



Income Tax Act 2007

2007 CHAPTER 3

PART 11

MANUFACTURED PAYMENTS AND REPOS

CHAPTER 1

INTRODUCTION

565 Overview of Part

- (1) This Part is about the income tax treatment of some arrangements for the transfer of securities.
- (2) Chapter 2 deals with arrangements for the transfer of securities under which provision is made for the payment of amounts representative of dividends or interest in respect of the securities.
- (3) Chapter 3 prevents parties to stock lending arrangements (see section 568) and repos (see section 569) from being entitled to tax credits in some circumstances.
- (4) Chapter 4 brings within the rules in Chapters 2 and 3—
 - (a) some stock lending arrangements under which the dividends or interest in respect of the transferred securities are paid to a person other than the lender, and
 - (b) some repos where the original owner is not entitled to the dividends or interest in respect of the transferred securities.
- (5) Chapter 5 deals with differences between the sale and repurchase price under repos.
- (6) Chapter 6 contains powers to modify some of the provisions about repos.

Status: This is the original version (as it was originally enacted).

566 Meaning of “UK shares” and “UK securities”

- (1) This section applies for the purposes of this Part.
- (2) “UK shares” means shares in a UK resident company.
- (3) “UK securities” means securities of—
 - (a) the government of the United Kingdom,
 - (b) a local authority in the United Kingdom,
 - (c) another public authority in the United Kingdom, or
 - (d) a UK resident company or other UK resident body.
- (4) But “UK securities” does not include UK shares.
- (5) In this section “securities” includes loan stock or any similar security.

567 Meaning of “overseas securities” and “overseas dividend”

- (1) This section applies for the purposes of this Part.
- (2) “Overseas securities” means shares, stock or other securities issued by—
 - (a) a government, local authority or other public authority of a territory outside the United Kingdom, or
 - (b) another non-UK resident body of persons.
- (3) “Overseas dividend” means any interest, dividend or other annual payment payable in respect of overseas securities.
- (4) In this section “securities” includes loan stock or any similar security.

568 Meaning of “stock lending arrangement”

- (1) For the purposes of this Part there is a stock lending arrangement in respect of securities if—
 - (a) a person (“the lender”) has transferred the securities to another person (“the borrower”) otherwise than by way of sale,
 - (b) the securities are UK shares, UK securities or overseas securities,
 - (c) the transfer is under an arrangement between the lender and the borrower, and
 - (d) under the arrangement, the borrower is required to transfer the securities back to the lender otherwise than by way of sale.
- (2) The reference in subsection (1)(d) to the transfer of the securities back to the lender includes a reference to—
 - (a) a transfer within subsection (3), and
 - (b) a payment within subsection (5).
- (3) A transfer is within this subsection if it is a transfer to the lender of securities of the same description as the securities—
 - (a) in accordance with a requirement to do so, or
 - (b) in exercise of a power to substitute securities of the same description for the securities that are required to be transferred back.
- (4) For the purposes of subsection (3), securities are taken to be of the same description as other securities if (and only if) they—

- (a) are in the same quantities,
 - (b) give the same rights against the same persons, and
 - (c) are of the same type and nominal value,
- as the other securities.
- (5) A payment is within this subsection if it is a payment to the lender, in pursuance of a redemption obligation, of an amount equal to the amount of the entitlement under the redemption obligation.
- (6) A redemption obligation is an obligation that arises on a person's becoming entitled to receive an amount in respect of the redemption of the securities.

569 Meaning of “repo”

- (1) For the purposes of this Part there is a repo in respect of securities if conditions A, B and C are met.
- (2) Condition A is that a person (“the original owner”) has agreed to sell the securities to another person (“the interim holder”).
- (3) Condition B is that the securities are UK shares, UK securities or overseas securities.
- (4) Condition C is that the original owner or a person connected with the original owner—
- (a) is required to buy back the securities by the agreement or a related agreement,
 - (b) is required to buy back the securities as a result of the exercise of an option acquired under the agreement or a related agreement, or
 - (c) exercises an option to buy back the securities which was acquired under the agreement or a related agreement.

570 Meaning of “buying back” securities etc

- (1) This section applies for the purposes of this Part, in the context of a repo.
- (2) References to buying back securities include references to—
- (a) buying similar securities, and
 - (b) in the case of a person connected with the person who is the original owner under the repo, buying the securities sold by the original owner or similar securities.
- (3) Subsection (2) applies even if the person buying the securities has not held them before.
- (4) References to repurchase or a repurchaser are to be read accordingly.
- (5) For the purposes of subsection (2) securities are similar if they give their holders—
- (a) the same rights against the same persons as to capital and distributions, interest and dividends, and
 - (b) the same remedies to enforce those rights.
- (6) Subsection (5) applies even if there is a difference in—
- (a) the total nominal amounts of the securities,
 - (b) the form in which they are held, or
 - (c) the manner in which they can be transferred.

Status: This is the original version (as it was originally enacted).

571 Meaning of “related” agreements

Agreements are related for the purposes of this Part if they are entered into in pursuance of the same arrangement (regardless of the date on which either agreement is entered into).

CHAPTER 2

MANUFACTURED PAYMENTS

Introduction

572 Overview of Chapter

This Chapter is about the situation where a person—

- (a) pays another person an amount which is representative of—
 - (i) dividends on UK shares,
 - (ii) periodical payments of interest on UK securities, or
 - (iii) overseas dividends on overseas securities, and
- (b) does so under a requirement of an arrangement between them for the transfer of the UK shares, UK securities or overseas securities concerned.

Manufactured dividends on UK shares

573 Manufactured dividends on UK shares

- (1) This section applies if a person—
 - (a) pays another person an amount (a “manufactured dividend”) which is representative of a dividend on UK shares, and
 - (b) does so under a requirement of an arrangement between them for the transfer of the shares.
- (2) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if the manufactured dividend were a dividend on the shares.
- (3) If the payer is a UK resident company, the Income Tax Acts apply in relation to the payer as if the manufactured dividend were a dividend of the company.
- (4) If the payer is UK resident and is not a company, the Income Tax Acts apply in relation to the payer subject to sections 574 and 575 (allowable deductions).
- (5) This section is subject to—
 - (a) section 576 (manufactured dividends on UK shares: Real Estate Investment Trusts),
 - (b) section 583 (manufactured payments exceeding underlying payments), and
 - (c) section 585 (power to deal with other special cases).

