



Income Tax Act 2007

2007 CHAPTER 3

PART 11 U.K.

MANUFACTURED PAYMENTS AND REPOS

CHAPTER 2 U.K.

MANUFACTURED PAYMENTS

Introduction

572 Overview of Chapter U.K.

This Chapter is about the situation where a person—

- (a) pays another person an amount which is representative of—
 - (i) dividends on UK shares,
 - (ii) periodical payments of interest on UK securities, or
 - (iii) overseas dividends on overseas securities, and
- (b) does so under a requirement of an arrangement between them for the transfer of the UK shares, UK securities or overseas securities concerned.

[^{F1}572A Meaning of “avoidance arrangements” U.K.]

- (1) In this Chapter “avoidance arrangements” means any arrangements the main purpose, or one of the main purposes, of which is to secure a deduction for the purposes of income tax, or any other income tax advantage, for any person.
- (2) In subsection (1) “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).
- (3) In subsection (1) “income tax advantage” means—
 - (a) a relief from income tax or increased relief from income tax,

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- (b) a repayment of income tax or increased repayment of income tax,
 - (c) the avoidance, reduction or delay of a charge to income tax or assessment to income tax, or
 - (d) the avoidance of a possible assessment to income tax.
- (4) In subsection (3)(a) “relief from income tax” includes a tax credit.
- (5) For the purposes of subsection (3)(c) or (d) it does not matter whether the avoidance or reduction is effected—
- (a) by receipts accruing in such a way that the recipient does not pay or bear income tax on them, or
 - (b) by a deduction in calculating profits or gains.]

Textual Amendments

- F1** S. 572A inserted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 2](#)

Manufactured dividends on UK shares

573 **Manufactured dividends on UK shares** **U.K.**

- (1) This section applies if a person—
- (a) pays another person an amount (a “manufactured dividend”) which is representative of a dividend on UK shares, and
 - (b) does so under a requirement of an arrangement between them for the transfer of the shares.
- (2) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if the manufactured dividend were a dividend on the shares.
- (3) If the payer is a UK resident company, the Income Tax Acts apply in relation to the payer as if the manufactured dividend were a dividend of the company.
- (4) If the payer is UK resident and is not a company, the Income Tax Acts apply in relation to the payer subject to [^{F2}section 574] (allowable deductions).
- (5) This section is subject to—
- (a) section 576 (manufactured dividends on UK shares: Real Estate Investment Trusts),
 - (b) section 583 (manufactured payments exceeding underlying payments), and
 - (c) section 585 (power to deal with other special cases).

Textual Amendments

- F2** Words in s. 573(4) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 3](#)

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574 Allowable deductions^{F3} ... U.K.

(1) This section applies if a person who pays a manufactured dividend as mentioned in section 573(1) is UK resident and is not a company.

(2) An amount equal to the lesser of—

- (a) the amount of the manufactured dividend, and
- (b) the amount of the dividend of which the manufactured dividend is representative,

is allowable [^{F4}for income tax purposes as a deduction in calculating the net income of the payer (see Step 2 of the calculation in section 23). This is subject to subsection (3).]

[^{F5}(3) It is—

- (a) deductible by virtue of subsection (2) only so far as it is not otherwise deductible and so far as section 263D of TCGA 1992 does not apply, and
- (b) not deductible (whether by virtue of subsection (2) or otherwise) if it (or any part of it) is made directly or indirectly in consequence of, or otherwise in connection with, avoidance arrangements.]

(10) For the purposes of subsection (3)(a) an amount is [^{F6}otherwise deductible if, apart from this section,] it is—

- (a) deductible in calculating any of the payer's profits or gains for income tax purposes, or
- (b) deductible for those purposes in calculating the net income of the payer.

Textual Amendments

- F3** Word in s. 574 heading omitted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 4\(5\)](#)
- F4** Words in s. 574(2) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 4\(2\)](#)
- F5** S. 574(3) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) for s. 574(3)-(9) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 4\(3\)](#)
- F6** Words in s. 574(10) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 4\(4\)](#)

^{F7}575 Allowable deductions: restriction on double-counting U.K.

