



Corporation Tax Act 2010

2010 CHAPTER 4

PART 23 U.K.

COMPANY DISTRIBUTIONS

CHAPTER 3 U.K.

MATTERS WHICH ARE NOT DISTRIBUTIONS

Purchase of own shares

1033 Purchase by unquoted trading company of own shares U.K.

- (1) A payment made by a company on the redemption, repayment or purchase of its own shares is not a distribution for the purposes of the Corporation Tax Acts if—
 - (a) the company is an unquoted trading company, or the unquoted holding company of a trading group, and
 - (b) either Condition A or Condition B is met.
- (2) Condition A is that—
 - (a) the redemption, repayment or purchase is made wholly or mainly for the purpose of benefiting a trade carried on by the company or any of its 75% subsidiaries,
 - (b) the redemption, repayment or purchase does not form part of a scheme or arrangement the main purpose or one of the main purposes of which is—
 - (i) to enable the owner of the shares to participate in the profits of the company without receiving a dividend, or
 - (ii) the avoidance of tax, and
 - (c) the requirements set out in sections 1034 to 1043 (so far as applicable) are met.

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- (3) Condition B is that the whole or substantially the whole of the payment (apart from any sum applied in paying capital gains tax charged on the redemption, repayment or purchase)—
- (a) is applied by the person to whom it is made in discharging a liability of that person for inheritance tax charged on a death, and
 - (b) is applied in that way within two years after the death.
- (4) But if condition B is met, subsection (1) does not apply so far as the liability in question could without undue hardship have been discharged otherwise than through the redemption, repayment or purchase of—
- (a) shares in the company, or
 - (b) shares in another unquoted company which is a trading company or the holding company of a trading group.
- (5) In sections 1034 to 1043—
- “the purchase” means the redemption, repayment or purchase referred to in subsection (1), and
- “the seller” means the owner of the shares at the time the redemption, repayment or purchase is made.
- (6) In this section and sections 1034 to 1047 references to a payment made by a company include anything else that—
- (a) is a distribution, or
 - (b) would be a distribution but for this section.

1034 Requirements as to residence **U.K.**

- (1) The seller must be resident ^{F1}... in the United Kingdom in the tax year in which the purchase is made.
- (2) If the shares are held through a nominee, the nominee must also be resident ^{F1}... in the United Kingdom in the tax year in which the purchase is made.
- (3) The residence ^{F2}... of personal representatives are taken for the purposes of this section to be the same as the deceased person's residence ^{F2}... immediately before that person's death.

^{F3}(4)

Textual Amendments

- F1** Words in s. 1034(1)(2) omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 145\(2\)](#) (with [Sch. 46 para. 145\(5\)](#))
- F2** Words in s. 1034(3) omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 145\(3\)](#) (with [Sch. 46 para. 145\(5\)](#))
- F3** S. 1034(4) omitted (17.7.2013) by virtue of [Finance Act 2013 \(c. 29\)](#), [Sch. 46 para. 145\(4\)](#) (with [Sch. 46 para. 145\(5\)](#))

1035 Requirement as to period of ownership **U.K.**

- (1) The shares must have been owned by the seller throughout the 5 years ending with the date of the purchase.

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- (2) In determining whether the requirement in subsection (1) is met in a case where the seller acquired shares of the same class at different times—
 - (a) shares acquired earlier are taken into account before shares acquired later, and
 - (b) any previous disposal by the seller of shares of that class is assumed to be a disposal of shares acquired later rather than of shares acquired earlier.
- (3) If the time when any shares were acquired would be determined for the purposes of capital gains tax under any provision of Chapter 2 of Part 4 of TCGA 1992 (reorganisation of share capital, conversion of securities etc) then, unless the shares—
 - (a) were allotted for payment, or
 - (b) were comprised in share capital to which section 1049 (stock dividends) applies,the time when the shares were acquired is determined in the same way for the purposes of this section.

