

SCHEDULES

SCHEDULE 10

STOCK LENDING ARRANGEMENTS AND MANUFACTURED PAYMENTS

PART I

STOCK LENDING

Approved stock lending arrangements: traders

- 1 (1) Section 129 of the Taxes Act 1988 (treatment of approved stock lending arrangements when computing the profits of a trade) shall cease to have effect.
- (2) Section 129A of, and Schedule 5A to, that Act (interest on cash collateral for approved stock lending arrangements) shall also cease to have effect.

Stock lending fees

- 2 (1) In subsection (3) of section 129B of the Taxes Act 1988 (stock lending fees under approved stock lending arrangements), for “an approved” there shall be substituted “any”.
- (2) For subsection (4) of that section (meaning of approved stock lending arrangement) there shall be substituted the following subsection—
- “(4) In this section “stock lending arrangement” has the same meaning as in section 263B of the 1992 Act.”

Stock lending agreements under which manufactured payments are not made

- 3 After section 736A of the Taxes Act 1988 (manufactured dividends and interest) there shall be inserted the following section—

“736B Deemed manufactured payments in the case of stock lending arrangements

- (1) This section applies where—
- (a) any interest on securities transferred by the lender under a stock lending arrangement is paid, as a consequence of the arrangement, to a person other than the lender; and
 - (b) no provision is made for securing that the lender receives payments representative of that interest.
- (2) Where this section applies, Schedule 23A and the provisions for the time being contained in any regulations under that Schedule shall apply as if—

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- (a) the borrower were required under the stock lending arrangement to pay the lender an amount representative of the interest mentioned in subsection (1)(a) above;
- (b) a payment were made by the borrower in discharge of that requirement; and
- (c) that payment were made on the same date as the payment of the interest of which it is representative.

(3) In this section—

“interest” includes dividends; and
“stock lending arrangement” and “securities” have the same meanings as in section 263B of the 1992 Act.”

Manufactured payments in stock lending cases etc.

- 4 In Schedule 23A to the Taxes Act 1988 (manufactured payments)—
- (a) paragraph 6 (unapproved manufactured payments) shall cease to have effect; and
 - (b) in paragraph 7(3)—
 - (i) in paragraph (a), the words “except where paragraph 6 above applies, and” shall be omitted;
 - (ii) paragraph (b) shall be omitted; and
 - (iii) for the words “3, 4 or 6” there shall be substituted “3 or 4”.

Stock lending arrangements: capital gains

- 5 (1) After section 263A of the Taxation of Chargeable Gains Act 1992 (agreements for sale and repurchase of securities) there shall be inserted the following sections—

“263B Stock lending arrangements

- (1) In this section “stock lending arrangement” means so much of any arrangements between two persons (“the borrower” and “the lender”) as are arrangements under which—
 - (a) the lender transfers securities to the borrower otherwise than by way of sale; and
 - (b) a requirement is imposed on the borrower to transfer those securities back to the lender otherwise than by way of sale.
- (2) Subject to the following provisions of this section and section 263C(2), the disposals and acquisitions made in pursuance of any stock lending arrangement shall be disregarded for the purposes of capital gains tax.
- (3) Where—
 - (a) the borrower under any stock lending arrangement disposes of any securities transferred to him under the arrangement,
 - (b) that disposal is made otherwise than in the discharge of the requirement for the transfer of securities back to the lender, and
 - (c) that requirement, so far as it relates to the securities disposed of, has been or will be discharged by the transfer of securities other than those transferred to the borrower,

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any question relating to the acquisition of the securities disposed of shall be determined (without prejudice to the provisions of Chapter I of Part IV) as if the securities disposed of were the securities with which that requirement (so far as relating to the securities disposed of) has been or will be discharged.

- (4) Where, in the case of any stock lending arrangement, it becomes apparent, at any time after the making of the transfer by the lender, that the requirement for the borrower to make a transfer back to the lender will not be complied with—
- (a) the lender shall be deemed for the purposes of this Act to have made a disposal at that time of the securities transferred to the borrower;
 - (b) the borrower shall be deemed to have acquired them at that time; and
 - (c) subsection (3) above shall have effect in relation to any disposal before that time by the borrower of securities transferred to him by the lender as if the securities deemed to have been acquired by the borrower in accordance with paragraph (b) above were to be used for discharging a requirement to transfer securities back to the lender.
- (5) References in this section, in relation to a person to whom securities are transferred, to the transfer of those securities back to another person shall be construed as if the cases where those securities are taken to be transferred back to that other person included any case where securities of the same description as those securities are transferred to that other person either—
- (a) in accordance with a requirement to transfer securities of the same description; or
 - (b) in exercise of a power to substitute securities of the same description for the securities that are required to be transferred back.
- (6) For the purposes of this section securities shall not be taken to be of the same description as other securities unless they are in the same quantities, give the same rights against the same persons and are of the same type and nominal value as the other securities.
- (7) In this section—
- “interest” includes dividends; and
 - “securities” means United Kingdom equities, United Kingdom securities or overseas securities (within the meaning, in each case, of Schedule 23A to the Taxes Act).

263C Stock lending involving redemption

- (1) In section 263B references to the transfer back to a person of securities transferred by him shall be taken to include references to the payment to him, in pursuance of an obligation arising on any person’s becoming entitled to receive an amount in respect of the redemption of those securities, of an amount equal to the amount of the entitlement.
- (2) Where, in pursuance of any such obligation, the lender under any stock lending arrangement is paid any amount in respect of the redemption of any securities to which the arrangement relates—
- (a) that lender shall be deemed for the purposes of this Act to have disposed, for that amount, of the securities in respect of whose redemption it is paid (“the relevant lent securities”);

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- (b) the borrower shall not, in respect of the redemption, be taken for the purposes of this Act to have made any disposal of the relevant lent securities; and
 - (c) section 263B(3) shall have effect in relation to disposals of any of the relevant lent securities made by the borrower before the redemption as if—
 - (i) the amount paid to the lender were an amount paid for the acquisition of securities, and
 - (ii) the securities acquired were to be used by the borrower for discharging a requirement under the arrangement to transfer the relevant lent securities back to the lender.
- (3) Expressions used in this section and section 263B have the same meanings in this section as in that section.”
- (2) Section 271(9) of that Act (treatment of approved stock lending arrangements) shall cease to have effect.
- (3) In section 727(2) of the Taxes Act 1988 (stock lending and the accrued income scheme), for “section 271(9) of the 1992 Act” there shall be substituted “section 263B(2) of the 1992 Act”.

Premiums trust funds of Lloyd’s members

- 6 The following provisions of Chapter III of Part II of the Finance Act 1993 and Chapter V of Part IV of the Finance Act 1994 (Lloyd’s members) shall cease to have effect—
- (a) section 174(4) and (5) and section 182(1)(ca)(i) of that Act of 1993 (stock lending arrangements applying to securities in the premiums trust funds of individual members); and
 - (b) section 222(4) and (5) and section 229(ca)(i) of that Act of 1994 (which makes corresponding provision for the premiums trust funds of corporate members).

Commencement

- 7 (1) This Part of this Schedule (except paragraph 4 above) has effect in relation to, and to transfers under, any arrangement made on or after such day as the Treasury may by order made by statutory instrument appoint.
- (2) Paragraph 4 above has effect in relation to any manufactured payment made on or after the day appointed under sub-paragraph (1) above.