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Textual Amendments

- F7** S. 575 omitted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 5](#)

576 Manufactured dividends on UK shares: Real Estate Investment Trusts U.K.

(1) This section applies (instead of section 573(2) and (3)) if—

- (a) a person pays a manufactured dividend as mentioned in section 573(1), and
- (b) the manufactured dividend is representative of a dividend which is—

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- (i) paid by a company to which Part 4 of FA 2006 applies (Real Estate Investment Trusts) in respect of profits of C (tax-exempt), or
 - (ii) paid by the principal company of a group to which that Part applies in respect of profits of G (property rental business).
- (2) This section applies only so far as the manufactured dividend is representative of such a dividend.
- (3) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if the manufactured dividend were a dividend to which section 121 of FA 2006 applied (distributions treated as UK property business profits).
- (4) This section is subject to—
- (a) section 583 (manufactured payments exceeding underlying payments), and
 - (b) section 585 (power to deal with other special cases).

577 Statements about manufactured dividends U.K.

- (1) Subsections (3) to (7) apply to a person who—
- (a) pays a manufactured dividend as mentioned in section 573(1), and
 - (b) is not within the charge to corporation tax.
- (2) But those subsections do not apply so far as the manufactured dividend is representative of a dividend which is—
- (a) paid by a company to which Part 4 of FA 2006 applies (Real Estate Investment Trusts) in respect of profits of C (tax-exempt), or
 - (b) paid by the principal company of a group to which that Part applies in respect of profits of G (property rental business).
- (3) The person must, at the same time as paying the manufactured dividend, give the recipient a statement.
- (4) The statement must set out—
- (a) the amount of the manufactured dividend,
 - (b) the date of its payment, and
 - (c) the amount of associated tax credit.
- (5) The statement must be in writing.
- (6) The amount of associated tax credit is the amount of tax credit to which the recipient, or a person claiming title through or under the recipient—
- (a) is entitled in respect of the manufactured dividend as a result of section 573(2) of this Act or paragraph 2(3)(b) of Schedule 23A to ICTA (manufactured dividend treated as dividend), or
 - (b) would be so entitled if all the conditions for a tax credit had been met in the case of the deemed dividend and the recipient or that person.
- (7) The duty under subsection (3) to give a statement is enforceable by the recipient.
- (8) For provisions corresponding to subsections (3) to (7) which apply if the payer of a manufactured dividend is within the charge to corporation tax see—
- (a) section 234A of ICTA (by virtue of paragraph 2(2)(b) of Schedule 23A to ICTA), if the payer is a UK resident company, and

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- (b) paragraph 2(6) to (8) of Schedule 23A to ICTA, if the payer is a non-UK resident company within the charge to corporation tax.
- (9) For a power for regulations to make provision corresponding to subsections (3) to (7) for a case within subsection (2), see section 973 as applied by section 918(3) (and in particular section 974(1)(k)).

Manufactured interest on UK securities

578 **Manufactured interest on UK securities** **U.K.**

- (1) This section applies if a person—
 - (a) pays another person an amount (“manufactured interest”) which is representative of a periodical payment of interest on UK securities, and
 - (b) does so under a requirement of an arrangement between them for the transfer of the securities.
- (2) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if—
 - (a) the manufactured interest were a periodical payment of interest on the securities, and
 - (b) the gross amount of the deemed interest payment were equal to the gross amount of the interest of which the manufactured interest is representative.
- (3) If the payer is UK resident, or a person acting in the course of a trade carried on in the United Kingdom through a branch or agency, the Income Tax Acts apply in relation to the payer subject to ^{F8}section 579] (allowable deductions).
- (4) See also—
 - section 919 (manufactured interest payments by UK residents etc: deduction of income tax at source), and
 - section 920 (foreign payers of manufactured interest: the reverse charge).
- (5) This section is subject to—
 - section 583 (manufactured payments exceeding underlying payments),
 - section 584 (manufactured payments less than underlying payments), and
 - section 585 (power to deal with other special cases).

