

Status: Point in time view as at 01/04/2009.

Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 2005, SCHEDULE 7. (See end of Document for details)

SCHEDULES

SCHEDULE 7

Section 39

AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

Rent factoring

F11

Textual Amendments

F1 Sch. 7 para. 1 repealed (with effect in accordance with Sch. 26 Pt. 3(12) Note of the amending Act) by Finance Act 2006 (c. 25), **Sch. 26 Pt. 3(12)**

Section 730: restriction to income consisting of distributions in respect of company shares etc

2 (1) Section 730 of ICTA (transfers of income arising from securities) is amended as follows.

(2) In each place where it occurs—

- (a) for “interest” substitute “ distribution ”;
- (b) for “securities” substitute “ shares ”.

(3) In subsection (1) (interest deemed to be income of owner etc)—

- (a) in paragraph (a), for “deemed to be” substitute “ treated as ”;
- (b) in paragraph (b), for “deemed to be” substitute “ treated as ”, and
- (c) omit paragraph (c).

(4) For subsection (2) (sale etc where proceeds chargeable to tax by virtue of section 18(3B) of ICTA) substitute—

“(2) This section does not have effect in relation to a sale or transfer if the proceeds of the sale or transfer are chargeable to tax.”.

(5) Omit subsection (2A) (loan relationships).

F2(6)

(7) In subsection (4), in the words following paragraph (b) after their substitution by paragraph 300(3)(b) of Schedule 1 to ITTOIA 2005, for “interest” substitute “ distribution ”.

(8) In subsection (4A), for “interest arising” substitute “ distribution ”.

(9) In subsection (4B), for “interest” substitute “ distribution ”.

(10) For subsection (7) (definitions) substitute—

“(7) In this section—

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“distribution”, in relation to shares in a company,—

- (a) has the same meaning as it has in the Corporation Tax Acts (see section 209), but
 - (b) also includes any amount that would be a distribution if the company paying it were resident in the United Kingdom;
- “shares” means shares in a company.”

- (11) In subsection (8) (information powers) omit from “and for the purpose” to the end of the subsection.
- (12) The heading to the section becomes “ Transfers of rights to receive distributions in respect of shares ”.
- (13) The amendments made by this paragraph have effect in relation to sales or transfers on or after 2nd December 2004.

Textual Amendments

- F2** Sch. 7 para. 2(6) repealed (with effect in accordance with Sch. 26 Pt. 3(12) Note of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 26 Pt. 3\(12\)](#)

Change in ownership of company with investment business

- 3 (1) In section 768B(10) of ICTA (Part 4 of Schedule 28A to have effect for restricting the debits to be brought into account in respect of loan relationships) after “debits”, where first occurring, insert “ and non-trading deficits ”.
- (2) In section 768C(9) of ICTA (Part 4 of Schedule 28A to have effect for restricting the debits to be brought into account in respect of loan relationships) after “debits”, where first occurring, insert “ and non-trading deficits ”.
- (3) Schedule 28A to ICTA (change in ownership of investment company: deductions) is amended as follows.
- (4) In paragraph 7(1)(b) (apportionment of excess in paragraph 6(c), or of non-trading deficit, to first part of accounting period) after “the whole amount of the excess” insert “ or, as the case may be, of the deficit ”.
- (5) After paragraph 9 insert—
 - “9A (1) This paragraph has effect in any case to which section 768B applies where the non-trading deficit mentioned in paragraph 6(dc) above is apportioned by paragraph 7(b) above to the first part of the accounting period being divided.
 - (2) In any such case, none of that non-trading deficit shall be carried forward to—
 - (a) the accounting period beginning immediately after the change in the ownership of the company, or
 - (b) any subsequent accounting period.”.
- (6) After paragraph 10 insert—
 - “10A(1) This paragraph has effect in any case to which section 768C applies where the non-trading deficit mentioned in paragraph 13(1)(ec) below is

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apportioned by paragraph 16(1)(b) below to the first part of the accounting period being divided.

- (2) In any such case, none of that non-trading deficit shall be carried forward to—
- (a) the accounting period beginning immediately after the change in the ownership of the company, or
 - (b) any subsequent accounting period.”.
- (7) In paragraph 16(1)(b) (apportionment of excess in paragraph 13(1)(ec), or of non-trading deficit, to first part of accounting period) after “the whole amount of the excess” insert “ or, as the case may be, of the deficit ”.
- (8) The title of Part 4 of the Schedule becomes “ Disallowed debits and non-trading deficits ”.
- (9) The amendments made by this paragraph have effect in any case where the change in ownership is on or after 10th February 2005.

