

*Status: Point in time view as at 06/03/1992.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 1990, SCHEDULE 10. (See end of Document for details)*

## SCHEDULES

### SCHEDULE 10 **U.K.**

Section 56.

#### CONVERTIBLE SECURITIES

#### PART I **U.K.**

##### INTRODUCTION

##### *Qualifying provision for redemption*

- 1 For the purposes of this Schedule a qualifying provision for redemption, in relation to a security, is a provision which—
- (a) provides for redemption before maturity only at the option of the person holding the security for the time being,
  - (b) provides for such redemption on one occasion only,
  - (c) provides for such redemption to occur on the last day of an income period, and
  - (d) is such that the amount payable on redemption on exercise of the option is fixed (as opposed to variable), is determined at the time the security becomes subject to the provision, and constitutes a deep gain.

##### *Qualifying convertible securities*

- 2 (1) For the purposes of this Schedule a security is a qualifying convertible security at the time of its issue if—
- (a) it fulfils each of the first eight conditions mentioned below, and
  - (b) it fulfils the ninth condition mentioned below (where it applies) or it fulfils the ninth and tenth conditions mentioned below (where they apply).
- (2) The first condition is that the security was issued by a company on or after 9th June 1989.
- (3) The second condition is that the security—
- (a) is not a share in a company,
  - (b) is redeemable, and
  - (c) was not issued in circumstances such that, by virtue of section 209(2)(c) of the Taxes Act 1988, it (or part of it) constituted or fell within a distribution of a company.
- (4) The third condition is that at the time the security was issued it was quoted in the official list of a recognised stock exchange.

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- (5) The fourth condition is that under the terms of issue—
- (a) the security can be converted into ordinary share capital in the company which issued it,
  - (b) the security either carries no right to interest, or carries a right to interest at a rate which is fixed (as opposed to variable) and determined at the time of issue, and
  - (c) any amount payable on redemption (at any time), and any amount payable by way of interest, is payable in the currency in which the issue price is denominated.
- (6) The fifth condition is that at the time of issue of the security it is subject to one (and one only) qualifying provision for redemption.
- (7) The sixth condition is that the yield to redemption for the relevant redemption period represents no more than a reasonable commercial return; and the relevant redemption period is the redemption period which ends with the day on which the occasion for redemption under the qualifying provision for redemption falls.
- (8) The seventh condition is that the security—
- (a) is a deep discount security but would not be one if it were not for the qualifying provision for redemption, or
  - (b) is a deep gain security but would not be one if it were not for the qualifying provision for redemption;
- and paragraph 21 of Schedule 4 to the Taxes Act 1988, and paragraph 22B(1) of Schedule 11 to the <sup>M1</sup>Finance Act 1989, shall be ignored in construing paragraphs (a) and (b) above.
- (9) The eighth condition is that the obtaining of a tax advantage by any person was not the main benefit, or one of the main benefits, that might be expected to accrue from issuing the security.
- (10) The ninth condition applies where the security carries a right to interest, and is that—
- (a) the first (or only) interest payment day falls on a day which bears the same date in the month as the day of issue bears, but which occurs in the sixth month after the month in which that day falls, or
  - (b) the first (or only) interest payment day falls on the first anniversary of the day of issue.
- (11) The tenth condition applies where there is more than one interest payment day, and is that—
- (a) if sub-paragraph (10)(a) above applies, each interest payment day (other than the first) falls on a day which bears the same date in the month as the interest payment day immediately preceding it bears, but which occurs in the sixth month after the month in which that day falls;
  - (b) if sub-paragraph (10)(b) above applies, each interest payment day (other than the first) falls on the first anniversary of the interest payment day immediately preceding it.
- (12) If a security is quoted in the official list of a recognised stock exchange at a time after it was issued but before the end of the qualifying period, for the purposes of sub-paragraph (4) above it shall be deemed to have been quoted in that list at the time it was issued; and the qualifying period is the period of one month beginning with the day on which the security was issued.

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#### Marginal Citations

M1 1989 c. 26.

#### *Events after issue*

- 3
- (1) A security which was a qualifying convertible security at the time of its issue shall continue to be a qualifying convertible security for the purposes of this Schedule.
  - (2) But sub-paragraph (1) above shall have effect subject to paragraphs 4(2) and 5(2) below.

