



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER VI

MISCELLANEOUS PROVISIONS

Investments

153 Foreign income dividends.

Schedule 27 to this Act (which makes provision relating to foreign income dividends) shall have effect.

154 FOTRA securities.

- (1) The modifications which, under section 60 of the ^{M1}Finance Act 1940, may be made for the purposes of any issue of securities to the conditions about tax exemption specified in section 22 of the ^{M2}Finance (No. 2) Act 1931 shall include a modification by virtue of which the tax exemption contained in any condition of the issue applies, as respects capital, irrespective of where the person with the beneficial ownership of the securities is domiciled.
- (2) Subject to subsections [^{F1}(3) and] (5) below, nothing in the Tax Acts shall impose any charge to tax on any person in respect of so much of any profits or gains arising from a FOTRA security, or from any loan relationship represented by a FOTRA security, as is expressed to be exempt from tax in the tax exemption condition applying to that security. [^{F2}This does not apply to any charge to income tax (but see sections 714 and 715 of the Income Tax (Trading and Other Income) Act 2005 for exemptions from income tax charges).]

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(3) Exemption from tax shall not be conferred by virtue of subsection (2) above in relation to any security unless the requirements imposed as respects that exemption by the conditions with which the security is issued (including any requirement as to the making of a claim) are complied with.

^{F3}(4)

(5) Nothing in this section shall entitle any person to any repayment of tax which he has not claimed within the time limit which would be applicable under the Tax Acts (apart from this section) to a claim for the repayment of that tax.

(6) A person with the beneficial ownership of a FOTRA security who would, by virtue of this section, be exempt from tax in respect of some or all of the profits and gains arising from that security, or from any loan relationship represented by it, shall not be entitled for the purposes of ^{F4}... corporation tax to bring into account any amount—

- (a) in respect of changes in the value of that security;
- (b) as expenses or disbursements incurred in, or in connection with, the holding of the security or any transaction relating to the security; or
- (c) as a debit given, in respect of any loan relationship represented by that security, by any provision of Chapter II of this Part of this Act in respect of such a relationship.

(7) Schedule 28 to this Act (which contains amendments consequential on the provisions of this section) shall have effect.

(8) References in this section to a FOTRA security are references to—

- (a) any security issued with such a condition about exemption from taxation as is authorised in relation to its issue by virtue of section 22 of the ^{M3}Finance (No. 2) Act 1931; or
- (b) any 3½% War Loan 1952 Or After which was issued with a condition authorised by virtue of section 47 of the ^{M4}Finance (No. 2) Act 1915;

and references, in relation to such a security, to the tax exemption condition shall be construed accordingly.

(9) This section and Schedule 28 to this Act shall have effect—

- (a) for the purposes of income tax, for the year 1996-97 and subsequent years of assessment; and
- (b) for the purposes of corporation tax, for accounting periods ending after 31st March 1996.

Textual Amendments

- F1** Words in s. 154(2) substituted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 488\(2\)\(a\)](#) (with Sch. 2)
- F2** Words in s. 154(2) inserted (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 488\(2\)\(b\)](#) (with Sch. 2)
- F3** S. 154(4) repealed (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 488\(3\)](#), [Sch. 3](#) (with Sch. 2)
- F4** Words in s. 154(6) repealed (6.4.2005) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), s. 883(1), [Sch. 1 para. 488\(4\)](#), [Sch. 3](#) (with Sch. 2)

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Marginal Citations

- M1** 1940 c. 29.
- M2** 1931 c. 49.
- M3** 1931 c. 49.
- M4** 1915 c. 89.

155 Directions for payment without deduction of tax.

After section 51 of the Taxes Act 1988 there shall be inserted the following section—

“51AA Commencement of direction under section 50 or 51.

A direction under section 50 or 51 that any security shall be deemed to have been issued subject to the condition that the interest thereon shall be paid without deduction of tax may provide that the direction is to have effect in relation only to payments of interest made on or after such date as may be specified in the direction.”

156 Paying and collecting agents etc.

Schedule 29 to this Act (which amends the rules relating to paying and collecting agents) shall have effect.

157 Stock lending fees.

- (1) After section 129A of the Taxes Act 1988 (interest on cash collateral paid in connection with stock lending arrangements) there shall be inserted the following section—

“129B Stock lending fees.