1036 Determining the period of ownership **U.K.**

- (1) If at any time during the period mentioned in section 1035(1) the shares were transferred to the seller by a person (“the transferor”) who—
 - (a) was then the seller's spouse or civil partner, and
 - (b) was then living with the seller (see section 1116),any period during which the shares were owned by the transferor is treated for the purposes of section 1035(1) as a period of ownership by the seller.
- (2) But subsection (1) does not apply if at the date of the purchase the transferor is alive but is no longer the seller's spouse or civil partner living with the seller.
- (3) If the seller became entitled to the shares under the will or on the intestacy of a previous owner, or is the personal representative of a previous owner—
 - (a) any period during which the shares were owned by the previous owner, or the personal representatives of the previous owner, is treated for the purposes of section 1035(1) as a period of ownership by the seller, and
 - (b) section 1035(1) has effect as if it referred to three years instead of five.

1037 Requirement as to reduction of seller's interest as shareholder **U.K.**

- (1) If, immediately after the purchase, the seller owns shares in the company, the seller's interest as a shareholder must be substantially reduced.

This is subject to section 1043.

- (2) If, immediately after the purchase, any associate of the seller owns shares in the company, the combined interests as shareholders of the seller and the seller's associates must be substantially reduced.

This is subject to section 1043.

- (3) The seller's interest as a shareholder is substantially reduced if (and only if) the seller's subsequent interest is not more than 75% of the seller's prior interest.

This is subject to section 1038.

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- (4) “The seller's prior interest” means the total nominal value of the shares owned by the seller immediately before the purchase, expressed as a fraction of the issued share capital of the company at that time.
- (5) “The seller's subsequent interest” means the total nominal value of the shares owned by the seller immediately after the purchase, expressed as a fraction of the issued share capital of the company at that time.
- (6) The question whether the combined interests as shareholders of the seller and the seller's associates are substantially reduced is determined in the same way as the question whether a seller's interest as shareholder is substantially reduced, except that the seller is assumed to have the interests of the seller's associates as well as the seller's own.

[^{F4}1038 Exclusion of other deductions U.K.]

- (1) Subsection (2) applies if relief is or, apart from condition 2 in section 1009(1), would be available under this Part.

For this purpose, it does not matter if the amount of the relief is or would be calculated as nil.

- (2) Except as provided for by this Part, for the purpose of calculating any company's profits for corporation tax purposes for any accounting period, no deduction is allowed—
 - (a) in relation to the provision of the shares or to any matter connected with the provision of the shares, or
 - (b) so far as not covered by paragraph (a) in a case in which the shares are acquired pursuant to an option, in relation to the option or to any matter connected with the option.
- (3) In a case in which section 1022 has applied, in subsection (2)(b) references to the option cover the new option and any relevant earlier qualifying option.
- (4) For the purposes of subsection (2) it does not matter if the accounting period in question falls wholly before or after the time at which the shares are acquired.
- (5) In a case in which the shares are acquired under an employee share scheme, the deductions disallowed by subsection (2) include (in particular) deductions for amounts paid or payable by the employing company in relation to the participation of the employee in the scheme.
- (6) But subsection (2) does not disallow deductions for—
 - (a) expenses incurred in setting up the scheme,
 - (b) expenses incurred in meeting, or contributing to, the costs of administering the scheme,
 - (c) the costs of borrowing for the purposes of the scheme, or
 - (d) fees, commission, stamp duty, stamp duty reserve tax, and similar incidental expenses of acquiring the shares.
- (7) “Employee share scheme” means a scheme or arrangement for enabling shares to be acquired because of persons' employment.

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- (8) In a case in which relief is or, apart from condition 2 in section 1009(1), would be available under Chapter 5 by virtue of section 1030(2), subsection (2) does not disallow deductions in relation to the provision of the convertible securities.]

Textual Amendments

- F4** S. 1038 substituted (with effect in accordance with s. 40(4)-(6) of the amending Act) by [Finance Act 2013 \(c. 29\)](#), s. 40(2)

1039 Requirements where purchasing company is a member of a group **U.K.**

- (1) This section applies if the company making the purchase is immediately before the purchase a member of a group.
- (2) In this section and sections 1040 to 1041 that group is referred to as “the purchaser’s group”.
- (3) If—
- (a) immediately after the purchase the seller owns shares in one or more other members of the purchaser’s group (whether or not the seller then owns shares in the company making the purchase), or
 - (b) immediately after the purchase the seller owns shares in the company making the purchase, and immediately before the purchase the seller owns shares in one or more other members of the group,
- the seller’s interest as a shareholder in the group must be substantially reduced (see section 1040(1)).
- (4) If immediately before the purchase an associate of the seller owns shares in any member of the purchaser’s group, the combined interests as shareholders in the group of the seller and the seller’s associates must be substantially reduced (see section 1040(4)).
- (5) This section is subject to section 1043 (relaxation of requirements in certain cases).

