of tax which the charity is entitled to claim in respect of the trust donation (whether or not such a claim is made).



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- (3) Each of the persons mentioned in subsection (4) is liable for any tax charged under this section, and the liability of those persons is joint and several.
- (4) The persons are—
- (a) the trustees of the settlement who made the trust donation,
  - (b) if different, the donor in respect of the tainted donation,
  - (c) if section 628 or 630 of ITTOIA 2005 (gifts from settlor-interested trusts etc) applies in relation to the income out of which the trust donation is made, the settlor in relation to the settlement,
  - (d) each potentially advantaged person under the relevant arrangements relating to the tainted donation,
  - (e) any beneficiary of the settlement who is party to those arrangements, and
  - (f) any charity to which the trust donation or (if different) the tainted donation is made, or any connected charity, which falls within subsection (5).
- (5) A charity falls within this subsection if—
- (a) the charity is or was party to the relevant arrangements relating to the tainted donation, and
  - (b) the charity was aware, at the time it entered into those arrangements, that a linked person was entering (or had entered or was likely to enter) into the arrangements in circumstances falling within Condition B in section 809ZJ.
- (6) No liability to income tax arises under this section in respect of a repayment of tax if that repayment is itself repaid to the Commissioners for Her Majesty's Revenue and Customs under any other provision of the Tax Acts.
- (7) In this section—
- “associated donation” has the same meaning as in section 809ZM;
  - “linked person” has the same meaning as in section 809ZJ;
  - “the relevant arrangements” has the same meaning as in section 809ZM;
  - “settlement” and “settlor” have the same meaning as in Chapter 5 of Part 5 of ITTOIA 2005 (see section 620 of that Act).

### *Supplementary*

#### **809ZP Connected charities**

For the purposes of this Chapter, a “connected charity” in relation to another charity means a charity which is connected with that other charity in a matter relating to the structure, administration or control of either charity.

#### **809ZQ Connected persons**

- (1) Section 993 (meaning of “connected” persons) applies for the purposes of this Chapter—
- (a) subject to section 809ZP, and
  - (b) as if, after subsection (7) there were inserted the provision in subsection (2).
- (2) That provision is—
- “(8) A person who is a beneficiary of a settlement is connected with—

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- (a) a person in the capacity as trustee of the settlement, and
  - (b) the settlor in relation to the settlement.
- (9) For the purposes of this section—
- <sup>F1411</sup>(a) two people living together as if they were a married couple or civil partners are treated as if they were spouses or civil partners of each other, and]
  - (c) “close company” includes a company that would be a close company if it were resident in the United Kingdom.”

#### Textual Amendments

**F1411** Words in s. 809ZQ(2) substituted (2.12.2019) by [The Civil Partnership \(Opposite-sex Couples\) Regulations 2019 \(S.I. 2019/1458\)](#), reg. 1(2), **Sch. 3 para. 29(3)**

### 809ZR Minor definitions

- (1) In this Chapter—
- “arrangements” includes any scheme, arrangement or understanding of any kind, whether or not legally enforceable, involving a single transaction or two or more transactions;
  - “charity” includes a registered club within the meaning of section 658(6) of CTA 2010 (meaning of “community amateur sports club” and “registered club”).
- (2) In this Chapter, in the case of a charitable trust, references to a charity being entitled to a repayment of, or liable to pay, tax are to be read as references to the trustees of the trust being so entitled or liable.]

## PART 14

### INCOME TAX LIABILITY: MISCELLANEOUS RULES

#### <sup>F1412</sup>CHAPTER A1

#### REMITTANCE BASIS

#### Textual Amendments

**F1412** Pt. 14 Ch. A1 inserted (21.7.2008 with effect in accordance with Sch. 7 para. 81 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 7 para. 1** (with Sch. 7 paras. 85-89)

#### Modifications etc. (not altering text)

**C114** **No commentary item could be found for this reference key-  
 b5c85c5c86db98b959e5afcecbd540f6** Pt. 14 Ch. A1 modified by 2003 c. 1, s. 41A(8) (as inserted (with effect in accordance with Sch. 7 para. 80 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 7 para. 22**)

**C115** Pt. 14 Ch. A1 modified by 2003 c. 1, s. 41A(8) (as inserted (21.7.2008 with effect in accordance with Sch. 7 para. 80 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 7 para. 22**)

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- C116** Pt. 14 Ch. A1 modified by 1988 c. 1, s. 762ZB(3) (as inserted (21.7.2008 with effect in accordance with Sch. 7 para. 98 of the amending Act) by Finance Act 2008 (c. 9), Sch. 7 para. 94)
- C117** Pt. 14 Ch. A1 modified by 1992 c. 12, s. 87B(3) (as inserted (21.7.2008 with effect in accordance with Sch. 7 para. 115 of the amending Act) by Finance Act 2008 (c. 9), Sch. 7 para. 108 (with Sch. 7 paras. 116-119))
- C118** Pt. 14 Ch. A1 modified (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by The Offshore Funds (Tax) Regulations 2009 (S.I. 2009/3001), regs. 1(1), 19(3)
- C119** Pt. 14 Ch. A1 modified by 2003 c. 1, s. 41F(8) (as substituted (6.4.2015) by Finance Act 2014 (c. 26), Sch. 9 paras. 5, 47 (with Sch. 9 para. 48))
- C120** Pt. 14 Ch. A1 modified by 2005 c. 5, s. 643F(4) (as inserted (with effect for the tax year 2018-19 and subsequent years) by Finance Act 2018 (c. 3), Sch. 10 paras. 11, 21(1) (with Sch. 11 para. 22))
- C121** Pt. 14 Ch. A1 modified by 2005 c. 5, s. 643N(3)(4) (as inserted (with effect for the tax year 2018-19 and subsequent years) by Finance Act 2018 (c. 3), Sch. 10 paras. 11, 21(1) (with Sch. 11 para. 22))

### Introduction

#### 809A Overview of Chapter

This Chapter provides for an alternative basis of charge in the case of individuals who are not domiciled in the United Kingdom<sup>F1413</sup> ....

##### Textual Amendments

**F1413** Words in s. 809A omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of Finance Act 2013 (c. 29), Sch. 46 para. 2 (with Sch. 46 para. 26)

### Application of remittance basis

#### 809B Claim for remittance basis to apply

- (1) This section applies to an individual for a tax year if the individual—
- (a) is UK resident [<sup>F1414</sup>for that year] ,
  - (b) is not domiciled in the United Kingdom in that year<sup>F1415</sup> ..., and
  - (c) makes a claim under this section for that year.

[ Section 835BA (deemed domicile) applies for the purposes of subsection (1)(b).]  
<sup>F1416</sup>(1A)

<sup>F1417</sup>(2) .....

- (3) Sections 42 and 43 of TMA 1970 (procedure and time limit for making claims), except section 42(1A) of that Act, apply in relation to a claim under this section as they apply in relation to a claim for relief.

##### Textual Amendments

**F1414** Words in s. 809B(1)(a) substituted (17.7.2013) by Finance Act 2013 (c. 29), Sch. 45 para. 152(2)

**F1415** Words in s. 809B(1)(b) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of Finance Act 2013 (c. 29), Sch. 46 para. 3(a) (with Sch. 46 para. 26)

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- F1416S.** 809B(1A) inserted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(2)** (with [Sch. 8 para. 15\(2\)](#))
- F1417S.** 809B(2) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 3(b)** (with [Sch. 46 para. 26](#))

**Modifications etc. (not altering text)**

- C122** S. 809B applied by 2003 c. 1, s. 41C(7) (as inserted (21.7.2008 with effect in accordance with Sch. 7 para. 80 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 7 para. 22**)
- C123** S. 809B applied by 1992 c. 12, s. 16ZC(1)(c) (as substituted (with effect in relation to the tax year 2017-18 and subsequent years) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 5**)
- C124** S. 809B applied by 2005 c. 5, s. 643I(1)(g) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))
- C125** S. 809B(1A) modified (15.3.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 para. 2(2)**

**809C Claim for remittance basis by long-term UK resident: nomination of foreign income and gains to which section 809H(2) is to apply**

- (1) This section applies to an individual for a tax year if the individual—
- (a) is aged 18 or over in that year, and
  - [<sup>F1418</sup>(b)** meets <sup>F1419</sup>... the 12-year residence test or the 7-year residence test for that year.]

<sup>F1420</sup>(1ZA) .....

[ An individual meets the 12-year residence test for a tax year if the individual—

- <sup>F1421</sup>(1A)<sup>F1422</sup>(a)** .....
- <sup>F1423</sup>(b)** [ has been UK resident in at least 12 of the 14 tax years immediately preceding that year.]

- (1B) An individual meets the 7-year residence test for a tax year if the individual—
- (a) does not meet <sup>F1424</sup>... the 12-year residence test for that year, but
  - (b) has been UK resident in at least 7 of the 9 tax years immediately preceding that year.]

- (2) A claim under section 809B by the individual for that year must contain a nomination of the income or chargeable gains of the individual for that year to which section 809H(2) is to apply.

- (3) The income or chargeable gains nominated must be part (or all) of the individual's foreign income and gains for that year.

- (4) The income and chargeable gains nominated must be such that the relevant tax increase does not exceed **[<sup>F1425</sup>—**

**<sup>F1426</sup>(za)** .....

- (a) for an individual who meets the 12-year residence test for that year, **[<sup>F1427</sup>£60,000]**;
- (b) for an individual who meets the 7-year residence test for that year, **£30,000.]**

- (5) “The relevant tax increase” is—

- (a) the total amount of income tax and capital gains tax payable by the individual for that year, minus
- (b) the total amount of income tax and capital gains tax that would be payable by the individual for that year apart from section 809H(2).

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[ The references to income tax in subsection (5) do not include income tax under <sup>F1428</sup>(5A) section 424 (gift aid).]

(6) See section 809Z7 for the meaning of an individual's foreign income and gains for a tax year.

#### Textual Amendments

- F1418S.** 809C(1)(b) substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 2(2)**
- F1419** Words in s. 809C(1)(b) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(3)(a)**
- F1420S.** 809C(1ZA) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(3)(b)**
- F1421S.** 809C(1A)(1B) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 2(3)**
- F1422S.** 809C(1A)(a) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(3)(c)**
- F1423S.** 809C(1A)(a) and word inserted (with effect in accordance with s. 24(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 24(2)(c)**
- F1424** Words in s. 809C(1B)(a) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(3)(d)**
- F1425** Words in s. 809C(4) substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 2(4)**
- F1426S.** 809C(4)(za) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 14(3)(e)**
- F1427** Sum in s. 809C(4)(a) substituted (with effect in accordance with s. 24(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **s. 24(2)(e)(ii)**
- F1428S.** 809C(5A) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), **Sch. 27 para. 2**

#### Modifications etc. (not altering text)

- C126** S. 809C excluded (with effect in accordance with Sch. 8 para. 16(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 16(3)**
- C127** S. 809C excluded (with effect in accordance with Sch. 8 para. 15(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 15(3)**
- C128** S. 809C excluded (15.3.2018) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 para. 2(3)**

### 809D Application of remittance basis without claim where unremitted foreign income and gains under £2,000

- (1) This section applies to an individual for a tax year if—
- the individual is UK resident [<sup>F1429</sup>for that year] ,
  - the individual is not domiciled in the United Kingdom in that year <sup>F1430</sup>..., and
  - the amount of the individual's unremitted foreign income and gains for that year is less than £2,000.

[<sup>F1431</sup>unless condition A or condition B is met.]

[ Condition A is that <sup>F1433</sup>... conditions A to F in section 828B are met.  
<sup>F1432</sup>(1A)

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- (1B) Condition B is that the individual gives notice in a return under section 8 of TMA 1970 that this section is not to apply in relation to the individual for that year.]
- (2) The amount of an individual's “unremitted” foreign income and gains for a tax year is—
- (a) the total amount of what would (if this section applied) be the individual's foreign income and gains for that year, minus
  - (b) the total amount of those income and gains that are remitted to the United Kingdom in that year.

#### Textual Amendments

- F1429** Words in s. 809D(1)(a) substituted (17.7.2013) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(3\)](#)
- F1430** Words in s. 809D(1)(b) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 4\(a\)](#) (with [Sch. 46 para. 26](#))
- F1431** Words in s. 809D(1) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 3\(2\)](#)
- F1432** S. 809D(1A)(1B) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 3\(3\)](#)
- F1433** Words in s. 809D(1A) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 4\(b\)](#) (with [Sch. 46 para. 26](#))

#### Modifications etc. (not altering text)

- C129** S. 809D applied by 1992 c. 12, s. 16ZC(1)(c) (as substituted (with effect in relation to the tax year 2017-18 and subsequent years) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 5](#))
- C130** S. 809D applied by 2005 c. 5, s. 643I(1)(g) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809E Application of remittance basis without claim: other cases

- (1) This section applies to an individual for a tax year if—
- (a) the individual is UK resident [<sup>F1434</sup>for that year],
  - (b) the individual is not domiciled in the United Kingdom in that year <sup>F1435</sup> ...,
  - <sup>F1436</sup>(c) for that year the individual either has no UK income or gains or has no UK income and gains other than taxed investment income not exceeding £100.]
  - (d) no relevant income or gains are remitted to the United Kingdom in that year, and
  - (e) either—
    - (i) the individual has been UK resident in not more than 6 of the 9 tax years immediately preceding that year, or
    - (ii) the individual is under 18 throughout that year
- <sup>F1437</sup>unless the individual gives notice in a return under section 8 of TMA 1970 that this section is not to apply in relation to the individual for that year.]

<sup>F1438</sup>(1A) [ Section 835BA (deemed domicile) applies for the purposes of subsection (1)(b).]

- (2) For the purposes of subsection (1)(c) the individual's UK income and gains for the tax year are the individual's income and chargeable gains for that year other than what

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would (if this section applied) be the individual's foreign income and gains for that year.

<sup>F1439</sup> [ For the purposes of subsection (1)(c) “taxed investment income” means UK income (2A) or gains consisting of payments within section 946 from which a sum representing income tax has been deducted.]

- (3) For the purposes of subsection (1)(d) relevant income and gains are—
- (a) what would (if this section applied) be the individual's foreign income and gains for the tax year mentioned in subsection (1), and
  - (b) the individual's foreign income and gains for every other tax year for which section 809B or 809D or this section applies to the individual.

#### Textual Amendments

**F1434** Words in s. 809E(1)(a) substituted (17.7.2013) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(4\)](#)

**F1435** Words in s. 809E(1)(b) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 5](#) (with [Sch. 46 para. 26](#))

**F1436** S. 809E(1)(c) substituted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 4\(2\)](#)

**F1437** Words in s. 809E(1) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 4\(3\)](#)

**F1438** S. 809E(1A) inserted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 14\(4\)](#)

**F1439** S. 809E(2A) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 4\(4\)](#)

#### Modifications etc. (not altering text)

**C131** S. 809E applied by 1992 c. 12, s. 16ZC(1)(c) (as substituted (with effect in relation to the tax year 2017-18 and subsequent years) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 5](#))

**C132** S. 809E applied by 2005 c. 5, s. 643I(1)(g) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### *Effect of section 809B, 809D or 809E applying*

#### **809F Effect on what is chargeable**

- (1) This section applies if section 809B, 809D or 809E applies to an individual for a tax year.
- (2) The individual's relevant foreign earnings for that year are charged in accordance with section 22 or 26 of ITEPA 2003.
- (3) The individual's relevant foreign income for that year is charged in accordance with section 832 of ITTOIA 2005.
- (4) [<sup>F1440</sup>The] individual's foreign chargeable gains for that year are charged in accordance with [<sup>F1441</sup>paragraph 1 of Schedule 1 to TCGA 1992].
- (5) For the effect on amounts which count as employment income of the individual under certain provisions of Part 7 of ITEPA 2003 (employment-related securities), see Chapter 5A of Part 2 of that Act.

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[ For the effect on amounts which count as employment income under Chapter 2 of Part <sup>F1442</sup>(5A) 7A of ITEPA 2003, see sections 554Z9 to 554Z11 of that Act.]

- (6) Nothing in this section applies in relation to nominated income or chargeable gains (see section 809H).

#### Textual Amendments

- F1440** Word in s. 809F(4) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 22](#) (with [Sch. 46 para. 26](#))
- F1441** Words in s. 809F(4) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 1 para. 102](#)
- F1442** S. 809F(5A) inserted (19.7.2011) (with effect in accordance with Sch. 2 para. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 41](#)

### 809G Claim for remittance basis: effect on allowances etc

- (1) This section applies if section 809B (claim for remittance basis to apply) applies to an individual for a tax year.
- (2) For that year, the individual is not entitled to—
- (a) any allowance under Chapter 2 of Part 3 (personal allowance and blind person's allowance),
  - (b) any tax reduction under Chapter 3 of that Part (tax reductions for married couples and civil partners), <sup>F1443</sup>...
  - <sup>F1444</sup> [ any tax reduction under Chapter 3A of that Part (transferable tax allowance (ba) for married couples and civil partners), or]
  - (c) any relief under section 457 [<sup>F1445</sup>or 458] (payments for life insurance etc).
- (3) See also [<sup>F1446</sup>section 1K(6)] of TCGA 1992 (no annual exempt amount for chargeable gains).

#### Textual Amendments

- F1443** Word in s. 809G(2) omitted (with effect in accordance with s. 11(12) of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [s. 11\(8\)\(a\)](#)
- F1444** S. 809G(2)(ba) inserted (with effect in accordance with s. 11(12) of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [s. 11\(8\)\(b\)](#)
- F1445** Words in s. 809G(2)(c) substituted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 39 para. 32\(2\)\(d\)](#)
- F1446** Words in s. 809G(3) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 1 para. 103](#)

#### Modifications etc. (not altering text)

- C133** S. 809G excluded (with effect in accordance with Sch. 8 para. 16(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 16\(3\)](#)
- C134** S. 809G excluded (with effect in accordance with Sch. 8 para. 15(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 15\(3\)](#)
- C135** Ss. 809G, 809H excluded (15.3.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 para. 2\(3\)](#)



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## 809H Claim for remittance basis by long-term UK resident: charge

- (1) This section applies if—
- (a) section 809B (claim for remittance basis to apply) applies to an individual for a tax year (“the relevant tax year”),
  - (b) the individual is aged 18 or over in the relevant tax year, and
  - <sup>F1447</sup>(c) the individual meets <sup>F1448</sup>... the 12-year residence test or the 7-year residence test for the relevant tax year.]
- [ See section <sup>F1450</sup>809C<sup>F1451</sup> ..., (1A)] and (1B) for when an individual meets <sup>F1452</sup>... the <sup>F1449</sup>(1A) 12-year residence test or the 7-year residence test for a tax year.]
- (2) Income tax is charged on nominated income, and capital gains tax is charged on nominated chargeable gains, as if section 809B did not apply to the individual for the relevant tax year (and neither did section 809D).
- (3) “Nominated” income or chargeable gains means income or chargeable gains nominated under section 809C in the individual's claim under section 809B for the relevant tax year.
- <sup>F1453</sup>(3A) If the individual is a Scottish taxpayer for the relevant tax year, the individual is to be treated for the purpose of calculating income tax charged by virtue of subsection (2) as if the individual were not a Scottish taxpayer for that year.]
- [ If the individual is a Welsh taxpayer for the relevant tax year, the individual is to be <sup>F1454</sup>(3B) treated for the purpose of calculating income tax charged by virtue of subsection (2) as if the individual were not a Welsh taxpayer for that year.]
- (4) If the relevant tax increase would otherwise be less than [<sup>F1455</sup>the applicable amount], subsection (2) has effect as if—
- (a) in addition to the income and gains actually nominated under section 809C in the individual's claim under section 809B for the relevant tax year, an amount of income had been nominated so as to make the relevant tax increase equal to [<sup>F1455</sup>the applicable amount], and
  - (b) the individual's income for that year were such that such a nomination could have been made (if that is not the case).
- (5) “The relevant tax increase” is—
- (a) the total amount of income tax and capital gains tax payable by the individual for the relevant tax year, minus
  - (b) the total amount of income tax and capital gains tax that would be payable by the individual for the relevant tax year apart from subsection (2).
- [ The references to income tax in subsection (5) do not include income tax under <sup>F1456</sup>(5A) section 424 (gift aid).]
- [ The applicable amount” is—
- <sup>F1457</sup>(5B)<sup>458</sup>(za) .....
- (a) if the individual meets the 12-year residence test for the relevant tax year, [<sup>F1459</sup>£60,000];
  - (b) if the individual meets the 7-year residence test for the relevant tax year, £30,000.]
- (6) Nothing in subsection (4) affects what is regarded, for the purposes of section 809I or 809J, as nominated under section 809C.

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### Textual Amendments

- F1447S.** 809H(1)(c) substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 3\(2\)](#)
- F1448** Words in s. 809H(1)(c) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 14\(5\)\(a\)](#)
- F1449S.** 809H(1A) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 3\(3\)](#)
- F1450** Words in s. 809H(1A) substituted (with effect in accordance with s. 24(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [s. 24\(3\)\(b\)\(i\)](#)
- F1451** Words in s. 809H(1A) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 14\(5\)\(b\)\(i\)](#)
- F1452** Words in s. 809H(1A) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 14\(5\)\(b\)\(ii\)](#)
- F1453S.** 809H(3A) substituted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 38 para. 8](#)
- F1454S.** 809H(3B) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), [ss. 9\(8\)](#), [14](#), [29\(4\)](#); [S.I. 2018/892](#), [art. 3](#) (with [arts. 5](#), [6](#), [8](#))
- F1455** Words in s. 809H(4) substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 3\(4\)](#)
- F1456S.** 809H(5A) inserted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 5](#)
- F1457S.** 809H(5B) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 3\(5\)](#)
- F1458S.** 809H(5B)(za) omitted (with effect in accordance with Sch. 8 para. 14(6) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 14\(5\)\(c\)](#)
- F1459** Sum in s. 809H(5B)(a) substituted (with effect in accordance with s. 24(4) of the amending Act) by [Finance Act 2015 \(c. 11\)](#), [s. 24\(3\)\(c\)\(ii\)](#)

### Modifications etc. (not altering text)

- C135** Ss. 809G, 809H excluded (15.3.2018) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 para. 2\(3\)](#)
- C136** S. 809H excluded (with effect in accordance with Sch. 8 para. 16(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 16\(3\)](#)
- C137** S. 809H excluded (with effect in accordance with Sch. 8 para. 15(1)(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 15\(3\)](#)

## 809I Remittance basis charge: income and gains treated as remitted

- (1) This section applies if—
- (a) any of an individual's nominated income and gains is remitted to the United Kingdom in a tax year, <sup>F1460</sup>...
  - (b) any of the individual's remittance basis income and gains has not been remitted to the United Kingdom in or before that year<sup>F1461</sup>, and
  - (c) the £10 test is met for that year.]
- (2) Income tax and capital gains tax are charged, for that year and subsequent tax years, as if the income and chargeable gains treated under section 809J as remitted to the United Kingdom by the individual in that tax year had been so remitted (and income and chargeable gains of the individual that were actually remitted in that year had not been).

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- (3) An individual's “nominated income and gains” are the total income and chargeable gains nominated by the individual under section 809C for the tax year mentioned in subsection (1)(a) or any earlier tax year [<sup>F1462</sup>(each such year for which the individual has made a nomination under that section being referred to as a “nomination year”)].
- (4) An individual's “remittance basis income and gains” are the foreign income and gains of the individual for all the tax years (up to and including the tax year mentioned in subsection (1)(a)) for which section 809B, 809D or 809E applies to the individual, apart from the individual's nominated income and gains.
- [ The £10 test is met for the tax year mentioned in subsection (1)(a) (“year X”) if,  
<sup>F1463</sup>(5) taking each nomination year separately, the cumulative total as respects at least one nomination year exceeds £10.
- (6) In relation to a nomination year—
- (a) “the cumulative total” means the sum, for all the tax years in aggregate up to and including year X, of the amounts of relevant income and gains remitted to the United Kingdom in those tax years from that nomination year, and
- (b) “relevant income and gains” means the income and chargeable gains nominated by the individual under section 809C for that nomination year.]

#### Textual Amendments

**F1460** Word in s. 809I(1)(a) omitted (17.7.2012) (with effect in accordance with Sch. 12 para. 21 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 20\(2\)\(a\)](#)

**F1461** S. 809I(1)(c) and preceding word inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 21 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 20\(2\)\(b\)](#)

**F1462** Words in s. 809I(3) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 21 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 20\(3\)](#)

**F1463** S. 809I(5)(6) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 21 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 20\(4\)](#)

### 809J Section 809I: order of remittances

- (1) If section 809I applies, the following steps are to be taken for the purpose of determining the income or gains treated in a tax year (“the relevant tax year”) as remitted to the United Kingdom by the individual.

#### Step 1

Find the total amount of—

- (a) the individual's nominated income and gains, and  
(b) the individual's remittance basis income and gains,

that have been remitted to the United Kingdom in the relevant tax year.

This amount is “the relevant amount”.

#### Step 2

Find the amount of foreign income and gains of the individual for the relevant tax year (other than income or chargeable gains nominated under section 809C) that is within each of the categories of income and gains in paragraphs (a) to (h) of subsection (2).

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If none of sections 809B, 809D and 809E apply to the individual for that year, treat those amounts as nil (and accordingly go to step 6).

*Step 3*

Find the earliest paragraph for which the amount determined under step 2 is not nil.

If that amount does not exceed the relevant amount, treat the individual as having remitted the income or gains within that paragraph (and for that tax year).

Otherwise, treat the individual as having remitted the relevant proportion of each kind of income or gains within that paragraph (and for that tax year).

“The relevant proportion” is the relevant amount divided by the amount determined under step 2 for that paragraph.

*Step 4*

Reduce the relevant amount by the amount taken into account under step 3.

*Step 5*

If the relevant amount (as reduced under step 4) is not nil, start again at step 3.

In step 3, read the reference to the earliest paragraph of the kind mentioned there as a reference to the earliest such paragraph which has not previously been taken into account under that step.

*Step 6*

If the relevant amount (as reduced) is not nil once steps 3 to 5 have been undertaken in relation to all paragraphs of subsection (2) for which the amount determined under step 2 is not nil, start again at step 2.

In step 2, read the reference to the foreign income and gains of the individual for the relevant tax year as a reference to such of the foreign income and gains of the individual for the appropriate tax year as had not been remitted by the beginning of the relevant tax year.

“The appropriate tax year” is the latest tax year which is—

- (a) before the last tax year for which step 2 has been undertaken, and
- (b) a tax year for which section 809B, 809D or 809E applies to the individual.

(2) The kinds of income and gains are—

- (a) relevant foreign earnings (other than those subject to a foreign tax),
- (b) foreign specific employment income (other than income subject to a foreign tax),
- (c) relevant foreign income (other than income subject to a foreign tax),
- (d) foreign chargeable gains (other than gains subject to a foreign tax),
- (e) relevant foreign earnings subject to a foreign tax,
- (f) foreign specific employment income subject to a foreign tax,
- (g) relevant foreign income subject to a foreign tax, and
- (h) foreign chargeable gains subject to a foreign tax.

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- (3) In this section the individual's “nominated income and gains” are the total income and chargeable gains nominated by the individual under section 809C for the relevant tax year or any earlier tax year.
- (4) In step 1 of subsection (1) the individual's “remittance basis income and gains” are the foreign income and gains of the individual for all the tax years (up to and including the relevant tax year) for which section 809B, 809D or 809E applies to the individual, apart from the individual's nominated income and gains.
- (5) In step 6 of subsection (1) the reference to income or gains being remitted is—
  - (a) as respects any tax year before section 809I applies, to income or gains being remitted to the United Kingdom, and
  - (b) as respects any tax year in relation to which that section applies, to income or gains treated under this section as so remitted.
- (6) In subsection (2) “foreign tax” means any tax chargeable under the law of a territory outside the United Kingdom.

#### *Remittance of income and gains: introduction*

### **809K Sections 809L to 809Z6: introduction**

- (1) Sections 809L to 809Z6 apply for the purposes of—
  - (a) this Chapter,
  - (b) sections 22 and 26 of ITEPA 2003 (relevant foreign earnings charged on remittance basis),
  - <sup>F1464</sup>(c) Chapter 5B of Part 2 of that Act (taxable specific income from employment-related securities etc: internationally mobile employees),]
  - <sup>F1465</sup>[ sections 554Z9 to 554Z11 of that Act (employment income provided through third parties charged on remittance basis),]
  - (ca) section 832 of ITTOIA 2005 (relevant foreign income charged on remittance basis), and
  - <sup>F1466</sup>(e) Schedule 1 to TCGA 1992 (UK resident individuals not domiciled in UK).]
- (2) Those sections—
  - (a) explain what is meant by income or chargeable gains being “remitted to the United Kingdom” (sections 809L to 809O),
  - (b) provide for the calculation of the amount remitted (section 809P),
  - (c) contain rules for attributing transfers from mixed funds to particular kinds of income and capital (sections 809Q to 809S),
  - (d) contain supplementary provision for certain cases (sections 809T and 809U), and
  - (e) treat income or chargeable gains as not remitted to the United Kingdom in certain cases (sections <sup>F1467</sup>809UA] to 809Z6).

#### **Textual Amendments**

**F1464S.** 809K(1)(c) substituted (6.4.2015) by [Finance Act 2014 \(c. 26\)](#), [Sch. 9 paras. 29, 47](#) (with [Sch. 9 para. 48](#))

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- F1465S.** 809K(1)(ca) inserted (19.7.2011) (with effect in accordance with Sch . 2 para. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 2 para. 42](#)
- F1466S.** 809K(1)(e) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 1 para. 104](#)
- F1467**Word in s. 809K(2)(e) substituted (with effect in accordance with s. 21(5) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [s. 21\(2\)](#)

*Remittance of income and gains: meaning of “remitted to the United Kingdom”*

### 809L Meaning of “remitted to the United Kingdom”

- (1) An individual's income is, or chargeable gains are, “remitted to the United Kingdom” if—
- (a) conditions A and B are met,
  - (b) condition C is met, or
  - (c) condition D is met.
- (2) Condition A is that—
- (a) money or other property is brought to, or received or used in, the United Kingdom by or for the benefit of a relevant person, or
  - (b) a service is provided in the United Kingdom to or for the benefit of a relevant person.
- (3) Condition B is that—
- (a) the property, service or consideration for the service is (wholly or in part) the income or chargeable gains,
  - (b) the property, service or consideration—
    - (i) derives (wholly or in part, and directly or indirectly) from the income or chargeable gains, and
    - (ii) in the case of property or consideration, is property of or consideration given by a relevant person,
  - (c) the income or chargeable gains are used outside the United Kingdom (directly or indirectly) in respect of a relevant debt, or
  - (d) anything deriving (wholly or in part, and directly or indirectly) from the income or chargeable gains is used as mentioned in paragraph (c).
- (4) Condition C is that qualifying property of a gift recipient—
- (a) is brought to, or received or used in, the United Kingdom, and is enjoyed by a relevant person,
  - (b) is consideration for a service that is enjoyed in the United Kingdom by a relevant person, or
  - (c) is used outside the United Kingdom (directly or indirectly) in respect of a relevant debt.
- (5) Condition D is that property of a person other than a relevant person (apart from qualifying property of a gift recipient)—
- (a) is brought to, or received or used in, the United Kingdom, and is enjoyed by a relevant person,
  - (b) is consideration for a service that is enjoyed in the United Kingdom by a relevant person, or

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- (c) is used outside the United Kingdom (directly or indirectly) in respect of a relevant debt,  
in circumstances where there is a connected operation.
- (6) In a case where subsection (4)(a) or (b) or (5)(a) or (b) applies to the importation or use of property, the income or chargeable gains are taken to be remitted at the time the property or service is first enjoyed by a relevant person by virtue of that importation or use.
- (7) In this section “relevant debt” means a debt that relates (wholly or in part, and directly or indirectly) to—
- (a) property falling within subsection (2)(a),
  - (b) a service falling within subsection (2)(b),
  - (c) qualifying property dealt with as mentioned in subsection (4)(a),
  - (d) a service falling within subsection (4)(b),
  - (e) qualifying property dealt with as mentioned in subsection (5)(a), or
  - (f) a service falling within subsection (5)(b).
- <sup>F1468</sup>(8) .....
- (9) The cases in which [<sup>F1469</sup>property (including income or chargeable gains) is used in respect of a debt include cases where the property is] used to pay interest on the debt.
- (10) This section is subject to sections 809V to 809Z6 (property treated as not remitted to the United Kingdom).

#### Textual Amendments

**F1468S.** 809L(8) omitted (retrospective to 22.4.2009) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 6\(2\), 15\(2\)](#)

**F1469**Words in s. 809L(9) substituted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 6\(3\), 15\(2\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809M Meaning of “relevant person”

- (1) This section applies for the purposes of [<sup>F1470</sup>this Chapter].
- (2) A “relevant person” is—
- (a) the individual,
  - (b) the individual's husband or wife,
  - (c) the individual's civil partner,
  - (d) a child or grandchild of a person falling within any of paragraphs (a) to (c), if the child or grandchild has not reached the age of 18,

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- (e) a close company in which a person falling within any other paragraph of this subsection is a participator <sup>F1471</sup> or a company which is a 51% subsidiary of such a close company],
  - (f) a company in which a person falling within any other paragraph of this subsection is a participator, and which would be a close company if it were resident in the United Kingdom, <sup>F1472</sup> or a company which is a 51% subsidiary of such a company, ]
  - (g) the trustees of a settlement of which a person falling within any other paragraph of this subsection is a beneficiary, or
  - (h) a body connected with such a settlement.
- (3) For that purpose—
- <sup>F1473</sup>(a) two people living together as if they were a married couple or civil partners are treated as if they were spouses or civil partners of each other,]
  - (c) “close company” <sup>F1474</sup> is to be read in accordance with Chapter 2 of Part 10 of CTA 2010 (see in particular section 439 of that Act)],
  - <sup>F1475</sup>(ca) [ “participator”, in relation to a close company, means a person who is a participator in relation to the company for the purposes of <sup>F1476</sup>section 455 of CTA 2010 (see sections 454 and 455(5) of] that <sup>F1477</sup>Act) and, in relation to a company that would be a close company if it were resident in the United Kingdom, means a person who would be such a participator if it were a close company,]
  - (cb) “51% subsidiary” has the same meaning as in the Corporation Tax Acts (see <sup>F1478</sup>Chapter 3 of Part 24 of CTA 2010)],]
  - (d) “settlement” and “settlor” have the same meaning as in Chapter 2 of Part 9,
  - (e) “beneficiary”, in relation to a settlement, means any person who receives, or may receive, any benefit under or by virtue of the settlement,
  - (f) “trustee” has the same meaning as in section 993 (see, in particular, section 994(3)), and
  - (g) a body is “connected with” a settlement if the body falls within section 993(3) (c), (d), (e) or (f) as regards the settlement.

### Textual Amendments

- F1470** Words in s. 809M(1) substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 13**
- F1471** Words in s. 809M(2)(e) inserted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), **Sch. 27 paras. 7(2), 15(2)**
- F1472** Words in s. 809M(2)(f) inserted (retrospective to 6.4.2010) by [Finance Act 2010 \(c. 13\)](#), **s. 33(2)(4)**
- F1473S.** 809M(3)(a) substituted for s. 809M(3)(a)(b) (2.12.2019) by [The Civil Partnership \(Opposite-sex Couples\) Regulations 2019 \(S.I. 2019/1458\)](#), reg. 1(2), **Sch. 3 para. 29(4)**
- F1474** Words in s. 809M(3)(c) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 552(a)** (with Sch. 2)
- F1475S.** 809M(3)(ca)(cb) inserted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), **Sch. 27 paras. 7(3), 15(2)**
- F1476** Words in s. 809M(3)(ca) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 552(b)** (with Sch. 2)
- F1477** Words in s. 809M(3)(ca) substituted (retrospective to 6.4.2010) by [Finance Act 2010 \(c. 13\)](#), **s. 33(3)(4)**
- F1478** Words in s. 809M(3)(cb) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 552(c)** (with Sch. 2)



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**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C140** S. 809M(3)(a)(b) applied (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 42\(4\)](#)

**809N Section 809L: gift recipients, qualifying property and enjoyment**

- (1) This section applies for the purposes of determining whether or not income or chargeable gains of an individual are remitted to the United Kingdom by virtue of condition C in section 809L.
- (2) A “gift recipient” means a person, other than a relevant person, to whom the individual makes a gift of money or other property that—
  - (a) is income or chargeable gains of the individual, or
  - (b) derives (wholly or in part, and directly or indirectly) from income or chargeable gains of the individual.
- (3) The question of whether or not a person is a relevant person is to be determined by reference to the time when a gift is made.
- (4) But, if a person to whom a gift is made subsequently becomes a relevant person, the person ceases to be a gift recipient.
- (5) The individual “makes a gift of” property if the individual disposes of the property—
  - (a) for no consideration, or
  - (b) for consideration less than the full consideration in money or money's worth that would be given if the disposal were by way of a bargain made at arm's length;but, in a case falling in paragraph (b), the individual is to be taken to make a gift of only so much of the property as exceeds the consideration actually given.
- (6) A reference to the individual making a gift of property includes a case where—
  - (a) the individual retains an interest in the property, or
  - (b) an interest, right or arrangement enables or entitles the individual to benefit from the property.
- (7) “Qualifying property”, in relation to a gift recipient, is—
  - (a) the property that the individual gave to the gift recipient,
  - (b) anything that derives (wholly or in part, and directly or indirectly) from that property, or
  - (c) any other property, but only if it is dealt with as mentioned in section 809L(4)
    - (a), (b) or (c) by virtue of an operation which is effected—
      - (i) with reference to the gift of the property to the gift recipient, or
      - (ii) with a view to enabling or facilitating the gift of the property to the gift recipient to be made.
- (8) In subsection (7)—
  - (a) the reference in paragraph (b) to anything deriving from property, and
  - (b) the reference in paragraph (c) to other property,

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includes a thing, or property, that does not belong to the individual but which the individual is enabled or entitled to benefit from by virtue of any interest, right or arrangement.

- (9) Enjoyment by a relevant person of property or a service is to be disregarded in any of these cases—
- (a) if the property or service is enjoyed virtually to the entire exclusion of all relevant persons,
  - (b) if full consideration in money or money's worth is given by a relevant person for the enjoyment, or
  - (c) if the property or service is enjoyed by relevant persons in the same way, and on the same terms, as it may be enjoyed by the general public or by a section of the general public.

**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809O Section 809L: dealings where there is a connected operation**

- (1) This section applies for the purposes of determining whether or not income or chargeable gains of an individual are remitted to the United Kingdom by virtue of condition D in section 809L.
- (2) For the purposes of section 809L(5), the question of whether or not the person whose property is dealt with as mentioned in paragraph (a), (b) or (c) of section 809L(5) is a relevant person is to be determined by reference to the time when the property is so dealt with.
- (3) A “connected operation”, in relation to property dealt with as mentioned in section 809L(5)(a), (b) or (c), means an operation which is effected—
  - (a) with reference to a qualifying disposition, or
  - (b) with a view to enabling or facilitating a qualifying disposition.
- (4) A “qualifying disposition” is a disposition that—
  - (a) is made by a relevant person,
  - (b) is made to, or for the benefit of, the person whose property is dealt with as mentioned in section 809L(5)(a), (b) or (c), and
  - (c) is a disposition of money or other property that is, or derives (wholly or in part, and directly or indirectly) from, income or chargeable gains of the individual.
- (5) But a disposition of property is not a qualifying disposition if the disposition is, or is part of, the giving of full consideration in money or money's worth for the dealing that falls within section 809L(5)(a), (b) or (c).
- (6) Enjoyment by a relevant person of property or a service is to be disregarded in any of these cases—
  - (a) if the property or service is enjoyed virtually to the entire exclusion of all relevant persons,

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- (b) if full consideration in money or money's worth is given by a relevant person for the enjoyment, or
- (c) if the property or service is enjoyed by relevant persons in the same way, and on the same terms, as it may be enjoyed by the general public or by a section of the general public.

**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

*Remittance of income and gains: amount remitted*

**809P Section 809L: amount remitted**

- (1) The amount of income or chargeable gains remitted to the United Kingdom is to be determined as follows.
- (2) If the property, service or consideration is the income or chargeable gains, the amount remitted is equal to the amount of the income or chargeable gains.
- (3) If the property, service or consideration derives from the income or chargeable gains, the amount remitted is equal to the amount of income or chargeable gains from which the property, service or consideration derives.
- (4) If the income or chargeable gains are used as mentioned in section 809L(3)(c), the amount remitted is equal to the amount of income or chargeable gains used; but this is subject to subsection (10).
- (5) If anything deriving from the income or chargeable gains is used as mentioned in section 809L(3)(c), the amount remitted is equal to the amount of income or chargeable gains from which what is used derives; but this is subject to subsection (10).
- (6) In a case falling within section 809L(4)(a) or (b), the amount remitted is equal to the amount of the relevant income or chargeable gains.
- (7) In a case falling within section 809L(4)(c), the amount remitted is equal to the amount of the relevant income or chargeable gains; but this is subject to subsection (10).
- (8) In a case falling within section 809L(5)(a) or (b), the amount remitted is equal to the amount of the income or chargeable gains referred to in section 809O(4)(c).
- (9) In a case falling within section 809L(5)(c), the amount remitted is equal to the amount of the income or chargeable gains referred to in section 809O(4)(c); but this is subject to subsection (10).
- (10) If the debt is only partly in respect of the property or service, the amount remitted is (if it would otherwise be greater) limited to the amount the debt would be if it were wholly in respect of the property or service.
- (11) In subsections (6) and (7) “relevant income or chargeable gains” means—

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- (a) if the qualifying property falls within section 809N(7)(a), the income or gains—
    - (i) of which the qualifying property consists, or
    - (ii) from which the qualifying property derives;
  - (b) if the qualifying property falls within section 809N(7)(b), the income or gains—
    - (i) of which the property given to the gift recipient consisted, or
    - (ii) from which that property derived;
  - (c) if the qualifying property falls within section 809N(7)(c), the income or gains—
    - (i) of which the property given to the gift recipient consists, or
    - (ii) from which that property derives.
- (12) If the amount remitted (taken together with any amount previously remitted) would otherwise exceed the amount of the income or chargeable gains, the amount remitted is limited to the amount which (when taken together with any amount previously remitted) is equal to the amount of the income or chargeable gains.
- [ If the property forms part of a set only part of which is in the United Kingdom, the <sup>F1479</sup>(13) amount remitted is such portion of what it would have been had the complete set been brought to, or received or used in, the United Kingdom when the part was as is just and reasonable (having regard to the part of the set which is there).]

#### Textual Amendments

**F1479S.** 809P(13) inserted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 8, 15\(2\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### *Remittance of income and gains: transfers from mixed funds*

#### **809Q Sections 809L and 809P: transfers from mixed funds**

- (1) This section applies for the purposes mentioned in subsection (2) where condition A in section 809L is met and—
- (a) the property or consideration for the service is (wholly or in part), or derives (wholly or in part, and directly or indirectly) from, a transfer from a mixed fund, or
  - (b) a transfer from a mixed fund, or anything deriving (wholly or in part, and directly or indirectly) from such a transfer, is used as mentioned in section 809L(3)(c).
- [ But this section must be read subject to section 809RA.]
- <sup>F1480</sup>(1A)
- (2) The purposes referred to in subsection (1) are—
- (a) determining whether condition B in section 809L is met, and

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- (b) if it is met, determining (under section 809P) the amount of income or chargeable gains remitted.
- (3) The extent to which the transfer is of the individual's income or chargeable gains is to be determined as follows.

*Step 1*

For each of the categories of income and capital in paragraphs (a) to (i) of subsection (4), find (applying section 809R) the amount of income or capital of the individual for the relevant tax year in the mixed fund immediately before the transfer.

“The relevant tax year” is the tax year in which the transfer occurs.

*Step 2*

Find the earliest paragraph for which the amount determined under step 1 is not nil.

If that amount does not exceed the amount of the transfer, treat the transfer as containing the income or capital within that paragraph (and for that tax year).

Otherwise, treat the transfer as containing the relevant proportion of each kind of income or capital within that paragraph (and for that tax year).

“The relevant proportion” is the amount of the transfer divided by the amount determined under step 1 for that paragraph.

*Step 3*

Treat the amount of the transfer as reduced by the amount taken into account under step 2.

*Step 4*

If the amount of the transfer (as reduced under step 3) is not nil, start again at step 2.

In step 2, read the reference to the earliest paragraph of the kind mentioned there as a reference to the earliest such paragraph which has not previously been taken into account under that step in relation to the transfer.

*Step 5*

If the amount of the transfer (as reduced under step 3) is not nil once steps 2 and 3 have been undertaken in relation to all paragraphs of subsection (4) for which the amount determined under step 1 is not nil, start again at step 1.

In step 1, read the reference to the relevant tax year as a reference to the tax year immediately before the last tax year for which step 1 has been undertaken in relation to the transfer.

- (4) The kinds of income and capital are—
- (a) employment income (other than income within paragraph (b), (c) or (f)),
  - (b) relevant foreign earnings (other than income within paragraph (f)),
  - (c) foreign specific employment income (other than income within paragraph (f)),
  - (d) relevant foreign income (other than income within paragraph (g)),
  - (e) foreign chargeable gains (other than chargeable gains within paragraph (h)),
  - (f) employment income subject to a foreign tax,

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- (g) relevant foreign income subject to a foreign tax,
  - (h) foreign chargeable gains subject to a foreign tax, and
  - (i) income or capital not within another paragraph of this subsection.
- (5) In subsection (4) “foreign tax” means any tax chargeable under the law of a territory outside the United Kingdom.
- (6) In this section “mixed fund” means money or other property which, immediately before the transfer, contains or derives from—
- (a) more than one of the kinds of income and capital mentioned in subsection (4), or
  - (b) income or capital for more than one tax year.
- (7) References in this section to the amount of the transfer include the market value of it.
- (8) References in this section and section 809R to anything deriving from income or capital within paragraph (i) of subsection (4) do not include—
- (a) income or gains within any of paragraphs (a) to (h) of that subsection, or
  - (b) anything deriving from such income or gains.

#### Textual Amendments

**F1480S.** 809Q(1A) inserted (with effect in accordance with Sch. 6 para. 8 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 6 para. 5](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809R Section 809Q: composition of mixed fund

- (1) This section applies for the purposes of step 1 of section 809Q(3) (composition of mixed fund).
- (2) Treat property which derives wholly or in part (and directly or indirectly) from an individual's income or capital for a tax year as consisting of or containing that income or capital.
- (3) If a debt relating (wholly or in part, and directly or indirectly) to property is at any time satisfied (wholly or in part) by—
- (a) an individual's income or capital for a tax year, or
  - (b) anything deriving (directly or indirectly) from such income or capital,
- from that time treat the property as consisting of or containing the income or capital if and to the extent that it is just and reasonable to do so.
- (4) Treat an offshore transfer from a mixed fund as containing the appropriate proportion of each kind of income or capital in the fund immediately before the transfer.

“The appropriate proportion” means the amount (or market value) of the transfer divided by the market value of the mixed fund immediately before the transfer.

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- (5) A transfer from a mixed fund is an “offshore transfer” for the purposes of subsection (4) if and to the extent that section 809Q does not apply in relation to it.
- (6) Treat a transfer from a mixed fund as an “offshore transfer” (and section 809Q as not applying in relation to it, if it otherwise would do) if and to the extent that, at the end of a tax year in which it is made—
  - (a) section 809Q does not apply in relation to it, and
  - (b) on the basis of the best estimate that can reasonably be made at that time, section 809Q will not apply in relation to it.
- (7) In this section ‘mixed fund’ means money or other property containing or deriving from—
  - (a) more than one of the kinds of income and capital mentioned in section 809Q(4), or
  - (b) income or capital for more than one tax year.
- (8) If section 809Q applies in relation to part of a transfer, apply that section in relation to that part before applying subsection (4) in relation to the rest of the transfer.
- (9) If section 809Q applies in relation to more than one transfer from a mixed fund, when undertaking step 1 in relation to the second or any subsequent transfer take into account the effect of step 2 of section 809Q(3) (composition of transfer) as it applied in relation to each earlier transfer.

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C141** S. 809R(4) excluded (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 8 para. 44\(2\)](#)

**Special mixed fund rules for certain employment cases**

**F1481 809RA**

- (1) This section applies if—
  - (a) an individual has general earnings from an employment for a tax year,
  - (b) those earnings include both general earnings within section 15(1) of ITEPA 2003 (“section 15(1) earnings”) and general earnings within section 26(1) of that Act (“section 26(1) earnings”),
  - (c) at least some of the section 15(1) earnings, or sums deriving (wholly or in part, and directly or indirectly) from at least some of the section 15(1) earnings, are paid into an account in that tax year at a time (a “relevant time”) when the account is a qualifying account of the individual, and
  - (d) at least some of the section 26(1) earnings, or sums deriving (wholly or in part, and directly or indirectly) from at least some of the section 26(1) earnings, are also paid into the account in that tax year at a relevant time.
- (2) If this section applies, the composition of each transfer made from the account in that tax year at a relevant time is to be determined as follows—

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*Step 1* Suppose that all the condition A transfers made from the account in the tax year at a relevant time had been a single transfer made from the account at the end of the tax year.

*Step 2* Suppose that all the other transfers made from the account in the tax year at a relevant time had been a single offshore transfer made at the end of the tax year immediately after the single transfer mentioned in step 1.

*Step 3* Applying those suppositions—

- (a) find under section 809Q(3) the extent to which the single transfer mentioned in step 1 is of the individual's income or chargeable gains, and
- (b) find under section 809R(4) the content of the single offshore transfer mentioned in step 2.

*Step 4* Each transfer made from the account in the tax year at a relevant time is to be treated as containing the specified proportion of each kind of income or capital contained in the relevant deemed transfer. “The specified proportion” is the amount of the transfer divided by the amount of the relevant deemed transfer. “The relevant deemed transfer” is—

- (a) if the transfer is a condition A transfer, the single transfer mentioned in step 1, and
- (b) otherwise, the single offshore transfer mentioned in step 2.

- (3) Subsection (2) applies in determining the composition of a transfer for the purposes of sections 809Q and 809R but it does not otherwise affect the date on which a transfer is considered to occur for the purposes of this Chapter.
- (4) If the tax year is the tax year in which the account becomes a qualifying account, for the purpose of applying section 809Q(3) in relation to the single transfer mentioned in step 1 of subsection (2), treat the part of the tax year falling before the qualifying date for the account as a separate tax year.
- (5) If the account ceases to be a qualifying account of the individual during the tax year other than as a result of a breach of the deposit rule—
  - (a) subsection (2) has effect as if references to the end of the tax year were to the end of the day on which the account ceases to be a qualifying account, and
  - (b) for the purpose of applying section 809Q(3) in relation to the single transfer mentioned in step 1 of subsection (2), treat the part of the tax year falling after the day mentioned in paragraph (a) as a separate tax year.
- (6) A transfer from the account is a “condition A transfer” if and to the extent that—
  - (a) condition A in section 809L is met, and
  - (b) either—
    - (i) the property or consideration for the service is (wholly or in part), or derives (wholly or in part, and directly or indirectly) from, the transfer, or
    - (ii) the transfer, or anything deriving (wholly or in part, and directly or indirectly) from the transfer, is used as mentioned in section 809L(3)
  - (c).
- (7) A transfer from the account is an “other transfer” if and to the extent that it is not a condition A transfer.
- (8) Treat a transfer as an “other transfer” if and to the extent that, at the end of the tax year—



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- (a) it is not a condition A transfer, and
  - (b) on the basis of the best estimate that can reasonably be made at that time, it will not become a condition A transfer.
- (9) If the account ceases to be a qualifying account of the individual during the tax year other than as a result of a breach of the deposit rule, subsection (8) has effect as if the reference to the end of the tax year were to the end of the day on which the account ceases to be a qualifying account.
- (10) “Qualifying account” and “the qualifying date” for an account are defined in section 809RB.
- (11) For the purposes of this section and sections 809RB to 809RD—
- (a) “employment” is to be read in accordance with section 4(1) of ITEPA 2003, and includes an office (as read in accordance with section 5(3) of that Act),
  - (b) whether general earnings are “for” a tax year is to be determined as for the purposes of the employment income Parts of ITEPA 2003 (see section 3(2) of that Act),
  - (c) a reference to anything “paid into” an account includes anything credited to the account by whatever means, and
  - (d) references to a breach of the deposit rule are to be read in accordance with section 809RC.

#### **Textual Amendments**

**F1481** Ss. 809RA-809RD inserted (with effect in accordance with Sch. 6 para. 8 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 6 para. 6](#)

#### **Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### **809RB Qualifying accounts**

- (1) An individual may by notice to the Commissioners nominate an account to be a qualifying account of the individual for the purposes of section 809RA.
- (2) The notice must specify the qualifying date for the account.
- (3) “The qualifying date” for the account is the first date on which there is paid into the account sums falling within subsection (4) which (in total) are more than £10.
- (4) A sum falls within this subsection if it is, or derives wholly (whether directly or indirectly) from, general earnings of the individual from an employment for a tax year which is a relevant tax year in relation to the employment.
- (5) A tax year is a “relevant” tax year in relation to an employment if the general earnings which the individual has for the tax year from the employment include both general earnings within section 15(1) of ITEPA 2003 and general earnings within section 26(1) of that Act.

