

Status: Point in time view as at 02/12/2004.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, SCHEDULE 13. (See end of Document for details)

SCHEDULES

SCHEDULE 13 **U.K.**

Section 102.

DISCOUNTED SECURITIES: INCOME TAX PROVISIONS

Modifications etc. (not altering text)

- C1** Sch. 13 excluded (24.2.2003) by [Proceeds of Crime Act 2002 \(c. 29\)](#), s. 458(1), **Sch. 10 para. 5** (with [Sch. 10 para. 10](#)); [S.I. 2003/120](#), art. 2, [Sch.](#) (with [arts. 34](#)) (as amended (20.2.2003) by [S.I. 2003/333](#), art. 14)

Charge to tax on realised profit comprised in discount

- 1 (1) Where a person realises the profit from the discount on a relevant discounted security, he shall be charged to income tax on that profit under Case III of Schedule D or, where the profit arises from a security out of the United Kingdom, under Case IV of that Schedule.
- (2) For the purposes of this Schedule a person realises the profit from the discount on a relevant discounted security where—
- (a) he transfers such a security or becomes entitled, as the person holding the security, to any payment on its redemption; and
 - (b) the amount payable on the transfer or redemption exceeds the amount paid by that person in respect of his acquisition of the security [^{F1}(no account being taken of any costs incurred in connection with the transfer or redemption of the security or its acquisition)].
- (3) For the purposes of this Schedule the profit shall be taken—
- (a) to be equal to the amount of the excess ^{F2}...; and
 - (b) to arise, for the purposes of income tax, in the year of assessment in which the transfer or redemption takes place.

^{F3}(4)

Textual Amendments

- F1** Words in Sch. 13 para. 1(2)(b) inserted (with effect in accordance with Sch. 39 para. 6(1)(a)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), **Sch. 39 para. 1(2)**
- F2** Words in Sch. 13 para. 1(3)(a) repealed (with effect in accordance with Sch. 39 para. 6(1)(a)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 1\(3\)](#), **Sch. 43 Pt. 3(16)**
- F3** Sch. 13 para. 1(4) repealed (with effect in accordance with Sch. 39 para. 6(1)(a)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 1\(4\)](#), **Sch. 43 Pt. 3(16)**

Realised losses on discounted securities

^{F42}

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Textual Amendments

- F4** Sch. 13 para. 2 repealed (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 2](#), [Sch. 43 Pt. 3\(16\)](#)

Meaning of “relevant discounted security”

- 3 ^{F5}(1) Subject to the following provisions of this paragraph and ^{F6}paragraphs 13B(1) and 14(1)] below, in this Schedule “relevant discounted security” means any security which (whenever issued) is such that, taking the security as at the time of its issue, the amount payable on redemption—
- (a) on maturity, or
 - (b) in the case of a security of which there may be a redemption before maturity, on at least one of the occasions on which it may be redeemed,
- is or would be an amount involving a deep gain, or might be an amount which would involve a deep gain.
- ^{F5}(1A) The occasions that are to be taken into account for the purpose of determining whether a security is a relevant discounted security by virtue of sub-paragraph (1)(b) above shall not include any of the following occasions on which it may be redeemed, that is to say—
- (a) any occasion not falling within sub-paragraph (1C) below on which there may be a redemption otherwise than at the option of the person who holds the security;
 - (b) in a case where a redemption may occur as a result of the exercise of an option that is exercisable—
 - (i) only on the occurrence of an event adversely affecting the holder, or
 - (ii) only on the occurrence of a default by any person,
 any occasion on which that option is unlikely (judged as at the time of the security’s issue) to be exercisable;
- but nothing in this sub-paragraph shall require an occasion on which a security may be redeemed to be disregarded by reason only that it is or may be an occasion that coincides with an occasion mentioned in this sub-paragraph.
- ^{F5}(1B) In sub-paragraph (1A) above “event adversely affecting the holder”, in relation to a security, means an event which (judged as at the time of the security’s issue) is such that, if it occurred and there were no provision for redemption, the interests of the person holding the security at the time of the event would be likely to be adversely affected.
- ^{F5}(1C) An occasion on which there may be a redemption of a security falls within this sub-paragraph if—
- (a) the security is a security issued to a person connected with the issuer; or
 - (b) the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from the provision in accordance with which it may be redeemed on that occasion.
- ^{F5}(1D) In sub-paragraph (1C) above “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.

