



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.

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.

[^{F1}(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).

Status: Point in time view as at 29/04/1996. This version of this cross heading contains provisions that are not valid for this point in time.

Changes to legislation: *Income and Corporation Taxes Act 1988, Cross Heading: Interest distributions is up to date with all changes known to be in force on or before 20 July 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)*

- (5) ^{F2}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.
- ^{F3}(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.
- (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.
- (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—

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- (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

- F1** 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)
- F2** 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)
- F3** 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)

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;
 - [^{F4}(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.

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Textual Amendments

- F4** 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.
- (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.

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- (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)

C1 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.

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- (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)

- C2** 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

[^{F6}468PA]^{F5}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

- F5** 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](#)
- F6** 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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Modifications etc. (not altering text)

- C3** 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

[^{F6}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 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

- F5** 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](#)
- F6** 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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