#### *Securities becoming subject to later options*

- 4
- (1) This paragraph applies where—
    - (a) a security becomes at any time (the time in question) subject to a qualifying provision for redemption (the new provision), and
    - (b) immediately before that time it was a qualifying convertible security.
  - (2) If the relevant requirement is not satisfied, the security shall cease to be a qualifying convertible security for the purposes of this Schedule at the time in question.
  - (3) For the purposes of this paragraph the relevant requirement is satisfied if—
    - (a) the security becomes subject to the new provision on or after the relevant day but not after the day on which the occasion for redemption under the old provision falls,
    - (b) the person who issued the security did not indicate, at any time falling before the relevant day, that the security might become subject to a qualifying provision for redemption (in addition to any other such provision or provisions),
    - (c) the day on which the occasion for redemption under the new provision falls is not less than one year after the day on which the occasion for redemption under the old provision falls,
    - (d) the amount payable on redemption on exercise of the option for which the new provision provides is not less than the amount payable on redemption on exercise of the option for which the old provision provides,
    - (e) the yield to redemption for the relevant redemption period represents no more than a reasonable commercial return, and
    - (f) the obtaining of a tax advantage by any person is not the main benefit, or one of the main benefits, that might be expected to accrue from the new provision.
  - (4) For the purposes of this paragraph the relevant day is the day falling 30 days before the day on which the occasion for redemption under the old provision falls.
  - (5) For the purposes of this paragraph the old provision is—
    - (a) if the security became subject to one other qualifying provision for redemption before the time in question, that provision, or

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- (b) if the security became subject to more than one qualifying provision for redemption before the time in question, the one to which it last became subject.
- (6) For the purposes of this paragraph the relevant redemption period is the redemption period which ends with the day on which the occasion for redemption under the new provision falls.

*Other later events in relation to securities*

- 5 (1) This paragraph applies where—
- (a) a prohibited event occurs in relation to a security at any time (the time in question), and
  - (b) immediately before that time it was a qualifying convertible security.
- (2) The security shall cease to be a qualifying convertible security for the purposes of this Schedule at the time in question.
- (3) For the purposes of this paragraph, a prohibited event occurs in relation to a security if—
- (a) it ceases to be quoted in the official list of a recognised stock exchange,
  - (b) it becomes subject to a provision under which it carries a right to interest at a rate which is variable or falls to be determined at a time other than issue (or both),
  - (c) it becomes subject to a provision under which any amount payable on redemption (at any time) is payable in a currency different from that in which the issue price is denominated,
  - (d) it becomes subject to a provision under which any amount payable by way of interest is payable in a currency different from that in which the issue price is denominated,
  - (e) it becomes subject to a provision which would be a qualifying provision for redemption but for the fact that one or more of sub-paragraphs (b) to (d) of paragraph 1 above is (or are) not fulfilled as regards the provision, or
  - (f) there is a time when more than 10 per cent. of the securities issued under the relevant prospectus are held by companies which are linked companies at that time.
- (4) For the purposes of sub-paragraph (3)(f) above the relevant prospectus is the prospectus under which the security concerned was issued.
- (5) For the purposes of sub-paragraph (3)(f) above, the question whether companies are linked companies at a particular time shall be determined in accordance with paragraph 4 of Schedule 11 to the <sup>M2</sup>Finance Act 1988.

**Marginal Citations**

M2 1988 c. 39.

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### *Deep gain*

- 6 (1) For the purposes of this Schedule the amount payable on redemption, on exercise of the option under a provision for redemption (the provision concerned), constitutes a deep gain if it constitutes such a gain by virtue of sub-paragraph (2) or (4) below (or both).
- (2) The amount payable on redemption (on exercise of the option under the provision concerned) constitutes a deep gain if the issue price of the security is less than the amount so payable, and the amount by which it is less represents more than—
- (a) 15 per cent. of the amount so payable, or
  - (b) half Y per cent. of the amount so payable, where Y is the number of complete years between the day of issue and the day on which the occasion for redemption under the provision concerned falls.
- (3) Sub-paragraph (4) below applies where the security became subject to—
- (a) a qualifying provision for redemption (the prior provision), or
  - (b) qualifying provisions for redemption (the prior provisions),
- before it became subject to the provision concerned.
- (4) The amount payable on redemption (on exercise of the option under the provision concerned) constitutes a deep gain if the base amount is less than the amount so payable, and the amount by which it is less represents more than—
- (a) 15 per cent. of the amount so payable, or
  - (b) half Y per cent. of the amount so payable, where Y is the number of complete years between the base day and the day on which the occasion for redemption under the provision concerned falls.
- (5) For the purposes of sub-paragraph (4) above—
- (a) the base amount is the amount payable on redemption on exercise of the option provided for by the prior provision (if there is only one) or the last of the prior provisions (if there are two or more), and
  - (b) the base day is the day on which the occasion for redemption falls under the prior provision (if there is only one) or the last of the prior provisions (if there are two or more).
- (6) For the purposes of sub-paragraph (5) above the last of the prior provisions is the one to which the security last became subject.

