

---

**Changes to legislation:** There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)

---

## SCHEDULES

### SCHEDULE 7

#### AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

##### *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);
- 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—

---

*Changes to legislation:* There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)

---

*“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
  - (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,—

---

**Changes to legislation:** There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)

---

- (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)—
  - (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,

---

*Changes to legislation:* There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)

---

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—
- (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

---

**Changes to legislation:** There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)

---

(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.
- (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—

---

**Changes to legislation:** *There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross Heading: Deeply discounted securities: corporate strips. (See end of Document for details)*

---



---

“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”;
---	--------------------------

---



---

“corporate strip (for the purposes of Chapter 8 of Part 4)	section 452E”;
--	----------------

---



---

“interest-bearing corporate security (for the purposes of Chapter 8 of Part 4)	section 452B”.
--	----------------

---

(10) ITTOIA 2005 shall have effect as if it had been originally enacted with the amendments made by this paragraph.

**Changes to legislation:**

There are currently no known outstanding effects for the Finance (No. 2) Act 2005, Cross  
Heading: Deeply discounted securities: corporate strips.