



# Corporation Tax Act 2010

## 2010 CHAPTER 4

### PART 23

#### COMPANY DISTRIBUTIONS

### CHAPTER 2

#### MATTERS WHICH ARE DISTRIBUTIONS

#### *Introduction*

#### **998 Overview of Chapter**

- (1) Sections 1000 to 1023 are about the meaning of “distribution” in the Corporation Tax Acts.
- (2) In particular, section 1000(1) lists the matters which are distributions.
- (3) Sections 1002 to 1023 contain provisions supplementing the paragraphs of that list.
- (4) The table in section 1001 mentions some of the main provisions which explain, supplement or limit particular paragraphs of the list in section 1000(1).
- (5) Sections 1024 to 1028 are about the meaning of “repayment of share capital”.

#### **999 Priority of negative rules**

- (1) The provisions of this Chapter are subject to any express exceptions.
- (2) See, in particular—
  - (a) Chapter 3 (matters which are not distributions),
  - (b) section 1075 (exempt distributions), and
  - (c) paragraph 6 of Schedule 12 to FA 1988 (transfer of building society’s business to a company: qualifying benefits),

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and see also the table in section 1001.

*Meaning of “distribution”*

**1000 Meaning of “distribution”**

- (1) In the Corporation Tax Acts “distribution”, in relation to any company, means anything falling within any of the following paragraphs.
- A. Any dividend paid by the company, including a capital dividend.
  - B. Any other distribution out of assets of the company in respect of shares in the company, except however much (if any) of the distribution—
    - (a) represents repayment of capital on the shares, or
    - (b) is (when it is made) equal in amount or value to any new consideration received by the company for the distribution.

For the purposes of this paragraph it does not matter whether the distribution is in cash or not.
  - C. Any redeemable share capital issued by the company—
    - (a) in respect of shares in, or securities of, the company, and
    - (b) otherwise than for new consideration (see sections 1003 and 1115).
  - D. Any security issued by the company—
    - (a) in respect of shares in, or securities of, the company, and
    - (b) otherwise than for new consideration (see sections 1004 and 1115).
  - E. Any interest or other distribution out of assets of the company in respect of securities of the company which are non-commercial securities (as defined in section 1005), except—
    - (a) however much (if any) of the distribution represents the principal secured by the securities, and
    - (b) however much (if any) of the distribution represents a reasonable commercial return for the use of the principal.
  - F. Any interest or other distribution out of assets of the company in respect of securities of the company which are special securities (as defined in section 1015), except—
    - (a) however much (if any) of the distribution represents the principal secured by the securities, and
    - (b) however much (if any) of the distribution falls within paragraph E.
  - G. Any amount treated as a distribution by section 1020 (transfers of assets or liabilities).
  - H. Any amount treated as a distribution by section 1022 (bonus issues following repayment of share capital).
- (2) In the Corporation Tax Acts “distribution”, in relation to a close company, also includes anything treated as a distribution by section 1064 (certain expenses of close companies treated as distributions).
- (3) See also section 1072 (which extends the meaning of “distribution” in relation to members of a 90% group).

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## 1001 Provisions related to paragraphs A to H in section 1000(1)

The following table mentions, for each paragraph in section 1000(1)—

- (a) some of the main provisions that explain or supplement it, and
- (b) some of the main provisions that limit it.