Transfers of rights to receive annual payments

- 4 (1) After section 775 of ICTA (sale by individual of income derived from his personal activities) insert—

“775A Transfers of rights to receive annual payments

- (1) This section applies in any case where—
- (a) a person sells or transfers the right to receive an annual payment to which this section applies (see subsection (4)), and
 - (b) the consideration (if any) for the sale or transfer would not, apart from this section, be chargeable to tax.
- (2) In any such case, tax is charged—
- (a) in the case of income tax, under this section; or
 - (b) in the case of corporation tax, under Case III of Schedule D.
- (3) Where this section applies—
- (a) the tax is charged on an amount equal to the market value of the right to receive the annual payment;
 - (b) the tax is charged for the chargeable period in which the sale or transfer takes place;
 - (c) the person liable for the tax is the person who sells or transfers the right to the annual payment.
- (4) This section applies to any annual payment other than—
- (a) an annual payment under a life annuity;
 - (b) an annual payment under a pension annuity;
 - (c) an annual payment to which section 347A applies (annual payments that are not charges on income);
 - (d) an annual payment in respect of which, by virtue of section 727 of ITTOIA 2005 (payments by individuals arising in UK), no liability to income tax arises under Part 5 of that Act.

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- (5) This section applies in relation to part of an annual payment as it applies in relation to the whole of an annual payment.
- (6) For the purposes of this section, a sale or transfer of all rights under an agreement for annual payments, or under an annuity, is a sale or transfer of the rights to each individual payment under the agreement or annuity.
- (7) In this section—
 - “life annuity” means—
 - (a) a life annuity, as defined in section 657(1); or
 - (b) a life annuity, as defined in section 473(2) of ITTOIA 2005;
 - “pension annuity” means an annuity which is pension income within the meaning of Part 9 of ITEPA 2003 (see section 566(2) of that Act).”.
- (2) The amendment made by this paragraph has effect in relation to sales or transfers on or after 16th March 2005.

Disposals and acquisitions of company loan relationships with or without interest

- 5 (1) Section 807A of ICTA is amended as follows.
 - (2) After subsection (2A) (exclusion of certain tax) insert—
 - “(2B) Where, in the case of any share, section 91A or 91B of the Finance Act 1996 (shares treated as loan relationships) applies in relation to a company for an accounting period, this section has effect—
 - (a) in relation to a distribution in respect of the share as it has effect in relation to interest under a loan relationship, and
 - (b) in relation to a distribution accruing in respect of the share at a time when the company does not (within the meaning of the section in question) hold the share as it applies in relation to interest accruing under a loan relationship at a time when the company is not a party to the loan relationship.”.
 - (3) The amendment made by this paragraph has effect in relation to shares held by a company on or after 16th March 2005.

Manufactured interest and the accrued income scheme

F36

Textual Amendments
F3 Sch. 7 para. 6 repealed (6.4.2007) by [Income Tax Act 2007 \(c. 3\)](#), s. 1034(1), [Sch. 3 Pt. 1](#) (with [Sch. 2](#))

Consideration due after time of disposal: creditor relationships etc

- 7 (1) Section 48 of TCGA 1992 (consideration due after time of disposal) is amended as follows.
 - (2) At the beginning insert “ (1) ”.

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(3) At the end add—

“(2) Subsection (1) above does not apply in relation to so much of any consideration as consists of rights under a creditor relationship to which a company becomes a party as a result of the disposal.

(3) In the computation of the gain in a case where subsection (2) above has effect in relation to any consideration, the amount to be brought into account in respect of that consideration is the fair value of the creditor relationship.

(4) In this section—

(a) “creditor relationship”, and

(b) “fair value”, in relation to a creditor relationship,

each have the same meaning as in Chapter 2 of Part 4 of the Finance Act 1996 (see section 103(1) of that Act).”.

Corporate strips: manipulation of price: associated payment giving rise to loss

8 In TCGA 1992, after section 151C (strips: manipulation of price: associated payment giving rise to loss) insert—

“151D Corporate strips: manipulation of price: associated payment giving rise to loss

(1) This section applies if—

(a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of section 452G(2) of ITTOIA 2005,

(b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and

(c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person.

(2) The loss shall not be an allowable loss.