Textual Amendments

- F8** Words in s. 578(3) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 6](#)

579 **Allowable deductions**^{F9} ... **U.K.**

- (1) This section applies to a person who pays manufactured interest as mentioned in section 578(1).
- (2) The gross amount of the manufactured interest is allowable for income tax purposes as a deduction in calculating the net income of the payer (see Step 2 of the calculation in section 23).

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This is subject to subsection (3).

^{F10}(3) It is—

- (a) deductible by virtue of subsection (2) only so far as it is not otherwise deductible, and
- (b) not deductible (whether by virtue of subsection (2) or otherwise) if it (or any part of it) is made directly or indirectly in consequence of, or otherwise in connection with, avoidance arrangements.]

(9) For the purposes of subsection (3)(a) an amount is ^{F11}otherwise deductible if, apart from this section,] it is—

- (a) deductible in calculating any of the payer's profits or gains for income tax purposes, or
- (b) deductible for those purposes in calculating the net income of the payer.

^{F12}(10)

Textual Amendments

- F9** Word in s. 579 heading omitted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 23 para. 7\(5\)](#)
- F10** S. 579(3) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) for s. 579(3)-(8) by [Finance Act 2008 \(c. 9\), Sch. 23 para. 7\(2\)](#)
- F11** Words in s. 579(9) substituted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\), Sch. 23 para. 7\(3\)](#)
- F12** S. 579(10) omitted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 23 para. 7\(4\)](#)

^{F13}**580 Allowable deductions: restriction on double counting** **U.K.**

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Textual Amendments

- F13** S. 580 omitted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\), Sch. 23 para. 8](#)

Manufactured overseas dividends

581 Manufactured overseas dividends **U.K.**

(1) This section applies if—

- (a) a person (“the payer”) pays another person an amount (a “manufactured overseas dividend”) which is representative of an overseas dividend on overseas securities,
- (b) the payer does so under a requirement of an arrangement between them for the transfer of the securities, and
- (c) the condition in subsection (2) is met.

(2) The condition is that—

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- (a) in a case within section 922(1) (manufactured overseas dividends: payments by UK residents etc), the amount required to be deducted as a result of that section has been deducted, or
 - (b) in a case within section 923(1) (foreign payers of manufactured overseas dividends: the reverse charge), the amount of income tax required to be accounted for and paid as a result of that section has been accounted for and paid.
- (3) Subsections (4) and (5) apply in relation to the recipient, and all persons claiming title through or under the recipient, for all relevant income tax purposes.
- (4) The manufactured overseas dividend is treated as if it were—
- (a) an overseas dividend of an amount equal to the gross amount of the manufactured overseas dividend, but
 - (b) paid after the withholding from it, on account of overseas tax, of the amount deducted as a result of section 922 or (as the case may be) accounted for and paid as a result of section 923.
- (5) The amount deducted or accounted for and paid is accordingly to be treated as an amount withheld on account of overseas tax instead of as an amount on account of income tax.
- (6) In this section “relevant income tax purposes” means the purposes of the Income Tax Acts as they apply in relation to—
- (a) UK residents, and
 - (b) persons carrying on business through a branch or agency in the United Kingdom.

[^{F14}581A Avoidance arrangements **U.K.**]

- (1) A manufactured overseas dividend is not deductible if it (or any part of it) is made directly or indirectly in consequence of, or otherwise in connection with, avoidance arrangements.
- (2) For the purposes of subsection (1) an amount is deductible if it is—
 - (a) deductible in calculating any of the payer's profits or gains for income tax purposes, or
 - (b) deductible for those purposes in calculating the net income of the payer.]

Textual Amendments

F14 S. 581A inserted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 9](#)

582 Powers about manufactured overseas dividends **U.K.**

- (1) The Treasury may by regulations make provision as mentioned in subsections (2) and (3) about prescribed cases where a person—
 - (a) pays or receives a manufactured overseas dividend as mentioned in section 581(1), or
 - (b) is treated as doing so for any purposes of this Chapter or regulations made under it.