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- (6) The individual may withdraw the nomination by giving a further notice to the Commissioners, specifying the date with effect from which the nomination is withdrawn.
- (7) A notice under subsection (1) or (6) must be in writing and include such information as the Commissioners may reasonably require.
- (8) A notice under subsection (1) or (6) must be given no later than—
  - (a) 31 January in the tax year following the tax year in which falls, as the case may be—
    - (i) the qualifying date for the account, or
    - (ii) the date with effect from which the nomination is withdrawn, or
  - (b) such later date as the Commissioners may allow.
- (9) If an individual nominates an account under this section, the account is a “qualifying account” of the individual throughout the period—
  - (a) beginning with the qualifying date, and
  - (b) ending with the date before the earliest of the following dates—
    - (i) the date on which the account is closed or ceases to be an ordinary bank account held by and for the benefit of the individual (alone or jointly with others);
    - (ii) the date with effect from which the nomination is withdrawn under this section;
    - (iii) the qualifying date for another qualifying account of the individual;
    - (iv) 6 April in a tax year in which there is a breach of the deposit rule which is not remedied or cannot be remedied;
    - (v) 6 April in a tax year for which the individual has no general earnings within section 26(1) of ITEPA 2003.
- (10) The account is not to be a qualifying account at all if—
  - (a) at any time on the qualifying date, the account is not an ordinary bank account held by and for the benefit of the individual (alone or jointly with others), or
  - (b) immediately before the qualifying date, the account has a credit balance of more than £10.
- (11) The account is not to be a qualifying account at all if the qualifying date falls in a tax year—
  - (a) for which the individual has no general earnings within section 26(1) of ITEPA 2003, or
  - (b) in which there is a breach of the deposit rule which is not remedied or cannot be remedied.
- (12) Subsection (9)(b)(iv) or (11)(b) (as relevant) is to be ignored if the breach occurs on or after a date falling within subsection (9)(b)(i) to (iii).
- (13) If, apart from this subsection, an individual might have nominated two or more accounts for which the qualifying date would be the same, the individual may nominate only one of those accounts.
- (14) If, apart from this subsection, an account would be a qualifying account of two or more individuals at any time, it is not to be a qualifying account of either or any of them at that time or any other time.

*Status: Point in time view as at 22/02/2024.*

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- (15) For the purposes of this section an account is an “ordinary bank account” if it is a cash account in a bank (whether a current or savings account) where sums standing to the credit of the account from time to time represent a debt owed by the bank to the account-holder.

#### Textual Amendments

**F1481** Ss. 809RA-809RD inserted (with effect in accordance with Sch. 6 para. 8 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 6 para. 6**

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

### 809RC Breaches of the deposit rule

- (1) There is a breach of the deposit rule if a prohibited sum is paid into the account on or after the qualifying date.
- (2) A breach of the deposit rule is remedied if, within 30 days beginning with the day on which the individual became or ought reasonably to have become aware of the payment of the prohibited sum, the required amount is transferred out of the account by way of a single one-off transfer.
- (3) “The required amount” is an amount equal to—
  - (a) the prohibited sum, plus
  - (b) all the other prohibited sums (if any) that have been paid into the account since that sum was paid in.
- (4) If there are 3 breaches of the deposit rule in any 12 month period, subsection (2) does not apply to the third breach and, accordingly, the third breach cannot be remedied.
- (5) The payment of a prohibited sum (“the later prohibited sum”) into the account does not result in a breach of the deposit rule if—
  - (a) a breach resulting from an earlier payment of a prohibited sum into the account is remedied, and
  - (b) the later prohibited sum is represented by the required amount in relation to that breach.
- (6) A “prohibited sum” is anything other than a sum that is, or derives wholly (whether directly or indirectly) from, any of the following kinds of income or capital—
  - (a) general earnings of the individual from an employment for a tax year which is a relevant tax year in relation to the employment,
  - (b) general earnings of the individual from an employment which consist of money and are paid in a tax year which is a relevant tax year in relation to the employment,
  - (c) an amount of specific employment income which, by virtue of Part 6, 7 or 7A of ITEPA 2003 or any other enactment, counts as employment income of the individual in respect of an employment for a tax year which is a relevant tax year in relation to the employment,

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- (d) interest on the account, or
  - (e) consideration for the disposal of employment-related securities or employment-related securities options in the circumstances described in subsection (7).
- (7) The circumstances are—
- (a) the securities or options were acquired pursuant to a right or opportunity available by reason of an employment of the individual,
  - (b) the disposal is or occurs in conjunction with, or as soon as reasonably practicable after, a relevant event involving those securities or options, and
  - (c) the tax year in which the relevant event occurs is a relevant tax year in relation to the employment.
- (8) For the purposes of subsection (7) each of the following is a “relevant event”—
- (a) the acquisition mentioned in subsection (7)(a), and
  - (b) any event on the occurrence of which an amount (if positive) counts as employment income by virtue of Part 7 of ITEPA 2003 or would do so but for—
    - (i) section 421E or 474 of that Act (exclusions: residence etc), or
    - (ii) an election under section 430 or 431 of that Act.
- (9) For the purposes of this section a tax year is a “relevant” tax year in relation to an employment if—
- (a) the individual has general earnings from the employment for the tax year,
  - (b) those earnings include both general earnings within section 15(1) of ITEPA 2003 (“section 15(1) earnings”) and general earnings within section 26(1) of that Act (“section 26(1) earnings”),
  - (c) at least some of the section 15(1) earnings, or sums deriving (wholly or in part, and directly or indirectly) from at least some of the section 15(1) earnings, are paid into the account in the tax year, and
  - (d) at least some of the section 26(1) earnings, or sums deriving (wholly or in part, and directly or indirectly) from at least some of the section 26(1) earnings, are also paid into the account in the tax year.
- (10) For the purposes of this section—
- (a) “employment-related securities” has the meaning given in section 421B(8) of ITEPA 2003, and
  - (b) “employment-related securities options” has the meaning given in section 471(5) of that Act.

#### Textual Amendments

**F1481** Ss. 809RA-809RD inserted (with effect in accordance with Sch. 6 para. 8 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 6 para. 6](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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## 809RD Effect where 30-day deadline is met

- (1) This section applies if the required amount in relation to a breach of the deposit rule was transferred out of the account in accordance with section 809RC(2).
- (2) Sections 809Q and 809R have effect as if—
  - (a) the intervening transactions had never taken place, and
  - (b) each prohibited sum represented by the required amount had instead been transferred directly (at the time that sum was paid into the qualifying account) into the account or other property into which the required amount was transferred by virtue of the single one-off transfer.
- (3) Each of the following is an “intervening transaction”—
  - (a) each payment into the qualifying account of a prohibited sum represented by the required amount, and
  - (b) the single one-off transfer out of the qualifying account.
- (4) If it is supposed under step 1 or 2 of section 809RA(2) that a single transfer had been made in the intervening period, re-apply section 809Q or 809R in relation to that transfer taking account of subsection (2).
- (5) “The intervening period” is the period—
  - (a) beginning with the day on which the breach occurred, and
  - (b) ending with the day on which the single one-off transfer was made in accordance with section 809RC(2).
- (6) If more than one transfer of a sum equal to the required amount was transferred out of the qualifying account within the 30-day grace period, the first of those transfers is assumed to be the single one-off transfer.
- (7) “The 30-day grace period” is the period of 30 days mentioned in section 809RC(2).]

### Textual Amendments

**F1481** Ss. 809RA-809RD inserted (with effect in accordance with Sch. 6 para. 8 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 6 para. 6](#)

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

## 809S Section 809Q: anti-avoidance

- (1) This section applies if, by reason of an arrangement the main purpose (or one of the main purposes) of which is to secure an income tax advantage or capital gains tax advantage, a mixed fund would otherwise be regarded as containing income or capital within any of paragraphs (f) to (i) of section 809Q(4).
- (2) Treat the mixed fund as containing so much (if any) of the income or capital as is just and reasonable.

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- (3) “Arrangement” includes any scheme, understanding, transaction or series or transactions (whether or not enforceable).
- [<sup>F1482</sup>(4) Income tax advantage” means—
- (a) a relief from income tax or increased relief from income tax,
  - (b) a repayment of income tax or increased repayment of income tax,
  - (c) the avoidance or reduction of a charge to income tax or an assessment to income tax, or
  - (d) the avoidance of a possible assessment to income tax;
- <sup>F1483</sup> ...
- (4A) For the purposes of subsection (4)(c) and (d) it does not matter whether the avoidance or reduction is effected—
- (a) by receipts accruing in such a way that the recipient does not pay or bear income tax on them, or
  - (b) by a deduction in calculating profits or gains.]
- (5) “Capital gains tax advantage” means—
- (a) a relief from capital gains tax or increased relief from capital gains tax,
  - (b) a repayment of capital gains tax or increased repayment of capital gains tax,
  - (c) the avoidance or reduction of a charge to capital gains tax or an assessment to capital gains tax, or
  - (d) the avoidance of a possible assessment to capital gains tax.

#### Textual Amendments

**F1482**S. 809S(4)(4A) substituted (8.4.2010 with effect in accordance with Sch. 12 para. 15(1) of the amending Act) for s. 809S(4) by [Finance Act 2010 \(c. 13\)](#), [Sch. 12 para. 11](#)

**F1483**Words in s. 809S(4) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(13\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### *Remittance of income and gains: supplementary*

#### **809T Foreign chargeable gains accruing on disposal made [<sup>F1484</sup>otherwise] than for full consideration**

- (1) This section applies if—
- (a) foreign chargeable gains accrue to an individual on the disposal of an asset, and
  - (b) the individual does not receive consideration for the disposal of an amount [<sup>F1485</sup>at least] equal to the market value of the asset.
- (2) For the purposes of this Chapter treat the asset as deriving from the chargeable gains.

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#### Textual Amendments

**F1484** Word in s. 809T heading substituted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 9\(3\), 15\(2\)](#)

**F1485** Words in s. 809T(1)(b) inserted (retrospective to 22.4.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 9\(2\), 15\(2\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### **809U Deemed income or gains not to be regarded as remitted before time when they are treated as arising or accruing**

Where—

- (a) income or foreign chargeable gains are treated as arising or accruing, and
- (b) by virtue of anything done in relation to anything regarded as deriving from the income or chargeable gains, the income or chargeable gains would otherwise be regarded as remitted to the United Kingdom before the time when they are treated as arising or accruing,

treat the income or chargeable gains as remitted to the United Kingdom at that time.

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

*[<sup>F1486</sup>Relief for money used to pay tax etc]*

#### Textual Amendments

**F1486S.** 809V cross heading substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 6](#)

### **Money used for payments on account**

<sup>F1487</sup>**809UA**

(1) Subsection (2) applies to income or chargeable gains of an individual if—

- (a) the income or gains would (but for subsection (2)) be regarded as remitted to the United Kingdom by virtue of the bringing of money to the United Kingdom,
- (b) the money is brought to the United Kingdom by way of direct payments to the Commissioners on account of income tax,

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- (c) the tax year (“tax year 2”) in respect of which the payments on account are made is a tax year for which section 809H (remittance basis charge for long-term UK resident) does not apply as respects the individual, and
  - (d) that section applied as respects the individual for the previous tax year (“tax year 1”).
- (2) The relevant amount of income or chargeable gains is to be treated as not remitted to the United Kingdom if money equal to the relevant amount is taken offshore by—
- (a) the 15 March following the end of tax year 2, or
  - (b) such later date as the Commissioners may allow on a claim made by the individual.
- (3) A claim under subsection (2)(b)—
- (a) may be made only if the individual has made and delivered a return under section 8 of TMA 1970 for tax year 2 and reasonably expects to receive from the Commissioners a repayment of tax paid in respect of that tax year, and
  - (b) may be made no later than the 5 April following the end of tax year 2.
- (4) Money that is taken offshore in accordance with subsection (2) is to be treated as having the same composition of kinds of income and capital as the money used to make the payments on account.
- (5) In this section “the relevant amount” means the lower of the following—
- (a) the amount brought to the United Kingdom as mentioned in subsection (1) (b), and
  - (b) the applicable amount (as defined in section 809H) for tax year 1.]

#### Textual Amendments

**F1487S.** 809UA inserted (with effect in accordance with s. 21(5) of the amending Act) by [Finance Act 2013 \(c. 29\), s. 21\(3\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### [<sup>F1488</sup>809] Money paid to the Commissioners

- (1) Subsection (2) applies to income or chargeable gains of an individual if—
- (a) the income or gains would (but for subsection (2)) be regarded as remitted to the United Kingdom by virtue of the bringing of money to the United Kingdom,
  - (b) the money is brought to the United Kingdom by way of one or more direct payments to the Commissioners, and
  - (c) the payments are made in relation to a tax year to which section 809H applies as regards the individual.
- (2) The income or chargeable gains are to be treated as not remitted to the United Kingdom to the extent that the payments do not exceed the applicable amount (as defined in section 809H).



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- (3) Subsection (2) does not apply to payments if or to the extent that they are repaid by the Commissioners.]

#### Textual Amendments

**F1488S.** 809V substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 5 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 4**

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

### *[<sup>F1489</sup>Business investment relief*

#### Textual Amendments

**F1489Ss.** 809VA-809VO and cross-heading inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 7**

### **809VA Money or other property used to make investments**

- (1) Subsection (2) applies if—
- a relevant event occurs,
  - but for subsection (2), income or chargeable gains of an individual would be regarded as remitted to the United Kingdom by virtue of that event, and
  - the individual makes a claim for relief under this section.
- (2) The income or gains are to be treated as not remitted to the United Kingdom.
- (3) A “relevant event” occurs if money or other property—
- is used by a relevant person to make a qualifying investment, or
  - is brought to or received in the United Kingdom in order to be used by a relevant person to make a qualifying investment.
- (4) Subsection (1)(b) includes a case where income or gains would be treated under section 809Y as remitted to the United Kingdom by virtue of the relevant event.
- (5) Subsection (2) applies by virtue of subsection (3)(b) to the extent only that the investment is made within the period of 45 days beginning with the day on which the money or other property is brought to or received in the United Kingdom.
- (6) Where some but not all of the money or other property is used to make the investment within that 45-day period, the part of the income or gains to which subsection (2) applies is to be determined on a just and reasonable basis.
- (7) Subsection (2) does not apply if the relevant event occurs, or the investment is made, as part of or as a result of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

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- (8) A claim for relief under this section must be made on or before the first anniversary of the 31 January following the tax year in which the income or gains would, but for subsection (2), be regarded as remitted to the United Kingdom by virtue of the relevant event.

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809VB Failure to invest within 45 days**

- (1) This section applies to any portion of the income or gains to which section 809VA(2) does not apply because the investment was not made within the period mentioned in section 809VA(5) (“the 45-day period”).
- (2) That portion is to be treated as not remitted to the United Kingdom to the extent that the remaining money or other property is taken offshore within the 45-day period.
- (3) Where some but not all of the remaining money or other property is taken offshore within the 45-day period, the part of the income or gains to which subsection (2) applies is to be determined on a just and reasonable basis.
- (4) If any remaining money or other property is taken offshore within the 45-day period, nothing in subsection (2) prevents anything subsequently done in relation to it (or anything deriving from it) from counting as a remittance of the underlying income or gains to the United Kingdom at the time when the thing is subsequently done.
- (5) A reference to the “remaining” money or other property is to so much of the money or other property brought to or received in the United Kingdom as is not used within the 45-day period to make the investment (which may in some cases be all of it).

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809VC Qualifying investments**

- (1) For the purposes of section 809VA, a person makes an investment if—
- (a) shares in a company are issued to [<sup>F1490</sup>or acquired by] the person, or
  - (b) the person makes a loan (secured or unsecured) to a company.
- (2) The company is referred to as “the target company”.
- (3) The shares or the person's rights under the loan (or both) forming the subject of the investment are referred to as “the holding”.

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- (4) The investment counts as a “qualifying investment” if conditions A and B are met when the investment is made.
- (5) Conditions A and B are defined in sections 809VD and 809VF.
- (6) A reference in this section to “shares” includes any securities.
- (7) If a loan agreement authorises a company to draw down amounts of a loan over a period of time—
  - (a) entry into the agreement does not count for the purposes of this section as the making of a loan, but
  - (b) a separate loan is to be treated as made each time an amount is drawn down under the agreement.
- (8) Accordingly—
  - (a) a separate investment is treated as made each time an amount is drawn down under the agreement, and
  - (b) the reference in subsection (3) to the person's rights under the loan applies only to so much of the person's rights as relate to the drawdown of that particular amount.

#### Textual Amendments

**F1490** Words in s. 809VC(1)(a) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(2\)](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809VD Condition A

- (1) Condition A is that the target company is—
  - (a) an eligible trading company,
  - (b) an eligible stakeholder company, <sup>F1491</sup> ...  
[ an eligible hybrid company, or]
  - <sup>F1492</sup>(ba)
  - (c) an eligible holding company.
- (2) A company is an “eligible trading company” if—
  - (a) it is a private limited company,
  - (b) it carries on one or more commercial trades or is preparing to do so within the next [<sup>F1493</sup>5] years, and
  - (c) carrying on commercial trades is all or substantially all of what it does (or of what it is reasonably expected to do once it begins trading).
- (3) A company is an “eligible stakeholder company” if—
  - (a) it is a private limited company,

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- (b) it exists wholly for the purpose of making investments in eligible trading companies (ignoring any minor or incidental purposes), and
  - (c) it holds one or more such investments or is preparing to do so within the next <sup>F1494</sup>5] years.
- [ A company is an “eligible hybrid company” if—
- <sup>F1495</sup>(3A) (a) it is a private limited company,
- (b) it is not an eligible trading company or an eligible stakeholder company,
  - (c) it carries on one or more commercial trades or is preparing to do so within the next 5 years,
  - (d) it holds one or more investments in eligible trading companies or is preparing to do so within the next 5 years, and
  - (e) carrying on commercial trades and making investments in eligible trading companies are all or substantially all of what it does (or of what it is reasonably expected to do once it begins operating).]

(4) The <sup>F1496</sup>references in subsections (3) and (3A)] to making investments is to be read in accordance with section 809VC.

(5) A company is an “eligible holding company” if—

    - (a) it is a member of an eligible trading group or of an eligible group that is reasonably expected to become an eligible trading group within the next <sup>F1497</sup>5] years,
    - (b) an eligible trading company in the group is a 51% subsidiary of it, and
    - (c) if the ordinary share capital that it owns in the eligible trading company is owned indirectly, each intermediary in the series is also a member of the group.

(6) “Group” means a parent company and its 51% subsidiaries.

(7) “Parent company” means a company that—

    - (a) has one or more 51% subsidiaries, but
    - (b) is not itself a 51% subsidiary of any company.

(8) A group is an “eligible group” if the parent company and each of its 51% subsidiaries are private limited companies.

(9) A group is an “eligible trading group” if—

    - (a) it is an eligible group, and
    - (b) carrying on commercial trades is all or substantially all of what the group does (taking the activities of its members as a whole).

(10) The reference in subsection (5) to owning ordinary share capital indirectly is to be read in accordance with section 1155 of CTA 2010.

(11) A company is a “private limited company” if—

    - (a) it is a body corporate whose liability is limited,
    - (b) it is not a limited liability partnership, and
    - (c) none of its shares are listed on a recognised stock exchange.

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### Textual Amendments

- F1491** Word in s. 809VD(1)(b) omitted (with effect in accordance with s. 15(8) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(a\)](#)
- F1492S.** 809VD(1)(ba) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(a\)](#)
- F1493** Word in s. 809VD(2)(b) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(b\)](#)
- F1494** Word in s. 809VD(3)(c) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(c\)](#)
- F1495S.** 809VD(3A) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(d\)](#)
- F1496** Words in s. 809VD(4) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(e\)](#)
- F1497** Word in s. 809VD(5)(a) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(3\)\(f\)](#)

### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

## 809VE Commercial trades

- (1) Section 809VD is to be read in accordance with this section.
- (2) A reference to a “trade” also includes—
  - (a) anything that is treated for corporation tax purposes as if it were a trade, and
  - (b) a business carried on for generating income from land (as defined in section 207 of CTA 2009).
- (3) A trade is a “commercial trade” if it is conducted on a commercial basis and with a view to the realisation of profits.
- (4) The carrying on of activities of research and development from which it is intended that a commercial trade will be derived, or will benefit, is to be treated as the carrying on of a commercial trade.
- (5) But preparing to carry on activities within subsection (4) is not to be treated as the carrying on of a commercial trade.

[ A company which is a partner in a partnership is not to be regarded as carrying on a <sup>F1498</sup>(6) trade carried on by the partnership.]

### Textual Amendments

- F1498S.** 809VE(6) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(4\)](#)

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**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809VF Condition B**

- (1) Condition B is that no relevant person has (directly or indirectly) obtained or become entitled to obtain any related benefit, and no relevant person expects to obtain any such benefit.
- (2) A “benefit”—
  - (a) includes the provision of anything that would not be provided to the relevant person in the ordinary course of business, or would be provided but on less favourable terms, but
  - (b) does not include the provision of anything provided to the relevant person in the ordinary course of business and on arm's length terms.
- (3) A benefit is “related” if—
  - (a) it is directly or indirectly attributable to the making of the investment (whether it is obtained before or after the investment is made), or
  - (b) it is reasonable to assume that the benefit would not be available in the absence of the investment.
- (4) For the purposes of subsection (2)—
  - (a) a reference to the provision of anything is to the provision of anything in money or money's worth, including property, capital, goods or services of any kind, and
  - (b) “provision” includes any arrangement that allows a person to enjoy or benefit from the thing in question (whether temporarily or permanently).

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809VG Income or gains treated as remitted following certain events**

- (1) Subsection (2) applies if—
  - (a) income or chargeable gains are treated under section 809VA(2) as not remitted to the United Kingdom as a result of a qualifying investment,
  - (b) a potentially chargeable event occurs after the investment is made, and
  - (c) the appropriate mitigation steps are not taken within the grace period allowed for each step.
- (2) The affected income or gains are to be treated as having been remitted to the United Kingdom immediately after the end of the relevant grace period.

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- (3) Where the step required by section 809VI(2)(a) is not taken within the grace period allowed for that step, “the relevant grace period” is the grace period allowed for that step.
- (4) Otherwise, “the relevant grace period” is the grace period allowed for the step required by section 809VI(1) or (2)(b).
- (5) “The affected income or gains” means such portion of the income or gains mentioned in subsection (1)(a) as reflects the portion of the investment affected by the potentially chargeable event.
- (6) The portion of the investment affected is—
  - (a) if the potentially chargeable event is a disposal of a part of the holding (or a part of the remaining holding), a portion equal to the portion of the holding (or remaining holding) being disposed of, and
  - (b) otherwise, the whole of the investment.
- (7) Sections 809VN (order of disposals etc) and 809VO (investments made from mixed funds) make further provision for the purposes of this section.
- (8) If a qualifying investment is made using the money or other property mentioned in section 809VA(3) together with other funds—
  - (a) that investment is to be treated as two separate investments, one made using the money or other property mentioned in section 809VA(3) and one made using the other funds, and
  - (b) references in the business investment provisions to “the investment” and “the holding” relate only to the investment made using the money or other property mentioned in section 809VA(3).
- (9) If the potentially chargeable event mentioned in subsection (1)(b) is not the first such event to affect the investment, the income or gains mentioned in subsection (1)(a) do not include, as respects that investment—
  - (a) any part already treated under subsection (2) as remitted to the United Kingdom as a result of an earlier event,
  - (b) any part contained in amounts already taken offshore or re-invested by way of appropriate mitigation steps following an earlier event, or
  - (c) any part contained in amounts already used to make a tax deposit without which an amount mentioned in paragraph (b) would not have been enough to satisfy section 809VI(1) or (2)(b) (see section 809VK).

**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809VH Meaning of “potentially chargeable event”**

- (1) For the purposes of section 809VG, a “potentially chargeable event” occurs if—

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- (a) the target company is for the first time neither an eligible trading company nor an eligible stakeholder company [<sup>F1499</sup>nor an eligible hybrid company] nor an eligible holding company,
  - (b) the relevant person who made the investment (“P”) disposes of all or part of the holding,
  - (c) the extraction of value rule is breached, or
  - (d) the [<sup>F1500</sup>5-year] start-up rule is breached.
- (2) The extraction of value rule is breached if—
- (a) value (in money or money's worth) is received by or for the benefit of P or another relevant person,
  - <sup>F1501</sup>(b) the value is received from any person in circumstances that are directly or indirectly attributable to the investment, and]
  - (c) the value is received other than by virtue of a disposal that is itself a potentially chargeable event.
- (3) But the extraction of value rule is not breached merely because a relevant person receives value that—
- (a) is treated for income tax or corporation tax purposes as the receipt of income or would be so treated if that person were liable to such tax, and
  - (b) is paid or provided to the person in the ordinary course of business and on arm's length terms.
- <sup>F1502</sup>(4) .....
- (5) The [<sup>F1503</sup>5-year] start-up rule is breached if—
- (a) immediately after the end of the period of [<sup>F1504</sup>5] years beginning with the day on which the investment was made, the target company is non-operational, or
  - (b) at any time after the end of that period, the target company becomes non-operational.
- (6) The target company is “non-operational” at any time when—
- (a) it is an eligible trading company but is not trading,
  - (b) it is an eligible stakeholder company but—
    - (i) it holds no investments in eligible trading companies, or
    - (ii) none of the eligible trading companies in which it holds investments is trading, <sup>F1505</sup> ...
  - <sup>F1506</sup> [ it is an eligible hybrid company but is not trading and—
    - (i) it holds no investments in eligible trading companies, or
    - (ii) none of the eligible trading companies in which it holds investments is trading, or]
  - (c) it is an eligible holding company but—
    - (i) the group of which it is a member is not an eligible trading group, or
    - (ii) none of its 51% subsidiaries in the eligible trading group of which it is a member is an eligible trading company that is trading.
- (7) In subsection (6), “trading” means carrying on one or more commercial trades (including the carrying on of any activities treated under section 809VE(4) as the carrying on of a commercial trade).
- (8) If consideration for a disposal of all or part of the holding is or is to be paid in instalments, the disposal is to be treated for the purposes of this section as if it



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were separate disposals, one for each instalment (and each giving rise to a separate potentially chargeable event).

- (9) An event listed in subsection (1) does not count as a potentially chargeable event if it is due to an insolvency step taken for genuine commercial reasons (but this does not prevent the extraction of any value in connection with the insolvency step from counting as a potentially chargeable event).
- (10) For the purposes of subsection (9), an insolvency step is taken if—
- (a) the target company enters into administration or receivership or is wound up or dissolved,
  - (b) the target company is an eligible stakeholder company [<sup>F1507</sup>or an eligible hybrid company] and any eligible trading company in which it holds an investment enters into administration or receivership or is wound up or dissolved,
  - (c) the target company is an eligible holding company and any eligible trading company in the group that is a 51% subsidiary of it enters into administration or receivership or is wound up or dissolved, or
  - (d) a similar step is taken in relation to a company mentioned in paragraph (a), (b) or (c) under the law of a country or territory outside the United Kingdom.

#### Textual Amendments

- F1499** Words in s. 809VH(1)(a) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(a\)](#)
- F1500** Words in s. 809VH(1)(d) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(b\)](#)
- F1501** S. 809VH(2)(b) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(c\)](#)
- F1502** S. 809VH(4) omitted (with effect in accordance with s. 15(8) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(d\)](#)
- F1503** Words in s. 809VH(5) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(e\)\(i\)](#)
- F1504** Word in s. 809VH(5)(a) substituted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(e\)\(ii\)](#)
- F1505** Word in s. 809VH(6)(b) omitted (with effect in accordance with s. 15(8) of the amending Act) by virtue of [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(f\)](#)
- F1506** S. 809VH(6)(ba) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(f\)](#)
- F1507** Words in s. 809VH(10)(b) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(5\)\(g\)](#)

#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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## 809VI The appropriate mitigation steps

- (1) If the potentially chargeable event is a disposal of all or part of the holding, the appropriate mitigation steps are regarded as taken if the whole of the disposal proceeds have been taken offshore or re-invested.
- (2) For any other case, the appropriate mitigation steps are regarded as taken if—
  - (a) P has disposed of the entire holding (or so much of it as P retains when the potentially chargeable event occurs), and
  - (b) the whole of the disposal proceeds have been taken offshore or re-invested.
- (3) But if the disposal proceeds exceed X, subsections (1) and (2)(b) apply only to so much of the proceeds as is equal to X.
- (4) “X” is—
  - (a) the sum originally invested, less
  - (b) so much of that sum as has, on previous occasions involving the same investment—
    - (i) been taken into account in determining the affected income or gains under section 809VG(2),
    - (ii) been taken offshore or re-invested in order to avoid the application of that section, or
    - (iii) been used to make a tax deposit without which the amount actually taken offshore or re-invested would not have been enough to satisfy subsection (1) or (2)(b) (see section 809VK).
- (5) “The sum originally invested” means the amount of the money, or the market value of the other property, used to make the investment.
- (6) Market value is to be assessed for these purposes as at the date of the relevant event (see section 809VA).
- (7) Proceeds are “re-invested” if a relevant person uses them to make another qualifying investment (or the proceeds are themselves a qualifying investment) whether in the same or a different company.
- (8) In cases where a breach of the extraction of value rule occurs in connection with the winding-up or dissolution of the target company—
  - (a) subsection (2)(a) does not apply,
  - (b) the reference in subsection (2)(b) to the disposal proceeds is to the value received, and
  - (c) references in this section and in succeeding provisions of the business investment provisions to the disposal proceeds are to be read as references to the value received.

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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## 809VJ The grace period allowed for the appropriate mitigation steps

- (1) The grace period allowed for the step mentioned in section 809VI(2)(a) is the period of 90 days beginning—
  - (a) if the potentially chargeable event is a breach of the extraction of value rule, with the day on which the value is received, and
  - (b) otherwise, with the day on which a relevant person first became aware or ought reasonably to have become aware of the potentially chargeable event.
- (2) The grace period allowed for the step mentioned in section 809VI(1) and (2)(b) is the period of 45 days beginning with the day on which the disposal proceeds first became available for use by or for the benefit of P or any other relevant person.

[ But subsection (2B) applies instead of subsections (1) and (2) where the potentially chargeable event is a breach of the 5-year start-up rule by virtue of section 809VH(5)(b).]
- (2B) The grace period allowed for the steps mentioned in section 809VI(2)(a) and (2)(b) is the period of 2 years beginning with the day on which a relevant person first became aware or ought reasonably to have become aware of the potentially chargeable event referred to in subsection (2A).]
- (3) An officer of Revenue and Customs may agree in a particular case to extend the grace period allowed for an appropriate mitigation step in exceptional circumstances.
- (4) An officer of Revenue and Customs may agree in a particular case to extend the grace period allowed for an appropriate mitigation step in circumstances specified in regulations made by the Commissioners.
- (5) Regulations under subsection (4) may have effect in relation to investments made before the day on which the regulations are made.
- (6) Nothing in subsection (4) or in regulations made under it limits the power conferred by subsection (3).
- (7) The powers conferred on officers of Revenue and Customs by subsections (3) and (4) include power to agree to extend a grace period for a length of time that is indefinite but is capable of becoming definite by means identified in the agreement (such as the satisfaction of conditions).

### Textual Amendments

**F1508S.** 809VJ(2A)(2B) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(6\)](#)

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

## 809VK Retention of funds to meet CGT liabilities

- (1) This section applies if—

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- (a) there is a disposal of all or part of the holding,
  - (b) the disposal counts as a potentially chargeable event or is part of the appropriate mitigation steps taken in consequence of a potentially chargeable event,
  - (c) a chargeable gain (but not a loss) accrues to P on the disposal,
  - (d) P is chargeable to capital gains tax (but not corporation tax) in respect of that gain, and
  - (e) the actual disposal proceeds are less than Y.
- (2) The difference between the actual disposal proceeds and Y is referred to in this section as “the shortfall”.
- (3) “The actual disposal proceeds” means the disposal proceeds but disregarding section 809Z8(4).
- (4) “Y” is the sum of—
- (a) the amount (if any) that would, but for this section, be required to be taken offshore or re-invested in order to satisfy section 809VI(1) or (2)(b), and
  - (b) the amount found by applying the highest potential CGT rate to the amount (computed in accordance with TCGA 1992) of the chargeable gain accruing to P on the disposal.
- [<sup>F1509</sup>(5) The highest potential CGT rate is the highest rate specified in section 1H of TCGA 1992 (regardless of the type of the chargeable gain or, if P is an individual, the rate of income tax at which P's income is chargeable).]
- (6) If this section applies, the amount that is required to be taken offshore or re-invested in order to satisfy section 809VI(1) or (2)(b) is reduced by the permitted amount.
- (7) “The permitted amount” is so much of the shortfall as is used, within the grace period allowed for taking the disposal proceeds offshore or re-investing them, to make a deposit in respect of which a certificate of tax deposit is issued to P under section 12 of the National Loans Act 1968.
- (8) A reduction may not be made under subsection (6) unless—
- (a) when details of the deposit are confirmed to Her Majesty's Revenue and Customs, the confirmation letter states that this section is intended to apply to the deposit, and
  - (b) the amount of the deposit is no greater than the shortfall.

#### Textual Amendments

**F1509S.** 809VK(5) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 1 para. 105](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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## **809VL Effect of taking appropriate mitigation steps within grace period**

- (1) This section explains the effect for the purposes of this Chapter in cases where section 809VG(2) does not apply because the appropriate mitigation steps were taken within the grace period allowed for each step.
- (2) If disposal proceeds were taken offshore as part of those steps, nothing in section 809VA(2) prevents anything subsequently done in relation to those proceeds (or anything deriving from them) from counting as a remittance of the underlying income or gains to the United Kingdom at the time when the thing is subsequently done.
- (3) If disposal proceeds were re-invested as part of those steps—
  - (a) the underlying income or gains continue to be treated under section 809VA(2) as not remitted to the United Kingdom, and
  - (b) the business investment provisions apply to the re-investment as they apply to the original investment.
- (4) In the application of the business investment provisions to the re-investment—
  - (a) treat the potentially chargeable event mentioned in section 809VG(1)(b) as the relevant event,
  - (b) treat the underlying income or gains as the income or gains treated under section 809VA(2) as not remitted to the United Kingdom as a result of the re-investment, and
  - (c) treat the amount used to make the re-investment as the sum originally invested.
- (5) If the re-investment is made using more than the minimum amount of disposal proceeds required to satisfy section 809VI(1) or (2)(b)—
  - (a) that investment is to be treated as two separate investments, one made using the minimum amount of disposal proceeds and one made using the excess, and
  - (b) references in the business investment provisions to “the investment” and “the holding” relate only to the investment made using the minimum amount of disposal proceeds.
- (6) “The underlying income or gains” means the affected income or gains (within the meaning of section 809VG) or, if one part of the disposal proceeds is taken offshore and the other part re-invested, a corresponding proportion of the affected income or gains.
- (7) A further claim must be made in accordance with section 809VA in respect of the re-investment and, if no such claim is made on or before the first anniversary of the 31 January following the tax year in which the re-investment was made, section 809VG(2) applies, as respects the original investment, as if the appropriate mitigation steps had not been taken within the grace period allowed for each step.
- (8) Section 809VM makes further provision in cases involving a tax deposit.

### **Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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## 809VM Cases involving tax deposits

- (1) This section applies in cases where—
  - (a) section 809VG(2) did not apply because the appropriate mitigation steps were taken within the grace period allowed for each step,
  - (b) the amount required to be taken offshore or re-invested in order to satisfy section 809VI(1) or (2)(b) had been reduced under section 809VK, and
  - (c) but for that reduction, the amount that was actually taken offshore or re-invested would not have been enough to satisfy section 809VI(1) or (2)(b).
- (2) The tax deposit that gave rise to the reduction is referred to in this section as “the tax deposit”.
- (3) Use of the tax deposit to pay the relevant tax liability does not count as remitting the underlying income or gains to the United Kingdom (and, accordingly, section 809VA(2) continues to apply to the income or gains).
- (4) If any of the CTD conditions is breached, the underlying income or gains are to be treated as having been remitted to the United Kingdom immediately after the day on which the breach occurs.
- (5) “The underlying income or gains” means such portion of the affected income or gains (within the meaning of section 809VG) as is—
  - (a) represented by the payment, in the case of subsection (3), or
  - (b) affected by the breach, in the case of subsection (4).
- (6) The CTD conditions are as follows—
  - (a) the tax deposit must not be used to pay a tax liability other than the relevant tax liability,
  - (b) if any of the tax deposit is withdrawn by the depositor, the amount withdrawn must be taken offshore or re-invested within the period of 45 days beginning with the day on which the withdrawal was made, and
  - (c) any part of the tax deposit that has been neither used to pay a tax liability nor withdrawn by the due date must be withdrawn by the depositor and taken offshore or re-invested within the period of 45 days beginning with that date.
- (7) Where the CTD conditions were not breached because the requisite amount was taken offshore or re-invested within the 45-day period mentioned in subsection (6)(b) or (c) —
  - (a) section 809VL applies to the amount taken offshore or re-invested as it applies to disposal proceeds, but
  - (b) read the reference in section 809VL(4)(a) to the potentially chargeable event as a reference to—
    - (i) the withdrawal, in a case within subsection (6)(b), and
    - (ii) the due date, in a case within subsection (6)(c).
- (8) For the purposes of this section—
  - (a) “the relevant tax liability” means P’s liability to capital gains tax for the tax year in which the disposal took place,
  - (b) “the due date” means the date by which the relevant tax liability is required to be paid,
  - (c) “re-invested” has the meaning given in section 809VI(7), and
  - (d) references to withdrawal include repayment for whatever reason.

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#### **Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### **809VN Order of disposals etc**

- (1) Subsection (2) applies if at any time income or chargeable gains of an individual are treated under section 809VA as not remitted to the United Kingdom as a result of—
- more than one qualifying investment made in the same target company,
  - more than one qualifying investment made in companies in the same eligible trading group, or
  - qualifying investments made in an eligible trading company and in an eligible stakeholder company [<sup>F1510</sup>or eligible hybrid company] that holds investments in that trading company.
- (2) In the application of section 809VG at that time—
- treat the investments and holdings as if they were a single qualifying investment and a single holding, and
  - assume that a disposal of all or part of that deemed single holding affects the deemed single investment in the order in which the qualifying investments were made (that is to say, on a first in, first out basis).
- (3) Subsection (4) applies if at any time—
- income or chargeable gains of an individual are treated under section 809VA as not remitted to the United Kingdom as a result of one or more qualifying investments,
  - in addition to that investment or those investments, a relevant person holds at least one other investment in the same target company, the same eligible trading group or a related eligible company, and
  - that other investment is not a qualifying investment.
- (4) In the application of section 809VG at that time—
- treat the investments and holdings as if they were a single investment and a single holding, and
  - assume that a disposal of all or part of that deemed single holding is a disposal of a holding from a qualifying investment until the holdings from all the qualifying investments have been disposed of.
- (5) The reference to a “related eligible company”—
- in relation to an eligible trading company, is to an eligible stakeholder company [<sup>F1511</sup>or eligible hybrid company] that holds investments in that company, and
  - in relation to an eligible stakeholder company [<sup>F1511</sup>or eligible hybrid company], is to an eligible trading company in which that company holds investments.
- (6) Subsections (2) and (4) apply whether the investments in question are held by the same relevant person or different ones.

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### Textual Amendments

**F1510** Words in s. 809VN(1)(c) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(7\)](#)

**F1511** Words in s. 809VN(5)(a)(b) inserted (with effect in accordance with s. 15(8) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 15\(7\)](#)

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\), Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

## 809VO Investments made from mixed funds

- (1) This section applies if—
  - (a) but for section 809VA(2), income or gains would have been remitted to the United Kingdom by virtue of a relevant event, and
  - (b) section 809Q (transfers from mixed funds) would have applied in determining the amount that would have been so remitted.
- (2) The relevant event counts as an offshore transfer for the purposes of section 809R(4).
- (3) The holding is to be treated as containing a proportion of each kind of income and capital contained in the invested property equal to the fixed proportion.
- (4) “The fixed proportion” is the proportion of that kind of income or capital contained in the invested property by virtue of subsection (2).
- (5) “The invested property” means the money or other property used to make the investment.
- (6) Subsection (7) applies in cases where—
  - (a) section 809VG(2) does not apply because an amount is taken offshore, re-invested or used to make a tax deposit, or
  - (b) section 809VM(4) does not apply because an amount is taken offshore or re-invested.
- (7) The amount taken offshore, re-invested or used to make a tax deposit is treated, immediately after that step, as containing the fixed proportion of each kind of income and capital contained in the holding.
- (8) In cases where section 809VG(2) applies—
  - (a) the affected income or gains are so much of the fixed amount of each kind of income or gain mentioned in subsection (1)(a) as reflects the portion of the investment affected by the potentially chargeable event (see section 809VG(6)),
  - (b) “the fixed amount” is the amount of that kind of income or gain that the holding is treated as containing by virtue of subsection (3), and
  - (c) section 809Q does not apply in determining the affected income or gains.
- (9) Section 809R(2) and (3) and section 809S apply for the purposes of this section.]



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#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### *[<sup>F1512</sup>Relief for certain UK services]*

#### Textual Amendments

- F1512S.** 809W cross heading inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 8](#)

## 809W Consideration for certain services

- (1) This section applies to income or chargeable gains if—
  - (a) the income or gains would (but for subsection (2)) be regarded as remitted to the United Kingdom because conditions A and B in section 809L are met,
  - (b) condition A in section 809L is met because a service is provided in the United Kingdom (“the relevant UK service”), and
  - (c) condition B in section 809L is met because section 809L(3)(a) or (b) applies to the consideration for the relevant UK service (“the relevant consideration”).
- (2) The income or chargeable gains are to be treated as not remitted to the United Kingdom if the following conditions are met; but this is subject to subsection (5).
- (3) Condition A is that the relevant UK service relates wholly or mainly to property situated outside the United Kingdom.
- (4) Condition B is that the whole of the relevant consideration is given by way of one or more payments to one or more bank accounts held outside the United Kingdom by or on behalf of the person who provides the relevant UK service.
- (5) Subsection (2) does not apply if the relevant UK service relates (to any extent) to the provision in the United Kingdom of—
  - (a) a benefit that is treated as deriving from the income by virtue of section 735, or
  - (b) a relevant benefit within the meaning of section 87B of TCGA 1992 that is treated as deriving from the chargeable gains by virtue of that section.
- (6) Sections 275 to 275C of TCGA 1992 (location of assets) apply for the purposes of subsection (3) as they apply for the purposes of TCGA 1992.

#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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### [<sup>F1513</sup>Exempt property relief]

#### Textual Amendments

**F1513S.** 809X crossheading inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 9**

#### 809X Exempt property

- (1) Exempt property which is brought to, or received or used in, the United Kingdom in circumstances in which section 809L(2)(a) applies is to be treated as not remitted to the United Kingdom.
- (2) Subsections (3) to (5) set out the cases in which property is exempt property.
- (3) Property is exempt property if it meets the public access rule (see [<sup>F1514</sup>section 809Z]).
- (4) Clothing, footwear, jewellery and watches <sup>F1515</sup>... are exempt property if they meet the personal use rule (see section 809Z2).
- (5) Property <sup>F1516</sup>... is exempt property if—
  - (a) the property meets the repair rule (see section 809Z3),
  - (b) the property meets the temporary importation rule (see section 809Z4), or
  - (c) the notional remitted amount (see section 809Z5) is less than £1,000.

#### Textual Amendments

**F1514** Words in s. 809X(3) substituted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 2**

**F1515** Words in s. 809X(4) omitted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), **Sch. 27 para. 10(2)**

**F1516** Words in s. 809X(5) omitted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), **Sch. 27 para. 10(3)**

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

#### 809Y Property that ceases to be exempt property treated as remitted

- (1) Property that ceases to be exempt property is to be treated as having been remitted to the United Kingdom at the time it ceases to be exempt property.
- (2) Property ceases to be exempt property in [<sup>F1517</sup>any] of the following cases.
- (3) The first case is where the whole or part of the exempt property is sold, or otherwise converted into money, whilst it is in the United Kingdom.
- (4) The second case is where the property—
  - (a) is exempt property only because it meets one or more of the relevant rules,

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- (b) ceases to meet that rule, or all of those rules, whilst it is in the United Kingdom, and
- (c) does not meet any other relevant rule.

<sup>F1518</sup> [ Where exempt property has been lost, stolen or destroyed, the first and second cases (4A) do not apply in relation to the property during any period—

- (a) beginning with the time at which it was lost, stolen or destroyed, and
- (b) (if lost or stolen) ending with the time at which it is recovered.

(4B) The third case is where a compensation payment is released in respect of exempt property that has been lost, stolen or destroyed.]

(5) In this section—

“money” includes—

- (a) a traveller's cheque,
- (b) a promissory note,
- (c) a bill of exchange, and
- (d) any other—
  - (i) instrument that is evidence of a debt, or
  - (ii) voucher, stamp or similar token or document which is capable of being exchanged for money, goods or services, and

“relevant rule” means—

- (a) the public access rule,
- (b) the personal use rule,
- (c) the repair rule, and
- (d) the temporary importation rule.

<sup>F1519</sup> [ Subsection (1) does not apply to property that ceases to be exempt property <sup>F1520</sup>by (6) virtue of the first or second case] if—

- (a) the property, or anything into which it is converted, is used by a relevant person to make a qualifying investment within the period of 45 days beginning with the day on which it ceased to be exempt property, and
- (b) the remittance basis user makes a claim for relief under this subsection on or before the first anniversary of the 31 January following the tax year in which the property ceases to be exempt property.

(7) The reference in subsection (6)(a) to anything into which property is converted is—

- (a) if the property is disposed of, the disposal proceeds, and
- (b) if the property is converted into money in some other way, the money into which it is converted,

(including where the disposal or conversion occurs after the property ceases to be exempt property).

(8) If subsection (1) does not apply by virtue of subsection (6)—

- (a) the property (or thing into which it was converted) used to make the investment is to be treated as containing or deriving from an amount of each kind of income and gain mentioned in section 809Q(4)(a) to (h) equal to the fixed amount,
- (b) the income or gains treated under section 809X as not remitted to the United Kingdom continue to be treated as not remitted to the United Kingdom even though the property has ceased to be exempt property, and

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- (c) the business investment provisions apply to the income and gains as they apply to income or gains treated under section 809VA(2) as not remitted to the United Kingdom.
- (9) “The fixed amount” is the amount of that kind of income or gain contained in the property when it was brought to, or received or used in, the United Kingdom (as mentioned in section 809X).
- (10) If the investment is made using more than just the property (or thing into which it was converted), treat only the part made using the property (or thing into which it was converted) as “the investment” for the purposes of the business investment provisions.]

#### Textual Amendments

- F1517** Word in s. 809Y(2) substituted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 3(2)**
- F1518S.** 809Y(4A)(4B) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 3(3)**
- F1519** Ss. 809Y(6)-(10) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 10**
- F1520** Words in s. 809Y(6) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 3(4)**

#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

#### **Exception to section 809Y: proceeds taken offshore or invested**

**F1521** **809YA**

- (1) Section 809Y(1) does not apply to property if—
- (a) it ceases to be exempt property because the whole of it is sold whilst it is in the United Kingdom, and
  - (b) conditions A to F are met.
- (2) Condition A is that the sale is to a person other than a relevant person.
- (3) Condition B is that the sale is by way of a bargain made at arm's length.
- (4) Condition C is that, once the sale is completed, no relevant person—
- (a) has any interest in the property,
  - (b) is able or entitled to benefit from the property by virtue of any interest, right or arrangement, or
  - (c) has any right (whether conditional or unconditional) to acquire any interest mentioned in paragraph (a) or ability or entitlement mentioned in paragraph (b).
- (5) Condition D is that the whole of the disposal proceeds are released (whether in one go or in instalments) on or before the final deadline.

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- (6) “The final deadline” is the first anniversary of the 5 January following the tax year in which the property ceases to be exempt property (within the meaning of section 809Y).
- (7) Condition E is that—
  - (a) the whole of the disposal proceeds are taken offshore or used by a relevant person to make a qualifying investment within the period of 45 days beginning with the day on which the proceeds are released, or
  - (b) if the disposal proceeds are paid in instalments, each instalment is taken offshore or used by a relevant person to make a qualifying investment within the period of 45 days beginning with the day on which the instalment is released.
- (8) But if any of the disposal proceeds are released in the period of 45 days ending with the final deadline, Condition E is satisfied, as respects those proceeds, only if they are taken offshore or used by a relevant person to make a qualifying investment on or before the final deadline.
- (9) Condition F is that, if Condition E is satisfied wholly or in part by using disposal proceeds to make a qualifying investment, the remittance basis user makes a claim for relief under section 809YC(2) on or before the first anniversary of the 31 January following the tax year in which the property is sold.
- (10) For the purposes of this section, proceeds or instalments are “released” on the day on which they first become available for use by or for the benefit of any relevant person.
- (11) This section does not apply if the sale is made as part of or as a result of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

#### Textual Amendments

**F1521** Ss. 809YA-809YD inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 18](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809YB Condition E: supplementary

- (1) An officer of Revenue and Customs may agree in a particular case to extend any period within which disposal proceeds (or instalments) must be taken offshore or used by a relevant person to make a qualifying investment in order to satisfy Condition E.
- (2) The power to agree to an extension is exercisable only in exceptional circumstances and only if the remittance basis user requests such an extension.

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### Textual Amendments

**F1521** Ss. 809YA-809YD inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 18**

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

## 809YC Effect of disapplying section 809Y

- (1) This section has effect if section 809Y(1) does not apply to property by virtue of section 809YA.
- (2) The income and gains treated under section 809X as not remitted to the United Kingdom continue to be treated after the sale as not remitted to the United Kingdom even though the property has ceased to be exempt property.
- (3) But nothing in subsection (2) prevents anything done in relation to any part of the disposal proceeds after that part is taken offshore (or used to make a qualifying investment) from counting as a remittance of the underlying income or gains to the United Kingdom at the time when the thing is done.
- (4) Treat the disposal proceeds as containing or deriving from an amount of each kind of income and gain mentioned in section 809Q(4)(a) to (h) equal to the amount of that kind of income or gain contained in the exempt property when it was brought to, or received or used in, the United Kingdom (as mentioned in section 809X).
- (5) Where Condition E was met by using the disposal proceeds to make a qualifying investment—
  - (a) the business investment provisions apply to the income and gains that continue, by virtue of subsection (2), to be treated as not remitted as they apply to income or gains that are treated under section 809VA(2) as not remitted, and
  - (b) if the investment was made using more than just the disposal proceeds, treat only the part of the investment made using the disposal proceeds as “the investment” for the purposes of those provisions.

### Textual Amendments

**F1521** Ss. 809YA-809YD inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 18**

### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

*Status: Point in time view as at 22/02/2024.*

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## 809YD Chargeable gains accruing on sales of exempt property

- (1) This section applies to an individual (“P”) if—
  - (a) a chargeable gain (but not a loss) accrues to a person on a sale of exempt property,
  - (b) but for section 809YA, section 809Y(1) would have applied to the property by virtue of the sale, and
  - (c) P is either—
    - (i) the person to whom the gain accrues, or
    - (ii) a person to whom a part of the gain is treated as accruing under <sup>F1522</sup>section 3] of TCGA 1992 (members of non-resident companies).
- (2) The relevant UK gain is to be treated for the purposes of this Chapter as if—
  - (a) it were a foreign chargeable gain of P, and
  - (b) in the case of section 809E, it were not part of P's UK income and gains.
- (3) Accordingly, if section 809F applies to P for the applicable tax year <sup>F1523</sup>..., the relevant UK gain is charged in accordance with <sup>F1524</sup>paragraph 1 of Schedule 1 to TCGA 1992] as if it were a foreign chargeable gain.
- (4) The relevant UK gain is—
  - (a) in a case falling within subsection (1)(c)(i), the gain accruing to P,
  - (b) in a case falling within subsection (1)(c)(ii), the part of the gain treated as accruing to P.
- (5) The applicable tax year is —
  - (a) if <sup>F1525</sup>section 1M] of TCGA 1992 (temporary non-residents) applies in P's case and the relevant UK gain is within subsection (2) of that section, <sup>F1526</sup>the tax year that consists of or includes the period of return] as defined in that section,
  - (b) otherwise, the tax year in which the relevant UK gain accrues.
- (6) In applying this Chapter to the relevant UK gain—
  - (a) treat the amount of any gains mentioned in section 809Q(4)(e) contained in the disposal proceeds by virtue of section 809YC(4) as increased by the amount of the relevant UK gain,
  - (b) disregard section 809U, and
  - (c) anything done in relation to any part of the disposal proceeds before the part is taken offshore or used to make a qualifying investment (or both) does not count as a remittance to the United Kingdom of any of the relevant UK gain.
- (7) The relevant UK gain is to be treated for the purposes of the following provisions of TCGA 1992 as if it <sup>F1527</sup>accrued on the disposal of a foreign asset (within the meaning of Schedule 1 to TCGA 1992)] —
  - <sup>F1528</sup>(a) section 1M,
  - (b) section 3D, and
  - (c) Schedule 1.]
- (8) This section has effect despite <sup>F1529</sup>section 3D(2)] of TCGA 1992.
- (9) This section does not apply with respect to a chargeable gain if P gives notice to Her Majesty's Revenue and Customs under this subsection.

*Status: Point in time view as at 22/02/2024.*

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- (10) A notice under subsection (9)—
- (a) must be in writing and must identify the gain in question,
  - (b) must be given on or before the first anniversary of the 31 January following the applicable tax year, and
  - (c) may not be revoked after that first anniversary.]

#### Textual Amendments

- F1521** Ss. 809YA-809YD inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 19 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), **Sch. 12 para. 18**
- F1522** Words in s. 809YD(1)(c)(ii) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(2)**
- F1523** Words in s. 809YD(3) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 23** (with [Sch. 46 para. 26](#))
- F1524** Words in s. 809YD(3) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(3)**
- F1525** Words in s. 809YD(5)(a) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(4)(a)**
- F1526** Words in s. 809YD(5)(a) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(4)(b)**
- F1527** Words in s. 809YD(7) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(5)(a)**
- F1528** S. 809YD(7)(a)-(c) substituted for s. 809YD(7)(a)-(d) (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(5)(b)**
- F1529** Words in s. 809YD(8) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), **Sch. 1 para. 106(6)**

#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

#### **[** **F1530** **809YE** **Exception to section 809Y: gifts to the nation**

- (1) Section 809Y(1) does not apply to property if—
- (a) it ceases to be exempt property in the second case mentioned in that section, and
  - (b) by no later than the time when it ceases to be exempt property, it has been donated in the circumstances described in paragraph 1 of Schedule 14 to FA 2012 (gifts to the nation).
- (2) Where section 809Y(1) does not apply to property by virtue of this section, the property is to continue to be treated as not remitted to the United Kingdom even though it no longer meets any of the relevant rules.]

