

*These notes refer to the Income Tax Act 2007 (c.3)  
which received Royal Assent on 20 March 2007*

# INCOME TAX ACT 2007

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## EXPLANATORY NOTES

### COMMENTARY ON SECTIONS

#### **Part 12: Accrued Income Profits**

##### **Overview**

##### *Chapter 2: Accrued income profits and losses*

##### *Section 649: New securities issued with extra return*

1916. This section provides a special rule where securities are issued in tranches. It treats the issue of the new securities as a transfer with accrued interest. It is based on section 726A of ICTA.
1917. See also the commentary on section 662 which explains the special rule about payments treated as made.
1918. To raise finance, debt issuers may make further issues of the same securities (“new securities”) rather than issue fresh securities. The new securities issued in each new tranche are intended to be fungible with the very first securities of that kind issued, so they have identical terms.
1919. However, where new securities are issued part way through an interest period, the interest payable on the next interest payment date would be less than the interest payable on that date for existing securities (assuming the same rate of accrual). To compensate for this and to ensure complete fungibility, the issuer will pay an extra amount of interest on these securities. The issue price of the securities in the new tranche may therefore be set to take account of this extra return.
1920. Under the accrued income scheme the extra return is treated in the same way as accruing interest.
1921. As the new securities have identical terms to the original securities they should pay the same interest on the next interest payment day. However, if they are issued part of the way through an interest period, the effective rate of interest will be different. So the securities may well fall within the definition of “variable rate securities”, in which case this provision will not apply. Section 627(4) applies the test for variable rate securities to the new securities as though the interest payable on the first interest payment day after their issue relates to the period from the last interest payment day (or, if there was no such day, the date of issue) of the original securities to that day.
1922. This section makes the equivalent provision for the accrued income scheme that section 845 makes in relation to the charge to tax on interest.