574 Allowable deductions: matching

- (1) This section applies if a person who pays a manufactured dividend as mentioned in section 573(1) is UK resident and is not a company.
- (2) An amount equal to the lesser of—
 - (a) the amount of the manufactured dividend, and
 - (b) the amount of the dividend of which the manufactured dividend is representative,is allowable as a deduction for income tax purposes, subject to subsection (3).
- (3) It is allowable only so far as—
 - (a) it is not otherwise deductible, and
 - (b) it falls within subsection (4) or (7).
- (4) An amount falls within this subsection so far as the payer—
 - (a) receives either the dividend which is represented by the manufactured dividend or a payment which is representative of that dividend, and
 - (b) is chargeable to income tax on the dividend or payment received.
- (5) An amount falls within subsection (4) only if the amount of the dividend or payment received is received by the payer in—
 - (a) the tax year in which the payer pays the manufactured dividend, or
 - (b) the tax year immediately before, or immediately after, that year.
- (6) An amount which falls within subsection (4) is allowable as a deduction only from the amount of the dividend or payment received on which the payer is chargeable to income tax.
- (7) An amount falls within this subsection so far as the payer—
 - (a) is treated under section 607 (treatment of price differences under repos) as receiving a payment of interest in respect of the shares, and
 - (b) is chargeable to income tax on the payment.
- (8) An amount which falls within subsection (7) is allowable as a deduction in calculating the net income of the payer (see Step 2 of the calculation in section 23).
- (9) See section 575 for a further qualification to the rule in subsection (2).
- (10) For the purposes of subsection (3)(a) an amount is deductible if it is—
 - (a) deductible in calculating any of the payer's profits or gains for income tax purposes, or
 - (b) deductible for those purposes in calculating the net income of the payer.

575 Allowable deductions: restriction on double-counting

- (1) This section applies if an amount has been allowed as a deduction under section 574(2) by reference to the whole or part of—
 - (a) the dividend or payment mentioned in section 574(4)(a), or
 - (b) the deemed payment of interest mentioned in section 574(7)(a).
- (2) No further deduction is allowable by reference to all or part of the matched portion of the dividend, payment or deemed payment.

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- (3) The “matched portion” of the dividend, payment or deemed payment means—
- (a) the whole of it, if the amount has been allowed as a deduction by reference to the whole of it, or
 - (b) the part of it by reference to which the amount has been allowed as a deduction, in any other case.

576 Manufactured dividends on UK shares: Real Estate Investment Trusts

- (1) This section applies (instead of section 573(2) and (3)) if—
- (a) a person pays a manufactured dividend as mentioned in section 573(1), and
 - (b) the manufactured dividend is representative of a dividend which is—
 - (i) paid by a company to which Part 4 of FA 2006 applies (Real Estate Investment Trusts) in respect of profits of C (tax-exempt), or
 - (ii) paid by the principal company of a group to which that Part applies in respect of profits of G (property rental business).
- (2) This section applies only so far as the manufactured dividend is representative of such a dividend.
- (3) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if the manufactured dividend were a dividend to which section 121 of FA 2006 applied (distributions treated as UK property business profits).
- (4) This section is subject to—
- (a) section 583 (manufactured payments exceeding underlying payments), and
 - (b) section 585 (power to deal with other special cases).

577 Statements about manufactured dividends

- (1) Subsections (3) to (7) apply to a person who—
- (a) pays a manufactured dividend as mentioned in section 573(1), and
 - (b) is not within the charge to corporation tax.
- (2) But those subsections do not apply so far as the manufactured dividend is representative of a dividend which is—
- (a) paid by a company to which Part 4 of FA 2006 applies (Real Estate Investment Trusts) in respect of profits of C (tax-exempt), or
 - (b) paid by the principal company of a group to which that Part applies in respect of profits of G (property rental business).
- (3) The person must, at the same time as paying the manufactured dividend, give the recipient a statement.
- (4) The statement must set out—
- (a) the amount of the manufactured dividend,
 - (b) the date of its payment, and
 - (c) the amount of associated tax credit.
- (5) The statement must be in writing.

- (6) The amount of associated tax credit is the amount of tax credit to which the recipient, or a person claiming title through or under the recipient—
 - (a) is entitled in respect of the manufactured dividend as a result of section 573(2) of this Act or paragraph 2(3)(b) of Schedule 23A to ICTA (manufactured dividend treated as dividend), or
 - (b) would be so entitled if all the conditions for a tax credit had been met in the case of the deemed dividend and the recipient or that person.
- (7) The duty under subsection (3) to give a statement is enforceable by the recipient.
- (8) For provisions corresponding to subsections (3) to (7) which apply if the payer of a manufactured dividend is within the charge to corporation tax see—
 - (a) section 234A of ICTA (by virtue of paragraph 2(2)(b) of Schedule 23A to ICTA), if the payer is a UK resident company, and
 - (b) paragraph 2(6) to (8) of Schedule 23A to ICTA, if the payer is a non-UK resident company within the charge to corporation tax.
- (9) For a power for regulations to make provision corresponding to subsections (3) to (7) for a case within subsection (2), see section 973 as applied by section 918(3) (and in particular section 974(1)(k)).

Manufactured interest on UK securities

578 Manufactured interest on UK securities

- (1) This section applies if a person—
 - (a) pays another person an amount (“manufactured interest”) which is representative of a periodical payment of interest on UK securities, and
 - (b) does so under a requirement of an arrangement between them for the transfer of the securities.
- (2) The Income Tax Acts apply in relation to the recipient, and persons claiming title through or under the recipient, as if—
 - (a) the manufactured interest were a periodical payment of interest on the securities, and
 - (b) the gross amount of the deemed interest payment were equal to the gross amount of the interest of which the manufactured interest is representative.
- (3) If the payer is UK resident, or a person acting in the course of a trade carried on in the United Kingdom through a branch or agency, the Income Tax Acts apply in relation to the payer subject to sections 579 and 580 (allowable deductions).
- (4) See also—
 - section 919 (manufactured interest payments by UK residents etc: deduction of income tax at source), and
 - section 920 (foreign payers of manufactured interest: the reverse charge).
- (5) This section is subject to—
 - section 583 (manufactured payments exceeding underlying payments),
 - section 584 (manufactured payments less than underlying payments), and
 - section 585 (power to deal with other special cases).

