



Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XII

SPECIAL CLASSES OF COMPANIES AND BUSINESSES

CHAPTER III

UNIT TRUST SCHEMES, DEALERS IN SECURITIES ETC.

Unit trust schemes

468 Authorised unit trusts.

- (1) ^{M1}In respect of income arising to the trustees of an authorised unit trust, and for the purposes of the provisions relating to relief for capital expenditure, the Tax Acts shall have effect as if—
- (a) the trustees were a company resident in the United Kingdom; and
 - (b) the rights of the unit holders were shares in the company.
- (2) The Tax Acts shall also have effect as if the aggregate amount shown in the accounts of the trust as income available for payment to unit holders or for investment were dividends on the shares referred to in subsection (1) above paid to them in proportion to their rights, the date of payment, in the case of income not paid to unit holders, being taken to be—
- (a) the date or latest date provided by the terms of the authorised unit trust for any distribution in respect of the distribution period in question;
 - (b) if no date is so provided, the last day of the distribution period.

This subsection shall not apply to any authorised unit trust which is also an approved personal pension scheme (within the meaning of Chapter IV of Part XIV).

Status: Point in time view as at 01/01/1994. This version of this chapter contains provisions that are not valid for this point in time.

Changes to legislation: *Income and Corporation Taxes Act 1988, CHAPTER III is up to date with all changes known to be in force on or before 09 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)*

- (3) References in the Corporation Tax Acts to a body corporate shall be construed in accordance with subsections (1) and (2) above, and section [F1234A] shall apply with any necessary modifications.
- (4) Section 75 shall apply in relation to an authorised unit trust whether or not it is an investment company within the meaning of section 130; and sums periodically appropriated for managers' remuneration shall be treated for the purposes of section 75 as sums disbursed as expenses of management.
- (5) Subsection (1) above shall not apply in relation to an authorised unit trust under the terms of which the funds of the trust cannot be invested in such a way that income can arise to the trustees which will be chargeable to tax in the hands of the trustees otherwise than—
- (a) under Schedule C as profits arising from United Kingdom public revenue dividends, or
 - (b) under Case III of Schedule D;
- and in this subsection “United Kingdom public revenue dividends” means public revenue dividends payable in the United Kingdom (whether they are also payable outside the United Kingdom or not) out of the public revenue of the United Kingdom.
- (6) In this section—
- “authorised unit trust” means, as respects an accounting period, a unit trust scheme in the case of which an order under section 78 of the ^{M2}Financial Services Act 1986 is in force during the whole or part of that accounting period;
- “distribution period” means a period beginning on or after 1st April 1987 over which income from the investments subject to the trusts is aggregated for the purposes of ascertaining the amount available for distribution to unit holders;
- “unit holder” means a person entitled to a share of the investments subject to the trusts of a unit trust scheme; and
- “unit trust scheme” has the same meaning as in section 469.

Textual Amendments

F1 Words in s. 468(3) substituted (16.7.1992) by Finance (No. 2) Act 1992 (c. 48), s. 32(3)(4)

Modifications etc. (not altering text)

C1 See—1989 s.80—subs.(5)not to apply to gilt unit trusts.1990 ss.52(2), (3)and 132and Sch.19 Part IV—subs.(5)not to apply as regards a distribution period beginning after 31December 1990.And see 1990 s.52(3), (4)for assessment of trustees' income under Case III Sch.Dfor the last distribution period.

C2 Definition employed for the purposes of s.46(7)—insurance companies: annual deemed disposal of holdings of unit trusts etc.

Marginal Citations

M1 Source—1970 ss.354, 358; 1980 s.60; 1987 s.38, 40(1); 1987 (No.2) s.40(1)

M2 1986 c. 60.

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[^{F2}468AA Authorised unit trusts: futures and options.

- (1) Trustees shall be exempt from tax under Case I of Schedule D in respect of income if—
 - (a) the income is derived from transactions relating to futures contracts or options contracts, and
 - (b) the trustees are trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period in which the income is derived.
- (2) For the purposes of subsection (1) above a contract is not prevented from being a futures contract or an options contract by the fact that any party is or may be entitled to receive or liable to make, or entitled to receive and liable to make, only a payment of a sum (as opposed to a transfer of assets other than money) in full settlement of all obligations.
- (3) In this section—

“authorised unit trust” has the same meaning as in section 468, and
“unit trust scheme” has the same meaning as in section 469.]

Textual Amendments

F2 S. 468AA inserted by Finance Act 1990 (c. 29), s. 81(1)(5)

Modifications etc. (not altering text)

C3 S. 468AA modified (28.4.1997) by The Open-ended Investment Companies (Tax) Regulations 1997 (S.I. 1997/1154), regs. 1, 9, 11

[^{F3}468A Certified unit trusts.

^{F4}

Textual Amendments

F3 Ss. 468A-468C inserted by Finance Act 1989 (c. 26), s. 78

F4 Ss. 468A-468D repealed by Finance Act 1990 (c. 29), s. 52, Sch. 19 Pt. 4, Note 7

^{F5}468B Certified unit trusts: corporation tax.

^{F6}

Textual Amendments

F5 Ss. 468A-468C inserted by Finance Act 1989 (c. 26), s. 78

F6 Ss. 468A-468D repealed by Finance Act 1990 (c. 29), s. 52, Sch. 19 Pt. 4, Note 7

^{F7}468C Certified unit trusts: distributions.

^{F8}

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Textual Amendments

- F7** Ss. 468A-468C inserted by [Finance Act 1989 \(c. 26\)](#), s. 78
F8 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, [Sch. 19 Pt. 4](#), Note 7

[^{F9}468D Funds of funds: distributions.

^{F10}

Textual Amendments

- F9** S. 468D inserted by [Finance Act 1989 \(c. 26\)](#), s. 79
F10 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, [Sch. 19 Pt. 4](#), Note 7

[^{F11}468E Authorised unit trusts: corporation tax.

- (1) This section has effect as regards an accounting period of the trustees of an authorised unit trust ending after 31st December 1990.
- (2) Subject to subsection (3) below, the rate of corporation tax [^{F12}shall be deemed to be 22.5 per cent. for the financial year 1993 and for subsequent financial years shall be deemed to be the rate at which income tax at the lower rate]is charged for the year of assessment which begins on 6th April in the financial year concerned.
- (3) Where the period begins before 1st January 1991, subsection (2) above shall only apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1991 and subsection (4) below shall apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1990.
- (4) So much of the period as falls after 31st December 1990 and before 1st April 1991 shall be deemed to fall in a financial year for which the rate of corporation tax is the rate at which income tax at the basic rate is charged for the year 1990-91.
- (5) Subsections (3) and (4) above shall not apply where the authorised unit trust concerned is a certified unit trust as respects the period.
- (6) Where the period begins after 31st December 1990, section 338 shall have effect as if any reference to interest of any description were a reference to interest of that description on borrowing of a relevant description.
- (7) Where the authorised unit trust concerned is a certified unit trust as respects the period, subsection (6) above shall have effect without the words preceding “section 338”.
- (8) For the purposes of subsection (6) above borrowing is of a relevant description if it is borrowing in respect of which there has been no breach during the accounting period of the duties imposed on the manager of the scheme by regulations under section 81 of the ^{M3}Financial Services Act 1986 with respect to borrowing by the trustees of the scheme.
- (9) The Treasury may by regulations provide that for subsection (8) above (as it has effect for the time being) there shall be substituted a subsection containing a different

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definition of what constitutes borrowing of a relevant description for the purposes of subsection (6) above.