(3) For the purposes of this section a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from section 452G of ITTOIA 2005 and this section) is—

(a) the obtaining of a tax advantage by any person, or

(b) the accrual to any person of an allowable loss.

(4) The reference in subsection (1)(b) above to the acquisition or disposal of a corporate strip shall be construed as if it were in Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities) (see, in particular, sections 437 and 452F of that Act for the meaning of “disposal” and section 452E of that Act for the meaning of “corporate strip”).

(5) In subsection (3)(a) above “tax advantage” has the meaning given by section 709(1) of the Taxes Act.

(6) This section applies to losses accruing on or after 6th April 2005.”.

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Transactions within a group: shares subject to third party obligations

- 9 (1) Section 171 of TCGA 1992 (transfers within a group: general provisions) is amended as follows.
- (2) After subsection (3) insert—
- “(3A) Subsection (1) above does not apply—
- (a) if section 91A of the Finance Act 1996 (shares subject to third party obligations)—
- (i) does not apply in the case of the asset in relation to company A immediately before the disposal, but
- (ii) does apply in the case of the asset in relation to company B immediately after its acquisition, or
- (b) if that section—
- (i) applies in the case of the asset in relation to company A immediately before the disposal, but
- (ii) does not apply in the case of the asset in relation to company B immediately after its acquisition.”.
- (3) The amendment made by this paragraph has effect in any case where the disposal is on or after 16th March 2005.

Shares treated as loan relationships

F⁴10

Textual Amendments

- F4** Sch. 7 para. 10 repealed (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 3 Pt. 1** (with [Sch. 2 Pts. 1, 2](#))

Related transactions in relation to right to receive manufactured interest

F⁵11

Textual Amendments

- F5** Sch. 7 para. 11 repealed (with effect in accordance with s. 1329(1) of the amending Act) by [Corporation Tax Act 2009 \(c. 4\)](#), s. 1329(1), **Sch. 3 Pt. 1** (with [Sch. 2 Pts. 1, 2](#))

Money debts etc not arising from lending of money: discounts and profits from transactions

- 12 (1) Section 100 of FA 1996 (money debts etc not arising from the lending of money) is amended as follows.
- (2) In subsection (1)(c) (money debts to which the section applies) after subparagraph (iii) insert “or
- (iv) as respects which the conditions in subsection (1A) below (discount etc) are satisfied;”.
- (3) After subsection (1) insert—

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“(1A) The conditions mentioned in subsection (1)(c)(iv) above are that—

- (a) the company stands in the position of creditor in relation to the money debt;
- (b) the money debt is one from which a discount (whether of an income or capital nature) arises to the company;
- (c) the discount does not fall to be brought into account under section 50 of the Finance Act 2005 by virtue of section 47 of that Act (alternative finance return);
- (d) if the money debt is some or all of the consideration payable for a disposal of property, the money debt (on the assumption that it will be paid in full) does not fall to be brought into account for the purposes of corporation tax as a trading receipt of the company;
- (e) if the money debt is some or all of the consideration payable for a disposal of property, the property in question is not any of the following—
 - (i) an asset representing a loan relationship;
 - (ii) a derivative contract.”.

(4) In subsection (2), as it has effect for periods of account beginning on or after 1st January 2005, in paragraph (a), for “matters mentioned in subsection (1)(c) above” substitute “ matters mentioned in subsection (1)(c)(i) to (iii) above or subsection (2ZA) below ”.

(5) After subsection (2) insert—

“(2ZA) The matters are—

- (a) in the case of a money debt falling within subsection (1)(c)(i) above, profits (but not losses) arising to the company from any related transaction in respect of the right to receive interest;
- (b) in the case of a money debt falling within subsection (1)(c)(iv) above, each of the following—
 - (i) the discount arising to the company from the money debt;
 - (ii) profits (but not losses) arising to the company from any related transaction;
 - (iii) any impairment arising to the company in respect of the discount;
 - (iv) any reversal of any such impairment.

(2ZB) Where a company—

- (a) has a relationship to which this section applies by virtue of subsection (1)(c)(i) above, but
- (b) enters into a related transaction in respect of the right to receive interest,

then, for the purpose of bringing credits into account by virtue of subsection (2ZA)(a) above in respect of that or any other related transaction, the company shall continue to be treated as having a relationship to which this section so applies even though the interest is not payable to the company.”.

