
STATUTORY INSTRUMENTS

1992 No. 2074

INCOME TAX

The Income Tax (Manufactured Interest) Regulations 1992

Made - - - - 24th August 1992
Laid before the House of
Commons - - - - 3rd September 1992
Coming into force - - 24th September 1992

The Treasury, in exercise of the powers conferred on them by section 737(6), (7A) and (7B) of, and paragraphs 1(1) and 8 of Schedule 23A to, the Income and Corporation Taxes Act 1988(1), hereby make the following Regulations:

PART I
GENERAL

Citation and commencement

1. These Regulations may be cited as the Income Tax (Manufactured Interest) Regulations 1992 and shall come into force on 24th September 1992.

Interpretation

2. In these Regulations unless the context otherwise requires—

“approved manufactured payment” means manufactured interest which is not an unapproved manufactured payment;

“interest manufacturer” has the meaning given by sub-paragraph (1) of paragraph 3 of Schedule 23A;

“the Management Act” means the Taxes Management Act 1970(2);

“manufactured interest” shall be construed in accordance with paragraph 3 of Schedule 23A;

(1) 1988 c. 1; subsection (6) of section 737 was amended by, and subsections (7A) and (7B) were inserted by, section 58(2) of, and paragraph 3 of Schedule 13 to, the Finance Act 1991 (c. 31); Schedule 23A was inserted by section 58(2) of, and paragraph 1 of Schedule 13 to, the Finance Act 1991. Schedule 23A, and section 737 (as amended by section 58(2) of, and paragraph 3 of Schedule 13 to, the Finance Act 1991) were brought into effect, so far as those provisions relate to manufactured dividends on United Kingdom equities, on 26th February 1992 by S.I. 1992/173 (C.3) and, so far as the provisions relate to manufactured interest on United Kingdom securities, on 30th June 1992 by S.I. 1992/1346 (C.44).

(2) 1970 c. 9.

“market maker” has the meaning given by sub-paragraph (1) of paragraph 1 of Schedule 23A;
“Schedule 23A” means Schedule 23A to the Taxes Act;
“section 737” means section 737 of the Taxes Act;
“the Taxes Act” means the Income and Corporation Taxes Act 1988;
“the Tax Acts” has the meaning given by section 831(2) of the Taxes Act;
“unapproved manufactured payment” has the meaning given by sub-paragraph (1) of paragraph 1 of Schedule 23A as respects manufactured interest;
“United Kingdom securities” has the meaning given by sub-paragraph (1) of paragraph 1 of Schedule 23A.

Introductory

3. These Regulations make provision—
 - (a) for prescribed manufactured interest to be treated in prescribed circumstances otherwise than as mentioned in paragraph 3(2) of Schedule 23A;
 - (b) with respect to the returns which are to be made, and the information which is to be furnished, by interest manufacturers in connection with manufactured interest;
 - (c) for a prescribed provision of the Management Act to apply to manufactured interest; and
 - (d) for section 737 and Schedule 16 to the Taxes Act to apply with prescribed modifications in connection with manufactured interest.

Scope of the Regulations

4. These Regulations apply to manufactured interest on United Kingdom securities.

PART II

MODIFICATION OF PARAGRAPH 3(2) OF SCHEDULE 23A

Tax treatment of certain manufactured interest

5.—(1) For the purposes of the provision of the Tax Acts prescribed by paragraph (2), the manufactured interest prescribed by paragraph (3) and paid by an interest manufacturer prescribed by paragraph (4) shall be treated, in relation to that interest manufacturer and in the circumstances prescribed by paragraph (5), as mentioned in paragraph (6) below and not as mentioned in paragraph 3(2) of Schedule 23A.

- (2) The provision prescribed by this paragraph is section 349(2) of the Taxes Act.
- (3) The manufactured interest prescribed by this paragraph is any amount which—
 - (a) is representative of a periodical payment of yearly interest on United Kingdom securities, and
 - (b) is paid in the circumstances prescribed by paragraph (5).
- (4) The interest manufacturer prescribed by this paragraph is a company resident in the United Kingdom.
- (5) The circumstances prescribed by this paragraph are where, pursuant to the rules of the stock exchange governing the transaction, the payment made in respect of the interest is of the amount of the interest before deduction of tax.