(10) Regulations under subsection (9) above may contain such supplementary, incidental, consequential or transitional provision as the Treasury think fit.

(11) In this section “certified unit trust” means, as respects an accounting period, a unit trust scheme in the case of which—

- (a) an order under section 78 of the Financial Services Act 1986 is in force during the whole or part of that accounting period, and
- (b) a certificate under section 78(8) of that Act, certifying that the scheme complies with the conditions necessary for it to enjoy the rights conferred by the UCITS directive, has been issued before or at any time during that accounting period.

(12) In this section—

“authorised unit trust” has the same meaning as in section 468,

^{M4} “the UCITS directive” means the directive of the Council of the European Communities, dated 20th December 1985, on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (no.85/611/EEC), and

“unit trust scheme” has the same meaning as in section 469.]]

Textual Amendments

F11 Ss. 468E-468G inserted by Finance Act 1990 (c. 29), s. 51

F12 Words in s. 468E(2) substituted (27.7.1993 with effect for the financial year 1993 and subsequent financial years) by 1993 c. 34, s. 79, Sch. 6 paras. 4, 25(2)

Marginal Citations

M3 1986 c. 60.

M4 Source—O.J.85/L375/3.

VALID FROM 03/05/1994

^{F13} 468EE Corporation tax: cases where lower rate applies.

- (1) Where this subsection applies, the rate of corporation tax for the financial year shall be deemed to be the rate at which income tax at the lower rate is charged for the year of assessment which begins on 6th April in that financial year.
- (2) Subsection (1) above only applies—
 - (a) for the financial year 1994 and subsequent financial years; and
 - (b) where, on a claim made within the period of twelve months from the end of the accounting period which or part of which falls in the financial year concerned, it is shown to the satisfaction of the inspector that throughout that accounting period the condition in subsection (3) below is fulfilled by the investments subject to the trusts of the authorised unit trust.

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- (3) The condition in this subsection is fulfilled by the investments if the market value of such of those investments as are qualifying investments does not exceed 60 per cent. of the market value of all those investments.
- (4) For the purposes of subsection (3) above “qualifying investments” means any of the following investments—
- (a) any money placed at interest;
 - (b) any security—
 - (i) including any loan stock or similar security whether of the Government of the United Kingdom or of any other government or of any public or local authority in the United Kingdom or elsewhere, or of any company, and whether secured or unsecured, but
 - (ii) excluding shares in a company;
 - (c) any shares in a building society; and
 - (d) an entitlement to a share in the investments subject to the trusts of another authorised unit trust, unless, throughout the relevant period, the condition in subsection (5) below is fulfilled by the investments subject to the trusts of that other authorised unit trust.
- (5) The condition in this subsection is fulfilled by the investments if the market value of such of the investments as fall within paragraphs (a) to (c) of subsection (4) above does not exceed 60 per cent. of the market value of all those investments.
- (6) In subsection (4)(d) above “the relevant period” means the accounting period in relation to which by virtue of subsection (2)(b) above the question whether the entitlement is a “qualifying investment” falls to be determined.
- (7) For the purposes of this section “investment” does not include cash awaiting investment.
- (8) The Treasury may by order amend this section so as to extend or restrict the meaning of qualifying investments for the purposes of subsection (3) above.
- (9) An order under subsection (8) above may contain such transitional provision as the Treasury think necessary or expedient.]

Textual Amendments

F13 S. 468EE inserted (3.5.1994) by [Finance Act 1994 \(c. 9\)](#), s. 111(2)

468F ^{F14} Authorised unit trusts: distributions.

- (1) Subsection (2) below applies where—
- (a) as regards a distribution period ending after 31st December 1990 a dividend is treated by virtue of section 468(2) as paid to a unit holder (whether or not income is in fact paid to the unit holder),
 - (b) the dividend is treated as paid by the trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period in which the distribution period falls, and
 - (c) on the date of payment the unit holder is within the charge to corporation tax

^{F15}

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- (2) For the purpose of computing corporation tax chargeable in the case of the unit holder [^{F16}the unfranked portion of the payment] shall be deemed—
- (a) to be an annual payment, and not a dividend or other distribution, and
 - (b) to have been received by the unit holder after deduction of income tax at the [^{F17}lower rate], for the year of assessment in which the date of payment falls, from a corresponding gross amount.

[^{F18}(2A) For the purposes of subsection (2) above the unfranked portion of the payment shall be calculated according to the following formula—

$$U = Py \frac{I - D}{I}$$

(2B) For the purposes of the formula in subsection (2A) above—

U is the unfranked portion of the payment;

P is the payment;

I is the gross amount of the income arising to the trustees in respect of the distribution period in question which has been brought into account in ascertaining the amount of income available for distribution to unit holders in respect of that period; and

D is so much of I as represents franked investment income from the investments subject to the trusts.]

- (3) Subsection (2) above shall have effect subject to the following provisions of this section and to section 468G.
- (4) Subsection (2) above shall not apply where the rights in respect of which the dividend is treated as paid are held by the trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period (of that scheme) in which the date of payment falls.
- (5) Where the unit holder is on the date of payment the manager of the scheme, subsection (2) above shall not apply in so far as the rights in respect of which the dividend is treated as paid are rights held by him in the ordinary course of his business as manager of the scheme.
- (6) Subsection (2) above shall not apply to so much of the payment as is attributable to income of the trustees arising before 1st January 1991.
- (7) Subsection (6) above shall not apply where—
- (a) the payment is treated as made as regards a distribution period falling in an accounting period as respects which the authorised unit trust is a certified unit trust, or
 - (b) the authorised unit trust is on the date of payment a fund of funds.
- (8) In this section—

“authorised unit trust” has the same meaning as in section 468,

“certified unit trust” has the same meaning as in section 468E,

“distribution period” has the same meaning as in section 468,

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^{F19}“fund of funds” means a unit trust scheme the sole object of which is to enable the unit holders to participate in or receive profits or income arising from the acquisition, holding, management or disposal of units in unit trust schemes, and

“unit trust scheme” has the same meaning as in section 469.]