- (1) The income which, as income deriving from investments of a description specified in any of the relevant provisions, is eligible for relief from tax by virtue of that provision shall be taken to include any relevant stock lending fee.
 - (2) For the purposes of this section the relevant provisions are sections 592(2), 608(2)(a), 613(4), 614(3), 620(6) and 643(2).
 - (3) In this section “relevant stock lending fee”, in relation to investments of any description, means any amount, in the nature of a fee, which is payable in connection with an approved stock lending arrangement relating to investments which, but for any transfer under the arrangement, would be investments of that description.
 - (4) In this section “approved stock lending arrangement” has the same meaning as in Schedule 5A.”
- (2) This section has effect in relation to any arrangements entered into on or after 2nd January 1996.

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158 Transfers on death under the accrued income scheme.

- (1) In section 710(5) of the Taxes Act 1988 (meaning of “transfer” in sections 711 to 728), after “or otherwise” there shall be inserted “, but—
 - (a) does not include the vesting of securities in a person’s personal representatives on his death; and”.
- (2) Subsection (1) of section 721 of that Act (transfer of securities on death) shall cease to have effect.
- (3) For subsection (2) of that section (transfers by personal representatives to legatees) there shall be substituted—
 - “(2) Where—
 - (a) an individual who is entitled to securities dies, and
 - (b) in the interest period in which the individual died, the securities are transferred by his personal representatives to a legatee,
 section 713 shall not apply to the transfer.”
- (4) Subsection (4) of that section (interest period treated as ending with death) shall cease to have effect.
- (5) This section has effect as respects deaths on or after 6th April 1996.

159 Manufactured payments, repos, etc.

- (1) Sections 729, 737A(2)(b) and 786(4) of the Taxes Act 1988 (provisions applying to sale and repurchase agreements) shall cease to have effect except in relation to cases where the initial agreement to sell or transfer the securities or other property was made before the appointed day.
- ^{F5}(2) In section 737 of that Act—
 - (a) in subsection (5) (manufactured dividends paid to UK residents by non-residents), for the words from “a person resident in the United Kingdom” to “the United Kingdom recipient shall” there shall be substituted “ a United Kingdom recipient, that recipient shall ”; and
 - (b) after that subsection there shall be inserted the following subsection—
 - “(5AAA) For the purposes of subsection (5) above a person who receives a manufactured dividend is a United Kingdom recipient if—
 - (a) he is resident in the United Kingdom; or
 - (b) he is not so resident but receives that dividend for the purposes of a trade carried on through a branch or agency in the United Kingdom.”
- ^{F5}(3) In section 737C of that Act (deemed manufactured payments), the following subsection shall be inserted after subsection (11A) in relation to cases where the initial agreement to sell the securities is made on or after the appointed day, that is to say—
 - “(11B) The preceding provisions of this section shall have effect in cases where paragraph 2, 3 or 4 of Schedule 23A would apply by virtue of section 737A(5) but for paragraph 5 of that Schedule as they have effect in a case where the paragraph in question is not disapplied by paragraph 5; and where—
 - (a) the gross amount of the deemed manufactured interest, or

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- (b) the gross amount of the deemed manufactured overseas dividend, falls to be calculated in such a case under subsection (8) or (11) above, it shall be so calculated by reference to the provisions of paragraph 3 or 4 of Schedule 23A that would have applied but for paragraph 5 of that Schedule.”]
- (4) In sub-paragraph (3) of paragraph 4 of Schedule 23A to that Act (manufactured overseas dividends paid to UK residents by non-residents), for the words from “a person resident in the United Kingdom” to “the United Kingdom recipient shall” there shall be substituted “ a United Kingdom recipient, that recipient shall ”.
- (5) After that sub-paragraph there shall be inserted the following sub-paragraphs—
- “(3A) For the purposes of sub-paragraph (3) above a person who receives a manufactured overseas dividend is a United Kingdom recipient if—
- (a) he is resident in the United Kingdom; or
- (b) he is not so resident but receives that dividend for the purposes of a trade carried on through a branch or agency in the United Kingdom.
- (3B) Dividend manufacturing regulations may make provision, in relation to cases falling within sub-paragraph (3) above, for the amount of tax required under that sub-paragraph to be taken to be reduced, to such extent and for such purposes as may be determined under the regulations, by reference to amounts of overseas tax charged on, or in respect of—
- (a) the making of the manufactured overseas dividend; or
- (b) the overseas dividend of which the manufactured overseas dividend is representative.”
- (6) In sub-paragraph (7) of paragraph 4 of that Schedule (regulations for off-setting), for the words from “against” to “and account” in the words after paragraph (b) there shall be substituted “ in accordance with the regulations and to the prescribed extent, amounts falling within paragraph (a) of sub-paragraph (7AA) below against the sums falling within paragraph (b) of that sub-paragraph, and to account ”; and after that sub-paragraph there shall be inserted the following sub-paragraph—
- “(7AA) Those amounts and sums are—
- (a) amounts of overseas tax in respect of overseas dividends received by him in that chargeable period, amounts of overseas tax charged on, or in respect of, the making of manufactured overseas dividends so received by him and amounts deducted under sub-paragraph (2) above from any such manufactured overseas dividends; and
- (b) the sums due from him on account of the amounts deducted by him under sub-paragraph (2) above from the manufactured overseas dividends paid by him in that chargeable period.”
- (7) In sub-paragraph (1) of paragraph 8 of that Schedule (power to modify provisions of Schedule)—
- (a) before the “or” at the end of paragraph (a) there shall be inserted—
- “(aa) such persons who receive, or become entitled to receive, manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed,”
- [^{F6}and
- (b) in the words after paragraph (b), for “paragraph 2, 3 or 4 above” there shall be substituted “ paragraphs 2 to 5 above ”.]