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- ^{F5}(1E) Subject to sub-paragraph (1F) below, where a security which is not a relevant discounted security but which would have been such a security if it had been issued to a person connected with the issuer—
- (a) is acquired by a person who is so connected, or
 - (b) is held by a person who becomes so connected,
- this Schedule shall have effect, in relation to times falling at or after the time of the acquisition or, as the case may be, the time when that person became so connected, as if the security were a relevant discounted security.
- ^{F5}(1F) Where a security which—
- (a) is a relevant discounted security, but
 - (b) would not be such a security but for sub-paragraph (1C)(a) or (1E) above,
- is acquired by a person who is not connected with the issuer, this Schedule shall have effect, in relation to that person, as if the security ceased to be a relevant discounted security at the time of the acquisition.]
- (2) The following are not relevant discounted securities for the purposes of this Schedule—
- (a) shares in a company;
 - (b) gilt-edged securities that are not strips;
 - (c) excluded indexed securities;
 - (d) life assurance policies;
 - (e) capital redemption policies (within the meaning of Chapter II of Part XIII of the Taxes Act 1988); and
 - (f) subject to paragraph 10 below, securities issued (at whatever time) under the same prospectus as other securities which have been issued previously but (disregarding that paragraph) are not themselves relevant discounted securities.
- [^{F7}(2A) Nothing in sub-paragraph (2)(c) above shall prevent a security that would have been a relevant discounted security if it had been issued to a person connected with the issuer from being treated as a relevant discounted security by virtue of sub-paragraph (1E) above.
- ^{F7}(2B) Nothing in sub-paragraph (2)(f) above shall prevent a security from being treated as a relevant discounted security by virtue of sub-paragraph (1C)(a) or (1E) above.]
- (3) For the purposes of this Schedule the amount payable on redemption of a security involves a deep gain if—
- (a) the issue price is less than the amount so payable; and
 - (b) the amount by which it is less represents more than the relevant percentage of the amount so payable.
- (4) In this paragraph “the relevant percentage”, in relation to the amount payable on redemption of a security, means—
- (a) the percentage figure equal, in a case where the period between the date of issue and the date of redemption is less than thirty years, to one half of the number of years between those dates; and
 - (b) in any other case, 15 per cent.;
- and for the purposes of this paragraph the fraction of a year to be used for the purposes of paragraph (a) above in a case where the period mentioned in that paragraph is not

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a number of complete years shall be calculated by treating each complete month, and any remaining part of a month, in that period as one twelfth of a year.

[^{F8}(5) References in this paragraph to redemption—

- (a) do not include references to any redemption which may be made before maturity otherwise than at the option of the holder of the security; but
- (b) in the case of a security that is capable of redemption at the option of the holder before maturity, shall have effect as references to the earliest occasion on which the holder of the security may require the security to be redeemed.]

(6) For the purposes of this paragraph the amount payable on redemption shall not be taken to include any amount payable on that occasion by way of interest.

[^{F9}(7) Section 839 of the Taxes Act 1988 (connected persons) applies for the purposes of this paragraph.

^{F9}(8) In determining for the purposes of sub-paragraph (1C), (1E), (1F) or (2A) above whether a person is or becomes connected with the issuer, no account shall be taken of—

- (a) the security mentioned in that sub-paragraph; or
- (b) any security issued under the same prospectus as that security.]

Textual Amendments

- F5** Sch. 13 para. 3(1)(1A)-(1F) substituted (27.7.1999 with effect as mentioned in s. 65(8)-(12) of the amending Act) for Sch. 13 para. 3(1) by 1999 c. 16, s. 65(1)
- F6** Words in Sch. 13 para. 3(1) substituted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(2)
- F7** Sch. 13 para. 3(2A)(2B) inserted (27.7.1999 with effect as mentioned in s. 65(8)-(12) of the amending Act) by 1999 c. 16, s. 65(2)
- F8** Sch. 13 para. 3(5) repealed (27.7.1999 with effect as mentioned in s. 65(8)-(12) of the amending Act) by 1999 c. 16, ss. 65(3), 139, Sch. 20 Pt. III(16), Note
- F9** Sch. 13 para. 3(7)(8) inserted (27.7.1999 with effect as mentioned in s. 65(8)-(12) of the amending Act) by 1999 c. 16, s. 65(4)

[^{F10}Issue price etc of securities issued in accordance with qualifying earn-out right

Textual Amendments

- F10** Sch. 13 para. 3A and cross-heading inserted (retrospectively) by Finance Act 2002 (c. 23), s. 104(2)(4)

3A (1) This paragraph applies where a security is issued to a person in accordance with the terms of a qualifying earn-out right.

(2) In any such case the issue price of the security shall be taken for the purposes of this Schedule to be the sum of—

- (a) the market value, immediately before the issue of the security, of the right to be issued with the security in accordance with the terms of the qualifying earn-out right, and
- (b) any amount payable for the issue of the security in accordance with those terms,

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and any reference in this Schedule to the amount paid by the person in respect of his acquisition of the security shall be taken as a reference to that sum.

- (3) For the purposes of this paragraph a “qualifying earn-out right” is so much of any right conferred on a person as—
- (a) constitutes the whole or any part of the consideration for the transfer by him of shares in or debentures of a company or for the transfer of the whole or part of a business or interest in a business carried on by him or by him and others in partnership;
 - (b) consists in either a right to be issued with securities of another company or a right which is capable of being discharged in accordance with its terms by the issue of such securities; and
 - (c) is such that the value of the consideration mentioned in paragraph (a) above is unascertainable at the time when the right is conferred.]

Meaning of “transfer”

- 4 (1) Subject to sub-paragraph (2) [^{F11} and paragraph 13B(4)] below, in this Schedule references to a transfer, in relation to a security, are references to any transfer of the security by way of sale, exchange, gift or otherwise.
- (2) Where an individual who is entitled to a relevant discounted security dies, then for the purposes of this Schedule—
- (a) he shall be treated as making a transfer of the security immediately before his death;
 - (b) he shall be treated as obtaining in respect of the transfer an amount equal to the market value of the security at the time of the transfer; and
 - (c) his personal representatives shall be treated as acquiring the security for that amount on his death.
- (3) For the purposes of this Schedule a transfer or acquisition of a security made in pursuance of an agreement shall be deemed to take place at the time when the agreement is made, if the person to whom the transfer is made, or who makes the acquisition, becomes entitled to the security at that time.
- (4) If an agreement is conditional, whether on the exercise of an option or otherwise, it shall be taken for the purposes of this paragraph to be made when the condition is satisfied (whether by the exercise of the option or otherwise).
- (5) This paragraph is without prejudice to paragraph [^{F12}13B(2) to (5) or] 14(2) to (4) below.