Status: This is the original version (as it was originally enacted).

579 Allowable deductions: matching

- (1) This section applies to a person who pays manufactured interest as mentioned in section 578(1).
- (2) The gross amount of the manufactured interest is allowable for income tax purposes as a deduction in calculating the net income of the payer (see Step 2 of the calculation in section 23).

This is subject to subsection (3).

- (3) It is allowable only so far as—
 - (a) it is not otherwise deductible, and
 - (b) it falls within subsection (4), (6) or (7).
- (4) An amount falls within this subsection so far as the payer—
 - (a) receives either the periodical payment of interest which is represented by the manufactured interest or a payment which is representative of the periodical payment of interest, and
 - (b) is chargeable to income tax on the payment received.
- (5) See section 679 (interest on securities involving accrued income losses: general) for the amount chargeable to income tax in a case where that section applies.
- (6) An amount falls within this subsection so far as—
 - (a) the payer is, by virtue of Chapter 2 of Part 12 (accrued income profits), chargeable to income tax on qualifying accrued income profits in respect of transfers of securities, and
 - (b) the transfers are subject to the arrangement giving rise to the payment of manufactured interest.
- (7) An amount falls within this subsection so far as the payer—
 - (a) is treated under section 607 (treatment of price differences under repos) as receiving a payment of interest in respect of the securities, and
 - (b) is chargeable to income tax on the payment.
- (8) See section 580 for a further qualification to the rule in subsection (2).
- (9) For the purposes of subsection (3)(a) an amount is deductible if it is—
 - (a) deductible in calculating any of the payer’s profits or gains for income tax purposes, or
 - (b) deductible for those purposes in calculating the net income of the payer.
- (10) In this section “qualifying accrued income profits” means accrued income profits which are treated as made—
 - (a) under section 628(5), or
 - (b) under section 630(2) in respect of a transfer of variable rate securities.

580 Allowable deductions: restriction on double counting

- (1) This section applies if an amount has been allowed as a deduction under section 579(2) by reference to the whole or part of—
 - (a) the periodical payment of interest, or other payment, mentioned in section 579(4)(a),

- (b) the sum mentioned in section 579(6)(a), or
 - (c) the deemed payment of interest mentioned in section 579(7)(a).
- (2) No further deduction is allowable by reference to all or part of the matched portion of the payment, sum or deemed payment.
- (3) The “matched portion” of the payment, sum or deemed payment means—
- (a) the whole of it, if the amount has been allowed as a deduction by reference to the whole of it, or
 - (b) the part of it by reference to which the amount has been allowed as a deduction, in any other case.

Manufactured overseas dividends

581 Manufactured overseas dividends

- (1) This section applies if—
- (a) a person (“the payer”) pays another person an amount (a “manufactured overseas dividend”) which is representative of an overseas dividend on overseas securities,
 - (b) the payer does so under a requirement of an arrangement between them for the transfer of the securities, and
 - (c) the condition in subsection (2) is met.
- (2) The condition is that—
- (a) in a case within section 922(1) (manufactured overseas dividends: payments by UK residents etc), the amount required to be deducted as a result of that section has been deducted, or
 - (b) in a case within section 923(1) (foreign payers of manufactured overseas dividends: the reverse charge), the amount of income tax required to be accounted for and paid as a result of that section has been accounted for and paid.
- (3) Subsections (4) and (5) apply in relation to the recipient, and all persons claiming title through or under the recipient, for all relevant income tax purposes.
- (4) The manufactured overseas dividend is treated as if it were—
- (a) an overseas dividend of an amount equal to the gross amount of the manufactured overseas dividend, but
 - (b) paid after the withholding from it, on account of overseas tax, of the amount deducted as a result of section 922 or (as the case may be) accounted for and paid as a result of section 923.
- (5) The amount deducted or accounted for and paid is accordingly to be treated as an amount withheld on account of overseas tax instead of as an amount on account of income tax.
- (6) In this section “relevant income tax purposes” means the purposes of the Income Tax Acts as they apply in relation to—
- (a) UK residents, and
 - (b) persons carrying on business through a branch or agency in the United Kingdom.

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582 Powers about manufactured overseas dividends

- (1) The Treasury may by regulations make provision as mentioned in subsections (2) and (3) about prescribed cases where a person—
 - (a) pays or receives a manufactured overseas dividend as mentioned in section 581(1), or
 - (b) is treated as doing so for any purposes of this Chapter or regulations made under it.
- (2) The regulations may provide for removing or reducing any right of the person to claim relief under Part 18 of ICTA (double taxation relief).
- (3) The regulations may provide for adjusting a relevant amount by reference to a provision which has effect under the law of a territory outside the United Kingdom.
- (4) A “relevant amount” is an amount which is treated for prescribed income tax purposes as the amount paid or payable to a person in respect of a relevant transaction.
- (5) A “relevant transaction” is a sale, repurchase or other transfer of the overseas securities to which the manufactured overseas dividend relates.

Special cases

583 Manufactured payments exceeding underlying payments

- (1) This section applies if—
 - (a) an amount paid by way of manufactured dividend would otherwise exceed the amount of the dividend of which it is representative, or
 - (b) the sum of—
 - (i) an amount paid by way of manufactured interest or manufactured overseas dividend, and
 - (ii) the income tax required to be accounted for and paid in connection with the making of the payment,
 would otherwise exceed the gross amount of the interest or overseas dividend of which it is representative.
- (2) The payment, to the extent of an amount equal to the excess, is treated for the purposes of this Chapter and Chapter 9 of Part 15 as not made under the requirement mentioned in section 573(1)(b), 578(1)(b) or 581(1)(b) (criteria for application of provisions about manufactured payments).
- (3) Instead it is treated, to that extent, for income tax purposes as a separate fee for entering into the arrangement under which it was made.
- (4) Subsection (3) applies despite anything in—
 - (a) sections 572 to 582 (main rules about manufactured payments), or
 - (b) Chapter 9 of Part 15 (deduction of income tax at source: manufactured payments).

