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STATUTORY INSTRUMENTS

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**1997 No. 992**

**INCOME TAX**

**The Manufactured Interest (Tax) Regulations 1997**

<i>Made</i>	- - - -	<i>20th March 1997</i>
<i>Laid before the House of</i>		
<i>Commons</i>	- - - -	<i>20th March 1997</i>
<i>Coming into force</i>	- -	<i>1st July 1997</i>

The Treasury, in exercise of the powers conferred on them by paragraphs 1(1) and 8(1) and (2) to (4) of Schedule 23A to the Income and Corporation Taxes Act 1988(1), hereby make the following Regulations:

**Citation and commencement**

1. These Regulations may be cited as the Manufactured Interest (Tax) Regulations 1997 and shall come into force on 1st July 1997.

**Interpretation**

2.—(1) In these Regulations—

“manufactured interest” shall be construed in accordance with paragraph 3(1) of Schedule 23A(2);

“recipient” in relation to a payment of manufactured interest means a person referred to in paragraph 3(5) of Schedule 23A who is a company.

(2) References to a section or a Schedule, without more, are references to that section of, or that Schedule to, the Income and Corporation Taxes Act 1988.

**Application of the Tax Acts to manufactured interest on which recipients are accountable for tax**

3.—(1) Schedule 16(3) shall apply in relation to the collection of income tax on payments of manufactured interest to which paragraph (2) applies (“specified payments”) as if references in that

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(1) 1988 c. 1. Schedule 23A was inserted by paragraph 1 of Schedule 13 to the Finance Act 1991 (c. 31). Paragraph 8 of Schedule 23A was amended by section 159(7) and (8) of the Finance Act 1996 (c. 8) and by paragraph 13 of Schedule 10 to the Finance Act 1997 (c. 16). See the definition of “dividend manufacturing regulations” in paragraph 1(1) of Schedule 23A.

(2) Paragraph 3 of Schedule 23A was substituted by paragraph 11(1) of Schedule 10 to the Finance Act 1997.

(3) Schedule 16 was amended by section 149(3)(d) of the Finance Act 1989 (c. 26), paragraph 13 of Schedule 14 to the Finance Act 1990 (c. 29) and paragraphs 10 to 13 of Schedule 23 to the Finance Act 1996.

Schedule, other than the reference in paragraph 5 of that Schedule, to relevant payments made by a company were references to specified payments.

(2) The payments of manufactured interest specified in this paragraph are payments in relation to which the recipients are liable to account for income tax under paragraph 3(5) of Schedule 23A.

(3) The recipient of a payment of manufactured interest to which paragraph (2) applies (or would apply but for regulation 4(1)) or, as the case may be, any person claiming title through or under him, shall be treated for the purposes of the Tax Acts as if the payment had borne income tax by deduction.

**Liability for tax where the manufacturer receives the interest of which the manufactured interest is representative**

4.—(1) The recipient of a payment of manufactured interest shall not be liable to account for income tax under paragraph 3(5) of Schedule 23A in any case where he shows that—

- (a) the interest manufacturer was entitled to payment of the interest of which the manufactured interest is representative either—
  - (i) as the holder of the securities concerned, or
  - (ii) directly or indirectly from a person from whom he acquired those securities, or to whom he transferred them, and who was so entitled as the holder of those securities, and
- (b) the amount of the payment of interest actually received by the interest manufacturer does not exceed the amount found by deducting from the gross amount of the interest such tax as would have been deducted if the payment of interest had been made to the recipient.

(2) Where paragraph (1) applies the interest manufacturer shall be liable for tax, in respect of the payment of manufactured interest, in an amount equal to the amount (if any) of relief from United Kingdom tax to which, assuming him to have made a claim under arrangements having effect by virtue of section 788, the interest manufacturer is entitled in respect of the payment of interest received by him.

(3) The amount of tax for which the interest manufacturer is liable shall be set against the amount of relief from United Kingdom tax to which, on the assumption made in paragraph (2), he is entitled as mentioned in that paragraph.

(4) Where paragraph (1) does not apply by reason only of the fact that sub-paragraph (b) of that paragraph does not apply, the amount of income tax for which the recipient of the payment of manufactured interest shall be liable to account under paragraph 3(5) of Schedule 23A shall be reduced to an amount equal to the amount by which the amount of the payment of interest actually received by the interest manufacturer exceeds the amount found as mentioned in that sub-paragraph.

*Roger Knapman*  
*Richard Ottaway*  
Two of the Lords Commissioners of Her  
Majesty's Treasury

20th March 1997

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## EXPLANATORY NOTE

*(This note is not part of the Regulations)*

These Regulations make provision in relation to accounting for tax by certain companies in respect of payments of manufactured interest on United Kingdom securities made to them by interest manufacturers who are not resident in the United Kingdom. The companies in question are those resident in the United Kingdom or companies that are not so resident but receive such payments for the purposes of a trade carried on by them in the United Kingdom through a branch or agency.

Regulation 1 provides for citation and commencement, and regulation 2 for interpretation.

Regulation 3 applies with modifications the provisions of Schedule 16 to the Income and Corporation Taxes Act 1988 (collection of income tax on company payments) in relation to payments of manufactured interest received by the companies referred to above, and also provides that such companies (or any person claiming title through or under them) shall be treated for the purposes of the Tax Acts as if the payment received had borne income tax by deduction.

Regulation 4 makes provision for liability for tax in circumstances where the interest manufacturer in question is in receipt of the real interest of which the manufactured interest is representative.