Textual Amendments

- F11** Words in Sch. 13 para. 4(1) inserted (with effect in accordance with [Sch. 7 para. 21\(8\)](#) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 21\(3\)\(a\)](#)
- F12** Words in Sch. 13 para. 4(5) inserted (with effect in accordance with [Sch. 7 para. 21\(8\)](#) of the amending Act) by [Finance \(No. 2\) Act 2005 \(c. 22\)](#), [Sch. 7 para. 21\(3\)\(b\)](#)

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Redemption to include conversion

- 5 (1) This paragraph applies where a relevant discounted security is extinguished by being converted, in pursuance of rights conferred by the security, into shares in a company or into any other securities (including other relevant discounted securities).
- (2) For the purposes of this Schedule the conversion shall be deemed—
 - (a) to constitute the redemption of the security which is extinguished; and
 - (b) to involve a payment on redemption of an amount equal to whatever, at the time of the conversion, is the market value of the shares or other securities into which the security in question is converted.
- (3) This paragraph does not apply to ^{F13}—
 - (a) the conversion of an interest-bearing corporate security into corporate strips (see paragraph 13A(2) to (7) below), or
 - (b) an exchange to which paragraph 14 below applies.

Textual Amendments
F13 Words in Sch. 13 para. 5(3) inserted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(4)

Trustees and personal representatives

- 6 (1) Where, on a transfer or redemption of a security by trustees, an amount is treated as income chargeable to tax by virtue of this Schedule—
 - (a) that amount shall be taken for the purposes of Chapters IA and IB of Part XV of the Taxes Act 1988 (settlements: liability of settlor etc.) to be income arising—
 - (i) under the settlement of which the trustees are trustees; and
 - (ii) from that security;
 - (b) that amount shall be taken for the purposes of Chapter IC of Part XV of that Act (settlements: liability of trustees) to be income arising to the trustees; and
 - (c) to the extent that tax on that amount is charged on the trustees, the rate at which it is chargeable shall be taken (where it would not otherwise be the case) to be the rate applicable to trusts for the year of assessment in which the transfer or redemption is made.
- (2) Where the trustees are trustees of a scheme to which section 469 of the Taxes Act 1988 (unauthorised unit trusts) applies, sub-paragraph (1) above shall not apply if or to the extent that the amount is treated as income in the accounts of the scheme.
- (3) Without prejudice to paragraph 12 below, ^{F14}paragraph 1(1) above does not apply] in the case of—
 - (a) any transfer of a security for the time being held under a settlement the trustees of which are not resident in the United Kingdom; or
 - (b) any redemption of a security which is so held immediately before its redemption.

^{F15}(4)

^{F15}(5)

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^{F15}(6)

- (7) Where a relevant discounted security is transferred by personal representatives to a legatee, they shall be treated for the purposes of this Schedule as obtaining in respect of the transfer an amount equal to the market value of the security at the time of the transfer.
- (8) In this paragraph “legatee” includes any person taking (whether beneficially or as trustee) under a testamentary disposition or on an intestacy or partial intestacy, including any person taking by virtue of an appropriation by the personal representatives in or towards satisfaction of a legacy or other interest or share in the deceased’s property.

Textual Amendments

- F14** Words in Sch. 13 para. 6(3) substituted (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(1\)\(a\)](#)
- F15** Sch. 13 para. 6(4)-(6) repealed (with effect in accordance with Sch. 39 para. 6(1)(b)(2)(3) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(1\)\(b\)](#), [Sch. 43 Pt. 3\(16\)](#)

Treatment of losses where income exempt

^{F16-7}

Textual Amendments

- F16** Sch. 13 para. 7 repealed (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(2\)\(a\)](#), [Sch. 43 Pt. 3\(16\)](#)

Transfers between connected persons

- 8 (1) This paragraph applies where a relevant discounted security is transferred from one person to another and they are connected with each other.
- (2) For the purposes of this Schedule—
- (a) the person making the transfer shall be treated as obtaining in respect of it an amount equal to the market value of the security at the time of the transfer; and
- (b) the person to whom the transfer is made shall be treated as paying in respect of his acquisition of the security an amount equal to that market value.
- (3) Section 839 of the Taxes Act 1988 (connected persons) shall apply for the purposes of this paragraph.
- [^{F17}(4) Where the relevant discounted security is a strip, its market value at any time shall be determined for the purposes of this paragraph in accordance with paragraph 14E below.]

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Textual Amendments

F17 Sch. 13 para. 8(4) inserted (with effect in accordance with s. 138(10) of the amending Act) by [Finance Act 2004 \(c. 12\), s. 138\(2\)](#)

Other transactions deemed to be at market value

- 9 (1) This paragraph applies where a relevant discounted security is transferred from one person to another in a case in which—
 - (a) the transfer is made for a consideration which consists of or includes consideration not in money or money’s worth; or
 - (b) the transfer is made otherwise than by way of a bargain made at arm’s length.
- (2) For the purposes of this Schedule—
 - (a) the person making the transfer shall be treated as obtaining in respect of it an amount equal to the market value of the security at the time of the transfer, and
 - (b) the person to whom the transfer is made shall be treated as paying in respect of his acquisition of the security an amount equal to that market value.
- [^{F18}(3) Where the relevant discounted security is a strip, its market value at any time shall be determined for the purposes of this paragraph in accordance with paragraph 14E below.]