584 Manufactured payments less than underlying payments

- (1) This section applies if the sum of—

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- (a) an amount paid by way of manufactured interest or manufactured overseas dividend, and
 - (b) the income tax required to be accounted for and paid in connection with the making of the payment,
- is less than the gross amount of the interest or overseas dividend of which it is representative.
- (2) For the purpose of giving relief under the Income Tax Acts in a case to which section 578 or 581 applies (manufactured interest and manufactured overseas dividends), the gross amount of the manufactured interest or manufactured overseas dividend is treated as being an amount equal to the sum of the amounts mentioned in paragraphs (a) and (b) of subsection (1).
- (3) Subsection (2) applies despite anything in—
- (a) sections 578 to 582 (main rules about manufactured interest and manufactured overseas dividends), and
 - (b) section 589(3) (meaning of “gross amount” of manufactured overseas dividend).
- (4) In this section “relief” means relief by way of—
- (a) deduction in calculating profits or gains, or
 - (b) deduction or set off against income.

585 Power to deal with other special cases

- (1) The Treasury may by regulations make provision about—
- (a) such manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed,
 - (b) such persons who receive, or become entitled to receive, manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed, or
 - (c) such payers of manufactured dividends, manufactured interest or manufactured overseas dividends as may be prescribed.
- (2) The provision which may be made is for any prescribed manufactured dividend, manufactured interest, manufactured overseas dividend or person to be treated, in prescribed circumstances, otherwise than as mentioned in—
- (a) sections 572 to 582 (main rules about manufactured payments), or
 - (b) Chapter 9 of Part 15 (deduction of income tax at source: manufactured payments),
- for any prescribed income tax purposes.

General regulation-making powers

586 Powers about administrative provisions

- (1) The Treasury may by regulations make provision about—
- (a) the accounts and other records which are to be kept,
 - (b) the vouchers which are to be issued or produced,
 - (c) the returns which are to be made, and

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- (d) the manner in which amounts required to be deducted, or accounted for and paid, on account of income tax as a result of this Chapter or Chapter 9 of Part 15 are to be accounted for and paid,
 by payers or recipients of manufactured dividends, manufactured interest or manufactured overseas dividends.
- (2) Regulations under this Chapter or Chapter 9 of Part 15 about any liability to account for income tax may contain any of the following—
- (a) provision for calculating the amounts to be accounted for,
 - (b) provision, in relation to deciding the amount to be paid on any occasion, for setting other amounts against the amounts to be accounted for,
 - (c) provision as to the liabilities against which amounts accounted for are, or are not, to be set for income tax purposes or corporation tax purposes,
 - (d) provision modifying, or applying (with or without modifications), any enactments contained in the Tax Acts.
- (3) The Treasury may by regulations provide for prescribed provisions of TMA 1970 to apply for income tax purposes in relation to—
- (a) manufactured dividends,
 - (b) manufactured interest, or
 - (c) manufactured overseas dividends,
- with such modifications, specified in the regulations, as the Treasury consider appropriate.
- (4) The Treasury may by regulations make further provision about the administration, assessment, collection and recovery of amounts required to be deducted, or accounted for and paid, on account of income tax as a result of—
- (a) this Chapter, or
 - (b) Chapter 9 of Part 15.

587 Power for manufactured payments to be eligible for relief

- (1) The Treasury may by regulations provide for any—
- (a) manufactured dividend,
 - (b) manufactured interest, or
 - (c) manufactured overseas dividend,
- paid to any person to be treated, in such circumstances and to such extent as may be prescribed in the regulations, as exempt pension income of the recipient.
- (2) “Exempt pension income” means income which is eligible for relief from income tax as a result of section 613(4) or 614(2), (3) or (4) of ICTA or section 186 of FA 2004 (exemptions about pensions and annuities).

588 Regulation-making powers: general

Regulations under this Chapter may make different provision for different cases.

Interpretation

589 Meaning of “gross amount”: interest and manufactured overseas dividends

- (1) This section applies for the purposes of this Chapter.
- (2) The gross amount of any interest or payment is the amount of the interest or payment before the making of any deduction of income tax that is required to be deducted from it on its being paid or made.
- (3) The gross amount of a manufactured overseas dividend is an amount equal to the gross amount of the overseas dividend of which the manufactured overseas dividend is representative.
- (4) The gross amount of an overseas dividend is the sum of—
 - (a) so much of the overseas dividend as remains after the deduction of any overseas tax chargeable on it,
 - (b) the amount of any overseas tax so deducted, and
 - (c) the amount of any overseas tax credit in respect of the overseas dividend.

590 Meaning of “relevant withholding tax”

- (1) This section applies for the purposes of this Chapter.
- (2) “Relevant withholding tax”, in relation to the gross amount of a manufactured overseas dividend, means an amount of income tax representative of the sum of—
 - (a) any amount that would have been deducted by way of overseas tax from an overseas dividend on the overseas securities of the same gross amount as the manufactured overseas dividend, and
 - (b) the amount of any overseas tax credit in respect of such an overseas dividend.
- (3) The Treasury may by regulations make provision about the rates of relevant withholding tax which are to apply in relation to manufactured overseas dividends in relation to different overseas territories.
- (4) The Treasury must, in prescribing these rates, have regard to—
 - (a) the rates at which overseas tax would have fallen to be deducted, and
 - (b) the rates of overseas tax credits,in overseas territories, or in the particular overseas territory, in respect of payments of overseas dividends on overseas securities.

591 Interpretation of other terms used in Chapter

- (1) In this Chapter—
 - “C (tax-exempt)” has the meaning given by section 105(3) of FA 2006,
 - “G (property rental business)” has the meaning given by paragraph 2 of Schedule 17 to FA 2006,
 - “group” and “principal company” have the meanings given by section 134 of FA 2006,
 - “overseas tax” means tax under the law of a territory outside the United Kingdom,

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“overseas tax credit” means any credit under the law of a territory outside the United Kingdom in respect of overseas tax which corresponds to a tax credit,

“prescribed” means prescribed in regulations under this Chapter, and

“transfer” includes a sale or other disposal.

- (2) References in this Chapter to a trade carried on through a branch or agency are to be read, in relation to a company, as references to a trade carried on through a permanent establishment.