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(8) After sub-paragraph (1) of paragraph 8 of that Schedule there shall be inserted the following sub-paragraph—

“(1A) Dividend manufacturing regulations may provide, in relation to prescribed cases where a person makes or receives the payment of any amount representative of an overseas dividend, or is treated for any purposes of this Schedule or such regulations as a person making or receiving such a payment—

- (a) for any entitlement of that person to claim relief under Part XVIII to be extinguished or reduced to such extent as may be found under the regulations; and
- (b) for the adjustment, by reference to any provision having effect under the law of a territory outside the United Kingdom, of any amount falling to be taken, for any prescribed purposes of the Tax Acts or the 1992 Act, to be the amount paid or payable by or to any person in respect of any sale, repurchase or other transfer of the overseas securities to which the payment relates.”

(9) Subsections (2), (4) and (5) above have effect—

- (a) for the purposes of corporation tax, in relation to accounting periods ending after 31st March 1996; and
- (b) for the purposes of income tax, in relation to the year 1996-97 and subsequent years of assessment.

(10) In this section “the appointed day” means such day as the Treasury may by order appoint, and different days may be appointed under this subsection for different purposes.

Textual Amendments

- F5** S. 159(2)(3) repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Note 1) by [1997 c. 16, s. 113, Sch. 18 Pt. VI\(10\)](#); [S.I. 1997/991, art. 2](#)
- F6** S. 159(7)(b) and the preceding word “and” repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Note 1) by [1997 c. 16, s. 113, Sch. 18 Pt. VI\(10\)](#); [S.I. 1997/991, art. 2](#)

[^{F7}160 Investments in housing.

Schedule 30 to this Act (which makes provision conferring relief from corporation tax on companies that invest in housing) shall have effect.]

Textual Amendments

- F7** S. 160 ceased to have effect (with effect in accordance with s. 145(2) of the amending Act) by virtue of [Finance Act 2006 \(c. 25\), s. 143](#)

161 Venture capital trusts: control of companies etc.

(1) Schedule 28B to the Taxes Act 1988 (venture capital trusts: meaning of qualifying holdings) shall have effect, and be deemed always to have had effect, subject to the amendments in subsections (2) and (3) below.

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- (2) In paragraph 9 (requirements as to subsidiaries etc. of the relevant company), the following shall be omitted—
- (a) in sub-paragraph (1), the words “subject to sub-paragraph (2) below”; and
 - (b) sub-paragraph (2).
- (3) In paragraph 13 (interpretation), for sub-paragraphs (2) and (3) (“connected” and “control” to be construed in accordance with sections 839 and 416(2) to (6)) there shall be substituted the following sub-paragraphs—
- “(2) For the purposes of paragraphs 5(2) and 9 above, the question whether a person controls a company shall be determined in accordance with subsections (2) to (6) of section 416 with the modification given by sub-paragraph (3) below.
 - (3) The modification is that, in determining whether a person controls a company, there shall be disregarded—
 - (a) his or any other person’s possession of, or entitlement to acquire, relevant fixed-rate preference shares of the company; and
 - (b) his or any other person’s possession of, or entitlement to acquire, rights as a loan creditor of the company.
 - (4) Section 839 shall apply for the purposes of this Schedule, but as if the reference in subsection (8) to section 416 were a reference to subsections (2) to (6) of section 416 with the modification given by sub-paragraph (3) above.
 - (5) For the purposes of sub-paragraph (3) above—
 - (a) relevant fixed-rate preference shares are fixed-rate preference shares that do not for the time being carry voting rights; and
 - (b) “fixed-rate preference shares” has the same meaning as in section 95.”

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