



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;

^{F1}but paragraph (b) above is without prejudice to the making of distributions which are interest distributions (within the meaning of section 468L) to unit holders]

^{F2}(1A) In relation to any authorised unit trust the rate of corporation tax for the financial year 1996 and 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.]

(2) ^{F3}.....

(3) References in the Corporation Tax Acts to a body corporate shall be construed in accordance with ^{F4}subsection (1) above], and section ^{F5}234A] shall apply with any necessary modifications.

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- (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) [^{F6} Subject to subsections (7) to (9) below] 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;
- ^{F7}
- "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.
- [^{F8}(7) Each of the parts of an umbrella scheme shall be regarded for the purposes of this Chapter as an authorised unit trust and the scheme as a whole shall not be so regarded.
- (8) In this section, "umbrella scheme" means a unit trust scheme—
- (a) which provides arrangements for separate pooling of the contributions of the participants and the profits or income out of which payments are to be made to them;
 - (b) under which the participants are entitled to exchange rights in one pool for rights in another; and
 - (c) in the case of which an order under section 78 of the Financial Services Act 1986 is in force;
- and any reference to a part of an umbrella scheme is a reference to such of the arrangements as relate to a separate pool.
- (9) In relation to a part of an umbrella scheme, any reference—
- (a) to investments subject to the trusts of an authorised unit trust, shall have effect as a reference to such of the investments as under the arrangements form part of the separate pool to which the part of the umbrella scheme relates; and
 - (b) to a unit holder, shall have effect as a reference to a person for the time being having rights in that separate pool.]

Textual Amendments

- F1** Words in s. 468(1) inserted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), Sch. 14 para. 3(2)

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- F2** S. 468(1A) inserted (with effect in accordance with Sch. 6 paras. 10(2), 28 of the amending Act) by Finance Act 1996 (c. 8), **Sch. 6 para. 10(1)**
- F3** S. 468(2) repealed (with effect in accordance with Sch. 14 para. 7 of the repealing Act) by Finance Act 1994 (c. 9), Sch. 14 para. 3(3), **Sch. 25 Pt. 5(13)**, Note
- F4** Words in s. 468(3) substituted (with effect in accordance with Sch. 14 para. 7 of the amending Act) by Finance Act 1994 (c. 9), **Sch. 14 para. 3(4)**
- F5** Words in s. 468(3) substituted (16.7.1992) by Finance (No. 2) Act 1992 (c. 48), **s. 32(3)(4)**
- F6** Words in s. 468(6) inserted (with effect in accordance with s. 113(4)-(11) of the amending Act) by Finance Act 1994 (c. 9), **s. 113(1)**
- F7** S. 468(6): definition of "distribution period" repealed (with effect in accordance with Sch. 14 para. 7 of the repealing Act) by Finance Act 1994 (c. 9), Sch. 14 para. 3(5), **Sch. 26 Pt. 5(13)**, Note
- F8** S. 468(7)-(9) added (with effect in accordance with s. 113(4)-(11) of the amending Act) by Finance Act 1994 (c. 9), **s. 113(2)**

Modifications etc. (not altering text)

- C1** S. 468 modified (28.4.1997) by The Open-ended Investment Companies (Tax) Regulations 1997 (S.I. 1997/1154), regs. 1, 9, 10 (as amended (1.12.2001) by The Financial Services and Markets Act 2000 (Consequential Amendments) (Taxes) Order 2001 (S.I. 2001/3629), **art. 166**)
- C2** See—1989 s.80—*subs.(5) not to apply to gilt unit trusts.* 1990 ss.52(2), (3) and 132 and Sch.19 Part IV—*subs.(5) not to apply as regards a distribution period beginning after 31 December 1990. And see 1990 s.52(3), (4) for assessment of trustees' income under Case III Sch.D for the last distribution period.*
- C3** 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.

[^{F9}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—
- the income is derived from transactions relating to futures contracts or options contracts, and
 - 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

- F9** S. 468AA inserted by Finance Act 1990 (c. 29), **s. 81(1)(5)**

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Modifications etc. (not altering text)

- C4 S. 468AA modified (28.4.1997) by The Open-ended [Investment Companies \(Tax\) Regulations 1997](#) (S.I. 1997/1154), **regs. 1, 9, 11**

[^{F10}468A Certified unit trusts.