Textual Amendments

- F14** Ss. 468E-468G inserted by Finance Act 1990 (c. 29), s. 51
- F15** Words in s. 468F(1)(c) repealed (with effect in accordance with s. 251(1)(2) of the repealing Act) by Finance Act 1994 (c. 9), s. 251(2)(a), Sch. 26 Pt 8(1), Note
- F16** Words in s. 468F(2) substituted (27.7.1993 with effect where the date of payment is on or after 1st April 1993) by 1993 c. 34, s. 79, 79, Sch. 6 paras. 5(1)(a), 25(3)
- F17** Words in s. 468F(2)(b) substituted (27.7.1993 with effect for the year 1993-94 and subsequent years of assessment) by 1993 c. 34, s. 79, Sch. 6 paras. 5(1)(b), 25(3)
- F18** S. 468F(2A)(2B) inserted (27.7.1993 with effect where the date of payment is on or after 1st April 1993) by 1993 c. 34, s. 79, Sch. 6 paras. 5(2), 25(3)
- F19** S. 468F(8): definition of "dual resident" repealed (with effect in accordance with s. 251(1)(2) of the repealing Act) by Finance Act 1994 (c. 9), s. 251(2)(b), Sch. 26 Pt 8(1), Note

468G [^{F20}Dividends paid to investment trusts.

- (1) Section 468F(2) shall not apply in a case where—
 - (a) the first condition set out below is fulfilled, and
 - (b) if one or more of the second to fourth conditions set out below applies, the condition (or each of the conditions) which applies is fulfilled.
- (2) The first condition is that—
 - (a) the unit holder is a company which is an investment trust as respects the accounting period of the company that includes 20th March 1990, and
 - (b) immediately before the end of 20th March 1990, not less than 90 per cent. by value of the company’s investments consisted of units in a unit trust scheme which (or units in different unit trust schemes each of which) was an authorised unit trust on 20th March 1990.
- (3) The second condition applies if the date of payment is included in an accounting period of the company which falls after the company’s accounting period that includes 20th March 1990; and the condition is that the company is an investment trust as respects—
 - (a) the accounting period of the company that includes the date of payment, and
 - (b) each (if any) accounting period of the company which falls after the company’s accounting period that includes 20th March 1990 and before the company’s accounting period that includes the date of payment.
- (4) The third condition applies if the company makes an investment after 20th March 1990, and on or before the date of payment, in units in a unit trust scheme which is an authorised unit trust on the date of payment; and the condition is that, immediately before the end of the date of payment, each unit held by the company in a unit trust scheme which is an authorised unit trust on that date is a unit in a unit trust scheme—
 - (a) in which the company held units immediately before the end of 20th March 1990, and
 - (b) which was an authorised unit trust on 20th March 1990.

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- (5) The fourth condition applies if—
- (a) the third condition applies, and
 - (b) immediately before the end of 20th March 1990 the company held units in more than one unit trust scheme which was an authorised unit trust on that date;
- and the condition is that the investments made by the company after 20th March 1990, and on or before the date of payment, were made in accordance with the requirements applicable to the investment of funds of the company on 20th March 1990.
- (6) For the purposes of this section—
- (a) “authorised unit trust” has the same meaning as in section 468,
 - (b) “unit trust scheme” has the same meaning as in section 469, and
 - (c) a unit trust scheme is an authorised unit trust on a particular date if it is an authorised unit trust as respects the accounting period of the scheme that includes that date.

Textual Amendments

F20 Ss. 468E-468G inserted by Finance Act 1990 (c. 29), s. 51

469 Other unit trusts.

- (1) This section applies to—
- (a) a ^{M5}ny unit trust scheme that is not an authorised unit trust; and
 - (b) any authorised unit trust to which, by virtue of subsection (5) of section 468, that section does not apply,
- except where the trustees of the scheme are not resident in the United Kingdom.
- (2) Income arising to the trustees of the scheme shall be regarded for the purposes of the Tax Acts as income of the trustees (and not as income of the unit holders); and the trustees (and not the unit holders) shall be regarded as the persons to or on whom allowances or charges are to be made under the provisions of those Acts relating to relief for capital expenditure.
- (3) For the purposes of the Tax Acts the unit holders shall be treated as receiving annual payments (made by the trustees under deduction of tax) in proportion to their rights.
- This subsection shall not apply to any authorised unit trust which is also an approved personal pension scheme (within the meaning of Chapter IV of Part XIV).
- (4) The total amount of those annual payments in respect of any distribution period shall be the amount which, after deducting income tax at the basic rate in force for the year of assessment in which the payments are treated as made, is equal to the aggregate amount shown in the accounts of the scheme as income available for payment to unit holders or for investment.
- (5) The date on which the annual payments are treated as made shall be the date or latest date provided by the terms of the scheme for any distribution in respect of the distribution period in question, except that, if—
- (a) the date so provided is more than 12 months after the end of the period; or
 - (b) no date is so provided,

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the date on which the payments are treated as made shall be the last day of the period.

[^{F21}(5A) Subsection (5B) below applies where for any year of assessment—

- (a) the trustees are (or, apart from this subsection, would be) chargeable under section 350 with tax on payments treated as made by them under subsection (3) above, and
- (b) there is an uncredited surplus in the case of the scheme.

(5B) Where this subsection applies, the amount on which the trustees would otherwise be so chargeable shall be reduced—

- (a) if the surplus is greater than that amount, to nil, or
- (b) if it is not, by an amount equal to the surplus.

(5C) For the purposes of subsections (5A) and (5B) above whether there is an uncredited surplus for a year of assessment in the case of a scheme (and, if so, its amount) shall be ascertained by—

- (a) determining, for each earlier year of assessment in which the income on which the trustees were chargeable to tax by virtue of subsection (2) above exceeded the amount treated by subsection (3) above as annual payments received by the unit holders, the amount of the excess,
- (b) aggregating the amounts determined in the case of the scheme under paragraph (a) above, and
- (c) deducting from that aggregate the total of any reductions made in the case of the scheme under subsection (5B) above for earlier years of assessment.

(5D) The references in subsection (5C)(a) above to subsections (2) and (3) above include references to subsections (2) and (3) of section 354A of the 1970 Act.]

(6) In this section “distribution period” has the same meaning as in section 468, but—

- (a) if the scheme does not make provision for distribution periods, then for the purposes of this section its distribution periods shall be taken to be successive periods of 12 months the first of which began with the day on which the scheme took effect; and
- (b) if the scheme makes provision for distribution periods of more than 12 months, then for the purposes of this section each of those periods shall be taken to be divided into two (or more) distribution periods, the second succeeding the first after 12 months (and so on for any further periods).