### *Income period*

- 7 (1) This paragraph applies for the purposes of this Schedule.
- (2) In relation to a security which carries a right to interest each of the following is an income period—
- (a) the period beginning with the day of issue and ending with the first (or only) interest payment day, and
  - (b) any period beginning with the day after one interest payment day and ending with the next interest payment day.

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- (3) In relation to a security which does not carry a right to interest each of the following is an income period—
- (a) the period beginning with the day of issue and ending with the first relevant day, and
  - (b) the period beginning with the day after one relevant day and ending with the next relevant day.
- (4) For the purposes of sub-paragraph (3) above each day on which an anniversary of the day of issue falls is a relevant day.

*Redemption period*

- 8 (1) For the purposes of this Schedule each of the following is a redemption period in relation to a security—
- (a) the period beginning with the day of issue and ending with the day on which the first (or only) relevant redemption occasion falls, and
  - (b) any period beginning with the day after the day on which one relevant redemption occasion falls and ending with the day on which the next relevant redemption occasion falls.
- (2) For the purposes of sub-paragraph (1) above a relevant redemption occasion is an occasion for redemption under a qualifying provision for redemption.

*Yield to redemption*

- 9 (1) For the purposes of this Schedule the yield to redemption for a redemption period is a rate (expressed as a percentage) such that if a sum equal to the relevant amount were to be invested at that rate on the assumption that—
- (a) the rate would be applied on a compounding basis at the end of each relevant income period, and
  - (b) the amount of any interest payable in respect of a relevant income period would be deducted after applying the rate,
- the value of that sum on the relevant redemption day would be equal to the amount payable on redemption of the security on that day under the relevant redemption provision.
- (2) For the purposes of this paragraph the relevant amount is the issue price, in a case where the redemption period concerned is the period falling within paragraph 8(1)(a) above.
- (3) For the purposes of this paragraph the relevant amount is the amount payable on redemption on the last relevant occasion, in a case where the redemption period concerned is one falling within paragraph 8(1)(b) above; and the last relevant occasion is the occasion for redemption, under a qualifying provision for redemption, last occurring before the redemption period begins.
- (4) For the purposes of this paragraph—
- (a) a relevant income period is any income period which consists of or falls within the redemption period,

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- (b) the relevant redemption day is the last day of the redemption period, and
- (c) the relevant redemption provision is the qualifying provision for redemption providing for redemption on that day.

*Transfer etc.*

- 10
- (1) This paragraph applies for the purposes of this Schedule.
  - (2) “Transfer”, in relation to a security, means transfer by way of sale, exchange, gift or otherwise.
  - (3) But (notwithstanding sub-paragraph (2) above) “transfer” does not include a transfer made on a conversion of a security into ordinary share capital in a company.
  - (4) Where an agreement for the transfer of a security is made, it is transferred, and the person to whom it is agreed to be transferred becomes entitled to it, when the agreement is made and not on a later transfer made pursuant to the agreement; and “entitled”, “transfer” and cognate expressions shall be construed accordingly.
  - (5) A person holds a security at a particular time if he is entitled to it at the time.
  - (6) A person acquires a security when he becomes entitled to it.
  - (7) If an agreement is conditional (whether on the exercise of an option or otherwise) for the purposes of sub-paragraph (4) above it is made when the condition is satisfied.