(6) After subsection (3) (amounts treated as interest under Schedule 28AA to ICTA) insert—

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- “(3A) For the purposes of this section, a discount shall, in particular, be taken to arise from a money debt in any case where—
- (a) there is a disposal of property for a consideration some or all of which is money that falls to be paid after the sale;
 - (b) the amount or value of the whole consideration exceeds what the purchaser would have paid for the property if he had been required to pay in full at the time of the disposal; and
 - (c) some or all of the excess can reasonably be regarded as representing a return on an investment of money at interest (and, accordingly, as being a discount arising from the money debt).
- (3B) The credits to be brought into account for the purposes of this Chapter in respect of a discount arising from a money debt must be determined using an amortised cost basis of accounting (see section 103).”.
- (7) Omit subsections (4) to (6) and (8) (which relate to whether debits or credits are trading or non-trading etc and which are unnecessary, in view of the application of sections 82(2) and 103(2) of FA 1996 by virtue of section 100(2) of that Act).
 - (8) Omit subsection (13) (express subsection to Schedules 9 and 11 to FA 1996, which is unnecessary in view of the closing words of subsection (2) of the section).
 - (9) In consequence of the amendments made by this paragraph, paragraph (c) of the Case III of Schedule D substituted for the purposes of corporation tax by section 18(3A) of ICTA (tax in respect of discount arising otherwise than in respect of a loan relationship) shall not have effect in relation to any discount arising in an accounting period beginning on or after the commencement date.
 - (10) Subject to sub-paragraph (9), the amendments made by this paragraph have effect in relation to any money debt to which a company is party as a creditor on or after the commencement date.
 - (11) Where, on or after the commencement date but in a period of account beginning before 1st January 2005, a company is party to a relationship to which section 100 of FA 1996 applies, then, in the application of that section for that period of account, subsection (2) of it shall have effect as follows—
 - (a) paragraph (a) shall have effect in relation to—
 - (i) any discount arising to the company from the money debt, and
 - (ii) any profits, impairment of discount, or reversal of impairment of discount, arising to the company as mentioned in subsection (2ZA) of that section,
 as it has effect (or would have effect) in relation to interest payable to the company under the relationship,
 - (b) paragraph (b) shall have effect as if the reference to interest included a reference to the matters mentioned in paragraph (a)(i) and (ii) above, and
 - (c) the closing words shall have effect accordingly.
 - (12) None of the following shall be brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 by virtue of this paragraph—
 - (a) credits in respect of discount arising from a money debt, to the extent that the discount accrued before the commencement date;

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- (b) credits in respect of profits arising as mentioned in section 100(2ZA)(a) or (b)(ii) of that Act where the related transaction took place before the commencement date;
- (c) debits in respect of any impairment arising in respect of discount arising from a money debt, to the extent that the discount accrued before the commencement date;
- (d) credits in respect of any reversal of any such impairment, to the extent that the discount accrued before the commencement date.

(13) In this paragraph “the commencement date” means 16th March 2005.

Meaning of “commercial rate of interest”

F⁶13

Textual Amendments

F6 Sch. 7 para. 13 omitted (with effect in accordance with Sch. 22 para. 19(3) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 22 para. 19\(2\)\(b\)](#)

Capital redemption policies: removal of exclusion from loan relationships computations

- 14 (1) Schedule 9 to FA 1996 (loan relationships: special computational provisions) is amended as follows.
- (2) In paragraph 1A(1) (credits and debits relating to life policies and capital redemption policies not to be brought into account) paragraph (b) (capital redemption policies) shall cease to have effect.
 - (3) This paragraph has effect in relation to a capital redemption policy on and after 10th February 2005 (whenever the capital redemption policy was effected).
 - (4) Where a capital redemption policy—
 - (a) is held by a company immediately before 10th February 2005, and
 - (b) on or after that date, is, for the purposes of Chapter 2 of Part 4 of FA 1996 [F⁷ or Part 5 of CTA 2009], a creditor relationship of the company,sub-paragraphs (5) and (6) apply.
 - (5) In any such case, Chapter 2 of Part 13 of ICTA (life policies etc: chargeable events) shall have effect as if—
 - (a) immediately before 10th February 2005, the company had assigned the whole of the rights conferred by the policy for money or money's worth, and
 - (b) the value of the consideration for the assignment had been equal to what the carrying value of the creditor relationship would have been had an accounting period of the company ended on that date;and Chapter 2 of Part 4 of FA 1996 [F⁸ and Part 5 of CTA 2009] shall have effect as if, immediately after 9th February 2005, the company had acquired the creditor relationship at a cost equal to that carrying value.
 - (6) But if—
 - (a) the accounting period in which the assignment is deemed to have happened (“the assignment period”), and

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(b) the accounting period in which the company ceases to be party to the creditor relationship (“the cessation period”),

are not the same accounting period, any gain which, by virtue of the deemed assignment, would have fallen to be brought into account in accordance with section 547(1)(b) of ICTA for the assignment period shall instead be brought into account for the cessation period.

