

2007 No. 2488

INCOME TAX

CORPORATION TAX

The Manufactured Interest (Tax) Regulations 2007

<i>Made</i> - - - -	<i>30th August 2007</i>
<i>Laid before the House of Commons</i>	<i>31st August 2007</i>
<i>Coming into force</i> - -	<i>1st October 2007</i>

The Treasury make the following Regulations in exercise of the powers conferred by section 585 of the Income Tax Act 2007(a).

Citation, commencement and interpretation

1.—(1) These Regulations may be cited as the Manufactured Interest (Tax) Regulations 2007, shall come into force on 1st October 2007, and shall have effect in relation to payments of manufactured interest made or treated as made on or after that day.

(2) In these Regulations—

“interest manufacturer” shall be construed in accordance with regulation 2(2);

“manufactured interest” shall be construed in accordance with regulation 2(2);

“recipient” shall be construed in accordance with paragraphs (3) and (4).

(3) In these Regulations “recipient”, in relation to a payment of manufactured interest, means a company to which either paragraph (a) or paragraph (b) of section 920(2) of the Income Tax Act 2007 applies, and shall be construed in accordance with regulation 2(2).

(4) For the purpose of determining whether or not a company is a recipient in relation to a payment of manufactured interest, paragraph 4(3) of Schedule 13 to the Finance Act 2007(b) (ignoring effect on borrower of sale of securities) shall not apply.

Liability for tax where the interest manufacturer receives the interest of which the manufactured interest is representative

2.—(1) This regulation applies if conditions A and B are met.

(2) Condition A is that, under a contract or other arrangements for the transfer of UK securities, one of the parties (the “interest manufacturer”) is required to pay to the other (the “recipient”) an amount (the “manufactured interest”) which is representative of a periodical payment of interest on the securities.

(a) 2007 c. 3.
(b) 2007 c. 11.

(3) Condition B is that the payment of manufactured interest is made in circumstances where the recipient shows that the interest manufacturer was entitled to payment of the interest of which the manufactured interest is representative—

- (a) as the holder of the securities concerned, or
- (b) directly or indirectly from a person from whom he acquired those securities, or to whom he transferred them, and who was so entitled as the holder of those securities.

(4) The income tax borne by deduction and available for offset by the recipient shall be the lower of—

- (a) an amount equal to the excess of the gross amount of the interest over the amount of the manufactured interest paid by the interest manufacturer which represents that interest, and
- (b) the amount of tax actually withheld.

(5) In paragraph (4)(a) the reference to manufactured interest paid by the interest manufacturer does not include any payment of manufactured interest treated as made under—

- (a) section 736B of the Income and Corporation Taxes Act 1988(a) (deemed manufactured payments in the case of stock lending arrangements), or
- (b) section 737A of the Income and Corporation Taxes Act 1988(b) (sale and repurchase of securities: deemed manufactured payments).

(6) In paragraph (4)(b) “the amount of tax actually withheld” means the amount withheld on payment of the interest less an amount equal to the amount (if any) of relief from United Kingdom tax to which, assuming the interest manufacturer to have made a claim under arrangements having effect by virtue of section 788 of the Income and Corporation Taxes Act 1988(c) (relief by agreement with other territories), the interest manufacturer is entitled in respect of the payment received by him.

(7) The recipient of a payment of manufactured interest to which this regulation applies or, as the case may be, any person claiming title through or under the recipient, shall be treated for the purposes of the Tax Acts as if the payment had borne income tax by deduction.

Revocation of the Manufactured Interest (Tax) Regulations 1997

3. The Manufactured Interest (Tax) Regulations 1997 (S.I. 1997/992) are revoked.

Steve McCabe
Claire Ward

30th August 2007

Two of the Lords Commissioners of Her Majesty's Treasury

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- (a) 1988 c. 1; section 736B was inserted by paragraph 3 of Schedule 10 to the Finance Act 1997 (c. 16), and amended by section 84 of the Finance Act 2001 (c. 9), paragraph 4(1) of Schedule 6 to the Finance Act 2006 (c. 25) and paragraph 171 of Schedule 1 to the Income Tax Act 2007.
 - (b) Section 737A was inserted by section 122 of the Finance Act 1994 (c. 9), and amended by section 159(1) of the Finance Act 1996 (c. 8), Part 6(10) of Schedule 18 to the Finance Act 1997, paragraphs 2 and 7 of Schedule 38 to the Finance Act 2003 (c. 14) and paragraph 5 of Schedule 6 to the Finance Act 2006. Section 737A is repealed in relation to arrangements entered into on or after 1st October 2007 (see section 47 of, and paragraph 7 of Schedule 14 to, the Finance Act 2007 and S.I. 2007/2483(C. 92).
 - (c) Section 788 was amended by paragraphs 1 and 2 of Schedule 30 to the Finance Act 2000 (c. 17), section 88(1), (2)(a) and (2)(b) of the Finance Act 2002 (c. 23), section 198 of the Finance Act 2003, paragraph 321 of Schedule 1 to the Income Tax (Trading and Other Income) Act 2005 (c. 5) and section 176 of, and Part 8(2) of Schedule 26 to, the Finance Act 2006.

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations, which take account of recent legislation contained in the Income Tax Act 2007 and the Finance Act 2007, revoke the Manufactured Interest (Tax) Regulations 1997 (S.I. 1997/992), and specify the circumstances in which a UK company recipient of a payment of manufactured interest may claim tax credit relief in respect of the payment.

A full regulatory impact assessment has not been produced for this instrument as no impact on the private or voluntary sectors is foreseen.

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