



Finance (No. 2) Act 1975

1975 CHAPTER 45

PART III

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

34 Stock dividends

- (1) Subject to subsections (9) to (11) below, this section applies to the following share capital, that is to say—
 - (a) any share capital issued by a company resident in the United Kingdom in consequence of the exercise by any person of an option conferred on him to receive in respect of shares in the company (whether the last-mentioned shares were issued before or after the coming into force of this section) either a dividend in cash or additional share capital; and
 - (b) any bonus share capital issued by a company so resident in respect of any shares in the company of a relevant class (whether the last-mentioned shares were issued before or after the coming into force of this section).
- (2) For the purposes of subsection (1)(b) above a class of shares is a relevant class if—
 - (a) shares of that class carry the right to receive bonus share capital in the company of the same or a different class ; and
 - (b) that right is conferred by the terms on which shares of that class were originally issued or by those terms as subsequently extended or otherwise varied.
- (3) Where a company issues any share capital to which this section applies in a case in which two or more persons are entitled thereto, the following provisions of this section and paragraph 3 of Schedule 8 to this Act shall have effect as if the company had

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issued to each of those persons separately a part of that share capital proportionate to his interest therein on the due date of issue.

- (4) Subject to the following provisions of this section, where a company issues any share capital to which this section applies in a case in which an individual is beneficially entitled to that share capital, that individual shall be treated as having received on the due date of issue income of an amount which, if reduced by an amount equal to income tax thereon at the basic rate for the year of assessment in which that date fell, would be equal to the appropriate amount in cash (as defined in paragraph 1 of Schedule 8 to this Act), and—
- (a) no assessment shall be made on the individual in respect of income tax at the basic rate on the said income but he shall be treated as having paid tax at the basic rate on it or, if his total income is reduced by any deductions, on so much of the said income as is part of his total income as so reduced ;
 - (b) no repayment shall be made of income tax treated by virtue of paragraph (a) above as having been paid; and
 - (c) the said income shall be treated for the purposes of sections 52 and 53 of the Taxes Act as not brought into charge to income tax.

- (5) Where a company issues any share capital to which this section applies to the personal representatives of a deceased person as such during the administration period, the amount of income which, if the case had been one in which an individual was beneficially entitled to that share capital, that individual would have been treated under subsection (4) above as having received shall be deemed for the purposes of Part XV of the Taxes Act to be part of the aggregate income of the estate of the deceased.

The preceding provisions of this subsection shall be construed as if contained in Part XV of the Taxes Act; and in section 432(7) of that Act there shall be added at the end the words " and section 34(5) of the Finance (No. 2) Act 1975 (stock dividends) ".

- (6) Where a company issues any share capital to which this section applies to trustees in respect of any shares in the company held by them (or by them and one or more other persons) in a case in which a dividend in cash paid to the trustees in respect of those shares would have been to any extent income to which section 16 of the Finance Act 1973 (charge to additional rate of certain income of discretionary trusts) applies, then—
- (a) there shall be ascertained the amount of income which, if the case had been one in which an individual was beneficially entitled to that share capital, that individual would have been treated under subsection (4) above as having received; and
 - (b) income of that amount shall be treated as having arisen to the trustees on the due date of issue and as if it had been chargeable to income tax at the basic rate ; and
 - (c) paragraphs (a) to (c) of subsection (4) above shall, with the substitution of " income " for " total income " and all other necessary modifications, apply to that income as they apply to income which an individual is treated as having received under that subsection.

In section 17(3)(b) of the Finance Act 1973 (amounts to be set off in connection with payments under discretionary trusts) after " above " there shall be inserted " or under section 34(6) of the Finance (No. 2) Act 1975 ".

- (7) Schedule 8 to this Act shall have effect for supplementing this section, which is there referred to as the principal section.

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- (8) For the purposes of this section and Schedule 8 to this Act—
- (a) " bonus share capital ", in relation to a company, means share capital issued by the company otherwise than wholly for new consideration or such part of any share capital so issued as is not properly referable to new consideration;
 - (b) " the due date of issue ", in relation to any share capital issued by a company, means the earliest date on which the company was required to issue that share capital;
 - (c) an option to receive either a dividend in cash or additional share capital is conferred on a person not only where he is required to choose one or the other, but also where he is offered the one subject to a right, however expressed, to choose the other instead, and a person's abandonment of, or failure to exercise, such a right is to be treated as an exercise of the option ; and
 - (d) section 237 of the Taxes Act (supplemental provisions about company distributions), excluding the proviso in subsection (1) and subsections (5) and (6), shall apply as it applies for the purposes of Part X of the Taxes Act.
- (9) This section shall be deemed to have come into force on 6th April 1975, but shall not apply to—
- (a) any share capital issued by a company which falls within subsection (1)(a) or (b) above but of which the due date of issue preceded that date ; or
 - (b) any share capital issued by a company in respect of shares in the company which confer on the holder a right to convert or exchange them into or for shares in the company of a class which is not a relevant class for the purposes of subsection (1)(b) above where the due date of issue of the share capital so issued precedes the earlier of the following dates, namely—
 - (i) the day next after the earliest date after 5th August 1975 on which conversion or exchange of the shares could be effected by an exercise of that right; and
 - (ii) 6th April 1976 or, in the case of share capital issued by an investment trust (within the meaning of Chapter VI of Part XII of the Taxes Act), 6th April 1977.
- (10) Where, in a case within subsection (4) above, the share capital in question is issued in respect of shares in the company issued before 6th April 1975 which confer on the holder a right to convert or exchange them into or for shares in the company of a different class, this section shall not apply to so much (if any) of any bonus share capital issued by the company after 5th April 1976 in connection with an exercise of that right as would have been issued if that right had been exercised so as to effect the conversion or exchange of the shares on the earliest possible date after 5th April 1975; and subsections (5) and (6) above shall, where applicable, have effect accordingly.
- (11) Where any bonus share capital falling within subsection (1)(b) above (whether issued before or after the coming into force of this section) is after 5th April 1975 converted into or exchanged for shares in the company in question of a different class, then—
- (a) this section shall not apply to any shares in the company issued, in connection with the conversion or exchange, in consideration of the cancellation, extinguishment or acquisition by the company of that bonus share capital; but
 - (b) sub-paragraphs (a) and (b) of paragraph 6 of Schedule 8 to this Act shall apply to any shares in the company issued, in connection with the conversion or exchange, in consideration of the cancellation, extinguishment or acquisition by the company of so much of that bonus share capital as caused an individual

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to be treated under subsection (4) above as having received an amount of income on the due date of issue (or would have done so if the case had been one in which an individual was beneficially entitled to that share capital).