CHAPTER 3

TAX CREDITS: STOCK LENDING ARRANGEMENTS AND REPOS

Stock lending arrangements

592 No tax credits for borrower under stock lending arrangement

- (1) This section applies if—
- (a) there is a stock lending arrangement in respect of UK shares,
 - (b) a qualifying distribution is made to the person who is the borrower under the arrangement,
 - (c) the qualifying distribution is, or is a payment representative of, a dividend in respect of the UK shares, and
 - (d) a manufactured dividend representative of the dividend is paid by the borrower in respect of any UK shares in respect of which the arrangement is made.
- (2) The borrower is not entitled to a tax credit under section 397(1) of ITTOIA 2005 (tax credits for qualifying distributions) in respect of the distribution.
- (3) If the borrower is UK resident, section 399(2) of ITTOIA 2005 (recipients of qualifying distributions treated as having paid income tax at dividend ordinary rate on them) does not apply in respect of the distribution.

Repos

593 No tax credits for interim holder under repo

- (1) This section applies if—
- (a) there is a repo in respect of UK shares,
 - (b) under the repo, the original owner has transferred the UK shares to the interim holder,
 - (c) a qualifying distribution is made to the interim holder,
 - (d) the qualifying distribution is, or is a payment representative of, a dividend in respect of the UK shares, and
 - (e) a manufactured dividend representative of the dividend is paid by the interim holder in respect of any UK shares in respect of which the repo is made.

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- (2) The interim holder is not entitled to a tax credit under section 397(1) of ITTOIA 2005 (tax credits for qualifying distributions) in respect of the distribution.
- (3) If the interim holder is UK resident, section 399(2) of ITTOIA 2005 (recipients of qualifying distributions treated as having paid income tax at dividend ordinary rate on them) does not apply in respect of the distribution.

594 No tax credits for original owner under repo

- (1) This section applies if—
 - (a) there is a repo in respect of UK shares,
 - (b) under the repo, the original owner has transferred the UK shares to the interim holder,
 - (c) a qualifying distribution is made,
 - (d) the qualifying distribution is a manufactured dividend paid under the repo in respect of the UK shares by the interim holder to the original owner, and
 - (e) the repo is not such that the actual dividend which the manufactured dividend represents is receivable by a person other than the original owner.
- (2) The original owner is not entitled to a tax credit under section 397(1) of ITTOIA 2005 (tax credits for qualifying distributions) in respect of the distribution.
- (3) If the original owner is UK resident, section 399(2) of ITTOIA 2005 (recipients of qualifying distributions treated as having paid income tax at dividend ordinary rate on them) does not apply in respect of the distribution.

Interpretation

595 Meaning of “manufactured dividend”

In this Chapter “manufactured dividend” has the same meaning as in Chapter 2 (see section 573(1)(a)).

CHAPTER 4

DEEMED MANUFACTURED PAYMENTS

Stock lending arrangements

596 Deemed manufactured payments: stock lending arrangements

- (1) This section applies if—
 - (a) there is a stock lending arrangement in respect of securities,
 - (b) a dividend or interest on the securities is paid, as a result of the arrangement, to a person other than the person who is the lender under the arrangement, and
 - (c) no provision is made for securing that the lender receives payments representative of the dividend or interest.
- (2) The rules about manufactured payments apply as if the person who is the borrower under the arrangement—

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- (a) were required, under the arrangement, to pay the lender an amount representative of the dividend or interest, and
 - (b) discharged the requirement when the dividend or interest was paid.
- (3) But the borrower is not entitled (whether as a result of the rules about manufactured payments or otherwise) to an income deduction in respect of the deemed requirement to pay or the deemed payment.
- (4) “Income deduction” means—
- (a) a deduction in calculating profits or gains for income tax purposes, or
 - (b) a deduction in calculating net income.
- (5) For the purposes of this section, a quasi-stock lending arrangement is treated as if it were a stock lending arrangement.

597 Deemed interest: cash collateral under stock lending arrangements

- (1) This section applies if—
- (a) the borrower under a stock lending arrangement is treated under section 596(2) as paying under the arrangement an amount representative of a dividend or interest on any securities (“the relevant securities”),
 - (b) an amount of money (“cash collateral”) is payable to or for the benefit of the lender for the purpose of securing the discharge of the requirement to transfer the relevant securities back to the lender,
 - (c) the stock lending arrangement is designed to produce a return to the borrower which equates, in substance, to the return on an investment of money at interest, and
 - (d) the main purpose, or one of the main purposes, of the stock lending arrangement is the obtaining of a tax advantage (within the meaning given by section 840ZA of ICTA).
- (2) If this section applies—
- (a) the Income Tax Acts apply as if the borrower receives an amount of interest payable in respect of the cash collateral, and
 - (b) the amount of the interest is calculated in accordance with subsections (3) to (7).
- (3) The interest is treated for the purposes of the Income Tax Acts as if it were received on the date (“the return date”) on which the borrower transfers the relevant securities back to the lender.
- (4) The interest is treated for the purposes of the Income Tax Acts as if it were payable in respect of the period (“the interest period”)—
- (a) beginning with the date on which the lender transfers the relevant securities to the borrower, and
 - (b) ending with the return date.
- (5) The rate of interest payable in respect of the cash collateral is a rate that is reasonably comparable to the rate that the borrower could obtain by placing the cash collateral on deposit for the interest period.
- (6) For the purposes of this section, the amount of the cash collateral on which the interest is payable is taken to be—

- (a) in any case where the amount of the cash collateral varies at any time on or before the return date, the highest amount of the cash collateral at any time on or before the return date, and
 - (b) in any other case, the amount of the cash collateral as at the return date.
- (7) The amount of the interest which the borrower is treated as receiving in respect of the cash collateral for the interest period is reduced (but not below nil) by any interest which the borrower actually receives in respect of that collateral for that period.
- (8) This section needs to be read with sections 598 and 599.