<i>Paragraph in section 1000(1)</i>	<i>Explained or supplemented by</i>	<i>Limited by</i>
A (dividends).		Section 1054 (building society payments).  Sections 1055(2) and 1057(2) (dividend paid by industrial and provident society or UK agricultural or fishing co-operative).
B (other distributions in respect of shares).	Sections 1024 to 1028 (meaning of “repayment of share capital”).  Section 1113(1) (extends meaning of “in respect of shares in the company”).	Section 1002 (exception for certain transfers of assets and liabilities).
C (redeemable share capital).	Section 1003 (redeemable share capital).  Section 1113(1).  Section 1114(1) (extends meaning of “in respect of securities of the company”).	Section 1049(3)(a) (stock dividends).
D (securities issued otherwise than for new consideration).	Section 1004 (securities issued otherwise than for new consideration).  Section 1113(1).  Section 1114(1).	
E (distributions in respect of non-commercial securities).	Sections 1005 to 1014 (meaning of “non-commercial securities” etc).  Section 1114(1).	
F (distributions in respect of special securities).	Sections 1015 to 1018 (meaning of “special securities” etc).  Section 1114(1).	Section 1019 (relevant alternative finance return).  Section 1032 (interest etc paid in respect of certain securities).

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<i>Paragraph in section 1000(1)</i>	<i>Explained or supplemented by</i>	<i>Limited by</i>
G (transfers of assets or liabilities).	Section 1020 (transfers of assets or liabilities treated as distributions).	
H (bonus issues following repayment of share capital).	Sections 1022 and 1023 (bonus issues following repayment of share capital treated as distributions).	Section 1049(3)(b)(i) (stock dividends).

*Distributions, other than dividends, in respect of shares*

**1002 Exceptions for certain transfers of assets or liabilities between a company and its members**

- (1) No transfer of assets (other than cash) or of liabilities between one company and another constitutes, or is treated as giving rise to, a distribution by virtue of paragraph B in section 1000(1) if—
- (a) both the companies are UK resident,
  - (b) neither of them is a 51% subsidiary of a non-UK resident company, and
  - (c) the two companies are not under common control, either at the time of the transfer or as a result of it.
- (2) Subsection (3) applies if—
- (a) on a transfer of assets or liabilities by a company to its members, or to a company by its members, a member receives a benefit,
  - (b) the conditions in section 1021(1)(a) and (b) are met, and
  - (c) if those conditions were not met, an amount would be a distribution under section 1020(2) (transfers of assets or liabilities treated as distributions).
- (3) The amount mentioned in subsection (2)(c) is not a distribution by virtue of paragraph B in section 1000(1).
- (4) In this section—
- “under common control” means under the control of the same person or persons, and
- “control” has the same meaning as in Part 10 (see sections 450 and 451).

*Redeemable share capital*

**1003 Redeemable share capital**

- (1) Subsection (2) applies if—
- (a) a company issues redeemable share capital, and
  - (b) the issue is partly (but not wholly) for new consideration.
- (2) The part (if any) of the share capital that is properly referable to the new consideration does not fall within paragraph C in section 1000(1).

- (3) In determining, for the purposes of paragraph C in section 1000(1), the amount of the distribution constituted by the issue of any redeemable share capital, the value of the share capital is taken to be the sum of—
- (a) the amount of the share capital, and
  - (b) the amount of any premium payable on redemption, in a winding up, or in any other circumstances.

*Securities issued otherwise than for new consideration*

**1004 Securities issued otherwise than for new consideration**

- (1) Subsection (2) applies if—
- (a) a company issues a security, and
  - (b) the issue is partly (but not wholly) for new consideration.
- (2) The part (if any) of the security that is properly referable to the new consideration does not fall within paragraph D in section 1000(1).
- (3) In determining, for the purposes of paragraph D in section 1000(1), the amount of the distribution constituted by the issue of any security, the value of the security is taken to be the amount of the principal secured, including any premium payable—
- (a) at maturity,
  - (b) in a winding up, or
  - (c) in any other circumstances.

*Distributions in respect of non-commercial securities*

**1005 Meaning of “non-commercial securities”**

For the purposes of paragraph E in section 1000(1) securities of a company are non-commercial securities if the consideration given by the company under the securities for the use of the principal secured by them represents more than a reasonable commercial return for the use of that principal.

**1006 Distributions exceeding consideration received for issue of security**

No amount is to be regarded for the purposes of paragraph E in section 1000(1) as representing the principal secured by a security so far as it exceeds any new consideration which has been received by the company for the issue of the security.

