



Income and Corporation Taxes Act 1970

1970 CHAPTER 10

PART XVII

TAX AVOIDANCE

CHAPTER II

OTHER PROVISIONS ABOUT SECURITIES

Miscellaneous

476 Company dealing in securities: distribution materially reducing value of holding

- (1) Subsection (2) below applies where a company has, as a dealing company, a holding in another company resident in the United Kingdom (being a body corporate), and—
- (a) the holding amounts to, or is an ingredient in a holding amounting to, 10 per cent. of all holdings of the same class in that company, and
 - (b) after 29th April 1969 a distribution is, or two or more distributions are, made in respect of the holding, and
 - (c) the value (at any accounting date or immediately before realisation or appropriation) of any security comprised in the holding is materially reduced below the value of the security at the time when it was acquired, and the whole or any part of this reduction is attributable to any distribution falling within paragraph (b) above,

and in relation to any security comprised in the holding, the company having the holding is in subsection (2) below referred to as "the dealing company" and so much of any reduction in title value of the security as is attributable to any distribution falling within paragraph (b) above is in that subsection referred to as "the relevant reduction".

- (2) Where this subsection applies, an amount equal to the relevant reduction in the value of a security comprised in the holding—

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- (a) shall, if and so long as the security is not realised or appropriated as mentioned below, be added to the value of the security for the purposes of any valuation,
 - (b) shall be treated, on any realisation of the security in the course of trade, as a trading receipt of the dealing company or, in the event of a partial realisation, shall be so treated to an appropriate extent, and
 - (c) shall be treated as a trading receipt of the dealing company if the security is appropriated in such circumstances that a profit on the sale of the security would no longer form part of the dealing company's trading profits.
- (3) References in this section to a holding in a company refer to a holding of securities by virtue of which the holder may receive distributions made by the company, but so that—
- (a) a company's holdings of different classes in another company shall be treated as separate holdings, and
 - (b) holdings of securities which differ in the entitlements or obligations they confer or impose shall be regarded as holdings of different classes.
- (4) For the purposes of subsection (2) above—
- (a) all a company's holdings of the same class in another company are to be treated as ingredients constituting a single holding, and
 - (b) a company's holding of a particular class shall be treated as an ingredient in a holding amounting to 10 per cent. of all holdings of that class if the aggregate of that holding and other holdings of that class held by connected persons amounts to 10 per cent. of all holdings of that class,
- and section 533 of this Act (definition of connected persons) shall have effect in relation to paragraph (b) above as if, in subsection (7) of that section, after the words " or exercise control of " in each place where they occur there were inserted the words " or to acquire a holding in
- (5) Where this section applies in relation to a distribution which consists of or includes interest to which section 472 above applies, any reduction under that section in the price paid for the securities in respect of which the distribution is made shall be adjusted in such manner as seems appropriate to the Board to take account of subsection (2) above.
- (6) For the purposes of this section " security " includes a share or other right and a company is a " dealing company " in relation to a holding if a profit on a sale of the holding would be taken into account in computing the company's trading profits.

477 Manufactured dividends: treatment of tax deducted

- (1) Subject to the provisions of this section, where—
- (a) under a contract for the sale of securities the seller is required to pay to the purchaser the amount of a periodical payment of interest on the securities, and
 - (b) the seller does not satisfy the following condition, that is to say that he is entitled to that payment of interest either as the registered holder of the securities or from a person from whom the seller purchased them,
- section 53(2) of this Act and Schedule 9 to this Act (which both impose a liability to account for income tax deducted) shall apply as if the payment by the seller were an annual payment made, after due deduction of tax, wholly out of a source other than profits or gains brought into charge to income tax.

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- (2) Subsection (1) of this section shall not apply where the interest in question is payable without deduction of tax or where, under 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.
- (3) If for any chargeable period the liability to tax of a jobber or dealing broker is determined on the footing that any excess of his payments in respect of interest on securities over his receipts in respect thereof, being payments made or receipts accrued in pursuance of a contract for the sale or purchase of the securities, is to be treated for all the purposes of the Tax Acts as an annual payment made by him, then as respects that chargeable period subsection (1) of this section shall not apply to him if he sold the securities in the ordinary course of his business as a jobber or dealing broker.
- (4) Where the seller is resident in the United Kingdom and purchased the securities (otherwise than through a broker) from a person not so resident, then paragraph (b) of subsection (1) of this section shall have effect as if after the word " say " there were inserted the word " either " and as if for the words from " either as " to the end of the paragraph there were inserted the words " as the registered holder of the securities or that he shows that he acquired the securities, directly or indirectly, from a person who was so entitled to the payment ".
- (5) Where the seller under such a contract as is mentioned in paragraph (a) of subsection (1) of this section is not resident in the United Kingdom, and the sale is effected through a broker, that subsection shall not apply but unless the broker shows either that the seller was entitled to the payment of interest as the registered holder of the securities or that the seller acquired the securities, directly or indirectly, from a person who was so entitled to the payment, the said section 53(2) of this Act shall apply as if the payment through the broker of the amount of the payment of interest were an annual payment by the broker made, after due deduction of tax, wholly out of such a source as is mentioned in subsection (1) of this section.
- (6) In this section—
 - " broker " means a member of a stock exchange in the United Kingdom other than a jobber,
 - " dealing broker ", in relation to any sale of securities, means a member of a stock exchange in the United Kingdom, other than the London Stock Exchange, who is recognised by the committee of his exchange as carrying on the business of a dealer and authorised by them to deal in those securities,
 - " jobber " means a member of the London Stock Exchange who is recognised by the committee thereof as carrying on the business of a jobber,
 - " securities " includes shares and stock,and references to a periodical payment of interest include references to a dividend.
- (7) Where it appears to the Board that by reason of any transaction or transactions a person may by virtue of this section have incurred any liability to tax, the Board may by notice in writing served on him require him, within such time not less than twenty-eight days as may be specified in the notice, to furnish information in his possession with respect to the transaction or any of the transactions, being information as to matters, specified in the notice, which are relevant to the question whether he has incurred such a liability as aforesaid.