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- (2) The regulations may provide for removing or reducing any right of the person to claim relief under Part 18 of ICTA (double taxation relief).
- (3) The regulations may provide for adjusting a relevant amount by reference to a provision which has effect under the law of a territory outside the United Kingdom.
- (4) A “relevant amount” is an amount which is treated for prescribed income tax purposes as the amount paid or payable to a person in respect of a relevant transaction.
- (5) A “relevant transaction” is a sale, repurchase or other transfer of the overseas securities to which the manufactured overseas dividend relates.

Special cases

583 Manufactured payments exceeding underlying payments U.K.

- (1) This section applies if—
 - (a) an amount paid by way of manufactured dividend would otherwise exceed the amount of the dividend of which it is representative, or
 - (b) the sum of—
 - (i) an amount paid by way of manufactured interest or manufactured overseas dividend, and
 - (ii) the income tax required to be accounted for and paid in connection with the making of the payment,
 would otherwise exceed the gross amount of the interest or overseas dividend of which it is representative.
- (2) The payment, to the extent of an amount equal to the excess, is treated for the purposes of this Chapter and Chapter 9 of Part 15 as not made under the requirement mentioned in section 573(1)(b), 578(1)(b) or 581(1)(b) (criteria for application of provisions about manufactured payments).
- (3) Instead it is treated, to that extent, for income tax purposes as a separate fee for entering into the arrangement under which it was made.
- (4) Subsection (3) applies despite anything in—
 - (a) sections 572 to 582 (main rules about manufactured payments), or
 - (b) Chapter 9 of Part 15 (deduction of income tax at source: manufactured payments).
- ^[F15](5) Nothing in this section makes the excess deductible (whether by virtue of this Chapter or otherwise) if it (or any part of it) is made directly or indirectly in consequence of, or otherwise in connection with, avoidance arrangements.]

Textual Amendments

- F15** S. 583(5) inserted (21.7.2008 with effect in accordance with s. 63(2) of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 23 para. 10](#)

584 Manufactured payments less than underlying payments U.K.

- (1) This section applies if the sum of—

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- (a) an amount paid by way of manufactured interest or manufactured overseas dividend, and
 - (b) the income tax required to be accounted for and paid in connection with the making of the payment,
- is less than the gross amount of the interest or overseas dividend of which it is representative.
- (2) For the purpose of giving relief under the Income Tax Acts in a case to which section 578 or 581 applies (manufactured interest and manufactured overseas dividends), the gross amount of the manufactured interest or manufactured overseas dividend is treated as being an amount equal to the sum of the amounts mentioned in paragraphs (a) and (b) of subsection (1).
 - (3) Subsection (2) applies despite anything in—
 - (a) sections 578 to 582 (main rules about manufactured interest and manufactured overseas dividends), and
 - (b) section 589(3) (meaning of “gross amount” of manufactured overseas dividend).
 - (4) In this section “relief” means relief by way of—
 - (a) deduction in calculating profits or gains, or
 - (b) deduction or set off against income.

585 Power to deal with other special cases **U.K.**

- (1) The Treasury may by regulations make provision about—
 - (a) such manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed,
 - (b) such persons who receive, or become entitled to receive, manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed, or
 - (c) such payers of manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed.
- (2) The provision which may be made is for any prescribed manufactured dividend, manufactured interest, manufactured overseas dividend or person to be treated, in prescribed circumstances, otherwise than as mentioned in—
 - (a) sections 572 to 582 (main rules about manufactured payments), or
 - (b) Chapter 9 of Part 15 (deduction of income tax at source: manufactured payments),for any prescribed income tax purposes.

General regulation-making powers

586 Powers about administrative provisions **U.K.**

- (1) The Treasury may by regulations make provision about—
 - (a) the accounts and other records which are to be kept,
 - (b) the vouchers which are to be issued or produced,
 - (c) the returns which are to be made, and