*Miscellaneous*

- 11
- (1) This paragraph applies for the purposes of this Schedule.
  - (2) In relation to a security—
    - (a) the amount payable (or paid) on redemption does not include any amount payable (or paid) by way of interest,
    - (b) the day of issue is the day on which the security is issued, and
    - (c) an interest payment day is a day on which interest is payable under the security.
  - (3) A deep discount security is a security which is a deep discount security for the purposes of Schedule 4 to the Taxes Act 1988.
  - (4) A deep gain security is a security which is a deep gain security for the purposes of Schedule 11 to the <sup>M3</sup>Finance Act 1989.
  - (5) Ordinary share capital, in relation to a company, means any share capital (by whatever name called) of the company, other than capital the holders of which have a right to a dividend at a fixed rate but have no other right to share in the profits of the company.
  - (6) “Tax advantage” has the meaning given by section 709(1) of the Taxes Act 1988.

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### Marginal Citations

M3 1989 c. 26.

## PART II U.K.

### CHARGE TO TAX

#### *The charge*

- 12 (1) For the purposes of this Part of this Schedule a chargeable event occurs if, on or after 9th June 1989, there is a transfer of a security and at the time of the transfer the security—
- (a) is a qualifying convertible security, and
  - (b) is subject to at least one qualifying provision for redemption under which the occasion for redemption has not arrived.
- (2) For the purposes of this Part of this Schedule a chargeable event also occurs if—
- (a) a person holding a security redeems it on or after 9th June 1989,
  - (b) immediately before the redemption the security is a qualifying convertible security, and
  - (c) the redemption is made in exercise of the option for redemption under a qualifying provision for redemption to which the security is subject.
- (3) For the purposes of this Part of this Schedule the chargeable person is the person making the transfer or exercising the option (as the case may be).
- (4) Where a chargeable event occurs—
- (a) the chargeable amount shall be treated as income of the chargeable person,
  - (b) the income shall be chargeable to tax under Case III or Case IV (as the case may be) of Schedule D,
  - (c) the income shall be treated as arising in the year of assessment in which the chargeable event occurs, and
  - (d) notwithstanding anything in sections 64 to 67 of the Taxes Act 1988, the tax shall be computed on the income arising in the year of assessment for which the computation is made.

#### *Chargeable amount*

- 13 (1) For the purposes of paragraph 12 above the chargeable amount is—
- (a) the amount obtained on transfer or redemption, in a case where that amount is equal to or less than the total income element;
  - (b) so much of the amount obtained on transfer or redemption as is equal to the total income element, in a case where that amount is greater than that element.



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- (2) For the purposes of this paragraph the amount obtained on transfer or redemption is the amount obtained, in respect of the transfer or redemption, by the person making the transfer or (as the case may be) the person who was entitled to the security immediately before redemption.
- (3) For the purposes of sub-paragraph (2) above the person concerned shall be treated as obtaining in respect of the transfer or redemption—
  - (a) any amount he actually obtains in respect of it, and
  - (b) any amount he is entitled to obtain, but does not obtain, in respect of it.
- (4) Sub-paragraph (3) above shall not apply where paragraph 16, 17 or 18(2) below applies.

*Total income element*

- 14 (1) The total income element for the purposes of paragraph 13 above shall be determined by—
  - (a) finding the income element for each income period (if any) the whole of which consists of or falls within the ownership period, and
  - (b) finding the partial income element for each income period (if any) a part of which consists of or falls within the ownership period.
- (2) The aggregate of the income elements and the partial income elements so found is the total income element.
- (3) The ownership period is the period which—
  - (a) begins with the day on which the chargeable person acquired the security, and
  - (b) ends with the day on which the chargeable event occurs.

*Income elements*

- 15 (1) This paragraph has effect for the purposes of paragraph 14 above.
- (2) The income element for an income period shall be determined in accordance with the formula—

$$\frac{A \times B}{100} - C$$

- (3) For the purposes of sub-paragraph (2) above—
  - (a) A is the adjusted issue price of the security,
  - (b) B is the figure included in the percentage representing the yield to redemption for the redemption period which consists of the income period or in which the income period falls, and
  - (c) C is the amount of interest (if any) payable in respect of the income period.
- (4) The partial income element for an income period a part of which consists of or falls within the ownership period shall be determined in accordance with the formula—

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$$D \times \frac{E}{F}$$

- (5) For the purposes of sub-paragraph (4) above—
- (a) D is the income element for the income period (determined in accordance with the formula mentioned in sub-paragraph (2) above),
  - (b) E is the number of days in the income period which consist of or fall within the ownership period, and
  - (c) F is the number of days in the income period.
- (6) The adjusted issue price of a security, in relation to a particular income period, is the aggregate of the issue price of the security and the income elements for all previous income periods of the security (determined in accordance with the formula mentioned in sub-paragraph (2) above).