#### Textual Amendments

- F1530** S. 809YE inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), **Sch. 14 para. 35**



*Status: Point in time view as at 22/02/2024.*

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#### **Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

#### **[<sup>F1531</sup> 809YF] Exception to section 809Y: compensation taken offshore or invested**

- (1) Section 809Y(1) does not apply to property if—
- (a) it ceases to be exempt property because a compensation payment in respect of it is released, and
  - (b) conditions A and B are met.
- (2) Condition A is that the whole of the compensation payment is taken offshore or used by a relevant person to make a qualifying investment within the period of 45 days beginning with the day on which the payment is released.
- (3) Condition B is that, if Condition A is satisfied wholly or in part by using the compensation payment to make a qualifying investment, the remittance basis user makes a claim for relief under subsection (4) on or before the first anniversary of the 31 January following the tax year in which the payment is released.
- (4) If section 809Y(1) does not apply to property by virtue of subsection (1), the income and gains treated under section 809X as not remitted to the United Kingdom continue to be treated after the compensation payment is released as not remitted to the United Kingdom even though the property has ceased to be exempt property.
- (5) But nothing in subsection (4) prevents anything done in relation to any part of the compensation payment after that payment is taken offshore (or used to make a qualifying investment) from counting as a remittance of the underlying income or gains to the United Kingdom at the time when the thing is done.
- (6) Treat the compensation payment as containing or deriving from an amount of each kind of income and gain mentioned in section 809Q(4)(a) to (h) equal to the amount of that kind of income or gain contained in the exempt property when it was brought to, or received or used in, the United Kingdom (as mentioned in section 809X).
- (7) Where Condition A was met by using the compensation payment to make a qualifying investment—
- (a) the business investment provisions apply to the income and gains that continue, by virtue of subsection (4), to be treated as not remitted as they apply to income or gains that are treated under section 809VA(2) as not remitted, and
  - (b) if the investment was made using more than just the compensation payment, treat only the part of the investment made using the payment as “the investment” for the purposes of those provisions.]

#### **Textual Amendments**

- F1531**S. 809YF inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 4](#)

*Status: Point in time view as at 22/02/2024.*

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**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809Z Public access rule: general**

(1) Property meets the public access rule if conditions [<sup>F1532</sup>B and C] are met.

<sup>F1533</sup>(2) .....

(3) Condition B is that—

- (a) the property is available for public access at an approved establishment,
- (b) the property is to be available for public access at an approved establishment and, in connection with its being so available, is in transit to, or in storage at, public access rule premises, or
- (c) the property has been available for public access at an approved establishment and, in connection with its having been so available, is in transit from, or in storage at, public access rule premises.

(4) Property is “available for public access” at an approved establishment if the property is—

- (a) on public display at the establishment,
- (b) held by the establishment and made available to the public on request for viewing or for educational use, or
- (c) held by the establishment for public exhibition in connection with the sale of the property.

(5) An “approved establishment” is—

- (a) an approved museum, gallery or other institution within the meaning of Group 9 of Schedule 2 to the Value Added Tax (Imported Goods) Relief Order 1984, or
- (b) any other person, premises or institution designated (or of a description designated) by the Commissioners.

(6) “Public access rule premises” are—

- (a) premises in the United Kingdom at which the property is to be, or has been, available for public access, or
- (b) other commercial premises in the United Kingdom used by the approved establishment for the storage of property in advance of its being, or after its having been, available for public access at the approved establishment.

(7) Condition C is that, during the relevant period, the property meets condition B for no more than—

- (a) two years, or
- (b) such longer period as the Commissioners may specify.

(8) “The relevant period” means the period—

- (a) beginning with the importation of the property, and
- (b) ending when it ceases to be in the United Kingdom after that importation.

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- [ But if the property is lost or stolen—
- <sup>F1534</sup>(8A) (a) the relevant period ends with the time at which it is lost or stolen, and  
(b) a new relevant period begins with its importation or the time at which it is recovered.]
- (9) “Importation” means the property being brought to, or received or used in, the United Kingdom in circumstances in which section 809L(2)(a) applies.
- <sup>F1535</sup>(10) .....

**Textual Amendments**

- F1532** Words in s. 809Z(1) substituted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 5(2)**
- F1533** S. 809Z(2) omitted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 5(3)**
- F1534** S. 809Z(8A) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 5(4)**
- F1535** S. 809Z(10) omitted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 5(5)**

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

<sup>F1536</sup>**809Z1 Public access rule: relevant VAT relief**

.....

**Textual Amendments**

- F1536** S. 809Z1 omitted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 7 para. 6**

**Modifications etc. (not altering text)**

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), **Sch. 10 paras. 11, 21(1)** (with [Sch. 11 para. 22](#)))

**809Z2 Personal use rule**

- (1) Clothing, footwear, jewellery or watches meet the personal use rule if they—
- (a) are property of a relevant person, and
- (b) are for the personal use of a relevant individual.
- (2) In this section—
- <sup>F1537</sup>(a) .....

*Status: Point in time view as at 22/02/2024.*

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- (b) “relevant individual” means an individual who is a relevant person by virtue of section 809M(2)(a), (b), (c) or (d) (the individual with income or gains, or a husband, wife, civil partner, child or grandchild).

#### Textual Amendments

**F1537S.** 809Z2(2)(a) omitted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 11](#)

#### Modifications etc. (not altering text)

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809Z3 Repair rule

- (1) Property meets the repair rule for the whole of the relevant period if, during the whole of that period, the property meets the repair conditions.
- (2) Property meets the repair rule for a part of the relevant period if—
  - (a) during the whole of that part of that period, the property meets the repair conditions, and
  - (b) during the whole of the other part of that period, or the whole of each other part of that period, the property meets the repair conditions or the public access rule.
- (3) Property meets the repair conditions if the property—
  - (a) is under repair or restoration,
  - (b) is in transit from a place outside the United Kingdom to repair rule premises, in transit between such premises, or in storage at such premises, in advance of repair or restoration, or
  - (c) is in storage at such premises, in transit between such premises, or in transit from such premises to a place outside the United Kingdom, following repair or restoration.
- (4) “Repair rule premises” means—
  - (a) premises in the United Kingdom that are to be used, or have been used, for the repair or restoration referred to in subsection (3)(b) or (c), or
  - (b) other commercial premises in the United Kingdom used by the restorer for the storage of property in advance of, or following, repair or restoration of property by the restorer.
- (5) “Restorer” means the person who is to carry out, or has carried out, the repair or restoration referred to in subsection (3)(b) or (c).
- (6) Property meets the repair conditions, or the public access rule, during the whole of a period, or the whole of part of a period, if the property meets those conditions or that rule—
  - (a) on the whole of, or on part of, the first day of that period or part period,
  - (b) on the whole of, or on part of, the last day of that period or part period, and
  - (c) on the whole of each other day of that period or part period.

*Status: Point in time view as at 22/02/2024.*

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(7) “The relevant period” has the same meaning as in section 809Z.

**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809Z4 Temporary importation rule**

(1) Property meets the temporary importation rule if the total number of countable days <sup>F1538</sup>(subject to any increase under subsection (3B)) is 275 or fewer.

(2) A “countable day” is a day on which, or on part of which, the property is in the United Kingdom by virtue of being brought to, or received or used in, the United Kingdom in circumstances in which section 809L(2)(a) applies (whether the current case, or a past case, when the property was so brought, received or used).

(3) A day is not a countable day if, on that day or any part of that day—

<sup>F1539</sup>(za) [ the property meets the public access rule,]

(a) the property meets the personal use rule,

(b) the property meets the repair rule, <sup>F1540</sup> ...

<sup>F1541</sup>(ba) [ subsection (3A) applies to the property,]

(c) the notional remitted amount in relation to the property is less than £1,000 <sup>F1542</sup> or]

<sup>F1543</sup>(d) [ all or any part of the income or chargeable gains contained in the property (or from which the property derives) is treated, or continues to be treated, under section 809VA(2), 809Y(8)(b) <sup>F1544</sup>, 809YC(2) or 809YF(4)] as not remitted to the United Kingdom.]

[ This subsection applies to the property if—

<sup>F1545</sup>(3A) (a) it is not available to be used or enjoyed in the United Kingdom by or for the benefit of a relevant person because it has been lost, stolen or destroyed,

(b) (if lost or stolen) it has not been recovered, and

(c) no compensation payment has been released in respect of it.

(3B) If—

(a) property that has been lost or stolen is recovered,

(b) the first day after the day on which it is recovered is a countable day, and

(c) excluding that countable day there have already been 231 or more countable days in relation to the property,

the number of countable days specified in subsection (1) is read as being increased by the number necessary for there to be 45 countable days beginning with the countable day mentioned in paragraph (b).]

<sup>F1546</sup>(4) .....

<sup>F1546</sup>(5) .....

*Status: Point in time view as at 22/02/2024.*

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F1546(6)	.....
F1546(7)	.....
F1546(8)	.....
F1546(9)	.....
F1546(10)	.....

#### Textual Amendments

- F1538** Words in s. 809Z4(1) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(2\)](#)
- F1539** S. 809Z4(3)(za) inserted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(3\)\(a\)](#)
- F1540** Word in s. 809Z4(3)(b) omitted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 12\(a\)](#)
- F1541** S. 809Z4(3)(ba) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(3\)\(b\)](#)
- F1542** Word in s. 809Z4(3)(c) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 12\(b\)](#)
- F1543** S. 809Z4(3)(d) inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 12\(c\)](#)
- F1544** Words in s. 809Z4(3)(d) substituted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(3\)\(c\)](#)
- F1545** S. 809Z4(3A)(3B) inserted (with effect in accordance with Sch. 7 para. 9 of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(4\)](#)
- F1546** S. 809Z4(4)-(10) omitted (with effect in accordance with Sch. 7 paras. 10, 11 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 7\(5\)](#)

#### Modifications etc. (not altering text)

- C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))
- C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

### 809Z5 Notional remitted amount

- (1) The “notional remitted amount”, in relation to property, is the amount <sup>F1547</sup>... that would be taken to be remitted to the United Kingdom in relation to the property (if section 809X did not apply in relation to the property).

F1548(2)	.....
F1548(3)	.....

#### Textual Amendments

- F1547** Words in s. 809Z5(1) omitted (with effect in accordance with Sch. 27 para. 15(1) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 27 para. 11\(2\)](#)
- F1548** S. 809Z5(2)(3) omitted (21.7.2009 retrospective) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 27 paras. 11\(3\), 15\(2\)](#)

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**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**809Z6 Exempt property: other interpretation**

- (1) This section applies for the purposes of sections 809X to 809Z5.
- (2) “Property” does not include money.
- (3) In subsection (2) “money” includes—
  - (a) a traveller's cheque,
  - (b) a promissory note,
  - (c) a bill of exchange, and
  - (d) any other—
    - (i) instrument that is evidence of a debt, or
    - (ii) voucher, stamp or similar token or document which is capable of being exchanged for money, goods or services.
- (4) References to property being in the United Kingdom are references to the property—
  - (a) being in the United Kingdom after being brought to, or received in, the United Kingdom in circumstances in which section 809L(2)(a) applies, or
  - (b) being used in the United Kingdom in circumstances in which section 809L(2)(a) applies.

[References to property being lost, stolen or destroyed are to the property being lost,  
<sup>F1549</sup>(5) stolen or destroyed whilst in the United Kingdom.

- (6) “Compensation payment”, in relation to property that has been lost, stolen or destroyed, means any payment of compensation (whether under an insurance policy or otherwise) in respect of the property.
- (7) A compensation payment is “released” on the day on which it first becomes available for use in the United Kingdom by or for the benefit of any relevant person.
- (8) Property that has been lost or stolen is “recovered” on the day on which it becomes available to be used or enjoyed in the United Kingdom by or for the benefit of a relevant person.]

**Textual Amendments**

**F1549S.** 809Z6(5)-(8) inserted (with effect in accordance with [Sch. 7 para. 9](#) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 7 para. 8](#)

**Modifications etc. (not altering text)**

**C138** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643I(9) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

**C139** Ss. 809L-809Z6 applied by 2005 c. 5, s. 643A(6) (as inserted (with effect for the tax year 2018-19 and subsequent years) by [Finance Act 2018 \(c. 3\)](#), [Sch. 10 paras. 11, 21\(1\)](#) (with [Sch. 11 para. 22](#)))

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### Interpretation of Chapter

#### 809Z7 [F1550] Meaning of “foreign income and gains” etc]

- (1) This section applies for the purposes of this Chapter.
- (2) An individual's “foreign income and gains” for a tax year are—
  - (a) the individual's relevant foreign earnings for that year,
  - (b) the individual's foreign specific employment income for that year,
  - (c) the individual's relevant foreign income for that year, and
  - (d) <sup>F1551</sup>... the individual's foreign chargeable gains for that year.
- (3) An individual's “relevant foreign earnings” for a tax year are—
  - (a) if the individual [<sup>F1552</sup>does not meet the requirement of section 26A of ITEPA 2003 for] that year, the individual's chargeable overseas earnings for that year, and
  - (b) otherwise, the individual's general earnings within section 26(1) of ITEPA 2003 for that year (non-UK earnings).
- [<sup>F1553</sup>(4) An individual's “foreign specific employment income” for a tax year (“the relevant tax year”) consists of the income (if any) within subsections (4A) and (4B).
  - (4A) The income within this subsection is the individual's specific employment income for the relevant tax year so far as it consists of [<sup>F1554</sup>securities income that is “foreign” for the purposes of section 41F] of ITEPA 2003.
  - (4B) The income within this subsection is any income, or any part of any income, of the individual—
    - (a) to which section 554Z9(2) or 554Z10(2) of ITEPA 2003 applies, and
    - (b) which consists of the value of a relevant step, or a part of the value of a relevant step, which is “for” the relevant tax year as determined under section 554Z4 of ITEPA 2003.]
- (5) An individual's “foreign chargeable gains” for a tax year [<sup>F1555</sup>are the chargeable gains accruing to the individual in that year on the disposal of foreign assets (within the meaning of Schedule 1 to TCGA 1992)].
- (6) In subsection (3)(a) “chargeable overseas earnings” has the same meaning as in section 22 of ITEPA 2003 (see section 23 of that Act).
- <sup>F1556</sup>(7) . . . . .]

#### Textual Amendments

- F1550S.** 809Z7 heading substituted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\), Sch. 12 para. 15](#)
- F1551** Words in s. 809Z7(2)(d) omitted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\), Sch. 46 para. 24\(a\)](#) (with [Sch. 46 para. 26](#))
- F1552** Words in s. 809Z7(3)(a) substituted (with effect in accordance with Sch. 46 para. 25 of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 46 para. 24\(b\)](#) (with [Sch. 46 para. 26](#))
- F1553Ss.** 809Z7(4)-(4B) substituted (19.7.2011) for s. 809Z7(4) (with effect in accordance with Sch. 2 para. 52-59 of the amending Act) by [Finance Act 2011 \(c. 11\), Sch. 2 para. 43](#)
- F1554** Words in s. 809Z7(4A) substituted (17.2.2016) by [The Finance Act 2014, Schedule 9 \(Consequential Amendment\) Regulations 2016 \(S.I. 2016/74\), regs. 1\(2\), 2](#)



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**F1555** Words in s. 809Z7(5) substituted (with effect in accordance with Sch. 1 paras. 120, 123 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 1 para. 107](#)

**F1556** S. 809Z7(7) omitted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 14](#)

## <sup>F1557</sup> **809Z8 Meaning of “the disposal proceeds”**

- (1) In this Chapter, in relation to a sale or other disposal, “the disposal proceeds” means—
  - (a) the consideration for the disposal, less
  - (b) any agency fees that are deducted before the consideration is paid or otherwise made available to or for the benefit of the person making the disposal (“the transferor”) or any other relevant person.
- (2) The following rules apply in determining the consideration for the disposal.
- (3) If the consideration is provided in the form of anything other than money, the amount of the consideration is the market value of the thing at the time of the disposal.
- (4) If the disposal is made other than by way of a bargain made at arm's length, the disposal is deemed to be made for a consideration equal to the market value, immediately before the disposal, of the thing being disposed of.
- (5) Without limiting the generality of subsection (4), a disposal made to another relevant person or to a person connected with a relevant person is treated in all cases as made other than by way of a bargain at arm's length.
- (6) In subsection (1), “agency fees” means fees and other incidental costs of the disposal that are charged to the transferor by any person by or through whom the disposal is effected, but excluding any such fees or costs that—
  - (a) are charged to the transferor by another relevant person, or
  - (b) are to be passed on to or otherwise applied for the benefit of a relevant person.
- (7) The exclusion mentioned in subsection (6) does not apply to the extent that the fees or costs—
  - (a) relate to a service actually provided by the relevant person to the transferor in connection with effecting the disposal, and
  - (b) do not exceed the amount that would be charged for that service if it were provided in the ordinary course of business and on arm's length terms.

### **Textual Amendments**

**F1557** Ss. 809Z8-809Z10 inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 16](#)

## **809Z9 Taking proceeds etc offshore or investing them**

- (1) This section applies to a provision of this Chapter that is satisfied if something (for example, disposal proceeds) is taken offshore or used by a relevant person to make a qualifying investment.

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- (2) Things are to be regarded as “taken offshore” if (and only if) they are taken outside the United Kingdom such that, on leaving the United Kingdom, they cease to be available—
  - (a) to be used or enjoyed in the United Kingdom by or for the benefit of a relevant person, or
  - (b) to be used or enjoyed in any other way that would count as remitting income or gains to the United Kingdom.
- (3) If—
  - (a) the thing required to be taken offshore or invested is money, and
  - (b) it is paid temporarily into an account pending satisfaction of the provision, the provision is satisfied only if the money actually taken offshore or invested is taken from the same account.
- (4) If the thing required to be taken offshore or invested is something in money's worth, the provision may be satisfied—
  - (a) by taking the thing offshore or investing it, or
  - (b) by taking offshore or investing money or other property of the equivalent value.
- (5) “The equivalent value” is the market value of the thing in money's worth, assessed as at the date of the sale or other disposal in relation to which the provision is triggered.
- (6) If the consideration for a disposal is deemed under section 809Z8(4), the provision may be satisfied by taking offshore or investing money or other property of a value equal to—
  - (a) the amount of the deemed consideration, less
  - (b) any agency fees (within the meaning of section 809Z8) that are deducted before the actual consideration is paid or otherwise made available to or for the benefit of a relevant person.
- (7) Subsections (4)(b) and (6) do not apply in the case of other property of the equivalent value if the other property is—
  - (a) exempt property under section 809X,
  - (b) consideration for the disposal of any such exempt property, or
  - (c) consideration for the disposal of all or part of the holding (see section 809VC) relating to a qualifying investment.
- (8) Money or other property taken offshore or invested in accordance with subsection (4)(b) or (6) is to be treated for the purposes of this Chapter—
  - (a) as deriving from the thing required to be taken offshore or invested, and
  - (b) as having the same composition of kinds of income and capital as that thing.
- (9) A provision to which this section applies may be satisfied—
  - (a) by taking the whole thing offshore or investing the whole thing, or
  - (b) by taking one part offshore and investing the other part.
- (10) References in this section to something being “invested” are to something being used by a relevant person to make a qualifying investment.
- (11) The provisions to which this section applies include [F1558 sections 809UA(2) and 809VB(2), but in those cases]—

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- (a) disregard references in this section to investment, and
- (b) [<sup>F1559</sup>in the case of section 809VB(2),] the assessment date for the purposes of subsection (5) is the date of the relevant event (see section 809VA(3)(b)).

#### Textual Amendments

**F1557**Ss. 809Z8-809Z10 inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 16](#)

**F1558**Words in s. 809Z9(11) substituted (with effect in accordance with s. 21(5) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [s. 21\(4\)\(a\)](#)

**F1559**Words in s. 809Z9(11)(b) inserted (with effect in accordance with s. 21(5) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [s. 21\(4\)\(b\)](#)

### 809Z10 General interpretation

In this Chapter—

“the business investment provisions” means sections 809VA to 809VO;

“the Commissioners” means the Commissioners for Her Majesty's Revenue and Customs;

“market value” has the same meaning as in TCGA 1992 (see in particular sections 272 and 273 of that Act);

“qualifying investment” has the meaning given by section 809VC (and references to making a qualifying investment are to be read in accordance with that section);

“relevant person” has the meaning given by section 809M;

“the remittance basis user”, in relation to income or chargeable gains of an individual, means that individual.]

#### Textual Amendments

**F1557**Ss. 809Z8-809Z10 inserted (17.7.2012) (with effect in accordance with Sch. 12 para. 17 of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [Sch. 12 para. 16](#)

## CHAPTER 1

### LIMITS ON LIABILITY TO INCOME TAX OF NON-UK RESIDENTS

#### Modifications etc. (not altering text)

**C142** Pt. 14 Ch. 1 excluded by 2005 c. 5, s. 608X(3)(a) (as inserted (with effect in accordance with Sch. 3 para. 7 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 3 para. 4](#))

#### *Introduction*

### 810 Overview of Chapter

- (1) This Chapter provides for limits on the liability to income tax of non-UK residents.

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- (2) See sections 811 to 814 in the cases of—
- (a) a non-UK resident, other than a company, and
  - (b) a non-UK resident company liable as a trustee.
- (3) See sections 815 and 816 in the case of a non-UK resident company which is liable otherwise than as a trustee.
- [<sup>F1560</sup>(4) In relation to an individual—
- (a) a reference in this Chapter to a non-UK resident's liability to income tax is a reference to the liability of someone who is non-UK resident for the tax year for which the liability arises, and
  - (b) accordingly, enactments under which income arising to a UK resident in the overseas part of a split year is treated as arising to a non-UK resident are of no relevance to this Chapter.]

**Textual Amendments**

**F1560S.** 810(4) inserted (17.7.2013) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(5\)](#)

*Limit for non-UK resident individuals, trustees etc*

**811 Limit on liability to income tax of non-UK residents**

- (1) This section applies to income tax to which—
- (a) a non-UK resident, other than a company, is liable, or
  - (b) a non-UK resident company is liable as a trustee.
- (2) Subsection (1) is subject to section 812 (case where limit not to apply).
- (3) The non-UK resident's liability to income tax for a tax year is limited to the sum of amounts A and B.
- (4) Amount A is the sum of—
- (a) any sums representing income tax deducted from the non-UK resident's disregarded income for the tax year (see section 813), [<sup>F1561</sup>and]
  - (b) any sums representing income tax that are treated as deducted from or paid in respect of that income, <sup>F1562</sup>...
  - <sup>F1562</sup>(c) .....
- (5) Amount B is the amount that, apart from this section, would be the non-UK resident's liability to income tax for the tax year, if the following were left out of account—
- (a) the non-UK resident's disregarded income for the tax year, and
  - (b) any relief mentioned in subsection (6) to which the non-UK resident is entitled for the tax year as a result of—
    - (i) section 56(3) or 460(3) of this Act <sup>F1563</sup>... (residence etc of claimants),  
or
    - (ii) double taxation arrangements.
- (6) The reliefs referred to in subsection (5) are—
- (a) an allowance under Chapter 2 of Part 3 of this Act <sup>F1564</sup>... (personal allowance and blind person's allowance),

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- (b) a tax reduction under Chapter 3 of Part 3 of this Act <sup>F1564</sup>... (tax reductions for married couples and civil partners),
- (c) relief under section 457 or 458 of this Act (payments to trade unions and police organisations),
- (d) <sup>F1565</sup> ..... and
- (e) relief under section 266 of ICTA (life assurance premiums).

#### Textual Amendments

- F1561** Word in s. 811(4) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 1 para. 63(14)(a)**
- F1562** S. 811(4)(c) and word omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 1 para. 63(14)(b)**
- F1563** Words in s. 811(5) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of Finance Act 2009 (c. 10), **Sch. 1 para. 6(o)(iv)**
- F1564** Words in s. 811(6) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of Finance Act 2009 (c. 10), **Sch. 1 para. 6(o)(iv)**
- F1565** S. 811(6)(d) omitted (17.7.2012) (with effect in accordance with Sch. 39 para. 32(6) of the amending Act) by virtue of Finance Act 2012 (c. 14), **Sch. 39 para. 32(2)(e)**

## 812 Case where limit not to apply

- (1) Section 811 does not apply to income tax to which non-UK resident trustees are liable for a tax year, if there is a beneficiary of the trust who is—
  - (a) an individual who is <sup>F1566</sup>... UK resident, or
  - (b) a UK resident company.
- (2) For the purposes of subsection (1) a person is a beneficiary of the trust if—
  - (a) the person is an actual or potential beneficiary of the trust, and
  - (b) condition A or B is met in relation to the person.
- (3) Condition A is that the person is, or will or may become, entitled under the trust to receive some or all of any income under the trust.
- (4) Condition B is that some or all of any income under the trust may be paid to or used for the benefit of the person in the exercise of a discretion conferred by the trust.
- (5) The references in subsections (3) and (4) to any income under the trust include a reference to any capital under the trust so far as it represents amounts originally received by the trustees as income.

#### Textual Amendments

- F1566** Word in s. 812(1)(a) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of Finance Act 2013 (c. 29), **Sch. 46 para. 66**

## <sup>F1567</sup> 812A Temporary non-residents

- (1) This section applies if—
  - (a) an individual is temporarily non-resident,

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- (b) the individual's liability to income tax for a tax year is limited under section 811,
  - (c) that tax year (“the non-resident year”) falls within the temporary period of non-residence, and
  - (d) the individual's income for that tax year includes relevant investment income.
- (2) The total income (see Step 1 of the calculation in section 23) on which the individual is charged to income tax for the year of return is to be increased by an amount equal to the amount of that relevant investment income.
- (3) But the notional UK tax on that relevant investment income is to be allowed as a credit against the individual's liability to income tax for the year of return under Step 6 of the calculation in section 23.
- (4) Income is “relevant investment income” if—
- (a) it is chargeable under Chapter 3 or 5 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies and stock dividends from UK resident companies),
  - (b) the distributing company is a close company, and
  - (c) the income arises or is treated as arising to the individual because the individual was at a relevant time—
    - (i) a material participator in that company, or
    - (ii) an associate of a material participator in the company.
- (5) But income within subsection (4) in the form of a cash or stock dividend is not “relevant investment income” to the extent that the dividend is paid, or the share capital is issued, in respect of post-departure trade profits.
- (6) “Post-departure trade profits” are—
- (a) trade profits of the distributing company arising in an accounting period that begins after the start of the temporary period of non-residence, and
  - (b) so much of any trade profits of the distributing company arising in an accounting period that straddles the start of that temporary period as is attributable (on a just and reasonable basis) to a time after the start of that temporary period.
- (7) The “notional UK tax” on relevant investment income is—
- (a) the total of any sums in respect of that income that were included within amount A in determining the limit under section 811, less
  - (b) any credit for foreign tax paid in respect of that income that was allowed under Chapter 2 of Part 2 of TIOPA 2010 against the individual's liability to income tax for the non-resident year.
- (8) The following matters are to be determined on a just and reasonable basis—
- (a) the extent to which a dividend is paid, or share capital is issued, in respect of post-departure trade profits, and
  - (b) the extent to which a sum included within amount A is a sum in respect of relevant investment income.
- (9) Nothing in any double taxation arrangements is to be read as preventing the individual from being chargeable to income tax by virtue of this section (or as preventing a charge to that tax from arising as a result).

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- (10) Part 4 of Schedule 45 to FA 2013 (statutory residence test: anti-avoidance) explains—
- (a) when an individual is to be regarded as “temporarily non-resident”, and
  - (b) what “the temporary period of non-residence”, “the year of departure” and “the period of return” mean.
- (11) In this section—
- “associate” and “participator” have the same meanings as in Part 10 of CTA 2010 (see sections 448 and 454);
  - “the distributing company” means the UK resident company mentioned in section 383(1) or, as the case may be, 410(1) of ITTOIA 2005;
  - “material participator” means a participator who has a material interest in the company, as defined in section 457 of CTA 2010;
  - “relevant time” means—
    - (a) any time in the year of departure or, if the year of departure is a split year as respects the individual, the UK part of that year, or
    - (b) any time in one or more of the 3 tax years preceding that year;
  - “trade profits of the distributing company” means the profits of any trade carried on by the distributing company, as calculated in accordance with Part 3 of CTA 2009 (trading income);
  - “year of return” means the tax year consisting of or including the period of return.]

#### Textual Amendments

**F1567S.** 812A inserted (with effect in accordance with Sch. 45 para. 153(3) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 138](#)

### 813 Meaning of “disregarded income”

- (1) For the purposes of this Chapter income arising to a non-UK resident is “disregarded income” if it is—
- (a) disregarded savings and investment income (see section 825),
  - (b) disregarded annual payments (see section 826),
  - (c) disregarded pension income,
  - (d) disregarded social security income,
  - (e) disregarded transaction income (see section 814), or
  - (f) income of such other description as the Treasury may by regulations designate for the purposes of this section.
- (2) But income in relation to which the non-UK resident has a UK representative for the purposes of <sup>F1568</sup>Chapter 2B] is not disregarded income.
- (3) Income is “disregarded pension income” if it is chargeable under Part 9 of ITEPA 2003 (pension income) because any of the following provisions of that Act applies to it—
- section 577 (UK social security pensions),
  - section 579A (pensions under registered pension schemes) (but see subsection (4) below),
  - section 609 (annuities for the benefit of dependants),
  - section 610 (annuities under non-registered occupational pension schemes), or

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section 611 (annuities in recognition of another's services).

- (4) Income chargeable under Part 9 of ITEPA 2003 because section 579A of that Act applies to it is disregarded pension income only if the registered pension scheme in question—
  - (a) falls within paragraph 1(1)(f) of Schedule 36 to FA 2004, and
  - (b) was, immediately before 6 April 2006, a retirement annuity contract to which section 605 of ITEPA 2003 applied.
- (5) Income is “disregarded social security income” if—
  - (a) it is a taxable benefit listed in Table A in section 660 of ITEPA 2003, other than income support or jobseeker's allowance, and
  - (b) it is chargeable under Part 10 of that Act (social security income).

#### Textual Amendments

**F1568** Words in s. 813(2) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 282](#) (with [Sch. 9 paras. 1-9, 22](#))

#### 814 Meaning of “disregarded transaction income”

- (1) Subsection (2) applies if a non-UK resident carries on (alone or in partnership) a business through a broker in the United Kingdom.
- (2) Income is “disregarded transaction income”, subject to subsection (6), if—
  - (a) it is transaction income, and
  - (b) the independent broker conditions are met in relation to the transaction in question.
- (3) Subsection (4) applies if a non-UK resident carries on (alone or in partnership) a business through an investment manager in the United Kingdom.
- (4) Income is “disregarded transaction income”, subject to subsection (6), if—
  - (a) it is transaction income, and
  - (b) the independent investment manager conditions are met in relation to the transaction in question.
- (5) In this Chapter “transaction income”, in relation to a transaction carried out through a broker or investment manager in the United Kingdom on behalf of a non-UK resident, means income which arises to the non-UK resident from—
  - (a) so much of the non-UK resident's business carried on (alone or in partnership) through the broker or investment manager as relates to the transaction, or
  - (b) property or rights which, as a result of the transaction, are used by, or held by or for, the broker or investment manager on behalf of the non-UK resident.
- (6) Income is not disregarded transaction income if it is chargeable to income tax in accordance with section 171(2) of FA 1993 (profits of the underwriting business of a member of Lloyd's).
- (7) This section needs to be read with—
 

section 817 (the independent broker conditions),



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sections 818 to 824 (the independent investment manager conditions),  
section 827 (meaning of “investment manager” and “investment transaction”),  
and  
section 828 (transactions through brokers and investment managers).

*Limit for non-UK resident companies*

**815 Limit on liability to income tax of non-UK resident companies**

- (1) This section applies to income tax to which a non-UK resident company is liable, otherwise than as a trustee.
- (2) The non-UK resident company's liability to income tax for a tax year is limited to the sum of amounts A and B.
- (3) Amount A is the sum of—
  - (a) any amounts representing income tax deducted from the non-UK resident company's disregarded company income for the tax year, [<sup>F1569</sup>and]
  - (b) any amounts representing income tax that are treated as deducted from or paid in respect of that income, <sup>F1570</sup>...
  - <sup>F1570</sup>(c) .....
- (4) Amount B is the amount that, apart from this section, would be the non-UK resident company's liability to income tax for the tax year if the non-UK resident company's disregarded company income for the tax year were left out of account.

**Textual Amendments**

**F1569**Word in s. 815(3) inserted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(15\)\(a\)](#)

**F1570**S. 815(3)(c) and word omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 63\(15\)\(b\)](#)

**816 Meaning of “disregarded company income”**

- (1) For the purposes of this Chapter income arising to a non-UK resident company is “disregarded company income” if it is—
  - (a) disregarded savings and investment income (see section 825),
  - (b) disregarded annual payments (see section 826),
  - <sup>F1571</sup>(c) income arising from a transaction carried out through a broker in the United Kingdom acting as an agent of independent status in the ordinary course of the broker's business,]
  - <sup>F1571</sup>(d) income arising from a transaction carried out through an investment manager in the United Kingdom acting as an agent of independent status in the ordinary course of the investment manager's business, or]
  - (e) income of such other description as the Treasury may by regulations designate for the purposes of this section.
- <sup>F1572</sup>(2) A broker is regarded for the purposes of subsection (1)(c) as an agent of independent status acting in the ordinary course of the broker's business in relation to a transaction carried out on behalf of a non-UK resident company in the course of that company's

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trade if, and only if, the independent broker conditions are met in relation to the transaction (see section 817).

- (3) An investment manager is regarded for the purposes of subsection (1)(d) as an agent of independent status acting in the ordinary course of the investment manager's business in relation to an investment transaction carried out on behalf of a non-UK resident company in the course of that company's trade if, and only if, the independent investment manager conditions are met in relation to the investment transaction (see sections 818 to 824).
- (4) This section needs to be read with—  
 section 827 (meaning of “investment manager” and “investment transaction”), and  
 section 828 (transactions through brokers and investment managers).]

#### **Textual Amendments**

**F1571**S. 816(1)(c)(d) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [Income Tax Act 2007 \(Amendment\) \(No.3\) Order 2007 \(S.I. 2007/3506\)](#), arts. 1(1), **3(4)(a)**

**F1572**S. 816(2)-(4) substituted for s. 816(2) (with effect in accordance with art. 1(2) of the amending S.I.) by [Income Tax Act 2007 \(Amendment\) \(No.3\) Order 2007 \(S.I. 2007/3506\)](#), arts. 1(1), **3(4)(b)**

### *The independent broker conditions*

#### **817 The independent broker conditions**

- (1) The independent broker conditions are met in relation to a transaction carried out on behalf of a non-UK resident by a broker in the United Kingdom if—
- (a) conditions A to D are met, if this section applies for the purposes of section 813, or
  - (b) conditions A to C and E are met, if this section applies for the purposes of section 816.
- (2) Condition A is that at the time of the transaction the broker is carrying on the business of a broker.
- (3) Condition B is that the transaction is carried out <sup>F1573</sup>... in the ordinary course of that business.
- (4) Condition C is that the remuneration which the broker receives in respect of the transaction for the provision of the services of a broker to the non-UK resident is not less than is customary for that class of business.
- (5) Condition D is that the broker does not fall for the purposes of [<sup>F1574</sup>Chapter 2B of this Part, or of Chapter 1 of Part 7A of TCGA 1992,] to be treated as a UK representative of the non-UK resident in relation to any other income which is chargeable to income tax, or amounts which are chargeable to capital gains tax, for the same tax year as the transaction income.
- (6) Condition E is that the broker does not fall to be treated as a permanent establishment of the non-UK resident company in relation to any other transaction of any kind carried out in the same accounting period of the non-UK resident company as the transaction in question.

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### Textual Amendments

- F1573** Words in s. 817(3) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 283\(2\), Sch. 10 Pt. 11](#) (with Sch. 9 paras. 1-9, 22)
- F1574** Words in s. 817(5) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 283\(3\)](#) (with Sch. 9 paras. 1-9, 22)

## *The independent investment manager conditions*

### **818 The independent investment manager conditions**

- (1) The independent investment manager conditions are met in relation to an investment transaction carried out on behalf of a non-UK resident by an investment manager in the United Kingdom [<sup>F1575</sup>if conditions A to E are met.]
- (2) Condition A is that at the time of the transaction the investment manager is carrying on a business of providing investment management services.
- (3) Condition B is that the transaction is carried out in the ordinary course of that business.
- (4) Condition C is that, when the investment manager acts on behalf of the non-UK resident in relation to the transaction, the relationship between them, having regard to its legal, financial and commercial characteristics, is a relationship between persons carrying on independent businesses dealing with each other at arm's length.
- (5) Condition D is that the requirements of the 20% rule are met (see section 819).
- (6) Condition E is that the remuneration which the investment manager receives in respect of the transaction for the provision of investment management services to the non-UK resident is not less than is customary for that class of business.

<sup>F1576</sup>(7) .....

<sup>F1577</sup>(8) .....

### Textual Amendments

- F1575** Words in s. 818(1) substituted (21.7.2008 with effect in accordance with Sch. 16 para. 11(3) of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 16 para. 10\(2\)](#)
- F1576** S. 818(7) omitted (21.7.2008 with effect in accordance with Sch. 16 para. 11(3) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 16 para. 10\(3\)](#)
- F1577** S. 818(8) omitted (21.7.2008 with effect in accordance with Sch. 16 para. 11(3) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 16 para. 10\(3\)](#)

### **819 Investment managers: the 20% rule**

- (1) The requirements of the 20% rule are met if conditions A and B are met.
- (2) Condition A is that in relation to a qualifying period it has been or is the intention of the investment manager and the persons connected with the investment manager that

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at least 80% of the non-UK resident's relevant disregarded income should consist of amounts to which none of them has a beneficial entitlement.

- (3) Condition B is that, so far as there is a failure to fulfil that intention, that failure—
- (a) is attributable (directly or indirectly) to matters outside the control of the investment manager and persons connected with the investment manager, and
  - (b) does not result from a failure by any of them to take such steps as may be reasonable for mitigating the effect of those matters in relation to the fulfilment of that intention.
- (4) This section needs to be read with—
- section 820 (meaning of “qualifying period”),
  - section 821 (meaning of “relevant disregarded income”), and
  - section 822 (meaning of “beneficial entitlement”).

### **820 Meaning of “qualifying period”**

- (1) This section applies for the purposes of this Chapter.
- (2) If section 819 applies for the purposes of section 813, a “qualifying period” means—
- (a) the tax year in which the transaction income is chargeable to income tax, or
  - (b) a period of not more than 5 years comprising two or more tax years including that one.
- (3) If section 819 applies for the purposes of section 816, a “qualifying period” means—
- (a) the accounting period of the non-UK resident company in which the transaction in question is carried out, or
  - (b) a period of not more than 5 years comprising two or more complete accounting periods including that one.

### **821 Meaning of “relevant disregarded income”**

- (1) This section applies for the purposes of this Chapter.
- (2) If section 819 applies for the purposes of section 813, the “relevant disregarded income” of the non-UK resident for the qualifying period is the total of the non-UK resident's income for the tax years comprised in the qualifying period which derives from the transactions mentioned in subsection (4).
- (3) If section 819 applies for the purposes of section 816, the “relevant disregarded income” of the non-UK resident company for the qualifying period is the total of the non-UK resident company's income for the accounting periods comprised in the qualifying period which derives from the transactions mentioned in [F1578 subsection (5)].
- (4) The transactions referred to in [F1579 subsection (2)] are investment transactions—
- (a) carried out by the investment manager on the non-UK resident's behalf, and
  - (b) in relation to which the independent investment manager conditions are met, ignoring the requirements of the 20% rule.
- [F1580] (5) The transactions referred to in subsection (3) are transactions—
- (a) carried out by the investment manager on the non-UK resident company's behalf, and

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- (b) in relation to which the investment manager does not fall to be treated as a permanent establishment of the non-UK resident company, ignoring the requirements of the 20% rule.]

#### Textual Amendments

**F1578** Words in s. 821(3) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) Order 2009 \(S.I. 2009/23\)](#), arts. 1(1), **5(3)(a)**

**F1579** Words in s. 821(4) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) Order 2009 \(S.I. 2009/23\)](#), arts. 1(1), **5(3)(b)**

**F1580** S. 821(5) inserted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) Order 2009 \(S.I. 2009/23\)](#), arts. 1(1), **5(3)(c)**

### 822 Meaning of “beneficial entitlement”

- (1) This section applies for the purposes of this Chapter.
- (2) A person has a “beneficial entitlement” to relevant disregarded income if the person has or may acquire a beneficial entitlement that is, or would be, attributable to the relevant disregarded income as a result of having an interest or other rights mentioned in subsection (3).
- (3) The interests and rights referred to in subsection (2) are—
  - (a) an interest (whether or not an interest giving a right to an immediate payment of a share in the profits or gains) in property in which the whole or any part of the relevant disregarded income is represented, or
  - (b) an interest in, or other rights in relation to, the non-UK resident.

### 823 Treatment of transactions where requirements of 20% rule not met

- (1) This section applies in the case of an investment transaction in relation to which the independent investment manager conditions are met, except for the requirements of the 20% rule.
- (2) This Chapter has effect as if the requirements of that rule were met in relation to the transaction but only in relation to—
  - (a) so much of the transaction income of the non-UK resident as falls within subsection (3), if this section applies for the purposes of section 813, or
  - (b) so much of the income of the non-UK resident company deriving from the transaction as falls within subsection (3), if this section applies for the purposes of section 816.
- (3) Income falls within this subsection if it does not represent income—
  - (a) which is relevant disregarded income of the non-UK resident, and
  - (b) to which the investment manager or a person connected with the investment manager has or has had any beneficial entitlement.

### 824 Application of 20% rule to collective investment schemes

- (1) This section applies if amounts arise or accrue to the non-UK resident as a participant in a collective investment scheme.

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- (2) It applies for the purposes of determining whether the requirements of the 20% rule are met in relation to a transaction carried out for the purposes of the scheme [F1581 (so far as the transaction is one in respect of which such amounts so arise or accrue)].
- (3) In applying this section make the following assumptions—
- (a) that all the transactions carried out for the purposes of the scheme are carried out on behalf of a company (“the assumed company”) which is—
    - (i) constituted for the purposes of the scheme, and
    - (ii) non-UK resident, and
  - (b) that the participants do not have any rights in respect of the amounts arising or accruing in respect of those transactions, other than the rights which, if they held shares in the assumed company, would be their rights as shareholders.
- (4) If the scheme is such that the assumed company would not be regarded for tax purposes as carrying on a trade in the United Kingdom in relation to the appropriate relevant period, the requirements of the 20% rule are treated as met in relation to a transaction carried out for the purposes of the scheme.
- (5) If the scheme is such that the assumed company would be so regarded for tax purposes, sections 819 to 823 have effect in relation to a transaction carried out for the purposes of the scheme with the modifications in subsection (6).
- (6) The modifications are—
- (a) for references to the non-UK resident substitute references to the assumed company, and
  - (b) for references to the non-UK resident's relevant disregarded income for a qualifying period substitute references to the sum of the amounts that would, for relevant periods comprised in the qualifying period, be chargeable to tax on the assumed company as profits deriving from the transactions—
    - (i) carried out by the investment manager, and
    - (ii) assumed to be carried out on behalf of the company.
- (7) In this section—
- “the appropriate relevant period” is—
- (a) the tax year in which the transaction income is chargeable to income tax, if this section applies for the purposes of section 813, or
  - (b) the accounting period in which the transaction is carried out, if this section applies for the purposes of section 816,
- “collective investment scheme” has the meaning given by section 235 of FISMA 2000,
- “participant”, in relation to a collective investment scheme, is construed in accordance with that section, and
- “relevant period” means—
- (a) a tax year, if this section applies for the purposes of section 813, or
  - (b) an accounting period, if this section applies for the purposes of section 816.

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### Textual Amendments

**F1581** Words in s. 824(2) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 284](#) (with Sch. 9 paras. 1-9, 22)

## Supplementary

### 825 Meaning of “disregarded savings and investment income”

- (1) For the purposes of this Chapter income is “disregarded savings and investment income” if—
- (a) it is chargeable under Chapter 3 or 5 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies and stock dividends from UK resident companies), or
  - (b) it is within subsection (2) and is not relevant foreign income.
- (2) Income is within this subsection if it is chargeable under—
- (a) Chapter 2 of Part 4 of ITTOIA 2005 (interest),
  - (b) Chapter 7 of that Part (purchased life annuity payments),
  - (c) Chapter 8 of that Part (profits from deeply discounted securities),
  - <sup>F1582</sup>(d) .....
  - (e) Chapter 11 of that Part (transactions in deposits)<sup>F1583</sup>, or
  - (f) regulation 15 of the Unauthorised Unit Trusts (Tax) Regulations 2013.]

### Textual Amendments

**F1582**S. 825(2)(d) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(9)(a)** (with reg. 32)

**F1583**S. 825(2)(f) and word inserted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(9)(b)** (with reg. 32)

### 826 Meaning of “disregarded annual payments”

For the purposes of this Chapter income is “disregarded annual payments” if it is not relevant foreign income and is chargeable under—

- (a) section 579 of ITTOIA 2005, so far as it relates to annual payments (royalties etc from intellectual property),
- (b) Chapter 4 of Part 5 of that Act, so far as it relates to annual payments (certain telecommunication rights: non-trading income), or
- (c) Chapter 7 of Part 5 of that Act (annual payments not otherwise charged).

### 827 Meaning of “investment manager” and “investment transaction”

- (1) In this Chapter “investment manager” means a person who provides investment management services.

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- <sup>[F1584]</sup>(2) In this section “investment transaction” means any transaction of a description specified for the purposes of this section in regulations made by the Commissioners for Her Majesty’s Revenue and Customs.
- (3) Provision made in regulations under subsection (2) may, in particular, have effect in relation to the tax year current on the day on which the regulations are made.]

#### Textual Amendments

**F1584S.** 827(2)(3) substituted (21.7.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 16 paras. 5\(2\), 11\(4\)](#) (with [Sch. 16 para. 11\(5\)\(6\)](#))

### 828 Transactions through brokers and investment managers

- (1) For the purposes of this Chapter a person is regarded as carrying out a transaction on behalf of another if the person—
- (a) undertakes the transaction, whether on behalf of or to the account of the other, or
  - (b) gives instructions for it to be so carried out by another.
- (2) In the case of a person who acts as a broker or investment manager as part only of a business, this Chapter has effect as if that part were a separate business.

## <sup>[F1585]</sup>CHAPTER 1A

### EXEMPTION FOR PERSONS NOT DOMICILED IN UNITED KINGDOM

#### Textual Amendments

**F1585Pt.** 14 Ch. 1A inserted (with effect in accordance with s. 52(3) of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [s. 52\(1\)](#)

### 828A Introduction

This Chapter provides for an exemption from liability to income tax for an individual for a tax year if—

- (a) the individual is UK resident in the tax year but not domiciled in the United Kingdom in the tax year,
- (b) section 809B does not apply to the individual for the tax year, and
- (c) conditions A to F in section 828B are met.

### 828B Conditions to be met

- (1) Condition A is that in the tax year the individual has income from an employment the duties of which are performed wholly or partly in the United Kingdom.
- (2) Condition B is that, if the individual's income for the tax year consists of or includes relevant foreign earnings—
  - (a) the amount of the relevant foreign earnings does not exceed £10,000, and



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- (b) all of that amount is subject to a foreign tax.
- (3) Condition C is that, if the individual's income for the tax year consists of or includes income that is relevant foreign income by virtue of section 830(2)(e) of ITTOIA 2005—
- (a) the amount of that income does not exceed £100, and
- (b) all of that amount is subject to a foreign tax.
- (4) Condition D is that the individual has no other foreign income and gains for the tax year.
- (5) Condition E is that the individual would not for the tax year be liable to income tax at a rate other than the basic rate [F1586, the savings basic rate][F1587, the savings nil rate][F1588 a Scottish rate below the Scottish basic rate,][F1589, the Scottish basic rate][F1590, the Scottish intermediate rate][F1591, the Welsh basic rate] or the starting rate for savings if this Chapter did not apply to the individual for the tax year.
- (6) Condition F is that the individual does not make a return under section 8 of TMA 1970 for the tax year.

#### Textual Amendments

- F1586** Words in s. 828B(5) inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Finance Act 2016 \(c. 24\), s. 6\(20\)\(24\)](#); S.I. 2016/1161, [regs. 2, 3](#)
- F1587** Words in s. 828B(5) inserted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\), s. 4\(10\)\(17\)](#)
- F1588** Words in s. 828B(5) inserted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\), arts. 1\(2\), 6\(7\)\(a\)](#)
- F1589** Words in s. 828B(5) inserted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by [Finance Act 2014 \(c. 26\), Sch. 38 para. 9](#)
- F1590** Words in s. 828B(5) inserted (6.4.2018) by [The Scottish Rates of Income Tax \(Consequential Amendments\) Order 2018 \(S.I. 2018/459\), arts. 1\(2\), 6\(7\)\(b\)](#)
- F1591** Words in s. 828B(5) inserted (24.7.2018) by [Wales Act 2014 \(c. 29\), ss. 9\(9\), 14, 29\(4\)](#); S.I. 2018/892, [art. 3 \(with arts. 5, 6, 8\)](#)

#### 828C The exemption

- (1) The exemption is given by deducting the relevant amount from what would otherwise be the amount of the individual's liability to income tax for the tax year under section 23.
- (2) “The relevant amount” is so much of the amount of the individual's liability to income tax as is attributable to the individual's foreign income or gains for the tax year.
- (3) But if for the tax year the individual's total income is reduced by any deductions which fall to be made at Step 3 of the calculation in section 23 from the individual's foreign income or gains for the tax year, subsection (2) has effect as if the individual's foreign income or gains for the tax year were reduced by the amount of the deductions.
- (4) And if the individual is entitled under—
- (a) [F1592 sections 2 and 6 of TIOPA 2010] (double taxation arrangements: relief by agreement), or

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- (b) [<sup>F1593</sup>section 18(1)(b) and (2)] of that Act (relief for foreign tax where no double taxation arrangements),
- to a tax reduction in respect of the individual's foreign income or gains for the tax year, what would otherwise be the relevant amount is reduced by the amount of that reduction.

#### Textual Amendments

**F1592** Words in s. 828C(4)(a) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 83\(a\)](#) (with Sch. 9 paras. 1-9, 22)

**F1593** Words in s. 828C(4)(b) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 83\(b\)](#) (with Sch. 9 paras. 1-9, 22)

### 828D Interpretation of Chapter

- (1) This section applies for the purposes of this Chapter.
- (2) “Employed” and “employment” have the same meaning as in the employment income Parts of ITEPA 2003: see Chapter 1 of Part 2 of that Act.
- (3) “Foreign income and gains”, in relation to an individual, means what would be the individual's foreign income and gains for the purposes of Chapter A1 of this Part if section 809B applied to the individual (see section 809Z7(2)).
- (4) “Foreign tax” means any tax chargeable under the law of a territory outside the United Kingdom.
- (5) “Relevant foreign earnings”, in relation to an individual, means what would be the individual's relevant foreign earnings for the purposes of Chapter A1 of this Part if section 809B applied to the individual (see section 809Z7(3)).]

## CHAPTER 2

### RESIDENCE

#### <sup>F1594</sup>829 Residence of individuals temporarily abroad

.....

#### Textual Amendments

**F1594** Ss. 829-832 omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\), Sch. 45 para. 152\(6\)](#)

#### <sup>F1594</sup>830 Residence of individuals working abroad

.....

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**Textual Amendments**

F1594Ss. 829-832 omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(6\)](#)

**F1594 831 Foreign income of individuals in the United Kingdom for temporary purpose**

.....

**Textual Amendments**

F1594Ss. 829-832 omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(6\)](#)

**F1594 832 Employment income of individuals in the United Kingdom for temporary purpose**

.....

**Textual Amendments**

F1594Ss. 829-832 omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 45 para. 152\(6\)](#)

**833 Visiting forces [F1595 etc]**

- (1) This section applies to an individual who—
  - (a) is a member of a visiting force of a designated country or of a civilian component of such a force,
  - (b) is in the United Kingdom, but only because of being a member of the force or the civilian component, and
  - (c) is not a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen.
- (2) For the purposes of subsection (1)—
  - (a) members of the armed forces of a designated country who are attached to a designated [F1596; international military] headquarters are treated as a visiting force of that country, and
  - (b) whether an individual is a member of a civilian component of such a force is to be determined accordingly.

[F1597(2A) This section also applies to an individual within subsection (3) or (3A).]

- (3) [F1598 An individual is within this subsection if the individual—]
  - (a) is of a category for the time being agreed between Her Majesty's Government in the United Kingdom and the other members of the North Atlantic Council,
  - (b) is employed by a designated allied headquarters,
  - (c) is in the United Kingdom, but only because of being employed by the designated allied headquarters, and
  - (d) is not a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen.

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- [<sup>F1599</sup>(3A) An individual is within this subsection if the individual—
- (a) belongs to the EU civilian staff,
  - (b) is in the United Kingdom, but only because of serving as part of that staff, and
  - (c) is not a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen.]
- (4) If this section applies to an individual throughout a period, the period is not treated for income tax purposes as—
- (a) a period of residence in the United Kingdom, or
  - (b) creating a change of the individual's residence or domicile.
- (5) Subsection (4) does not affect the operation of section 56 or 460 of this Act <sup>F1600</sup> ... (residence etc of claimants) in relation to an individual for any tax year.
- (6) Subsections (1) to (3) are to be interpreted as if—
- (a) they were in Part 1 of the Visiting Forces Act 1952 (c. 67), and
  - (b) references in that Act to a country to which a provision of that Act applies were references to a designated country.
- (7) In this section—
- “allied headquarters” means an international military headquarters established under the North Atlantic Treaty, <sup>F1601</sup> ...
- “designated” means designated for the purpose in question by or under an Order in Council made for giving effect to an international agreement<sup>F1602</sup>, and
- “the EU civilian staff” means—
- (a) civilian personnel seconded by a member State to an EU institution for the purposes of activities (including exercises) relating to the preparation for, and execution of, tasks mentioned in Article 43(1) of the Treaty on European Union (tasks relating to a common security and defence policy), as amended from time to time, and
  - (b) civilian personnel (other than locally hired personnel)—
    - (i) made available to the EU by a member State to work with designated international military headquarters or a force of a designated country, or
    - (ii) otherwise made available to the EU by a member State for the purposes of activities of the kind referred to in paragraph (a).]