(7) In this section “unit trust scheme” has the same meaning as in the ^{M6}Financial Services Act 1986, except that the Treasury may by regulations provide that any scheme of a description specified in the regulations shall be treated as not being a unit trust scheme for the purposes of this section.

(8) Regulations under this section may contain such supplementary and transitional provisions as appear to the Treasury to be necessary or expedient.

(9) Sections 686 and 687 shall not apply to a scheme to which this section applies.

(10) Section 720(5) shall not apply in relation to profits or gains treated as received by the trustees of a scheme to which this section applies if or to the extent that those profits or gains represent accruals of interest (within the meaning of Chapter II of Part XVII) which are treated as income in the accounts of the scheme.

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- (11) This section shall have effect in relation to distribution periods beginning on or after 6th April 1987.

Textual Amendments

F21 1988(F) s.71.

Modifications etc. (not altering text)

C4 S. 469 extended (27.7.1993) by 1993 c. 37, s. 12, Sch. 2 Pt. I para. 22(1)(2)

C5 For regulations see Part III Vol. 5

Marginal Citations

M5 Source—1970 s.354A; 1987 s.39; 1987 (No.2) s.40(1)

M6 1986 c. 60.

470 Transitional provisions relating to unit trusts.

- (1) Any transitional provisions contained in an order made under section 40(5) of the ^{M7}Finance Act 1987 appointing a day for the coming into force of subsections (1) and (2) of that section and made in connection therewith shall after the coming into force of this section have effect for the purposes of this Act as they had effect for the purposes of that section, with such modifications if any as may be necessary.
- (2) If such an order as is mentioned in subsection (1) above has not been made before the coming into force of this Act, section 468 shall have effect with the substitution for the definition of “authorised unit trust” contained in subsection (6) of the following definition—
- “authorised unit trust” means, as respects any accounting period, a unit trust scheme in the case of which an order under section 17 of the ^{M8}Prevention of Frauds (Investments) Act 1958 or under section 16 of the ^{M9}Prevention of Frauds (Investments) Act (Northern Ireland) 1940 is in force during the whole or some part of that accounting period;
- and sections 468 and 832 shall have effect with the omission of the definition of “unit trust scheme”.
- (3) If such an order as is mentioned in subsection (1) above has not been made before the coming into force of this Act, subsection (2) above shall cease to have effect on such day as the Board may by order appoint; and an order under this subsection may contain such transitional provisions as appear to the Board to be necessary or expedient.

Modifications etc. (not altering text)

C6 S.I. 1988 No.745 (not reproduced)—appointed day 29 April 1988.

Marginal Citations

M7 1987 s.40(5)

M8 1958 c. 45.

M9 1940 c. 9 (N.I.).

Status: Point in time view as at 01/01/1994. This version of this chapter contains provisions that are not valid for this point in time.

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VALID FROM 03/05/1994

[F22 Distributions of authorised unit trusts: general

Textual Amendments

F22 Ss. 468H-468R and cross-headings inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 2

468H Interpretation.

- (1) This section has effect for the interpretation of sections 468I to 468R.
- (2) The making of a distribution by an authorised unit trust to a unit holder includes investing an amount on behalf of the unit holder in respect of his accumulation units.
- (3) In relation to an authorised unit trust—
 - (a) “distribution period” means a period by reference to which the total amount available for distribution to unit holders is ascertained; and
 - (b) “distribution accounts” means accounts showing how that total amount is computed.
- (4) The distribution date for a distribution period of an authorised unit trust is—
 - (a) the date specified by or in accordance with the terms of the trust for any distribution for that distribution period; or
 - (b) if no date is so specified, the last day of that distribution period.
- (5) In this Chapter references to foreign income dividends shall be construed in accordance with Chapter VA of Part VI.
- (6) Sections 468I to 468R do not apply to an authorised unit trust which is also an approved personal pension scheme (within the meaning of Chapter IV of Part XIV).

468I Distribution accounts.

- (1) The total amount shown in the distribution accounts as available for distribution to unit holders shall be shown as available for distribution in one of the ways set out below.
- (2) It may be shown as available for distribution as dividends which are not foreign income dividends.
- (3) It may be shown as available for distribution as foreign income dividends.
- (4) It may be shown as available for distribution as yearly interest.
- (5) It may be divided into—
 - (a) a part shown as available for distribution as dividends which are not foreign income dividends; and
 - (b) a part shown as available for distribution as foreign income dividends.

Status: Point in time view as at 01/01/1994. This version of this chapter contains provisions that are not valid for this point in time.

Changes to legislation: Income and Corporation Taxes Act 1988, CHAPTER III is up to date with all changes known to be in force on or before 09 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)

- (6) Amounts deriving from income under Schedule A may not be included in any amount shown in the distribution accounts as available for distribution as yearly interest.
- (7) Where distribution accounts show an amount as available for distribution to unit holders in the way set out in subsection (5) above there shall not be any discrimination between unit holders having accumulation units and other unit holders (or between unit holders on other grounds).

VALID FROM 03/05/1994

Dividend and foreign income distributions

468J Dividend distributions.

- (1) Subsection (2) below applies where the total amount or a part of the total amount shown in the distribution accounts as available for distribution to unit holders is shown as available for distribution as dividends which are not foreign income dividends.
- (2) The Tax Acts shall have effect as if the total amount or, as the case may be, the part were dividends on shares paid on the distribution date by the company referred to in section 468(1) to the unit holders in proportion to their rights.
- (3) The trustees of an authorised unit trust may not make an election under section 246A in respect of dividends paid by virtue of this section.
- (4) In the following provisions of this Chapter “a dividend distribution” means a dividend treated as paid by virtue of subsection (2) above.

468K Foreign income distributions.

- (1) Subsection (2) below applies where the total amount or a part of the total amount shown in the distribution accounts as available for distribution to unit holders is shown as available for distribution as foreign income dividends.
- (2) The Tax Acts shall have effect (subject to what follows) as if the total amount or, as the case may be, the part were foreign income dividends on shares paid on the distribution date by the company referred to in section 468(1) to the unit holders in proportion to their rights.
- (3) In relation to the paying of foreign income dividends by authorised unit trusts Chapter VA of Part VI shall have effect as if the following provisions were omitted—
 - (a) sections 246A and 246B (provisions with respect to election to pay foreign income dividends);
 - (b) sections 246K to 246M (special provisions for subsidiaries); and
 - (c) sections 246S to 246W (international headquarters companies).
- (4) In the following provisions of this Chapter “a foreign income distribution” means a foreign income dividend treated as paid by virtue of subsection (2) above.

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VALID FROM 03/05/1994

Interest distributions

468L Interest distributions.