Textual Amendments

F18 Sch. 13 para. 9(3) inserted (with effect in accordance with s. 138(10) of the amending Act) by [Finance Act 2004 \(c. 12\), s. 138\(3\)](#)

[^{F19}Securities issued to connected person etc at price in excess of market value: transfer to connected person]

Textual Amendments

F19 Sch. 13 para. 9A and preceding cross-heading inserted (24.7.2002 with effect in relation to transfers on and after 26.3.2002) by [Finance Act 2002 \(c. 23\), s. 104\(3\)\(5\)](#)

^{F20}9A

Textual Amendments

F20 Sch. 13 para. 9A repealed (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\), Sch. 39 para. 5\(2\)\(b\), Sch. 43 Pt. 3\(16\)](#)

Issue of securities in separate tranches

- 10 (1) In a case where—

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- (a) none of the securities issued on the occasion of the original issue of securities under a particular prospectus would be a relevant discounted security apart from this paragraph,
- (b) some of the securities subsequently issued under the prospectus would be relevant discounted securities apart from paragraph 3(2)(f) above, and
- (c) there is a time (whether before, at or after the beginning of the year 1996-97) when the aggregate nominal value as at that time of the securities falling within paragraph (b) above exceeds the aggregate nominal value as at that time of the securities which have been issued under the prospectus and do not fall within that paragraph,

sub-paragraph (2) below shall apply in relation to every security which has been or is issued under the prospectus at any time (whether before, at or after the time mentioned in paragraph (c) above).

- (2) As regards any event occurring in relation to the security after the time mentioned in sub-paragraph (1)(c) above, this Schedule shall have effect as if the security—
 - (a) were a relevant discounted security; and
 - (b) had been acquired as such (whatever the time of its acquisition).
- (3) For the purposes of sub-paragraph (2) above events, in relation to a security, include anything constituting a transfer, redemption or acquisition for the purposes of this Schedule.
- [^{F21}(4) For the purpose of determining whether a security held by a person who is not connected with the issuer is a relevant discounted security by virtue of this paragraph, a security which—
 - (a) is a relevant discounted security, but
 - (b) would not be such a security but for paragraph 3(1C)(a) or (1E) above,shall be assumed not to be a security falling within sub-paragraph (1)(b) above.]

Textual Amendments

F21 Sch. 13 para. 10(4) inserted (27.7.1999 with effect as mentioned in [s. 65\(8\)-\(12\)](#) of the amending Act) by [1999 c. 16, s. 65\(5\)](#)

Accrued income scheme

^{F22}11

Textual Amendments

F22 Sch. 13 para. 11 repealed (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(2\)\(c\)](#), [Sch. 43 Pt. 3\(16\)](#)

Assets transferred abroad

12 For the purposes of sections 739 and 740 of the Taxes Act 1988 (prevention of avoidance of tax by transfer of assets abroad), where a person resident or domiciled outside the United Kingdom realises a profit from the discount on a relevant discounted security, that profit shall be taken to be income of that person.

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Excluded indexed securities

- 13 (1) For the purposes of this Schedule a security is an excluded indexed security if the amount payable on redemption is linked to the value of chargeable assets.
- (2) For the purposes of this paragraph an amount is linked to the value of chargeable assets if, in pursuance of any provision having effect for the purposes of the security, it is equal to an amount determined by applying a relevant percentage change in the value of chargeable assets to the amount for which the security was issued.
- (3) In sub-paragraph (2) above the reference to a relevant percentage change in the value of chargeable assets is a reference to the amount of the percentage change (if any) over the relevant period in the value of chargeable assets of any particular description or in any index of the value of any such assets.
- (4) In sub-paragraph (3) above “the relevant period” means—
- (a) the period between the time of the issue of the security and its redemption; or
 - (b) any other period in which almost all of that period is comprised and which differs from that period exclusively for purposes connected with giving effect to a valuation in relation to rights or liabilities under the security.
- (5) If—
- (a) there is a provision which, in the case of the amount payable on the redemption of any security, falls within sub-paragraph (2) above,
 - (b) that provision is made subject to any other provision applying to the determination of that amount,
 - (c) that other provision is to the effect only that that amount must not be less than a specified percentage of the amount for which the security is issued, and
 - (d) the specified percentage is not more than 10 per cent.,
- that other provision shall be disregarded in determining for the purposes of this paragraph whether the amount payable on redemption is linked to the value of chargeable assets.
- (6) For the purposes of this paragraph an asset is a chargeable asset in relation to any security if any gain accruing to a person on a disposal of that asset would, on the assumptions specified in sub-paragraph (7) below, be a chargeable gain for the purposes of the ^{M1}Taxation of Chargeable Gains Act 1992.
- (7) Those assumptions are—
- (a) where it is not otherwise the case, that the asset is an asset of the person in question and that that person does not have the benefit of any exemption conferred by section 100 of that Act of 1992 (exemption for authorised unit trusts etc.);
 - (b) that the asset is not one the disposal of which by that person would fall to be treated for the purposes of income tax as a disposal in the course of a trade, profession or vocation carried on by that person; and
 - (c) that chargeable gains that might accrue under section 116(10) of that Act are to be disregarded.
- (8) For the purposes of this paragraph neither—
- (a) the retail prices index, nor
 - (b) any similar general index of prices published by the government of any territory or by the agent of any such government,

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shall be taken to be an index of the value of chargeable assets.