#### Textual Amendments

- F1595** Words in s. 833 heading substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(7\)](#)
- F1596** Words in s. 833(2)(a) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(2\)](#)
- F1597** S. 833(2A) inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(3\)](#)
- F1598** Words in s. 833(3) substituted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(4\)](#)
- F1599** S. 833(3A) inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(5\)](#)
- F1600** Words in s. 833(5) omitted (with effect in accordance with Sch. 1 para. 7 of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), [Sch. 1 para. 6\(o\)\(v\)](#)
- F1601** Word in s. 833(7) omitted (17.7.2012) by virtue of [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(6\)\(a\)](#)
- F1602** Words in s. 833(7) inserted (17.7.2012) by [Finance Act 2012 \(c. 14\)](#), [Sch. 37 para. 5\(6\)\(b\)](#)

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### 834 Residence of personal representatives

- (1) This section applies for income tax purposes if the personal representatives of a deceased person (“D”) include one or more persons who are UK resident and one or more persons who are non-UK resident.
- (2) If the following condition is met, the person or persons who are non-UK resident are treated, in their capacity as personal representatives, as UK resident.
- (3) The condition is that when D died D was UK resident <sup>F1603</sup>... or domiciled in the United Kingdom.
- (4) If that condition is not met, the person or persons who are UK resident are treated, in their capacity as personal representatives, as non-UK resident.

[<sup>F1604</sup>(5) Section 835BA (deemed domicile) applies for the purposes of subsection (3).]

#### Textual Amendments

**F1603** Words in s. 834(3) omitted (with effect in accordance with Sch. 46 para. 72 of the amending Act) by virtue of [Finance Act 2013 \(c. 29\)](#), **Sch. 46 para. 67(1)** (with [Sch. 46 para. 67\(2\)](#))

**F1604** S. 834(5) inserted (with effect in accordance with Sch. 8 para. 17(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 8 para. 17(1)**

### 835 Residence rules for trustees <sup>F1605</sup>...

- (1) See sections 475 and 476 for rules about the residence of the trustees of a settlement.

<sup>F1606</sup>(2) .....

#### Textual Amendments

**F1605** Words in s. 835 heading omitted (with effect in accordance with s. 1329(1) of the amending Act) by virtue of [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 705(3)** (with [Sch. 2 Pts. 1, 2](#))

**F1606** S. 835(2) repealed (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), [Sch. 1 para. 705\(2\)](#), **Sch. 3 Pt. 1** (with [Sch. 2 Pts. 1, 2](#))

### [<sup>F1607</sup>835A] Residence of companies

Chapter 3 of Part 2 of CTA 2009 (rules for determining residence of companies) applies for the purposes of the Income Tax Acts as it applies for the purposes of the Corporation Tax Acts.]

#### Textual Amendments

**F1607** S. 835A inserted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 1 para. 706** (with [Sch. 2 Pts. 1, 2](#))

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## [<sup>F1608</sup>CHAPTER 2A

### DOMICILE

#### Textual Amendments

**F1608**Pt. 14 Ch. 2A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 7 para. 77** (with [Sch. 9 paras. 1-9, 22](#))

### **835B Domicile for income tax purposes of overseas electors**

- (1) In determining for income tax purposes where a person is domiciled, disregard any relevant electoral action taken by the person (whether taken before, on or after the day on which TIOPA 2010 is passed).
- (2) For the purposes of this section, relevant electoral action is taken by a person if—
  - (a) the person does anything with a view to, or in connection with, being registered as an overseas elector, or
  - (b) the person, when registered as an overseas elector, votes in any election at which the person is entitled to vote as a result of being registered as an overseas elector.
- (3) For the purposes of this section, a person is registered as an overseas elector if the person is—
  - (a) registered in any register of parliamentary electors in pursuance of such a declaration as is mentioned in [<sup>F1609</sup>section 1(2)(a)] of the Representation of the People Act 1985 (extension of parliamentary franchise to certain non-resident British citizens), <sup>F1610</sup>...
  - <sup>F1610</sup>(b) .....
- (4) Subsection (1) does not prevent regard being had, in determining a person's domicile at any time, to any relevant electoral action taken by the person if—
  - (a) the person's domicile at that time is being determined for the purpose of ascertaining that or any other person's liability to income tax, and
  - (b) the person whose liability is being ascertained wishes regard to be had to that action.
- (5) If a person's domicile is determined in accordance with any such wishes, that domicile is to be regarded as having been determined for the purpose only of ascertaining the liability concerned.

#### Textual Amendments

**F1609**Words in s. 835B(3)(a) substituted (16.1.2024) by [Elections Act 2022 \(c. 37\)](#), s. 67(1), **Sch. 7 para. 7** (with [Sch. 7 para. 13](#)); S.I. 2023/1405, reg. 2

**F1610**S. 835B(3)(b) and word repealed (31.12.2020) by [The European Parliamentary Elections Etc. \(Repeal, Revocation, Amendment and Saving Provisions\) \(United Kingdom and Gibraltar\) \(EU Exit\) Regulations 2018 \(S.I. 2018/1310\)](#), reg. 1, **Sch. 1 Pt. 1** (as amended by S.I. 2019/1389, regs. 1, 2(2))

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## **I** **F1611** **835BA** **Deemed domicile**

- (1) This section has effect for the purposes of the provisions of the Income Tax Acts or TCGA 1992 which apply this section.
- (2) An individual not domiciled in the United Kingdom at a time in a tax year (“the relevant tax year”) is to be regarded as domiciled in the United Kingdom at that time if—
  - (a) condition A is met, or
  - (b) condition B is met.
- (3) Condition A is that—
  - (a) the individual was born in the United Kingdom,
  - (b) the individual's domicile of origin was in the United Kingdom, and
  - (c) the individual is UK resident for the relevant tax year.
- (4) Condition B is that the individual has been UK resident for at least 15 of the 20 tax years immediately preceding the relevant tax year.
- (5) But Condition B is not met if—
  - (a) the individual is not UK resident for the relevant tax year, and
  - (b) there is no tax year beginning after 5 April 2017 and preceding the relevant tax year in which the individual was UK resident.]]

### **Textual Amendments**

**F1611** S. 835BA inserted (16.11.2017) by [Finance \(No. 2\) Act 2017 \(c. 32\), s. 29\(1\)](#)

### **Modifications etc. (not altering text)**

- C143** S. 835BA applied (with effect in accordance with Sch. 8 para. 3(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 3\(6\)](#)
- C144** S. 835BA applied by 1988 c. 1, s. 266A(8A) (as inserted (with effect in relation to the tax year 2017-18 and subsequent years) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 1](#))
- C145** S. 835BA applied by 1992 c. 12, s. 16ZA(7) (as inserted (with effect in accordance with Sch. 8 para. 3(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 3\(3\)](#))]
- C146** S. 835BA applied by 1992 c. 12, s. 69(2F) (as inserted (with effect in accordance with Sch. 8 para. 6(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 6\(1\)](#))
- C147** S. 835BA applied by 1992 c. 12, s. 86(3A) (as inserted (with effect in relation to the tax year 2017-18 and subsequent years) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 7](#))
- C148** S. 835BA applied by 1992 c. 12, s. 275(3A) (as inserted (with effect in accordance with Sch. 8 para. 8(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 8\(1\)](#))
- C149** S. 835BA applied by 1992 c. 12, Sch. 5A para. 3(3A) (as inserted (with effect in accordance with Sch. 8 para. 9(2) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 9\(1\)](#))
- C150** S. 835BA applied by 2003 c. 1, s. 355(2) (as amended (with effect in accordance with Sch. 8 para. 10(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 10\(2\)](#))
- C151** S. 835BA applied by 2003 c. 1, s. 373(7) (as inserted (with effect in accordance with Sch. 8 para. 10(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 10\(3\)](#))
- C152** S. 835BA applied by 2003 c. 1, s. 374(10) (as inserted (with effect in accordance with Sch. 8 para. 10(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 10\(4\)](#))
- C153** S. 835BA applied by 2003 c. 1, s. 376(6) (as inserted (with effect in accordance with Sch. 8 para. 10(6) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\), Sch. 8 para. 10\(5\)](#))

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## [<sup>F1612</sup>CHAPTER 2B

### UK REPRESENTATIVE OF NON-UK RESIDENT

#### Textual Amendments

**F1612**Pt. 14 Ch. 2B inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 1](#) (with Sch. 9 paras. 1-9, 22)

#### *Introduction*

#### **835C Overview of Chapter**

- (1) This Chapter provides for a branch or agency to be treated as the UK representative of a non-UK resident in respect of certain amounts chargeable to income tax.
- (2) For obligations and liabilities in relation to income tax imposed on a branch or agency which under this Chapter is treated as the UK representative of a non-UK resident, see Chapter 2C.]

#### [<sup>F1613</sup>**835D Income tax chargeable on company's income: application**

This Chapter does not apply in relation to income tax chargeable on income of a company otherwise than as a trustee.]

#### Textual Amendments

**F1613**S. 835D inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 2](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1614</sup>*Branches and agencies*

#### Textual Amendments

**F1614**S. 835E and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 3](#) (with Sch. 9 paras. 1-9, 22)

#### **835E Branch or agency treated as UK representative**

- (1) This section applies if a non-UK resident carries on (alone or in partnership) any trade, profession or vocation through a branch or agency in the United Kingdom.
- (2) The branch or agency is the UK representative of the non-UK resident in relation to—
  - (a) the amount of any income from the trade, profession or vocation that arises (directly or indirectly) through or from the branch or agency, and



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- (b) the amount of any income from property or rights which are used by, or held by or for, the branch or agency.
- (3) The following rules are to be applied for the purposes of subsection (2) and Chapter 2C in relation to an amount within that subsection.
- Rule 1* The UK representative continues to be the UK representative of the non-UK resident in relation to the amount even after ceasing to be a branch or agency through which the non-UK resident carries on the trade, profession or vocation concerned.
- Rule 2* The UK representative is treated in relation to the amount as a distinct and separate person from the non-UK resident (if the representative would not otherwise be so treated).
- Rule 3* If the branch or agency is carried on by persons in partnership, the partnership, as such, is treated in relation to the amount as the UK representative of the non-UK resident.
- (4) For further rules that apply where a trade or profession carried on by a non-UK resident in the United Kingdom is carried on in partnership, see section 835F.
- (5) This section needs to be read with sections 835G to 835K (which provide for descriptions of persons who are not to be regarded as the UK representative of a non-UK resident if certain conditions are met).]

#### [<sup>F1615</sup>835H Trade or profession carried on in partnership

- (1) Subsection (2) applies if a trade or profession carried on by a non-UK resident through a branch or agency in the United Kingdom is carried on by the non-UK resident in partnership.
- (2) The trade or profession carried on through the branch or agency is, for the purposes of section 835E and Chapter 2C, to be treated as including the notional trade or profession.
- (3) Subsection (4) applies (in addition to subsection (2) if that subsection also applies) if—
- (a) a trade or profession carried on by a non-UK resident in the United Kingdom is carried on by the non-UK resident in partnership, and
- (b) any member of the partnership is resident in the United Kingdom.
- (4) The notional trade or profession is, for the purposes of section 835E and Chapter 2C, to be treated as being a trade carried on in the United Kingdom through the partnership as such.
- (5) In this section “the notional trade or profession” means the notional trade from which the non-UK resident's share in the partnership's profits or losses is treated for the purposes of section 852 of ITTOIA 2005 as deriving.]

#### Textual Amendments

**F1615S.** 835F inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 4](#) (with [Sch. 9 paras. 1-9, 22](#))

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### [<sup>F1616</sup>Persons who are not UK representatives

#### Textual Amendments

**F1616S.** 835G and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 5](#) (with Sch. 9 paras. 1-9, 22)

#### 835G Agents

- (1) This section applies if a non-UK resident carries on (alone or in partnership) a business through an agent in the United Kingdom.
- (2) The agent is not the UK representative of the non-UK resident in relation to an amount within section 835E(2) arising to the non-UK resident from—
  - (a) so much of the non-UK resident's business as relates to disregarded transactions, or
  - (b) property or rights which, as a result of disregarded transactions, are used by, or held by or for, the agent on behalf of the non-UK resident.
- (3) “Disregarded transactions” are transactions—
  - (a) carried out through the agent in the United Kingdom, and
  - (b) in respect of which the agent does not act in the course of carrying on a regular agency for the non-UK resident.]

#### [<sup>F1617</sup>835H Brokers

- (1) This section applies if a non-UK resident carries on (alone or in partnership) a business through a broker in the United Kingdom.
- (2) The broker is not the UK representative of the non-UK resident in relation to an amount within section 835E(2) if—
  - (a) the amount is transaction income in relation to a transaction carried out through the broker in the United Kingdom on behalf of the non-UK resident, and
  - (b) the independent broker conditions are met in relation to the transaction (see section 835L).
- (3) In subsection (2) “transaction income”, in relation to a transaction carried out through a broker in the United Kingdom on behalf of a non-UK resident, has the same meaning as in Chapter 1 (see section 814(5)).]

#### Textual Amendments

**F1617S.** 835H inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 6](#) (with Sch. 9 paras. 1-9, 22)

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### [<sup>F1618</sup>835] Investment managers

- (1) This section applies if a non-UK resident carries on (alone or in partnership) a business through an investment manager in the United Kingdom.
- (2) The investment manager is not the UK representative of the non-UK resident in relation to an amount within section 835E(2) if—
  - (a) the amount is transaction income in relation to an investment transaction carried out through the investment manager in the United Kingdom on behalf of the non-UK resident, and
  - (b) the independent investment manager conditions are met in relation to the investment transaction (see section 835M).
- (3) In subsection (2) “transaction income”, in relation to a transaction carried out through an investment manager in the United Kingdom on behalf of a non-UK resident, has the same meaning as in Chapter 1 (see section 814(5)).]

#### Textual Amendments

**F1618S.** 835I inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 7](#) (with Sch. 9 paras. 1-9, 22)

### [<sup>F1619</sup>835] Persons acting under alternative finance arrangements

- (1) Subsection (2) applies if an amount within section 835E(2) arising to a non-UK resident consists of alternative finance return.
- (2) Neither of the following is the UK representative of the non-UK resident in relation to the amount—
  - (a) the other party to the alternative finance arrangements,
  - (b) any other person acting for the non-UK resident in relation to the alternative finance arrangements.
- (3) In subsection (1) “alternative finance return” means alternative finance return within the application of section 564I, 564K or 564L(2) or (3).
- (4) In subsection (2) the reference to “the alternative finance arrangements” is a reference to the alternative finance arrangements under which the alternative finance return mentioned in subsection (1) arises.]

#### Textual Amendments

**F1619S.** 835J inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 8](#) (with Sch. 9 paras. 1-9, 22)

### [<sup>F1620</sup>835] Lloyd's agents

- (1) This section applies if—
  - (a) a non-UK resident (“X”) is a member of Lloyd's, and
  - (b) an amount within section 835E(2) arises to X from X's underwriting business.

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- (2) A person who has been X's members' agent or the managing agent of the syndicate in question is not the UK representative of X in relation to the amount or to matters connected with the amount.
- (3) For the purposes of this section—
  - (a) X is a member of Lloyd's if X is a member within the meaning of Chapter 3 of Part 2 of FA 1993, and
  - (b) “members' agent” and “managing agent” are to be construed in accordance with section 184 of that Act.]

#### Textual Amendments

**F1620S.** 835K inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 9](#) (with [Sch. 9 paras. 1-9, 22](#))

#### *[<sup>F1621</sup>The independent broker conditions*

#### Textual Amendments

**F1621S.** 835L and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 10](#) (with [Sch. 9 paras. 1-9, 22](#))

### **835L The independent broker conditions**

- (1) The independent broker conditions are met in relation to a transaction carried out on behalf of a non-UK resident by a broker in the United Kingdom if conditions A to D are met.
- (2) Condition A is that at the time of the transaction the broker is carrying on the business of a broker.
- (3) Condition B is that the transaction is carried out in the ordinary course of that business.
- (4) Condition C is that the remuneration which the broker receives in respect of the transaction for the provision of the services of a broker to the non-UK resident is not less than is customary for that class of business.
- (5) Condition D is that the broker does not fall (apart from this subsection) to be treated under this Chapter, or under Chapter 1 of Part 7A of TCGA 1992, as a UK representative of the non-UK resident in relation to any amounts that—
  - (a) are not included in transaction income in relation to the transaction (see section 835H(2) and (3)), and
  - (b) are chargeable to tax for the same tax year as that transaction income.]

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## <sup>F1622</sup>The independent investment manager conditions

### Textual Amendments

**F1622S.** 835M and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 11](#) (with Sch. 9 paras. 1-9, 22)

### **835M The independent investment manager conditions**

- (1) The independent investment manager conditions are met in relation to an investment transaction carried out on behalf of a non-UK resident by an investment manager in the United Kingdom if conditions A to E are met.
- (2) Condition A is that at the time of the transaction the investment manager is carrying on a business of providing investment management services.
- (3) Condition B is that the transaction is carried out in the ordinary course of that business.
- (4) Condition C is that, when the investment manager acts on behalf of the non-UK resident in relation to the transaction, the relationship between them, having regard to its legal, financial and commercial characteristics, is a relationship between persons carrying on independent businesses dealing with each other at arm's length.
- (5) Condition D is that the requirements of the 20% rule are met (see section 835N).
- (6) Condition E is that the remuneration which the investment manager receives in respect of the transaction for the provision of investment management services to the non-UK resident is not less than is customary for that class of business.]

### <sup>F1623</sup>**835N Investment managers: the 20% rule**

- (1) The requirements of the 20% rule are met if conditions A and B are met.
- (2) Condition A is that, in relation to a qualifying period, it has been or is the intention of the investment manager and the persons connected with the investment manager that at least 80% of the non-UK resident's relevant disregarded income should consist of amounts to which none of them has a beneficial entitlement.
- (3) Condition B is that, so far as there is a failure to fulfil that intention, that failure—
  - (a) is attributable (directly or indirectly) to matters outside the control of the investment manager and persons connected with the investment manager, and
  - (b) does not result from a failure by any of them to take such steps as may be reasonable for mitigating the effect of those matters in relation to the fulfilment of that intention.]

### Textual Amendments

**F1623S.** 835N inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 12](#) (with Sch. 9 paras. 1-9, 22)

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**[<sup>F1624</sup>835O Meaning of “qualifying period”, “relevant disregarded income” and “beneficial entitlement”**

- (1) This section applies for the purposes of this Chapter.
- (2) A “qualifying period” means—
  - (a) the tax year in which the transaction income mentioned in section 835I(2) is chargeable to tax, or
  - (b) a period of not more than 5 years comprising two or more tax years including that one.
- (3) The “relevant disregarded income” of the non-UK resident for a qualifying period is the total of the non-UK resident's income for the tax years comprised in the qualifying period which derives from investment transactions—
  - (a) carried out by the investment manager on the non-UK resident's behalf, and
  - (b) in relation to which the independent investment manager conditions are met, ignoring the requirements of the 20% rule.
- (4) A person has a “beneficial entitlement” to relevant disregarded income if the person has or may acquire a beneficial entitlement that is, or would be, attributable to the relevant disregarded income as a result of having an interest or other rights mentioned in subsection (5).
- (5) The interests and rights referred to in subsection (4) are—
  - (a) an interest (whether or not an interest giving a right to an immediate payment of a share in the profits or gains) in property in which the whole or any part of the relevant disregarded income is represented, or
  - (b) an interest in, or other rights in relation to, the non-UK resident.]

**Textual Amendments**

**F1624S.** 835O inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 13](#) (with Sch. 9 paras. 1-9, 22)

**[<sup>F1625</sup>835H Treatment of transactions where 20% rule not met**

- (1) This section applies in the case of an investment transaction in relation to which the independent investment manager conditions are met, except for the requirements of the 20% rule.
- (2) This Chapter has effect as if the requirements of that rule were met in relation to the transaction, but only in relation to so much of the transaction income in relation to the transaction (see section 835I(2) and (3)) as does not represent an amount—
  - (a) which is relevant disregarded income of the non-UK resident, and
  - (b) to which the investment manager or a person connected with the investment manager has or has had any beneficial entitlement.]

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### Textual Amendments

**F1625S.** 835P inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 6 para. 14](#) (with [Sch. 9 paras. 1-9, 22](#))

## [<sup>F1626</sup>835Q] **Application of 20% rule to collective investment schemes**

- (1) This section applies if amounts arise or accrue to the non-UK resident as a participant in a collective investment scheme.
- (2) It applies for the purposes of determining whether the requirements of the 20% rule are met in relation to a transaction carried out for the purposes of the scheme (so far as the transaction is one in respect of which amounts so arise or accrue).
- (3) In applying this section make the following assumptions—
  - (a) that all the transactions carried out for the purposes of the scheme are carried out on behalf of a company (“the assumed company”) which is—
    - (i) constituted for the purposes of the scheme, and
    - (ii) non-UK resident, and
  - (b) that the participants do not have any rights in respect of the amounts arising or accruing in respect of those transactions, other than the rights which, if they held shares in the assumed company, would be their rights as shareholders.
- (4) If the scheme is such that the assumed company would not be regarded for tax purposes as carrying on a trade in the United Kingdom in relation to the tax year in which the transaction income mentioned in section 835I(2) is chargeable to tax, the requirements of the 20% rule are treated as met in relation to a transaction carried out for the purposes of the scheme.
- (5) If the scheme is such that the assumed company would be so regarded for tax purposes, sections 835N to 835P have effect in relation to a transaction carried out for the purposes of the scheme with the modifications in subsection (6).
- (6) The modifications are—
  - (a) for references to the non-UK resident substitute references to the assumed company, and
  - (b) for references to the non-UK resident's relevant disregarded income for a qualifying period substitute references to the sum of the amounts that would, for tax years comprised in the qualifying period, be chargeable to tax on the assumed company as profits deriving from the transactions—
    - (i) carried out by the investment manager, and
    - (ii) assumed to be carried out on behalf of the company.
- (7) In this section—

“collective investment scheme” has the meaning given by section 235 of FISMA 2000, and

“participant”, in relation to a collective investment scheme, is construed in accordance with that section.]

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#### Textual Amendments

**F1626S.** 835Q inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 15](#) (with Sch. 9 paras. 1-9, 22)

### *[<sup>F1627</sup>Supplementary*

#### Textual Amendments

**F1627S.** 835R and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 16](#) (with Sch. 9 paras. 1-9, 22)

### **835R Supplementary provision**

- (1) For the purposes of this Chapter a person is to be regarded as carrying out a transaction on behalf of another if the person—
  - (a) undertakes the transaction, whether on behalf of or to the account of the other, or
  - (b) gives instructions for it to be so carried out by another.
- (2) In the case of a person who acts as a broker or investment manager as part only of a business, this Chapter has effect as if that part were a separate business.]

### **[<sup>F1628</sup>835S Interpretation of Chapter**

- (1) This section applies for the purposes of this Chapter.
- (2) “Branch or agency” means any factorship, agency, receivership, branch or management.
- (3) “Investment manager” has the same meaning as in Chapter 1 (see section 827).
- (4) “Investment transaction” means any transaction of a description specified for the purposes of this section in regulations made by the Commissioners for Her Majesty’s Revenue and Customs.
- (5) Provision made in regulations under subsection (4) may, in particular, have effect in relation to the tax year current on the day on which the regulations are made.]

#### Textual Amendments

**F1628S.** 835S inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 17](#) (with Sch. 9 paras. 1-9, 22)



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## [<sup>F1629</sup>CHAPTER 2C

### INCOME TAX OBLIGATIONS AND LIABILITIES IMPOSED ON UK REPRESENTATIVES

#### Textual Amendments

**F1629**Pt. 14 Ch. 2C inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 6 para. 18** (with Sch. 9 paras. 1-9, 22)

#### 835T Introduction to Chapter

- (1) This Chapter applies to the enactments relating to income tax so far as they make provision for or in connection with the assessment, collection and recovery of tax, or of interest on tax.
- (2) Those enactments have effect in accordance with section 835U in relation to amounts in respect of which a branch or agency is to be treated as the UK representative of a non-UK resident under Chapter 2B.
- (3) In this section “enactment” includes an enactment contained in subordinate legislation within the meaning of the Interpretation Act 1978.]

#### [<sup>F1630</sup>835U Obligations and liabilities of UK representative

- (1) The obligations and liabilities of a non-UK resident are to be treated, for the purposes of the enactments to which this Chapter applies, as if they were also the obligations and liabilities of the UK representative of the non-UK resident.
- (2) Subsection (3) applies if—
  - (a) the UK representative of a non-UK resident discharges an obligation or liability imposed by this section that corresponds to one to which the non-UK resident is subject, or
  - (b) a non-UK resident discharges an obligation or liability that corresponds to one to which the non-UK resident's UK representative is subject by virtue of this section.
- (3) The corresponding obligation or liability—
  - (a) of the non-UK resident (in a case within subsection (2)(a)), or
  - (b) of the UK representative (in a case within subsection (2)(b)),
 is discharged.
- (4) A non-UK resident is bound, as if they were the non-UK resident's own, by acts or omissions of the non-UK resident's UK representative in the discharge of the obligations and liabilities imposed on the representative by this section.
- (5) This section is subject to sections 835V and 835W.]

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#### Textual Amendments

**F1630S.** 835U inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 19](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1631</sup>835V] **Exceptions: notices and information**

- (1) An obligation or liability attaching to a non-UK resident (“X”) by reason of a notice or other document having been given or served on X does not also attach to the UK representative of X by virtue of section 835U unless the notice or other document (or a copy of it) has been given to or served on the representative.
- (2) An obligation or liability attaching to X by reason of a request or demand having been received by X does not also attach to the UK representative of X by virtue of section 835U unless the representative has been notified of the request or demand.
- (3) Subsection (4) applies to obligations relating to the provision of information that are imposed on the UK representative of X by section 835U in a case where the representative is X's independent agent.
- (4) The obligations do not require the UK representative to do anything except so far as it is practicable for the representative to do so.
- (5) For this purpose, the representative must act to the best of the representative's knowledge and belief after taking all reasonable steps to obtain the necessary information.
- (6) An obligation of X to provide information is not discharged by virtue of section 835U in a case where the UK representative of X has discharged the obligation only so far as required by subsection (4) of this section.
- (7) X is not bound by virtue of section 835U by mistakes in information provided by the UK representative of X in discharging, so far as required under subsection (4) of this section, an obligation imposed on the representative by section 835U unless—
  - (a) the mistake is the result of an act or omission of X, or
  - (b) the mistake is one to which X consented or in which X connived.
- (8) In this section “information” includes anything contained in a return, self-assessment, account, statement or report required to be provided to the Commissioners for Her Majesty's Revenue and Customs or to any officer of Revenue and Customs.]

#### Textual Amendments

**F1631S.** 835V inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 20](#) (with Sch. 9 paras. 1-9, 22)

#### [<sup>F1632</sup>835W] **Exceptions: criminal offences and penalties etc**

- (1) A person is not by virtue of section 835U liable to be proceeded against for a criminal offence unless the person—

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- (a) committed the offence, or
  - (b) consented to or connived in its commission.
- (2) An independent agent of a non-UK resident is not by virtue of section 835U liable to any civil penalty or surcharge in respect of an act or omission if conditions A and B are met.
- (3) Condition A is that the act or omission is not—
- (a) an act or omission of the independent agent, or
  - (b) an act or omission to which the agent consented or in which the agent connived.
- (4) Condition B is that the independent agent is able to show that the amount of the penalty or surcharge will not be recoverable out of the sums mentioned in section 835X(3) (after being indemnified for any other liabilities under section 835X).]

#### Textual Amendments

**F1632S.** 835W inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 21](#) (with [Sch. 9 paras. 1-9, 22](#))

#### [<sup>F1633</sup>835X] ~~Indemnities~~

- (1) An independent agent of a non-UK resident is entitled to be indemnified for the amount of any liability of the non-UK resident which the agent has discharged by virtue of section 835U.
- (2) An independent agent of a non-UK resident is entitled to retain, from the sums mentioned in subsection (3), amounts sufficient to meet any liabilities which by virtue of section 835U the agent has discharged or to which the agent is subject.
- (3) The sums are those which—
  - (a) (ignoring subsection (2)) are due from the independent agent to the non-UK resident, or
  - (b) are received by the independent agent on behalf of the non-UK resident.]

#### Textual Amendments

**F1633S.** 835X inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 22](#) (with [Sch. 9 paras. 1-9, 22](#))

#### [<sup>F1634</sup>835Y] ~~Meaning of “independent agent”~~

- (1) In this Chapter “independent agent”, in relation to a non-UK resident (“X”), means a person who is the UK representative of X in respect of any agency in which the person is acting on behalf of X in an independent capacity.
- (2) For this purpose a person does not act in an independent capacity on behalf of X unless the relationship between them, having regard to its legal, financial and commercial

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characteristics, is a relationship between persons carrying on independent businesses dealing with each other at arm's length.]

#### Textual Amendments

**F1634S.** 835Y inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 6 para. 23](#) (with [Sch. 9 paras. 1-9, 22](#))

## CHAPTER 3

### JOINTLY HELD PROPERTY

#### 836 Jointly held property

- (1) This section applies if income arises from property held in the names of individuals—
  - (a) who are married to, or are civil partners of, each other, and
  - (b) who live together.
- (2) The individuals are treated for income tax purposes as beneficially entitled to the income in equal shares.
- (3) But this treatment does not apply in relation to any income within any of the following exceptions.

*Exception A*

Income to which neither of the individuals is beneficially entitled.

*Exception B*

Income in relation to which a declaration by the individuals under section 837 has effect (unequal beneficial interests).

*Exception C*

Income to which Part 9 of ITTOIA 2005 applies (partnerships).

*Exception D*

Income arising from a UK property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation (within the meaning of Chapter 6 of Part 3 of ITTOIA 2005).

*[<sup>F1635</sup>Exception DA*

Income arising from an overseas property business which consists of, or so far as it includes, the commercial letting of furnished holiday accommodation (within the meaning of Chapter 6 of Part 3 of ITTOIA 2005) in one or more EEA states.]

*Exception E*

Income consisting of a distribution arising from property consisting of—

- (a) shares in or securities of a close company to which one of the individuals is beneficially entitled to the exclusion of the other, or
- (b) such shares or securities to which the individuals are beneficially entitled in equal or unequal shares.

“Shares” and “securities” have the same meaning as in [<sup>F1636</sup>section 1117 of CTA 2010].

*Exception F*

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Income to which one of the individuals is beneficially entitled so far as it is treated as a result of any other provision of the Income Tax Acts as—

- (a) the income of the other individual, or
- (b) the income of a third party.

#### Textual Amendments

**F1635** Words in s. 836(3) inserted (19.7.2011) (with effect in accordance with Sch. 14 para. 4 of the amending Act) by [Finance Act 2011 \(c. 11\)](#), [Sch. 14 para. 3\(5\)](#)

**F1636** Words in s. 836(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 553](#) (with [Sch. 2](#))

### 837 Jointly held property: declarations of unequal beneficial interests

- (1) The individuals may make a joint declaration under this section if—
  - (a) one of them is beneficially entitled to the income to the exclusion of the other, or
  - (b) they are beneficially entitled to the income in unequal shares, and their beneficial interests in the income correspond to their beneficial interests in the property from which it arises.
- (2) The declaration must state the beneficial interests of the individuals in—
  - (a) the income to which the declaration relates, and
  - (b) the property from which that income arises.
- (3) The declaration has effect only if notice of it is given to an officer of Revenue and Customs—
  - (a) in such form and manner as the Commissioners for Her Majesty's Revenue and Customs may prescribe, and
  - (b) within the period of 60 days beginning with the date of the declaration.
- (4) The declaration has effect in relation to income arising on or after the date of the declaration.
- (5) The declaration continues to have effect until such time (if any) as there is a change in the beneficial interests of the individuals in either—
  - (a) the income to which the declaration relates, or
  - (b) the property from which that income arises.

## <sup>F1637</sup> CHAPTER 3A

### BANKS ETC IN COMPULSORY LIQUIDATION

#### Textual Amendments

**F1637** Pt. 14 Ch. 3A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 7 para. 71](#) (with [Sch. 9 paras. 1-9, 22](#))

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**837A Overview of Chapter**

- (1) This Chapter provides for the receipts of certain types of company being wound up to be charged to income tax.
- (2) For provision charging the receipts of such companies to corporation tax, see Chapter 6 of Part 13 of CTA 2010.

**837B Application of Chapter**

- (1) This Chapter applies if—
  - (a) a company is being or has been wound up by the court in the United Kingdom, and
  - (b) conditions A, B and C are met.
- (2) Condition A is that the company was, at any time within the period mentioned in subsection (5), lawfully carrying on a business of accepting deposits as—
  - (a) a person of the kind mentioned in paragraph (b) of the definition of “bank” in section 991(2) (persons with permission under Part 4 of FISMA 2000 to accept deposits),<sup>F1638</sup> ...
  - <sup>F1639</sup>(b) .....
- (3) Condition B is that the company has permanently ceased to carry on the trade that included the business of accepting deposits (the “deposit-taking trade”).
- (4) Condition C is that the company is insolvent and—
  - (a) was so when the winding up proceedings started, or
  - (b) became so at any time in the period of 12 months following the day on which those proceedings started.
- (5) The period referred to in subsection (2) is the period of 12 months ending with the earlier of—
  - (a) the day on which the winding up proceedings started, and
  - (b) the day on which the company permanently ceased to carry on the deposit-taking trade.

<sup>F1640</sup>(6) .....

**Textual Amendments**

**F1638** Word in s. 837B(2)(a) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, **15(8)(a)(i)** (with regs. 39-41, 44); 2020 c. 1, Sch. 5 para. 1(1)

**F1639**S. 837B(2)(b) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, **15(8)(a)(ii)** (with regs. 39-41, 44); 2020 c. 1, Sch. 5 para. 1(1)

**F1640**S. 837B(6) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, **15(8)(b)** (with regs. 39-41, 44); 2020 c. 1, Sch. 5 para. 1(1)

**837C Charge to income tax on winding up receipts**

- (1) Winding up receipts arising from the deposit-taking trade are chargeable to income tax.

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- (2) Subsection (1) applies in relation to a winding up receipt only so far as its value was not brought into account in calculating the profits of the trade of any period before the permanent cessation of the trade.
- (3) A “winding up receipt” means (subject to subsection (4)) a sum received by the company or its liquidator after—
  - (a) the start of the winding up proceedings, or
  - (b) if later, the permanent cessation of the deposit-taking trade.
- (4) The following are not winding up receipts—
  - (a) a sum received on behalf of a person entitled to the sum to the exclusion of the company and its liquidator, and
  - (b) a sum realised by the transfer of an asset required to be valued under section 173 of ITTOIA 2005 (valuation of trading stock on cessation).

### **837D Transfer of rights to payment**

- (1) This section applies if—
  - (a) the company or its liquidator transfers for value to another person the right to receive a sum arising from the deposit-taking trade, and
  - (b) the sum is one which, if received by the company or its liquidator, would be a winding up receipt.
- (2) If the transfer is at arm's length, this Chapter has effect as if the amount or value of the consideration for the transfer were a winding up receipt arising from the deposit-taking trade.
- (3) If the transfer is not at arm's length, this Chapter has effect as if the value of the right transferred as between parties at arm's length were a winding up receipt arising from the deposit-taking trade.

### **837E Allowable deductions**

- (1) In calculating the amount on which income tax is charged under this Chapter for a tax year, deductions are allowed in accordance with this section from the amount which would otherwise be chargeable to income tax under this Chapter.
- (2) A deduction is allowed for the total sum of all losses, expenses and debits within subsection (3) that are incurred during or before the tax year (but subject to subsections (4) and (5)).
- (3) The losses, expenses and debits within this subsection are those which, if the company carrying on the deposit-taking trade had not permanently ceased to do so—
  - (a) would have been deducted in calculating the profits of the trade for income or corporation tax purposes, or
  - (b) would have been deducted from or set off against the profits of the trade for income or corporation tax purposes.
- (4) No deduction is allowed if the loss, expense or debit arises directly or indirectly from the cessation itself.
- (5) A loss, expense or debit is only within subsection (3) if incurred—

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- (a) after the start of the winding up proceedings or, if later, the permanent cessation of the deposit-taking trade, or
  - (b) in the case of a loss, at or before the permanent cessation of the deposit-taking trade.
- (6) No deduction for an amount is allowed under this section if the amount has already been allowed (whether under this section or under any other provision of the Tax Acts).

### **837F Election to carry back**

- (1) This section applies if a winding up receipt arising from the deposit-taking trade is received in a tax year beginning no later than 6 years after the company permanently ceased to carry on the trade.
- (2) The company or its liquidator may elect that the income tax chargeable under this Chapter in respect of the receipt is to be charged as if the receipt has been received on the date of the cessation.
- (3) The election must be made before the end of the period of two years beginning immediately after the end of the tax year in which the receipt is received.
- (4) If an election is made under this section an assessment to income tax must be made accordingly (regardless of anything in the Income Tax Acts).

### **837G Relationship of Chapter with other income tax provisions**

If a winding up receipt arising from the deposit-taking trade is chargeable to income tax under this Chapter it is not chargeable to income tax under any other provision.

### **837H Interpretation of Chapter**

- (1) This section applies for the purposes of this Chapter.
- (2) There is the permanent cessation of a company's trade if—
  - (a) the company ceases to carry on the trade, or
  - (b) the company ceases to be within the charge to corporation tax in respect of the trade,
 whether or not the trade is in fact ceased.
- (3) A company is insolvent at any time if at that time—
  - (a) it is unable to pay its debts as they fall due, or
  - (b) the value of its assets is less than the amount of its liabilities (including its contingent and prospective liabilities).
- (4) “Company” means—
  - (a) a company as defined in section 1(1) of the Companies Act 2006, or
  - (b) an unregistered company as defined in section 220 of the Insolvency Act 1986 or Article 184 of the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)).
- (5) For the meaning of “deposit-taking trade” and “winding up receipt”, see sections 837B(3) and 837C(3) respectively.]



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## CHAPTER 4

### OTHER MISCELLANEOUS RULES

#### 838 Local authorities and local authority associations

- (1) A local authority in the United Kingdom is not liable to income tax in respect of its income.
- (2) A local authority association in the United Kingdom is not liable to income tax in respect of its income.
- (3) Tax is repayable as a result of subsection (1) or (2) only if a claim for repayment is made.

#### Modifications etc. (not altering text)

**C154** S. 838 modified by 1999 c. 29, s. 34A(3) (as inserted (15.1.2012) by [Localism Act 2011 \(c. 20\)](#), [ss. 224\(2\)](#), [240\(2\)](#); [S.I. 2012/57](#), [art. 4\(1\)\(cc\)](#) (with [arts. 6, 7, 9-11](#)))

#### [<sup>F1641</sup>838A] ~~Asbestos compensation settlements~~

- (1) The trustees of an asbestos compensation settlement are not liable to income tax in respect of the income of the trustees.
- (2) In this section “asbestos compensation settlement” means a settlement—
  - (a) the sole or main purpose of which is making compensation payments to or in respect of individuals who have, or had before their death, an asbestos-related condition, and
  - (b) which is made before 24 March 2010 in pursuance of an arrangement within subsection (3).
- (3) An arrangement is within this subsection if it is—
  - (a) a voluntary arrangement that has taken effect under Part 1 of the Insolvency Act 1986 or Part 2 of the Insolvency (Northern Ireland) Order 1989,
  - (b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985, Article 418 of the Companies (Northern Ireland) Order 1986 or Part 26 of the Companies Act 2006, or
  - (c) an arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) that has taken effect under, or as a result of, the law of a country or territory outside the United Kingdom.]

#### Textual Amendments

**F1641**S. 838A inserted (16.12.2010 with effect in accordance with Sch. 14 para. 3(4) of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), [Sch. 14 para. 3\(3\)](#)

#### 839 Issue departments of the Reserve Bank of India and the State Bank of Pakistan

No liability to income tax arises in respect of the income of the issue department of—

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- (a) the Reserve Bank of India constituted under an Act of the Indian legislature called the Reserve Bank of India Act 1934, or
- (b) the State Bank of Pakistan constituted under orders made under section 9 of the Indian Independence Act 1947 (c. 30).

#### **840 Government securities held by non-UK resident central banks**

- (1) No liability to income tax arises in respect of income from securities which is—
  - (a) income payable out of the public revenue of the United Kingdom, and
  - (b) income of a bank, or the issue department of a bank, to which this section applies for the time being.
- (2) But subsection (1) does not prevent the income from being taken into account in calculating profits, gains or losses of a business carried on in the United Kingdom.
- (3) Her Majesty may by Order in Council direct that this section applies to a bank or its issue department if it appears to Her Majesty that the bank—
  - (a) is non-UK resident, and
  - (b) is entrusted by the government of a territory outside the United Kingdom with the custody of the territory's principal foreign exchange reserves.
- (4) No recommendation may be made to Her Majesty in Council to make an order under this section unless a draft of the order has been laid before and approved by a resolution of the House of Commons.

#### **841 Official agents of Commonwealth countries etc**

- (1) This section applies if an individual is employed in the United Kingdom as an official agent for—
  - (a) a country mentioned in Schedule 3 to the British Nationality Act 1981 (c. 61) (which contains a list of Commonwealth countries) or the Republic of Ireland, or
  - (b) a state or province of a country within paragraph (a).
- (2) If conditions A and B are met, the individual is entitled to the same immunity from income tax as that to which a member of the staff of a mission is entitled under the Diplomatic Privileges Act 1964 (c. 81).
- (3) Condition A is that the individual has been certified—
  - (a) to be ordinarily resident outside the United Kingdom, and
  - (b) to be UK resident solely for the purposes of the individual's functions as an official agent.
- (4) The certification must have been done by (as the case may be)—
  - (a) the High Commissioner of the country for which the individual is an official agent, or
  - (b) the Agent-General of the state or province for which the individual is an official agent.
- (5) In subsection (4)(a) “High Commissioner” includes the head of the mission of the country in question by whatever name called.

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- (6) Condition B is that the individual's functions as an official agent are not performed in connection with a trade, business or other undertaking carried on for the purposes of profit.
- (7) In this section “head of the mission” and “a member of the staff of a mission” are to be read in accordance with the Diplomatic Privileges Act 1964.

## 842 [F1642 UK Economic Interest Groupings and] European Economic Interest Groupings

- (1) The following rules about [F1643 UK Economic Interest Groupings and] European Economic Interest Groupings apply for the purposes of charging income tax—

### *Rule 1*

A grouping is treated as acting as the agent of its members.

### *Rule 2*

The activities of a grouping are treated as those of its members acting jointly.

### *Rule 3*

Each member of a grouping is treated as having a share of the grouping's property, rights and liabilities.

### *Rule 4*

Any trade or profession carried on by the grouping is treated as carried on in partnership by the members of the grouping.

- (2) For the purposes of Rule 3, a member's share of any property, rights or liabilities of a grouping is determined according to the contract under which the grouping is established.
- (3) If the contract does not provide for this, the member's share is determined by reference to the share of the profits of the grouping to which the member is entitled under the contract.
- (4) If the contract does not provide for this either, the members are treated as having equal shares of the property, rights and liabilities of the grouping.

- [F1644] (5) “European Economic Interest Grouping” means a grouping registered in a member State and formed in pursuance of [Council Regulation \(EEC\) No. 2137/85](#) of 25 July 1985 on the European Economic Interest Grouping as it has effect in EU law.]

### **Textual Amendments**

**F1642** Words in s. 842 heading inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/689), regs. 1, **15(9)(a)** (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

**F1643** Words in s. 842(1) inserted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/689), regs. 1, **15(9)(b)** (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

**F1644** S. 842(5) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019](#) (S.I. 2019/689), regs. 1, **15(9)(c)** (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

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### **843 Restriction of deductions for annual payments**

In calculating a person's income from any source, no deduction is allowed for an annual payment to which section 904 applies (annual payments for dividends or non-taxable consideration).

### **844 Letters patent etc: exempting provisions**

- (1) No provision in letters patent granted by the Crown is to be construed as conferring exemption from income tax.
- (2) Subsection (1) applies whether the letters patent are granted before or after the date on which this Act is passed.
- (3) Any provision of the letters patent purporting to override the effect of subsection (1) is void.

### **845 Extra return to be treated as interest etc**

- (1) This section applies if—
  - (a) securities (“old securities”) of a particular kind are issued by way of an original issue of securities of that kind,
  - (b) on a later occasion securities (“new securities”) of the same kind are issued,
  - (c) a sum (“the extra return”) is payable in respect of the new securities by the issuer of them to reflect the fact that interest is accruing on the old securities,
  - (d) the issue price of the new securities includes an element (whether or not separately identified) representing payment for the extra return, and
  - (e) the extra return is equal to the amount of interest mentioned in subsection (2).
- (2) The amount of interest referred to in subsection (1)(e) is—
  - (a) the amount of interest payable for the relevant period on so many old securities as there are new, or
  - (b) if there are more new securities than old, the amount of interest which would be so payable if there were as many old securities as new.
- (3) A sum paid or payable by way of the extra return is treated for income tax purposes as if it were paid or payable as interest (so far as it would not be treated in that way apart from this subsection).
- (4) No relief for the extra return is to be given to the issuer of the new securities.

### **846 Interpretation of section 845**

- (1) This section applies for the purposes of section 845.
- (2) Securities are of the same kind if they—
  - (a) are treated as being of the same kind by the practice of a recognised stock exchange, or
  - (b) would be so treated if dealt in on a recognised stock exchange.
- (3) “The relevant period” is the period—
  - (a) beginning with the day mentioned in subsection (4), and

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- (b) ending with the day (“the new issue day”) on which the new securities are issued.
- (4) The day referred to in subsection (3)(a) is the day after—
  - (a) the last (or only) interest payment day before the new issue day, or
  - (b) if there is no interest payment day before the new issue day, the day on which the old securities are issued.
- (5) In subsection (4) “interest payment day” means a day on which interest is payable under the old securities.
- (6) “Relief” means relief by way of deduction in calculating amounts of income charged to income tax or in calculating net income.

## PART 15

### DEDUCTION OF INCOME TAX AT SOURCE

#### Modifications etc. (not altering text)

**C155** Pt. 15 modified (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), **ss. 551(4), 1329(1)** (with [Pts. 1, 2, Sch. 2 para. 78](#))

## CHAPTER 1

### INTRODUCTION

#### 847 Overview of Part

- (1) This Part deals with deduction of income tax at source.
- (2) The following Chapters contain duties to deduct sums representing income tax from certain payments—
  - <sup>F1645</sup>(a) .....
  - (b) Chapter 3 (certain payments of yearly interest),
  - (c) Chapter 4 (payments in respect of building society securities),
  - (d) Chapter 5 (payments of UK public revenue dividends),
  - (e) Chapter 6 (annual payments and patent royalties),
  - (f) Chapter 7 (other payments connected with intellectual property),
  - (g) Chapter 9 (manufactured payments), and
  - (h) Chapter 10 (non-commercial payments by companies).
- (3) Chapters 6 and 7 are subject to Chapter 8 which makes special provision in relation to the deduction of sums representing income tax from royalty payments.
- (4) Chapter 11 contains provision disapplying some of the duties to deduct where payments are made between companies etc.

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- (5) The following Chapters contain further provision in connection with the deduction (or deemed deduction) of sums representing income tax from certain payments (or deemed payments)—
- [<sup>F1646</sup>(za) Chapter 2 (interpretation of section 876 in Chapter 3: exception for deposit-takers),]
  - (a) Chapter 12 (funding bonds),
  - <sup>F1647</sup>(b) ..... and
  - (c) Chapter 14 (tax avoidance: directions for deductions from payments to non-UK residents).
- (6) Chapters 15 to 17 contain provision about the collection of income tax in respect of payments from which sums are required to be deducted (or from which sums are treated as deducted) under the preceding Chapters.
- (7) Chapter 18 deals with regimes involving the deduction of income tax at source which apply in the case of—
- (a) visiting performers,
  - (b) non-resident landlords, and
  - (c) Real Estate Investment Trusts.
- (8) Chapter 19 makes general provision for this Part including—
- (a) provision about the giving of statements about deduction of income tax,
  - (b) provision about payments where the recipient is a company or where the payer is a public department, and
  - (c) exceptions from duties to deduct for payments made by designated international organisations, some payments under derivative contracts and for some payments of interest on foreign currency securities.
- (9) The following provisions also deal with deduction of income tax at source—
- (a) Part 11 of ITEPA 2003 (Pay As You Earn), and
  - (b) Chapter 3 of Part 3 of FA 2004 (construction industry scheme).

#### Textual Amendments

**F1645S.** 847(2)(a) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 21(a)**

**F1646S.** 847(5)(za) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 6 para. 21(b)**

**F1647S.** 847(5)(b) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(10)** (with reg. 32)

## 848 Income tax deducted at source treated as income tax paid by recipient

- (1) A sum representing income tax which is deducted (or treated as deducted) under this Part from a payment is treated as income tax paid by the recipient.
- (2) The sum is accordingly taken into account under sections 59B and 59D of TMA 1970 (see also paragraph 8 of Schedule 18 to FA 1998) in determining the income tax or corporation tax payable by, or repayable to, the recipient.

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- (3) But this section does not apply to income tax deducted at source under section 966 (visiting performers) or 971 (non-resident landlords).

<sup>F1648</sup>(4) .....

#### Textual Amendments

**F1648S.** 848(4) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(11)** (with reg. 32)

### 849 Interaction with other Income Tax Acts provisions

- (1) Regulations made under [<sup>F1649</sup>section 7 of TIOPA 2010 (double taxation arrangements: general regulations)] make provision disapplying or otherwise affecting duties to deduct under this Part in circumstances where relief is available under double taxation arrangements.
- (2) Sections 821 and 822 of ICTA make provision in relation to under-deductions and over-deductions from some payments which are made before the passing of the relevant annual Act imposing income tax and corporation tax.
- (3) In accordance with section 783 of ITTOIA 2005 (general disregard of exempt income for income tax purposes), any payment (or part of a payment) which is exempt from income tax as a result of Part 6 of ITTOIA 2005 is ignored for the purposes of the duties under this Part.
- This is subject to any express or implied provision to the contrary.
- (4) [<sup>F1650</sup>Section 564Q (deduction of income tax at source under this Part) makes] provision for Chapters 2 to 5, 12 and 19 to have effect in relation to alternative finance arrangements.
- (5) For exceptions from the duties to deduct under Chapters 3, 6, 7, 10 and 14 in connection with the London Olympic Games and Paralympic Games see—
- Chapter 6 of Part 3 of FA 2006, and
  - regulations made under that Chapter.

#### Textual Amendments

**F1649**Words in s. 849(1) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 84** (with Sch. 9 paras. 1-9, 22)

**F1650**Words in s. 849(4) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 222** (with Sch. 9 paras. 1-9, 22)

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## CHAPTER 2

### [<sup>F1651</sup>MEANING OF “RELEVANT INVESTMENT” FOR PURPOSES OF SECTION 876]

#### Textual Amendments

**F1651** Pt. 15 Ch. 2 heading substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 4**

#### *Introduction*

### 850 Overview of Chapter

[<sup>F1652</sup>(1) This Chapter has effect for the purposes of section 876 (duty under section 874 to deduct tax from payments of yearly interest: exception for deposit-takers).]

<sup>F1653</sup>(2) .....

- (3) Sections 853 to 856 set out some basic concepts, so that—
- (a) section 853 defines “deposit-taker” (and section 854 allows the Treasury by order to prescribe persons as deposit-takers),
  - (b) section 855 defines “investment” and “deposit”, and
  - (c) section 856 explains which investments are relevant investments.
- (4) Section 856 is subject to—
- (a) section 857 (which sets out when investments must be treated as relevant and when they may be treated as not relevant), and
  - (b) sections [<sup>F1654</sup>863] to 870 (which describe various kinds of investment which are not relevant investments).
- (5) Sections [<sup>F1655</sup>872 and] 873 contain supplementary provisions.
- (6) For the purposes of this [<sup>F1656</sup>Chapter, crediting] interest counts as paying it.

#### Textual Amendments

**F1652**S. 850(1) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 5(2)**

**F1653**S. 850(2) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 5(3)**

**F1654**Word in s. 850(4)(b) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 5(4)**

**F1655**Words in s. 850(5) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 5(5)**

**F1656**Words in s. 850(6) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 5(6)**



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F1657 ...

**Textual Amendments**

F1657S. 851 cross-heading omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), Sch. 6 para. 1(b)

F1658 **851 Duty to deduct sums representing income tax**

.....

**Textual Amendments**

F1658S. 851 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), Sch. 6 para. 1(a)

F1659 **852 Power to make regulations disapplying section 851**

.....

**Textual Amendments**

F1659S. 852 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), Sch. 6 para. 6

*Deposit-takers and relevant investments*

**853 Meaning of “deposit-taker”**

- (1) In this Chapter [F1660 and section 876] “deposit-taker” means—
  - (a) the Bank of England, or
  - (b) a person to whom one of the following subsections or section 854 applies.
- (2) This subsection applies to a person—
  - (a) who has permission under Part 4 of FISMA 2000 to accept deposits which are relevant investments, and
  - (b) who is not—
    - (i) a building society,
    - (ii) a society registered within the meaning of the Friendly Societies Act 1974 (c. 46) or incorporated under the Friendly Societies Act 1992 (c. 40),
    - (iii) a society registered as a credit union under [F1661 the Co-operative and Community Benefit Societies Act 2014] or the Credit Unions (Northern Ireland) Order 1985 (S.I. 1985/1205 (N.I. 12)), or
    - (iv) an insurance company within the meaning of section 275 of FA 2004.
- (3) This subsection applies to a company [F1662 as defined in section 1(1) of the Companies Act 2006 (c. 46)] —

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- (a) in respect of which a resolution has been passed by a local authority under—
    - (i) section 48(3) of the Banking Act 1979 (c. 37), or
    - (ii) section 103(3) of the Banking Act 1987 (c. 22), and
  - (b) which is exempt from the prohibition in section 19 of FISMA 2000 on accepting deposits which are relevant investments.
- (4) This subsection applies to a local authority.
- <sup>F1663</sup>(5) . . . . .
- (6) This subsection applies to a person—
- (a) who is authorised for the purposes of FISMA 2000, and
  - (b) whose business consists wholly or mainly of dealing in financial instruments as principal.

For the meaning of “financial instrument”, see section 984.