#### *Death*

- 16 (1) Where an individual who is entitled to a security dies, for the purposes of this Part of this Schedule he shall be treated as—
- (a) transferring it immediately before his death, and
  - (b) obtaining in respect of the transfer an amount equal to the market value of the security at the time of the transfer.
- (2) Where a security is transferred by personal representatives to a legatee, for the purposes of paragraph 13 above they shall be treated as obtaining in respect of the transfer an amount equal to the market value of the security at the time of the transfer.
- (3) In sub-paragraph (2) above “legatee” includes any person taking (whether beneficially or as trustee) under a testamentary disposition or on an intestacy or partial intestacy, including any person taking by virtue of an appropriation by the personal representatives in or towards satisfaction of a legacy or other interest or share in the deceased’s property.

#### **Modifications etc. (not altering text)**

- C1** Sch. 10 para. 16(1) excluded (27.07.1993 with effect for the year 1992-93 and subsequent years of assessment) by 1993 c. 34, ss. 176(3)(d), 184(3).

#### *Market value*

- 17 (1) This paragraph applies where a security is transferred from one person to another and—
- (a) they are connected with each other,
  - (b) the transfer is made for a consideration which consists of or includes consideration not in money or money’s worth, or
  - (c) the transfer is made otherwise than by way of a bargain made at arm’s length.

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- (2) For the purposes of paragraph 13 above the person making the transfer shall be treated as obtaining in respect of it an amount equal to the market value of the security at the time of the transfer.
- (3) Section 839 of the Taxes Act 1988 (connected persons) shall apply for the purposes of this paragraph.

#### *Underwriters*

- 18 (1) An underwriting member of Lloyd's shall be treated for the purposes of this Part of this Schedule as absolutely entitled as against the trustees to the securities forming part of his premiums trust fund, his special reserve fund (if any) and any other trust fund required or authorised by the rules of Lloyd's, or required by the underwriting agent through whom his business or any part of it is carried on, to be kept in connection with the business.
- (2) Where a security forms part of a premiums trust fund at the end of 31st December of any relevant year, for the purposes of this Part of this Schedule—
  - (a) the trustees of the fund shall be treated as transferring the security at that time, and
  - (b) they shall be treated as obtaining in respect of the transfer an amount equal to the market value of the security at the time of the transfer;and for this purpose relevant years are 1989 and subsequent years.
- (3) Where a security forms part of a premiums trust fund at the beginning of 1st January of any relevant year, for the purposes of this Part of this Schedule the trustees of the fund shall be treated as acquiring the security at that time; and for this purpose relevant years are 1990 and subsequent years.
- (4) Sub-paragraph (5) below applies where the following state of affairs exists at the beginning of 1st January of any year or the end of 31st December of any year—
  - (a) securities have been transferred by the trustees of a premiums trust fund in pursuance of an arrangement mentioned in section 129(1) or (2) of the Taxes Act 1988,
  - (b) the transfer was made to enable another person to fulfil a contract or to make a transfer,
  - (c) securities have not been transferred in return, and
  - (d) section 129(3) of that Act applies to the transfer made by the trustees.
- (5) The securities transferred by the trustees shall be treated for the purposes of sub-paragraphs (2) and (3) above as if they formed part of the premiums trust fund at the beginning of 1st January concerned or the end of 31st December concerned (as the case may be).
- (6) Paragraph 16(1) above shall not apply where—
  - (a) the individual concerned is an underwriting member of Lloyd's, and
  - (b) the security concerned forms part of a premiums trust fund, a special reserve fund or any other trust fund required or authorised by the rules of Lloyd's, or required by the underwriting agent through whom the individual's business or any part of it is carried on, to be kept in connection with the business.