[^{F23}(9) In this paragraph references to redemption, in relation to a security, do not include references to redemption of the security on any such occasion as, by reason of sub-paragraph (1A) of paragraph 3 above, is not to be taken into account for the purpose of determining whether the security is a relevant discounted security by virtue of sub-paragraph (1)(b) of that paragraph.]

Textual Amendments

F23 Sch. 13 para. 13(9) inserted (27.7.1999 with effect as mentioned in s. 65(8)-(12) of the amending Act) by 1999 c. 16, s. 65(6)

Marginal Citations

M1 1992 c. 12.

[^{F24}Meaning of corporate strip and conversion into corporate strips

Textual Amendments

F24 Sch. 13 paras. 13A-13D and cross-heading inserted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(5)

- 13A (1) In this Schedule “corporate strip” means any asset—
- (a) which is, or has at any time been, one of the separate assets mentioned in sub-paragraph (2) below, and
 - (b) which is not prevented from being a corporate strip by sub-paragraph (9) below.
- (2) For the purposes of this Schedule a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security (“the converted corporate security”) but—
- (a) as a result of any scheme or arrangements, he comes to have two or more separate assets in place of the converted corporate security,
 - (b) each of those separate assets satisfies condition A,
 - (c) those separate assets, taken together, satisfy condition B, and
 - (d) at least one of those separate assets is not prevented from being a corporate strip by sub-paragraph (9) below,
- and related expressions shall be construed accordingly.
- (3) Condition A is that the asset—
- (a) represents the right to, or
 - (b) secures,
- one or more stripped payments.
- (4) For the purposes of this paragraph, a “stripped payment” is—
- (a) the payment of, or
 - (b) a payment corresponding to,
- the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.

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- (5) Condition B is that the assets, taken together,—
- (a) represent the right to, or
 - (b) secure,
- every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).
- (6) Where a person—
- (a) has an interest-bearing corporate security, but
 - (b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),
- this Schedule has effect as if, as a result of a scheme or arrangements, the person had come to have the separate assets in place of the security immediately before the sale or transfer.
- (7) For the purposes of this Schedule, sub-paragraphs (2) to (6) above also have effect in relation to each of the separate assets mentioned in sub-paragraph (2) above as if it were itself an interest-bearing corporate security (if that is not in fact the case).
- (8) Where sub-paragraphs (2) to (6) above have effect by virtue of sub-paragraph (7) above—
- (a) any reference in this Schedule to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and
 - (b) sub-paragraph (1) above (meaning of “corporate strip”) has effect accordingly.
- (9) An asset is not a corporate strip if it—
- (a) represents the right to, or
 - (b) secures,
- payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.
- (10) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.
- References to payments the right to which a separate asset represents or secures shall be construed accordingly.

Corporate strips deemed to be relevant discounted securities

- 13B (1) Every corporate strip is a relevant discounted security.
- (2) Where a person converts an interest-bearing corporate security into corporate strips of the security, he shall be deemed to have paid, in respect of his acquisition of each corporate strip, an amount determined in accordance with sub-paragraph (3) below.
- (3) The amount is that which bears to the acquisition cost of the converted corporate security the proportion that SMV bears to TMV, where—
- SMV is the market value of the corporate strip, and

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TMV is the total of the market values of all the separate assets resulting from the conversion.

- (4) If the converted corporate security is a relevant discounted security—
 - (a) its conversion into corporate strips is deemed to be a transfer of the security, and
 - (b) the amount payable on the transfer is deemed to be an amount equal to the acquisition cost of the converted corporate security.
- (5) Where corporate strips are consolidated into a single security—
 - (a) by being exchanged by any person for that security, or
 - (b) by being otherwise converted by any person into that security under any arrangements,each of the corporate strips shall be deemed to have been redeemed, at the time of the exchange or other conversion, by the payment to that person of an amount equal to its market value.
- (6) Sub-paragraphs (2) to (5) above have effect for the purposes of this Schedule.
- (7) For the purposes of this paragraph, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).
- (8) References in this paragraph to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

Corporate strips: manipulation of acquisition, sale or redemption price

- 13C (1) This paragraph applies in any case where, as a result of any scheme or arrangement,
- (a) the amount paid by a person in respect of his acquisition of a corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,
 - (b) the amount payable to a person on a transfer of a corporate strip by him is less than the market value of the corporate strip at the time of the transfer, or
 - (c) on redemption of a corporate strip, the amount payable to a person, as the person holding the corporate strip, is less than the market value of the corporate strip on the day before redemption,
- and the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.
- (2) In a case falling within sub-paragraph (1)(a) above, the person shall be treated for the purposes of paragraph 1(2)(b) above on a transfer of the corporate strip by him as if he had paid in respect of his acquisition of the corporate strip an amount equal to the market value of the corporate strip at the time of that acquisition.
 - (3) In a case falling within sub-paragraph (1)(b) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.

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- (4) In a case falling within sub-paragraph (1)(c) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on redemption were an amount equal to the market value of the corporate strip on the day before redemption.
- (5) The market value of a corporate strip at any time shall be determined for the purposes of this paragraph without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in sub-paragraph (1) above.
- (6) For the purposes of this paragraph, no account shall be taken of any costs incurred in connection with any transfer or redemption of a corporate strip or its acquisition.
- (7) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.