#### Textual Amendments

- F1660** Words in s. 853(1) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 7](#)
- F1661** Words in s. 853(2)(b)(iii) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, [Sch. 4 para. 108](#) (with Sch. 5)
- F1662** Words in s. 853(3) substituted (1.10.2009) by [The Companies Act 2006 \(Consequential Amendments\) \(Taxes and National Insurance\) Order 2009 \(S.I. 2009/1890\)](#), arts. 1(1), [3\(2\)\(b\)](#)
- F1663** S. 853(5) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, [15\(10\)](#) (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

## 854 Power to prescribe persons as deposit-takers

- (1) This section applies to a person who receives deposits in the course of carrying on business or activities and—
- (a) is for the time being prescribed by order by the Treasury for the purposes of this section, or
  - (b) is a member of a class of persons which is for the time being so prescribed.
- (2) An order under this section may prescribe a person or class of person—
- (a) in relation to all deposits which are relevant investments, or
  - (b) in relation to deposits which are relevant investments of a kind specified in the order.
- (3) If a person is prescribed only in relation to deposits which are relevant investments of a kind specified in the order, the reference in section <sup>F1664</sup>876(1)(b) to “relevant investment” is to be read as a reference only to relevant investments of the kind so specified.

#### Textual Amendments

- F1664** Word in s. 854(3) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 8](#)

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## 855 Meaning of “investment” and “deposit”

[<sup>F1665</sup>(1) In this Chapter, and section 876, “investment” means a deposit with a deposit-taker.]

- (2) In this Chapter “deposit” means a sum of money paid on terms which mean that it will be repaid (with or without interest)—
- (a) on demand, or
  - (b) at a time or in circumstances agreed by or on behalf of the person who pays it and the person who receives it.

### Textual Amendments

**F1665S.** 855(1) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 9](#)

## 856 Investments which are relevant investments

- (1) An investment is a relevant investment for the purposes of [<sup>F1666</sup>section 876] if it meets—
- (a) the individual interest condition (see subsection (3)),
  - (b) the Scottish partnership condition (see subsection (4)),
  - (c) the personal representative condition (see subsection (5)), or
  - (d) the settlement condition (see subsection (6)).
- (2) But an investment is not a relevant investment if any of sections [<sup>F1667</sup>863] to 870 prevent it from being a relevant investment.
- (3) An investment meets the individual interest condition if the only persons beneficially entitled to interest on the investment are individuals.
- (4) An investment meets the Scottish partnership condition if—
- (a) a Scottish partnership is beneficially entitled to all interest on the investment, and
  - (b) that partnership consists only of individuals.
- (5) An investment meets the personal representative condition if personal representatives are entitled to any interest on the investment and they receive it in that capacity.
- (6) An investment meets the settlement condition if all interest on the investment is income arising to the trustees of a discretionary or accumulation settlement and they receive it in that capacity.

For the meaning of “discretionary or accumulation settlement”, see section 873(1).

### Textual Amendments

**F1666**Words in s. 856(1) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 10\(2\)](#)

**F1667**Word in s. 856(2) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 10\(3\)](#)

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**857 Investments to be treated as being or as not being relevant investments**

- (1) A deposit-taker <sup>F1668</sup> ... must treat every investment with it as a relevant investment unless satisfied that the investment is not a relevant investment.
- (2) If a deposit-taker <sup>F1668</sup> ... is satisfied that an investment is not a relevant investment, it may continue to treat the investment as not being a relevant investment until subsection (3) applies.
- (3) This subsection applies when the deposit-taker <sup>F1668</sup> ... has information which can reasonably be taken to indicate that the investment is or may be a relevant investment.

**Textual Amendments**

**F1668** Words in s. 857 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), [Sch. 6 para. 11](#)

*F1669* ...

**Textual Amendments**

**F1669** S. 858 cross-heading omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), [Sch. 6 para. 12\(b\)](#)

<sup>F1670</sup> **858 Declarations of non-UK residence: individuals**

.....

**Textual Amendments**

**F1670** Ss. 858-861 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), [Sch. 6 para. 12\(a\)](#)

<sup>F1670</sup> **859 Declarations of non-UK residence: Scottish partnerships**

.....

**Textual Amendments**

**F1670** Ss. 858-861 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), [Sch. 6 para. 12\(a\)](#)

<sup>F1670</sup> **860 Declarations of non-UK residence: personal representatives**

.....

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#### Textual Amendments

F1670Ss. 858-861 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 12(a)**

### F1670 861 Declarations of non-UK residence: settlements

.....

#### Textual Amendments

F1670Ss. 858-861 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 12(a)**

### F1671 862 Inspection of declarations

.....

#### Textual Amendments

F1671S. 862 omitted (13.8.2009) by virtue of The Finance Act 2009, Schedule 47 (Consequential Amendments) Order 2009 (S.I. 2009/2035), art. 1, **Sch. para. 51**

*[<sup>F1672</sup>Investments] which are not relevant investments*

#### Textual Amendments

F1672Word in s. 863 cross-heading substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 6 para. 13**

### 863 General client account deposits

- (1) An investment is not a relevant investment if it is a general client account deposit.
- (2) An investment is a general client account deposit for the purposes of this section if—
  - (a) it is a deposit held by a deposit-taker <sup>F1673</sup>... in a client account, and
  - (b) provision made under any enactment requires the person whose account it is to make payments representing interest to some or all of the clients for whom, or on whose account, that person received the sums deposited in the account.
- (3) But an investment is not a general client account deposit if the account in which it is held is identified by the deposit-taker <sup>F1673</sup>... as one in which sums are held only for one or more particular clients of the person whose account it is.

#### Textual Amendments

F1673Words in s. 863 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 14**

*Status: Point in time view as at 22/02/2024.*

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### 864 Qualifying uncertificated eligible debt security units

An investment is not a relevant investment if it is a deposit in respect of which a deposit-taker <sup>F1674</sup> ... has issued a qualifying uncertificated eligible debt security unit (see section 986).

#### Textual Amendments

**F1674** Words in s. 864 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 14](#)

### 865 Qualifying certificates of deposit

An investment is not a relevant investment if it is a deposit in respect of which a deposit-taker <sup>F1675</sup> ... has issued a qualifying certificate of deposit (see section 985).

#### Textual Amendments

**F1675** Words in s. 865 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 14](#)

### 866 Qualifying time deposits

- (1) An investment is not a relevant investment if it is a qualifying time deposit [<sup>F1676</sup>made before 6 April 2012].
- (2) An investment is a qualifying time deposit for the purposes of this section if—
  - (a) it is a deposit consisting of a loan of at least £50,000,
  - (b) the terms of the deposit require its repayment at a specified time within 5 years beginning with the date on which it is made,
  - (c) those terms do not make provision for the transfer of the right to repayment, and
  - (d) those terms prevent partial withdrawals of, or additions to, the deposit.
- (3) If a deposit is denominated in a foreign currency, subsection (2)(a) has effect as if it referred to an amount which is at least the equivalent in that currency of £50,000 at the time the deposit is made.

#### Textual Amendments

**F1676** Words in s. 866(1) inserted (6.4.2012) (retrospective and with effect in accordance with s. 18(2) of the amending Act) by [Finance Act 2012 \(c. 14\)](#), [s. 18\(1\)](#)

### 867 Lloyd's premium trust funds

- (1) An investment is not a relevant investment if it forms part of a premium trust fund of an underwriting or former underwriting member of Lloyd's.
- (2) In this section “premium trust fund” has the meaning given in section 184 of FA 1993.

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## 868 Investments held outside the United Kingdom

- (1) An investment with a deposit-taker is not a relevant investment if—
  - (a) the deposit-taker is UK resident for income tax purposes or corporation tax purposes, and
  - (b) the investment is held at a branch of the deposit-taker situated outside the United Kingdom.
- (2) An investment with a deposit-taker is not a relevant investment if—
  - (a) the deposit-taker is non-UK resident for income tax purposes or corporation tax purposes, and
  - (b) the investment is not held at a branch of the deposit-taker situated in the United Kingdom.

<sup>F1677</sup>(3) .....

- (4) For the purposes of this section an investment is held at a branch of a deposit-taker <sup>F1678</sup>... if the investment is recorded in its books as a liability of that branch.

### Textual Amendments

**F1677S.** 868(3) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 15](#)

**F1678** Words in s. 868(4) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 14](#)

## <sup>F1679</sup>869 Sale and repurchase of securities

.....

### Textual Amendments

**F1679S.** 869 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 15](#)

## 870 Other investments

- (1) An investment with a deposit-taker is not a relevant investment if—
  - (a) it is a loan made by a deposit-taker in the ordinary course of its business or activities,
  - (b) it is a debt on a security which is listed on a recognised stock exchange, or
  - (c) it is a debt on a debenture issued by the deposit-taker (see section 1022).

<sup>F1680</sup>(2) .....

### Textual Amendments

**F1680S.** 870(2) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 15](#)

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### Supplementary

#### **F1681 871 Power to make regulations to give effect to Chapter**

.....

**Textual Amendments**  
**F1681**S. 871 omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 16**

#### **872 Power to make orders amending Chapter**

- (1) The Treasury may by order amend this Chapter for the purposes of providing that investments of a kind specified in the order are, or are not, relevant investments.
- (2) An order under this section [<sup>F1682</sup>may amend this Chapter]—
  - (a) in [<sup>F1683</sup>its application] to all deposit-takers, or
  - (b) in [<sup>F1683</sup>its application] to such deposit-takers or classes of deposit-taker as the order may specify.
- (3) An order under this section may contain incidental, supplemental, consequential and transitional provision and savings.

<sup>F1684</sup>(4) .....

<sup>F1684</sup>(5) .....

**Textual Amendments**  
**F1682** Words in s. 872(2) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 6 para. 17(a)(i)**  
**F1683** Words in s. 872(2)(a)(b) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 2016 (c. 24), **Sch. 6 para. 17(a)(ii)**  
**F1684**S. 872(4)(5) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 17(b)**

#### **873 Discretionary or accumulation settlements**

- (1) A settlement is a discretionary or accumulation settlement for the purposes of this Chapter if any income arising to the trustees would (unless treated as income of the settlor) be to any extent income within subsection (2) for the tax year in which it arises.
- (2) Income is within this subsection so far as it is—
  - (a) accumulated or discretionary income as defined in section 480 (other than income arising under a [<sup>F1685</sup>charitable trust] or an unauthorised unit trust in relation to which [<sup>F1686</sup>regulation 12 of the Unauthorised Unit Trusts (Tax) Regulations 2013] applies), or
  - (b) an amount of a type set out in section 482 (unless the trust is a unit trust scheme or the amount is income arising under a [<sup>F1687</sup>charitable trust] or is excluded by section 481(5)).



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- F1688(3) .....
- F1688(4) .....
- F1688(5) .....
- F1688(6) .....

#### Textual Amendments

- F1685** Words in s. 873(2)(a) substituted (8.3.2012) (with effect in accordance with art. 17 of the commencing S.I.) by [Finance Act 2010 \(c. 13\)](#), [Sch. 6 paras. 23\(5\)](#), 34(2); S.I. 2012/736, art. 17
- F1686** Words in s. 873(2)(a) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), [37\(12\)](#) (with reg. 32)
- F1687** Words in s. 873(2)(b) substituted (8.3.2012) (with effect in accordance with art. 17 of the commencing S.I.) by [Finance Act 2010 \(c. 13\)](#), [Sch. 6 paras. 23\(5\)](#), 34(2); S.I. 2012/736, art. 17
- F1688** S. 873(3)-(6) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 18](#)

## CHAPTER 3

### DEDUCTION FROM CERTAIN PAYMENTS OF YEARLY INTEREST

#### *Duty to deduct sums representing income tax*

#### **874 Duty to deduct from certain payments of yearly interest**

- (1) This section applies if a payment of yearly interest arising in the United Kingdom is made—
  - (a) by a company,
  - (b) by a local authority,
  - (c) by or on behalf of a partnership of which a company is a member, or
  - (d) by any person to another person whose usual place of abode is outside the United Kingdom.
- (2) The person by or through whom the payment is made must, on making the payment, deduct from it a sum representing income tax on it at the [<sup>F1689</sup>basic rate] in force for the tax year in which it is made.
- (3) But see—
  - (a) sections 875 to [<sup>F1690</sup>888E] as to circumstances in which the duty to deduct a sum under this section is disapplied, and
  - (b) Chapter 11 (payments between companies etc) for a further exception from the duty to deduct under this section.
- (4) See also regulations made under section 17(3) of F(No.2)A 2005 (authorised investment funds)—
  - (a) for provision treating certain amounts shown in the distribution accounts of authorised investment funds as payments of yearly interest, and

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- (b) for exceptions from the duty to deduct under this section which would otherwise apply to such payments.
- (5) For the purposes of subsection (1) the following are to be treated as payments of yearly interest—
- (a) a payment of interest made by a [<sup>F1691</sup>registered society] in respect of any mortgage, loan, loan stock or deposit, and
- (b) any interest, dividend, bonus or other sum payable to a shareholder of such a society by reference to the amount of the shareholder's holding in the share capital of the society.
- [<sup>F1692</sup>(5A) For the purposes of subsection (1) a payment of interest which is payable to an individual in respect of compensation is to be treated as a payment of yearly interest (irrespective of the period in respect of which the interest is paid).
- (5B) But the Commissioners for Her Majesty's Revenue and Customs may make regulations which provide that subsection (5A) does not apply in the circumstances prescribed in the regulations.]
- (6) For the purposes of subsection (1)—
- (a) a payment made by a company in a fiduciary or representative capacity is not to be treated as a payment made by the company, and
- (b) a payment made by a local authority in a fiduciary or representative capacity is not to be treated as a payment made by the local authority.
- [<sup>F1693</sup>(6A) In determining for the purposes of subsection (1) whether a payment of interest arises in the United Kingdom no account is to be taken of the location of any deed which records the obligation to pay the interest.]
- (7) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—
- (a) see Chapter 15 if the person making the payment is a UK resident company, and
- (b) otherwise see Chapter 16.

#### Textual Amendments

- F1689** Words in s. 874(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 26**
- F1690** Word in s. 874(3) substituted (27.4.2017) by [Finance Act 2017 \(c. 10\)](#), **Sch. 5 para. 4**
- F1691** Words in s. 874(5)(a) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, **Sch. 4 para. 109** (with Sch. 5)
- F1692** S. 874(5A)(5B) inserted (with effect in accordance with Sch. 11 para. 12(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 11 para. 2**
- F1693** S. 874(6A) inserted (with effect in accordance with Sch. 11 para. 12(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 11 para. 5**

#### Modifications etc. (not altering text)

- C156** S. 874 restricted by [The Income Tax \(Deposit-takers and Building Societies\) \(Interest Payments\) Regulations 2008 \(S.I. 2008/2682\)](#), reg. 4B (as inserted (with effect in accordance with reg. 1(3) of the amending S.I.) by [S.I. 2011/22](#), regs. 1(1), 7)
- C157** S. 874 applied by [S.I. 2006/964](#), reg. 69Z23(2) (as inserted (6.4.2008) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2008 \(S.I. 2008/705\)](#), regs. 1, 5)

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**C158** S. 874 restricted (with effect in accordance with reg. 1(2)(3) of the amending S.I.) by [The Taxation of Regulatory Capital Securities Regulations 2013 \(S.I. 2013/3209\)](#), regs. 1(1), **6** (with reg. 8)

**C159** S. 874 excluded (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Risk Transformation \(Tax\) Regulations 2017 \(S.I. 2017/1271\)](#), regs. 1(1), **5**

### *Exceptions from duty to deduct*

#### **875 Interest paid by building societies**

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest made by a building society [<sup>F1694</sup>unless it is treated as a payment of yearly interest by virtue of section 874(5A).]

##### **Textual Amendments**

**F1694** Words in s. 875 inserted (with effect in accordance with Sch. 11 para. 12(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 11 para. 3**

#### <sup>F1695</sup>**876 Interest paid by deposit-takers**

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on an investment if—
- (a) the payment is made by a deposit-taker, and
  - (b) when the payment is made, the investment is a relevant investment.

(1A) In this section “deposit-taker”, “investment” and “relevant investment” have the meaning given by Chapter 2.]

##### **Textual Amendments**

**F1695** S. 876(1)(1A) substituted for s. 876(1) (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 2**

#### **877 UK public revenue dividends**

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest [<sup>F1696</sup>that is] a UK public revenue dividend [<sup>F1697</sup>(as defined by section 891)].

##### **Textual Amendments**

**F1696** Words in s. 877 substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 26(a)**

**F1697** Words in s. 877 inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 6 para. 26(b)**

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## 878 Interest paid by banks

(1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest made by a bank if that payment is made in the ordinary course of its business.

[<sup>F1698</sup>(1A) But that duty does apply to such a payment if it is treated as a payment of yearly interest by virtue of section 874(5A).]

(2) Section 991 (meaning of “bank”) applies for the purposes of this section.

### Textual Amendments

**F1698S.** 878(1A) inserted (with effect in accordance with Sch. 11 para. 12(1) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), **Sch. 11 para. 4**

### Modifications etc. (not altering text)

**C160** S. 878 modified (1.1.2010) by [The Northern Rock plc \(Tax Consequences\) Regulations 2009 \(S.I. 2009/3227\)](#), regs. 1, **7(1)**

**C161** S. 878 excluded (with effect in accordance with reg. 1(2)(3) of the amending S.I.) by [The Taxation of Regulatory Capital Securities Regulations 2013 \(S.I. 2013/3209\)](#), regs. 1(1), **9(a)**

## 879 Interest paid on advances from banks

(1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on an advance from a bank if, at the time when the payment is made, the person beneficially entitled to the interest is within the charge to corporation tax as respects the interest [<sup>F1699</sup>or is a bank that would be within the charge to corporation tax as respects the interest apart from section 18A of CTA 2009].

(2) Section 991 (meaning of “bank”) applies for the purposes of this section.

(3) Subsection (1) applies to the European Investment Bank as if the words from “if” to the end were omitted.

(4) An order under subsection (2)(e) of section 991 designating an international organisation as a bank may provide that subsection (1) applies to the organisation with the modification mentioned in subsection (3).

### Textual Amendments

**F1699** Words in s. 879(1) inserted (19.7.2011) by [Finance Act 2011 \(c. 11\)](#), **Sch. 13 paras. 19, 31**

## 880 Interest paid on advances from building societies

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on an advance from a building society.

## 881 National Savings Bank interest

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on deposits with the National Savings Bank.

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## 882 Quoted Eurobond interest

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on a quoted Eurobond (see section 987).

## 883 Interest on loan to buy life annuity

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest to which section 369 of ICTA applies (interest on loan to buy life annuity payable under deduction of tax).

## 884 Relevant foreign income

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest which is chargeable to income tax as relevant foreign income.
- (2) For the meaning of “relevant foreign income”, see section 989.

## 885 Authorised persons dealing in financial instruments

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest made by a person authorised for the purposes of FISMA 2000 if—
  - (a) the person's business consists wholly or mainly of dealing in financial instruments as principal, and
  - (b) the payment is made by that person in the ordinary course of that business.
- (2) For the meaning of “financial instrument”, see section 984.

### Modifications etc. (not altering text)

**C162** S. 885 excluded (with effect in accordance with reg. 1(2)(3) of the amending S.I.) by [The Taxation of Regulatory Capital Securities Regulations 2013 \(S.I. 2013/3209\)](#), regs. 1(1), **9(b)**

## 886 Interest paid by recognised clearing houses etc

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest made by a <sup>F1700</sup>relevant entity] if—
  - (a) the <sup>F1701</sup>relevant entity] is carrying on business as the provider of a central counterparty clearing service <sup>F1702</sup>or as a central securities depository], and
  - (b) the interest is paid in the ordinary course of that business, on margin or other collateral deposited with it by users of the service <sup>F1703</sup>or as a central securities depository].
- (2) The duty to deduct a sum representing income tax under section 874 does not apply to interest treated by virtue of section 607 (treatment of price differences under repos)<sup>F1704</sup>, or paragraph 5 of Schedule 13 to FA 2007 (relief for borrower for finance charges in case of debtor repos and debtor quasi-repos),] as paid by <sup>F1705</sup>a relevant entity] in respect of contracts made by it as the provider of a central counterparty clearing service <sup>F1706</sup>or as a central securities depository] .
- (3) In this section—

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“central counterparty clearing service” means the service provided by <sup>F1707</sup>[a relevant entity] to the parties to a transaction where there are contracts between each of the parties and <sup>F1707</sup>[the relevant entity] (in place of, or as an alternative to, a contract directly between the parties), and

<sup>F1708</sup>“relevant entity”, means any of the following (as defined for the purposes of FISMA 2000 by section 285 of that Act)—

- (a) a recognised clearing house;
- (b) a recognised investment exchange;
- (c) <sup>F1709</sup>...
- (d) a third country central counterparty.
- (e) <sup>F1710</sup>[a recognised CSD;
- (f) <sup>F1709</sup>...
- (g) a third country CSD.]]

<sup>F1711</sup>  
 .....

#### Textual Amendments

- F1700** Words in s. 886(1) substituted (1.4.2013) by [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(a)(i)** (with regs. 52-58)
- F1701** Words in s. 886(1)(a) substituted (1.4.2013) by [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(a)(ii)** (with regs. 52-58)
- F1702** Words in s. 886(1)(a) inserted (28.11.2017) by [The Central Securities Depositories Regulations 2017 \(S.I. 2017/1064\)](#), reg. 1, **Sch. para. 12(a)(i)** (with regs. 7(4), 9(1))
- F1703** Words in s. 886(1)(b) inserted (28.11.2017) by [The Central Securities Depositories Regulations 2017 \(S.I. 2017/1064\)](#), reg. 1, **Sch. para. 12(a)(ii)** (with regs. 7(4), 9(1))
- F1704** Words in s. 886(2) inserted (with effect in accordance with art. 3 of the commencing S.I.) by [Finance Act 2007 \(c. 11\)](#), s. 47(4), **Sch. 14 para. 24**; S.I. 2007/2483, art. 3
- F1705** Words in s. 886(2) substituted (1.4.2013) by [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(b)** (with regs. 52-58)
- F1706** Words in s. 886(2) inserted (28.11.2017) by [The Central Securities Depositories Regulations 2017 \(S.I. 2017/1064\)](#), reg. 1, **Sch. para. 12(b)** (with regs. 7(4), 9(1))
- F1707** Words in s. 886(3) substituted (1.4.2013) by [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(c)(i)** (with regs. 52-58)
- F1708** Words in s. 886(3) inserted (1.4.2013) by [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(c)(iii)** (with regs. 52-58)
- F1709** Words in s. 886(3) omitted (31.12.2020) by virtue of [The Financial Services \(Miscellaneous\) \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/710\)](#), regs. 1(3), **4** (with reg. 39) (as amended by S.I. 2020/1301, regs. 1, 3, Sch. para. 43(1)); 2020 c. 1, Sch. 5 para. 1(1)
- F1710** Words in s. 886(3) inserted (28.11.2017) by [The Central Securities Depositories Regulations 2017 \(S.I. 2017/1064\)](#), reg. 1, **Sch. para. 12(c)** (with regs. 7(4), 9(1))
- F1711** Words in s. 886(3) omitted (1.4.2013) by virtue of [The Financial Services and Markets Act 2000 \(Over the Counter Derivatives, Central Counterparties and Trade Repositories\) Regulations 2013 \(S.I. 2013/504\)](#), regs. 1(2), **24(2)(c)(ii)** (with regs. 52-58)

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#### **Modifications etc. (not altering text)**

**C163** S. 886 modified (temp.) (31.12.2020) by [The Financial Services \(Miscellaneous\) \(Amendment\) \(EU Exit\) Regulations 2019 \(S.I. 2019/710\)](#), regs. 1(3), **39**; 2020 c. 1, Sch. 5 para. 1(1)

### **887** [<sup>F1712</sup>**Payments made by registered societies**]

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to either of the following payments if they are payable to a person whose usual place of abode is in the United Kingdom—
  - (a) a payment of interest made by a [<sup>F1713</sup>registered society] in respect of any mortgage, loan, loan stock or deposit, or
  - (b) any interest, dividend, bonus or other sum payable to a shareholder of such a society by reference to the amount of the shareholder's holding in the share capital of the society.
- (2) A [<sup>F1714</sup>registered society] must, within 3 months after the end of each of its accounting periods, deliver to an officer of Revenue and Customs a return containing the information mentioned in subsection (3).
- (3) That information is—
  - (a) the name and place of residence of every person to whom the society has, as a result of this section, made one or more payments in the period amounting in total to at least £15 without deducting a sum (or sums) representing income tax, and
  - (b) the amount so paid in the period to each of those persons.
- (4) See [<sup>F1715</sup>section 500(2) of CTA 2009] as to the consequences of not making a return as required by subsection (2).
- [<sup>F1716</sup>(5) In this Chapter “registered society” means—
  - (a) a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014,
  - (b) a society registered or treated as registered under the Industrial and Provident Societies Act (Northern Ireland) 1969.
  - (c) a society registered as a credit union under the Credit Unions (Northern Ireland) Order 1985 (S.I. 1985/1205 (N.I. 12)), or
  - (d) an SCE formed in accordance with Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society.]
- (6) For the purposes of this section crediting interest (or amounts treated as interest) counts as paying it.

#### **Textual Amendments**

**F1712**S. 887 heading substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, **Sch. 4 para. 110(2)** (with Sch. 5)

**F1713**Words in s. 887(1)(a) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, **Sch. 4 para. 110(3)** (with Sch. 5)

**F1714**Words in s. 887(2) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, **Sch. 4 para. 110(4)** (with Sch. 5)

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- F1715** Words in s. 887(4) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 307](#) (with [Sch. 9 paras. 1-9, 22](#))
- F1716** S. 887(5) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\), s. 154, Sch. 4 para. 110\(5\)](#) (with [Sch. 5](#)) (as amended (1.8.2014) by [Finance Act 2014 \(c. 26\), Sch. 39 paras. 11, 15](#))

## 888 Statutory interest

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest made by virtue of the contractual term implied by section 1(1) of the Late Payment of Commercial Debts (Interest) Act 1998 (c. 20) (statutory interest).

### [<sup>F1717</sup> 888] Qualifying private placements

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on a qualifying private placement.
- (2) “Qualifying private placement” means a security—
  - (a) which represents a loan relationship to which a company is a party as debtor,
  - (b) which is not listed on a recognised stock exchange, and
  - (c) in relation to which such other conditions as the Treasury may specify by regulations are met.
- (3) The conditions which may be specified under subsection (2)(c) include conditions relating to—
  - (a) the security itself,
  - (b) the loan relationship represented by the security,
  - (c) the terms on which, or circumstances under which, the security or loan relationship is entered into,
  - (d) the company which is party to the loan relationship as debtor,
  - (e) any person by or through whom a payment of interest on the security is made, or
  - (f) the holder of the security.
- (4) Regulations under this section may make provision about the consequences of failing to make a deduction under section 874, in respect of a payment of interest on a security, in cases where the person required to make the deduction had a reasonable, but mistaken, belief that the security was a qualifying private placement.
- (5) Regulations under this section may—
  - (a) make different provision for different cases;
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (6) In this section “loan relationship” has the same meaning as in Part 5 of CTA 2009.]

#### Textual Amendments

- F1717** S. 888A inserted (26.3.2015 for specified purposes, 1.1.2016 in so far as not already in force) by [Finance Act 2015 \(c. 11\), s. 23\(1\)\(2\)\(3\); S.I. 2015/2035, reg. 2](#)



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## <sup>F1718</sup>**888B Designated dividends of investment trusts**

The duty to deduct a sum representing income tax under section 874 does not apply to a dividend so far as it is treated as a payment of yearly interest by regulations under section 45 of FA 2009 (dividends designated by investment trust or prospective investment trust).

### Textual Amendments

**F1718**Ss. 888B-888D inserted (with effect in accordance with Sch. 5 para. 5(1) of the amending Act) by Finance Act 2017 (c. 10), **Sch. 5 para. 1**

## **888C Interest distributions of certain open-ended investment companies**

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of yearly interest under section 373 of ITTOIA 2005 (in the case of certain open-ended investment companies, payments of yearly interest treated as made where distributable amount shown in accounts as yearly interest).

### Textual Amendments

**F1718**Ss. 888B-888D inserted (with effect in accordance with Sch. 5 para. 5(1) of the amending Act) by Finance Act 2017 (c. 10), **Sch. 5 para. 1**

## **888D Interest distribution of certain authorised unit trusts**

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of yearly interest under section 376 of ITTOIA 2005 (in the case of certain authorised unit trusts, payments of yearly interest treated as made where distributable amount shown in accounts as yearly interest).]

### Textual Amendments

**F1718**Ss. 888B-888D inserted (with effect in accordance with Sch. 5 para. 5(1) of the amending Act) by Finance Act 2017 (c. 10), **Sch. 5 para. 1**

## <sup>F1719</sup>**888DA Payments of interest by a QAHC**

The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest (however the interest arises) by a QAHC (within the meaning of Schedule 2 to FA 2022).]

### Textual Amendments

**F1719**S. 888DA inserted (24.2.2022) by Finance Act 2022 (c. 3), **Sch. 2 para. 55**

*Status: Point in time view as at 22/02/2024.*

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## **[<sup>F1720</sup>888] Interest on certain peer-to-peer lending**

- (1) The duty to deduct a sum representing income tax under section 874 does not apply to a payment of interest on an amount of peer-to-peer lending.
- (2) In subsection (1) “peer-to-peer lending” means credit in relation to which the condition in subsection (4) is met.
- (3) In this section—
  - “original borrower”, in relation to any credit, means the person to whom the credit is originally provided,
  - “credit” includes a cash loan and any other form of financial accommodation, and
  - “original lender”, in relation to any credit, means the person who originally provides the credit.
- (4) The condition is that—
  - (a) the original borrower and the original lender enter the agreement under which the credit is provided at the invitation of a person (“the operator”),
  - (b) the operator makes the invitation in the course of, or in connection with, operating an electronic system,
  - (c) the operator's operation of the electronic system is an activity specified in article 36H(1) or (2D) of the Order (operating an electronic system in relation to lending), and
  - (d) the operator has permission under Part 4A of FISMA 2000 to carry on that activity.
- (5) For the purposes of subsection (4), it does not matter if the agreement mentioned in subsection (4)(a) is not an article 36H agreement (as defined in article 36H of the Order).
- (6) The Commissioners for Her Majesty's Revenue and Customs may by regulations make such amendments of the preceding provisions of this section as they consider appropriate in consequence of—
  - (a) the Order, or any part of it, being replaced (or further replaced) by provision in another instrument, or
  - (b) any amendment of the Order or any such other instrument.
- (7) In this section “the Order” means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544).]

### **Textual Amendments**

**F1720S. 888E** inserted (with effect in accordance with Sch. 5 para. 5(2) of the amending Act) by [Finance Act 2017 \(c. 10\)](#), [Sch. 5 para. 3](#)

*Status: Point in time view as at 22/02/2024.*

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## CHAPTER 4

### DEDUCTION FROM PAYMENTS IN RESPECT OF BUILDING SOCIETY SECURITIES

#### 889 Payments in respect of building society securities

- (1) This section applies to any payment made in a tax year if—
  - (a) it is a payment of a dividend or interest in respect of a security issued by a building society, and
  - (b) conditions A and B are met in relation to the security.
- (2) Condition A is that the security was listed or capable of being listed on a recognised stock exchange at the time the dividend or interest became payable.
- (3) Condition B is that the security is not—
  - (a) a qualifying certificate of deposit (see section 985),
  - (b) a qualifying uncertificated eligible debt security unit (see section 986), or
  - (c) a quoted Eurobond (see section 987).
- (4) The person by or through whom the payment is made must, on making it, deduct from it a sum representing income tax on it at the [<sup>F1721</sup>basic rate] in force for the tax year.
- (5) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.
- (6) See also Chapter 11 (payments between companies) for an exception from the duty to deduct sums representing income tax under this section.
- (7) In this section—
  - “dividend” includes any distribution (whether or not described as a dividend), and
  - “security” includes a share (and, in particular, a permanent interest bearing share as defined in section 117 of TCGA 1992).

#### Textual Amendments

**F1721** Words in s. 889(4) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 27](#)

#### Modifications etc. (not altering text)

**C164** S. 889 excluded (1.3.2013) by [The Building Societies \(Core Capital Deferred Shares\) Regulations 2013 \(S.I. 2013/460\)](#), regs. 1(1), **3(1)(c)** (with reg. 1(2))

**C165** S. 889 restricted (with effect in accordance with reg. 1(2)(3) of the amending S.I.) by [The Taxation of Regulatory Capital Securities Regulations 2013 \(S.I. 2013/3209\)](#), regs. 1(1), **6** (with reg. 8)

*Status: Point in time view as at 22/02/2024.*

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## CHAPTER 5

### DEDUCTION FROM PAYMENTS OF UK PUBLIC REVENUE DIVIDENDS

#### *Introduction*

#### **890 Overview of Chapter**

- (1) This Chapter contains provision about the deduction of sums representing income tax from payments of UK public revenue dividends.
- (2) Section 891 defines “UK public revenue dividend”.
- (3) Section 892 contains a duty to deduct sums representing income tax from payments of UK public revenue dividends unless they are payable gross.
- (4) Sections 893 and 894 explain when such payments are payable gross.
- (5) Sections 895 and 896 make provision for the making, and withdrawal, of applications for payments to be subject to the duty to deduct under this Chapter.
- (6) Section 897 contains a regulation-making power in connection with payments from which sums must be deducted under this Chapter.

#### **891 Meaning of “UK public revenue dividend”**

In this Chapter “UK public revenue dividend” means any income from securities which—

- (a) is paid out of the public revenue of the United Kingdom or Northern Ireland, but
- (b) is not interest on local authority stock.

#### *Duty to deduct sums representing income tax*

#### **892 Duty to deduct from certain UK public revenue dividends**

- (1) This section has effect if—
  - (a) a payment of a UK public revenue dividend is made, and
  - (b) it is not payable gross under section 893.
- (2) The person by or through whom the payment is made must, on making the payment, deduct from it a sum representing income tax on it at the [<sup>F1722</sup>basic rate] in force for the tax year in which it is made.
- (3) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.

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#### Textual Amendments

**F1722** Words in s. 892(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 28](#)

### *Payments which are payable gross*

#### **893 Payments of UK public revenue dividends which are payable gross**

- (1) A payment of a UK public revenue dividend is payable gross if—
  - (a) it is a payment of interest on gross-paying government securities, and
  - (b) no deduction at source application has effect in respect of the securities at the time the payment is made (see section 895).
- (2) In this Chapter “gross-paying government securities” means—
  - (a) gilt-edged securities (see section 1024),  
**[<sup>F1723</sup>(aa)** securities, so far as they are not gilt-edged securities, issued or treated as issued under—
    - (i) the National Loans Act 1939, or
    - (ii) the National Loans Act 1968,] or
  - (b) securities which are the subject of a Treasury direction under section **[<sup>F1724</sup>894(3)]**.

#### Textual Amendments

**F1723** S. 893(2)(aa) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 27\(2\)\(a\)](#)

**F1724** Word in s. 893(2)(b) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 6 para. 27\(2\)\(b\)](#)

#### **894 Treasury directions**

**<sup>F1725</sup>(1)** .....

**<sup>F1725</sup>(2)** .....

- (3) The Treasury may, at the request of the Department of Finance and Personnel for Northern Ireland, direct that any securities issued under section 11(1)(c) of the Exchequer and Financial Provisions Act (Northern Ireland) 1950 (c. 3 (N.I.)) are gross-paying government securities.
- (4) In relation to any securities which are gross-paying government securities by virtue of a direction under subsection (3)—
  - (a) references in sections 895 and 896 to “the Registrar” are to be read as references to the bank in the books of which the securities are registered or inscribed, and
  - (b) references in those sections to the Treasury are to be read as references to the Department of Finance and Personnel for Northern Ireland.

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- (5) A direction under subsection <sup>F1726</sup>... (3) in respect of any securities may provide that the direction is to have effect in relation only to payments of interest on the securities made on or after a date specified in the direction.

#### Textual Amendments

**F1725S.** 894(1)(2) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 27(3)(a)**

**F1726**Word in s. 894(5) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 27(3)(b)**

### *Deduction at source applications*

#### 895 Deduction at source application

- (1) The holder of registered gross-paying government securities may make a deduction at source application in respect of the securities.
- (2) A deduction at source application in respect of any securities is an application—
  - (a) for payments of interest on those securities to be subject to the duty to deduct sums representing income tax under section 892,
  - (b) made to the Registrar, and
  - (c) made in such form as the Registrar may, with the approval of the Treasury, prescribe.
- (3) A deduction at source application in respect of any securities has effect from the date which is one month after the date on which it is made until—
  - (a) the securities cease to be registered in the name of the person who made the application, or
  - (b) the application ceases to have effect under section 896 following its withdrawal in accordance with that section.
- (4) If any registered gross-paying government securities are held on trust, the holders of the securities may make a deduction at source application in respect of them without the consent of any other person.
- (5) Subsection (4) applies despite anything in the instrument creating the trust.
- (6) In this Chapter—
 

“registered” means—

  - (a) entered in the register of the Registrar, or
  - (b) entered in a register maintained in accordance with regulations under [<sup>F1727</sup>section 785 of the Companies Act 2006 (provision enabling procedures for evidencing and transferring title),] and

“the Registrar” means the person or persons appointed in accordance with regulations under section 47(1)(b) of FA 1942 (see regulation 3 of the Government Stock Regulations 2004 (S.I. 2004/1611)).

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### Textual Amendments

**F1727** Words in s. 895(6) substituted (6.4.2008) by [Companies Act 2006 \(Consequential Amendments\) \(Taxes and National Insurance\) Order 2008 \(S.I. 2008/954\)](#), arts. 1(1), **40** (with art. 4)

## 896 Withdrawal of application

- (1) A deduction at source application may be withdrawn by notice given to the Registrar by the holder of the securities.
- (2) The notice must be given in such form as the Registrar may, with the approval of the Treasury, prescribe.
- (3) If withdrawn, a deduction at source application ceases to have effect on the date which is one month after the date on which the notice of withdrawal is received by the Registrar.

### *Regulations*

## 897 Power to make regulations

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations—
  - (a) make provision as to the time and manner in which persons are to account for and pay income tax in respect of payments from which they are required to deduct sums representing income tax under section 892, and
  - (b) otherwise modify the provisions of section 892 and Chapters 15 and 16 in their application to such payments.
- (2) Regulations under this section may—
  - (a) make different provision for different descriptions of UK public revenue dividend and for different circumstances, and
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (3) The Commissioners for Her Majesty's Revenue and Customs must not make any regulations under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.

## CHAPTER 6

### DEDUCTION FROM ANNUAL PAYMENTS AND PATENT ROYALTIES

### *Introduction*

## 898 Overview of Chapter

- (1) This Chapter deals with the deduction of sums representing income tax from—
  - (a) qualifying annual payments, and
  - (b) royalties or other sums paid in respect of the use of patents.

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- (2) See also—
- (a) Chapter 11 (payments between companies etc) for an exception from the duties to deduct sums representing income tax under this Chapter,
  - (b) Chapter 4 of Part 8, which gives relief for certain payments from which sums representing income tax must be deducted under this Chapter, and
  - (c) section 615(3) of ICTA (exemption from tax in respect of certain pensions) which contains a further exception from the duties to deduct sums representing income tax under this Chapter.
- (3) If a payment to which a provision of this Chapter applies is also one to which section 906 applies, it is treated as not being a payment to which a provision of this Chapter applies.

### 899 Meaning of “qualifying annual payment”

- (1) In this Chapter “qualifying annual payment” means an annual payment that meets the conditions in subsections (2) to (5).
- (2) The payment must arise in the United Kingdom.
- (3) If the recipient is a person other than a company, the payment must be—
- (a) a payment charged to income tax under—
    - (i) Chapter 7 of Part 4 of ITTOIA 2005 (purchased life annuity payments),
    - (ii) section 579 of that Act (royalties etc from intellectual property),
    - (iii) Chapter 4 of Part 5 of that Act (certain telecommunication rights: non-trading income), or
    - (iv) Chapter 7 of Part 5 of that Act (annual payments not otherwise charged), or
  - (b) a payment charged to income tax under Part 9 of ITEPA 2003 because section 609 or 611 of that Act applies to it (certain employment-related annuities).
- (4) If the recipient is a company, the payment must be—
- (a) a payment charged to income tax as mentioned in subsection (3)(a), or
  - (b) a payment [<sup>F1728</sup>which is—
    - (i) required to be brought into account under Part 5 of CTA 2009 (loan relationships) as a non-trading credit, or
    - (ii) from a source in the United Kingdom and chargeable to corporation tax under [<sup>F1729</sup>Chapter 7 of Part 10 of that Act (annual payments not otherwise charged) or regulation 15 of the Unauthorised Unit Trusts (Tax) Regulations 2013].]
- (5) The payment must not be—
- (a) interest,
  - [<sup>F1730</sup>(b) a payment which is a qualifying payment for the purposes of Chapter 2 of Part 6 of CTA 2010 (certain payments to charity),]
  - (c) a payment which is a qualifying donation for the purposes of Chapter 2 of Part 8 (gift aid),



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- (d) a payment in relation to which income tax is treated as having been paid under section 494(3) (income tax treated as paid by beneficiary or settlor in relation to discretionary trust),
- (e) a payment which would fall within paragraph (d) but for the fact that the trustees making the payment are non-UK resident, or
- (f) an annual payment to which section 904 applies (annual payments for dividends or non-taxable consideration).

#### Textual Amendments

- F1728** Words in s. 899(4)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 707](#) (with Sch. 2 Pts. 1, 2)
- F1729** Words in s. 899(4)(b)(ii) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\), regs. 1\(3\), 37\(13\)](#) (with reg. 32)
- F1730** S. 899(5)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 554](#) (with Sch. 2)

### *Duty to deduct from annual payments*

#### **900 Deduction from commercial payments made by individuals**

- (1) This section applies to any payment made in a tax year if—
  - (a) it is a qualifying annual payment,
  - (b) the person who makes it is an individual, and
  - (c) it is made for genuine commercial reasons in connection with the individual's trade, profession or vocation.
- (2) The individual must, on making the payment, deduct from it a sum representing income tax on it at the basic rate in force for the tax year.
- (3) Income tax equal to the sum required to be deducted is to be collected through the individual's self-assessment return (see Chapter 17).

#### Modifications etc. (not altering text)

- C166** S. 900 excluded (1.1.2011) by [The London Olympic Games and Paralympic Games Tax Regulations 2010 \(S.I. 2010/2913\), regs. 1, 3\(3\)](#) (with regs. 9, 11)
- C167** Ss. 900, 901 applied by S.I. 2009/3001, reg. 124B(2) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Offshore Funds \(Tax\) \(Amendment No. 3\) Regulations 2013 \(S.I. 2013/1770\), regs. 1\(1\), 2\(3\)](#))
- C168** Ss. 900, 901 applied by S.I. 2006/964, reg. 46B(2) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2013 \(S.I. 2013/1772\), regs. 1\(1\), 2\(2\)](#))

#### **901 Deduction from annual payments made by other persons**

- (1) This section applies to any payment made in a tax year if—
  - (a) it is a qualifying annual payment, and
  - (b) the person who makes it is not an individual.

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- (2) But this section does not apply if—
- (a) an individual's personal representatives make the payment,
  - (b) the individual would have been liable to make it if the individual had not died, and
  - (c) the payment would not have been made for genuine commercial reasons in connection with the individual's trade, profession or vocation, had it been made by the individual.
- (3) If the person who makes the payment has some modified net income for the tax year (see section 1025)—
- (a) the person must, on making it, deduct from it a sum representing income tax on it at the basic rate in force for the tax year, and
  - (b) income tax equal to the sum required to be deducted is to be collected through the person's self-assessment return (see Chapter 17).
- (4) If the person who makes the payment has no modified net income for the tax year the person by or through whom the payment is made must, on making it, deduct from it a sum representing income tax on it at [<sup>F1731</sup>the basic rate in force for the tax year in which the payment is made] .
- (5) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under subsection (4)—
- (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.

#### Textual Amendments

**F1731** Words in s. 901(4) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 29](#)

#### Modifications etc. (not altering text)

**C167** Ss. 900, 901 applied by S.I. 2009/3001, reg. 124B(2) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Offshore Funds \(Tax\) \(Amendment No. 3\) Regulations 2013 \(S.I. 2013/1770\)](#), regs. 1(1), **2(3)**)

**C168** Ss. 900, 901 applied by S.I. 2006/964, reg. 46B(2) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2013 \(S.I. 2013/1772\)](#), regs. 1(1), **2(2)**)

**C169** S. 901 excluded (1.1.2011) by [The London Olympic Games and Paralympic Games Tax Regulations 2010 \(S.I. 2010/2913\)](#), regs. 1, **3(3)** (with regs. 9, 11)

#### <sup>F1732</sup>**902 Meaning of “applicable rate” in section 901**

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#### Textual Amendments

**F1732** S. 902 omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 1 para. 30](#)

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### *Duty to deduct from patent royalties*

#### **903 Deduction from patent royalties**

- (1) This section applies to any payment made in a tax year if—
  - (a) it is a payment of a royalty or other sum in respect of the use of a patent, and
  - (b) it meets the conditions in subsections (2) to (4).
- (2) The payment must not be—
  - (a) a qualifying annual payment, or
  - (b) an annual payment to which section 904 applies (annual payments for dividends or non-taxable consideration).
- (3) The payment must arise in the United Kingdom.
- (4) The payment must be one that is charged to income tax or corporation tax.
- (5) If the person who makes the payment is an individual—
  - (a) the person must, on making the payment, deduct from it a sum representing income tax on it at the basic rate in force for the tax year, and
  - (b) income tax equal to the sum required to be deducted is to be collected through the person's self-assessment return (see Chapter 17).
- (6) If the person who makes the payment is not an individual, and has some modified net income for the tax year (see section 1025)—
  - (a) the person must, on making the payment, deduct from it a sum representing income tax on it at the basic rate in force for the tax year, and
  - (b) income tax equal to the sum required to be deducted is to be collected through the person's self-assessment return (see Chapter 17).
- (7) If the person who makes the payment—
  - (a) is not an individual, and
  - (b) has no modified net income for the tax year,the person by or through whom the payment is made must, on making it, deduct from it a sum representing income tax on it at the basic rate in force for the tax year.
- (8) See Chapter 8 which makes special provision in relation to royalties (double taxation arrangements: deduction at treaty rate and EU companies: discretion to pay gross).
- (9) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under subsection (7)—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.

### *Supplementary*

#### **904 Annual payments for dividends or non-taxable consideration**

- (1) For the purposes of section 899(5)(f) and 903(2)(b) this section applies to an annual payment which meets the conditions in subsections (2) to (7).

<sup>F1733</sup>(2) The payment must be—

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- (a) a payment charged to income tax under Part 5 of ITTOIA 2005 (miscellaneous income), or
- (b) a payment which is—
  - (i) required to be brought into account under Part 5 of CTA 2009 (loan relationships) as a non-trading credit, or
  - (ii) from a source in the United Kingdom and chargeable to corporation tax under [F1734Chapter 7 of Part 10 of that Act (annual payments not otherwise charged) or regulation 15 of the Unauthorised Unit Trusts (Tax) Regulations 2013].]
- (3) The payment must be made under a liability incurred for consideration in money or money's worth all or any of which—
  - (a) consists of a dividend or the right to receive a dividend, or
  - (b) is not required to be brought into account in calculating for the purposes of income tax or corporation tax the income of the person making the payment.
- (4) The payment must not be a payment of income—
  - (a) which arises under a settlement made by one party to a marriage or civil partnership by way of provision for the other—
    - (i) after the dissolution or annulment of the marriage or civil partnership, or
    - (ii) while they are separated under an order of a court, or under a separation agreement, or if the separation is likely to be permanent, and
  - (b) which is payable to, or applicable for the benefit of, the other party.
- (5) The payment must not be made by an individual for genuine commercial reasons in connection with the individual's trade, profession or vocation.
- (6) The payment must not be made to an individual under a liability incurred at any time in consideration of the individual surrendering, assigning or releasing an interest in settled property to or in favour of a person with a subsequent interest.
- (7) The payment must not be a payment of an annuity granted in the ordinary course of a business of granting annuities.
- (8) In the application of this section to Scotland the reference in subsection (6) to settled property is to be read as a reference to property held in trust.

#### Textual Amendments

**F1733S.** 904(2) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 708](#) (with Sch. 2 Pts. 1, 2)

**F1734** Words in s. 904(2)(b)(ii) substituted (6.4.2014) by [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\), regs. 1\(3\), 37\(14\)](#) (with reg. 32)

## 905 Interpretation of Chapter

In this Chapter “individual” includes a Scottish partnership if at least one partner is an individual.

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## CHAPTER 7

### DEDUCTION FROM OTHER PAYMENTS CONNECTED WITH INTELLECTUAL PROPERTY

#### *Certain royalties etc where usual place of abode of owner is abroad*

#### **906 Certain royalties etc where usual place of abode of owner is abroad**

- [<sup>F1735</sup>(1) This section applies to any payment made in a tax year where condition A or condition B is met.
- (2) Condition A is that—
- (a) the payment is a royalty, or a payment of any other kind, for the use of, or the right to use, intellectual property (see section 907),
  - (b) the usual place of abode of the owner of the intellectual property is outside the United Kingdom, and
  - (c) the payment is charged to income tax or corporation tax.
- (3) Condition B is that—
- (a) the payment is a payment of sums payable periodically in respect of intellectual property,
  - (b) the person entitled to those sums (“the assignor”) assigned the intellectual property to another person,
  - (c) the usual place of abode of the assignor is outside the United Kingdom, and
  - (d) the payment is charged to income tax or corporation tax.]

(4) But this section does not apply if the payment is made in respect of copies of works, or articles, which have been exported from the United Kingdom for distribution outside the United Kingdom.

(5) The person by or through whom the payment is made must, on making it, deduct from it a sum representing income tax on it at the basic rate in force for the tax year.

(6) See—

    - (a) Chapter 8 which makes special provision in relation to royalties (double taxation arrangements: deduction at treaty rate and EU companies: discretion to pay gross), and
    - (b) Chapter 11 (payments between companies etc) for an exception from the duty to deduct sums representing income tax under this section.

(7) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—

    - (a) see Chapter 15 if the person making the payment is a UK resident company, and
    - (b) otherwise see Chapter 16.

(8) If a payment to which this section applies is also one to which a provision of Chapter 6 applies, it is treated as not being a payment to which a provision of Chapter 6 applies.

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#### Textual Amendments

**F1735S.** 906(1)-(3) substituted (with effect in accordance with s. 40(4) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 40\(2\)](#) (with s. 40(5)-(8))

### [<sup>F1736</sup>907 Meaning of “intellectual property”

- (1) In section 906 “intellectual property” means—
  - (a) copyright of literary, artistic or scientific work,
  - (b) any patent, trade mark, design, model, plan, or secret formula or process,
  - (c) any information concerning industrial, commercial or scientific experience, or
  - (d) public lending right in respect of a book.
- (2) In this section “copyright of literary, artistic or scientific work” does not include copyright in—
  - (a) a cinematographic film or video recording, or
  - (b) the sound-track of a cinematographic film or video recording, except so far as it is separately exploited.]

#### Textual Amendments

**F1736S.** 907 substituted (with effect in accordance with s. 40(4) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 40\(3\)](#)

### 908 Royalty payments etc made through UK resident agents

- (1) If—
  - (a) a payment to which section 906 applies is made through an agent who is UK resident, and
  - (b) the agent is entitled as against the owner of the right to deduct a sum as commission for services provided,
 section 906(5) and Chapters 8 (deduction at special rates), 15 and 16 (collection) apply as if the amount of the payment were the amount net of the sum deductible as commission.
- (2) But if the person by or through whom the payment is made does not know the commission is payable, or does not know its amount—
  - (a) the sum representing income tax required to be deducted under section 906 must be calculated in the first instance on the total amount of the payment, and
  - (b) the return to be made under Chapter 15 or the account of the payment under Chapter 16, must be based on that total amount.

### 909 Royalty payments: further provision

- (1) A payment to which section 906 applies is treated for all income and corporation tax purposes as made when it is made by the first person who makes it, not when it is made by or through any other person.

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- (2) If, under section 906, a sum representing income tax must be deducted from a payment, any agreement to make the payment without deduction of that sum is void.
- (3) Section 906—
  - (a) applies to payments on account of royalties as it applies to payments of royalties, and
  - (b) applies to payments on account of sums payable periodically as it applies to payments of sums payable periodically.

### *Proceeds of a sale of patent rights*

## **910 Proceeds of a sale of patent rights: payments to non-UK residents**

- (1) This section applies if a non-UK resident sells the whole or part of any patent rights and is chargeable in respect of the sale—
  - (a) to income tax under section 587 of ITTOIA 2005, or
  - (b) to corporation tax under [<sup>F1737</sup>section 912 of CTA 2009].
- (2) The person by or through whom the proceeds of the sale are paid must, on making any payment of—
  - (a) the proceeds, or
  - (b) an instalment of the proceeds,deduct from it a sum representing income tax on the chargeable amount at the basic rate in force for the tax year in which the payment is made.
- (3) In subsection (2) “the chargeable amount” means—
  - (a) so much of the proceeds or instalment as consists of a capital sum, less
  - (b) any incidental expenses of the sale which are deducted before payment.
- (4) Sections 597 to 599 of ITTOIA 2005 (licences connected with patents etc) apply for the purposes of this section as they apply for the purposes of sections 587 to 596 of that Act.
- (5) Section 4 of CAA 2001 (meaning of “capital sums” etc) applies in relation to this section as it applies in relation to that Act.
- (6) For further provision about the sum required to be deducted, see—
  - (a) section 595 of ITTOIA 2005 (certain rules affecting the seller's income tax position do not affect the amount to be deducted), and
  - (b) [<sup>F1738</sup>section 919 of CTA 2009] (certain rules affecting the seller's corporation tax position do not affect the amount to be deducted).
- (7) See Chapter 11 (payments between companies etc) for an exception from the duty to deduct sums representing income tax under this section.
- (8) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.