- (1) Subsection (2) below applies where the total amount shown in the distribution accounts as available for distribution to unit holders is shown as available for distribution as yearly interest.
- (2) The Tax Acts shall have effect (subject to what follows) as if the total amount were payments of yearly interest made on the distribution date by the company referred to in section 468(1) to the unit holders in proportion to their rights.
- (3) In the following provisions of this Chapter “an interest distribution” means a payment of yearly interest treated as made by virtue of subsection (2) above.
- (4) The obligation under section 349(2) to deduct a sum in its application to an interest distribution is subject to sections 468M and 468N (and, in its application to an interest distribution to a unit holder in respect of his accumulation units, is an obligation to deduct a sum out of the amount being invested on the unit holder’s behalf).
- (5) Interest distributions shall not be a charge on income for the purposes of section 338(1) but any interest distributions for a distribution period which are interest distributions with respect to which the obligation under section 349(2) (if and to the extent that it applies) is complied with shall be allowed as a deduction against the profits of the authorised unit trust for the accounting period in which the last day of that distribution period falls.
- (6) The deduction mentioned in subsection (5) above may be made—
 - (a) in computing the total profits for the accounting period, after the deduction of any expenses deductible in computing profits apart from section 75 and either before or after the deduction under that section of sums disbursed as expenses of management; or
 - (b) against total profits as reduced by any other relief from tax or against total profits not so reduced.
- (7) Where in any accounting period the amount deductible by virtue of subsection (5) above exceeds the amount from which the deduction is made—
 - (a) the excess may be carried forward to the succeeding accounting period; and
 - (b) the amount so carried forward shall be treated as if it were deductible in that succeeding accounting period by virtue of subsection (5) above.

468M Deduction of tax (simple case).

- (1) Subsection (2) below applies where—
 - (a) an interest distribution is made for a distribution period to a unit holder; and
 - (b) the gross income entered in the distribution accounts for the purpose of computing the total amount available for distribution to unit holders derives from eligible income entirely.

Status: Point in time view as at 01/01/1994. This version of this chapter contains provisions that are not valid for this point in time.

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- (2) Where this subsection applies, the obligation to deduct under section 349(2) shall not apply to the interest distribution to the unit holder if the residence condition is on the distribution date fulfilled with respect to him.
- (3) Section 468O makes provision with respect to the circumstances in which the residence condition is fulfilled with respect to a unit holder.
- (4) Subject to subsection (5) below, in this Chapter “eligible income” means—
 - (a) any interest on a security which falls within paragraph 5(5)(d) of Schedule 19AA;
 - (b) any interest on a security which is a quoted Eurobond for the purposes of section 124;
 - (c) any dividends falling within section 17(1)3;
 - (d) any proceeds or other realisation falling within section 17(1)4;
 - (e) any amount taxable by virtue of section 123;
 - (f) any other amount, if it is not subject to income tax by deduction.
- (5) “Eligible income” does not include—
 - (a) franked investment income;
 - (b) income under Schedule A;
 - (c) any foreign income dividend;
 - (d) any amount afforded relief from taxation imposed under the laws of a territory outside the United Kingdom under arrangements having effect by virtue of section 788 in relation to that territory.

468N Deduction of tax (mixed funds).

- (1) Subsection (2) below applies where—
 - (a) an interest distribution is made for a distribution period to a unit holder; and
 - (b) the gross income entered in the distribution accounts for the purposes of computing the total amount available for distribution to unit holders does not derive from eligible income entirely.
- (2) Where this subsection applies, the obligation to deduct under section 349(2) shall not apply to the relevant amount of the interest distribution to the unit holder if the residence condition is on the distribution date fulfilled with respect to him.
- (3) Section 468O makes provision with respect to the circumstances in which the residence condition is fulfilled with respect to a unit holder.
- (4) This is how to calculate the relevant amount of the interest distribution—

$$R = A \times \frac{B}{C}$$

Where—

R = the relevant amount;

A = the amount of the interest distribution before deduction of tax to the unit holder in question;

B = such amount of the gross income as derives from eligible income;

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C = the amount of the gross income.

- (5) In subsection (4) above the references to the gross income are references to the gross income entered as mentioned in subsection (1)(b) above.

468O Residence condition.

- (1) For the purposes of sections 468M and 468N, the residence condition is fulfilled with respect to a unit holder if—
- (a) there is a valid declaration made by him that he is not ordinarily resident in the United Kingdom; or
 - (b) he holds the rights as a personal representative of a unit holder and—
 - (i) before his death the deceased made a declaration valid at the time of his death that he was not ordinarily resident in the United Kingdom; or
 - (ii) the personal representative has made a declaration that the deceased, immediately before his death, was not ordinarily resident in the United Kingdom.
- (2) For the purposes of sections 468M and 468N, the residence condition is also fulfilled with respect to a unit holder if the unit holder is a company and there is a valid declaration made by the company that it is not resident in the United Kingdom.
- (3) The Board may by regulations make such provision as appears to them to be necessary or expedient modifying the application of this section and section 468P in relation to interest distributions made to or received under a trust.
- (4) Regulations under subsection (3) above may—
- (a) make different provision for different cases; and
 - (b) contain such supplementary, incidental, consequential or transitional provision as appears to the Board to be appropriate.

Modifications etc. (not altering text)

C7 [Ss. 468O, 468P applied \(with modifications\) \(27.9.1994\) by The Income Tax \(Authorised Unit Trusts\) \(Interest Distributions\) Regulations 1994 \(S.I. 1994/2318\), regs. 1, 3-6](#)

468P Residence declarations.

- (1) A declaration made for the purposes of section 468O must—
- (a) be in such form as may be required or authorised by the Board;
 - (b) be made in writing to the trustees of the authorised unit trust in question; and
 - (c) contain any details or undertakings required by subsections (2) to (4) below.
- (2) A declaration made as mentioned in section 468O(1)(a) or (b)(i) must contain—
- (a) the name and principal residential address of the person making it; and
 - (b) an undertaking that he will notify the trustees if he becomes ordinarily resident in the United Kingdom.
- (3) A declaration made as mentioned in section 468O(1)(b)(ii) must contain the name of the deceased and his principal residential address immediately before his death.

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- (4) A declaration made as mentioned in section 468O(2) must contain—
- (a) the name of the company making it and the address of its registered or principal office; and
 - (b) an undertaking that the company will notify the trustees if it becomes resident in the United Kingdom.
- (5) For the purposes of determining whether an interest distribution should be made with or without any deduction, the trustees may not treat a declaration as valid if—
- (a) they receive a notification in compliance with an undertaking under subsection (2) or (4) above that the person in question has become ordinarily resident or, as the case may be, resident in the United Kingdom; or
 - (b) they come into possession of information by some other means which indicates that the person in question is or may be ordinarily resident or, as the case may be, resident in the United Kingdom;
- but, subject to that, they are entitled to treat the declaration as valid.
- (6) The trustees shall, on being required to do so by a notice given by an officer of the Board, make available for inspection by such an officer any declarations made to them under this section or any specified declaration or description of declarations.
- (7) Where a notice has been given to the trustees under subsection (6) above, the declarations shall be made available within such time as may be specified in the notice and the person carrying out the inspection may take copies of or extracts from them.
- (8) The Board may by regulations make provision for giving effect to this section, including in particular provision requiring trustees and managers of authorised unit trusts to supply information and make available books, documents and other records for inspection on behalf of the Board.
- (9) Regulations under subsection (8) above may—
- (a) make different provision for different cases; and
 - (b) contain such supplementary, incidental, consequential or transitional provision as appears to the Board to be appropriate.