598 Cash collateral under stock lending arrangements: supplementary

- (1) This section supplements section 597.
- (2) The interest which the borrower is treated as receiving under section 597 is charged to income tax under Chapter 2 of Part 4 of ITTOIA 2005 (interest).
- (3) The fact that the borrower is treated as receiving an amount of interest under section 597 does not imply that the interest is payable by the lender or any other person.
- (4) For the purposes of section 597—
- (a) any reference in that section to the transfer of securities back has the same meaning as the reference in section 568(1)(d) (see subsections (2) to (6) of section 568), but
 - (b) if it becomes apparent that the borrower will not comply with the requirement to transfer any securities back, the borrower is treated as transferring them back on the date on which it becomes so apparent.
- (5) For the purposes of section 597 it does not matter—
- (a) whether the cash collateral is payable by the borrower or by any other person,
 - (b) whether the cash collateral is payable under the stock lending arrangement or under any other arrangement, or
 - (c) whether collateral in another form is also provided in connection with the stock lending arrangement.
- (6) See section 599—
- (a) for provision treating some arrangements as stock lending arrangements for the purposes of section 597 and this section, and
 - (b) for provision treating some amounts as cash collateral for those purposes.

599 Sections 597 and 598: quasi-stock lending arrangements and quasi-cash collateral

- (1) For the purposes of sections 597 and 598, a quasi-stock lending arrangement is treated as if it were a stock lending arrangement.
- (2) For the purposes of sections 597 and 598, in relation to a stock lending arrangement or quasi-stock lending arrangement—
- (a) quasi-cash collateral is treated as if it were cash collateral, and
 - (b) the amount of that cash collateral is taken to be the amount of the quasi-cash collateral in relation to the stock lending arrangement or quasi-stock lending arrangement.

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- (3) If—
- (a) section 597 applies in relation to a quasi-stock lending arrangement, and
 - (b) the person for whom the tax advantage was designed to be obtained is a person (“the other person”) other than the borrower under the arrangement,
- that section and section 598 have effect as if the other person were the person who receives the amount of interest mentioned in that section.
- (4) If section 597 applies in relation to a quasi-stock lending arrangement—
- (a) any reference in that section to cash collateral being payable to or for the benefit of the lender includes its being payable to or for the benefit of a person connected with the lender,
 - (b) the reference in subsection (1)(c) of that section to a return to the borrower includes a return to any other person, and
 - (c) any reference in that section and section 598 to the transfer back of the relevant securities by the borrower to the lender includes the transfer back of any or all of the securities, or any other property, by any person to the lender or any other person.
- (5) In subsection (4)(c) “property” means property in any form.

600 Meaning of “quasi-stock lending arrangements” and “quasi-cash collateral”

- (1) This section applies for the purposes of sections 596 to 599.
- (2) “Quasi-stock lending arrangement” means so much of any arrangements between two or more persons as are not stock lending arrangements, but are arrangements under which—
- (a) a person (“the lender”) transfers securities to another person (“the borrower”) otherwise than by way of sale, and
 - (b) a requirement is imposed on a person to transfer any or all of the securities, or any other property, back to the lender or any other person otherwise than by way of sale.
- (3) For the purposes of subsection (2) it does not matter whether the person on whom the requirement is imposed is the borrower or any other person.
- (4) “Quasi-cash collateral”, in relation to a stock lending arrangement or quasi-stock lending arrangement, means—
- (a) any money which is payable for a relevant purpose, and
 - (b) any other property which is transferable for a relevant purpose.
- (5) Money or other property is payable or transferable for a relevant purpose if it is payable or transferable to or for the benefit of—
- (a) the lender under the stock lending arrangement or quasi-stock lending arrangement, or
 - (b) a person connected with the lender,
- for the purpose of securing the discharge of the requirement mentioned in subsection (2)(b).
- (6) If any property other than money is transferable for a relevant purpose, the amount of the quasi-cash collateral so far as relating to that property is determined by reference to its market value.

(7) In this section “property” means property in any form.

Repos

601 Repo cases in which deeming rules apply

(1) Section 602 applies if—

- (a) there is a repo in respect of securities,
- (b) a distribution becomes payable in respect of the securities, and
- (c) each of the conditions in the first or second set of relevant conditions is met.

(2) This is the first set of relevant conditions—

Condition 1.1

As a result of the repo, the distribution is receivable otherwise than by the person who is the original owner under the repo.

Condition 1.2

There is no requirement under the sale agreement or the related agreement (if any) for a person to pay to the original owner, on or before the date when the repurchase price of the securities becomes due, an amount representative of the distribution.

Condition 1.3

It is reasonable to assume that, in deciding the repurchase price of the securities, account was taken of the fact that the distribution is receivable otherwise than by the original owner.

(3) This is the second set of relevant conditions—

Condition 2.1

The distribution is receivable otherwise than by the person who is the original owner under the repo.

Condition 2.2

There is no requirement under the sale agreement or the related agreement (if any) for a person to pay to the original owner, on or before the date when the repurchase price of the securities becomes due, an amount representative of the distribution.

Condition 2.3

The original owner or a person connected with the original owner is required under the sale agreement or the related agreement (if any) to pay an amount representative of the distribution.

Condition 2.4

It is reasonable to assume that, in deciding the repurchase price of the securities, account was taken of the circumstances mentioned in Conditions 2.1 to 2.3.

602 Deemed manufactured payments: repos

(1) If this section applies, the rules about manufactured payments apply as if the person from whom the securities are to be repurchased (“A”)—

- (a) were required, under the repo, to pay the repurchaser an amount representative of the distribution, and

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- (b) discharged the requirement when the repurchase price of the securities became due.
- (2) The amount mentioned in subsection (1)(a) is—
- (a) in the case of a dividend on UK shares (other than one within paragraph (b)), the amount of the dividend,
 - (b) in the case of a dividend on UK shares so far as—
 - (i) paid by a company to which Part 4 of FA 2006 applies in respect of profits of C (tax-exempt), or
 - (ii) paid by a group to which that Part applies in respect of profits of G (property rental business),
 the gross amount of the dividend,
 - (c) in the case of a periodical payment of interest on UK securities, the gross amount of the periodical payment of interest, and
 - (d) in the case of an overseas dividend on overseas securities, the gross amount of the overseas dividend.
- (3) But if A is not the person to whom the original owner agreed to sell the securities, A is not entitled (whether as a result of the rules about manufactured payments or otherwise) to an income deduction as a result of subsection (1).
- (4) “Income deduction” means—
- (a) a deduction in calculating profits or gains for income tax purposes, or
 - (b) a deduction in calculating net income.