^{F11}

Textual Amendments

- F10 Ss. 468A-468C inserted by [Finance Act 1989 \(c. 26\)](#), **s. 78**
- F11 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, **Sch. 19 Pt. 4**, Note 7

[^{F12}468B Certified unit trusts: corporation tax.

^{F13}

Textual Amendments

- F12 Ss. 468A-468C inserted by [Finance Act 1989 \(c. 26\)](#), **s. 78**
- F13 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, **Sch. 19 Pt. 4**, Note 7

[^{F14}468C Certified unit trusts: distributions.

^{F15}

Textual Amendments

- F14 Ss. 468A-468C inserted by [Finance Act 1989 \(c. 26\)](#), **s. 78**
- F15 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, **Sch. 19 Pt. 4**, Note 7

[^{F16}468D Funds of funds: distributions.

^{F17}

Textual Amendments

- F16 S. 468D inserted by [Finance Act 1989 \(c. 26\)](#), **s. 79**
- F17 Ss. 468A-468D repealed by [Finance Act 1990 \(c. 29\)](#), s. 52, **Sch. 19 Pt. 4**, Note 7

[^{F18}468E Authorised unit trusts: corporation tax.

^{F19}

Textual Amendments

- F18 Ss. 468E-468G inserted by [Finance Act 1990 \(c. 29\)](#), **s. 51**

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F19 S. 468E repealed (with effect in accordance with Sch. 6 paras. 10(3), 28 of the repealing Act) by Finance Act 1996 (c. 8), **Sch. 41 Pt. 5(1)**, Note 1

[^{F20}**468EE Corporation tax: cases where lower rate applies.**

^{F21}

Textual Amendments

F20 S. 468EE inserted (3.5.1994) by Finance Act 1994 (c. 9), **s. 111(2)**

F21 S. 468EE repealed (with effect in accordance with Sch. 6 paras. 10(3), 28 of the repealing Act) by Finance Act 1996 (c. 8), **Sch. 41 Pt. 5(1)**, Note 1

^{F22}**468F Authorised unit trusts: distributions.**

^{F23}

Textual Amendments

F22 Ss. 468E-468G inserted by Finance Act 1990 (c. 29), **s. 51**

F23 S. 468F repealed (with effect in accordance with Sch. 14 para. 7 of the repealing Act) by Finance Act 1994 (c. 9), Sch. 14 para. 4, **Sch. 26 Pt. 5(13)**, Note

^{F24}**468G Dividends paid to investment trusts.**

^{F25}

Textual Amendments

F24 Ss. 468E-468G inserted by Finance Act 1990 (c. 29), **s. 51**

F25 S. 468G repealed (with effect in accordance with Sch. 14 para. 7 of the repealing Act) by Finance Act 1994 (c. 9), Sch. 14 para. 4, **Sch. 26 Pt. 5(13)**, Note

[^{F26} Distributions of authorised unit trusts: general

Textual Amendments

F26 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—

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- (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.
- [^{F27}(5A) The following amounts shown as available for distribution in the distribution accounts must be shown in those accounts as available for distribution as foreign income dividends—
- (a) amounts deriving from qualifying distributions to which Schedule 7 to the Finance Act 1997 (special treatment for certain distributions) applies; and
 - (b) so much of any amounts not falling within paragraph (a) above as, if shown as available for distribution as dividends, would fall to be treated as distributions to which that Schedule applies.]
- (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).

Textual Amendments

F27 S. 468I(5A) inserted (with effect in accordance with Sch. 7 para. 11(2) of the amending Act) by Finance Act 1997 (c. 16), Sch. 7 para. 11(1)

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Modifications etc. (not altering text)

- C5 S. 468I modified (28.4.1997) by The Open-ended [Investment Companies \(Tax\) Regulations 1997 \(S.I. 1997/1154\)](#), [regs. 1, 9, 12](#)

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.

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.