(6) The manufactured interest referred to in paragraph (1) shall be treated as a payment of interest other than yearly interest.

PART III

ADMINISTRATIVE ARRANGEMENTS RELATING TO SCHEDULE 23A

Interpretation of Part III

6. In this part of these Regulations—
- “qualifying person” means an interest manufacturer who—
- (a) is a company resident in the United Kingdom,
 - (b) carries on a business which from time to time involves manufactured interest being paid by that company to any person, and
 - (c) is capable, whether by reason of being a market maker in relation to United Kingdom securities or otherwise, of making an approved manufactured payment.

Inclusion of information relating to manufactured payments in returns by companies resident in the United Kingdom

7. In any return under Schedule 16 to the Taxes Act, a company shall show the amount of any unapproved manufactured payments and the income tax in respect of those payments separately from the amount of any approved manufactured payments and the income tax in respect of them.

Provision of information relating to manufactured payments by companies resident in the United Kingdom

8. Where an interest manufacturer, being a company resident in the United Kingdom, makes a payment of manufactured interest other than a payment made in the circumstances prescribed by paragraph (5) of regulation 5, it shall furnish the recipient with a voucher showing the gross amount of the payment, the amount of tax deducted, and the actual amount paid.

Modifications of section 21 of the Management Act in relation to qualifying persons

9.—(1) Paragraph (2) prescribes the provision of the Management Act which shall apply in relation to qualifying persons and paragraph (3) specifies the modifications with which that provision shall apply.

- (2) The provision prescribed by this paragraph is section 21(a).
- (3) The modifications specified by this paragraph are that section 21 shall have effect as if—
 - (a) references to “market maker” in subsections (1) to (5) included references to a qualifying person, and
 - (b) in subsection (1) the words from “whose” onwards were omitted.

PART IV

ADMINISTRATIVE ARRANGEMENTS RELATING TO

SECTION 737

Interpretation of Part IV

10. In this part of these Regulations—

“dividend manufacturer” means any person who—

- (a) is a dividend manufacturer in relation to whom subsection (1) of section 737 applies, and
- (b) makes a payment of a manufactured dividend in respect of United Kingdom securities;

“manufactured dividend” means any payment which is a manufactured dividend in respect of United Kingdom securities in relation to which subsection (1) of section 737 applies, other than one which is such a payment by virtue of the provisions of subsection (6) of that section for treating references to a periodical payment of interest as including references to a qualifying distribution or a dividend which is not a qualifying distribution;

“qualifying dividend manufacturer” means a dividend manufacturer who—

- (a) carries on a business which from time to time involves a manufactured dividend being paid by that person to another, and
- (b) is capable, whether by reason of being a market maker in relation to United Kingdom securities or otherwise, of making a payment of a manufactured dividend which is an approved manufactured payment.

Provision of information relating to payments of manufactured dividends by dividend manufacturers

11. Where a dividend manufacturer makes a payment of a manufactured dividend in respect of United Kingdom securities, he shall furnish the recipient with a voucher showing the gross amount of the payment, the amount of tax deducted, and the actual amount paid.

Modifications of section 21 of the Management Act in relation to qualifying dividend manufacturers

12.—(1) Paragraph (2) prescribes the provision of the Management Act which shall apply in relation to qualifying dividend manufacturers and paragraph (3) specifies the modifications with which that provision shall apply.

(2) The provision prescribed by this paragraph is section 21.

(3) The modifications specified by this paragraph are that section 21 shall have effect as if—

- (a) references to “market maker” in subsections (1) to (5) included references to a qualifying dividend manufacturer, and
- (b) in subsection (1) the words from “whose” onwards were omitted.

PART V

MODIFICATIONS OF SECTION 737 AND SCHEDULE 16 TO THE TAXES ACT

Interpretation of Part V

13. In this part of these Regulations, “dividend manufacturer” and “manufactured dividend” have the meanings given by regulation 10.