603 Deemed deductions of tax

- (1) This section applies if—
- (a) an amount is treated as paid under section 602(1)(b) (deemed manufactured payments), and
 - (b) as a result, one of these sections applies—
 - (i) section 918 (deduction of income tax at source: manufactured dividends on UK shares: Real Estate Investment Trusts),
 - (ii) section 919 (deduction of income tax at source: manufactured interest on UK securities),
 - (iii) section 922 (deduction of income tax at source: manufactured overseas dividends).
- (2) So far as the deemed payment is representative of a dividend on UK shares—
- (a) paid by a company to which Part 4 of FA 2006 applies in respect of profits of C (tax-exempt), or
 - (b) paid by a group to which that Part applies in respect of profits of G (property rental business),
- any deduction which (as a result of section 918) is required to be made out of the gross amount of the payment is treated as made.
- (3) If the deemed payment is representative of a periodical payment of interest on UK securities, any deduction which (as a result of section 919) is required to be made out of the gross amount of the payment is treated as made.

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- (4) If the deemed payment is representative of an overseas dividend on overseas securities, any deduction which (as a result of section 922) is required to be made out of the gross amount of the payment is treated as made.

604 Deemed increase in repurchase price: price differences under repos

- (1) This section applies if—
- (a) an amount is treated as paid under section 602(1)(b) (deemed manufactured payments), and
 - (b) as a result, one of these sections applies—
 - (i) section 573 (manufactured dividends on UK shares),
 - (ii) section 576 (manufactured dividends on UK shares: Real Estate Investment Trusts),
 - (iii) section 578 (manufactured interest on UK securities),
 - (iv) section 581 (manufactured overseas dividends).
- (2) If the deemed payment is representative of a dividend on UK shares (other than one falling within subsection (3)), the repurchase price of the UK shares is treated for the purposes of section 607 (treatment of price differences under repos) as increased by an amount equal to the amount of the dividend.
- (3) So far as the deemed payment is representative of a dividend on UK shares—
- (a) paid by a company to which Part 4 of FA 2006 applies in respect of profits of C (tax-exempt), or
 - (b) paid by a group to which that Part applies in respect of profits of G (property rental business),
- the repurchase price of the UK shares is treated for the purposes of section 607 as increased by the gross amount of the dividend.
- (4) If the deemed payment is representative of a periodical payment of interest on UK securities, the repurchase price of the UK securities is treated for the purposes of section 607 as increased by the gross amount of the periodical payment of interest.
- (5) If the deemed payment is representative of an overseas dividend on overseas securities, the repurchase price of the overseas securities is treated for the purposes of section 607 as increased by the gross amount of the overseas dividend.

605 Deemed increase in repurchase price: other income tax purposes

- (1) The deemed increase in the repurchase price which is made by section 604(2), (4) or (5) for the purposes of section 607 also has effect for all other income tax purposes (except sections 601, 602, 604 and this section), if condition A or B is met.
- (2) Condition A is that, as a result of the increase, there is no difference for the purposes of section 607 between the sale price and the repurchase price.
- (3) Condition B is that, as a result of either of the exceptions in section 608, section 607 does not apply.
- (4) For the effect of the deemed increase of the repurchase price for capital gains tax purposes see section 261F of TCGA 1992.

Status: This is the original version (as it was originally enacted).

Interpretation

606 Interpretation of Chapter

- (1) This section applies for the purposes of this Chapter.
- (2) “C (tax-exempt)” has the meaning given by section 105(3) of FA 2006.
- (3) “Distribution” means—
 - (a) in the case of UK shares, a dividend,
 - (b) in the case of UK securities, a periodical payment of interest, and
 - (c) in the case of overseas securities, an overseas dividend.
- (4) “G (property rental business)” has the meaning given by paragraph 2 of Schedule 17 to FA 2006.
- (5) “Group” has the meaning given by section 134 of FA 2006.
- (6) “Manufactured dividend” has the same meaning as in Chapter 2 (see section 573(1)(a)).
- (7) “The repurchase price of the securities” means the amount which, under the sale agreement or the related agreement (if any), the original owner or connected person is to pay for the securities bought back.
- (8) “The rules about manufactured payments” means—
 - (a) Chapter 2 of this Part and regulations made under it,
 - (b) Chapter 3 of this Part,
 - (c) Chapter 9 of Part 15 and regulations made under it, and
 - (d) regulations made under section 973, so far as they apply to a person who pays a manufactured dividend.
- (9) Section 589 (meaning of “gross amount” of interest, manufactured overseas dividends and overseas dividends for purposes of Chapter 2) also applies for the purposes of this Chapter.
- (10) Section 918(7) (meaning of “gross amount” of manufactured dividend in Real Estate Investment Trust case) also applies for the purposes of this Chapter.

CHAPTER 5

PRICE DIFFERENCES UNDER REPOS

Main tax treatment

607 Treatment of price differences under repos

- (1) This section applies if—
 - (a) there is a repo in respect of securities, and
 - (b) under the repo, the original owner has transferred the securities to the interim holder.

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- (2) Any difference between the sale price of the securities and the repurchase price of the securities is treated for income tax purposes as follows.
- (3) If the repurchase price is more than the sale price, the difference is treated as a payment of interest made by the repurchaser on a deemed loan from the interim holder of an amount equal to the sale price.
- (4) If the sale price is more than the repurchase price, the difference is treated as a payment of interest made by the interim holder on a deemed loan from the repurchaser of an amount equal to the repurchase price.
- (5) In either case, the payment of interest is treated for income tax purposes as—
 - (a) becoming due when the repurchase price becomes due, and
 - (b) paid when that price is paid.
- (6) Subsection (7) applies in calculating the sale price for the purposes of this section if the repo involves the exercise of an option (see section 569(4)(b) and (c)).
- (7) The amount of any consideration given for the option is—
 - (a) in a case falling within section 569(4)(b), added to what would otherwise be the price, and
 - (b) in a case falling within section 569(4)(c), subtracted from what would otherwise be the price.
- (8) This section is subject to section 608 (exceptions) and Chapter 6 (powers to modify repo provisions: non-standard repo cases and redemption arrangements).