(7) In this paragraph—

“assignment”, in relation to Scotland, means an assignation;

“carrying value” has the same meaning as it has for the purposes of paragraph 19A of Schedule 9 to FA 1996, as it has effect for periods of account beginning on or after 1st January 2005.

Textual Amendments

F7 Words in Sch. 7 para. 14(4)(b) inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 674(a)** (with Sch. 2 Pts. 1, 2)

F8 Words in Sch. 7 para. 14(5) inserted (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 1 para. 674(b)** (with Sch. 2 Pts. 1, 2)

Deemed disposal of assets and liabilities on company ceasing to be resident in UK etc

^{F9}15

Textual Amendments

F9 Sch. 7 paras. 15-18 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Transactions not at arm's length: exceptions relating to groups of companies

^{F9}16

Textual Amendments

F9 Sch. 7 paras. 15-18 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Continuity of treatment of groups etc: treatment of transferee company

^{F9}17

Textual Amendments

F9 Sch. 7 paras. 15-18 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

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Transferee leaving group after replacing transferor as party to loan relationship

F9 18

Textual Amendments

F9 Sch. 7 paras. 15-18 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Avoidance involving repos or stock lending

F10 19

Textual Amendments

F10 Sch. 7 para. 19 repealed (19.7.2007) by Finance Act 2007 (c. 11), **Sch. 27 Pt. 2(14)**

Capital redemption policies: computations on the I minus E basis

F11 20

Textual Amendments

F11 Sch. 7 para. 20 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Relevant discounted securities: corporate strips

- 21 (1) Schedule 13 to FA 1996 (discounted securities: income tax) is amended as follows.
- (2) In paragraph 3 (meaning of “relevant discounted security”) in sub-paragraph (1), for “paragraph 14(1)” substitute “ paragraphs 13B(1) and 14(1) ”.
- (3) In paragraph 4 (meaning of “transfer”)—
- (a) in sub-paragraph (1), after “Subject to sub-paragraph (2)” insert “ and paragraph 13B(4) ”;
- (b) in sub-paragraph (5), after “without prejudice to paragraph” insert “ 13B(2) to (5) or ”.
- (4) In paragraph 5 (redemption to include conversion), in sub-paragraph (3), after “This paragraph does not apply to” insert “—
- (a) the conversion of an interest-bearing corporate security into corporate strips (see paragraph 13A(2) to (7) below), or
- (b) ”.
- (5) After paragraph 13 (excluded indexed securities) insert—

“Meaning of corporate strip and conversion into corporate strips

13A(1) In this Schedule “corporate strip” means any asset—

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- (a) which is, or has at any time been, one of the separate assets mentioned in sub-paragraph (2) below, and
 - (b) which is not prevented from being a corporate strip by sub-paragraph (9) below.
- (2) For the purposes of this Schedule a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security (“the converted corporate security”) but—
- (a) as a result of any scheme or arrangements, he comes to have two or more separate assets in place of the converted corporate security,
 - (b) each of those separate assets satisfies condition A,
 - (c) those separate assets, taken together, satisfy condition B, and
 - (d) at least one of those separate assets is not prevented from being a corporate strip by sub-paragraph (9) below,
- and related expressions shall be construed accordingly.
- (3) Condition A is that the asset—
- (a) represents the right to, or
 - (b) secures,
- one or more stripped payments.
- (4) For the purposes of this paragraph, a “stripped payment” is—
- (a) the payment of, or
 - (b) a payment corresponding to,
- the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.
- (5) Condition B is that the assets, taken together,—
- (a) represent the right to, or
 - (b) secure,
- every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).
- (6) Where a person—
- (a) has an interest-bearing corporate security, but
 - (b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),
- this Schedule has effect as if, as a result of a scheme or arrangements, the person had come to have the separate assets in place of the security immediately before the sale or transfer.
- (7) For the purposes of this Schedule, sub-paragraphs (2) to (6) above also have effect in relation to each of the separate assets mentioned in sub-paragraph (2) above as if it were itself an interest-bearing corporate security (if that is not in fact the case).
- (8) Where sub-paragraphs (2) to (6) above have effect by virtue of sub-paragraph (7) above—

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- (a) any reference in this Schedule to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and
 - (b) sub-paragraph (1) above (meaning of “corporate strip”) has effect accordingly.
- (9) An asset is not a corporate strip if it—
- (a) represents the right to, or
 - (b) secures,
- payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.
- (10) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.