**1007 Securities issued at premium representing new consideration**

- (1) This section applies if any security of a company is issued at a premium representing new consideration (but see also section 1008).
- (2) In relation to a distribution in respect of the security, the reference in paragraph E in section 1000(1) to however much of the distribution represents the principal secured by the security is to be read as a reference to the sum of—
- (a) however much of the distribution represents the principal, and
  - (b) however much of it represents the premium.

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- (3) In relation to a distribution in respect of the security, the reference in paragraph E in section 1000(1) to however much of the distribution represents a reasonable commercial return for the use of the principal secured by the security is to be read as a reference to the sum of—
- (a) however much of the distribution represents a reasonable commercial return for the use of the principal, and
  - (b) however much of it represents (when regard is had to the extent to which distributions represent the premium) a reasonable commercial return for the use of the premium.

### **1008 Consideration for issue of security exceeding amount of principal**

- (1) This section applies if—
  - (a) a company issues a security, and
  - (b) the amount of new consideration received by the company for the issue of the security exceeds the amount of the principal secured by the security.
- (2) The amount of the principal is treated for the purposes of paragraph E in section 1000(1) as increased to the amount of that new consideration.
- (3) Section 1007 does not have effect in relation to the security.
- (4) This section is subject to sections 1009 and 1012.

#### *Exceptions to section 1008*

### **1009 Securities reflecting dividends on certain shares etc: exclusion of section 1008**

- (1) Section 1008 does not apply in relation to a security issued by a company (“the issuing company”) if—
  - (a) the security reflects to a significant extent dividends or other distributions in respect of, or fluctuations in the value of, shares, and
  - (b) those shares are in one or more companies each of which is the issuing company or an associated company of the issuing company.
- (2) Subsection (1) does not prevent section 1008 from applying in relation to a security if—
  - (a) the issuing company is a bank or securities house,
  - (b) the issuing company issues the security in the ordinary course of its business, and
  - (c) the security reflects dividends or other distributions in respect of the shares mentioned in subsection (1), or fluctuations in the value of those shares, only because it reflects fluctuations in a qualifying index.
- (3) In this section—
 

“bank” has the meaning given by section 1120, and

“securities house” means a person—

  - (a) who is authorised for the purposes of FISMA 2000, and
  - (b) whose business consists wholly or mainly of dealing as principal in financial instruments within the meaning of section 984 of ITA 2007.

### **1010 Meaning of “qualifying index” in section 1009**

- (1) In section 1009 “qualifying index” means an index which meets the conditions in subsections (2) and (3).
- (2) The underlying subject matter of the index must include both—
  - (a) shares that meet the description in section 1009(1)(b), and
  - (b) shares that do not meet that description.
- (3) Shares that do not meet the description in section 1009(1)(b) must represent a significant proportion of the market value of the underlying subject matter of the index.

### **1011 Meaning of “associated company” in section 1009**

- (1) For the purposes of section 1009 a company is an “associated company” of another at any time when—
  - (a) one has control of the other, or
  - (b) both are under the control of the same person or persons.
- (2) For the purposes of subsection (1) a person controls a company if the person has power to secure that the affairs of the company are conducted in accordance with the person’s wishes, and has that power—
  - (a) by holding shares in the company or any other company,
  - (b) by possessing voting power in relation to the company or any other company, or
  - (c) by virtue of any powers conferred by—
    - (i) the articles of association of the company or any other company, or
    - (ii) any other document regulating the company or any other company.
- (3) Shares held by a company, and any voting power or other powers arising from the shares, must be ignored for the purposes of subsection (2) if—
  - (a) a profit on a sale of the shares would be treated as a trading receipt of a trade carried on by the company, and
  - (b) the shares are not assets of an insurance company’s long-term insurance fund.

