



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER II

LOAN RELATIONSHIPS

Special cases

97 **Manufactured interest.**

(1) [^{F1}For the purposes of the Corporation Tax Acts, a company has a relationship to which this section applies in any case where—]

- (a) any amount (“manufactured interest”) is payable by or on behalf of, or to, [^{F2}the company] under any contract or arrangements relating to the transfer of an asset representing a loan relationship; and
- (b) that amount is, or (when paid) will fall to be treated as, representative of interest under [^{F3}that loan relationship] (“the real interest”).

[^{F4}and references to a relationship to which this section applies, and to a company’s being party to such a relationship, shall be construed accordingly]

[^{F5}(2) Where a company has a relationship to which this section applies—

- (a) this Chapter shall have effect in relation to the company and the manufactured interest under the relationship—
 - (i) as it would have effect if the manufactured interest were interest payable on a loan by, or (as the case may be) to, the company and were accordingly interest under a loan relationship to which the company is a party, and

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- (ii) where that company is the company to which the manufactured interest is payable, as if that relationship were the one under which the real interest is payable, but
- (b) the only credits or (subject to subsection (4A) below) debits to be brought into account for the purposes of this Chapter by virtue of this section in respect of a relationship are those relating to that interest,
- and, subject to paragraphs (a)(ii) and (b) above, references in the Corporation Tax Acts to a loan relationship accordingly include a reference to a relationship to which this section applies.]
- (3) Any question whether debits or credits falling to be brought into account in the case of any company by virtue of this section—
- (a) are to be brought into account under section 82(2) above, or
- (b) are to be treated as non-trading debits or non-trading credits,
- shall be determined according to the extent (if any) to which the manufactured interest is paid for the purposes of a trade carried on by the company or is received in the course of activities forming an integral part of such a trade.
- [^{F6}(3A) To the extent that debits or credits fall to be brought into account by a company under section 82(2) above in the case of a relationship to which this section applies, the company shall be regarded for the purposes of this Chapter as being party to the relationship for the purposes of a trade carried on by the company.]
- (4) Where section [^{F7}736B(2) or] 737A(5) of the Taxes Act 1988 (deemed manufactured payments) has effect in relation to a transaction relating to an asset representing a loan relationship so as, for the purposes of [^{F8}section 737 of, or] Schedule 23A to, that Act, to deem there to have been a payment representative of interest under that relationship, this section shall apply as it would have applied if such a representative payment had in fact been made.
- [^{F9}(4A) Where, for the purposes of section 736B of the Taxes Act 1988, a company is the borrower under a stock lending arrangement, then (pursuant to subsection (2A) of that section (which precludes deductions or group relief for the borrower)) no debits are to be brought into account for the purposes of this Chapter by that company in respect of the deemed representative payment under that section which is treated under subsection (4) above as if it had in fact been made.]
- [^{F10}(5) This section does not apply where the manufactured interest is treated by virtue of paragraph 5(2)(c) or (4)(c) of Schedule 23A to the Taxes Act 1988 (manufactured interest passing through the market) as not being income of the person who receives it.]

Textual Amendments

- F1** Words in s. 97(1) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(2)(a)**
- F2** Words in s. 97(1)(a) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(2)(b)**
- F3** Words in s. 97(1)(b) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(2)(c)**
- F4** Words in s. 97(1) added (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(2)(d)**
- F5** S. 97(2) substituted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by Finance Act 2002 (c. 23), s. 82(1), **Sch. 25 Pt. 1 para. 13(3)**

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- F6** S. 97(3A) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), **Sch. 25 Pt. 1 para. 13(4)**
- F7** Words in s. 97(4) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), **Sch. 25 Pt. 1 para. 13(5)**
- F8** Words in s. 97(4) repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Notes 4, 6 of the amending Act) by 1997 c. 16, s. 113, **Sch. 18 Pt. VI(10)**
- F9** S. 97(4A) inserted (24.7.2002 with effect as mentioned in s. 82(2) of the amending Act) by [Finance Act 2002 \(c. 23\)](#), s. 82(1), **Sch. 25 Pt. 1 para. 13(6)**
- F10** S. 97(5) repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Notes 3, 4, 6 of the amending Act) by 1997 c. 16, s. 113, **Sch. 18 Pt. VI(10)**

Status:

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Changes to legislation:

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