Modifications etc. (not altering text)

- C8 Ss. 468O, 468P applied (with modifications) (27.9.1994) by [The Income Tax \(Authorised Unit Trusts\) \(Interest Distributions\) Regulations 1994 \(S.I. 1994/2318\)](#), [regs. 1, 3-6](#)

VALID FROM 10/07/2003

[^{F23}468PA] Section 468O(1A): consequences of reasonable but incorrect belief

Where—

- (a) an interest distribution is made to a unit holder by the trustees of an authorised unit trust,
- (b) the trustees, in reliance on the reputable intermediary condition being fulfilled with respect to the unit holder, do not comply with the

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obligation under section 349(2) to make a deduction from the interest distribution,
 (c) that obligation would apply but for that condition being so fulfilled, and
 (d) (contrary to the belief of the trustees) the unit holder is in fact ordinarily resident in the United Kingdom,
 section 350 and Schedule 16 have effect as if that obligation applied.]

Textual Amendments

- F22** Ss. 468H-468R and cross-headings inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 2
F23 Ss. 468PA, 468PB inserted (with effect in accordance with s. 203(14) of the amending Act) by Finance Act 2003 (c. 14), s. 203(9)

Modifications etc. (not altering text)

- C9** Ss. 468M, 468O, 468PA applied (with modifications) (7.8.2003 with effect in accordance with reg. 1(2) of the affecting S.I.) by The Income Tax (Authorised Unit Trusts) (Interest Distributions) Regulations 2003 (S.I. 2003/1830), regs. 1(1), 7

VALID FROM 10/07/2003

[^{F23}468P] Regulations supplementing sections 468M to 468PA

- (1) The Board may by regulations make provision for giving effect to sections 468M to 468PA.
- (2) The regulations may, in particular, include provision modifying the application of those sections in relation to interest distributions made to or received under a trust.
- (3) The regulations may, in particular, include provision for the giving by officers of the Board of notices requiring trustees of authorised unit trusts to supply information and make available books, documents and other records for inspection on behalf of the Board.
- (4) The regulations may—
 - (a) make provision in relation to times before they are made,
 - (b) make different provision for different cases, and
 - (c) make such supplementary, incidental, consequential or transitional provision as appears to the Board to be appropriate.]

Textual Amendments

- F22** Ss. 468H-468R and cross-headings inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 2
F23 Ss. 468PA, 468PB inserted (with effect in accordance with s. 203(14) of the amending Act) by Finance Act 2003 (c. 14), s. 203(9)

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VALID FROM 03/05/1994

Distributions to corporate unit holder

468Q Dividend distribution to corporate unit holder.

- (1) Subsection (2) below applies where—
 - (a) a dividend distribution for a distribution period is made to a unit holder by the trustees of an authorised unit trust; and
 - (b) on the distribution date for that distribution period the unit holder is within the charge to corporation tax.
- (2) For the purpose of computing corporation tax chargeable in the case of the unit holder the unfranked part of the dividend distribution shall be deemed—
 - (a) to be an annual payment and not a dividend distribution, a foreign income distribution or an interest distribution; and
 - (b) to have been received by the unit holder after deduction of income tax at the lower rate for the year of assessment in which the distribution date falls, from a corresponding gross amount.
- (3) This is how to calculate the unfranked part of the dividend distribution—

$$U = \left(\left(A + B \right) \times \frac{C}{D} \right) - B$$

Where—

- U = the unfranked part of the dividend distribution to the unit holder;
- A = the amount of the dividend distribution;
- B = the amount of any foreign income distribution for the distribution period for which that dividend distribution is made to the unit holder;
- C = such amount of the gross income as does not derive from franked investment income;
- D = the amount of the gross income.

- (4) If the calculation in accordance with subsection (3) above produces a value of U that is less than 0, it shall be assumed for the purposes of this section that no part of the dividend distribution is unfranked.
- (5) Where the unit holder is on the distribution date the manager of the scheme, subsection (2) above shall not apply in so far as the rights in respect of which the dividend distribution is made are held by him in the ordinary course of his business as manager of the scheme.
- (6) For the purposes of this section the references to the gross income are references to the gross income entered in the distribution accounts for the purpose of computing the total amount available for distribution to unit holders for the distribution period in question.

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468R Foreign income distribution to corporate unit holder.

- (1) Subsection (2) below applies where—
 - (a) a foreign income distribution for a distribution period is made to a unit holder by the trustees of an authorised unit trust; and
 - (b) on the distribution date for that distribution period the unit holder is within the charge to corporation tax.
- (2) The provisions of subsections (2) to (6) of section 468Q shall have effect, with the necessary modifications, in relation to the foreign income distribution as they have effect in relation to a dividend distribution, and in particular as if for the provisions of subsection (3) of that section there were substituted the provisions of subsection (3) below.
- (3) This is how to calculate the unfranked part of the foreign income distribution—

$$U = \left((A + B) \times \frac{E}{D} \right) - A$$

Where—

U = the unfranked part of the foreign income distribution to the unit holder in question;

A = the amount of any dividend distribution for the distribution period for which that foreign income distribution is made to the unit holder;

B = the amount of that foreign income distribution;

E = such amount of the gross income as does not derive from foreign income dividends;

D = the amount of the gross income.

VALID FROM 27/07/1999

[^{F24}469A Court common investment funds.

- (1) The Tax Acts shall have effect in relation to any common investment fund established under section 42 of the ^{M10}Administration of Justice Act 1982 (common investment funds for money paid into court) as if—
 - (a) the fund were an authorised unit trust;
 - (b) the person who is for the time being the investment manager of the fund were the trustee of that authorised unit trust; and
 - (c) the persons whose interests entitle them, as against the Accountant General, to share in the fund's investments were the unit holders in that authorised unit trust.
- (2) In this section “the Accountant General” means (subject to subsection (3) below) the Accountant General of the Supreme Court of Judicature in England and Wales or the Accountant General of the Supreme Court of Judicature of Northern Ireland.
- (3) Where in the case of any common investment fund a person other than the Accountant General is authorised by the Lord Chancellor to hold shares in the fund,

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the reference in subsection (1)(c) above to the Accountant General shall include a reference to that other person.]