### **1012 Hedging arrangements**

- (1) Section 1008 does not at a given time apply in relation to a security issued by a company (“the issuing company”) if—
  - (a) at that time, or
  - (b) at any earlier time after 16 April 2002,there are or have been any hedging arrangements that relate to some or all of the company’s liabilities under the security.

This is subject to section 1013.

- (2) If, as a result of this section, section 1008 stops applying at any time in relation to a security, paragraph E in paragraph 1000(1) has effect in relation to the security from that time as it would have had effect if section 1008 had never applied in relation to the security.

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### **1013 Exception to section 1012**

- (1) Section 1012 does not prevent section 1008 from applying in relation to a security at a given time if—
  - (a) each of conditions A to D is met in relation to any hedging arrangements existing at that time that relate to some or all of the company’s liabilities under the security, and
  - (b) at all earlier times after 16 April 2002 when there have been hedging arrangements that relate to some or all of the company’s liabilities under the security, each of conditions A to D was met in relation to those arrangements.
- (2) Condition A is that the hedging arrangements do not constitute, include or form part of any scheme or arrangement the purpose or one of the main purposes of which is the avoidance of tax.
- (3) In subsection (2) “tax” includes stamp duty and stamp duty land tax.
- (4) Condition B is that the hedging arrangements are such that any amounts intended under the arrangements to offset some or all of a corporation tax deduction in respect of the security—
  - (a) arise at the time when the deduction falls to be made, or within a reasonable time before or after that time, and
  - (b) arise—
    - (i) to the issuing company, or
    - (ii) to a company which is a member of the same group of companies as the issuing company.
- (5) In subsection (4) “corporation tax deduction” means a deduction that falls to be made for corporation tax purposes by the issuing company at any time.
- (6) Condition C is that the whole of every amount arising as mentioned in subsection (4) is brought into charge to corporation tax—
  - (a) by a company falling within subsection (4)(b)(i) or (ii), or
  - (b) by two or more companies (taken together) each of which falls within subsection (4)(b)(i) or (ii).
- (7) Condition D is that for corporation tax purposes any deductions in respect of expenses of establishing or administering the hedging arrangements are reasonable in proportion to the amounts required to be brought into charge to corporation tax by subsection (6).
- (8) For the purposes of this section two companies are members of the same group of companies if they are members of the same group of companies for the purposes of Part 5 (see section 152).

### **1014 Meaning of “hedging arrangements”**

- (1) This section explains what “hedging arrangements” means, in relation to a security, in sections 1012 and 1013.
- (2) “Hedging arrangements” means any scheme or arrangement for the purpose of securing that an offsetting amount of income or gain—
  - (a) accrues, or
  - (b) is received or receivable.



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- (3) In subsection (2) “offsetting amount” means an amount which is intended to offset some or all of the amounts that fall to be brought into account in respect of amounts accruing or falling to be paid in accordance with the terms of the security.
- (4) It does not matter whether the purpose mentioned in subsection (2) is the only purpose, or just one of the purposes, of the scheme or arrangement.
- (5) It does not matter whether the purpose mentioned in subsection (2) is to secure that the offsetting amount accrues, or is received or receivable, directly or indirectly.
- (6) In this section “brought into account” means brought into account in accordance with generally accepted accounting practice.

#### *Distributions in respect of special securities*

### **1015 Meaning of “special securities”**

- (1) Securities of a company are special securities for the purposes of paragraph F in section 1000(1) if they meet any of conditions A to E.
- (2) Condition A is that the securities are issued as described in paragraph D in section 1000(1) (securities issued otherwise than for new consideration).
- (3) Condition B is that—
  - (a) the securities—
    - (i) are convertible (directly or indirectly) into shares in the company, or
    - (ii) carry a right to receive shares in or securities of the company, and
  - (b) the securities are neither listed on a recognised stock exchange nor issued on terms which are reasonably comparable with the terms of issue of securities listed on a recognised stock exchange.
- (4) Condition C is that under the securities the consideration given by the company for the use of the principal secured depends (to any extent) on the results of—
  - (a) the company’s business, or
  - (b) any part of the company’s business.
- (5) Condition D is that the securities are connected with shares in the company (see section 1017(2)).
- (6) Condition E is that the securities are equity notes—
  - (a) issued by the company (“the issuing company”), and
  - (b) held by a company which—
    - (i) is associated with the issuing company, or
    - (ii) is a funded company (see section 1017(3)).