Corporate strips: manipulation of price: associated payment giving rise to CGT loss

13D (1) Where—

- (a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of paragraph 13C(1) above,
- (b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and
- (c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person for the purposes of capital gains tax,

the loss shall not be an allowable loss for the purposes of capital gains tax.

- (2) For the purposes of this paragraph, a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from paragraph 13C above and this paragraph) is—
 - (a) the obtaining of a tax advantage by any person, or
 - (b) the accrual to any person of an allowable loss for the purposes of capital gains tax.
- (3) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.]

[^{F25}Strips of government securities]

Textual Amendments

F25 Sch. 13 para. 14 heading substituted (with effect in accordance with Sch. 39 para. 6(1)(c) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(3\)\(a\)](#)

- 14 (1) Every strip is a relevant discounted security for the purposes of this Schedule.
- (2) For the purposes of this Schedule, where a person exchanges a ^{F26}... security for strips of that security, the person who receives the strips in the exchange shall be deemed to have paid, in respect of his acquisition of each strip, the amount which bears the same proportion to the market value of the security as is borne by the market value of

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the strip to the aggregate of the market values of all the strips received in exchange for the security.

- (3) For the purposes of this Schedule, where strips are consolidated into a single ^{F27}... security by being exchanged by any person for that security, each of the strips shall be deemed to have been redeemed at the time of the exchange by the payment to that person of the amount equal to its market value.
- (4) A person who holds a strip on the 5th April in any year of assessment, and who (apart from this sub-paragraph) does not transfer or redeem it on that day, shall be deemed for the purposes of this Schedule—
- (a) to have transferred that strip on that day;
 - (b) to have received in respect of that transfer an amount equal to the strip's market value on that day; and
 - (c) to have re-acquired the strip on the next day on payment of an amount equal to the amount for which it is deemed to have been disposed of on the previous day;
- ^{F28} ...
- (5) Without prejudice to the generality of any power conferred by section 202 of this Act, the Treasury may by regulations provide that this Schedule is to have effect with such modifications as they may think fit in relation to any relevant discounted security which is a strip.
- [^{F29}(6) Paragraph 14E below makes provision as to the manner of determining for the purposes of this paragraph the market value at any time of—
- (a) any strip, or
 - (b) any security exchanged for strips of that security.]
- (7) References in sub-paragraphs (2) and (3) above to the market value of a security given or received in exchange for another are references to its market value at the time of the exchange.

Textual Amendments

- F26** Word in Sch. 13 para. 14(2) repealed (with effect in accordance with Sch. 39 para. 6(1)(c) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(3\)\(b\)](#), [Sch. 43 Pt. 3\(16\)](#)
- F27** Word in Sch. 13 para. 14(3) repealed (with effect in accordance with Sch. 39 para. 6(1)(c) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(3\)\(b\)](#), [Sch. 43 Pt. 3\(16\)](#)
- F28** Words in Sch. 13 para. 14(4) repealed (with effect in accordance with Sch. 39 para. 6(1)(a)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 5\(3\)\(c\)](#), [Sch. 43 Pt. 3\(16\)](#)
- F29** Sch. 13 para. 14(6) substituted (with effect in accordance with s. 138(11) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), [s. 138\(4\)](#)

[^{F30}Strips of government securities: losses

Textual Amendments

- F30** Sch. 13 para. 14A and cross-heading inserted (with effect in accordance with Sch. 39 para. 6(1)(b)(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 39 para. 3](#)

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- 14A (1) A person who sustains a loss in any year of assessment from the discount on a strip shall be entitled to relief from income tax on an amount of his income for that year equal to the amount of the loss.
- (2) The relief is due only if the person makes a claim before the end of twelve months from the 31st January following that year.
- (3) For the purposes of this paragraph a person sustains a loss from the discount on a strip where—
- (a) he transfers the strip or becomes entitled, as the person holding it, to any payment on its redemption, and
 - (b) the amount paid by him for the strip exceeds the amount payable on the transfer or redemption (no account being taken of any costs incurred in connection with the transfer or redemption of the strip or its acquisition).
- The loss shall be taken to be equal to the amount of the excess, and to be sustained in the year of assessment in which the transfer or redemption takes place.
- (4) In sub-paragraph (3) above the reference to a transfer in paragraph (a) includes a reference to a deemed transfer under paragraph 14(4) above (and paragraph (b) shall be read accordingly).
- (5) This paragraph does not apply in the case of—
- (a) any transfer of a strip for the time being held under a settlement the trustees of which are not resident in the United Kingdom, or
 - (b) any redemption of a strip which is so held immediately before its redemption.]

^{F31}*Strips of government securities: manipulation of acquisition, sale or redemption price*

Textual Amendments

F31 Sch. 13 para. 14B and cross-heading inserted (with effect in accordance with s. 138(12)(15) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), s. 138(5)

- 14B (1) This paragraph applies in any case where, as a result of any scheme or arrangement,
- (a) the amount paid by a person in respect of his acquisition of a strip is or was more than the market value of the strip at the time of that acquisition,
 - (b) the amount payable to a person on a transfer of a strip by him is less than the market value of the strip at the time of the transfer, or
 - (c) on redemption of a strip, the amount payable to a person, as the person holding the strip, is less than the market value of the strip on the day before redemption,
- and the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.
- (2) In a case falling within sub-paragraph (1)(a) above, the person shall be treated for the purposes of paragraphs 1(2)(b) and 14A(3)(b) above on a transfer of the strip by him as if he had paid in respect of his acquisition of the strip an amount equal to the market value of the strip at the time of that acquisition.

