



Income Tax Act 2007

2007 CHAPTER 3

PART 12

ACCRUED INCOME PROFITS

CHAPTER 2

ACCRUED INCOME PROFITS AND LOSSES

Excluded transferors and transferees

638 Excluded persons: disregard of certain payments and transfers

- (1) This section applies if there is a transfer of securities in relation to which a person ("P") is an excluded transferor or excluded transferee.
- (2) In determining whether P has made accrued income profits or accrued income losses under section 628 (making accrued income profits and losses: general rule) and the amount of any such profits or losses, no account is to be taken of any payment treated as made by or to P on the transfer.
- (3) In determining whether P has made accrued income profits under section 630 (making accrued income profits: settlement day outside interest period) and the amount of any such profits, no account is to be taken of the transfer if P is an excluded transferor in relation to it.
- (4) For the cases where a person is an excluded transferor or excluded transferee in relation to a transfer, see—
 - section 639 (small holdings: individuals),
 - section 640 (small holdings: personal representatives),
 - section 641 (small holdings: trustees of a disabled person's trusts),
 - section 642 (traders),
 - section 643 (non-residents),

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section 644 (individuals to whom the remittance basis applies),
 section 645 (charitable trusts etc),
 section 646 (pension scheme trustees), and
 section 647 (makers of manufactured payments).

- (5) Whether a person is an excluded transferee is also relevant to the application of section 681 (exemption for unrealised interest received by transferee after transfer).

639 Small holdings: individuals

- (1) In relation to a transfer with accrued interest or transfer without accrued interest, an individual is an excluded transferor or excluded transferee unless the nominal value of securities held by the individual exceeds £5,000 on any day—
- (a) in the tax year in which the interest period ends, or
 - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest, an individual is an excluded transferor or excluded transferee unless the nominal value of securities held by the individual exceeds £5,000 on any day—
- (a) in the tax year in which the settlement day falls, or
 - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities, an individual is an excluded transferor unless the nominal value of securities held by the individual exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In subsection (3) “the relevant tax year” means—
- (a) if the settlement day falls in an interest period, the tax year in which the interest period ends, or
 - (b) otherwise, the tax year in which the settlement day falls.
- (5) For the purposes of this section, if—
- (a) an individual holds securities at a particular time, and
 - (b) any interest on them which became payable at that time would be treated for income tax purposes as part of another individual’s income,
- each of those individuals is treated as holding at that time the securities which the other holds, as well as those which that individual actually holds.

640 Small holdings: personal representatives

- (1) In relation to a transfer with accrued interest or transfer without accrued interest of securities that form part of a deceased person’s estate, the deceased’s personal representatives are an excluded transferor or excluded transferee unless the nominal value of securities held by the deceased’s personal representatives as such exceeds £5,000 on any day—
- (a) in the tax year in which the interest period ends, or
 - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest of securities that form part of a deceased person’s estate, the deceased’s personal representatives are an excluded transferor or excluded transferee unless the nominal value of securities held by the deceased’s personal representatives as such exceeds £5,000 on any day—

- (a) in the tax year in which the settlement day falls, or
 - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities that form part of a deceased person's estate, the deceased's personal representatives are an excluded transferor unless the nominal value of securities held by the deceased's personal representatives as such exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In subsection (3) "the relevant tax year" has the meaning given by section 639(4).

641 Small holdings: trustees of a disabled person's trusts

- (1) In relation to a transfer with accrued interest or transfer without accrued interest of securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor or excluded transferee unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day—
- (a) in the tax year in which the interest period ends, or
 - (b) in the previous tax year.
- (2) In relation to a transfer with unrealised interest of securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor or excluded transferee unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day—
- (a) in the tax year in which the settlement day falls, or
 - (b) in the previous tax year.
- (3) In relation to a transfer of variable rate securities held on a disabled person's trusts, the trustees of the settlement are an excluded transferor unless the nominal value of securities held by the trustees of the settlement as such exceeds £5,000 on any day in the relevant tax year or the previous tax year.
- (4) In this section—
- "disabled person's trusts" means trusts falling within paragraph 1(1) of Schedule 1 to TCGA 1992 (application of annual exempt amount), and
 - "the relevant tax year" has the meaning given by section 639(4).