### **1016 Meaning of “equity note” in section 1015**

- (1) For the purposes of section 1015(6) a security is an equity note if any of the tests in subsection (2) is satisfied either—
  - (a) as regards the whole of the principal, or
  - (b) as regards any part of it.

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(2) These are the tests.

*Test 1*

The security's terms contain no particular date by which it is to be redeemed.

*Test 2*

Under the security's terms the date for redemption, or the latest date for redemption, falls after the end of the permitted period.

*Test 3*

Under the security's terms redemption is to occur after the end of the permitted period if a particular event occurs, and the event is one which (judged at the time of the security's issue) is certain or likely to occur.

*Test 4*

The issuing company can secure—

- (a) that there is no particular date by which the security is to be redeemed, or
- (b) that the date for redemption falls after the end of the permitted period.

(3) In subsection (2) “the permitted period” means the period of 50 years beginning with the date of the security's issue.

#### **1017 Section 1015: other interpretation**

- (1) For the purposes of section 1015(4) the consideration given by the company for the use of the principal secured is not treated as depending on the results of the company's business (or any part of it) merely because the terms of the security provide—
  - (a) for the consideration to be reduced if the results improve, or
  - (b) for the consideration to be increased if the results deteriorate.
- (2) For the purposes of section 1015(5) securities are connected with shares in the company if—
  - (a) it is necessary or advantageous for a person who has, or disposes of or acquires, any of the securities also to have, or to dispose of or acquire, a proportionate holding of the shares, and
  - (b) that is a consequence of the nature of the rights attaching to the securities or shares and, in particular, any terms or conditions attaching to the right to transfer the securities or shares.
- (3) For the purposes of section 1015(6) a company is a funded company if there are arrangements involving the company being put in funds (directly or indirectly) by—
  - (a) the issuing company, or
  - (b) a company associated with the issuing company.
- (4) For the purposes of subsection (3) above and section 1015(6), a company is associated with the issuing company if—
  - (a) the issuing company is a 75% subsidiary of the other company,
  - (b) the other company is a 75% subsidiary of the issuing company, or
  - (c) both are 75% subsidiaries of a third company.

### **1018 The principal secured: special securities**

- (1) No amount is to be regarded for the purposes of paragraph F in section 1000(1) as representing the principal secured by a security so far as it exceeds any new consideration which has been received by the company for the issue of the security.

This is without prejudice to section 1117(6).

- (2) Subsection (3) applies if—
- (a) a security of a company is issued at a premium representing new consideration, and
  - (b) there is a distribution in respect of the security.
- (3) The reference in paragraph F in section 1000(1) to however much of the distribution represents the principal secured by the security is to be read as a reference to the sum of—
- (a) however much of the distribution represents the principal, and
  - (b) however much of it represents the premium.

### **1019 Relevant alternative finance return**

- (1) Relevant alternative finance return is not treated by virtue of section 1015(4) as being a distribution for the purposes of the Corporation Tax Acts.
- (2) For corporation tax purposes “relevant alternative finance return” in subsection (1) means—
- (a) anything that is alternative finance return for the purposes of Part 6 of CTA 2009 as a result of section 513 of that Act, or
  - (b) any part of the redemption payment under arrangements to which section 507 of CTA 2009 (investment bond arrangements) applies.
- (3) For income tax purposes “relevant alternative finance return” in subsection (1) means—
- (a) anything that is alternative finance return for the purposes of Part 10A of ITA 2007 as a result of section 564L of that Act, or
  - (b) any part of the redemption payment under arrangements to which section 564G of ITA 2007 (investment bond arrangements) applies.