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- (3) In a case falling within sub-paragraph (1)(b) above, the person shall be treated for the purposes of paragraphs 1(2)(b) and 14A(3)(b) above as if the amount payable to him on the transfer were an amount equal to the market value of the strip at the time of the transfer.
- (4) In a case falling within sub-paragraph (1)(c) above, the person shall be treated for the purposes of paragraphs 1(2)(b) and 14A(3)(b) above as if the amount payable to him on redemption were an amount equal to the market value of the strip on the day before redemption.
- (5) For the purposes of this paragraph, no account shall be taken of any costs incurred in connection with any transfer or redemption of a strip or its acquisition.
- (6) Paragraph 14E below makes provision as to the manner of determining for the purposes of this paragraph the market value at any time of a strip.
- (7) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.]

[^{F32}Strips: manipulation of price: associated payment giving rise to capital gains tax loss

Textual Amendments

F32 Sch. 13 para. 14C and cross-heading inserted (with effect in accordance with s. 138(13) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), s. 138(6)

- 14C (1) Where—
- (a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of paragraph 14B(1) above,
 - (b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a strip, and
 - (c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person for the purposes of capital gains tax,
- the loss shall not be an allowable loss for the purposes of capital gains tax.
- (2) For the purposes of this paragraph a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from paragraph 14B above and this paragraph) is—
 - (a) the obtaining of a tax advantage by any person, or
 - (b) the accrual to any person of an allowable loss for the purposes of capital gains tax.
 - (3) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.]

Status: Point in time view as at 02/12/2004.

Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, SCHEDULE 13. (See end of Document for details)

f^{F33} Restriction of profits and losses on strips by reference to original acquisition cost

Textual Amendments

F33 Sch. 13 para. 14D and cross-heading inserted (with effect in accordance with s. 138(14)(15) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), s. 138(7)

14D (1) This paragraph has effect for the purpose of excluding from charge or, as the case may be, relief under this Schedule so much of—

- (a) any profit realised by a person from the discount on a strip, or
- (b) any loss sustained by a person from the discount on a strip,

as is referable to a relevant amount being less than the person's original acquisition cost for the strip.

For this purpose a relevant amount is any amount that falls to be brought into account as paid in respect of the acquisition of the strip or as payable on the transfer or redemption of the strip.

(2) Where, on the transfer or redemption of a strip,—

- (a) a person realises a profit (apart from this paragraph) from the discount on the strip and amount C exceeds amount A, or
- (b) a person sustains a loss (apart from this paragraph) from the discount on the strip and amount C exceeds amount P,

then, for the purposes of the other provisions of this Schedule, the profit or loss shall be restricted or eliminated in accordance with the following provisions of this paragraph.

(3) For the purposes of this paragraph—

“amount A” is the amount that falls to be brought into account as the amount paid by the person in respect of his acquisition of the strip in determining the amount of the profit or loss apart from this paragraph;

“amount C” is the person's original acquisition cost for the strip (see sub-paragraph (6) below);

“amount L” is the amount (apart from this paragraph) of the loss mentioned in sub-paragraph (2)(b) above;

“amount P” is the amount that falls to be brought into account as the amount payable on the transfer or redemption of the strip in determining the amount of the profit or loss apart from this paragraph.

(4) In a case falling within sub-paragraph (2)(a) above (person realising a profit)—

- (a) if amount P exceeds amount C, the amount of the profit is restricted to the amount of that excess;
- (b) if amount P does not exceed amount C, the person shall be treated as not realising a profit from the discount on the strip.

(5) In a case falling within sub-paragraph (2)(b) above (person sustaining a loss)—

- (a) if amount A exceeds amount C, the amount of the loss is restricted to so much of amount L as remains after deducting from it the amount by which amount C exceeds amount P;
- (b) if amount A does not exceed amount C, the person shall be treated for the purposes of this Schedule as not sustaining a loss from the discount on the strip.

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- (6) For the purposes of this paragraph a person's "original acquisition cost" in the case of a strip is the amount which—
- (a) disregarding any deemed transfers or re-acquisitions under paragraph 14(4) above (other than the transfer mentioned in sub-paragraph (2) above, if it is such a transfer), but
 - (b) otherwise giving effect, so far as applicable, to paragraph 8, 9, 14 or 14B above (each of which treats a person acquiring a security as having paid an amount equal to its market value determined in accordance with paragraph 14E below),
- would fall to be taken into account as the amount paid by the person in respect of his acquisition of the strip in determining whether a profit is realised, or a loss is sustained, from the discount on the strip.
- (7) In this paragraph any reference to a transfer includes a reference to a deemed transfer under paragraph 14(4) above.
- (8) In this paragraph any reference to sustaining a loss from the discount on a strip shall be construed in accordance with paragraph 14A above.]