Modifications of section 737 and Schedule 16 to the Taxes Act

14.—(1) In the case specified in paragraph (2), section 737 shall apply with the modification prescribed by paragraph (3), and the provision of the Tax Acts prescribed by paragraph (4) shall apply with the modifications prescribed by paragraph (5).

(2) The case specified in this paragraph is where the dividend manufacturer—

- (a) is a company which is not resident in the United Kingdom but carries on a trade through a branch or agency in the United Kingdom, and
- (b) is a market maker in relation to the United Kingdom securities concerned.

(3) The modification prescribed by this paragraph is that section 737 shall apply as if subsection (5A)(a) of that section were omitted.

(4) The provision prescribed by this paragraph is Schedule 16 to the Taxes Act.

(5) The modifications prescribed by this paragraph are that Schedule 16 to the Taxes Act shall apply as if—

- (a) paragraph 3 of that Schedule included a requirement that the amount of any unapproved manufactured payments made by the dividend manufacturer in any period and the income tax in respect of those payments should be shown in any return made by the dividend manufacturer for that period separately from the amount of any approved manufactured payments and the income tax in respect of them;
- (b) paragraph 5(1) of that Schedule did not enable the dividend manufacturer to set income tax borne by deduction on any payment received by it in any accounting period against income tax which it was liable to pay under the Schedule in respect of any unapproved manufactured payment made by it in that period; and
- (c) the reference in paragraph 7 of that Schedule to “section 7(2)” were a reference to “section 11(3)”.

Tim Wood
Tim Boswell

Two of the Lords Commissioners of Her
Majesty’s Treasury

24th August 1992

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EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which come into force on 24th September 1992, are made under provisions in section 737 of, and Schedule 23A to, the Income and Corporation Taxes Act 1988 (“section 737” and “Schedule 23A” respectively). Section 737 was amended by, and Schedule 23A was inserted by, section 58 of, and Schedule 13 to, the Finance Act 1991. The Regulations contain provisions which apply to manufactured interest in respect of United Kingdom securities.

The Regulations are in a number of parts, of which Part I is general. Regulation 1 provides for citation and commencement, regulation 2 contains definitions, and regulation 3 is introductory. Regulation 4 provides that these Regulations apply only to manufactured interest on United Kingdom securities.

Part II of the Regulations (regulation 5) provides that manufactured interest which constitutes an amount representative of a periodical payment of yearly interest and is paid by a company resident in the United Kingdom in circumstances where, by virtue of the rules of the stock exchange governing the transaction, the payment required to be made in respect of the interest is of the amount of the interest before deduction of tax, shall be treated in relation to the company making the payment as a payment of interest other than yearly interest, and not as the gross amount of a periodical payment of yearly interest pursuant to paragraph 3(2) of Schedule 23A.

Part III of the Regulations contains administrative provisions relating to Schedule 23A in connection with payments of manufactured interest by companies resident in the United Kingdom.

Regulation 6 contains a definition used in this part.

Regulation 7 makes provision for different types of manufactured interest to be shown separately in a return under Schedule 16 to the 1988 Act.

Regulation 8 provides for information to be furnished by a United Kingdom resident company to the recipient of a payment of manufactured interest made by the company.

Regulation 9 provides for section 21 of the Taxes Management Act 1970 (“the Management Act”) to apply with modifications in the case of payments of manufactured interest by United Kingdom resident companies.

Part IV of the Regulations contains administrative provisions relating to section 737 in connection with payments of manufactured interest by persons other than companies resident in the United Kingdom.

Regulation 10 contains definitions used in this part.

Regulation 11 provides for information to be furnished by the maker to the recipient of a payment of manufactured interest.

Regulation 12 provides for section 21 of the Management Act to apply with modifications in the case of payments of manufactured interest by persons other than companies resident in the United Kingdom.

Part V of the Regulations modifies section 737 and Schedule 16 to the 1988 Act in relation to payments of manufactured interest by non-resident companies which carry on a trade through a branch or agency in the United Kingdom.

Regulation 13 contains a definition used in this part.

Regulation 14 makes provision for the modification of section 737 and Schedule 16 to the 1988 Act in connection with the deductibility and offsetting of income tax on manufactured interest.

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