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### **Textual Amendments**

**F1737** Words in s. 910(1)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 709(2)** (with Sch. 2 Pts. 1, 2)

**F1738** Words in s. 910(6)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 709(3)** (with Sch. 2 Pts. 1, 2)

## **CHAPTER 8**

### CHAPTERS 6 AND 7: SPECIAL PROVISION IN RELATION TO ROYALTIES

#### *Deduction at special rates*

### **911 Double taxation arrangements: deduction at treaty rate**

- (1) This section applies if—
- (a) a company pays a royalty from which it is required to deduct a sum representing income tax under Chapter 6 or 7,
  - (b) the income tax in respect of the payment is collectible under Chapter 15 or 16, and
  - (c) the company reasonably believes that, at the time the payment is made, the payee is entitled to relief in respect of the payment under double taxation arrangements.
- (2) The company may calculate the sum to be deducted from the payment under Chapter 6 or 7 by reference to the treaty rate.
- (3) But, if the payee is not at the time entitled to such relief, this Part has effect as if subsection (2) had never applied in relation to the payment.
- (4) In this section “the treaty rate” means the rate of income tax appropriate to the payee under the arrangements.

### **912 Power to make directions disapplying section 911**

- (1) This section applies if an officer of Revenue and Customs is not satisfied that the payee will be entitled to relief under double taxation arrangements in respect of one or more payments of royalties that a company is to make.
- (2) The officer may direct the company that section 911 is not to apply to the payment or payments.
- (3) A direction under subsection (2) may be varied or revoked by a later direction.

### **913 Interpretation of sections 911 and 912**

- (1) In sections 911 and 912 “royalty” includes—
- (a) a payment received as consideration for the use of, or the right to use, a copyright, patent, trade mark, design, process or information, and
  - (b) the proceeds of the sale of the whole or part of any patent rights.



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- (2) In sections 911 and 912 “payee” means the person beneficially entitled to the income in respect of which the payment is made.

F1739 ...

#### Textual Amendments

F1739Ss. 914-917 and cross-heading repealed (with effect in accordance with s. 34(8) of the amending Act) by Finance Act 2021 (c. 26), s. 34(1)(b)

#### F1739 914 European Union

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#### F1739 915 Power to make directions disapplying section 914

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#### F1739 916 Duty of payee to notify if payment not exempt

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#### F1739 917 Supplementary

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*F1740 Tax avoidance*

#### Textual Amendments

F1740S. 917A and cross-heading inserted (with effect in accordance with s. 41(2) of the amending Act) by Finance Act 2016 (c. 24), s. 41(1) (with s. 41(3)(4))

#### 917A Tax avoidance arrangements

- (1) This section applies if and to the extent that—
- (a) a person (“the payer”) makes an intellectual property royalty payment,
  - (b) the payment is received by a person (“the payee”) who is connected with the payer, and
  - (c) the payment is made under DTA tax avoidance arrangements.
- (2) Any duty under Chapter 6 or 7 to deduct a sum representing income tax at any rate applies without regard to any double taxation arrangements.
- (3) Any income tax deducted by virtue of subsection (2) may not be set off under section 967 or 968 of CTA 2010.
- (4) In this section—

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“arrangements” (except in the phrase “double taxation arrangements”) includes any agreement, understanding, scheme, transaction or series of transactions, whether or not legally enforceable;

“DTA tax avoidance arrangements” means arrangements where, having regard to all the circumstances, it is reasonable to conclude that—

- (a) the main purpose, or one of the main purposes, of the arrangements was to obtain a tax advantage by virtue of any provisions of a double taxation arrangement, and
- (b) obtaining that tax advantage is contrary to the object and purpose of those provisions;

“intellectual property royalty payment” means a payment referred to in section 906(2)(a) or (3)(a);

“receive” means receive—

- (a) directly or indirectly;
- (b) by one payment or by a series of payments;

“tax advantage” is to be construed in accordance with section 208 of FA 2013.

- (5) For the purposes of this section the payer is connected with the payee if the participation condition is met as between them.
- (6) Section 148 of TIOPA 2010 (when the participation condition is met) applies for the purposes of subsection (5) as for the purposes of section 147(1)(b) of that Act, but as if references to the actual provision were to the provision made or imposed between the payer and the payee in respect of the arrangements under which the payment is made.]

## CHAPTER 9

### MANUFACTURED PAYMENTS

#### **Modifications etc. (not altering text)**

**C170** Pt. 15 Ch. 9 modified (with effect in accordance with art. 2 of the commencing S.I.) by [Finance Act 2007 \(c. 11\)](#), s. 47(4), [Sch. 13 para. 13](#); [S.I. 2007/2483](#), art. 2

#### *Manufactured dividends*

### **918 Manufactured dividends on UK shares: Real Estate Investment Trusts**

(1) This section applies if—

- [<sup>F1741</sup>(a) a person pays a manufactured payment as mentioned in section 614ZC(1) and the amount payable is representative of a dividend (a “manufactured dividend”), and]
- (b) the manufactured dividend is representative of a dividend which is—
  - [<sup>F1742</sup>(i) paid by a company UK REIT in respect of profits or gains (or both) of the company's property rental business, or
  - (ii) paid by the principal company of a group UK REIT in respect of profits or gains (or both) of property rental business of members of the group.]

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- (2) This section applies only so far as the manufactured dividend is representative of such a dividend.
- (3) If the payer—
- (a) is UK resident, or
  - (b) pays the manufactured dividend in the course of a trade carried on through a branch or agency in the United Kingdom,
- regulations under section 973 apply to the payer as they apply to a [<sup>F1743</sup>company UK REIT], with any necessary modifications.
- [<sup>F1744</sup>(3A) But subsection (3) does not apply if—
- (a) the manufactured dividend is paid by a UK resident company in the course of a trade carried on through a permanent establishment in a territory outside the United Kingdom, and
  - (b) section 18A of CTA 2009 has effect in relation to the company for the accounting period in which it is paid.]
- (4) The Treasury may by regulations provide, in a case where the payer—
- [<sup>F1745</sup>(a) is non-UK resident and pays the manufactured dividend otherwise than in the course of a trade carried on through a branch or agency in the United Kingdom, or
  - (b) is a UK resident company and pays the manufactured dividend in the course of a trade carried on through a permanent establishment in a territory outside the United Kingdom and section 18A of CTA 2009 has effect in relation to the company for the accounting period in which it is paid,]
- for a United Kingdom recipient of the manufactured dividend to be liable to account for and pay income tax in respect of it.
- (5) A United Kingdom recipient is a recipient who—
- (a) is UK resident, or
  - (b) is non-UK resident but receives the manufactured dividend for the purposes of a trade carried on by the recipient through a branch or agency in the United Kingdom.
- [<sup>F1746</sup>(5A) But a UK resident is not a United Kingdom recipient if—
- (a) it is a UK resident company which receives the manufactured dividend for the purposes of a trade carried on by the recipient through a permanent establishment in a territory outside the United Kingdom, and
  - (b) section 18A of CTA 2009 has effect in relation to the company for the accounting period in which it is received.]
- (6) The amount of income tax which the recipient may be liable to account for and pay under regulations under subsection (4) is equal to the amount of the sum representing income tax which the payer would have been required to deduct in accordance with regulations under section 973.
- (7) For the purposes of—
- (a) regulations under section 973 as applied by subsection (3), and
  - (b) regulations under subsection (4),
- the “gross amount” of a manufactured dividend to which this section applies is equal to the gross amount of the dividend of which it is representative.

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[<sup>F1747</sup>(8) In subsection (1) “gains” includes chargeable gains.]

#### Textual Amendments

- F1741S.** 918(1)(a) substituted (1.1.2014) by Finance Act 2013 (c. 29), Sch. 1 para. 52, Sch. 29 para. 21
- F1742S.** 918(1)(b)(i)(ii) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), Sch. 1 para. 555(a) (with Sch. 2)
- F1743** Words in s. 918(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), Sch. 1 para. 555(b) (with Sch. 2)
- F1744S.** 918(3A) inserted (19.7.2011) by Finance Act 2011 (c. 11), Sch. 13 paras. 20(2), 31
- F1745S.** 918(4)(a)(b) substituted (19.7.2011) by Finance Act 2011 (c. 11), Sch. 13 paras. 20(3), 31
- F1746S.** 918(5A) inserted (19.7.2011) by Finance Act 2011 (c. 11), Sch. 13 paras. 20(4), 31
- F1747S.** 918(8) inserted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), Sch. 1 para. 555(c) (with Sch. 2)

### *Manufactured interest*

#### 919 Manufactured interest on UK securities: payments by UK residents etc

[<sup>F1748</sup>(1) This section applies if—

- (a) a person pays a manufactured payment as mentioned in section 614ZC(1),
- (b) the amount payable is representative of interest on UK securities (“manufactured interest”), and
- (c) the person —
  - (i) is UK resident, or
  - (ii) pays the manufactured interest in the course of a trade carried on in the United Kingdom through a branch or agency.]

[<sup>F1749</sup>(1A) But this section does not apply if—

- (a) the manufactured interest is paid by a UK resident company in the course of a trade carried on through a permanent establishment in a territory outside the United Kingdom, and
  - (b) section 18A of CTA 2009 has effect in relation to the company for the accounting period in which it is paid.]
- (2) The payer of the manufactured interest must, on making the payment, deduct from the gross amount of the manufactured interest a sum representing income tax on it at the [<sup>F1750</sup>basic rate] in force for the tax year in which the payment is made.
  - (3) The “gross amount” of manufactured interest is equal to the gross amount of the interest of which it is representative.
  - (4) This section is subject (in particular) to—
 

F1751  
...  
F1751  
...

 section 921 (cases where interest on underlying securities paid gross), and Chapter 11 (payments between companies etc: exception from duties to deduct).
  - (5) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—

*Status: Point in time view as at 22/02/2024.*

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- (a) see Chapter 15 if the payer of the manufactured interest is a company, and
- (b) otherwise see Chapter 16.

[<sup>F1752</sup>(6) In subsection (1) “UK securities” means securities of—

- (a) the government of the United Kingdom,
- (b) a local authority in the United Kingdom,
- (c) another public authority in the United Kingdom, or
- (d) a UK resident company or other UK resident body.

(7) But “UK securities” does not include shares in a UK resident company.

(8) In this section “securities” includes loan stock or any similar security.]

#### Textual Amendments

**F1748S.** 919(1) substituted (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 22\(a\)](#)

**F1749S.** 919(1A) inserted (19.7.2011) by [Finance Act 2011 \(c. 11\), Sch. 13 paras. 21, 31](#)

**F1750** Words in s. 919(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 31](#)

**F1751** Words in s. 919(4) omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 22\(b\)](#)

**F1752S.** 919(6)-(8) inserted (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 22\(c\)](#)

### <sup>F1753</sup>920 Foreign payers of manufactured interest: the reverse charge

.....

#### Textual Amendments

**F1753S.** 920 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 23](#)

### 921 Cases where interest on underlying securities paid gross

- (1) This section applies to manufactured interest which is representative of interest on—
  - (a) gilt-edged securities, or
  - (b) securities which are not gilt-edged securities but on which the interest is payable without deduction of income tax.
- (2) Section 919(2) does not require any deduction of a sum representing income tax to be made on the payment of the manufactured interest.
- (3) In this section [<sup>F1754</sup>“manufactured interest” has the same meaning as in section 919.]

#### Textual Amendments

**F1754** Words in s. 921(3) substituted (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 24](#)

*Status: Point in time view as at 22/02/2024.*

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### *Manufactured overseas dividends*

#### **F1755 922 Manufactured overseas dividends: payments by UK residents etc**

.....

##### **Textual Amendments**

F1755Ss. 922-925 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para.**

**25**

#### **F1755 923 Foreign payers of manufactured overseas dividends: the reverse charge**

.....

##### **Textual Amendments**

F1755Ss. 922-925 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para.**

**25**

#### **F1755 924 Power to reduce section 923 liability**

.....

##### **Textual Amendments**

F1755Ss. 922-925 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para.**

**25**

#### **F1755 925 Power to provide set-off entitlement**

.....

##### **Textual Amendments**

F1755Ss. 922-925 omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), Sch. 1 para. 52, **Sch. 29 para.**

**25**

### *F1756 Repos*

##### **Textual Amendments**

F1756Ss. 925A-925F and cross-heading inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 7 para. 112** (with [Sch. 9 paras. 1-9, 22](#))

*Status: Point in time view as at 22/02/2024.*

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## 925A Creditor repos

- (1) Subsection (2) applies if a company (“the lender”) has a creditor repo for the purposes of Chapter 10 of Part 6 of CTA 2009 (see section 543 of that Act).
- (2) Sections 918 [<sup>F1757</sup>, 919 and 921] have effect in relation to the lender while the arrangement is in force as if—
  - (a) the lender paid the borrower amounts which are representative of the income payable on the securities that are initially sold,
  - (b) the payments were made under requirements of the arrangement, and
  - (c) the payments were made on the dates on which the income is payable.
- (3) For the purposes of subsection (2), an arrangement is in force from the time when the securities are initially sold until the earlier of—
  - (a) the time when the subsequent sale of the securities, or similar securities, takes place, and
  - (b) the time when it becomes apparent that that sale will not take place.

### Textual Amendments

**F1757** Words in s. 925A(2) substituted (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 26](#)

## <sup>F1758</sup>925B Debtor repos

.....

### Textual Amendments

**F1758** S. 925B omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 27](#)

## 925C Actual payments ignored if section 925A <sup>F1759</sup>... applies

If section 925A(2) <sup>F1760</sup>... applies, any payment actually made under an arrangement which is representative of any income payable on any securities is to be treated for the purposes of sections 918 [<sup>F1761</sup>, 919 and 921] as if it had not been made.

### Textual Amendments

**F1759** Words in s. 925C heading omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 28\(a\)](#)

**F1760** Words in s. 925C omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 28\(b\)](#)

**F1761** Words in s. 925C substituted (1.1.2014) by [Finance Act 2013 \(c. 29\), Sch. 1 para. 52, Sch. 29 para. 28\(c\)](#)

## 925D Power to modify repo sections

- (1) The Treasury may by regulations provide for all or any of the provisions of sections 925A to 925F to apply with modifications in relation to—

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- (a) cases to which section 925E (non-standard repo cases) applies, or
  - (b) cases involving redemption arrangements, or
  - (c) both of those cases.
- (2) A case involves redemption arrangements if—
- (a) arrangements, corresponding to those made in cases where a company has a repo, are made in relation to securities that are to be redeemed in the period after their sale, and
  - (b) the arrangements are such that a person (instead of having the right or obligation to buy those securities, or similar or other securities, at any subsequent time) has a right or obligation in respect of the benefits which will result from the redemption.
- (3) The regulations may make incidental, supplemental, consequential and transitional provision and savings.
- (4) In this section “modifications” includes exceptions and omissions.
- (5) For the purposes of subsection (2)(a) and section 925E(1), a company has a repo if—
- (a) for the purposes of Chapter 10 of Part 6 of CTA 2009—
    - (i) it has a creditor repo (see section 543 of that Act),
    - (ii) it has a creditor quasi-repo (see section 544 of that Act),
    - (iii) it has a debtor repo (see section 548 of that Act), or
    - (iv) it has a debtor quasi-repo (see section 549 of that Act), or
  - (b) as a result of section 547 of that Act, the company has a creditor repo for the purposes of section 546 of that Act.

### **925E Cases where section 925D applies: non-standard repos**

- (1) This section applies to a case if—
- (a) a company has a repo,
  - (b) there has been a sale of the securities under the arrangement or arrangements by reference to which the company has the repo, and
  - (c) any of conditions A to C is met.
- (2) Condition A is that those securities, or similar or other securities, are not subsequently bought under the arrangement or arrangements.
- (3) Condition B is that provision is made by or under an arrangement for different or additional securities to be treated as, or as included with, securities which, for the purposes of the subsequent purchase, are to represent those initially sold.
- (4) Condition C is that provision is made by or under an arrangement for securities to be treated as not so included.
- (5) Section 925D(5) interprets references in subsection (1) to a company having a repo.

### **925F Interpretation of the repo sections**

- (1) This section applies for the purposes of sections 925A to 925E and this section.
- (2) “Arrangement” includes any agreement or understanding (whether or not legally enforceable).



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- (3) It does not matter whether or not provision of any arrangement conferring a right or imposing an obligation on any person to buy any securities is subject to any conditions.
- (4) “Securities” means shares, stock or other securities issued by—
  - (a) the government of the United Kingdom,
  - (b) any public or local authority in the United Kingdom,
  - (c) any UK resident company or other UK resident body,
  - (d) a government or public or local authority of a territory outside the United Kingdom, or
  - (e) any other body of persons not resident in the United Kingdom.
- (5) Securities are similar if they give their holders—
  - (a) the same rights against the same persons as to capital, interest and dividends, and
  - (b) the same remedies to enforce those rights.
- (6) Subsection (5) applies even if there is a difference in—
  - (a) the total nominal amounts of the securities,
  - (b) the form in which they are held, or
  - (c) the manner in which they can be transferred.
- (7) If—
  - (a) a person (“A”) buys securities (or has a right or obligation to buy securities), but
  - (b) the securities are (or are to be) held for the benefit of another person (“B”),B (not A) is treated as buying (or having the right or obligation to buy) the securities.
- (8) If—
  - (a) a person (“C”) sells securities, but
  - (b) the proceeds of the sale are held for the benefit of another person (“D”),D (not C) is treated as selling the securities.]

### *Supplementary*

## **926 Interpretation of Chapter**

<sup>F1762</sup>(1) . . . . .

<sup>F1762</sup>(1A) . . . . .

- (2) References in this Chapter to a trade carried on through a branch or agency are to be read, in relation to a company, as references to a trade carried on through a permanent establishment.

### **Textual Amendments**

**F1762S.** 926(1)(1A) omitted (1.1.2014) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 1 para. 52](#), [Sch. 29 para. 29](#).

**29**

*Status: Point in time view as at 22/02/2024.*

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## 927 Regulation-making powers: general

Regulations under this Chapter may make different provision for different cases.

## CHAPTER 10

### DEDUCTION FROM NON-COMMERCIAL PAYMENTS BY COMPANIES

## 928 Chargeable payments connected with exempt distributions

- (1) This section applies to any payment chargeable to tax under [<sup>F1763</sup>section 1086 of CTA 2010] (chargeable payments made within 5 years of an exempt distribution).
- (2) The person by or through whom the payment is made must, on making the payment, deduct from it a sum representing income tax on it at the basic rate in force for the tax year in which it is made.
- (3) See Chapter 11 (payments between companies etc) for an exception from the duty to deduct sums representing income tax under this section.
- (4) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under this section—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.
- (5) In this section “payment” does not include a transfer of money's worth that is treated as a payment for the purposes of [<sup>F1764</sup>sections 1086 to 1090 of CTA 2010 (see section 1086(6) of that Act)].

### Textual Amendments

**F1763** Words in s. 928(1) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 556\(2\)](#) (with [Sch. 2](#))

**F1764** Words in s. 928(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 556\(3\)](#) (with [Sch. 2](#))

## CHAPTER 11

### PAYMENTS BETWEEN COMPANIES ETC: EXCEPTION FROM DUTIES TO DEDUCT

#### *Introduction*

## 929 Overview of Chapter

- (1) This Chapter makes provision allowing some payments made by companies, local authorities and qualifying partnerships to be paid gross where they would otherwise be subject to specified duties to deduct sums representing income tax under this Part.

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- (2) Section 930 disapplies specified duties to deduct where a payment is made by a company, local authority or qualifying partnership which reasonably believes that the payment is an excepted payment.
- (3) Section 931 confers power on an officer of Revenue and Customs to disapply section 930 by direction.
- (4) Section 932 defines “qualifying partnership”.
- (5) Sections 933 to 937 make provision as to when a payment is an excepted payment.
- (6) Section 938 deals with what happens when a company, local authority or qualifying partnership makes a payment without deducting a sum representing income tax under a reasonable but incorrect belief that the payment is an excepted payment.

*Exception from duties to deduct for excepted payments*

**930 Exception from duties to deduct sums representing income tax**

- (1) The duties to deduct sums representing income tax mentioned in subsection (2) do not apply to a payment if—
  - (a) it is made by a company, local authority or qualifying partnership, and
  - (b) at the time the payment is made, the company, authority or partnership reasonably believes that it is an excepted payment.
- (2) The duties to deduct are those under—
  - (a) section 874(2) (certain payments of yearly interest),
  - (b) section 889(4) (payments in respect of building society securities),
  - (c) section 901(4) (annual payments made by persons other than individuals),
  - (d) section 903(7) (patent royalties),
  - (e) section 906(5) (certain royalty payments etc where the owner lives abroad),
  - (f) section 910(2) (proceeds of a sale of patent rights paid to non-UK residents),
  - (g) section 919(2) (manufactured interest on UK securities: payments by UK residents etc), and
  - (h) section 928(2) (chargeable payments connected with exempt distributions).
- (3) Subsection (1) has effect subject to any directions under section 931.
- (4) Subsection (1) does not apply to a payment made by a company, or qualifying partnership, acting as trustee or agent for another person.

**931 Power to make directions disapplying section 930**

- (1) An officer of Revenue and Customs may give a direction to a company, local authority or qualifying partnership directing that section 930 is not to apply in relation to any payment that—
  - (a) is made by the company, authority or partnership after the giving of the direction, and
  - (b) is specified in the direction or is of a description so specified.

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- (2) A direction under this section may be given only if the officer has reasonable grounds for believing, as respects each payment to which the direction relates, that the payment will not be an excepted payment at the time it is made.
- (3) A direction under this section may be varied or revoked by a later direction.
- (4) A variation or revocation of a direction under this section has effect only in relation to payments made after the date of the variation or revocation.

### 932 Meaning of “qualifying partnership”

For the purposes of this Chapter a partnership is a “qualifying partnership” if any partner in the partnership is a company or a local authority.

#### *Excepted payments*

### 933 UK resident companies

A payment is an excepted payment if the person beneficially entitled to the income in respect of which the payment is made is a UK resident company.

#### **Modifications etc. (not altering text)**

C171 S. 933 applied (6.4.2013) by [Small Charitable Donations Act 2012 \(c. 23\)](#), s. 21, [Sch. para. 10](#)

### 934 Non-UK resident companies

- (1) A payment is an excepted payment if each of the following conditions is met in relation to the payment.
- (2) The person beneficially entitled to the income in respect of which the payment is made must be a non-UK resident company.
- (3) The non-UK resident company must carry on a trade in the United Kingdom through a permanent establishment.
- (4) The payment must be one that is required to be brought into account in calculating the chargeable profits (within the meaning given by <sup>F1765</sup>section 19 of CTA 2009) of the non-UK resident company.

#### **Textual Amendments**

F1765 Words in s. 934(4) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), [Sch. 1 para. 710](#) (with [Sch. 2 Pts. 1, 2](#))

### 935 PEP and ISA managers

- (1) A payment is an excepted payment if each of the following conditions is met in relation to the payment.

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- (2) The person to whom the payment is made must be, or must be the nominee of, the plan manager of a plan of a kind to which regulations under Chapter 3 of Part 6 of ITTOIA 2005 (income from individual investment plans) apply.
- (3) The plan manager must receive the payment in respect of investments under the plan.

**Modifications etc. (not altering text)**

C172 S. 935 applied (with modifications) by S.I. 2004/1450, reg. 24(c) (as amended (6.4.2010) by [The Child Trust Funds \(Amendment\) Regulations 2010 \(S.I. 2010/582\)](#), regs. 1, **12(d)**)

**936 Recipients who are to be paid gross**

- (1) A payment is an excepted payment if it is made to, or to the nominee of, a recipient who is specified in subsection (2) as a recipient who is to be paid gross.
- (2) The following recipients are to be paid gross—
  - (a) a local authority,
  - (b) a health service body within the meaning of [<sup>F1766</sup>section 986 of CTA 2010],
  - (c) a public office or department of the Crown other than one mentioned in section 978(2),
  - (d) a charity,
  - (e) a body for the time being mentioned in [<sup>F1767</sup>section 468 of CTA 2010] (bodies that are allowed the same exemption from tax as charitable companies the whole income of which is applied to charitable purposes),
  - [<sup>F1768</sup>(f) a body which is an association for the purposes of section 469(1)(a) of CTA 2010 (scientific research associations) and complies with the conditions in subsections (2) and (3) of that section,]
  - (g) the scheme administrator of a registered pension scheme,
  - (h) the sub-scheme administrator of a sub-scheme which forms part of a split scheme pursuant to the Registered Pensions (Splitting of Schemes) Regulations 2006 (S.I. 2006/569),
  - (i) the trustees of a scheme entitled to exemption under section 613(4) of ICTA (Parliamentary pension funds), and
  - (j) the persons entitled to receive the income of a fund entitled to exemption under section 614(3) of ICTA (certain colonial, etc pension funds).
- (3) The Treasury may by order amend this section so as to add to, restrict or otherwise alter the persons or bodies who are to be paid gross.

**Textual Amendments**

**F1766** Words in s. 936(2)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 557(a)** (with [Sch. 2](#))

**F1767** Words in s. 936(2)(e) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 557(b)** (with [Sch. 2](#))

**F1768** S. 936(2)(f) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 557(c)** (with [Sch. 2](#))

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### 937 Partnerships

- (1) A payment is an excepted payment if each of the following conditions are met.
- (2) A partnership must be beneficially entitled to the income in respect of which the payment is made.
- (3) Each partner in the partnership must be—
  - (a) a person or body mentioned in section 936, or
  - (b) a person or body to whom one of subsections (4) to (6) applies.
- (4) This subsection applies to a UK resident company.
- (5) This subsection applies to a company that—
  - (a) is non-UK resident,
  - (b) carries on a trade in the United Kingdom through a permanent establishment, and
  - (c) is required to bring into account, in calculating its chargeable profits (within the meaning of <sup>F1769</sup>section 19 of CTA 2009], the whole of any share of the payment that is attributable to it because of [<sup>F1770</sup>Part 17 of that Act].
- (6) This subsection applies to the European Investment Fund.
- (7) The Treasury may by order amend this section to add to, restrict or otherwise alter the persons or bodies falling within subsection (3)(b).

#### Textual Amendments

**F1769** Words in s. 937(5)(c) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 711(a)** (with Sch. 2 Pts. 1, 2)

**F1770** Words in s. 937(5)(c) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 711(b)** (with Sch. 2 Pts. 1, 2)

*Incorrect belief that payment is an excepted payment*

### 938 Consequences of reasonable but incorrect belief

- (1) This section applies if—
  - (a) a payment is made by a company, local authority or qualifying partnership without a sum representing income tax on the payment being deducted from it,
  - (b) at the time the payment is made, the company, authority or partnership reasonably believes that it is an excepted payment,
  - (c) one of the duties to deduct sums representing income tax mentioned in section 930(2) would apply to the payment if the company did not so believe, and
  - (d) the payment is not an excepted payment at the time it is made.
- (2) This Part has effect in relation to the payment as if section 930(1) had never disapplied the duties to deduct mentioned in section 930(2).

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## CHAPTER 12

### FUNDING BONDS

#### 939 Duty to retain bonds where issue treated as payment of interest

- (1) This section applies if—
- (a) there is an issue of funding bonds to a creditor in respect of a liability to pay interest on a debt incurred by a government, public institution, other public authority or body corporate,
  - (b) by virtue of [<sup>F1771</sup>section 413 of CTA 2009] or section 380 of ITTOIA 2005, the issue is treated as if it were a payment of an amount of interest (“the deemed interest”), and
  - (c) the person by or through whom the bonds are issued is required, under this Part, to deduct a sum representing income tax from the deemed interest.
- (2) The person by or through whom the bonds are issued must retain bonds the value of which is, at the time of their issue, equal to income tax on the deemed interest at the [<sup>F1772</sup>basic rate] in force for the tax year in which the bonds are issued.
- (3) A person who retains bonds in accordance with subsection (2) is treated as complying with the duty to deduct a sum representing income tax from the deemed interest.
- (4) The person may tender the bonds retained in satisfaction of any income tax to be collected from the person in respect of the deemed interest under Chapter 15 or 16.
- [<sup>F1773</sup>(4A) If bonds are tendered in accordance with subsection (4), the Commissioners for Her Majesty's Revenue and Customs may tender the bonds in satisfaction of any amount that is payable by the Commissioners to the relevant creditor in connection with the relevant debt.
- (4B) For the purposes of subsection (4A)—
- (a) “relevant creditor” and “relevant debt” mean the creditor and the debt mentioned in subsection (1)(a), and
  - (b) a bond is to be taken to have the same value that it had at the time of its issue.
- (4C) If bonds that are to be tendered in accordance with subsection (4) or (4A) are subject to restrictions on their tender or transfer, the restrictions do not prevent the bonds from being—
- (a) tendered in accordance with that subsection, or
  - (b) transferred from the person tendering them to the person to whom they are tendered.]

[<sup>F1774</sup>(5) . . . . .

(6) In this Chapter “funding bonds” includes any bonds, stocks, shares, securities or certificates of indebtedness [<sup>F1775</sup>(but does not include any instrument providing for payment in the form of goods or services or a voucher)].

#### Textual Amendments

**F1771** Words in s. 939(1)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 712** (with **Sch. 2 Pts. 1, 2**)

*Status: Point in time view as at 22/02/2024.*

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- F1772** Words in s. 939(2) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 1 para. 32](#)
- F1773** S. 939(4A)-(4C) inserted (21.7.2008 with effect in accordance with s. 134(5) of the amending Act) by [Finance Act 2008 \(c. 9\), s. 134\(2\)](#)
- F1774** S. 939(5) omitted (21.7.2008 with effect in accordance with s. 134(5) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), s. 134\(3\)](#)
- F1775** Words in s. 939(6) inserted (with effect in accordance with Sch. 11 para. 12(2) of the amending Act) by [Finance Act 2013 \(c. 29\), Sch. 11 para. 8](#)

## 940 Exception from duty to retain bonds

- (1) This section applies if an issue of funding bonds is treated as a payment of interest (“the deemed interest”) as mentioned in section 939(1) and—
  - (a) the person by or through whom the bonds are issued is required to retain bonds under section 939(2), but
  - (b) it is impracticable for the person to do so.
- (2) The duty to deduct a sum representing income tax from the deemed interest under this Part does not apply if the person tells the Commissioners for Her Majesty’s Revenue and Customs—
  - (a) the names and addresses of the persons to whom the bonds have been issued, and
  - (b) the amount of the bonds issued to each person.
- (3) Accordingly—
  - (a) the duty to retain bonds under section 939(2) does not apply, and
  - (b) the provisions in Chapters 15 and 16 about the collection of income tax in respect of the deemed interest do not apply.

## <sup>F1776</sup>940A No appropriate bond or combination of bonds

- (1) This section applies if—
  - (a) the Commissioners for Her Majesty’s Revenue and Customs hold one or more bonds tendered in accordance with section 939(4),
  - (b) the Commissioners wish to tender bonds in accordance with section 939(4A) in satisfaction of an amount payable to the relevant creditor, and
  - (c) the Commissioners consider that they do not hold a bond, or combination of bonds, that is appropriate for satisfying the amount payable.
- (2) If requested to do so by the Commissioners, the bond issuer must secure that the Commissioners hold a bond, or combination of bonds, that the Commissioners consider to be appropriate for satisfying the amount payable.
- (3) If requested to do so by the bond issuer, a person must assist the bond issuer to comply with subsection (2).
- (4) The duty under subsection (2), or under subsection (3), does not apply if it would be impracticable for the bond issuer, or the other person, to comply with the duty.
- (5) The matters which the Commissioners may take into account when considering whether or not a bond or combination of bonds is appropriate for satisfying the amount payable include—



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- (a) the value of a bond at the time of its issue,
  - (b) the interest which the relevant creditor, or any other person, has in a bond (including the nature or size of the interest), and
  - (c) the terms on which a bond is issued.
- (6) For the purposes of this section—
- (a) “bond issuer” means the person by or through whom bonds were issued, and
  - (b) “relevant creditor” and “relevant debt” have the same meanings as in section 939(4A).]

**Textual Amendments**

**F1776S. 940A** inserted (21.7.2008 with effect in accordance with s. 134(5) of the amending Act) by [Finance Act 2008 \(c. 9\), s. 134\(4\)](#)

**CHAPTER 13**

**UNAUTHORISED UNIT TRUSTS**

**<sup>F1777</sup>941 Deemed payments to unit holders and deemed deductions of income tax**

.....

**Textual Amendments**

**F1777Pt. 15 Ch. 13** omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(15)** (with reg. 32)

**<sup>F1777</sup>942 Income tax to be collected from trustees**

.....

**Textual Amendments**

**F1777Pt. 15 Ch. 13** omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(15)** (with reg. 32)

**<sup>F1777</sup>943 Calculation of trustees' income pool**

.....

**Textual Amendments**

**F1777Pt. 15 Ch. 13** omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(15)** (with reg. 32)

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**F1777F1777 Treatment of cases involving double tax relief**

**Textual Amendments**  
 F1777Pt. 15 Ch. 13 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(15)** (with reg. 32)

**F1777943B The “foreign element” of a deemed deduction or deemed income**

**Textual Amendments**  
 F1777Pt. 15 Ch. 13 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(15)** (with reg. 32)

**F1777943C Calculation of trustees' double tax relief pool**

**Textual Amendments**  
 F1777Pt. 15 Ch. 13 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(15)** (with reg. 32)

**F1777943D Annual statements**

**Textual Amendments**  
 F1777Pt. 15 Ch. 13 omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013](#) (S.I. 2013/2819), regs. 1(3), **37(15)** (with reg. 32)

**CHAPTER 14**

TAX AVOIDANCE: DIRECTIONS FOR DUTY TO DEDUCT TO APPLY

**944 Directions for deduction from payments to non-UK residents**

(1) This section applies if it appears to an officer of Revenue and Customs that any person entitled to an amount taxable under—

- <sup>F1778</sup>(a) .....
- (b) Chapter 4 of [<sup>F1779</sup>Part 13] (tax avoidance: sales of occupation income), is non-UK resident.

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- (2) The officer may, in relation to any payment forming the whole or part of that amount, direct that the person by or through whom the payment is made must, on making it, deduct from it a sum representing income tax on it at the basic rate in force for the tax year in which the payment is made.
- (3) Subsection (2) does not affect the final liability of the person entitled to the amount mentioned in subsection (1) including any liability under section 768(4) or 786(4) (recovery of tax where consideration receivable by person not assessed).
- (4) For provision about the collection of income tax in respect of a payment from which a sum must be deducted under subsection (2)—
  - (a) see Chapter 15 if the person making the payment is a UK resident company, and
  - (b) otherwise see Chapter 16.

#### Textual Amendments

**F1778S.** 944(1)(a) omitted (with effect in accordance with s. 82 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [s. 79\(6\)\(a\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 39(1)(2))

**F1779** Words in s. 944(1)(b) substituted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [s. 79\(6\)\(b\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 39(1)(2))

## CHAPTER 15

### COLLECTION: DEPOSIT-TAKERS, BUILDING SOCIETIES AND CERTAIN COMPANIES

#### *Introduction*

#### **945 Overview of Chapter**

- (1) This Chapter provides—
  - (a) for persons who have made payments within section 946 (“section 946 payments”) to make returns of the payments, and
  - (b) for the collection of income tax in respect of those payments.
- (2) Sections 947 and 948 contain definitions and other provisions in relation to the following basic concepts used in the Chapter: “return period” and “accounting period”.
- (3) Section 949 requires persons who have made section 946 payments to deliver returns of those payments made in return periods falling within accounting periods, and section 950 requires such persons to deliver returns of those payments made otherwise than in accounting periods.
- (4) Section 951 explains—
  - (a) how much income tax is due from persons in respect of section 946 payments made by them, and
  - (b) when that income tax must be paid.

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- (5) Sections 952 to 955 allow persons who have made section 946 payments to make claims for income tax they have suffered to be set off against income tax payable by them in respect of the payments.
- (6) Sections 956 to 960 explain what happens in cases where income tax payable in respect of section 946 payments is not paid when it is due, or where returns are incomplete or incorrect.
- (7) Sections 961 and 962 contain supplementary provisions.
- (8) For further provisions applying to returns and set-off claims under this Chapter, see TMA 1970 (in particular section 113(1) (returns) and section 42 and Schedule 1A (claims)).

## 946 Payments within this section

The payments within this section are—

- <sup>F1780</sup>(a) .....
- (b) a payment from which a UK resident company is required to deduct a sum representing income tax under—
  - (i) section 874(2) (payments of yearly interest),
  - (ii) section 889(4) (payments in respect of building society securities),
  - (iii) section 892(2) (certain payments of UK public revenue dividends),
  - (iv) section 901(4) (annual payments made by persons other than individuals),
  - (v) section 903(7) (patent royalties),
  - (vi) section 906(5) (royalty payments etc where the owner lives abroad),
  - (vii) section 910(2) (proceeds of a sale of patent rights paid to non-UK residents),
  - (viii) section 928(2) (chargeable payments connected with exempt distributions), or
  - (ix) section 944(2) (directions for deduction from payments to non-UK residents), and
- (c) a payment from which a company is required to deduct a sum representing income tax under section 919(2) (manufactured interest on UK securities: payments by UK residents etc).

### Textual Amendments

**F1780S.** 946(a) omitted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 6 para. 22**

## 947 Return periods

- (1) For the purposes of this Chapter, the return periods which fall within a person's accounting period are determined as follows.
- (2) If at least one quarter date falls within the accounting period, each of the following is a return period which falls within the accounting period—
  - (a) any complete quarter which falls within the accounting period, and

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- (b) any part of the accounting period which is not a complete quarter and which—
  - (i) ends with the first (or only) quarter date in that period, or
  - (ii) begins immediately after the last (or only) quarter date in that period.
- (3) If no quarter date falls within the accounting period, the accounting period itself is to be treated as a return period which falls within the accounting period.
- (4) In this section—
  - “quarter” means a period of three months ending—
    - (a) unless paragraph (b) applies, with the last day of March, June, September or December, or
    - (b) if the person mentioned in subsection (1) is a building society, with the last day of February, May, August or November, and
  - “quarter date” means—
    - (a) unless paragraph (b) applies, the last day of March, June, September or December, or
    - (b) if the person mentioned in subsection (1) is a building society, the last day of February, May, August or November.

#### **948 Meaning of “accounting period”**

- (1) In this Chapter “accounting period”, in relation to a deposit-taker who is not a company, means a period for which the deposit-taker's accounts are drawn up. “Deposit-taker” has the same meaning as in Chapter 2 (see section 853).
- (2) See [<sup>F1781</sup>Chapter 2 of Part 2 of CTA 2009 (accounting periods)] for provision about accounting periods of companies.

#### **Textual Amendments**

**F1781** Words in s. 948(2) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 714** (with Sch. 2 Pts. 1, 2)

### *Returns of income tax*

#### **949 Payments in an accounting period**

- (1) This section applies if a person makes a section 946 payment on a date which falls within an accounting period of the person.
- (2) The person must deliver a return to an officer of Revenue and Customs for each return period—
  - (a) which falls within the accounting period, and
  - (b) in which the person makes a section 946 payment.
- (3) The person must deliver the return within 14 days after the end of the return period to which it relates.
- (4) The return must show the amount of—
  - (a) any section 946 payments made by the person in the return period, and

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- (b) the income tax payable by the person in respect of those payments (see section 951).

### **950 Payments otherwise than in an accounting period**

- (1) This section applies if a person makes a section 946 payment on a date which does not fall within an accounting period of the person.
- (2) The person must deliver a return to an officer of Revenue and Customs within 14 days after the date on which the payment is made.
- (3) The return must show the amount of—
  - (a) the payment, and
  - (b) the income tax payable by the person in respect of that payment (see section 951).

#### *Collection and payment of income tax*

### **951 Collection and payment of income tax**

- (1) Income tax in respect of a section 946 payment is due, from the person who makes the payment, on the date by which the return on which the payment must be included is required to be delivered.
- (2) The income tax due is equal to the sum which the person is required to deduct from the payment under the applicable provision mentioned in section 946.
- (3) The income tax is payable by the person without an officer of Revenue and Customs making any assessment.

#### *Set-off*

### **952 Conditions for a set-off claim**

- (1) A person who makes a section 946 payment may make a set-off claim if conditions A and B are met at the end of a return period which falls within an accounting period of the person.
- (2) Condition A is that in the return period the person has—
  - (a) made a section 946 payment, or
  - (b) received a payment on which the person has suffered income tax by deduction.
- (3) Condition B is that at the end of the return period there is—
  - (a) a net amount of income tax suffered (see subsection (4)), and
  - (b) a net amount of income tax payable (see subsection (5)).
- (4) There is a net amount of income tax suffered at the end of a return period if—
  - (a) the person has received any payments on which income tax has been suffered by deduction in the return period or in any previous return period which falls within the accounting period, and

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- (b) the amount of income tax so suffered by the person on those payments exceeds the amount of such income tax treated as repaid for the accounting period to date as a result of any previous set-off claim.
- (5) There is a net amount of income tax payable at the end of a return period if—
- (a) the person has made any section 946 payments in the return period or in any previous return period which falls within the accounting period, and
  - (b) the amount of income tax payable by the person in respect of those payments exceeds the amount of such income tax treated as paid for the accounting period to date as a result of any previous set-off claim.

**Modifications etc. (not altering text)**

**C173** S. 952 excluded (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), **ss. 610(3)(iii)**, 1184(1) (with [Sch. 2](#))

**953 How a set-off claim works**

- (1) A set-off claim is a claim for the net amount of income tax suffered at the end of the return period to be set off against the net amount of income tax payable at the end of the return period.
- (2) The effect of a claim is that, to the extent of the set-off—
  - (a) the income tax comprised in the net amount of income tax suffered is treated as repaid, and
  - (b) the income tax comprised in the net amount of income tax payable is treated as paid.
- (3) Accordingly—
  - (a) any liability of the person making the set-off claim to pay any of the income tax treated as paid under subsection (2)(b) is discharged, and
  - (b) any of that income tax which has been paid is to be repaid to the person.
- (4) A set-off claim must be made in a return under section 949 for the return period.
- (5) A return may be made under that section for the purposes of making a set-off claim despite the fact that the person making the claim may not have made any section 946 payments in the return period.
- (6) Income tax suffered which is taken into account in a set-off claim may not also be taken into account for the purposes of—
  - (a) <sup>[F1782]</sup>section 967 of CTA 2010] (income tax deducted from payments to UK resident company to be set off against corporation tax), or
  - (b) <sup>[F1783]</sup>section 968] of that Act (income tax deducted from payments to non-UK resident company to be set off against corporation tax).
- (7) Income tax suffered by a deposit-taker is to be taken into account in a set-off claim only if the payment on which the income tax is suffered is to be taken into account in calculating the deposit-taker's liability to corporation tax.

“Deposit-taker” has the same meaning as in Chapter 2 (see section 853).

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#### Textual Amendments

**F1782** Words in s. 953(6)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 558(a)** (with Sch. 2)

**F1783** Words in s. 953(6)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 558(b)** (with Sch. 2)

### 954 Proceedings begun after a set-off claim is made

- (1) If a set-off claim has been made no proceedings for collecting income tax which would have to be discharged if the claim were allowed may be brought until the claim is finally determined.
- (2) Subsection (1) does not affect the date when the income tax is due.
- (3) Any income tax underpaid as a result of this section must be paid when the claim is finally determined.
- (4) In this section “proceedings” includes proceedings by way of distraint or attachment.

### 955 Proceedings begun before a set-off claim is made

- (1) This section applies if—
  - (a) a person has made a set-off claim, and
  - (b) before the claim was made, proceedings were brought for collecting income tax assessed, or interest on income tax assessed, under section 956 or 957.
- (2) No effect is to be given to the set-off claim so as to affect or delay the collection or recovery of the income tax, or of interest on that income tax, until the claim is finally determined.
- (3) Any income tax overpaid as a result of this section must be repaid when the claim is finally determined.
- (4) In this section “proceedings” includes proceedings by way of distraint or attachment [<sup>F1784</sup>or under Schedule 12 to the Tribunals, Courts and Enforcement Act 2007 (taking control of goods)].

#### Textual Amendments

**F1784** Words in s. 955(4) inserted (6.4.2014) by Tribunals, Courts and Enforcement Act 2007 (c. 15), s. 148, **Sch. 13 para. 157** (with s. 89); S.I. 2014/768, art. 2(1)(b)

### *Assessments and errors*

### 956 Assessments where section 946 payment included in return

- (1) This section applies if any income tax in respect of a section 946 payment which is included in a return under this Chapter has not been paid at or before the date mentioned in section 951.



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- (2) An officer of Revenue and Customs may make an assessment on the person who made the payment.
- (3) Income tax may be assessed under this section whether or not it has been paid when the assessment is made.

#### **957 Assessments in other cases**

- (1) This section applies if an officer of Revenue and Customs thinks—
  - (a) that there is a section 946 payment which should have been included in a return under this Chapter and which has not been so included, or
  - (b) that a return under this Chapter is otherwise incorrect.
- (2) An officer of Revenue and Customs may make an assessment, to the best of the officer's judgement, on the person who made the return, or who should have made one.

#### **958 Payer's duty to deliver amended return**

- (1) This section applies if a person who has made a section 946 payment becomes aware that—
  - (a) anything which should have been included in a return delivered by the person under this Chapter has not been so included,
  - (b) anything which should not have been included in a return delivered by the person under this Chapter has been so included, or
  - (c) any other error has occurred in a return delivered by the person under this Chapter.
- (2) The person must deliver an amended return correcting the error to an officer of Revenue and Customs without delay.
- (3) If the person delivers an amended return such assessments, adjustments, set-offs or payments or repayments of income tax as are necessary for achieving the objective mentioned in subsection (4) must be made.
- (4) The objective is that the resulting liabilities to income tax (including interest on unpaid or overpaid income tax) of the person or any other person are the same as they would have been if a correct return had been delivered.

#### **959 Application of Income Tax Acts provisions about time limits for assessments**

- (1) This section deals with the application of the provisions of the Income Tax Acts about time limits for making assessments.
- (2) So far as the provisions refer or relate to—
  - (a) the tax year for which an assessment is made, or
  - (b) the year to which an assessment relates,they apply to assessments under this Chapter despite the fact that an assessment under this Chapter may relate to a return period which is not a tax year.
- (3) Subsection (4) applies if an assessment under this Chapter relates to income tax due in respect of a payment required to be included in a return for a return period under section 949 (payments in an accounting period).

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- (4) In that case, for the purposes of the provisions mentioned in subsection (1), the assessment is treated as made for the tax year in which the return period ends.
- (5) Subsection (6) applies if an assessment under this Chapter relates to income tax due in respect of a payment required to be included in a return under section 950 (payments otherwise than in an accounting period).
- (6) In that case, for the purposes of the provisions mentioned in subsection (1), the assessment is treated as made for the tax year in which payment is made.

## **960 Further provisions about assessments**

- (1) Income tax assessed on a person under this Chapter is due on the date mentioned in section 951 and an appeal against the assessment does not affect the date when the income tax is due under that section.
- (2) On the determination of an appeal against an assessment under this Chapter any income tax overpaid must be repaid.
- (3) Any income tax assessable under any one or more of the provisions of this Chapter may be included in a single assessment if all the income tax is due on the same date.

### *Supplementary*

## **961 Relationship between Chapter and Income Tax Acts powers**

Nothing in this Chapter affects any powers conferred by the Income Tax Acts for the recovery of income tax by means of an assessment or otherwise.

## **962 Power to make regulations modifying Chapter**

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations modify, replace or supplement any of the provisions of this Chapter for the purpose of regulating the time and manner in which persons making section 946 payments—
  - (a) are to account for and pay income tax which is to be collected from them in respect of those payments, and
  - (b) are to be repaid income tax in respect of payments received by them.
- (2) In particular, regulations under this section may, in relation to income tax for which a person is liable to account,—
  - (a) modify any provision of Parts 2 to 6 of TMA 1970, or
  - (b) apply any such provision with or without modifications.
- (3) Regulations under this section may—
  - (a) make different provision for different kinds of payer,
  - (b) make different provision for different circumstances, and
  - (c) authorise the Commissioners for Her Majesty's Revenue and Customs, if they think there are special circumstances justifying it, to make special arrangements in relation to—
    - (i) income tax for which a person is liable to account, or
    - (ii) the repayment of income tax suffered by a person.

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- (4) Regulations under this section may contain incidental, supplemental, consequential and transitional provision and savings.
- (5) The Commissioners for Her Majesty's Revenue and Customs must not make any regulations under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.
- (6) References in this Act and in any other enactment to any of the provisions of this Chapter are to be read as references to those provisions as modified, replaced or supplemented by provision made by regulations under this section.

## CHAPTER 16

### COLLECTION: CERTAIN PAYMENTS BY OTHER PERSONS

#### 963 Collection of income tax on certain payments by other persons

- (1) This section makes provision for the collection of income tax in respect of—
  - (a) a payment from which a person other than a UK resident company is required to deduct a sum representing income tax under—
    - (i) section 874(2) (certain payments of yearly interest),
    - (ii) section 889(4) (payments in respect of building society securities),
    - (iii) section 892(2) (certain payments of UK public revenue dividends),
    - (iv) section 901(4) (annual payments made by persons other than individuals),
    - (v) section 903(7) (patent royalties),
    - (vi) section 906(5) (royalty payments etc where the owner lives abroad),
    - (vii) section 910(2) (proceeds of a sale of patent rights paid to non-UK residents),
    - (viii) section 928(2) (chargeable payments connected with exempt distributions), or
    - (ix) section 944(2) (directions for deduction from payments to non-UK residents), and
  - (b) a payment from which a person other than a company is required to deduct a sum representing income tax under section 919(2) (manufactured interest for UK securities: payments by UK residents etc).
- (2) The person required to deduct the sum must deliver to an officer of Revenue and Customs an account of the payment without delay.
- (3) An officer of Revenue and Customs may make an assessment on that person for income tax equal to the sum required to be deducted.
- (4) The provisions of the Income Tax Acts relating to—
  - (a) persons chargeable to income tax,
  - (b) income tax assessments, and
  - (c) the collection and recovery of income tax,apply (unless excluded expressly or by implication) to the assessment, collection and recovery of income tax which is assessable on persons under this section.

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**[<sup>F1785</sup>963] Power to make regulations modifying section 963**

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations modify, replace or supplement any provision of section 963(2) to (4).
- (2) Regulations under this section may only be made for the purpose of regulating the time at and manner in which persons making payments within section 963(1)(a) or (b) are to account for and pay income tax which is to be collected from them in respect of those payments.
- (3) In particular, regulations under this section may, in relation to income tax for which a person is liable to account—
  - (a) modify any provision of Parts 2 to 6 of TMA 1970, or
  - (b) apply any such provision with or without modifications.
- (4) Regulations under this section may—
  - (a) make different provision for different kinds of payer,
  - (b) make different provision for different circumstances, and
  - (c) authorise the Commissioners for Her Majesty's Revenue and Customs, if they think there are special circumstances justifying it, to make special arrangements in relation to income tax for which a person is liable to account.
- (5) Regulations under this section may contain incidental, supplemental, consequential and transitional provision and savings.
- (6) The Commissioners for Her Majesty's Revenue and Customs must not make any regulations under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.
- (7) References in this Act and in any other enactment to any of the provisions of section 963(2) to (4) are to be read as references to those provisions as modified, replaced or supplemented by provision made by regulations under this section.]

**Textual Amendments**  
 F1785S. 963A inserted (16.12.2010) by [Finance \(No. 3\) Act 2010 \(c. 33\), s. 8](#)

**CHAPTER 17**

COLLECTION THROUGH SELF-ASSESSMENT RETURN

**964 Collection through self-assessment return**

- (1) This section applies if—
  - (a) a person makes a payment from which the person is required to deduct a sum representing income tax, and
  - (b) income tax equal to the sum required to be deducted is, under section 900(3), 901(3) or 903(5) or (6), to be collected through the person's self-assessment return.

<sup>F1786</sup>(2) .....

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- (3) The income tax is to be treated for the purposes of TMA 1970 as if it were income tax charged on the person or trustee.
- (4) Accordingly, the income tax must be taken into account for the purposes of—
  - (a) the person's or trustee's return under section 8 or 8A of TMA 1970, and
  - (b) the person's or trustee's assessment to income tax under section 9 of that Act, (in addition to the person or trustee's income tax liability calculated in accordance with Chapter 3 of Part 2 (calculation of income tax liability)).

<sup>F1787</sup>(5) .....

#### Textual Amendments

**F1786S.** 964(2) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\), 37\(16\)](#) (with [reg. 32](#))

**F1787S.** 964(5) omitted (21.7.2008 with effect in accordance with s. 69(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [s. 69\(1\)](#)

## CHAPTER 18

### OTHER REGIMES INVOLVING THE DEDUCTION OF INCOME TAX AT SOURCE

#### *Visiting performers*

#### **965 Overview of sections 966 to 970**

- (1) Sections 966 to 970 make provision for the payment of sums representing income tax to the Commissioners for Her Majesty's Revenue and Customs where certain payments or transfers are made in connection with activities performed in the United Kingdom by non-UK resident entertainers, sportsmen and sportswomen.
- (2) See also—

<sup>F1788</sup>section 1309 of CTA 2009] (entertainers and sportsmen) which makes provision in relation to such payments or transfers for the purposes of corporation tax,

Chapter 8 of Part 2 of ITEPA 2003 (application of provisions to workers under arrangements made by intermediaries), in particular section 48(2) (exclusions from the scope of the Chapter), and

sections 13 and 14 of ITTOIA 2005 (trades and trade profits: visiting performers).

#### Textual Amendments

**F1788**Words in s. 965(2) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), [s. 1329\(1\)](#), [Sch. 1 para. 715](#) (with [Sch. 2 Pts. 1, 2](#))

#### **966 Duty to deduct and account for sums representing income tax**

- (1) This section applies if—

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- (a) an entertainer, sportsman or sportswoman of a prescribed description (“a performer”) who is non-UK resident for a tax year performs a relevant activity in the United Kingdom in the tax year, and
  - (b) a payment or transfer connected with the relevant activity is made.
- (2) It does not matter—
- (a) whether the payment or transfer is made to the performer or anyone else, or
  - (b) when the payment or transfer is made.
- (3) If a payment within subsection (1)(b) is made the person who makes the payment must, on making it, deduct from it a sum representing income tax and account to the Commissioners for Her Majesty's Revenue and Customs for the sum.
- (4) If a transfer within subsection (1)(b) is made the person who makes the transfer must account to the Commissioners for Her Majesty's Revenue and Customs for a sum representing income tax.
- (5) See section 967 as to the calculation of the sums representing income tax mentioned in subsections (3) and (4).
- (6) This section does not apply to payments or transfers of such a kind as may be prescribed.
- (7) In this section—
- (a) “relevant activity” means an activity of a prescribed description, and
  - (b) a payment or transfer is connected with a relevant activity if it has a connection of a prescribed kind with that activity.