References to payments the right to which a separate asset represents or secures shall be construed accordingly.

Corporate strips deemed to be relevant discounted securities

- 13B (1) Every corporate strip is a relevant discounted security.
- (2) Where a person converts an interest-bearing corporate security into corporate strips of the security, he shall be deemed to have paid, in respect of his acquisition of each corporate strip, an amount determined in accordance with sub-paragraph (3) below.
 - (3) The amount is that which bears to the acquisition cost of the converted corporate security the proportion that SMV bears to TMV, where—
 - SMV is the market value of the corporate strip, and
 - TMV is the total of the market values of all the separate assets resulting from the conversion.
 - (4) If the converted corporate security is a relevant discounted security—
 - (a) its conversion into corporate strips is deemed to be a transfer of the security, and
 - (b) the amount payable on the transfer is deemed to be an amount equal to the acquisition cost of the converted corporate security.
 - (5) Where corporate strips are consolidated into a single security—
 - (a) by being exchanged by any person for that security, or
 - (b) by being otherwise converted by any person into that security under any arrangements,each of the corporate strips shall be deemed to have been redeemed, at the time of the exchange or other conversion, by the payment to that person of an amount equal to its market value.
 - (6) Sub-paragraphs (2) to (5) above have effect for the purposes of this Schedule.
 - (7) For the purposes of this paragraph, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of

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the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).

- (8) References in this paragraph to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

Corporate strips: manipulation of acquisition, sale or redemption price

13C (1) This paragraph applies in any case where, as a result of any scheme or arrangement,—

- (a) the amount paid by a person in respect of his acquisition of a corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,
- (b) the amount payable to a person on a transfer of a corporate strip by him is less than the market value of the corporate strip at the time of the transfer, or
- (c) on redemption of a corporate strip, the amount payable to a person, as the person holding the corporate strip, is less than the market value of the corporate strip on the day before redemption,

and the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.

- (2) In a case falling within sub-paragraph (1)(a) above, the person shall be treated for the purposes of paragraph 1(2)(b) above on a transfer of the corporate strip by him as if he had paid in respect of his acquisition of the corporate strip an amount equal to the market value of the corporate strip at the time of that acquisition.
- (3) In a case falling within sub-paragraph (1)(b) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.
- (4) In a case falling within sub-paragraph (1)(c) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on redemption were an amount equal to the market value of the corporate strip on the day before redemption.
- (5) The market value of a corporate strip at any time shall be determined for the purposes of this paragraph without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in sub-paragraph (1) above.
- (6) For the purposes of this paragraph, no account shall be taken of any costs incurred in connection with any transfer or redemption of a corporate strip or its acquisition.
- (7) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.

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*Corporate strips: manipulation of price:
associated payment giving rise to CGT loss*

13D(1) Where—

- (a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of paragraph 13C(1) above,
 - (b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and
 - (c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person for the purposes of capital gains tax, the loss shall not be an allowable loss for the purposes of capital gains tax.
- (2) For the purposes of this paragraph, a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from paragraph 13C above and this paragraph) is—
- (a) the obtaining of a tax advantage by any person, or
 - (b) the accrual to any person of an allowable loss for the purposes of capital gains tax.
- (3) In this paragraph “tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.”.
- (6) In paragraph 15(1) (general interpretation) insert each of the following definitions at the appropriate place—
- ““corporate strip” has the meaning given by paragraph 13A above;”;
 - ““interest-bearing corporate security” means any interest-bearing security other than—
 - (a) a security issued by the government of a territory;
 - (b) a share in a company;”; - ““interest-bearing security” includes any loan stock or similar security;”.
- (7) In paragraph 15(1)—
- (a) in the definition of “relevant discounted security”, after “paragraphs 3” insert “ , 13B(1) ”;
 - (b) in the definition of “strip”, after “ “strip”” insert “ , except in the expression “corporate strip”, ”.
- (8) The amendments made by this paragraph have effect in any case where a person acquires a corporate strip on or after 2nd December 2004 otherwise than in pursuance of an agreement entered into before that date.