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- (d) the manner in which amounts required to be deducted, or accounted for and paid, on account of income tax as a result of this Chapter or Chapter 9 of Part 15 are to be accounted for and paid,
 by payers or recipients of manufactured dividends, manufactured interest or manufactured overseas dividends.
- (2) Regulations under this Chapter or Chapter 9 of Part 15 about any liability to account for income tax may contain any of the following—
- (a) provision for calculating the amounts to be accounted for,
 - (b) provision, in relation to deciding the amount to be paid on any occasion, for setting other amounts against the amounts to be accounted for,
 - (c) provision as to the liabilities against which amounts accounted for are, or are not, to be set for income tax purposes or corporation tax purposes,
 - (d) provision modifying, or applying (with or without modifications), any enactments contained in the Tax Acts.
- (3) The Treasury may by regulations provide for prescribed provisions of TMA 1970 to apply for income tax purposes in relation to—
- (a) manufactured dividends,
 - (b) manufactured interest, or
 - (c) manufactured overseas dividends,
- with such modifications, specified in the regulations, as the Treasury consider appropriate.
- (4) The Treasury may by regulations make further provision about the administration, assessment, collection and recovery of amounts required to be deducted, or accounted for and paid, on account of income tax as a result of—
- (a) this Chapter, or
 - (b) Chapter 9 of Part 15.

587 Power for manufactured payments to be eligible for relief U.K.

- (1) The Treasury may by regulations provide for any—
- (a) manufactured dividend,
 - (b) manufactured interest, or
 - (c) manufactured overseas dividend,
- paid to any person to be treated, in such circumstances and to such extent as may be prescribed in the regulations, as exempt pension income of the recipient.
- (2) “Exempt pension income” means income which is eligible for relief from income tax as a result of section 613(4) or 614(2), (3) or (4) of ICTA or section 186 of FA 2004 (exemptions about pensions and annuities).

588 Regulation-making powers: general U.K.

Regulations under this Chapter may make different provision for different cases.

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Interpretation

589 Meaning of “gross amount”: interest and manufactured overseas dividends **U.K.**

- (1) This section applies for the purposes of this Chapter.
- (2) The gross amount of any interest or payment is the amount of the interest or payment before the making of any deduction of income tax that is required to be deducted from it on its being paid or made.
- (3) The gross amount of a manufactured overseas dividend is an amount equal to the gross amount of the overseas dividend of which the manufactured overseas dividend is representative.
- (4) The gross amount of an overseas dividend is the sum of—
 - (a) so much of the overseas dividend as remains after the deduction of any overseas tax chargeable on it,
 - (b) the amount of any overseas tax so deducted, and
 - (c) the amount of any overseas tax credit in respect of the overseas dividend.

590 Meaning of “relevant withholding tax” **U.K.**

- (1) This section applies for the purposes of this Chapter.
- (2) “Relevant withholding tax”, in relation to the gross amount of a manufactured overseas dividend, means an amount of income tax representative of the sum of—
 - (a) any amount that would have been deducted by way of overseas tax from an overseas dividend on the overseas securities of the same gross amount as the manufactured overseas dividend, and
 - (b) the amount of any overseas tax credit in respect of such an overseas dividend.
- (3) The Treasury may by regulations make provision about the rates of relevant withholding tax which are to apply in relation to manufactured overseas dividends in relation to different overseas territories.
- (4) The Treasury must, in prescribing these rates, have regard to—
 - (a) the rates at which overseas tax would have fallen to be deducted, and
 - (b) the rates of overseas tax credits,in overseas territories, or in the particular overseas territory, in respect of payments of overseas dividends on overseas securities.

591 Interpretation of other terms used in Chapter **U.K.**

- (1) In this Chapter—
 - “C (tax-exempt)” has the meaning given by section 105(3) of FA 2006,
 - “G (property rental business)” has the meaning given by paragraph 2 of Schedule 17 to FA 2006,
 - “group” and “principal company” have the meanings given by section 134 of FA 2006,
 - “overseas tax” means tax under the law of a territory outside the United Kingdom,

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“overseas tax credit” means any credit under the law of a territory outside the United Kingdom in respect of overseas tax which corresponds to a tax credit,

“prescribed” means prescribed in regulations under this Chapter, and

“transfer” includes a sale or other disposal.

- (2) References in this Chapter to a trade carried on through a branch or agency are to be read, in relation to a company, as references to a trade carried on through a permanent establishment.

Status:

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Changes to legislation:

There are currently no known outstanding effects for the Income Tax Act 2007, Chapter 2.