#### *Transfers of assets or liabilities treated as distributions*

### **1020 Transfers of assets or liabilities treated as distributions**

- (1) This section applies if on a transfer of assets or liabilities—
- (a) by a company to its members, or
  - (b) to a company by its members,
- the amount or value of the benefit received by a member exceeds the amount or value of any new consideration given by the member.
- (2) The company is treated for the purposes of the Corporation Tax Acts as making a distribution to the member of an amount equal to the excess.

But this is subject to section 1021.

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- (3) For the purposes of subsection (1) the amount or value of a benefit, or of any consideration, is determined in accordance with the market value.

### **1021 Section 1020: exceptions**

- (1) Section 1020 does not apply if—
- (a) the company and the member receiving the benefit are both UK resident, and
  - (b) either—
    - (i) the company is a 51% subsidiary of the member, or
    - (ii) both are 51% subsidiaries of a third company which is also UK resident.
- (2) In determining whether one body corporate is a 51% subsidiary of another body corporate (“A”) for the purposes of subsection (1), A is treated as not being the owner of—
- (a) any share capital which it owns directly in a body corporate as trading stock,
  - (b) any share capital which it owns indirectly, and which is owned directly by a body corporate as trading stock, or
  - (c) any share capital which it owns directly or indirectly in a body corporate which is not UK resident.
- (3) For the purposes of subsection (2) share capital owned by a body corporate is owned as trading stock if (and only if) a profit on the sale of the shares would be treated as a trading receipt of the body’s trade.
- (4) No transfer of assets (other than cash) or of liabilities between one company and another constitutes, or is treated as giving rise to, a distribution by virtue of section 1020 if—
- (a) both the companies are UK resident,
  - (b) neither of them is a 51% subsidiary of a non-UK resident company, and
  - (c) they are not under common control, either at the time of the transfer or as a result of it.
- (5) In this section—
- “under common control” means under the control of the same person or persons, and
- “control” has the same meaning as in Part 10 (see sections 450 and 451).

#### *Bonus issue following repayment of share capital*

### **1022 Bonus issue following repayment of share capital treated as distribution**

- (1) Subsection (3) applies if a company—
- (a) repays or has repaid any share capital, and
  - (b) at or after the time of the repayment issues any share capital as paid up otherwise than by the receipt of new consideration.
- (2) But subsection (3) does not apply so far as any provision of the Corporation Tax Acts makes contrary provision.

- (3) The amount paid up as mentioned in subsection (1)(b) is treated for the purposes of the Corporation Tax Acts as a distribution made in respect of the shares on which it is paid up, except so far as that amount exceeds the adjusted amount of the repaid share capital.
- (4) The reference in subsection (3) to the adjusted amount of the repaid share capital is to—
  - (a) the amount, or total amount, of share capital repaid as mentioned in subsection (1)(a), minus
  - (b) any amounts previously paid up as mentioned in subsection (1)(b) and treated as distributions by virtue of subsection (3).

### **1023 Exceptions to section 1022(3)**

- (1) Section 1022(3) does not apply if the issue of share capital mentioned in section 1022(1)(b)—
  - (a) takes place more than 10 years after the repayment of share capital mentioned in subsection 1022(1)(a), and
  - (b) is not of redeemable share capital.
- (2) But subsection (1) does not prevent section 1022(3) from applying in the case of a company which is a relevant company for the purposes mentioned in section 739 (certain companies not included in the official UK list etc).
- (3) Section 1022(3) does not apply if the repaid share capital consists of fully paid preference shares and—
  - (a) those shares were issued as fully paid preference shares,
  - (b) they were issued wholly for new consideration not derived from ordinary shares, and
  - (c) throughout the period from their issue until the repayment those shares continued to be fully paid preference shares.
- (4) For the purposes of subsection (3) consideration is derived from ordinary shares if (and only if)—
  - (a) it consists of the surrender, transfer or cancellation of ordinary shares,
  - (b) it consists of the variation of rights in ordinary shares, or
  - (c) it is derived from a repayment of share capital paid in respect of ordinary shares,and for the purposes of this subsection it does not matter whether the ordinary shares are of the company or another company.
- (5) In this section—
  - “ordinary shares” means shares other than preference shares, and
  - “preference shares” means shares which—
    - (a) do not carry any right to dividends other than dividends at a fixed rate per cent of the nominal value of the shares, and
    - (b) carry rights in respect of dividends and capital which are comparable with those general for fixed-dividend shares included in the official UK list.