Transactions within groups: treatment of transferee company

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Textual Amendments

F12 Sch. 7 paras. 22-24 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Transactions within groups: fair value accounting

F12²³

Textual Amendments

F12 Sch. 7 paras. 22-24 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Transferee leaving group after replacing transferor as party to derivative contract

F12²⁴

Textual Amendments

F12 Sch. 7 paras. 22-24 repealed (with effect in accordance with s. 1329(1) of the amending Act) by Corporation Tax Act 2009 (c. 4), s. 1329(1), **Sch. 3 Pt. 1** (with Sch. 2 Pts. 1, 2)

Deeply discounted securities: corporate strips

- 25 (1) Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities) is amended as follows.
- (2) In section 430 (meaning of “deeply discounted security”) in subsection (6) (subsections) omit “and” before the entry relating to section 443(1) and at the end of that entry add “, and section 452A(1) (corporate strips).”.
- (3) In section 437 (transactions which are disposals) after subsection (4) insert—
- “(5) In the case of interest-bearing corporate securities, further provision about occasions counting as disposals is made by section 452F(2)(a).
- (6) In the case of corporate strips, further provision about occasions counting as disposals is made by section 452F(2)(a) and (3)(a).”.
- (4) In section 438 (timing of transfers and acquisitions) for subsection (4) substitute—
- “(4) This section is subject to—
- section 445(7) (exchanges for and consolidations of strips);
- section 452F(4) (conversion into and consolidations of corporate strips).”.
- (5) In section 440 (market value disposals) for subsection (5) substitute—
- “(5) Subsection (4) is subject to—
- section 445(8) (exchanges for and consolidations of strips);

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section 452F(5) (conversion into and consolidations of corporate strips).”.

(6) In section 441 (market value acquisitions) for subsection (3) substitute—

“(3) Subsection (2) is subject to—

section 445(8) (exchanges for and consolidations of strips);

section 452F(5) (conversion into and consolidations of corporate strips).”.

(7) In section 444 (meaning of “strip” in Chapter 8) after subsection (5) insert—

“(6) Nothing in this section affects the meaning of the expression “corporate strip” in this Chapter (see section 452E).”.

(8) After section 452 insert—

“Special rules for corporate strips

452A Application of this Chapter to corporate strips

(1) All corporate strips are treated as deeply discounted securities for the purposes of this Chapter, whether or not they would otherwise be so.

(2) This Chapter applies to corporate strips subject to the rules in—

(a) section 452F (corporate strips: acquisitions and disposals), and

(b) section 452G (corporate strips: manipulation of acquisition, transfer or redemption payments).

452B Meaning of “interest-bearing corporate security” in Chapter 8

(1) In this Chapter “interest-bearing corporate security” means any interest-bearing security other than—

(a) a security issued by the government of a territory, or

(b) a share in a company.

(2) In this section “interest-bearing security” includes any loan stock or similar security.

(3) Section 452D(4)(a) gives an extended meaning to references to converting an interest-bearing corporate security into corporate strips (and related expressions).

452C Conversion of interest-bearing corporate securities into corporate strips

(1) For the purposes of this Chapter a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security (“the converted corporate security”) but—

(a) as a result of any scheme or arrangements, he acquires two or more separate assets in place of the converted corporate security,

(b) each of those separate assets satisfies condition A,

(c) those separate assets, taken together, satisfy condition B, and

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- (d) at least one of those separate assets is not prevented from being a corporate strip by section 452E(2) or (3),
and related expressions shall be construed accordingly.
- (2) Condition A is that the asset—
- (a) represents the right to, or
 - (b) secures,
- one or more stripped payments.
- (3) For the purposes of this section, a “stripped payment” is—
- (a) the payment of, or
 - (b) a payment corresponding to,
- the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.
- (4) Condition B is that the assets, taken together,—
- (a) represent the right to, or
 - (b) secure,
- every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).
- (5) Where a person—
- (a) has an interest-bearing corporate security, but
 - (b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),
- this Chapter has effect as if, as a result of a scheme or arrangements, the person had acquired the separate assets in place of the security immediately before the sale or transfer.
- (6) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.

