

Status: Point in time view as at 19/02/2008.

Changes to legislation: Taxation of Chargeable Gains Act 1992, SCHEDULE 7AD is up to date with all changes known to be in force on or before 27 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)

SCHEDULES

[^{F1}SCHEDULE 7AD

GAINS OF INSURANCE COMPANY FROM VENTURE CAPITAL INVESTMENT PARTNERSHIP

Textual Amendments

F1 Sch. 7AD inserted (24.7.2002) by [Finance Act 2002 \(c. 23\)](#), s. 85(2), [Sch. 31](#)

Introduction

- 1 This Schedule applies where the assets of the long-term insurance fund of an insurance company (“the company”) include assets held by the company as a limited partner in a venture capital investment partnership (“the partnership”).

Meaning of “venture capital investment partnership”

- 2 (1) A “venture capital investment partnership” means a partnership in relation to which the following conditions are met.
- (2) The first condition is that the sole or main purpose of the partnership is to invest in unquoted shares or securities.
- This condition shall not be regarded as met unless it appears from—
- (a) the agreement constituting the partnership, or
 - (b) any prospectus issued to prospective partners,
- that that is the sole or main purpose of the partnership.
- (3) The second condition is that the partnership does not carry on a trade.
- (4) The third condition is that not less than 90% of the book value of the partnership’s investments is attributable to investments that are either—
- (a) shares or securities that were unquoted at the time of their acquisition by the partnership, or
 - (b) shares that were quoted at the time of their acquisition by the partnership but which it was reasonable to believe would cease to be quoted within the next twelve months.
- (5) For the purposes of the third condition—
- (a) the following shall be disregarded—
 - (i) any holding of cash, including cash deposited in a bank account or similar account but not cash acquired wholly or partly for the purpose of realising a gain on its disposal;
 - (ii) any holding of quoted shares or securities acquired by the partnership in exchange for unquoted shares or securities;

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(b) whether the 90% test is met shall be determined by reference to the values shown in the partnership's accounts at the end of a period of account of the partnership.

(6) Where a partnership ceases to meet the above conditions, the company shall be treated as if the partnership had continued to be a venture capital investment partnership until the end of the period of account of the partnership during which it ceased to meet the conditions.

(7) A partnership that ceases to meet those conditions cannot qualify again as a venture capital investment partnership.

For this purpose a partnership is treated as the same partnership notwithstanding a change in membership if any person who was a member before the change remains a member.

Interest in relevant assets of partnership treated as single asset

3 (1) Where this Schedule applies section 59 (partnerships) does not have effect to make the company chargeable on its share of gains accruing on each disposal of relevant assets of the partnership.

(2) Instead—

(a) the company's interest in relevant assets of the partnership is treated as a single asset ("the single asset") acquired by the company when it became a member of the partnership, and

(b) the following provisions of this Schedule have effect.

(3) For the purposes of this Schedule the "relevant assets" of the partnership are the shares and securities held by the partnership, other than qualifying corporate bonds.

(4) Nothing in this Schedule shall be read—

(a) as affecting the operation of section 59 in relation to partners who are not insurance companies carrying on long-term business or are not limited partners, or

(b) as imposing any liability on the partnership as such.

The cost of the single asset

4 (1) The company is treated as having given, wholly and exclusively for the acquisition of the single asset, consideration equal to the amount of capital contributed by it on becoming a member of the partnership.

(2) Any further amounts of capital contributed by it to the partnership are treated on a disposal of the single asset as expenditure incurred wholly and exclusively on the asset for the purpose of enhancing its value and reflected in its state or nature at the time of the disposal.

(3) Where the investments of the partnership include qualifying corporate bonds, the amount to be taken into account under sub-paragraph (1) or (2) is proportionately reduced.

(4) The reduction is made by applying to that amount the fraction:

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where—

A is the book value of all shares and securities held by the partnership at the end of the period of account of the partnership in which the amount of capital in question is fully invested by the partnership, and

B is the book value of all qualifying corporate bonds held by the partnership at the end of that period of account.

- (5) For the purposes of sub-paragraph (4) the “book value” means the value shown in the partnership’s accounts at the end of the period of account.

Deemed disposal of single asset in case of distribution

- 5 (1) There is a disposal of the single asset on each occasion on which the company receives a distribution from the partnership that does not consist entirely of income or the proceeds of sale or redemption of assets that are not relevant assets.

- (2) The disposal is taken to be for a consideration equal to the amount of the distribution or of so much of it as does not consist of income or the proceeds of sale or redemption of assets that are not relevant assets.

- (3) Where—

- (a) the partnership disposes of relevant assets on which a chargeable gain or allowable loss would accrue if they were held by the company alone, and
(b) no distribution of the proceeds of the disposal is made within twelve months of the disposal,

the company is treated as having received its share of the proceeds as a distribution at the end of the period of account of the partnership following that in which the disposal took place, or at the end of the period of six months after the date of the disposal, whichever is the later.

- (4) The operation of sub-paragraph (3) is not affected by the partnership having ceased to be a venture capital investment partnership before the time at which the distribution is treated as received by the company.

- (5) Where sub-paragraph (3) applies, any subsequent actual distribution of the proceeds is disregarded.

Apportionment in case of part disposal

- 6 (1) For the purposes of section 42 (apportionment of cost etc in case of part disposal) the market value of the property remaining undisposed of on a part disposal of the single asset shall be determined as follows.

- (2) If there is no further disposal of that asset in the period of account in which the part disposal in question takes place, the market value of the property remaining undisposed of shall be taken to be equal to the company’s share of the book value of the relevant assets of the partnership as shown in the partnership’s accounts at the end of that period of account.