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- [^{F28}(1A) For the purposes of this Chapter no amount shall be shown as so available unless the authorised unit trust in question satisfies the qualifying investments test throughout the distribution period.]
- (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) [^{F29}Nothing in subsection (2) above or Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall require any amount relating to an interest distribution to be brought into account for the purposes of that Chapter otherwise than by virtue of paragraph 4(4) of Schedule 10 to that Act; but the interest distributions of an authorised unit trust for a distribution period] 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.
- [^{F30}(8) For the purposes of this section an authorised unit trust satisfies the qualifying investments test throughout a distribution period (“the relevant period”) if at all times in that period, the market value of the qualifying investments exceeds 60 per cent. of the market value of all the investments of that trust.
- (9) Subject to subsection (13) below, in this section “qualifying investments”, in relation to an authorised unit trust, means the investments of that trust which are of any of the following descriptions—
- (a) money placed at interest;
 - (b) securities;
 - (c) shares in a building society;
 - (d) qualifying entitlements to a share in the investments of another authorised unit trust;
 - [^{F31}(e) qualifying shares in an open-ended investment company.]

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- (10) For the purposes of subsection (9) above an entitlement to a share in the investments of another authorised unit trust is a qualifying entitlement at any time in the relevant period if, and only if, the other authorised unit trust would itself (on the relevant assumption) satisfy the qualifying investments test throughout that period.
- (11) For the purposes of subsection (10) above the relevant assumption is that the only investments of the other authorised unit trust which are to be regarded as qualifying investments are those falling within paragraphs (a) to (c) of subsection (9) above.
- (12) In this section “security” does not include shares in a company; and references in this section to investments of an authorised unit trust are references to investments subject to the trusts of that authorised unit trust but do not include references to cash awaiting investment.
- [For the purposes of subsection (9) above shares in an open-ended investment company
- ^{F32}(12A) are qualifying shares at any time in the relevant period if, and only if, throughout that period the aggregate market value of those investments of the company falling within paragraphs (a) to (c) of that subsection exceeds 60 per cent. of the market value of all its investments.
- (12B) In subsection (12A) above references to investments of an open-ended investment company are references to investments comprised in the scheme property of that company, but do not include references to cash awaiting investment.
- (12C) In this section—
- “collective investment scheme” has the meaning given by section 75 of the Financial Services Act 1986 ^{M3};
 - “open-ended investment company” means, subject to subsection (12D) below, an open-ended investment company within the meaning given by section 75(8) of the Financial Services Act 1986 which is incorporated in the United Kingdom;
 - “scheme property” of an open-ended investment company means, subject to subsection (12E)(b) below, the property subject to the collective investment scheme constituted by the company.
- (12D) Each of the parts of an umbrella company shall be regarded for the purposes of subsections (9) and (12A) above as an open-ended investment company and the umbrella company as a whole shall not be so regarded and shall not be regarded as a company.
- (12E) In relation to a part of an umbrella company—
- (a) references in subsections (12A) and (12B) above to investments of an open-ended investment company shall have effect as references to such of the investments as under the arrangements referred to in subsection (12F) below form part of the separate pool to which that part of the umbrella company relates;
 - (b) the reference in subsection (12B) above to the scheme property of an open-ended investment company shall have effect as if it were a reference to such property subject to the collective investment scheme constituted by the umbrella company as is comprised in the separate pool to which that part of the umbrella company relates;
 - (c) a person for the time being having rights in that part shall be regarded as the owner of shares in the open-ended investment company which that part is

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deemed to be by virtue of subsection (12D) above, and not as the owner of shares in the umbrella company itself.

- (12F) In subsections (12D) and (12E) above “umbrella company” means a company—
- (a) which falls within the definition of “open-ended investment company” in section 75(8) of the Financial Services Act 1986,
 - (b) which is incorporated in the United Kingdom,
 - (c) whose instrument of incorporation provides for arrangements for such pooling as is mentioned in section 75(3)(a) of that Act in relation to separate parts of the scheme property of the company, and
 - (d) the owners of shares in which are entitled to exchange rights in one part for rights in another;
- and any reference to a part of an umbrella company is a reference to such of the arrangements as relate to a separate pool.
- (12G) For the purposes of subsections (12E) and (12F) above, “owner of shares” in relation to an open-ended investment company means—
- (a) the beneficial owner of the shares, or
 - (b) where the shares are held on trust (other than a bare trust), the trustees of the trust, or
 - (c) where the shares are comprised in the estate of a deceased person, the deceased’s personal representatives.]
- (13) The Treasury may by order amend subsection (9) above so as to extend or restrict the descriptions of investments of an authorised unit trust that are qualifying investments.
- (14) An order made by the Treasury under subsection (13) above may—
- (a) make different provision for different cases; and
 - (b) contain such incidental, supplemental, consequential and transitional provision as the Treasury may think fit;
- and, without prejudice to the generality of paragraph (b) above, such an order may make such incidental modifications of subsection (11) above as the Treasury may think fit.]

