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SCHEDULES.

SCHEDULE 7

CAPITAL GAINS: MISCELLANEOUS RULES.

Reorganisation of share capital, conversion of securities, etc.

- 4 (1) This paragraph shall apply in relation to any reorganisation or reduction of a company's share capital; and for the purposes of this paragraph—
- (a) references to a reorganisation of a company's share capital include—
 - (i) any case where persons are, whether for payment or not, allotted shares in or debentures of the company in respect of and in proportion to (or as nearly as may be in proportion to) their holdings of shares in the company or of any class of shares in the company; and
 - (ii) any case where there are more than one class of share and the rights attached to shares of any class are altered ; and
 - (b) " original shares " means shares held before and concerned in the reorganisation or reduction of capital, and " new holding" means, in relation to any original shares, the shares in and debentures of the company which as a result of the reorganisation or reduction of capital represent the original shares (including such, if any, of the original shares as remain).
- (2) Subject to the following sub-paragraphs, a reorganisation or reduction of a company's share capital shall not be treated as involving any disposal of the original shares or any acquisition of the new holding or any part of it, but the original shares (taken as a single asset) and the new holding (taken as a single asset) shall be treated as the same asset acquired as the original shares were acquired.
- (3) Where, on a reorganisation or reduction of a company's share capital, a person gives or becomes liable to give any consideration for his new holding or any part of it, that consideration shall in relation to any disposal of the new holding or any part of it be treated as having been given for the original shares, and if the new holding or part of it is disposed of with a liability attaching to it in respect of that consideration, the consideration given for the disposal shall be adjusted accordingly:
- Provided that there shall not be treated as consideration given for the new holding or any part of it any surrender, cancellation or other alteration of the original shares or of the rights attached thereto, or any consideration consisting of any application in paying up the new holding or any part of it of assets of the company or of any dividend or other distribution declared out of those assets but not made.
- (4) Where, on a reorganisation or reduction of a company's share capital, a person receives (or is deemed to receive), or becomes entitled to receive, any consideration, other than the new holding, for the disposal of an interest in the original shares, and in particular—

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- (a) where under paragraph 3 of this Schedule he is to be treated as if he had in consideration of a capital distribution disposed of an interest in the original shares, or
- (b) where he receives (or is deemed to receive) consideration from other shareholders in respect of a surrender of rights derived from the original shares,

he shall be treated as if the new holding resulted from his having for that consideration disposed of an interest in the original shares (but without prejudice to the original shares and the new holding being treated in accordance with sub-paragraph (2) above as the same asset).

- (5) Where for the purpose of computing the gain or loss accruing to a person from the acquisition and disposal of any part of the new holding it is necessary to apportion the cost of acquisition of any of the original shares between what is disposed of and what is retained, the apportionment shall be made by reference to market value at the date of the disposal (with such adjustment of the market value of any part of the new holding as may be required to offset any liability attaching thereto but forming part of the cost to be apportioned); and any corresponding apportionment for the purposes of sub-paragraph (4) above shall be made in like manner.
 - (6) Where on a reorganisation of a company's share capital a person receives or becomes entitled to receive in respect of any shares a provisional allotment of shares in or debentures of the company, then unless he neither accepts the allotment nor disposes of his rights before or after the making of the allotment, those rights shall be treated in relation to him and in relation to any person acquiring them directly or indirectly from him as if they were the shares or debentures to which they relate and as if the consideration to be given for the shares or debentures were a liability attaching to the rights.
 - (7) References in this paragraph to a reduction of share capital do not include the paying off of redeemable share capital, and where shares in a company are redeemed by the company otherwise than by the issue of shares or debentures (with or without other consideration) and otherwise than in a liquidation, the shareholder shall be treated as disposing of the shares at the time of the redemption.
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- (1) Subject to sub-paragraph (2) below, the last foregoing paragraph shall apply with any necessary adaptations in relation to the conversion of securities as it applies in relation to the reorganisation or reduction of a company's share capital.
 - (2) If in consequence of a conversion on their redemption date of securities of one of the descriptions in Schedule 9 to this Act any securities of that description and a new holding of Government securities are, under paragraph 4(2) of this Schedule as applied by this paragraph, to be treated as the same asset acquired as the converted securities were acquired, and the adjusted purchase price (as defined in section 27(3) of this Act) of the converted securities is less than one hundred pounds then, in computing under Schedule 6 to this Act the gain accruing on the acquisition and disposal of the new holding, or any part of the new holding, there shall be added to the amount of the expenditure which is allowable as a deduction the amount of the gain which would have been exempted from being a chargeable gain by virtue of the said section 27(3) if the converted securities, or as the case may be the corresponding part of them, had been disposed of at the time of their redemption for a consideration equal to their nominal value.
 - (3) For the purposes of this paragraph—

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- (a) " conversion of securities " includes—
 - (i) a conversion of securities of a company into shares in the company, and
 - (ii) a conversion at the option of the holder of the securities converted as an alternative to the redemption of those securities for cash, and
 - (iii) any exchange of securities effected in pursuance of any enactment (including an enactment passed after this Act) which provides for the compulsory acquisition of any shares or securities and the issue of securities or other securities instead, and
- (b) " security " includes any loan stock or similar security whether of the Government of the United Kingdom or of any other government, or of any public or local authority in the United Kingdom or elsewhere, or of any company, and whether secured or unsecured.