- (3) If there is a further disposal of that asset in the period of account in which the part disposal in question takes place, or more than one, the market value of the property remaining undisposed of shall be taken to be equal to the sum of—

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- (a) the amount or value of the consideration on the further disposal or, as the case may be, the total amount or value of the consideration on the further disposals, and
- (b) the amount (if any) of the company's share of the book value of the relevant assets of the partnership as shown in the partnership's accounts at the end of that period of account.

Disposal of partnership asset giving rise to offshore income gain

- 7 (1) Nothing in this Schedule shall be read as affecting the operation of Chapter 5 of Part 17 of the Taxes Act (offshore funds).
- (2) Where an offshore income gain accrues to the company under that Chapter from the disposal of any relevant asset of the partnership, the amount of any distribution received or treated as received by the company from the partnership that represents the whole or part of the proceeds of disposal of that asset is treated for the purposes of this Schedule as reduced by the amount of the whole or a corresponding part of the offshore income gain.

Exclusion of negligible value claim

- 8 No claim may be made in respect of the single asset under section 24(2) (assets that have become of negligible value).

Investment in other venture capital investment partnerships

- 9 (1) For the purposes of paragraph 2 (meaning of "venture capital investment partnership") an investment by way of capital contribution to another venture capital investment partnership shall be treated as an investment in unquoted shares or securities.
- (2) The Treasury may by regulations make provision, in place of but corresponding to that made by paragraphs 3 to 8, in relation to gains accruing on a disposal of relevant assets by such a partnership.
- (3) The regulations may make provision for any period of account to which, in accordance with paragraphs 11 to 13, this Schedule applies.

Interpretation

- 10 (1) In this Schedule—
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- "limited partner" means—
- (a) a person carrying on a business as a limited partner in a partnership registered under the Limited Partnership Act 1907, or
 - (b) a person carrying on a business jointly with others who, under the law of a country or territory outside the United Kingdom, is not entitled to take part in the management of the business and is not liable beyond a certain limit for debts or obligations incurred for the purposes of the business;
- "relevant assets" has the meaning given by paragraph 3(3);

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“securities” has the same meaning as in section 132 and also includes any debentures;

“unquoted” and “quoted”, in relation to shares or securities, refer to listing on a recognised stock exchange.

- (2) References in this Schedule to the partnership’s accounts are to accounts drawn up in accordance with generally accepted accounting practice.

If no such accounts are drawn up, the references to the treatment of any matter, or the amounts shown, in the accounts of the partnership are to what would have appeared if accounts had been drawn up in accordance with generally accepted accounting practice.

- (3) References in this Schedule to capital contributed to a limited partnership include amounts purporting to be provided by way of loan if—

- (a) the loan carries no interest,
- (b) all the limited partners are required to make such loans, and
- (c) the loans are accounted for as partners' capital, or partners' equity, in the accounts of the partnership.

- (4) For the purposes of this Schedule the assets of—

- (a) a Scottish partnership, or
- (b) a partnership under the law of any other country or territory under which assets of a partnership are regarded as held by or on behalf of the partnership as such,

shall be treated as held by the members of the partnership in the proportions in which they are entitled to share in the profits of the partnership.

References in this Schedule to the company’s interest in, or share of, the partnership’s assets shall be construed accordingly.

Textual Amendments

F2 Words in Sch. 7AD para. 10(1) repealed (10.7.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 43 Pt. 3\(12\)](#)

Modifications etc. (not altering text)

C1 Sch. 7AD para. 10 modified by [The Friendly Societies \(Modification of the Corporation Tax Acts\) Regulations 1997 \(S.I. 1997/473\)](#), reg. 50B (as inserted (30.1.2003) by [S.I. 2003/23](#), regs. 1(1), 9)

General commencement and transitional provisions

- 11 (1) Subject to paragraph 12 (election to remain outside Schedule), this Schedule applies—
- (a) to periods of account of the partnership beginning on or after 1st January 2002, and
 - (b) to a period of account of the partnership beginning before that date and ending on or after it, unless the company elects that it shall not do so.
- (2) Where the company became a member of the partnership before the beginning of the first period of account of the partnership to which this Schedule applies, the cost of the single asset at the beginning of that period of account shall be taken to be equal to the total of the relevant indexed base costs.

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- (3) For the purposes of sub-paragraph (2)—
- (a) the “indexed base cost” means—
 - (i) in relation to a holding that by virtue of section 104 is to be treated as a single asset, what would be the indexed pool of expenditure within the meaning of section 110 if the holding were disposed of, and
 - (ii) in relation to any other asset, the amount of expenditure together with the indexation allowance that would be fall to be deducted if the asset were disposed of; and
 - (b) the “relevant indexed base costs” means the indexed base costs that would be taken into account in computing in accordance with section 59 the gain or loss of the company if all the shares and securities (other than qualifying corporate bonds) held by the partnership were disposed of on the last day of the company’s accounting period immediately preceding its first accounting period beginning on or after 1st January 2002.
- (4) No account shall be taken under this Schedule of a distribution by the partnership in a period of account to which this Schedule applies to the extent that it represents a chargeable gain accruing in an earlier period to which this Schedule does not apply.

Election to remain outside Schedule

- 12 If the company—
- (a) became a member of the partnership before the beginning of the first period of account of the partnership to which this Schedule would otherwise apply, or
 - (b) made its first contribution of capital to the partnership before 17th April 2002,
- it may elect that the provisions of this Schedule shall not apply to it in relation to that partnership.

How and when election to be made

- 13 Any election under paragraph 11 or 12 must be made—
- (a) by notice to an officer of the Board,
 - (b) not later than the end of the period of two years after the end of the company’s first accounting period beginning on or after 1st January 2002.]

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