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*Interpretation of references to repayment of share capital*

**1024 Premiums paid on redemption of share capital**

Premiums paid on redemption of share capital are not treated as repayments of share capital for the purposes of this Chapter.

**1025 Share capital issued at a premium representing new consideration**

- (1) This section applies if—
  - (a) share capital is issued at a premium representing new consideration, and
  - (b) a distribution is made in respect of shares representing the share capital.
- (2) The amount of the premium is treated as forming part of the share capital for the purpose of determining under this Chapter whether the distribution is a repayment of share capital.
- (3) Subsection (2) does not have effect in relation to any part of the premium after that part has been applied to paying up share capital.

**1026 Distributions following a bonus issue**

- (1) This section applies if—
  - (a) a company issues, or has issued, any share capital (“the bonus share capital”) as paid up otherwise than by the receipt of new consideration, and
  - (b) an amount paid up as mentioned in paragraph (a) does not fall to be treated as a qualifying distribution.
- (2) Distributions made afterwards by the company in respect of shares representing the bonus share capital are not treated as repayments of share capital for the purposes of this Chapter.  
  
 But this is subject to section 1027 and any other contrary provision in the Corporation Tax Acts.
- (3) Except where the company is a relevant company for the purposes mentioned in section 739 (certain companies not included in the official UK list etc), subsection (2) does not prevent a distribution being treated as a repayment of share capital if it is made—
  - (a) more than 10 years after the issue of the share capital mentioned in subsection (1)(a), and
  - (b) in respect of share capital other than redeemable share capital.
- (4) For the purposes of this section and section 1027—
  - (a) all shares of the same class are treated as representing the same share capital, and
  - (b) if shares are issued in respect of other shares, or are (directly or indirectly) converted into or exchanged for other shares, all such shares are treated as representing the same share capital.
- (5) This section is to be read with section 1049(3)(b) (stock dividends).

### **1027 Cap on amount of distributions affected by section 1026**

- (1) Section 1026(2) does not apply to the distributions in question so far as they, together with any affected distributions made previously but after the issue of the bonus share capital, exceed the cap.
- (2) In subsection (1) “the cap” means the total of the amounts—
  - (a) paid up, otherwise than by the receipt of new consideration, on shares representing the bonus share capital, and
  - (b) not falling to be treated as qualifying distributions.
- (3) In subsection (1) “affected distribution” means however much of a distribution made in respect of shares representing the bonus share capital—
  - (a) would, but for section 1026, be treated as a repayment of share capital, but
  - (b) cannot be so treated because of that section.
- (4) In subsection (2)(a) the reference to amounts paid up is to amounts paid up at the time of the distributions in question or previously.

### **1028 Certain payments connected with exempt distributions**

- (1) A chargeable payment made within 5 years after an exempt distribution is not to be (if it otherwise would be) treated as a repayment of share capital for the purposes of sections 1022 and 1023 (bonus issue following repayment of share capital).
- (2) The purpose of the provisions about demergers (which include this section) is set out in section 1074.
- (3) In this section—
  - (a) “chargeable payment” has the meaning given by section 1088, and
  - (b) “exempt distribution” has the meaning given by section 1075(2).