Textual Amendments

- F28** S. 468L(1A) inserted (with effect in accordance with Sch. 6 para. 11(3) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 6 para. 11(1)**
- F29** Words in s. 468L(5) substituted (with effect in accordance with s. 105(1) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 14, para. 26** (with Sch. 15)
- F30** S. 468L(8)-(14) inserted (with effect in accordance with Sch. 6 para. 11(3) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 10 para. 11(2)**
- F31** S. 468L(9)(e) added (25.2.1997) by The Authorised Unit Trusts (Interest Distributions) (Qualifying Investments) Order 1997 (S.I. 1997/212), **art. 3**
- F32** S. 468L(12A)-(12G) inserted (25.2.1997) by The Authorised Unit Trusts (Interest Distributions) (Qualifying Investments) Order 1997 (S.I. 1997/212), **art. 4**

Modifications etc. (not altering text)

- C6** S. 468L modified (28.4.1997) by The Open-ended Investment Companies (Tax) Regulations 1997 (S.I. 1997/1154), **regs. 1, 9, 13**

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Marginal Citations

M3 1986 c.60. Section 75 was amended by S.I. 1988/803 and S.I. 1990/349.

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.
- (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;
 - ^{F33}(cc) any foreign dividends (as defined by section 18(3D)) and any proceeds falling within section 18(3B)(a) or (b);]
 - (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.

Textual Amendments

F33 S. 468M(4)(cc) substituted for s. 468M(4)(c)-(e) (with effect in accordance with Sch. 7 para. 32 of the amending Act) by Finance Act 1996 (c. 8), Sch. 7 para. 17

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.

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- (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;
- 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.

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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.
- (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

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- (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

[^{F34} 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 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

- F26** 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](#)
- F34** 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

[^{F34} 468PB 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

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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

F26 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

F34 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)

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.

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- (4) If the calculation in accordance with subsection (3) above produces a value of U that is less than O, 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.

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—

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

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.

- [^{F35}(4) No repayment shall be made of any tax which is deemed to have been deducted by virtue of the application of paragraph (b) of section 468Q(2) in relation to a foreign income distribution.]

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Textual Amendments

F35 S. 468R(4) inserted (with effect in accordance with Sch. 27 para. 6(2) of the amending Act) by Finance Act 1996 (c. 8), Sch. 27 para. 6(1)

469 Other unit trusts.

- (1) This section applies to—
- (a) ^{M4}any unit trust scheme [^{F36}that is neither an authorised unit trust nor an umbrella scheme] ; ^{F37} . . .
 - (b) ^{F38}
- 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) [^{F39}and, in the case of income to which section 1A applies, chargeable to income tax at the basic rate, instead of at the lower rate]; 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.

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(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,

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

[^{F41}(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.

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- (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”^{F42} 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, 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).
- ^{F43}(6A) In this section “umbrella scheme” has the same meaning as in section 468.]
- (7) In this section “unit trust scheme” has the same meaning as in the ^{M5}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 ^{F44}except as respects income to which section 686 is treated as applying by virtue of paragraph 7 of Schedule 5AA.]
 - (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.
 - (11) This section shall have effect in relation to distribution periods beginning on or after 6th April 1987.

Textual Amendments

- F36** Words in s. 469(1)(a) substituted (with effect in accordance with s. 113(4)-(11) of the amending Act) by Finance Act 1994 (c. 9), s. 113(3)(a)

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- F37** S. 469(1)(b) and preceding word repealed (with effect in accordance with Sch. 41 Pt. 5(1) Note 2 of the repealing Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 41 Pt. 5\(1\)](#)
- F38** S. 469(1)(b) and preceding word repealed (with effect in accordance with Sch. 41 Pt. 5(1) Note 2 of the repealing Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 41 Pt. 5\(1\)](#)
- F39** Words in s. 469(2) inserted (with effect in accordance with [Sch. 6 para. 28](#) of the amending Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 6 para. 12](#)
- F40** Words in s. 469(3) repealed (with effect in accordance with Sch. 41 Pt. 5(1) Note 2 of the repealing Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 41 Pt. 5\(1\)](#)
- F41** S. 469(5A)-(5D) inserted by [Finance Act 1988 \(c. 39\)](#), [s. 71](#)
- F42** Words in s. 469(6) substituted (with effect in accordance with [Sch. 14 para. 7](#) of the amending Act) by [Finance Act 1994 \(c. 9\)](#), [Sch. 14 para. 5](#)
- F43** S. 469(6A) inserted (with effect in accordance with s. s. 113(4)-(11) of the amending Act) by [Finance Act 1994 \(c. 9\)](#), [s. 113\(3\)\(b\)](#)
- F44** Words in s. 469(9) inserted (with effect in accordance with s. 80(6) of the amending Act) by [Finance Act 1997 \(c. 16\)](#), [s. 80\(5\)](#)

