

*Status: Point in time view as at 02/12/2004.*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,  
Cross Heading: Meaning of “relevant discounted security”. (See end of Document for details)*

## SCHEDULES

### SCHEDULE 13

#### 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)

##### *Meaning of “relevant discounted security”*

- 3 <sup>F1</sup>(1) Subject to the following provisions of this paragraph and <sup>F2</sup>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.
- <sup>F1</sup>(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.
- <sup>F1</sup>(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.

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- <sup>F1</sup>(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.
- <sup>F1</sup>(1D) In sub-paragraph (1C) above “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.
- <sup>F1</sup>(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.
- <sup>F1</sup>(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.
- [<sup>F3</sup>(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.
- <sup>F3</sup>(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.

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- (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 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.
- [<sup>F4</sup>(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.

[<sup>F5</sup>(7) Section 839 of the Taxes Act 1988 (connected persons) applies for the purposes of this paragraph.

<sup>F5</sup>(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

- F1** 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)
- F2** 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)
- F3** 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)
- F4** 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
- F5** 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)

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