452D Conversion into corporate strips: lower level conversions

- (1) For the purposes of this Chapter, section 452C also has effect in relation to each of the separate assets mentioned in subsection (1) of that section as if that separate asset were itself an interest-bearing corporate security (if that is not in fact the case).
- (2) In subsection (1), the reference to section 452C includes a reference to that section as it has effect by virtue of this section.
- (3) In the application of section 452C by virtue of this section, references to payments the right to which a separate asset represents or secures shall be construed in accordance with subsection (6) of that section.
- (4) Where section 452C has effect by virtue of subsection (1)—

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- (a) any reference in this Chapter to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and
- (b) section 452E (meaning of “corporate strip”) has effect accordingly.

452E Meaning of “corporate strip” in Chapter 8

- (1) In this Chapter “corporate strip” means any asset—
 - (a) which is, or has at any time been, one of the separate assets mentioned in section 452C(1), and
 - (b) which is not prevented from being a corporate strip by subsection (2) or (3).
- (2) An asset is not a corporate strip if it—
 - (a) represents the right to, or
 - (b) secures,
payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.
- (3) An asset is a corporate strip in the case of any person only if he acquired it—
 - (a) on or after 2nd December 2004, and
 - (b) otherwise than in pursuance of an agreement entered into before that date.

452F Corporate strips: acquisitions and disposals

- (1) A person who converts an interest-bearing corporate security into corporate strips of the security is treated as having acquired each corporate strip by the payment of an amount equal to—

$$A \times \frac{B}{C}$$

where—

A is the acquisition cost of the converted corporate security;

B is the market value of the corporate strip;

C is the total of the market values of all the separate assets resulting from the conversion.

- (2) If the converted corporate security is a deeply discounted security—
 - (a) its conversion into corporate strips is to be treated for the purposes of this Chapter as a transfer of the security, but
 - (b) the amount payable on the transfer is taken to be an amount equal to the acquisition cost of the converted corporate security.
- (3) For the purposes of this Chapter—

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- (a) the consolidation of a corporate strip with other corporate strips into a single security is a disposal of the corporate strip by the person consolidating it (whether or not it would be apart from this subsection), and
 - (b) an amount equal to the market value of the corporate strip at the consolidation is treated as payable on the disposal.
- (4) Section 438 (timing of transfers and acquisitions) does not apply to a conversion within subsection (1) or a consolidation within subsection (3).
- (5) Subsections (1) to (3) apply instead of sections 440(4) (market value on general conversions of deeply discounted securities) and 441 (market value acquisitions).
- (6) For the purposes of this section, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).
- (7) References in this section to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

452G Corporate strips: manipulation of acquisition, transfer or redemption payments

- (1) This section applies if—
 - (a) as a result of any scheme or arrangement, an amount referred to in subsection (2)(a), (b) or (c) differs from the market value of the corporate strip in a way specified in that subsection, and
 - (b) the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.
- (2) The ways are that—
 - (a) the amount paid by a person in respect of the acquisition of the corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,
 - (b) the amount payable to a person on transferring the corporate strip is less than the market value at the time of the transfer, or
 - (c) on redemption of the corporate strip the amount payable to a person, as the person holding the corporate strip, is less than the market value on the day before redemption.
- (3) In a case within subsection (2)(a), for the purposes of section 439(1) on transferring the corporate strip the person is treated as if the person had paid to acquire the corporate strip an amount equal to the market value of the corporate strip at the time of the acquisition.
- (4) In a case falling within subsection (2)(b), for those purposes the person is treated as if the amount payable to the person on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.

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- (5) In a case falling within subsection (2)(c), for those purposes the person is treated as if the amount payable to the person on redemption were an amount equal to the market value of the corporate strip on the day before redemption.
- (6) The market value of a corporate strip at any time is to be determined for the purposes of this section without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in subsection (1).
- (7) For the purposes of this section, no account is to be taken of any incidental expenses incurred in connection with any disposal or acquisition of a corporate strip.”.

- (9) In Schedule 4 (abbreviations and defined expressions) in Part 2 (expressions defined in the Act or in ICTA) insert each of the following entries at the appropriate place—

“conversion of an interest-bearing corporate security into corporate strips of the security (for the purposes of Chapter 8 of Part 4)	sections 452C and 452D”;
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“corporate strip (for the purposes of Chapter 8 of Part 4)	section 452E”;
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“interest-bearing corporate security (for the purposes of Chapter 8 of Part 4)	section 452B”.
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- (10) ITTOIA 2005 shall have effect as if it had been originally enacted with the amendments made by this paragraph.

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Changes to legislation:

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