Modifications etc. (not altering text)

- C10** S. 469 extended (27.7.1993) by 1993 c. 37, s. 12, [Sch. 2 Pt. I para. 22\(1\)\(2\)](#)
- C11** For regulations see Part III Vol. 5

Marginal Citations

- M4** Source—1970 s.354A; 1987 s.39; 1987 (No.2) s.40(1)
- M5** 1986 c. 60.

VALID FROM 27/07/1999

[^{F45}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 ^{M6}Administration of Justice Act 1982 (common investment funds for money paid into court) as if—
- the fund were an authorised unit trust;
 - the person who is for the time being the investment manager of the fund were the trustee of that authorised unit trust; and
 - 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, the reference in subsection (1)(c) above to the Accountant General shall include a reference to that other person.]

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Textual Amendments

- F26** 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](#)
- F45** 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

- M6** 1982 c.53.

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.

^{F46}(2)

- (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.

Subordinate Legislation Made

- P1** S. 470(3): 29.4.1988 appointed by [S.I. 1988/745](#), [art. 2](#)

Textual Amendments

- F46** S. 470(2) ceased to have effect (29.4.1988) by virtue of [s. 470\(3\)](#) below and [S.I. 1988/745](#), [art. 2](#)

Marginal Citations

- M7** 1987 s.40(5)

Dealers in securities, banks and insurance businesses

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

- (1) ^{M8}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

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(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.

[^{F47}(2) Subsection (1) above shall not apply to a person who elects, by notice given to an officer of the Board, not to be treated as mentioned in that subsection.

(2A) A notice under subsection (2) above—

- (a) for the purposes of income tax, shall be given on or before the first anniversary of the 31st January next following the year of assessment in whose basis period the exchange takes place;
- (b) for the purposes of corporation tax, shall be given no later than two years after the end of the accounting period in which the exchange takes place.

(2B) In paragraph (a) of subsection (2A) above “basis period” means—

- (a) in relation to a year of assessment for which a basis period is given by sections 60 to 63, that basis period;
- (b) in relation to a year of assessment for which no basis period is given by those sections, the year of assessment.]

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

- (a) any exchange effected under any arrangement carried out under section 2 of the ^{M9}National Loans Act 1939 or section 14 of the ^{M10}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 ^{M11}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.

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

Textual Amendments

F47 S. 471(2)-(2B) substituted for s. 471(2) (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), Sch. 21 para. 12

Marginal Citations

M8 Source—1970 s.326
M9 1939 c. 117.
M10 1968 c. 13.
M11 1946 c. 27.

472 Distribution of securities issued in connection with nationalisation etc.

(1) ^{M12}Where—

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- (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 ^{F48}elects, by notice given to an officer of the Board,] 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 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.
- ^{F49}(3A) A notice under subsection (1) above—
- (a) for the purposes of income tax, shall be given on or before the first anniversary of the 31st January next following the year of assessment in whose basis period the distribution takes place;
 - (b) for the purposes of corporation tax, shall be given no later than two years after the end of the accounting period in which the distribution takes place.
- (3B) In paragraph (a) of subsection (3A) above “basis period” means—
- (a) in relation to a year of assessment for which a basis period is given by sections 60 to 63, that basis period;

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- (b) in relation to a year of assessment for which no basis period is given by those sections, the year of assessment.]
- (4) In this section “securities” includes shares, stock, bonds, debentures and debenture stock.

Textual Amendments

- F48** Words in s. 472(1) substituted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 13(1)**
- F49** S. 472(3A)(3B) inserted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 13(2)**

Marginal Citations

- M12** Source—1970 s.327

VALID FROM 22/07/2004

^{F50} 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).]