Textual Amendments

- F22** Ss. 468H-468R and cross-headings inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 2
- F24** S. 469A inserted (with effect in accordance with s. 68(3)-(5) of the amending Act) by Finance Act 1999 (c. 16), s. 68(1)

Marginal Citations

- M10** 1982 c.53.

Dealers in securities, banks and insurance businesses

471 Exchange of securities in connection with conversion operations, nationalisation etc.

(1) ^{M11}If—

- (a) any securities to which a person who is carrying on a trade which consists wholly or partly in dealing in securities is beneficially entitled are exchanged for other securities; and
- (b) the exchange is one to which this section applies,

then, whether or not any additional consideration is given for the exchange but subject to subsection (2) below, that person shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both at the time of the exchange and thereafter, as if the exchange had not taken place, and in that case the produce of any subsequent realisation of any of the securities received by him under the exchange (together with any additional consideration, or the appropriate part of any additional consideration, received by him under the exchange) shall be treated as the produce of the realisation of the corresponding securities surrendered by or transferred from him under the exchange, or of a corresponding part thereof, as the case may be.

(2) Subsection (1) above shall not apply to any person who gives notice to the inspector not later than two years after the end of the chargeable period in which the exchange takes place that he desires not to be treated as mentioned in that subsection.

(3) The exchanges to which this section applies are—

- (a) any exchange effected under any arrangement carried out under section 2 of the ^{M12}National Loans Act 1939 or section 14 of the ^{M13}National Loans Act 1968 if the Treasury direct, in pursuance of that arrangement, that this section shall apply to exchanges thereunder;
- (b) any exchange of securities effected by section 1 of the ^{M14}Bank of England Act 1946; and
- (c) any exchange of securities effected in pursuance of any enactment passed after 5th April 1946 which provides for the compulsory acquisition of any securities and the issue of other securities in lieu thereof, if the Treasury direct that this section shall apply to exchanges of securities effected in pursuance of that enactment.

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- (4) In this section “securities” includes shares, stock, bonds, debentures and debenture stock.

Marginal Citations

- M11** Source—1970 s.326
M12 1939 c. 117.
M13 1968 c. 13.
M14 1946 c. 27.

472 Distribution of securities issued in connection with nationalisation etc.

- (1) ^{M15}Where—
- (a) in pursuance of any enactment passed after 5th April 1946 any securities are issued to any body corporate as, or as part of, the consideration for the compulsory acquisition of any property under that enactment; and
 - (b) that body corporate is wound up or the capital thereof is reduced or any bonds, debentures or debenture stock thereof are redeemed, and, in or in connection with the winding up, reduction of capital or redemption, all or any of the securities so issued are distributed to holders of securities of the body corporate (“the distributed securities”); and
 - (c) the Treasury direct that this section shall apply in relation to the distribution, any person (“the dealer”) who is carrying on a trade which consists wholly or partly in dealing in securities and is beneficially entitled to any securities (“the relevant securities”) to the holders of which the distribution is made shall, in relation to that distribution, be treated for tax purposes in the manner specified in subsections (2) and (3) below, unless he gives notice to the inspector not later than two years after the end of the chargeable period in which the distribution takes place that he desires not to be so treated in relation to that distribution.
- (2) If the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock is that the relevant securities to which the dealer is beneficially entitled are wholly extinguished without his receiving anything in respect thereof except the distributed securities, he shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both then and thereafter, as if neither the extinction nor the distribution had taken place but as if the produce of any subsequent realisation of any of the distributed securities were the produce of the realisation of the relevant securities or a corresponding part thereof, as the case may be.
- (3) In any other case—
- (a) the dealer shall be treated as having acquired the distributed securities at a cost equal to such proportion of the cost to him of the relevant securities as may be specified in the direction of the Treasury referred to in subsection (1) above and the question whether he has made any, and if so what, profit or suffered any, and if so what, loss on any subsequent realisation of the distributed securities shall be determined accordingly; and
 - (b) in considering whether he has, either as the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock and the distribution of the securities, or on any subsequent realisation of any of the relevant securities, made any, and if so what, profit or suffered any, and if so what, loss in connection with the relevant securities, the distributed securities

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shall be left out of account and the cost to him of the relevant securities shall be deemed to be reduced by the amount of the cost at which, under paragraph (a) above, he is taken to have acquired the distributed securities.

- (4) In this section “securities” includes shares, stock, bonds, debentures and debenture stock.

Marginal Citations

M15 Source—1970 s.327

VALID FROM 22/07/2004

[^{F25}472A Trading profits etc. from securities: taxation of amounts taken to reserves]

- (1) This section applies in relation to securities—
- (a) which are held by a person carrying on a banking business, an insurance business or a business consisting wholly or partly in dealing in securities; and
 - (b) which are such that a profit on their sale would form part of the trading profits of that business.
- (2) Profits and losses arising from such securities that in accordance with generally accepted accounting practice are—
- (a) calculated by reference to the fair value of the securities, and
 - (b) recognised in that person’s statement of recognised gains and losses or statement of changes in equity,
- shall be brought into account in computing the profits or losses of a business in accordance with the provisions of this Act applicable to Case I of Schedule D.
- (3) Subsection (2) does not apply—
- (a) to an amount to the extent that it derives from or otherwise relates to an amount brought into account under that subsection in an earlier period of account, or
 - (b) to an amount recognised for accounting purposes by way of correction of a fundamental error.
- (4) In this section, “securities”—
- (a) includes shares and any rights, interests or options that by virtue of section 99, 135(5) or 136(5) of the Taxation of Chargeable Gains Act 1992 are treated as shares for the purposes of sections 126 to 136 of that Act; but
 - (b) does not include a loan relationship (within the meaning of Chapter 2 of Part 4 of the Finance Act 1996).]

Textual Amendments

F22 Ss. 468H-468R and cross-headings inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 2

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F25 S. 472A inserted (with effect in accordance with s. 54(2) of the amending Act) by Finance Act 2004 (c. 12), s. 54 (as amended (retrospectively) by Finance Act 2005 (c.7), Sch. 4 para. 50, Sch. 11 Pt. 2(7))