642 Traders

- (1) In relation to a transfer of securities by a person carrying on a trade, the person is an excluded transferor if the transfer is taken into account for income tax purposes in calculating the profits or losses of the trade.
- (2) In relation to a transfer of securities at any time to a person carrying on a trade, the person is an excluded transferee if, had the transfer been made by the person at that time, it would have been taken into account for income tax purposes in calculating the profits or losses of the trade.

643 Non-residents

- (1) A person is—
- (a) an excluded transferor in relation to a transfer by the person, and
 - (b) an excluded transferee in relation to a transfer to the person,

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if the person is non-UK resident throughout the tax year in which the transfer occurs and is not ordinarily UK resident during that year.

- (2) In the case of a person who is carrying on a trade in the United Kingdom through a branch or agency during any part of that year (“a UK branch trader”), subsection (1) is subject to subsections (3) and (4).
- (3) A UK branch trader is not an excluded transferor under subsection (1) if the securities transferred were situated in the United Kingdom and used or held for the purposes of the branch or agency at or before the time of the transfer.
- (4) A UK branch trader is not an excluded transferee under subsection (1) if the securities transferred were situated in the United Kingdom at the time of the transfer and were acquired for use by or for the purposes of the branch or agency.
- (5) In this section “branch or agency” has the meaning given by section 10(6) of TCGA 1992.
- (6) The place where securities are situated is determined for the purposes of this section in accordance with sections 275(1) and (2)(b) and 275C of TCGA 1992.
- (7) Further provision about trustees who are non-UK resident is made in section 667 (trustees' accrued income profits treated as settlement income).

644 Individuals to whom the remittance basis applies

- (1) This section applies if—
 - (a) there is a transfer of securities by or to an individual in a tax year, and
 - (b) interest on the securities in respect of which the individual is liable to income tax for the tax year—
 - (i) is charged in accordance with section 832 of ITTOIA 2005 (relevant foreign income charged on the remittance basis), or
 - (ii) would be so charged if there were any.
- (2) The individual is an excluded transferor in relation to the transfer if it is made by the individual.
- (3) The individual is an excluded transferee in relation to the transfer if it is made to the individual.

645 Charitable trusts etc

- (1) A person is—
 - (a) an excluded transferor in relation to a transfer of securities by the person, and
 - (b) an excluded transferee in relation to a transfer of securities to the person, if condition A or B is met.
- (2) Condition A is that if the person—
 - (a) became entitled to any interest on the securities, and
 - (b) applied it for charitable purposes only,
 exemption could be granted in respect of the interest under section 532 (exemption for certain savings and investment income that belongs to a charitable trust and is applicable and applied to charitable purposes only).

- (3) Condition B is that if the person—
- (a) became entitled to any interest on the securities, and
 - (b) applied it for the purposes mentioned in section 533 (exemption for public revenue dividends that are applied only for the repair of college or church buildings etc),
- exemption could be granted in respect of the interest under that section.
- (4) For the transfer treated as occurring where charitable trusts over securities cease, see section 652 (securities ceasing to be held on charitable trusts).

646 Pension scheme trustees

A person is—

- (a) an excluded transferor in relation to a transfer of securities by the person, and
 - (b) an excluded transferee in relation to a transfer of securities to the person,
- if, were the person to become entitled to interest on the securities, exemption in respect of it would be allowable under section 186 of FA 2004 (exemption for income from investments held for the purposes of a registered pension scheme).

647 Makers of manufactured payments

- (1) This section applies if the manufactured payments conditions are met.
- (2) The manufactured payments conditions are that—
- (a) securities are transferred without accrued interest to a person (“the seller”),
 - (b) the seller makes a contract for the sale of securities of that kind (“the seller’s contract”), and
 - (c) any contract under which the securities are transferred to the seller, or the seller’s contract itself, is a manufactured payments contract.
- (3) The seller is an excluded transferee in relation to the transfer to the seller if the nominal value of the securities subject to the seller’s contract equals or exceeds that of the securities transferred to the seller.
- (4) The seller is an excluded transferor in relation to the transfer of securities under the seller’s contract.
- (5) See section 663 (transfers without accrued interest to makers of manufactured payments) for cases where that nominal value is less than that of the securities transferred to the seller.
- (6) In this section “manufactured payments contract” means a contract under which the seller is required to pay another person manufactured interest or a manufactured overseas dividend as mentioned in section 578 or 581.