1040 Determining whether interests as shareholders in a group are substantially reduced **U.K.**

- (1) The seller’s interest as a shareholder in the purchaser’s group is taken to be substantially reduced if (and only if) it is not more than 75% of the corresponding interest immediately before the purchase.

This is subject to section 1041(1).

- (2) The seller’s interest as a shareholder in the group is calculated by—
- (a) expressing the total nominal value of the shares owned by the seller in each relevant company as a fraction of the issued share capital of the company,
 - (b) adding together the fractions obtained under paragraph (a), and
 - (c) dividing the result by the number of relevant companies (including any in which the seller owns no shares).
- (3) In this section and section 1041 “relevant company” means—
- (a) the company making the purchase, and

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- (b) any other member of the purchaser's group in which the seller owns shares immediately before or immediately after the purchase.

This is subject to subsection (4).

- (4) The question whether the combined interests as shareholders in the purchaser's group of the seller and the seller's associates are substantially reduced is determined in the same way as the question whether a seller's interest as a shareholder in a group is substantially reduced, except that—
 - (a) the seller is assumed to have the interests of the seller's associates as well as the seller's own, and
 - (b) references in subsection (2) and section 1041(2) to a relevant company are read accordingly.

1041 Section 1040: effect of entitlement to profits U.K.

- (1) The seller's interest as a shareholder in the purchaser's group is not taken to be substantially reduced if—
 - (a) the seller would, if every member of the group distributed all its profits available for distribution immediately after the purchase (including any profits received by it on a distribution by another member), be entitled to a share of the profits of one or more of them, and
 - (b) the new entitlement exceeds 75% of the old entitlement.
- (2) In subsection (1)—
 - “the new entitlement” means the share, or the aggregate of the shares, mentioned in subsection (1)(a), expressed as a fraction of the aggregate of the profits available for distribution of every member of the group which is—
 - (a) a relevant company, or
 - (b) a 51% subsidiary of a relevant company, and
 - “the old entitlement” means the corresponding fraction immediately before the purchase.
- (3) Subsections (2) to (5) of section 1038 apply for the purposes of this section as they apply for the purposes of section 1038(1).

1042 Other requirements U.K.

- (1) The seller must not, immediately after the purchase, be connected with—
 - (a) the company making the purchase, or
 - (b) any other company which is a member of the same group as that company.
- (2) The purchase must not be part of a scheme or arrangement which is designed, or likely, to result in—
 - (a) the seller, or
 - (b) an associate of the seller,
 having disqualifying interests in the company.
- (3) For the purposes of subsection (2), interests in the company are disqualifying interests if any of the requirements in subsection (1) and sections 1037 and 1039 could not be met if the person in question had those interests immediately after the purchase.

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- (4) A transaction occurring within one year after the purchase is treated for the purposes of subsection (2) as part of a scheme or arrangement of which the purchase is also part.
- (5) Subsections (1) and (2) are subject to section 1043.

1043 Relaxation of requirements in certain cases **U.K.**

- (1) Subsection (2) applies if—
 - (a) any requirement under any of sections 1037 to 1042 which is applicable is not met in relation to the seller, but
 - (b) the seller proposed or agreed to the purchase in order that the requirement in section 1037(2) or 1039(4) could be met in respect of the redemption, repayment or purchase of shares owned by a person of whom the seller is an associate.
- (2) So far as that result is achieved through the purchase, section 1033(2) has effect as if the requirements in sections 1037 to 1042 were met in relation to the seller.

Changes to legislation:

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Changes and effects yet to be applied to the whole Act associated Parts and Chapters:

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 357CHA omitted by [2024 c. 3 Sch. 2 para. 14\(7\)](#)
- s. 658(1)(d)(e) inserted by [2010 c. 13 Sch. 6 para. 31](#) (This amendment not applied to [legislation.gov.uk](#). Sch. 6 para. 31 omitted (retrospective to 6.4.2010) by virtue of Finance Act 2012 (c. 14), s. 52(2) (3))