**Modifications etc. (not altering text)**

- C174** S. 966 excluded (8.4.2010) by Finance Act 2010 (c. 13), **Sch. 20 para. 4**
- C175** S. 966 excluded (1.1.2011) by The London Olympic Games and Paralympic Games Tax Regulations 2010 (S.I. 2010/2913), regs. 1, **3(3)** (with regs. 9, 11)
- C176** S. 966 excluded (17.7.2012) by Finance Act 2012 (c. 14), **s. 13(5)**
- C177** S. 966 excluded (17.7.2013) by Finance Act 2013 (c. 29), **s. 9(4)**
- C178** S. 966 excluded (6.4.2014) by Finance Act 2014 (c. 26), **s. 47(4)(6)**
- C179** S. 966 excluded (retrospective to 8.7.2015) by Finance (No. 2) Act 2015 (c. 33), **s. 30(4)(6)**
- C180** S. 966 excluded (19.7.2016) by The Major Sporting Events (Income Tax Exemption) Regulations 2016 (S.I. 2016/771), regs. 1, **10**
- C181** S. 966 excluded (19.7.2016) by The Major Sporting Events (Income Tax Exemption) Regulations 2016 (S.I. 2016/771), regs. 1, **6**
- C182** S. 966 excluded (31.5.2017) by The Major Sporting Events (Income Tax Exemption) Regulations 2017 (S.I. 2017/614), regs. 1, **2(3)**
- C183** S. 966 excluded (31.5.2021) by The Major Sporting Events (Income Tax Exemption) Regulations 2021 (S.I. 2021/224), regs. 1, **3(4)**
- C184** S. 966 excluded (31.7.2021) by The Major Sporting Events (Income Tax Exemption) (2021 UEFA Super Cup) Regulations 2021 (S.I. 2021/882), regs. 1(1), **3(4)**
- C185** S. 966 excluded (27.5.2022) by The Major Sporting Events (Income Tax Exemption) (Finalissima Football Match) Regulations 2022 (S.I. 2022/487), regs. 1, **3(4)**
- C186** S. 966 excluded (30.6.2022) by The Major Sporting Events (Income Tax Exemption) (UEFA Women's EURO 2022 Finals) Regulations 2022 (S.I. 2022/489), regs. 1, **3(4)**
- C187** S. 966 excluded (30.6.2022) by The Major Sporting Events (Income Tax Exemption) (2022 Birmingham Commonwealth Games) Regulations 2022 (S.I. 2022/493), regs. 1, **3(4)**

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- C188** S. 966 excluded (1.4.2023) by [The Major Sporting Events \(Income Tax Exemption\) \(Women's Finalissima Football Match\) Regulations 2023 \(S.I. 2023/393\)](#), regs. 1, **3(4)**
- C189** S. 966 excluded (temp.) (22.2.2024) by [The Major Sporting Events \(Income Tax Exemption\) \(World Athletics Indoor Championships Glasgow 24\) Regulations 2023 \(S.I. 2023/1381\)](#), regs. 1(1), **2(4)**

## **967 Calculation of sums representing income tax**

- (1) The sums representing income tax mentioned in section 966(3) and (4) are to be calculated in accordance with prescribed rules.
- (2) But the sums must not exceed the relevant proportion of the payment concerned or of the value of what is transferred.

“Relevant proportion” means a proportion equal to the basic rate of income tax for the tax year in which the payment or transfer is made.
- (3) Regulations made by the Treasury may provide, in relation to a transfer to which section 966 applies, that for the purposes of the Tax Acts the value of what is transferred is to be calculated in accordance with prescribed rules.
- (4) In particular, rules may include provision—
  - (a) for the calculation of an amount representing the actual value of what is transferred,
  - (b) for that amount to be treated as a net amount corresponding to a gross amount from which income tax at the basic rate has been deducted, and
  - (c) for the gross amount to be taken to be the value of what is transferred.

## **968 Treatment of sums representing income tax**

- (1) This section applies if, in accordance with section 966(3) or (4), a person pays a sum to the Commissioners for Her Majesty's Revenue and Customs.
- (2) The sum is treated as paid on account of a liability of another person to income tax or corporation tax.
- (3) The liability and the other person are to be found in accordance with prescribed rules.
- (4) If the sum exceeds the liability concerned, the Commissioners must pay so much of the sum as is appropriate to the other person.
- (5) If no liability is found, the Commissioners must pay the sum to the recipient of the relevant payment or transfer.
- (6) The relevant payment or transfer is the payment or transfer—
  - (a) to which section 966 applies, and
  - (b) which gave rise to the payment of the sum.
- (7) A reference to a sum in this section does not include anything representing interest.

## **969 Regulations**

- (1) The Treasury may by regulations—
  - (a) make provision enabling the Commissioners for Her Majesty's Revenue and Customs to serve notices requiring persons who make payments or transfers

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- to which section 966 applies to give them prescribed information in respect of such payments or transfers,
- (b) make provision requiring persons who make payments or transfers to which section 966 applies to make, at prescribed times and for prescribed periods, returns to the Commissioners containing prescribed information about payments or transfers and the income tax for which those persons are accountable in respect of them,
  - (c) make provision for the collection and recovery of such income tax, for assessments and claims to be made in respect of it, and for the payment of interest on it, and
  - (d) adapt, or modify the effect of, any enactment relating to income tax for the purpose of making any provision mentioned in paragraphs (a) to (c).
- (2) The Treasury may also by regulations make provision generally for giving effect to this section and sections 966 to 968 (including different provision for different cases or descriptions of case).

## **970 Supplementary**

- (1) For the purposes of the Tax Acts a payment to which section 966 applies is treated as if it were not reduced by the deduction of a sum representing income tax under that section.
- (2) An officer of Revenue and Customs may disclose, to any person who appears to the officer to have an interest in the matter, information relevant to determining whether section 966 applies to a payment or transfer.
- (3) An officer is not precluded from doing so by any obligation as to secrecy imposed by statute or otherwise.
- (4) In this section and sections 966 to 969—
  - (a) references to a payment include references to a payment by way of loan of money, and
  - (b) references to a transfer do not include references to a transfer of money but, subject to that, include references to—
    - (i) a temporary transfer (as by way of loan), and
    - (ii) a transfer of a right (whether or not a right to receive money).
- (5) In sections 966 to 969 “prescribed” means prescribed by regulations made by the Treasury.

### *Non-resident landlords*

## **971 Income tax due in respect of income of non-resident landlords**

- (1) The Commissioners for Her Majesty's Revenue and Customs may by regulations make provision for—
  - (a) the collection, from non-resident landlord representatives of a prescribed description, of prescribed amounts of income tax in respect of non-resident landlord income, and
  - (b) the assessment and recovery of the income tax on or from such persons.



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- (2) “Non-resident landlord income” means income of a person whose usual place of abode is outside the United Kingdom (“the non-resident”) and which is or may become <sup>F1789</sup>chargeable as the profits of a UK property business under Chapter 3 of Part 3 of ITTOIA 2005 or Chapter 3 of Part 4 of CTA 2009.]
- (3) “Non-resident landlord representative” means—
- (a) a person by whom any sums are payable to the non-resident which are to be treated as receipts of a <sup>F1790</sup>UK property business (within the meaning of Chapter 2 of Part 3 of ITTOIA 2005 or Chapter 2 of Part 4 of CTA 2009)] carried on by the non-resident, or
  - (b) a person who acts on behalf of the non-resident in connection with the management or administration of any such business.
- (4) A non-resident landlord representative who must pay prescribed amounts of income tax to the Commissioners for Her Majesty's Revenue and Customs under regulations under this section is entitled—
- (a) to be indemnified by the non-resident for all such payments, and
  - (b) to retain out of any sums otherwise due from the representative to the non-resident, or received by the representative on behalf of the non-resident, sums representing income tax sufficient for meeting any liabilities under the regulations to make such payments.
- (5) Subsection (4)(b) applies whether the liability is one which the representative has discharged or to which the representative is subject.

#### Textual Amendments

**F1789** Words in s. 971(2) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 716(2)** (with Sch. 2 Pts. 1, 2)

**F1790** Words in s. 971(3)(a) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 716(3)** (with Sch. 2 Pts. 1, 2)

## 972 Regulations under section 971

- (1) Regulations under section 971 may, in particular, include all or any of the following provisions—
- (a) provision for the amount of any income tax in respect of non-resident landlord income, which is to be paid to the Commissioners for Her Majesty's Revenue and Customs, to be calculated by reference to prescribed factors,
  - (b) provision for the determination in accordance with the regulations of the period for which, the circumstances in which and the times at which any payments are to be made to the Commissioners,
  - (c) provision for requiring the payment of interest on amounts which are not paid to the Commissioners at the times required under the regulations,
  - (d) provision as to the certificates to be given in prescribed circumstances to the non-resident by a non-resident landlord representative, and as to the particulars to be included in any such certificate,
  - (e) provision for the making of repayments of income tax to the non-resident and for such repayments to be made in prescribed cases to non-resident landlord representatives,

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- (f) provision for the payment of interest by the Commissioners on sums repaid under the regulations,
  - (g) provision for the rights and obligations arising under the regulations to depend on the giving of such notices and the making of such claims and determinations as may be prescribed,
  - (h) provision for the making and determination of applications for requirements of the regulations not to apply in certain cases, and for the variation or revocation, in prescribed cases, of the determinations made on such applications,
  - (i) provision for appeals with respect to questions arising under the regulations,
  - (j) provision requiring non-resident landlord representatives within section 971(3)(b) who are of a prescribed description to register with the Commissioners,
  - (k) provision requiring persons registered with the Commissioners and other non-resident landlord representatives of a prescribed description to make returns and supply prescribed information to the Commissioners and to make available prescribed books, documents and other records for inspection on behalf of the Commissioners,
  - (l) provision for the partnership, as such, to be treated as the non-resident landlord representative if a liability to make a payment under the regulations arises from amounts payable or things done in the course of a business carried on by persons in partnership, and
  - (m) provision which, in relation to payments of income tax to be made by virtue of section 971 or to sums retained in respect of such payments, applies (with or without modifications) any enactment or subordinate legislation having effect apart from section 971 with respect to cases in which tax is or is treated as deducted from any income.
- (2) Interest required to be paid by regulations under section 971 is to be paid without deduction of a sum representing income tax and is not to be taken into account in calculating any income, profits or losses for any tax purposes.
- (3) Regulations under section 971 may—
- (a) make different provision for different cases, and
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (4) Provision made by virtue of subsection (3)(b) may, in particular, in connection with any other provision made by regulations under section 971, modify the operation in any case of section 59A of TMA 1970 (payments on account of income tax).
- (5) In this section and section 971 “prescribed” means prescribed by, or determined by an officer of Revenue and Customs in accordance with, regulations made by the Commissioners for Her Majesty’s Revenue and Customs under section 971.
- (6) See [<sup>F1791</sup>section 548(7) of CTA 2010,] which prevents certain distributions of Real Estate Investment Trusts being non-resident landlord income for the purposes of regulations under section 971.

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### Textual Amendments

**F1791** Words in s. 972(6) substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 559** (with **Sch. 2**)

## Real Estate Investment Trusts

### 973 Income tax due in respect of distributions

- (1) The Treasury may make regulations providing for the assessment, collection and recovery of income tax where—
    - (a) a distribution to which subsection (2) or (3) applies is made, and
    - (b) tax is or may become chargeable in respect of the distribution (whether by virtue of <sup>F1792</sup>section 548(5) or (6) of CTA 2010] (distributions: liability to tax) or otherwise).
  - (2) This subsection applies to a distribution if—
    - (a) it is made by a <sup>F1793</sup>company UK REIT], and
    - (b) it is a distribution of profits or gains (or of both) of <sup>F1794</sup>the company's property rental business].
  - (3) This subsection applies to a distribution if—
    - (a) it is made by the principal company of a <sup>F1795</sup>group UK REIT], and
    - <sup>F1796</sup>(b) it is a distribution of amounts shown in the financial statement under section 532(2)(a) of CTA 2010 (statement of group's property rental business) as—
      - (i) profits or gains (or both) of UK members of the group, or
      - (ii) profits or gains (or both) of UK property rental business of non-UK members of the group.]
- <sup>F1797</sup>(3A) In this section, section 974 and any regulations under this section, “distribution” is to be read in accordance with section 554A of CTA 2010 (meaning of “distribution”).
- (3B) Section 599A of CTA 2010 (amount of distribution consisting of share capital issued in lieu of cash dividend) applies for the purposes of this section, section 974 and any regulations under this section as it applies for the purposes of Part 12 of that Act (Real Estate Investment Trusts).]
- <sup>F1798</sup>(4) In this section—  
“company UK REIT” and “group UK REIT” have the same meaning as in Part 12 of CTA 2010 (see sections 523(5) and 524(5) of that Act),  
“group” and “principal company” have the same meaning as in Part 12 of CTA 2010 (see section 606 of that Act), and  
“property rental business” and “UK property rental business” have the same meaning as in Part 12 of CTA 2010 (see sections 519 and 520 of that Act).]
- (5) References in this section to a <sup>F1799</sup>UK or non-UK company are to be read in accordance with Part 12 of CTA 2010 (see section 521 of that Act)].
  - (6) In this section “gains” includes chargeable gains.

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[<sup>F1800</sup>(7) In relation to references to profits of property rental business, see section 549A of CTA 2010.]

#### Textual Amendments

- F1792** Words in s. 973(1)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(2)** (with [Sch. 2](#))
- F1793** Words in s. 973(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(3)(a)** (with [Sch. 2](#))
- F1794** Words in s. 973(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(3)(b)** (with [Sch. 2](#))
- F1795** Words in s. 973(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(4)(a)** (with [Sch. 2](#))
- F1796S.** 973(3)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(4)(b)** (with [Sch. 2](#))
- F1797S.** 973(3A)(3B) inserted (16.12.2010 with effect in accordance with [Sch. 4 para. 12](#) of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 4 para. 2**
- F1798S.** 973(4) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(5)** (with [Sch. 2](#))
- F1799** Words in s. 973(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 560(6)** (with [Sch. 2](#))
- F1800S.** 973(7) inserted (17.7.2013) by [Finance Act 2013 \(c. 29\)](#), **Sch. 19 para. 12**

#### 974 Regulations under section 973

- (1) Regulations under section 973 may, in particular—
- (a) require a company to deduct sums representing income tax at the basic rate before payment of distributions,
  - (b) specify classes of shareholder to whom distributions may be made without deduction of such sums,
  - (c) make provision about the calculation of the sums to be deducted by a company,
  - (d) require a company to account for income tax equal to the sums deducted,
  - (e) apply an enactment (with or without modification) in respect of cases where a sum representing income tax is deducted or treated as deducted from income,
  - (f) specify the time at which a distribution is to be treated as made by a company,
  - (g) specify periods in respect of which payments of income tax are to be made,
  - (h) specify times at which payments of income tax are to be made,
  - (i) make provision about the making of claims and determinations in respect of over-payment or under-payment (which may include provision for appeals),
  - (j) include provision requiring the payment of interest in respect of late payments of income tax (which may—
    - (i) provide for payment without deduction of sums representing income tax,
    - (ii) allow interest paid as a deduction from profits of the company's [<sup>F1801</sup>property rental business]),
  - (k) require a company to provide a shareholder with a statement in writing containing specified information,

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- (l) make provision about the repayment to a shareholder of sums deducted and paid to the Commissioners for Her Majesty's Revenue and Customs in respect of income tax,
  - (m) make provision for the payment of interest in respect of repayments under paragraph (l),
  - (n) require notices to be given by or to a company,
  - (o) require a company to make returns, and
  - (p) require a company to make records available to the Commissioners for Her Majesty's Revenue and Customs for inspection.
- (2) A reference in subsection (1) to a distribution in respect of profits of [<sup>F1802</sup>property rental business] includes a distribution made after [<sup>F1803</sup>the company or group (as the case may be) has ceased to be a UK REIT].
- (3) A distribution which is treated as having been made by virtue of [<sup>F1804</sup>section 530(6) of CTA 2010] is also to be treated as having been made for the purposes of regulations under section 973.
- (4) Regulations under section 973—
- (a) may make provision which applies generally or only in specified cases or circumstances,
  - (b) may make different provision for different cases or circumstances, and
  - (c) may contain incidental, supplemental, consequential and transitional provision and savings.
- (5) In subsections (1) and (2), so far as they apply to cases within section 973(1)(a), “profits” includes gains (including chargeable gains).

[<sup>F1805</sup>(6) In this section—  
property rental business” has the same meaning as in Part 12 of CTA 2010 (see section 519 of that Act), and  
“UK REIT” has the same meaning as in Part 12 of CTA 2010 (see section 518(4) of that Act).]

[<sup>F1806</sup>(7) In relation to references to profits of property rental business, see section 549A of CTA 2010.]

#### Textual Amendments

- F1801** Words in s. 974(1)(j)(ii) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 561\(2\)](#) (with [Sch. 2](#))
- F1802** Words in s. 974(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 561\(3\)\(a\)](#) (with [Sch. 2](#))
- F1803** Words in s. 974(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 561\(3\)\(b\)](#) (with [Sch. 2](#))
- F1804** Words in s. 974(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 561\(4\)](#) (with [Sch. 2](#))
- F1805** S. 974(6) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 561\(5\)](#) (with [Sch. 2](#))
- F1806** S. 974(7) inserted (17.7.2013) by [Finance Act 2013 \(c. 29\), Sch. 19 para. 12](#)

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## CHAPTER 19

### GENERAL

#### Supplementary

#### 975 Statements about deduction of income tax

- (1) Subsection (2) applies if<sup>F1807</sup>—
- (a) a person makes a payment from which a sum representing income tax must be deducted under any provision of Chapters 2 to 7 or under section 919 or 928<sup>F1808</sup>, and
  - (b) the person is not under a duty to provide a statement under section 975A].
- (2) If the recipient requests it in writing, the person must provide the recipient with a statement showing—
- (a) the gross amount of the payment,
  - (b) the amount of the sum deducted, and
  - (c) the actual amount paid.
- <sup>F1809</sup>(3) . . . . .
- <sup>F1810</sup>(4) . . . . .
- (5) A statement under this section must be in writing.
- (6) The duty to comply with a request under subsection (2)<sup>F1811</sup> ... is enforceable by the recipient<sup>F1811</sup> ....
- <sup>F1812</sup>(7) . . . . .

#### Textual Amendments

- F1807** Words in s. 975(1) inserted (with effect in accordance with Sch. 11 para. 12(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 11 para. 9\(a\)](#)
- F1808** Words in s. 975(1) inserted (with effect in accordance with Sch. 11 para. 12(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 11 para. 9\(b\)](#)
- F1809** S. 975(3) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\)](#), [37\(17\)\(a\)](#) (with [reg. 32](#))
- F1810** S. 975(4) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\)](#), [37\(17\)\(a\)](#) (with [reg. 32](#))
- F1811** Words in s. 975(6) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\)](#), [37\(17\)\(b\)](#) (with [reg. 32](#))
- F1812** S. 975(7) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), [regs. 1\(3\)](#), [37\(17\)\(c\)](#) (with [reg. 32](#))

#### <sup>F1813</sup>975A Statements about certain payments of interest

- (1) Subsection (2) applies if a person makes a payment of interest of which the whole or part is in the form of goods or services or a voucher.
- (2) The person must provide the recipient of the payment with a statement showing—

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- (a) the gross amount of the payment,
  - (b) the amount of the sum deducted under any provision of Chapters 2 to 7 or under section 919 or 928 (if any),
  - (c) the actual amount paid, and
  - (d) the date on which the payment was made.
- (3) The amounts mentioned in paragraphs (a) to (c) of subsection (2) are to be calculated in accordance with section 370A of ITTOIA 2005.
- (4) Subsection (5) applies where a person—
  - (a) is treated as making a payment of an amount of interest (“the deemed interest”) by virtue of section 413 of CTA 2009 or section 380 of ITTOIA 2005 (funding bonds), and
  - (b) is under a duty under section 939(2) to retain funding bonds equal in value to income tax on the deemed interest at the basic rate.
- (5) The person must provide the recipient of the funding bonds with a statement showing—
  - (a) the gross amount of the deemed interest,
  - (b) the sum representing income tax which the person is treated under section 939(3) as having deducted by retaining funding bonds,
  - (c) the amount of the deemed interest after the deduction of that sum, and
  - (d) the date on which the deemed interest is treated as being paid.
- (6) The amount of the deemed interest is to be calculated in accordance with section 413 of CTA 2009 or section 380 of ITTOIA 2005, as the case may require.
- (7) A statement under this section must be provided in writing to the recipient on the date that the payment is made or (as the case may be) the date that the deemed interest is treated as being paid.
- (8) The duty to comply with this section is enforceable by the recipient.
- (9) In this section—
  - (a) references to a voucher are to a voucher, stamp or similar document or token which is capable of being exchanged for money, goods or services, and
  - (b) “funding bonds” has the same meaning as in Chapter 12 (see section 939(6)).]

#### **Textual Amendments**

**F1813S.** 975A inserted (with effect in accordance with Sch. 11 para. 12(2) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), [Sch. 11 para. 10](#)

### **976 Arrangements for payments of interest less tax or at specified net rate**

- (1) This section applies if—
  - (a) provision is made for the payment of interest, and
  - (b) the interest is payable without deduction of a sum representing income tax.
- (2) It applies—
  - (a) whenever the provision was made, and
  - (b) whether it was made orally or in writing.

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- (3) If the provision is for the payment of interest “less tax” (or uses words to similar effect) it is to be read as if the words “less tax” (or the equivalent words) were not included.
- (4) Subsection (5) applies if the provision is (however worded)—
  - (a) for the payment of interest to which subsection (6) applies, and
  - (b) for that interest to be paid at such a rate (“the gross rate”) that the amount of interest payable at that rate is, after deduction of a sum representing income tax, equal to the amount of interest payable at a specified rate (“the net rate”).
- (5) In that case the provision is to be read as if it were for the payment of interest at the gross rate.
- (6) This subsection applies to—
  - (a) interest on which the recipient is chargeable to income tax, which falls within Chapter 2 of Part 4 of ITTOIA 2005 but which is not relevant foreign income, or
  - [<sup>F1814</sup>(b) interest which is required to be brought into account under Part 5 of CTA 2009 (loan relationships) as a non-trading credit of the recipient.]

#### Textual Amendments

**F1814S.** 976(6)(b) substituted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 717** (with **Sch. 2 Pts. 1, 2**)

### 977 Payments to companies

- (1) The provisions of this Part relating to the deduction from payments of sums representing income tax are not affected by the fact that the recipient is a company not chargeable to income tax on the payment.
- (2) References in subsection (1) to payments received by a company—
  - (a) include payments received by another person on behalf of or in trust for the company, but
  - (b) do not include payments received by the company on behalf of or in trust for another person.
- (3) For further provision about payments received by companies, see—
  - (a) sections 7(2) and 11(3) of ICTA (set-off of income tax deducted at source against liability to corporation tax), and
  - (b) section 952 (set-off of income tax suffered against income tax payable under Chapter 15).

### 978 Application to public departments

- (1) This Part applies in relation to payments made by public offices and departments of the Crown except as mentioned in subsection (2).
- (2) This Part does not apply to payments made by public offices and departments of—
  - (a) any country mentioned in Schedule 3 to the British Nationality Act 1981 (c. 61) (which contains a list of Commonwealth countries) or the Republic of Ireland, or



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- (b) any state or province of a country within paragraph (a).

### **979 Designated international organisations: exceptions from duties to deduct**

- (1) The Treasury may by order designate for the purposes of this section any international organisation of which the United Kingdom is a member.
- (2) The duty to deduct under section 874 (duty to deduct from certain payments of yearly interest) does not apply to a payment of interest made by—
  - (a) an organisation designated under subsection (1), or
  - (b) a partnership of which an organisation so designated is a member.
- (3) None of the duties to deduct under Chapters 6, 7 (deduction from annual payments, patent royalties and other payments connected with intellectual property) and 14 (directions for duty to deduct to apply in tax avoidance cases) apply to a payment made by an organisation designated under subsection (1).
- (4) The duties to deduct under sections 919(2) and 922(2) do not apply in a case where the payer of the manufactured interest or (as the case may be) the manufactured overseas dividend is an organisation designated under subsection (1).

### **[<sup>F1815</sup>979] FSCS payments representing interest**

- (1) This section applies where a payment is made under the FSCS representing interest net of an amount equal to a sum representing income tax that would have been deducted on the payment of interest but for the circumstances giving rise to the making of payments under the FSCS.
- (2) A payment of the relevant gross amount is treated as having been made under the FSCS after there has been deducted from it a sum representing income tax of that amount.
- (3) That sum is accordingly taken into account under section 59B of TMA 1970 in determining the income tax payable by, or repayable to, the recipient.
- (4) “The relevant gross amount” means the aggregate of the amount of the payment representing interest which is made and that sum.
- (5) If the recipient requests it in writing, the scheme manager of the FSCS must provide the recipient with a statement showing—
  - (a) the relevant gross amount,
  - (b) the amount of the sum treated as deducted, and
  - (c) the amount of the payment representing interest.
- (6) The duty to comply with a request under subsection (5) is enforceable by the recipient.
- (7) In this section—

“the FSCS” means the Financial Services Compensation Scheme (established under Part 15 of the Financial Services and Markets Act 2000);

“payment representing interest” has the same meaning as in section 380A of ITTOIA 2005.]

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#### Textual Amendments

**F1815S.** 979A inserted (with effect in accordance with s. 33(5) of the amending Act) by [Finance Act 2009 \(c. 10\), s. 33\(4\)](#)

### 980 Derivative contracts: exception from duties to deduct

- (1) Despite the provisions of this Part, a company is not required to deduct a sum representing income tax from a payment made under a derivative contract to which this section applies.
- (2) This section applies to a derivative contract if profits and losses arising from it are calculated in accordance with <sup>F1816</sup>[Part 7 of CTA 2009] .

#### Textual Amendments

**F1816**Words in s. 980(2) substituted (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\), s. 1329\(1\), Sch. 1 para. 718 \(with Sch. 2 Pts. 1, 2\)](#)

### 981 Foreign currency securities etc: exception from duties to deduct

Despite the provisions of this Part there is no duty to deduct a sum representing income tax from a payment of interest within section 755(1) of ITTOIA 2005 (interest on foreign currency securities etc owned by non-UK residents).

### <sup>F1817</sup>981 Offshore receipts in respect of intangible property: exception from duties to deduct

Despite the provisions of this Part there is no duty to deduct a sum representing income tax from a payment charged to income tax under Chapter 2A of Part 5 of ITTOIA 2005 (offshore receipts in respect of intangible property).]

#### Textual Amendments

**F1817S.** 981A inserted (5.11.2019) by [The Income Tax \(Trading and Other Income\) Act 2005 \(Amendments to Chapter 2A of Part 5\) Regulations 2019 \(S.I. 2019/1452\), regs. 1\(1\), 15](#)

### 982 Income tax is calculated by reference to gross amounts

If any provision of this Part requires the deduction from a payment of a sum representing income tax at a specified rate, the rate is to be applied to the gross payment, that is to the payment before deduction of a sum representing income tax under this Part.

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### *Interpretation*

#### **983 Meaning of “deposit”**

In this Chapter “deposit” means a sum of money paid on terms which mean that it will be repaid (with or without interest)—

- (a) on demand, or
- (b) at a time or in circumstances agreed by or on behalf of the person who pays it and the person who receives it.

#### **984 Meaning of “financial instrument”**

(1) In this Part “financial instrument” includes—

- (a) any money,
- (b) any shares or securities,
- (c) an option, future or contract for differences if its underlying subject-matter is (or is primarily) one or more financial instruments, and
- (d) an instrument the underlying subject-matter of which is (or is primarily) creditworthiness.

(2) For the purposes of subsection (1) if the effect of an instrument depends on an index or factor, the “underlying” subject-matter of the instrument is the matter by reference to which the index or factor is determined.

#### **985 Meaning of “qualifying certificate of deposit”**

(1) In this Part “qualifying certificate of deposit” means a certificate of deposit under which—

- (a) the amount payable is at least £50,000, exclusive of interest, and
- (b) that amount is payable at a specified time within 5 years beginning with the date on which the deposit is made.

(2) If an amount is denominated in a foreign currency, subsection (1)(a) has effect as if it referred to an amount which is at least the equivalent in that currency of £50,000 at the time the deposit is made.

(3) For the meaning of “certificate of deposit”, see section 1019.

#### **986 Meaning of “qualifying uncertificated eligible debt security unit”**

(1) In this Part “qualifying uncertificated eligible debt security unit” means an uncertificated eligible debt security unit under which—

- (a) the amount payable is at least £50,000, exclusive of interest, and
- (b) that amount is payable at a specified time within 5 years beginning with the date on which the deposit is made.

(2) If an amount is denominated in a foreign currency, subsection (1)(a) has effect as if it referred to an amount which is at least the equivalent in that currency of £50,000 at the time the deposit is made.

(3) In this section “uncertificated eligible debt security unit” means an uncertificated unit of an eligible debt security where the issue of the unit corresponds, in accordance with

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the current terms of issue of the eligible debt security, to the issue of a certificate of deposit.

(4) In subsection (3)—

- (a) “eligible debt security”,
- (b) “uncertificated” (in relation to a unit), and
- (c) “unit”,

have the meanings given by regulation 3(1) of the Uncertificated Securities Regulations 2001 (S.I. 2001/3755).

(5) For the meaning of “certificate of deposit”, see section 1019.

### 987 Meaning of “quoted Eurobond”

[<sup>F1818</sup>(1)] In this Part “quoted Eurobond” means a security, including a share (in particular any permanent interest bearing share as defined in section 117 of TCGA 1992), that—

- (a) is issued by a company,
- (b) is listed on a recognised stock exchange [<sup>F1819</sup>or admitted to trading on a multilateral trading facility operated by [<sup>F1820</sup>a regulated] recognised stock exchange], and
- (c) carries a right to interest.

[<sup>F1821</sup>(2) For the purposes of this section—

- (a) “regulated recognised stock exchange” means a recognised stock exchange that is regulated in the United Kingdom, the European Economic Area or Gibraltar, and
- (b) “multilateral trading facility” means—
  - (i) a UK multilateral trading facility within the meaning given by Article 2.1(14A) of Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments,
  - (ii) an EU multilateral trading facility within the meaning given by Article 2.1(14B) of that Regulation, and
  - (iii) [<sup>F1822</sup>a Gibraltar multilateral trading facility within the meaning given by Article 26(11)(b)(ii) of that Regulation.]

<sup>F1823</sup> ...]

#### Textual Amendments

**F1818S.** 987 renumbered as s. 987(1) (with effect in accordance with s. 34(3) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 34\(1\)\(a\)](#)

**F1819** Words in s. 987(1)(b) inserted (with effect in accordance with s. 34(3) of the amending Act) by [Finance Act 2018 \(c. 3\), s. 34\(1\)\(b\)](#)

**F1820** Words in s. 987(1)(b) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(11\)\(a\)](#) (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

**F1821S.** 987(2) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\), regs. 1, 15\(11\)\(b\)](#) (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)

**F1822S.** 987(2)(b)(iii) substituted (31.12.2020) by [The Taxes \(Amendments\) \(EU Exit\) \(No. 2\) Regulations 2019 \(S.I. 2019/818\), regs. 1\(3\), 6\(4\)\(a\)](#); 2020 c. 1, Sch. 5 para. 1(1)

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**F1823** Words in s. 987(2)(b) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) \(No. 2\) Regulations 2019 \(S.I. 2019/818\)](#), regs. 1(3), **6(4)(b)**; 2020 c. 1, Sch. 5 para. 1(1)

## PART 16

### INCOME TAX ACTS DEFINITIONS ETC

#### CHAPTER 1

##### DEFINITIONS

### 988 Overview of Chapter

- (1) This Chapter contains definitions which apply for the purposes of the Income Tax Acts, except where, in those Acts, the context otherwise requires.
- (2) To find a definition go first to section 989, which sets out some of the definitions in full.
- (3) If a definition is not set out in full in section 989, the section indicates where it is set out in full.
- (4) In some cases it is stated that a definition does not apply for the purposes of specified provisions of the Income Tax Acts (see, for example, sections 990(2), 992(3) and 1007(4)).
- (5) And in some cases it is stated that a definition has effect only for the purposes of specific provisions of the Income Tax Acts (see, for example, sections 991, 993, 995 and 1006).

### 989 The definitions

The following definitions apply for the purposes of the Income Tax Acts—

“Act” has the meaning given by section 990,

[<sup>F1824</sup>“additional rate” means the rate of income tax determined in pursuance of section 6(2) <sup>F1825</sup>....]

“authorised unit trust” is to be read in accordance with [<sup>F1826</sup>sections 616 and 619 of CTA 2010],

“bank” is to be read in accordance with section 991,

“basic rate” means the rate of income tax determined in pursuance of section 6(2) <sup>F1825</sup>....,

“basic rate limit” has the meaning given by section [<sup>F1827</sup>10],

“body of persons” means any body politic, corporate or collegiate and any company, fraternity, fellowship [<sup>F1828</sup>and] society of persons whether corporate or not corporate,

“building society” means a building society within the meaning of the Building Societies Act 1986 (c. 53),

“capital allowance” means any allowance under CAA 2001,

“the Capital Allowances Act” means CAA 2001,

“chargeable gain” has the same meaning as in TCGA 1992,

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- “chargeable period” means an accounting period of a company or a tax year,  
<sup>F1829</sup> .....
- “close company” <sup>F1830</sup> is to be read in accordance with Chapter 2 of Part 10 of CTA 2010 (see in particular section 439 of that Act)],
- “company” has the meaning given by section 992,
- “connected”, in relation to two persons being connected with one another, is to be read in accordance with sections 993 and 994,
- “control”, in relation to the control of a body corporate or a partnership, is to be read in accordance with section 995,
- <sup>F1831</sup> “default additional rate” means the rate of income tax of that name determined pursuant to section 6C,
- “default basic rate” means the rate of income tax of that name determined pursuant to section 6C,
- “default higher rate” means the rate of income tax of that name determined pursuant to section 6C,]
- “distribution” has the <sup>F1832</sup> meaning given by Chapters 2 to 5 of Part 23 of CTA 2010<sup>F1833</sup>, disregarding section 1027A of that Act]],
- <sup>F1834</sup> “dividend additional rate” means the rate of income tax specified in section 8(3),]
- “dividend income” has the meaning given by section 19,
- <sup>F1835</sup> “dividend nil rate” means the rate of income tax specified in section 8(A1),]
- “dividend ordinary rate” means the rate of income tax specified in section 8(1),
- “dividend trust rate” means the rate of income tax specified in section 9(2),
- “dividend upper rate” means the rate of income tax specified in section 8(2),
- “farming” has the meaning given by section 996,
- “for accounting purposes” has the meaning given by section 997(4),
- “forestry” is to be read in accordance with section 996,
- “generally accepted accounting practice” has the meaning given by section 997(1) and (3),
- “grossing up” is to be read in accordance with section 998,
- “higher rate” means the rate of income tax determined in pursuance of section 6(2) <sup>F1825</sup> ...,
- <sup>F1836</sup> “higher rate limit” has the meaning given by section 10,]
- <sup>F1837</sup> “hire-purchase agreement” is to be read in accordance with section 998A,]
- “international accounting standards” has the meaning given by section 997(5),
- “local authority” has the meaning given by section 999,
- “local authority association” has the meaning given by section 1000,
- “market gardening” has the meaning given by section 996,
- “net income” has the meaning given by section 23 (see Step 2 in that section),
- “non-UK resident” means not resident in the United Kingdom (and references to a non-UK resident or a non-UK resident person are to a person who is not resident there),
- “normal self-assessment filing date”, in relation to a tax year, means the 31 January following the tax year,

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“notice” means notice in writing or in a form authorised (in relation to the case in question) by directions under <sup>F1838</sup>section 43E(1) of TMA 1970],

“offshore installation” has the meaning given by sections 1001 and 1002,

“oil and gas exploration and appraisal” has the meaning given by section 1003,

“ordinary share capital”, in relation to a company, means all the company's issued share capital (however described), other than capital the holders of which have a right to a dividend at a fixed rate but have no other right to share in the company's profits,

<sup>F1839</sup>“the overseas part”, in relation to a split year, has the meaning given in Part 3 of Schedule 45 to FA 2013 (statutory residence test: split year treatment);]

“overseas property business” has the meaning given by Chapter 2 of Part 3 of ITTOIA 2005,

“period of account”—

- (a) in relation to a person, means any period for which the person draws up accounts, and
- (b) in relation to a trade, profession, vocation or other business, means any period for which the accounts of the business are drawn up,

<sup>F1840</sup>

“personal representatives” in relation to a person who has died, means—

- (a) in the United Kingdom, persons responsible for administering the estate of the deceased, and
- (b) in a territory outside the United Kingdom, those persons having functions under its law equivalent to those of administering the estate of the deceased,

“profits or gains” does not include chargeable gains,

“property investment LLP” has the meaning given by section 1004,

<sup>F1841</sup>

“qualifying policy” means a policy of insurance which is a qualifying policy for the purposes of Chapter 1 of Part 7 of ICTA,

“recognised stock exchange” has the meaning given by section 1005,

“registered pension scheme” has the meaning given by section 150(2) of FA 2004,

“relevant foreign income” has the meaning given by section 830(1) to (3) of ITTOIA 2005 but also includes, for any purpose mentioned in any provision listed in section 830(4) of that Act, income treated as relevant foreign income for that purpose by that provision,

“research and development” is to be read in accordance with section 1006,

“retail prices index” means—

- (a) the general index of retail prices (for all items) published by the <sup>F1842</sup>Statistics Board], or
- (b) if that index is not published for a relevant month, any substituted index or index figures published by <sup>F1843</sup>the Board],

<sup>F1844</sup>“savings additional rate” means the rate of income tax of that name determined pursuant to section 7A,]

<sup>F1845</sup>“savings allowance” has the meaning given by section 12B,]

<sup>F1846</sup>“savings basic rate” means the rate of income tax of that name determined pursuant to section 7A,

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“savings higher rate” means the rate of income tax of that name determined pursuant to section 7A,]

“savings income” has the meaning given by section 18,

[<sup>F1845</sup>“savings nil rate” means the rate of income tax specified in section 7(2),]

F1847

F1848

“scheme administrator”, in relation to a pension scheme, has the meaning given by section 270 of FA 2004 (but see also sections 271 to 274 of that Act),

F1849

[<sup>F1850</sup>“Scottish basic rate” [<sup>F1851</sup> in relation to a tax year, means the Scottish basic rate set by a Scottish rate resolution for that year]]

F1849

[<sup>F1852</sup>“Scottish intermediate rate”, in relation to a tax year, means any Scottish rate for that year which is named “intermediate” by the Scottish rate resolution setting it,]

[<sup>F1853</sup>“Scottish rate” in relation to a tax year, means a rate set by a Scottish rate resolution for that year,]

[<sup>F1853</sup>“Scottish rate resolution” means a resolution of the Scottish Parliament under section 80C of the Scotland Act 1998]

[<sup>F1850</sup>“Scottish taxpayer” has the same meaning as in Chapter 2 of Part 4A of the Scotland Act 1998]

“settled property” (together with references to property comprised in a settlement) is to be read in accordance with section 466,

“settlor” is to be read in accordance with sections 467 to 473,

[<sup>F1854</sup>“shares, stock or other securities included in the official UK list” is to be read in accordance with sections 467 to 473,” is to be read in accordance with section 1005,

“shares, stock or other securities listed on a recognised stock exchange” is to be read in accordance with section 1005,]

[<sup>F1839</sup>“split year”, in relation to an individual, means a tax year that, as respects that individual, is a split year within the meaning of Part 3 of Schedule 45 to FA 2013 (statutory residence test: split year treatment);]

[<sup>F1855</sup>“starting rate for savings” [<sup>F1856</sup> means the rate of income tax specified in section 7(1)],

“starting rate limit for savings” has the meaning given by section 12,]

“stepchild”, in relation to a civil partner, is to be read in accordance with section 246 of the Civil Partnership Act 2004 (c. 33),

“51% subsidiary”, in relation to bodies corporate, has the same meaning as in the Corporation Tax Acts (see [<sup>F1857</sup>Chapter 3 of Part 24 of CTA 2010]),

“75% subsidiary”, in relation to bodies corporate, has the same meaning as in the Corporation Tax Acts (see [<sup>F1858</sup>Chapter 3 of Part 24 of CTA 2010]),

[<sup>F1859</sup>“tax”, if neither income tax nor corporation tax is specified, means either of those taxes,]

F1841

...

“tax year” has the meaning given by section 4(2),

“the tax year 2007-08” (and any corresponding expression in which two years are similarly mentioned) has the meaning given by section 4(4),



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“total income” has the meaning given by section 23 (see Step 1 in that section and also section 31),

“trade” includes any venture in the nature of trade,

[<sup>F1860</sup>“trade of dealing in or developing UK land”, in relation to a non-UK resident person, has the meaning given by section 6B of ITTOIA 2005,]

[<sup>F1861</sup>“tribunal” means the First-tier Tribunal or, where determined by or under Tribunal Procedure Rules, the Upper Tribunal,]

“trust rate” means the rate of income tax specified in section 9(1),

“UK generally accepted accounting practice” has the meaning given by section 997(2),

[<sup>F1839</sup>“the UK part”, in relation to a split year, has the meaning given in Part 3 of Schedule 45 to FA 2013 (statutory residence test: split year treatment);]

“UK property business” has the meaning given by Chapter 2 of Part 3 of ITTOIA 2005,

“UK resident” means resident in the United Kingdom (and references to a UK resident or a UK resident person are to a person who is resident there),

“umbrella scheme” is to be read in accordance with [<sup>F1862</sup>section 619 of CTA 2010],

“unauthorised unit trust” means a unit trust scheme which is neither an authorised unit trust nor an umbrella scheme,

“unit holder” is to be read in accordance with [<sup>F1863</sup>sections 616 and 619 of CTA 2010],

“unit trust scheme” has the meaning given by section 1007,

“venture capital trust” and “VCT” have the same meaning as in Part 6 (see section 259(1)),

[<sup>F1864</sup>“ Welsh additional rate ” means the rate of income tax of that name calculated in accordance with section 6B,]

[<sup>F1864</sup>“ Welsh basic rate ” means the rate of income tax of that name calculated in accordance with section 6B,]

[<sup>F1864</sup>“ Welsh higher rate ” means the rate of income tax of that name calculated in accordance with section 6B,]

[<sup>F1864</sup>“ Welsh taxpayer” has the same meaning as in Chapter 2 of Part 4A of the Government of Wales Act 2006]

“woodlands” has the meaning given by section 996,

“year of assessment” means a tax year, and

“the year 1988-1989” means the tax year 1988-1989 (and any corresponding expression in which two years are similarly mentioned is to be read in the same way).

### Textual Amendments

**F1824** Words in s. 989 inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by [Finance Act 2009 \(c. 10\)](#), [Sch. 2 para. 8\(2\)](#)

**F1825** Words in s. 989 omitted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by virtue of [Finance Act 2014 \(c. 26\)](#), [Sch. 38 para. 10\(a\)](#)

**F1826** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 562\(2\)](#) (with [Sch. 2](#))

**F1827** Word in s. 989 substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 33\(2\)](#)

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- F1828** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 562(3)** (with Sch. 2)
- F1829** Words in s. 989 omitted (8.4.2010 for specified purposes and with effect in accordance with Sch. 6 para. 34(1) of the amending Act, 8.3.2012 with effect as mentioned in art. 18 of the commencing S.I) by virtue of Finance Act 2010 (c. 13), **Sch. 6 para. 23(6)**; S.I. 2012/736, art. 18
- F1830** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 562(4)** (with Sch. 2)
- F1831** Words in s. 989 inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Finance Act 2016 (c. 24), **s. 6(21)(24)**; S.I. 2016/1161, **regs. 2, 3**
- F1832** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 562(5)** (with Sch. 2)
- F1833** Words in s. 989 inserted (16.12.2010 with effect in accordance with Sch. 3 paras. 5, 7 of the amending Act) by Finance (No. 3) Act 2010 (c. 33), **Sch. 3 para. 2**
- F1834** Words in s. 989 inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 2 para. 8(3)**
- F1835** Words in s. 989 inserted (with effect for the tax year 2016-17 and subsequent years) by Finance Act 2016 (c. 24), **s. 5(8)(10)**
- F1836** Words in s. 989 inserted (with effect in accordance with Sch. 2 para. 25 of the amending Act) by Finance Act 2009 (c. 10), **Sch. 2 para. 8(4)**
- F1837** Words in s. 989 inserted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 8 para. 258** (with Sch. 9 paras. 1-9, 22)
- F1838** Words in s. 989 substituted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 7 para. 92** (with Sch. 9 paras. 1-9, 22)
- F1839** Words in s. 989 inserted (with effect in accordance with Sch. 45 para. 153(2) of the amending Act) by Finance Act 2013 (c. 29), **Sch. 45 para. 107**
- F1840** Words in s. 989 omitted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by virtue of Finance (No. 3) Act 2010 (c. 33), **Sch. 2 para. 3(2)**; S.I. 2011/662, art. 2
- F1841** Words in s. 989 omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of Finance Act 2016 (c. 24), **Sch. 1 para. 63(16)**
- F1842** Words in s. 989 substituted (1.4.2008) by Statistics and Registration Service Act 2007 (c. 18), s. 74(1), **Sch. 3 para. 16(a)**; S.I. 2008/839, art. 2
- F1843** Words in s. 989 substituted (1.4.2008) by Statistics and Registration Service Act 2007 (c. 18), s. 74(1), **Sch. 3 para. 16(b)**; S.I. 2008/839, art. 2
- F1844** Words in s. 989 inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Finance Act 2016 (c. 24), **s. 6(21)(24)**; S.I. 2016/1161, **regs. 2, 3**
- F1845** Words in s. 989 inserted (with effect for the tax year 2016-17 and subsequent years) by Finance Act 2016 (c. 24), **s. 4(11)(a)(17)**
- F1846** Words in s. 989 inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Finance Act 2016 (c. 24), **s. 6(21)(24)**; S.I. 2016/1161, **regs. 2, 3**
- F1847** Words in s. 989 omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of Finance Act 2008 (c. 9), **Sch. 1 para. 33(3)**
- F1848** Words in s. 989 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), Sch. 1 para. 719, **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)
- F1849** Words in s. 989 omitted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Scotland Act 2016 (c. 11), **ss. 13(14), 14(13)(a)(15), 72(3)**; S.I. 2016/1161, **regs. 2, 3**
- F1850** Words in s. 989 inserted (with effect in accordance with Sch. 38 para. 12 of the amending Act) by Finance Act 2014 (c. 26), **Sch. 38 para. 10(b)**
- F1851** Words in s. 989 substituted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by Scotland Act 2016 (c. 11), **ss. 13(14), 14(13)(b)(15), 72(3)**; S.I. 2016/1161, **regs. 2, 3**
- F1852** Words in s. 989 inserted (6.4.2018) by virtue of The Scottish Rates of Income Tax (Consequential Amendments) Order 2018 (S.I. 2018/459), arts. 1(2), **6(8)**

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- F1853** Words in s. 989 inserted (30.11.2016 with effect in relation to tax year 2017-18 and subsequent tax years) by [Scotland Act 2016 \(c. 11\)](#), **ss. 13(14)**, [14\(13\)\(c\)\(15\)](#), [72\(3\)](#); S.I. 2016/1161, **regs. 2, 3**
- F1854** Words in s. 989 inserted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), **Sch. 26 para. 12(12)**
- F1855** Words in s. 989 substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), **Sch. 1 para. 33(4)**
- F1856** Words in s. 989 substituted (with effect for the tax year 2016-17 and subsequent years) by [Finance Act 2016 \(c. 24\)](#), **s. 4(11)(b)(17)**
- F1857** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 562(8)** (with Sch. 2)
- F1858** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 562(9)** (with Sch. 2)
- F1859** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 562(10)** (with Sch. 2)
- F1860** Words in s. 989 inserted (with effect in accordance with s. 82 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **s. 78(5)** (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\)](#), s. 39(1)(2))
- F1861** Words in s. 989 inserted (1.4.2009) by [The Transfer of Tribunal Functions and Revenue and Customs Appeals Order 2009 \(S.I. 2009/56\)](#), art. 1(2), **Sch. 1 para. 462**
- F1862** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 562(11)** (with Sch. 2)
- F1863** Words in s. 989 substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 562(12)** (with Sch. 2)
- F1864** Words in s. 989 inserted (24.7.2018) by [Wales Act 2014 \(c. 29\)](#), **ss. 9(10)**, [14, 29\(4\)](#); S.I. 2018/892, art. 3 (with arts. 5, 6, 8)

**Modifications etc. (not altering text)**

- C190** S. 989 applied by 1992 c. 12, s. 4(6) (as inserted (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), **Sch. 1 para. 295(7)** (with Sch. 2))
- C191** S. 989 applied by 1970 c. 9, s. 12ZF(10) (as inserted (with effect in accordance with Sch. 7 para. 60 of the amending Act) by [Finance Act 2015 \(c. 11\)](#), **Sch. 7 para. 43**)

**990 Meaning of “Act”**

- (1) In the Income Tax Acts “Act” includes Northern Ireland legislation.
- (2) This section does not apply for the purposes of—
  - (a) this Act (see instead section 1018), or
  - (b) ITTOIA 2005 (see instead sections 879 and 880 of that Act).

**991 Meaning of “bank”**

- (1) This section has effect for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) “Bank” means—
  - (a) the Bank of England,
  - (b) a person who has permission under [<sup>F1865</sup>Part 4A] of FISMA 2000 to accept deposits (but see subsection (3) for exclusions),
  - <sup>F1866</sup>(c) .....
  - (d) the European Investment Bank, and

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- (e) an international organisation designated as a bank for the purposes of this section by an order made by the Treasury.
- (3) The reference to a person who has permission under [<sup>F1867</sup>Part 4A] of FISMA 2000 to accept deposits does not include—
- (a) a building society,
  - (b) a society registered within the meaning of the Friendly Societies Act 1974 (c. 46) or incorporated under the Friendly Societies Act 1992 (c. 40),
  - (c) a society registered as a credit union under [<sup>F1868</sup>the Co-operative and Community Benefit Societies Act 2014] or the Credit Unions (Northern Ireland) Order 1985 (S.I. 1985/1205 (N.I. 12)), or
  - (d) an insurance company within the meaning of section 275 of FA 2004.
- (4) The Treasury may designate an international organisation for the purposes of this section only if the United Kingdom is a member of the organisation.
- [<sup>F1869</sup>(5) An order under subsection (2)(e) may include provision for a designation to have effect only in relation to the application of this section by a provision specified in the order.]

#### Textual Amendments

- F1865** Words in s. 991(2)(b) substituted (1.3.2014) by [Financial Services \(Banking Reform\) Act 2013 \(c. 33\)](#), s. 148(5), [Sch. 10 para. 6](#); S.I. 2014/377, art. 2(1)(a), Sch. Pt. 1
- F1866** S. 991(2)(c) omitted (31.12.2020) by virtue of [The Taxes \(Amendments\) \(EU Exit\) Regulations 2019 \(S.I. 2019/689\)](#), regs. 1, [15\(12\)](#) (with regs. 39-41); 2020 c. 1, Sch. 5 para. 1(1)
- F1867** Words in s. 991(3) substituted (1.3.2014) by [Financial Services \(Banking Reform\) Act 2013 \(c. 33\)](#), s. 148(5), [Sch. 10 para. 6](#); S.I. 2014/377, art. 2(1)(a), Sch. Pt. 1
- F1868** Words in s. 991(3)(c) substituted (1.8.2014) by [Co-operative and Community Benefit Societies Act 2014 \(c. 14\)](#), s. 154, [Sch. 4 para. 111](#) (with Sch. 5)
- F1869** S. 991(5) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 563](#) (with Sch. 2)

## 992 Meaning of “company”

- (1) In the Income Tax Acts “company” means any body corporate or unincorporated association, but does not include a partnership, a local authority or a local authority association.
- (2) Subsection (1) needs to be with read with [<sup>F1870</sup>section 617 of CTA 2010 (authorised unit trust treated as UK resident company)].
- (3) This section does not apply for the purposes of—
- (a) Part 6 (venture capital trusts),
  - (b) Chapters 1, 3 and 4 of Part 13 (transactions in securities and land and sales of income from occupation), and
  - (c) sections 993 and 994 (meaning of “connected” persons).

#### Textual Amendments

- F1870** Words in s. 992(2) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 564](#) (with Sch. 2)

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### **993 Meaning of “connected” persons**

- (1) This section has effect for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) An individual (“A”) is connected with another individual (“B”) if—
  - (a) A is B's spouse or civil partner,
  - (b) A is a relative of B,
  - (c) A is the spouse or civil partner of a relative of B,
  - (d) A is a relative of B's spouse or civil partner, or
  - (e) A is the spouse or civil partner of a relative of B's spouse or civil partner.
- (3) A person, in the capacity as trustee of a settlement, is connected with—
  - (a) any individual who is a settlor in relation to the settlement,
  - (b) any person connected with such an individual,
  - (c) any close company whose participators include the trustees of the settlement,
  - (d) any non-UK resident company which, if it were UK resident, would be a close company whose participators include the trustees of the settlement,
  - (e) any body corporate controlled (within the meaning of section 995) by a company within paragraph (c) or (d),
  - (f) if the settlement is the principal settlement in relation to one or more sub-fund settlements, a person in the capacity as trustee of such a sub-fund settlement, and
  - (g) if the settlement is a sub-fund settlement in relation to a principal settlement, a person in the capacity as trustee of any other sub-fund settlements in relation to the principal settlement.
- (4) A person who is a partner in a partnership is connected with—
  - (a) any partner in the partnership,
  - (b) the spouse or civil partner of any individual who is a partner in the partnership, and
  - (c) a relative of any individual who is a partner in the partnership.