473 Conversion etc. of securities held as circulating capital.

- (1) ^{M16}Subsections (3) and (4) below shall have effect where a transaction to which this section applies occurs in relation to any securities (“the original holding”)—
 - (a) to which a person carrying on a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is beneficially entitled; and
 - (b) which are such that a profit on their sale would form part of the trading profits of that business.
- (2) This section applies to any transaction which, if the securities were not such as are mentioned in subsection (1)(b) above—
 - (a) would result in the original holding being equated with a new holding by virtue of sections [^{F26}126 to 136 of the 1992] Act (capital gains tax roll-over relief in cases of conversion etc.); or
 - (b) would be treated by virtue of section [^{F26}134] of that Act (compensation stock) as an exchange for a new holding which does not involve a disposal of the original holding;

but does not apply to any transaction in relation to which section 471 applies or would apply if the person concerned had not given a notice under that section.
- (3) Subject to subsection (4) below, in making any computation in accordance with the provisions of this Act applicable to Case I of Schedule D of the profits or losses of the business—
 - (a) the transaction shall be treated as not involving any disposal of the original holding, and
 - (b) the new holding shall be treated as the same asset as the original holding.
- (4) Where under the transaction the person concerned receives or becomes entitled to receive any consideration in addition to the new holding, subsection (3) above shall have effect as if references to the original holding were references to the proportion of it which the market value of the new holding at the time of the transaction bears to the aggregate of that value and the market value at that time (or, if it is cash, the amount) of the consideration.
- (5) Subsections (3) and (4) above shall have effect with the necessary modifications in relation to any computation made for the purposes of section 76(2) in a case where securities held by the company concerned are equated with a new holding by virtue of any of sections [^{F26}126 to 136 of the 1992] Act or are treated as not disposed of by virtue of section [^{F26}134] of that Act.
- (6) In this section “securities” includes shares, any security within the meaning of section [^{F27}132 of the 1992 Act] and any rights, interests or options which by virtue of section [^{F27}136(3), 147 or 99] of that Act are treated as shares for the purposes of sections [^{F27}126 to 136] of that Act.
- (7) In determining for the purposes of subsection (2)(a) above whether a transaction would result in the original holding being equated with a new holding by virtue of section

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[^{F28}135 or 136 of the 1992] Act the reference in section [^{F28}137(1)] of that Act to capital gains tax shall be construed as a reference to income tax.

Textual Amendments

- F26** Words in 473(2)(5) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), **Sch. 10 para. 14(27)(a)** (with ss. 60, 101(1), 171, 201(3))
- F27** Words in s. 473(6) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), **Sch. 10 para. 14(27)(b)** (with ss. 60, 101(1), 171, 201(3))
- F28** Words in s. 473(7) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), **Sch. 10 para. 14(27)(c)** (with ss. 60, 101(1), 171, 201(3))

Marginal Citations

- M16** Source—1977 s.46; 1979(C) Sch.7

474 Treatment of tax-free income.

- (1) ^{M17}Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is carried on in the United Kingdom by a person not resident there, then—
- in computing for any of the purposes of the Tax Acts the profits arising from, or loss sustained in, the business, and
 - in the case of an insurance business, also in computing the profits or loss from pension business ^{F29} . . . under section 436,
- all interest, dividends and other payments whatsoever to which section 48 or 123(4) extends shall be included notwithstanding the exemption from tax conferred by those sections respectively.
- In this subsection “securities” includes stocks and shares.
- (2) Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities—
- is carried on in the United Kingdom by a person not ordinarily resident there, and
 - in making any such computation as is referred to in subsection (1) above with respect to that business, any interest on any securities issued by the Treasury is excluded by virtue of a condition of the issue thereof regulating the treatment of the interest on those securities for tax purposes,
- then any expenses attributable to the acquisition or holding of, or to any transaction in, the securities (but not including in those expenses any interest on borrowed money), and any profits or losses so attributable, shall also be excluded in making that computation.

Textual Amendments

- F29** Words in s. 474(1)(b) repealed (for accounting periods beginning on or after 1.1.1992) by Finance Act 1991 (c. 31, SIF 63:1), ss. 48, 123, Sch. 7 paras.8, 18, **Sch. 19 Pt. V**, Note 3

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Marginal Citations

M17 Source—1970 s.328(1)(2); 1970(F) Sch.5 Part III 11(6)(f)

475 Tax-free Treasury securities: exclusion of interest on borrowed money.

- (1) ^{M18}This section has effect where paragraphs (a) and (b) of section 474(2) apply to a business for any accounting period or year of assessment.
- (2) Up to the amount determined under this section (“the amount ineligible for relief”), interest on money borrowed for the purposes of the business—
 - (a) shall be excluded in any computation under the Tax Acts of the profits (or losses) arising from the business or, where subsection (6) below applies, arising from any annuity business forming part of the life assurance business, and
 - (b) shall be excluded from the definition of “charges on income” in section 338.
- (3) Subject to subsection (4) below, in determining the amount ineligible for relief, account shall be taken of all money borrowed for the purposes of the business which is outstanding in the accounting or basis period, up to the total cost of the tax-free Treasury securities held for the purpose of the business in that period.
- (4) Where the person carrying on the business is a company, account shall not be taken of any borrowed money carrying interest which, apart from subsection (2) above, does not fall to be included in the computations under paragraph (a) of that subsection, and is not to be treated as a charge on income for the purposes of the Corporation Tax Acts.
- (5) Subject to subsection (6) below, the amount ineligible for relief shall be equal to a year’s interest on the amount of money borrowed which is to be taken into account under subsection (3) above at a rate equal to the average rate of interest in the accounting or basis period on money borrowed for the purposes of the business, except that in the case of a period of less than 12 months interest shall be taken for that shorter period instead of for a year.
- (6) Where relief for expenses of management is to be granted to an insurance company for any accounting period, and that relief falls to be reduced under section [F³⁰444E(2)](by applying the fraction which is investment income [F³¹attributable to basic life assurance and general annuity business] other than income from tax-free Treasury securities divided by that total investment income)—
 - (a) the amount ineligible for relief shall be a fraction of the amount of interest in the accounting period on money borrowed for the purposes of the business; and
 - (b) that fraction shall be the fraction which is income from tax-free Treasury securities divided by total investment income [F³¹attributable to basic life assurance and general annuity business] (that is to say, one minus the fraction to be applied under section [F³⁰444E(2)]).
- (7) In this section “tax-free Treasury securities” means securities issued by the Treasury with a condition regulating the treatment of the interest thereon for income tax or corporation tax purposes such that interest on the securities is excluded in computing the income or profits.
- (8) For the purposes of this section the cost of a holding of tax-free Treasury securities which has fluctuated in the accounting or basis period shall be the average cost of

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acquisition of the initial holding, and of any subsequent acquisitions in the accounting or basis period, applied to the average amount of the holding in the accounting or basis period, and this subsection shall be applied separately to securities of different classes.

- (9) In this section “accounting or basis period” means the company’s accounting period or the period by reference to which the profits or gains arising in the year of assessment are to be computed.

Textual Amendments

F30 Words in s. 475(6) substituted (27.7.1993 with application in relation to accounting periods beginning on or after 31.12.1992) by 1993 c. 34, s. 100(2)(a)(3)

F31 Words in s. 475(6) substituted (27.7.1993 with application in relation to accounting periods beginning on or after 31.12.1992) by 1993 c. 34, s. 100(2)(b)(3)

Marginal Citations

M18 Source—1970 s.329

Status:

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