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Textual Amendments

- F26** 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
- F50** 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)^{M13} 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 [F51 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 [F51 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)^{F52}
- (6) In this section “securities” includes shares, any security within the meaning of section [F53 132 of the 1992 Act] and any rights, interests or options which by virtue of section [F53 136(3), 147 or 99] of that Act are treated as shares for the purposes of sections [F53 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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[^{F54}135 or 136 of the 1992] Act the reference in section [^{F54}137(1)] of that Act to capital gains tax shall be construed as a reference to income tax.

Textual Amendments

- F51** 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))
- F52** S. 473(5) repealed (with effect in accordance with s. 164(5) of the repealing Act) by Finance Act 1996 (c. 8), **Sch. 41 Pt. 5(24)**, Note
- F53** 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))
- F54** 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

- M13** Source—1977 s.46; 1979(C) Sch.7

474 Treatment of tax-free income.

- (1) ^{F55}
- (2) ^{F56}
- [^{F55}]
- ^{F57}(3)

Textual Amendments

- F26** 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**
- F55** S. 474(1)(3) repealed (with effect in accordance with Sch. 7 para. 32-35, Sch. 41 Pt. 5(2) Note of the repealing Act) by Finance Act 1996 (c. 8). Sch. 7 para. 18, Sch. 41 Pt. 5(2)
- F56** S. 474(2) repealed (with effect in accordance with s. 154(9) of the repealing Act) by Finance Act 1996 (c. 8), Sch. 28 para. 2, **Sch. 41 Pt. 5(18)**, Note
- F57** S. 474(3) inserted (with effect in accordance with Sch. 8 para. 55 of the amending Act) by Finance Act 1995 (c. 4), **Sch. 8 para. 25(2)**

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

- [^{F58}(1) This section has effect where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities—
- (a) is carried on in the United Kingdom by a person not ordinarily resident there; and
 - (b) in computing for any of the purposes of the Tax Acts the profits arising from, or loss sustained, in the business, any amount which would otherwise be brought into account is disregarded by virtue of a condition subject to which any 3½% War Loan 1952 or after was issued;
- and for this purpose insurance business includes insurance business of any category.]

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- (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^{F59} . . . , and
- [^{F60}(b) shall not be brought into account by way of any debit given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).]
- (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 [^{F61}3½% War Loan 1952 or after] 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 [^{F62} or to be brought into account by way of a debit given for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships).]
- (5) ^{F63} . . . 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) ^{F64}
- (7) ^{F64}
- (8) For the purposes of this section the cost of a holding of [^{F61}3½% War Loan 1952 or after] which has fluctuated in the accounting or basis period shall be the average cost of 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,^{F65}
- (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

- F58** S. 475(1) substituted (with effect in accordance with s. 154(9) of the amending Act) by [Finance Act 1996 \(c. 8\), Sch. 28 para. 3\(1\)](#)
- F59** Words in s. 475(2)(a) repealed (with effect in accordance with Sch. 8 para. 55 of the repealing Act) by [Finance Act 1995 \(c. 4\), Sch. 8 para. 25\(1\)\(b\), Sch. 29 Pt. 8\(5\)](#), Note 1
- F60** S. 475(2)(b) substituted (with effect in accordance with s. 105(1) of the amending Act) by [Finance Act 1996 \(c. 8\), Sch. 14 para. 27\(1\)](#) (with [Sch. 15](#))
- F61** Words in s. 475(3)(8) substituted (with effect in accordance with s. 154(9) of the amending Act) by [Finance Act 1996 \(c. 8\), Sch. 28 para. 3\(2\)](#)
- F62** Words in s. 475(4) substituted (with effect in accordance with s. 105(1) of the amending Act) by [Finance Act 1996 \(c. 8\), Sch. 14 para. 27\(2\)](#) (with [Sch. 15](#))
- F63** Words in s. 475(5) repealed (with effect in accordance with s. 154(9) of the repealing Act) by [Finance Act 1996 \(c. 8\), Sch. 41 Pt. 5\(18\)](#), Note
- F64** S. 475(6)(7) repealed (with effect in accordance with s. 154(9) of the repealing Act) by [Finance Act 1996 \(c. 8\), Sch. 41 Pt. 5\(18\)](#), Note

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F65 Words in s. 475(8) repealed (with effect in accordance with s. 154(9) of the repealing Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 41 Pt. 5\(18\)](#), Note

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