[^{F34}Market value of strips etc for the purposes of paragraphs 8, 9, 14 and 14B

Textual Amendments

F34 Sch. 13 para. 14E and cross-heading inserted (with effect in accordance with s. 138(11)(12)(15) of the amending Act) by [Finance Act 2004 \(c. 12\)](#), s. 138(8)

- 14E (1) This paragraph makes provision as to the manner of determining—
- (a) for the purposes of paragraph 8, 9, 14 or 14B above, the market value at any time of a strip, and
 - (b) for the purposes of paragraph 14(2) above, the market value at any time of a security exchanged for strips of that security.
- (2) The market value on any day of a strip or security quoted in the Daily List shall be—
- (a) the lower of the two figures shown in the Daily List for the strip or security for that day,
- plus
- (b) one-quarter of the difference between those two figures,
- unless the Stock Exchange is closed on that day.
- (3) If the Stock Exchange is closed on any day, the market value on that day of any such strip or security shall be taken to be its market value on the latest previous day or earliest subsequent day on which the Stock Exchange is open, whichever affords the lower value.
- (4) In the case of a strip or security which—
- (a) is a security, or a strip of a security, issued by or on behalf of the government of a territory outside the United Kingdom, and
 - (b) is not quoted in the Daily List, but
 - (c) is quoted in a foreign stock exchange list,
- the market value shall be determined in accordance with sub-paragraph (5) below.

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- (5) In any such case, sub-paragraphs (2) and (3) above shall have effect for determining the market value of the strip or security, but for this purpose those provisions shall have effect—
- (a) with the substitution for references to the Daily List of references to the foreign stock exchange list,
 - (b) with the substitution for references to the Stock Exchange of references to the foreign stock exchange to which that list relates, and
 - (c) with any modifications which are necessary by reason of the form of quotation adopted in the foreign stock exchange list (including, in a case where a single figure only is published, taking that figure as the market value).
- (6) Where a strip or security is quoted in more than one foreign stock exchange list—
- (a) any such list published for a foreign stock exchange in the territory of the issuing government shall be used for the purposes of sub-paragraph (5) above in preference to any other such list, and
 - (b) any such list published for a foreign stock exchange which is regarded as the major exchange in that territory for strips or securities shall be used for those purposes in preference to any other such list.
- (7) In this paragraph—
- “the Daily List” means the The Stock Exchange Daily Official List;
- “foreign stock exchange” means a recognised stock exchange in a territory outside the United Kingdom on which strips are traded;
- “foreign stock exchange list” means any publication which performs in the case of a foreign stock exchange a function equivalent, or broadly similar, to that performed by the Daily List in relation to strips;
- “issuing government” means the government which issued the security mentioned in sub-paragraph (4)(a) above.
- (8) The Treasury may by regulations make provision as to the manner of determining, for any of the purposes mentioned in sub-paragraph (1) above, the market value at any time of—
- (a) any strip, or
 - (b) any security exchanged for strips of that security.
- (9) Regulations under sub-paragraph (8) above may—
- (a) amend or modify any provision of this paragraph other than that sub-paragraph, sub-paragraph (1) above or this sub-paragraph;
 - (b) make different provision for different cases; and
 - (c) contain such incidental, supplemental, consequential and transitional provision and savings as the Treasury may think fit.]

General interpretation

- 15 (1) In this Schedule—
- [^{F35}“corporate strip” has the meaning given by paragraph 13A above;]
- “deep gain” shall be construed in accordance with paragraph 3(3) above;
- “excluded indexed security” has the meaning given by paragraph 13 above;

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[^{F35}“interest-bearing corporate security” means any interest-bearing security other than—

- (a) a security issued by the government of a territory;
- (b) a share in a company;]

[^{F35}“interest-bearing security” includes any loan stock or similar security;]

“market value” [^{F36}(except as provided in relation to paragraph 8, 9, 14 or 14B above by paragraph 14E above)] has the same meaning as in the ^{M2}Taxation of Chargeable Gains Act 1992;

“relevant discounted security” has the meaning given by paragraphs 3 [^{F37}, 13B(1)] and 14(1) above;

“strip” [^{F38}, except in the expression “corporate strip”,] means anything which, within the meaning of section 47 of the ^{M3}Finance Act 1942, [^{F39}is a strip of a security, or would be if that section had effect with the substitution in subsection (1B) of “issued by or on behalf of the government of any territory” for “issued under the National Loans Act 1968].

- (2) Where a person, having acquired and transferred any security, subsequently re-acquires it, references in this Schedule to his acquisition of the security shall have effect, in relation to—

- (a) the transfer by him of that security, or
- (b) the redemption of the security in a case where he becomes entitled to any amount on its redemption,

as references to his most recent acquisition of the security before the transfer or redemption in question.

Textual Amendments

- F35** Words in Sch. 13 para. 5(1) inserted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(6)
- F36** Words in Sch. 13 para. 15(1) substituted (with effect in accordance with s. 138(11)(12)(15) of the amending Act) by Finance Act 2004 (c. 12), s. 138(9)
- F37** Words in Sch. 13 para. 5(1) inserted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(7)(a)
- F38** Words in Sch. 13 para. 5(1) inserted (with effect in accordance with Sch. 7 para. 21(8) of the amending Act) by Finance (No. 2) Act 2005 (c. 22), Sch. 7 para. 21(7)(b)
- F39** Words in Sch. 13 para. 15(1) substituted (with effect in accordance with Sch. 39 para. 6(1)(c) of the amending Act) by Finance Act 2003 (c. 14), Sch. 39 para. 4

Marginal Citations

- M2** 1992 c. 12.
M3 1942 c. 21.

Application of Schedule for income tax purposes only

- 16 (1) This Schedule does not apply for the purposes of corporation tax.
- (2) Sub-paragraph (1) above is without prejudice to any enactment not contained in this Schedule by virtue of which the definition of a relevant discounted security, or any other provision of this Schedule, is applied for the purposes of corporation tax.

Status:

Point in time view as at 02/12/2004.

Changes to legislation:

There are currently no known outstanding effects for the Finance Act 1996, SCHEDULE 13.