608 Exceptions to section 607

- (1) Section 607 does not apply in a case within subsection (2) or (3).
- (2) A case is within this subsection if the agreement or agreements for sale and repurchase are not what one would expect of persons dealing at arm's length.
- (3) A case is within this subsection if the interim holder has all the benefits and risks from fluctuations in the market value of the securities between their sale and repurchase.
- (4) This section is subject to any regulations under—
 - (a) section 611 (power to modify Chapter 5 in non-arm's length case), and
 - (b) sections 612 to 614 (powers to modify repo provisions: non-standard repo cases and redemption arrangements).

Additional tax treatment

609 Additional income tax consequences of price differences

- (1) Subsections (2) and (3) apply if an amount is treated under section 607 as a payment of interest.
- (2) If the repurchase price is more than the sale price, the repurchase price is treated for other income tax purposes as reduced by the amount of the payment of interest.
- (3) If the sale price is more than the repurchase price, the repurchase price is treated for other income tax purposes as increased by the amount of the payment of interest.

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- (4) “Other income tax purposes” means income tax purposes other than the purposes of—
 - (a) sections 601 to 605 (deemed manufactured payments: repos), and
 - (b) this Chapter.
- (5) The Treasury may by regulations provide for any amount which is treated under section 607 as received as a payment of interest to be treated, in such circumstances and so far as may be described in the regulations, as exempt pension income.
- (6) “Exempt pension income” means income which is eligible for relief from income tax as a result of section 613(4) or 614(2), (3) or (4) of ICTA or section 186 of FA 2004 (exemptions about pensions and annuities).
- (7) Section 261G of TCGA 1992 deals with the effect on the repurchase price for capital gains tax purposes of an amount being treated under section 607 as a payment of interest.

Interpretation

610 Repurchase price in deemed manufactured payment case

- (1) This section applies if section 602 (deemed manufactured payments: repos) applies to a case in which section 607 applies.
- (2) References in sections 607 to 609 to the repurchase price are to be read as references to the repurchase price which is applicable as a result of section 604(2), (4) or (5).

Power to modify

611 Power to modify Chapter in non-arm’s length case

- (1) The Treasury may by regulations provide for—
 - (a) sections 607 to 610 (price differences under repos), or
 - (b) any of those sections,
 to apply with modifications if the exception in section 608(2) (agreement not at arm’s length) would otherwise prevent section 607 from applying.
- (2) Regulations under this section may make different provision for different cases.
- (3) Regulations under this section may contain incidental, supplemental, consequential and transitional provision and savings.
- (4) The incidental, supplemental and consequential provision may include modifications of—
 - (a) section 604 (deemed increase in repurchase price: price differences under repos), and
 - (b) section 605 (deemed increase in repurchase price: other income tax purposes).
- (5) In this section “modifications” includes exceptions and omissions.
- (6) Accordingly, the power in subsection (1) includes power to provide for any of sections 607 to 610 not to apply in relation to the case mentioned in that subsection.

CHAPTER 6

POWERS TO MODIFY REPO PROVISIONS

612 Non-standard repo cases

- (1) The Treasury may by regulations provide for—
 - (a) sections 601 to 606 (deemed manufactured payments: repos),
 - (b) sections 607 to 610 (treatment of price differences under repos), or
 - (c) any of those sections,to apply with modifications in relation to non-standard repo cases.
- (2) A case is a non-standard repo case if—
 - (a) there is a repo in respect of securities,
 - (b) under the repo, there has been a sale (“the original sale”) of the securities by the original owner to the interim holder, and
 - (c) any of conditions A to E is met in relation to the repo.
- (3) Condition A is that—
 - (a) the obligation to buy back the securities is not performed, or
 - (b) the option to buy them back is not exercised.
- (4) Condition B is that provision is made by or under an agreement for different or additional UK shares, UK securities or overseas securities to be treated as (or as included with) representative securities.
- (5) Condition C is that provision is made by or under an agreement for any UK shares, UK securities or overseas securities to be treated as not included with representative securities.
- (6) Condition D is that provision is made by or under an agreement for the sale price or repurchase price to be decided or varied wholly or partly by reference to post-agreement fluctuations.
- (7) Condition E is that provision is made by or under an agreement for a person to be required, in a case where there are post-agreement fluctuations, to make a payment in the period—
 - (a) beginning immediately after the making of the agreement for the original sale, and
 - (b) ending when the repurchase price becomes due.
- (8) “Post-agreement fluctuations” are fluctuations in the value of—
 - (a) securities transferred in pursuance of the original sale, or
 - (b) representative securities,which occur in the period after the making of the agreement for the original sale.
- (9) “Representative securities” are UK shares, UK securities or overseas securities which, for the purposes of the repurchase, are to represent securities transferred in pursuance of the original sale.

613 Redemption arrangements

- (1) The Treasury may by regulations provide for—

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- (a) sections 601 to 606 (deemed manufactured payments: repos),
 - (b) sections 607 to 610 (treatment of price differences under repos), or
 - (c) any of those sections,
- to apply with modifications in relation to cases involving redemption arrangements.
- (2) A case involves redemption arrangements if—
- (a) arrangements, corresponding to those made in cases where there is a repo, are made by an agreement, or one or more related agreements, in relation to securities that are to be redeemed in the period after their sale,
 - (b) the securities are UK shares, UK securities or overseas securities, and
 - (c) the arrangements are such that the seller or a person connected with the seller (instead of being required to repurchase the securities or acquiring an option to do so) is granted rights in respect of the benefits that will result from the redemption.

614 Sections 612 and 613: supplementary

- (1) Regulations under section 612 or 613 may make different provision for different cases.
- (2) Regulations under either section may contain incidental, supplemental, consequential and transitional provision and savings.
- (3) The incidental, supplemental and consequential provision may, in the case of regulations about sections 607 to 610, include modifications of—
 - (a) section 604 (deemed increase in repurchase price: price differences under repos), and
 - (b) section 605 (deemed increase in repurchase price: other income tax purposes).
- (4) In this section and sections 612 and 613 “modifications” includes exceptions and omissions.
- (5) Accordingly, a power in sections 612 and 613 to provide for a provision to apply with modifications in relation to a particular case includes power to provide for the provision not to apply in relation to that case.