But this subsection does not apply in relation to acquisitions or disposals of assets of the partnership pursuant to genuine commercial arrangements.
- (5) A company is connected with another company if—
  - (a) the same person has control of both companies,
  - (b) a person (“A”) has control of one company and persons connected with A have control of the other company,
  - (c) A has control of one company and A together with persons connected with A have control of the other company, or
  - (d) a group of two or more persons has control of both companies and the groups either consist of the same persons or could be so regarded if (in one or more cases) a member of either group were replaced by a person with whom the member is connected.
- (6) A company is connected with another person (“A”) if—
  - (a) A has control of the company, or
  - (b) A together with persons connected with A have control of the company.

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- (7) In relation to a company, any two or more persons acting together to secure or exercise control of the company are connected with—
- (a) one another, and
  - (b) any person acting on the directions of any of them to secure or exercise control of the company.

**Modifications etc. (not altering text)**

- C192** S. 993 applied by 2004 c. 12, s. 213O(8) (as inserted (8.4.2010 with effect in accordance with Sch. 2 para. 5 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 2 para. 2](#))
- C193** S. 993 applied by 2004 c. 12, s. 213D(4) (as inserted (8.4.2010 with effect in accordance with Sch. 2 para. 5 of the amending Act) by [Finance Act 2010 \(c. 13\)](#), [Sch. 2 para. 2](#))
- C194** S. 993 applied by S.I. 2006/964, reg. 69J(10)(a) (as inserted (6.4.2008) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2008 \(S.I. 2008/705\)](#), regs. 1, 5)
- C195** S. 993 applied (22.7.2008) by [Crossrail Act 2008 \(c. 18\)](#), [Sch. 13 para. 34\(7\)](#))
- C196** S. 993 applied by SI 2006/964 reg. 14C(10)(a) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Authorised Investment Funds \(Tax\) \(Amendment No. 3\) Regulations 2008 \(S.I. 2008/3159\)](#), regs. 1(1), 11)
- C197** S. 993 applied (21.7.2009) by [Finance Act 2009 \(c. 10\)](#), [Sch. 35 para. 2\(6\)](#))
- C198** S. 993 applied (with effect in accordance with art. 1(2)(3), Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), 76(3)(a), 82(3)(a), 119, 122
- C199** S. 993 applied (8.4.2010) by [Finance Act 2010 \(c. 13\)](#), [Sch. 1 para. 49\(3\)](#))
- C200** S. 993 applied (1.1.2012) (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Investment Trust \(Approved Company\) \(Tax\) Regulations 2011 \(S.I. 2011/2999\)](#), regs. 1(1), [34\(3\)\(a\)](#))
- C201** S. 993 applied (with modifications) (19.12.2012 for specified purposes, 6.4.2013 in so far as not already in force) by [Small Charitable Donations Act 2012 \(c. 23\)](#), [ss. 5\(3\)](#), 21
- C202** S. 993 modified (6.4.2014) by [National Insurance Contributions Act 2014 \(c. 7\)](#), s. 8, [Sch. 1 para. 8\(2\)](#))
- C203** S. 993 applied (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Investment Transactions \(Tax\) Regulations 2014 \(S.I. 2014/685\)](#), regs. 1(1), [3\(5\)\(a\)](#))
- C204** S. 993 applied by 2004 c. 12, s. 228ZA (as inserted (with effect in accordance with Sch. 4 para. 10(2) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [Sch. 4 para. 10\(1\)](#))
- C205** S. 993 applied (with modifications) by 1992 c. 12, s. 103KG(15) (as inserted (with effect in accordance with s. 43(2)-(4) of the amending Act) by [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [s. 43\(1\)](#))
- C206** S. 993 applied by 2003 c. 1, s. 226E(10) (as inserted (with effect in accordance with Sch. 2 para. 4(1) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 2 para. 1](#))
- C207** S. 993 applied by 2003 c. 1, s. 306B(10) (as inserted (with effect in accordance with Sch. 2 para. 4(1) of the amending Act) by [Finance Act 2016 \(c. 24\)](#), [Sch. 2 para. 2](#))
- C208** S. 993 applied (with modifications) (15.9.2016) by [Finance Act 2016 \(c. 24\)](#), [s. 118\(4\)](#) (with s. 117)
- C209** S. 993 modified (15.9.2016) by [Finance Act 2016 \(c. 24\)](#), [s. 118\(2\)](#) (with s. 117)
- C210** S. 993 modified (with effect in accordance with s. 35(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [Sch. 12 para. 2\(7\)\(c\)](#))
- C211** S. 993 applied (with modifications) by 2005 c. 5, s. 23D(4) (as inserted (with effect in accordance with s. 35(4) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), [s. 35\(2\)](#))
- C212** S. 993 modified (with effect in accordance with Sch. 4 para. 12 of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 4 para. 4\(4\)\(a\)](#))

**994 Meaning of “connected” persons: supplementary**

- (1) In section 993 and this section—

“company” includes any body corporate or unincorporated association, but does not include a partnership (and see also subsection (2)),

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“control” is to be read in accordance with [F1871 sections 450 and 451 of CTA 2010] (except where otherwise indicated),

“principal settlement” has the meaning given by paragraph 1 of Schedule 4ZA to TCGA 1992,

“relative” means brother, sister, ancestor or lineal descendant,

“settlement” has the same meaning as in Chapter 5 of Part 5 of ITTOIA 2005 (see section 620 of that Act), and

“sub-fund settlement” has the meaning given by paragraph 1 of Schedule 4ZA to TCGA 1992.

- (2) For the purposes of section 993—
- (a) a unit trust scheme is treated as if it were a company, and
  - (b) the rights of the unit holders are treated as if they were shares in the company.
- (3) For the purposes of section 993 “trustee”, in the case of a settlement in relation to which there would be no trustees apart from this subsection, means any person—
- (a) in whom the property comprised in the settlement is for the time being vested, or
  - (b) in whom the management of that property is for the time being vested.

Section 466(4) does not apply for the purposes of this subsection.

- (4) If any provision of section 993 provides that a person (“A”) is connected with another person (“B”), it also follows that B is connected with A.

#### Textual Amendments

**F1871** Words in s. 994(1) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 565** (with **Sch. 2**)

#### Modifications etc. (not altering text)

**C213** S. 994 applied by S.I. 2006/964, reg. 69J(10)(a) (as inserted (6.4.2008) by [The Authorised Investment Funds \(Tax\) \(Amendment\) Regulations 2008 \(S.I. 2008/705\)](#), regs. 1, 5)

**C214** S. 994 applied by SI 2006/964 reg. 14C(10)(a) (as inserted (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Authorised Investment Funds \(Tax\) \(Amendment No. 3\) Regulations 2008 \(S.I. 2008/3159\)](#), regs. 1(1), 11)

**C215** S. 994 applied (with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), **regs. 1(1), 76(3)(a), 82(3)(a), 119, 122**

**C216** S. 994 applied (1.1.2012) (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Investment Trust \(Approved Company\) \(Tax\) Regulations 2011 \(S.I. 2011/2999\)](#), **regs. 1(1), 34(3)(a)**

**C217** S. 994 applied (with effect in accordance with reg. 1(2) of the amending S.I.) by [The Investment Transactions \(Tax\) Regulations 2014 \(S.I. 2014/685\)](#), **regs. 1(1), 3(5)(a)**

## 995 Meaning of “control”

- (1) This section has effect for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) In relation to a body corporate (“company A”), “control” means the power of a person (“P”) to secure—
- (a) by means of the holding of shares or the possession of voting power in relation to that or any other body corporate, or

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- (b) as a result of any powers conferred by the articles of association or other document regulating that or any other body corporate, that the affairs of company A are conducted in accordance with P's wishes.
- (3) In relation to a partnership, “control” means the right to a share of more than half the assets, or of more than half the income, of the partnership.

**Modifications etc. (not altering text)**

**C218** S. 995 applied by 2003 c. 1, s. 312G(6)(b) (as inserted (with effect in accordance with Sch. 37 para. 8 of the amending Act) by [Finance Act 2014 \(c. 26\)](#), [Sch. 37 para. 5](#))

**996 Meaning of “farming” and related expressions**

- (1) In the Income Tax Acts “farming” means the occupation of land wholly or mainly for the purposes of husbandry, but does not include market gardening (see subsection (5)).
- (2) In subsection (1) “husbandry” includes—
- (a) hop growing, and
  - (b) the breeding and rearing of horses and the grazing of horses in connection with those activities.
- (3) For the purposes of the Income Tax Acts the cultivation of short rotation coppice is regarded as husbandry and not as forestry.
- (4) In the Income Tax Acts “woodlands” does not include land on which short rotation coppice is cultivated.
- (5) In the Income Tax Acts “market gardening” means the occupation of land as a garden or nursery for the purpose of growing produce for sale.
- (6) For the purposes of this section “short rotation coppice” means a perennial crop of tree species planted at high density, the stems of which are harvested above ground level at intervals of less than 10 years.

<sup>F1872</sup>(7) .....

**Textual Amendments**

**F1872**S. 996(7) omitted (with effect in accordance with s. 28(2) of the amending Act) by virtue of [Finance \(No. 2\) Act 2015 \(c. 33\)](#), [s. 28\(1\)](#)

**Modifications etc. (not altering text)**

**C219** S. 996 excluded (retrospective to 6.4.2013) by [Finance Act 2013 \(c. 29\)](#), [s. 8\(4\)\(6\)](#)

**997 Meaning of “generally accepted accounting practice” and related expressions**

- (1) In the Income Tax Acts “generally accepted accounting practice” means UK generally accepted accounting practice.

This is subject to subsection (3).

- (2) In the Income Tax Acts “UK generally accepted accounting practice”—



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- (a) means generally accepted accounting practice in relation to accounts of UK companies (other than IAS accounts) that are intended to give a true and fair view, and
  - (b) has the same meaning in relation to—
    - (i) individuals,
    - (ii) entities other than companies, and
    - (iii) companies that are not UK companies,as it has in relation to UK companies.
- (3) In relation to the affairs of a company or other entity that prepares IAS accounts, in the Income Tax Acts “generally accepted accounting practice” means generally accepted accounting practice in relation to IAS accounts.
- (4) In the Income Tax Acts “for accounting purposes” means for the purposes of accounts drawn up in accordance with generally accepted accounting practice.
- (5) In the Income Tax Acts “international accounting standards” has the same meaning as in the Corporation Tax Acts (see [<sup>F1873</sup>section 1127 of CTA 2010]).
- (6) In this section—  
“IAS accounts” means accounts prepared in accordance with international accounting standards, and  
“UK companies” means companies incorporated or formed under the law of a part of the United Kingdom.

#### Textual Amendments

**F1873** Words in s. 997(5) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 566](#) (with [Sch. 2](#))

#### Modifications etc. (not altering text)

**C220** S. 997 applied (with modifications) (19.7.2011) by [Finance Act 2011 \(c. 11\)](#), s. 53(6)

### 998 Meaning of “grossing up”

- (1) In the Income Tax Acts references to grossing up by reference to a rate of tax are to calculating the amount (“the grossed up amount”) which after deduction of income tax at that rate would equal the amount to be grossed up (“the net amount”).
- (2) The grossed up amount is the sum of the net amount and the tax deducted.
- (3) The grossed up amount may also be expressed as—

$$GA = NA + \left( NA \times \frac{R}{100 - R} \right)$$

where—

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GA is the grossed up amount,  
 NA is the net amount, and  
 R is the percentage rate of tax by reference to which the net amount is to be grossed up.

**Modifications etc. (not altering text)**

C221 S. 998 applied (21.7.2008) by [Finance Act 2008 \(c. 9\)](#), [Sch. 19 para. 3\(4\)](#)

**[<sup>F1874</sup>998] Meaning of “hire-purchase agreement”**

- (1) This section applies for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) A hire-purchase agreement is an agreement in whose case each of conditions A to C is met.
- (3) Condition A is that under the agreement goods are bailed (or in Scotland hired) in return for periodical payments by the person to whom they are bailed (or hired).
- (4) Condition B is that under the agreement the property in the goods will pass to the person to whom they are bailed (or hired) if the terms of the agreement are complied with and one or more of the following events occurs—
  - (a) the exercise of an option to purchase by that person,
  - (b) the doing of another specified act by any party to the agreement,
  - (c) the happening of another specified event.
- (5) Condition C is that the agreement is not a conditional sale agreement.
- (6) In subsection (5) “conditional sale agreement” means an agreement for the sale of goods under which—
  - (a) the purchase price or part of it is payable by instalments, and
  - (b) the property in the goods is to remain in the seller (even though they are to be in the possession of the buyer) until conditions specified in the agreement are met (whether as to the payment of instalments or otherwise).]

**Textual Amendments**

**F1874S.** 998A inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 259](#) (with [Sch. 9 paras. 1-9, 22](#))

**999 Meaning of “local authority”**

- (1) In the Income Tax Acts “local authority”, in relation to England and Wales, means—
  - (a) a billing authority as defined in [<sup>F1875</sup>section 1(2)] of the Local Government Finance Act 1992 (c. 14),
  - (b) a precepting authority as defined in [<sup>F1876</sup>section 69(1) of that Act],
  - (c) a body with power to issue a levy (by virtue of regulations under section 74 of the Local Government Finance Act 1988 (c. 41)),
  - (d) a body with power to issue a special levy (by virtue of regulations under section 75 of that Act),

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- (e) a fire and rescue authority in Wales constituted by a scheme under section 2 of the Fire and Rescue Services Act 2004 (c. 21) or a scheme to which section 4 of that Act applies,
  - [<sup>F1877</sup>(ea) a corporate joint committee established by regulations under Part 5 of the Local Government and Elections (Wales) Act 2021 (asc 1),]
  - (f) an authority with power to make or determine a rate, or
  - (g) a residuary body established by order under section 22(1) of the Local Government Act 1992 (c. 19).
- (2) In the Income Tax Acts “local authority”, in relation to Scotland, means—
- (a) a council constituted under section 2 of the Local Government etc (Scotland) Act 1994 (c. 39),
  - (b) a joint board or committee within the meaning of the Local Government (Scotland) Act 1973 (c. 65), or
  - (c) an authority with power to requisition any sum from a council such as is mentioned in paragraph (a).
- [<sup>F1878</sup>(3) In the Income Tax Acts “local authority”, in relation to Northern Ireland, means a district council constituted under section 1 of the Local Government Act (Northern Ireland) 1972 (c. 9 (N.I.)).]
- (4) In this section “rate” means a rate—
- (a) whose proceeds are applicable for public local purposes, and
  - (b) which is leviable by reference to the value of land or property.

#### Textual Amendments

**F1875** Words in s. 999(1)(a) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 567\(2\)\(a\)](#) (with Sch. 2)

**F1876** Words in s. 999(1)(b) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 567\(2\)\(b\)](#) (with Sch. 2)

**F1877S.** 999(1)(ea) inserted (1.4.2023) by [The Local Government and Elections \(Wales\) Act 2021 \(Corporate Joint Committees\) \(Consequential Amendments\) Order 2023 \(S.I. 2023/402\)](#), arts. 1(3), 4

**F1878S.** 999(3) substituted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\), s. 1184\(1\), Sch. 1 para. 567\(3\)](#) (with Sch. 2)

### 1000 Meaning of “local authority association”

- (1) In the Income Tax Acts “local authority association” means any incorporated or unincorporated association which meets conditions A and B.
- (2) Condition A is that all of its members are local authorities, groups of local authorities or local authority associations.
- (3) Condition B is that its purpose, or primary purpose, is to protect and further the general interests of local authorities or any description of local authorities.
- [<sup>F1879</sup>(4) For the purposes of condition A, if a member (“M”) of a local authority association is a representative of, or is appointed by, a local authority, group of local authorities or a local authority association, the authority, group or association concerned (rather than M) is to be treated as a constituent member of the local authority association.]

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### Textual Amendments

**F1879S.** 1000(4) substituted for s. 1000(4)(5) (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), [Sch. 1 para. 568](#) (with [Sch. 2](#))

## 1001 Meaning of “offshore installation”

- (1) In the Income Tax Acts “offshore installation” means a structure which is, is to be, or has been, put to a relevant use while in water (see subsections (3) and (4)).
- (2) But a structure is not an offshore installation if—
  - (a) it has permanently ceased to be put to a relevant use,
  - (b) it is not, and is not to be, put to any other relevant use, and
  - (c) since permanently ceasing to be put to a relevant use, it has been put to a use which is not relevant.
- (3) A use is a relevant use if it is—
  - (a) for the purposes of exploiting mineral resources by means of a well,
  - (b) for the purposes of exploration with a view to exploiting mineral resources by means of a well,
  - (c) for the storage of gas in or under the shore or the bed of any waters,
  - (d) for the recovery of gas so stored,
  - (e) for the conveyance of things by means of a pipe, or
  - (f) mainly for the provision of accommodation for individuals who work on or from a structure which is, is to be, or has been, put to any of the above uses while in water.
- (4) For the purposes of this section references to a structure being put to a use while in water are to the structure being put to a use while—
  - (a) standing in any waters,
  - (b) stationed (by whatever means) in any waters, or
  - (c) standing on the foreshore or other land intermittently covered with water.
- (5) In this section “structure” includes a ship or other vessel.

## 1002 Regulations about the meaning of “offshore installation”

- (1) The Treasury may by regulations make provision as to the meaning of “offshore installation” in the Income Tax Acts.
- (2) The regulations may—
  - (a) add to, amend or repeal any provision of section 1001,
  - (b) make different provision for different purposes, and
  - (c) contain incidental, supplemental, consequential and transitional provision and savings.

## 1003 Meaning of “oil and gas exploration and appraisal”

- (1) In the Income Tax Acts “oil and gas exploration and appraisal” means activities carried out for the purpose of—

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- (a) searching for petroleum anywhere in an area,
  - (b) ascertaining a petroleum-bearing area's extent or characteristics, or
  - (c) ascertaining its reserves of petroleum,
- so that it may be determined whether the petroleum is suitable for commercial exploitation.
- (2) In this section “petroleum” has the meaning given by section 1 of the Petroleum Act 1998 (c. 17).

#### **1004 Meaning of “property investment LLP”**

- (1) In the Income Tax Acts “property investment LLP” means a limited liability partnership—
- (a) whose business consists wholly or mainly in the making of investments in land, and
  - (b) the principal part of whose income is derived from investments in land.
- (2) Whether a limited liability partnership is a property investment LLP is determined for each period of account of the partnership.

#### **[<sup>F1880</sup>1005] Meaning of “recognised stock exchange” etc**

- (1) In the Income Tax Acts “recognised stock exchange” means—
- (a) any market of a recognised investment exchange which is for the time being designated as a recognised stock exchange for the purposes of this section by an order made by the Commissioners for Her Majesty's Revenue and Customs, and
  - (b) any market outside the United Kingdom which is for the time being so designated.
- (2) An order under subsection (1) may—
- (a) designate a market by name or by reference to any class or description of market (including, in the case of a market outside the United Kingdom, one framed by reference to any authority or approval given in a country outside the United Kingdom),
  - (b) contain incidental, supplemental, consequential and transitional provision and savings, and
  - (c) vary or revoke a previous order under that subsection.

[<sup>F1881</sup>(2A) An order under subsection (1) may designate a stock exchange for the purposes of this section in its application to section 564G of this Act, section 151N of TCGA 1992 and section 507 of CTA 2009 only.]

- (3) References in the Income Tax Acts to securities which are listed on a recognised stock exchange are to securities—
- (a) which are admitted to trading on that exchange, and
  - (b) which are included in the official UK list or are officially listed in a qualifying country outside the United Kingdom in accordance with provisions corresponding to those generally applicable in EEA states.
- (4) For this purpose “qualifying country outside the United Kingdom” means any country outside the United Kingdom in which there is a recognised stock exchange.

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- (5) References in the Income Tax Acts to securities which are included in the official UK list are to securities which are included in the official list (within the meaning of Part 6 of FISMA 2000) in accordance with the provisions of that Part.
- (6) In this section—  
     “recognised investment exchange” has the same meaning as in FISMA 2000 (see section 285), and  
     “securities” includes shares and stock.]

#### Textual Amendments

**F1880S.** 1005 substituted (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 1](#)

**F1881S.** 1005(2A) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 2 para. 55](#) (with [Sch. 9 paras. 1-9, 22](#))

#### Modifications etc. (not altering text)

**C222** S. 1005 applied by [1986 c. 41, ss. 72ZB](#) (as inserted (with effect in accordance with [Sch. 11 para. 25](#) of the amending Act) by [Finance Act 2024 \(c. 3\)](#), [Sch. 11 para. 5](#)

S. 1005 applied by [1986 c. 41, s. 97AC](#) (as inserted (with effect in accordance with [Sch. 11 para. 25](#) of the amending Act) by [Finance Act 2024 \(c. 3\)](#), [Sch. 11 para. 15](#)

**C223** [S. 1005\(3\)-\(5\)](#) applied by [1986 c. 41, s. 99A\(2\)](#) (as inserted (28.4.2014) by [Finance Act 2014 \(c. 26\)](#), [Sch. 24 paras. 3, 4\(2\)\(3\)](#))

### 1006 Meaning of “research and development”

- (1) This section has effect for the purposes of the provisions of the Income Tax Acts which apply this section.
- (2) “Research and development” means activities that fall to be treated as research and development in accordance with generally accepted accounting practice.
- This is subject to subsection (3).
- (3) The Treasury may by regulations specify activities which—
- (a) are to be treated as being “research and development” for the purposes of this section, or
  - (b) are to be treated as not being “research and development” for the purposes of this section.
- (4) The regulations may—
- (a) make provision by reference to guidelines issued by the Secretary of State, and
  - (b) contain incidental, supplemental, consequential and transitional provision and savings.
- (5) Unless otherwise expressly provided, “research and development” does not include oil and gas exploration and appraisal.

### 1007 Meaning of “unit trust scheme”

- (1) In the Income Tax Acts “unit trust scheme” has the meaning given by section 237 of FISMA 2000.

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This is subject to subsection (2).

- [<sup>F1882</sup>(2) The Treasury may, in relation to a unit trust scheme within the meaning given by section 237 of FISMA 2000 whose trustees are UK resident, by regulations provide that the scheme is not to be a unit trust scheme for the purposes of the definition in section 989 of “unauthorised unit trust” if it is within a specified description.]
- (3) The regulations may contain incidental, supplemental, consequential and transitional provision and savings.
- (4) This section does not apply for the purposes of section 558 (approved charitable investments).

#### Textual Amendments

**F1882S.** 1007(2) substituted (with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) Order 2009 \(S.I. 2009/23\)](#), arts. 1(1), **5(5)**

#### [<sup>F1883</sup>**1007** Meaning of “permanent establishment”

- (1) In the Income Tax Acts “permanent establishment”, in relation to a company, is to be read in accordance with Chapter 2 of Part 24 of CTA 2010.
- (2) This section does not apply for the purposes of—
- (a) Part 5 of this Act (see instead section 191A), or
  - (b) Chapter 4 of Part 6 of this Act (see instead section 302A).]

#### Textual Amendments

**F1883S.** 1007A inserted (6.4.2011) (with effect in accordance with Sch. 2 paras. 7(3), 8 of the amending Act) by [Finance \(No. 3\) Act 2010 \(c. 33\)](#), **Sch. 2 para. 3(3)**; S.I. 2011/662, art. 2

## CHAPTER 2

### OTHER INCOME TAX ACTS PROVISIONS

#### **1008** Scotland

- (1) In the application of the Income Tax Acts to Scotland—
- “assignment” means an assignation,
  - “estate in land” includes the land, and
  - “surrender” includes renunciation.
- (2) In the application of the Income Tax Acts to Scotland, any reference to property or rights being held on trust or on trusts is a reference to the property or rights being held in trust.

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## 1009 Sources of income within the charge to income tax or corporation tax

In the Income Tax Acts a source of income is within the charge to income tax or corporation tax if that tax—

- (a) is chargeable on the income arising from it, or
- (b) would be so chargeable if there were any income arising from it,

and references to a person, or income, being within the charge to income tax or corporation tax are to be read in the same way.

## <sup>F1884</sup>1010 Application of Income Tax Acts to recognised investment exchanges

.....

### Textual Amendments

**F1884**S. 1010 repealed (19.7.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 26 para. 12\(13\)](#), [Sch. 27 Pt. 6\(5\)](#)

## 1011 References to married persons, or civil partners, living together

Individuals who are married to, or are civil partners of, each other are treated for the purposes of the Income Tax Acts as living together unless—

- (a) they are separated under an order of a court of competent jurisdiction,
- (b) they are separated by deed of separation, or
- (c) they are in fact separated in circumstances in which the separation is likely to be permanent.

### Modifications etc. (not altering text)

**C224** S. 1011 applied (with effect in accordance with [Sch. 16 para. 6](#) of the amending Act) by [2003 c. 14](#), [Sch. 9A para. 6\(5\)](#) (as inserted by [Finance Act 2021 \(c. 26\)](#), [Sch. 16 para. 5](#))

**C225** S. 1011 applied (with effect in accordance with [Sch. 16 para. 6](#) of the amending Act) by [2003 c. 14](#), [Sch. 9A para. 12\(4\)](#) (as inserted by [Finance Act 2021 \(c. 26\)](#), [Sch. 16 para. 5](#))

## 1012 Relationship between rules on highest part of total income

- (1) This section makes provision about the relationship between rules requiring particular income to be treated as the highest part of a person's total income.
- (2) It has effect for the purposes of the Income Tax Acts except sections 535 to 537 of ITTOIA 2005 (gains from contracts for life insurance etc: top slicing relief).
- (3) If more than one of the provisions listed in subsection (4) applies in relation to a person, a provision mentioned earlier in the list has priority over a provision mentioned later in the list.
- (4) The provisions are—
  - section 465A of ITTOIA 2005 (gains from contracts for life insurance etc to be treated as highest part of total income),
  - <sup>F1885</sup>section 685A(5A) of ITTOIA 2005 (payments from trustees of settlor-interested settlements to be treated as highest part of total income).]



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section 404A of ITEPA 2003 (payments and other benefits on termination of employment to be treated as highest part of total income), and  
section 16 (savings and dividend income to be treated as highest part of total income).

- (5) The provisions listed in subsection (4) have priority over—  
section 619A(2) of ITTOIA 2005 (income treated as highest part of settlor's total income),  
section 768(6) and (7) (income treated as arising under Chapter 3 of Part 13 to be treated as highest part of total income),  
section 786(6) and (7) (income treated as arising under Chapter 4 of Part 13 to be treated as highest part of total income), and  
any other provisions of the Income Tax Acts requiring income of any description to be treated as the highest part of a person's total income.
- (6) The effect of one provision having priority over another is that the second provision has effect subject to the first.

#### Textual Amendments

**F1885** Words in s. 1012(4) inserted (21.7.2008 with effect in accordance with s. 67(3) of the amending Act)  
by [Finance Act 2008 \(c. 9\), s. 67\(2\)](#)

### 1013 Territorial sea of the United Kingdom

The territorial sea of the United Kingdom is treated for the purposes of the Income Tax Acts as part of the United Kingdom.

### 1014 Orders and regulations

- (1) This section applies to all powers under the Income Tax Acts of the Treasury or the Commissioners for Her Majesty's Revenue and Customs to make orders or regulations, other than excluded powers.
- (2) All powers under the following are excluded—
- (a) ICTA (see instead section 828 of that Act),
  - (b) section 178(5) of FA 1989 (setting of rates of interest),
  - <sup>F1886</sup>(ba) .....
  - (c) CAA 2001 (see instead section 570B of that Act),
  - (d) ITEPA 2003 (see instead section 717 of that Act),
  - (e) Part 4 of FA 2004 (see instead section 282 of that Act),
  - (f) ITTOIA 2005 (see instead section 873 of that Act),
  - <sup>F1887</sup>(fa) TIOPA 2010 (see instead section <sup>F1888</sup>[499] of that Act), and]
  - (g) the following provisions of this Act—
    - (i) section 184(3)(b) and (c) (EIS: the unquoted status requirement (designated exchanges etc)),
    - (ii) section 295(3)(b) and (c) (venture capital trusts: the unquoted status requirement (designated exchanges etc)),
    - <sup>F1889</sup>(ia) section 432(2) (gifts of shares, securities and real property to charities etc: meaning of “qualifying investment”),<sup>F1890</sup> ...

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- [<sup>F1891</sup>(iib) section 827(2) (meaning of “investment transaction”), <sup>F1892</sup> ...]  
 [<sup>F1893</sup>(iic) section 835S(4) (meaning of “investment transaction”), and]  
 (iii) section [<sup>F1894</sup>1005(1)] (meaning of “recognised stock exchange”).
- (3) Any orders or regulations made under a power to which this section applies must be made by statutory instrument.
- (4) Any orders or regulations made under a power to which this section applies are subject to annulment in pursuance of a resolution of the House of Commons.
- (5) Subsection (4) does not apply if the order or regulations are made under—
- (a) section 73A of FA 2004 (exemption for designated international organisations), or
  - (b) any of the following provisions of this Act—
    - [<sup>F1895</sup>(ai) section 10(5B) (the higher rate limit),
      - (i) section 21(5) (indexation of [<sup>F1896</sup>basic rate limit and starting rate limit for savings] ),
      - (ii) section 57 (indexation of allowances),
      - <sup>F1897</sup>(ia) . . . . .
      - (iii) section 114 or 802 (exclusion of amounts in calculating individual's contribution to the firm),
    - [<sup>F1898</sup>(iiia) section 257MNE (social investment relief: amendment of limits on investments),]
      - (iv) section 400(4)(e) (amounts treated as contributed by an individual to investment partnership capital),
      - (v) section 897 (UK public revenue dividends: regulations about collection of income tax),
      - (vi) section 962 (regulations modifying Chapter 15 of Part 15),
      - (vii) section 979 (designated international organisations: exceptions from duties to deduct),
      - (viii) section 991(2)(e) (meaning of “bank”), or
      - (ix) section 1030(2) (power to make transitional or saving provision in connection with coming into force of this Act).
- (6) Further, subsection (4) does not apply—
- (a) if any other Parliamentary procedure is expressly provided to apply in relation to the order or regulations, or
  - [<sup>F1899</sup>(b) if the order or regulations provide for any provision of the Income Tax Acts to come into force or have effect in accordance with the order or regulations,]
- and is also subject to any other provision to the contrary.

### Textual Amendments

**F1886S.** 1014(2)(ba) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 285(2)** (with [Sch. 9 paras. 1-9, 22](#))

**F1887S.** 1014(2)(fa) substituted (18.3.2010) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(2)(c), **Sch. 8 para. 327** (with [Sch. 9 paras. 1-9, 22](#))

**F1888**Word in s. 1014(2)(fa) substituted (with effect in accordance with [Sch. 5 para. 25\(1\)\(2\)](#) of the amending Act) by [Finance \(No. 2\) Act 2017 \(c. 32\)](#), **Sch. 5 para. 10(4)(b)**

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- F1889S.** 1014(2)(g)(iia) inserted (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 26 para. 12(14)(a)**
- F1890** Word in s. 1014(2)(g)(iia) omitted (21.7.2008) by virtue of Finance Act 2008 (c. 9), **Sch. 16 paras. 6(2), 11(4)**
- F1891S.** 1014(2)(g)(iib) inserted (21.7.2008) by Finance Act 2008 (c. 9), **Sch. 16 paras. 6(3), 11(4)**
- F1892** Word in s. 1014(2)(g)(iib) repealed (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), Sch. 8 para. 285(3)(a), **Sch. 10 Pt. 11** (with Sch. 9 paras. 1-9, 22)
- F1893S.** 1014(2)(g)(iic) inserted (with effect in accordance with s. 381(1) of the amending Act) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(1), **Sch. 8 para. 285(3)(b)** (with Sch. 9 paras. 1-9, 22)
- F1894** Word in s. 1014(2)(g)(iii) substituted (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 26 para. 12(14)(b)**
- F1895S.** 1014(5)(b)(ai) inserted (with effect for the tax year 2028-29 and subsequent tax years) by Finance Act 2023 (c. 1), s. 6(2)(5)
- F1896** Words in s. 1014(5)(b)(i) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by Finance Act 2008 (c. 9), **Sch. 1 para. 34**
- F1897S.** 1014(5)(b)(iia) omitted (12.2.2019) by virtue of Finance Act 2019 (c. 1), s. 5(4)(a)
- F1898S.** 1014(5)(b)(iiia) substituted (with effect in accordance with Sch. 1 para. 14(1)(2) of the amending Act) by Finance (No. 2) Act 2017 (c. 32), **Sch. 1 para. 6(4)**
- F1899S.** 1014(6)(b) substituted (26.3.2015) by Finance Act 2015 (c. 11), s. 125(2)

#### **Modifications etc. (not altering text)**

- C226** S. 1014 excluded (27.7.2010) by Finance (No. 2) Act 2010 (c. 31), s. 5(3)
- C227** S. 1014(4) excluded (21.7.2008) by Finance Act 2008 (c. 9), s. 31(4)
- C228** S. 1014(4) excluded (21.7.2009) by Finance Act 2009 (c. 10), **Sch. 22 para. 14(2)**
- C229** S. 1014(4) excluded (17.7.2014) by Finance Act 2014 (c. 26), s. 12(5)
- C230** S. 1014(4) excluded (17.7.2014) by Finance Act 2014 (c. 26), **Sch. 37 para. 22(3)**
- C231** S. 1014(4) excluded (26.3.2015) by Finance Act 2015 (c. 11), s. 23(4)
- C232** S. 1014(4) excluded (with effect in accordance with s. 16(4) of the amending Act) by Finance Act 2015 (c. 11), s. 16(6)
- C233** S. 1014(4) excluded (26.3.2015) by Finance Act 2015 (c. 11), s. 20(5)
- C234** S. 1014(4) excluded (26.3.2015) by Finance Act 2015 (c. 11), **Sch. 6 para. 14(3)**

### **1015 Territorial scope of charges under certain provisions to which section 1016 applies**

- (1) This section applies in relation to any amount chargeable to income tax under or by virtue of any provision—
  - (a) to which section 1016 applies, and
  - (b) which is listed in Part 2 or 3 of the table in that section (provisions not in ITTOIA 2005).
- (2) An amount arising to a UK resident is chargeable to tax whether or not it is from a source in the United Kingdom.
- (3) An amount arising to a non-UK resident is chargeable to tax only if it is from a source in the United Kingdom.
- (4) References in this section to amounts which are from a source in the United Kingdom include, in the case of any amount which does not have a source, references to amounts which have a comparable connection to the United Kingdom.
- (5) This section is subject to any express or implied provision to the contrary in any provision of the Income Tax Acts.

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## 1016 Table of provisions to which this section applies

- (1) In the Income Tax Acts references to any provision to which this section applies are references to any provision listed in the following table so far as it relates to income tax (but subject to any applicable limitation in subsections (3) and (4)).
- (2) This is the table—

### PART 1

<i>Provisions of ITTOIA 2005</i>	<i>Description</i>
Chapter 18 of Part 2	Post-cessation receipts: trades, professions and vocations
Chapter 8 of Part 3	Rent receivable in connection with a UK section 12(4) concern
Chapter 9 of Part 3	Rent receivable for UK electric-line wayleaves
Chapter 10 of Part 3	Post-cessation receipts: UK property businesses
Chapter 2 of Part 4	Interest
Chapter 9 of Part 4	Gains from contracts for life insurance etc
Chapter 11 of Part 4	Transactions in deposits
Chapter 12 of Part 4	Disposals of futures and options involving guaranteed returns
Section 579	Royalties and other income from intellectual property
Section 583	Income from disposals of know-how
Section 587	Income from sales of patent rights
Chapter 3 of Part 5	Films and sound recordings: non-trade businesses
Chapter 4 of Part 5	Certain telecommunication rights: non-trading income
Chapter 5 of Part 5	Settlements: amounts treated as income of settlor
Section 682(4)	Adjustments after the administration period
Chapter 8 of Part 5	Income not otherwise charged
Section 844(4)	Withdrawal of relief for unremittable foreign income after source ceases

### PART 2

<i>Provisions of this Act</i>	<i>Description</i>
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Chapter 2 of Part 12	Accrued income profits
[ <sup>F1900</sup> Section 681BB(8) and (9)]	New lease after assignment or surrender]
[ <sup>F1901</sup> Section 681DD]	Leased assets: capital sums]
Section 720, 727 or 731	Transfer of assets abroad
<sup>F1902</sup>	<sup>F1902</sup>
...	...
Section 776	Sales of occupation income
Section 796	Individuals benefited by film relief
Section 804	Losses derived from exploiting licence: individuals in partnership
[ <sup>F1903</sup> Section 809CZC(2)]	Income transferred under a loan or credit transaction]

### PART 3

<i>Other provisions</i>	<i>Description</i>
<sup>F1904</sup>	<sup>F1904</sup>
...	...
Section 571(1) of ICTA	Cancellation of certificates: schemes for rationalising industry
<sup>F1905</sup>	<sup>F1905</sup>
...	...
<sup>F1906</sup>	<sup>F1906</sup>
...	...
Section 774(1) of ICTA	Transactions between dealing company and associated company
<sup>F1907</sup>	<sup>F1907</sup>
...	...
<sup>F1908</sup>	<sup>F1908</sup>
...	...
<sup>F1909</sup>	<sup>F1909</sup>
...	...
Section 68(2) of FA 1989	Employee share ownership trust (chargeable event)
Section 71(4) of FA 1989	Employee share ownership trust (borrowing)
Section 258(4) of CAA 2001	Special leasing
Section 479(4) of CAA 2001	Persons having qualifying non-trade expenditure
Section 394(2) of ITEPA 2003	Charge on administrator of non- approved pension scheme

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Section 476(5) of ITEPA 2003	Charge on occurrence of chargeable event
[ <sup>F1910</sup> Regulation 17 of the Offshore Funds (Tax) Regulations 2009 (S.I. 2009/3001)]	[ <sup>F1910</sup> Offshore income gains]
[ <sup>F1911</sup> Section 1086(2) of CTA 2010	Chargeable payments connected with exempt distributions]

- (3) For the purposes of this section—
- (a) any reference to any provision of ITTOIA 2005 does not include that provision so far as relating to relevant foreign income,
  - (b) the reference to Chapter 2 of Part 4 of ITTOIA 2005 is a reference to that Chapter only so far as relating to an issue of funding bonds where—
    - (i) the issue is treated under section 380 of that Act as a payment of interest, and
    - (ii) the person by or through whom they are issued is required to retain bonds under section 939(2) of this Act but it is impracticable for the person to do so,
  - (c) the reference to Chapter 9 of Part 4 of ITTOIA 2005 is a reference to that Chapter only so far as relating to gains—
    - (i) which are from a policy or contract specified in section 531(3) of that Act, and
    - (ii) which do not fall within section 532 or 534 of that Act,
  - (d) the reference to section 579 of ITTOIA 2005 does not include that section so far as relating to any annual payment,
  - (e) the reference to Chapter 4 of Part 5 of ITTOIA 2005 does not include that Chapter so far as relating to any annual payment, and
  - (f) the reference to Chapter 5 of Part 5 of ITTOIA 2005 does not include that Chapter so far as relating to income which falls within section 619(3) of that Act.
- (4) For the purposes of this section the reference to section 720 or 727 of this Act does not include those sections so far as relating to income falling within subsection (3) of section 745.

#### Textual Amendments

- F1900** Words in s. 1016(2) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 260\(2\)](#) (with Sch. 9 paras. 1-9, 22)
- F1901** Words in s. 1016(2) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 260\(3\)](#) (with Sch. 9 paras. 1-9, 22)
- F1902** Words in s. 1016(2) omitted (with effect in accordance with s. 82 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\), s. 79\(7\)](#) (and also with effect in accordance with [Finance \(No. 2\) Act 2017 \(c. 32\), s. 39\(1\)\(2\)](#))
- F1903** Words in s. 1016(2) inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 274\(2\)](#) (with Sch. 9 paras. 1-9, 22)

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- F1904** Words in s. 1016(2) omitted (with effect in accordance with s. 1184(1) of the amending Act) by virtue of [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 569(a)** (with [Sch. 2](#))
- F1905** Words in s. 1016(2) Table Pt. 3 omitted (with effect in accordance with [Sch. 25 para. 10](#) of the amending Act) by virtue of [Finance Act 2009 \(c. 10\)](#), **Sch. 25 para. 9(3)(h)(i)**
- F1906** Words in s. 1016(2) Table Pt. 3 repealed (1.12.2009, with effect in accordance with art. 1(2)(3) Sch. 1 of the amending S.I.) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), 129(6)(a), **Sch. 2**
- F1907** Words in s. 1016(2) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 260\(4\)](#), **Sch. 10 Pt. 9** (with [Sch. 9 paras. 1-9, 22](#))
- F1908** Words in s. 1016(2) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 260\(5\)](#), **Sch. 10 Pt. 9** (with [Sch. 9 paras. 1-9, 22](#))
- F1909** Words in s. 1016(2) repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), [Sch. 8 para. 274\(3\)](#), **Sch. 10 Pt. 10** (with [Sch. 9 paras. 1-9, 22](#))
- F1910** Words in s. 1016(2) Table Pt. 3 inserted (1.12.2009) by [The Offshore Funds \(Tax\) Regulations 2009 \(S.I. 2009/3001\)](#), regs. 1(1), **129(6)(b)**
- F1911** Words in s. 1016(2) inserted (with effect in accordance with s. 1184(1) of the amending Act) by [Corporation Tax Act 2010 \(c. 4\)](#), s. 1184(1), **Sch. 1 para. 569(b)** (with [Sch. 2](#))

## PART 17

### DEFINITIONS FOR PURPOSES OF ACT AND FINAL PROVISIONS

#### *Definitions for the purposes of Act*

#### 1017 Abbreviated references to Acts

In this Act—

- “CAA 2001” means the Capital Allowances Act 2001 (c. 2),  
[<sup>F1912</sup>“CTA 2009” means the Corporation Tax Act 2009,]  
[<sup>F1913</sup>CTA 2010” means the Corporation Tax Act 2010,]  
“FA”, followed by a year, means the Finance Act of that year,  
“F(No.2)A”, followed by a year, means the Finance (No.2) Act of that year,  
“FISMA 2000” means the Financial Services and Markets Act 2000 (c. 8),  
“ICTA” means the Income and Corporation Taxes Act 1988 (c. 1),  
“IHTA 1984” means the Inheritance Tax Act 1984 (c. 51),  
“ITEPA 2003” means the Income Tax (Earnings and Pensions) Act 2003 (c. 1),  
“ITTOIA 2005” means the Income Tax (Trading and Other Income) Act 2005 (c. 5),  
“TCGA 1992” means the Taxation of Chargeable Gains Act 1992 (c. 12),  
[<sup>F1914</sup>“TIOPA 2010” means the Taxation (International and Other Provisions) Act 2010, and]  
“TMA 1970” means the Taxes Management Act 1970 (c. 9).

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### Textual Amendments

- F1912** Words in s. 1017 inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 720** (with Sch. 2 Pts. 1, 2)
- F1913** Words in s. 1017 inserted (with effect in accordance with s. 1184(1) of the amending Act) by Corporation Tax Act 2010 (c. 4), s. 1184(1), **Sch. 1 para. 570** (with Sch. 2)
- F1914** Words in s. 1017 substituted (18.3.2010) by Taxation (International and Other Provisions) Act 2010 (c. 8), s. 381(2)(c), **Sch. 8 para. 328** (with Sch. 9 paras. 1-9, 22)

## 1018 “Act” to include Scottish and Northern Ireland legislation in some cases

- (1) In the following provisions of this Act, “Act” includes an Act of the Scottish Parliament—
- section 66 (restriction on relief unless trade is commercial),
  - section 532 (exemption for savings and investment income),
  - section 536 (exemption for miscellaneous income),
  - section 558 (approved charitable investments),
  - section 1028 (power to make consequential provision), and
  - section 1029 (power to undo changes).
- (2) In the following provisions of this Act, “Act” includes Northern Ireland legislation—
- section 66 (restriction on relief unless trade is commercial),
  - section 114 (exclusion of amounts in calculating contribution to the firm),
  - section 532 (exemption for savings and investment income),
  - section 536 (exemption for miscellaneous income),
  - section 558 (approved charitable investments),
  - section 802 (exclusion of amounts in calculating partner's capital contribution),
  - section 1028 (power to make consequential provision), and
  - section 1029 (power to undo changes).

## 1019 Meaning of “certificate of deposit”

In this Act “certificate of deposit” means a document—

- (a) relating to the deposit of money in any currency,
- (b) recognising an obligation to pay a stated principal amount to bearer or to order, with or without interest, and
- (c) by the delivery of which, with or without endorsement, the right to receive that stated amount, with or without interest, is transferable.

## 1020 Claims and elections

- (1) In this Act any reference to a claim or election is to a claim or election in writing or in any form authorised (in relation to the case in question) by directions under <sup>F1915</sup>section 43E(1) of TMA 1970].
- (2) For further information about claims and elections, see TMA 1970 <sup>F1916</sup>more generally (but in] particular, section 42(2), (10) and (11) and Schedule 1A).



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#### Textual Amendments

- F1915** Words in s. 1020(1) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 7 para. 93\(2\)](#) (with Sch. 9 paras. 1-9, 22)
- F1916** Words in s. 1020(2) substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 7 para. 93\(3\)](#) (with Sch. 9 paras. 1-9, 22)

### 1021 Application of definitions of “connected” persons and “control”

- (1) Section 993 (meaning of “connected” persons) applies for the purposes of this Act unless otherwise indicated.
- (2) Section 995 (meaning of “control”) applies for the purposes of this Act unless otherwise indicated.

### 1022 Meaning of “debenture”

- (1) In this Act “debenture” has the meaning given by [<sup>F1917</sup>section 738 of the Companies Act 2006].
- [<sup>F1918</sup>(1A) For the meaning of “debenture” in sections 257KB(3) to (5), 257L(4), 257LA(2) and 392(3A)(a), see also sections 257KB(6), 257L(6), 257LA(4) and 392(3B).]
- (2) This section does not apply for the purposes of sections 559, 560 and 691.

#### Textual Amendments

- F1917** Words in s. 1022(1) substituted (6.4.2008) by [Companies Act 2006 \(Consequential Amendments\) \(Taxes and National Insurance\) Order 2008 \(S.I. 2008/954\), arts. 1\(1\), 41](#) (with art. 4)
- F1918** S. 1022(1A) inserted (17.7.2014) by [Finance Act 2014 \(c. 26\), Sch. 11 para. 13](#)

### 1023 Meaning of “double taxation arrangements”

In this Act “double taxation arrangements” means arrangements which have effect under [<sup>F1919</sup>section 2(1) of TIOPA 2010].

#### Textual Amendments

- F1919** Words in s. 1023 substituted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\), s. 381\(1\), Sch. 8 para. 85](#) (with Sch. 9 paras. 1-9, 22)

### 1024 Meaning of “gilt-edged securities”

In this Act “gilt-edged securities” means any securities which—

- (a) are gilt-edged securities for the purposes of TCGA 1992 (see Schedule 9 to that Act), or

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- (b) will be such securities on the making of an order under paragraph 1 of that Schedule, if the making of the order is anticipated in the prospectus under which the securities were issued.

**1025 Meaning of “modified net income”**

- (1) For the purposes of this Act a person's modified net income for a tax year (“year X”) is the person's net income for year X calculated in accordance with Steps 1 and 2 of section 23 (calculation of income tax liability) as modified by subsection (2).
- (2) In applying Steps 1 and 2 of section 23, ignore—
  - (a) any non-qualifying income included in the person's total income (see section 1026),
  - (b) any relief under Chapter 2 of Part 4 for a loss incurred or treated as incurred, or a payment made, in a tax year later than year X,
  - (c) any reliefs to which the person may be entitled under Chapter 4 of Part 8,
  - (d) any adjustment of profits resulting from a claim under Chapter 16 of Part 2 of ITTOIA 2005 (averaging profits of farmers and creative artists), if year X is [<sup>F1920</sup>any earlier tax year] in relation to which the claim is made,
  - (e) any adjustment resulting from an election under section 257 of ITTOIA 2005 (election to carry back post-cessation receipts), and
  - (f) any relief or adjustment resulting from the making, amendment or revocation of a claim for relief, if the claim, amendment or revocation would have been out of time but for section 224(4) of ITTOIA 2005 (averaging profits of farmers and creative artists: extension of deadline for claiming other reliefs).
- (3) This section applies for the purposes of section 427 as if subsection (2)(c) were omitted.

<sup>F1921</sup>(4) .....

- (5) In this section “claim” includes an election or notice.

**Textual Amendments**

**F1920** Words in s. 1025(2)(d) substituted (with effect in accordance with s. 25(12) of the amending Act) by [Finance Act 2016 \(c. 24\), s. 25\(9\)](#)

**F1921** S. 1025(4) omitted (6.4.2014) by virtue of [The Unauthorised Unit Trusts \(Tax\) Regulations 2013 \(S.I. 2013/2819\)](#), regs. 1(3), **37(18)** (with reg. 32)

**1026 Meaning of “non-qualifying income” for the purposes of section 1025**

For the purposes of section 1025 an amount included in a person's total income is non-qualifying income if it is—

- (a) income on which income tax is treated as paid under section 399(2) <sup>F1922</sup>... of ITTOIA 2005 (distributions [<sup>F1923</sup>to non-UK resident persons],
- <sup>F1924</sup>(b) .....
- <sup>F1924</sup>(c) .....
- (d) income on which an individual is liable to income tax as a result of section 465 of ITTOIA 2005 or trustees are so liable as a result of section 467 of that

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- Act (gains from contracts for life insurance etc), being income to which section 530 of that Act applies (income tax treated as paid etc),
- (e) income which is included in the aggregate income of an estate as a result of section 664(2)(c), (d) or (e) of ITTOIA 2005 (income arising to personal representatives and corresponding to income within paragraph (b), (c) or (d)),  
[<sup>F1925</sup>or]
  - (f) income on which income tax is treated as paid under section 685A(3) of ITTOIA 2005 (settlor-interested settlements),<sup>F1926</sup> ...
  - <sup>F1926</sup>(g) .....

#### Textual Amendments

- F1922** Words in s. 1026(a) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(17)(a)(i)**
- F1923** Words in s. 1026(a) substituted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(17)(a)(ii)**
- F1924** S. 1026(b)(c) omitted (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), **Sch. 1 para. 63(17)(b)**
- F1925** Word in s. 1026 inserted (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), **Sch. 8 para. 86(a)** (with Sch. 9 paras. 1-9, 22)
- F1926** S. 1026(g) and preceding word repealed (with effect in accordance with s. 381(1) of the amending Act) by [Taxation \(International and Other Provisions\) Act 2010 \(c. 8\)](#), s. 381(1), Sch. 8 para. 86(b), **Sch. 10 Pt. 1** (with Sch. 9 paras. 1-9, 22)

#### Final provisions

#### 1027 Minor and consequential amendments

Schedule 1 (minor and consequential amendments) has effect.

#### 1028 Power to make consequential provision

- (1) The Treasury may by order make such provision as the Treasury consider appropriate in consequence of this Act.
- (2) The power conferred by subsection (1) may not be exercised after 5 April 2010.
- (3) An order under this section may amend, repeal or revoke any provision made by or under an Act.
- (4) An order under this section may contain provision having retrospective effect.
- (5) An order under this section may contain incidental, supplemental, consequential and transitional provision and savings.

#### 1029 Power to undo changes

- (1) The Treasury may by order make such provision as the Treasury consider appropriate, in relation to a case in which the Treasury consider that a provision of this Act changes the effect of the law, for the purpose of returning the effect of the law to what it was immediately before 6 April 2007.

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- (2) The power conferred by subsection (1) may not be exercised after 5 April 2010.
- (3) An order under this section may amend, repeal or revoke any provision made by or under this Act or by or under any other Act.
- (4) An order under this section may contain provision having retrospective effect.
- (5) An order under this section may contain incidental, supplemental, consequential and transitional provision and savings.

### **1030 Transitional provisions and savings**

- (1) Schedule 2 (transitional provisions and savings) has effect.
- (2) The Treasury may by order make such transitional or saving provision as the Treasury consider appropriate in connection with the coming into force of this Act.
- (3) An order under subsection (2) may contain provision having retrospective effect.
- (4) At any time before section 1014 of this Act (orders and regulations) comes into force, section 828(4) of ICTA (order-making powers excluded from negative resolution procedure) has effect as if it included a reference to an order made under subsection (2) of this section.

#### **Commencement Information**

- II** S. 1030 wholly in force at 6.4.2007; s. 1030(1) in force at 6.4.2007 see s. 1034(1); s. 1030(2)-(4) in force at 20.3.2007 see s. 1034(4)(b)

### **1031 Repeals and revocations**

Schedule 3 (repeals and revocations, including of spent enactments) has effect.

### **1032 Index of defined expressions**

- (1) Schedule 4 (index of defined expressions that apply for the purposes of this Act) has effect.
- (2) That Schedule lists the places where some of the expressions used in this Act are defined or otherwise explained.

### **1033 Extent**

- (1) This Act extends to England and Wales, Scotland and Northern Ireland (but see subsection (2)).
- (2) An amendment, repeal or revocation contained in Schedule 1 or 3 has the same extent as the provision amended, repealed or revoked.

### **1034 Commencement**

- (1) This Act comes into force on 6 April 2007 and has effect—

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- (a) for income tax purposes, for the tax year 2007-08 and subsequent tax years, and
  - (b) for corporation tax purposes, for accounting periods ending after 5 April 2007.
- (2) Subsection (1) is subject to subsections (3) and (4).
- (3) The following—
- (a) Part 5 (enterprise investment scheme),
  - (b) Part 3 of Schedule 1 (consequential amendment associated with Part 5), and
  - (c) Part 2 of Schedule 3 (repeals so associated),
- do not have effect in relation to shares issued before 6 April 2007.
- This is subject to Schedule 2 (transitional provisions and savings).
- (4) Subsection (1) does not apply to the following provisions of this Act (which therefore come into force on the day on which this Act is passed)—
- (a) in Part 15, section 852, and
  - (b) in this Part, sections 1017, 1018, 1028, 1029, 1030(2) to (4) and 1033, this section and section 1035.

### **1035 Short title**

This Act may be cited as the Income Tax Act 2007.

**Status:**

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**Changes to legislation:**

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