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- (7) In a case where an amount treated as income chargeable to tax by virtue of paragraph 12 above constitutes profits or gains mentioned in section 450(1) of the Taxes Act 1988—
- (a) section 450(1)(b) shall apply, and
  - (b) paragraph 12(4)(c) above shall not apply.
- (8) For the purpose of computing income tax for the year 1987-88 sub-paragraph (7) above shall have effect as if—
- (a) the reference to section 450(1) of the Taxes Act 1988 were to paragraph 2 of Schedule 16 to the <sup>M4</sup>Finance Act 1973, and
  - (b) the reference to section 450(1)(b) were to paragraph 2(b) of that Schedule.
- (9) In this paragraph “business” and “premiums trust fund” have the meanings given by section 457 of the Taxes Act 1988.

**Marginal Citations**

**M4** 1973 c. 51.

*Trustees*

- 19 (1) Where on a transfer or redemption of a security by trustees an amount is treated as income chargeable to tax by virtue of paragraph 12 above, the rate at which it is chargeable shall be a rate equal to the sum of the basic rate and the additional rate for the year of assessment in which the transfer or redemption is made.
- (2) Where the trustees are trustees of a scheme to which section 469 of the Taxes Act 1988 applies, sub-paragraph (1) above shall not apply if or to the extent that the amount is treated as income in the accounts of the scheme.

*Receipts in United Kingdom*

- 20 (1) Sub-paragraph (2) below applies where—
- (a) by virtue of paragraph 12(4) above an amount is treated as income of a person and as chargeable to tax under Case IV of Schedule D, and
  - (b) the person satisfies the Board, on a claim in that behalf, that he is not domiciled in the United Kingdom, or that (being a Commonwealth citizen or a citizen of the Republic of Ireland) he is not ordinarily resident in the United Kingdom.
- (2) In such a case—
- (a) any amounts received in the United Kingdom in respect of the amount treated as income shall be treated as income arising in the year of assessment in which they are so received, and
  - (b) paragraph 12(4) above shall have effect with the substitution of paragraph (a) above for paragraph 12(4)(c).
- (3) For the purposes of sub-paragraph (2) above—

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- (a) there shall be treated as received in the United Kingdom all amounts paid, used or enjoyed in, or in any manner or form transmitted or brought to, the United Kingdom, and
- (b) subsections (6) to (9) of section 65 of the Taxes Act 1988 shall apply as they apply for the purposes of subsection (5) of that section.

#### *Charities*

- 21 (1) In a case where—
- (a) paragraph 12 above would apply (apart from this paragraph) in the case of a transfer or redemption of a security,
  - (b) immediately before the transfer or redemption was made the security was held by a charity, and
  - (c) the amount which would (apart from this paragraph) be treated as income by virtue of paragraph 12 above is applicable and applied for charitable purposes,
- that paragraph shall not apply in the case of the transfer or redemption.
- (2) In this paragraph “charity” has the same meaning as in section 506 of the Taxes Act 1988.

#### *Retirement benefit schemes*

- 22 In a case where—
- (a) paragraph 12 above would apply (apart from this paragraph) in the case of a transfer or redemption of a security, and
  - (b) immediately before the transfer or redemption was made the security was held for the purposes of an exempt approved scheme (within the meaning of Chapter I of Part XIV of the Taxes Act 1988),
- that paragraph shall not apply in the case of the transfer or redemption.

#### *Stock lending*

- 23 In a case where—
- (a) a security is the subject of a transfer which falls within section 129(3) of the Taxes Act 1988, and
  - (b) paragraph 12 above would apply in the case of the transfer (apart from this paragraph),
- that paragraph shall not apply in the case of the transfer.

#### *Identification of securities*

- 24 Section [F<sup>1</sup>108 of the Taxation of Chargeable Gains Act 1992] shall apply to the identification, for the purposes of this Part of this Schedule, of qualifying

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convertible securities transferred or redeemed as it applies to the identification, for the purposes of capital gains tax, of deep discount securities disposed of.

#### Textual Amendments

- F1** Words in [Sch. 10 para. 24](#) substituted (6.3.1992 with effect as mentioned in s. 289 (1)(2) of the substituting Act) by [Taxation of Chargeable Gains Act 1992 \(c. 12\), s. 290, Sch. 10 para. 22\(4\)](#) (with [ss. 60, 101\(1\), 201\(3\)](#)).

### PART III U.K.

#### THE ISSUING COMPANY

- 25 (1) In a case where—
- (a) a qualifying convertible security is redeemed, and
  - (b) the circumstances are such that paragraph 12 above applies in the case of the redemption,
- sub-paragraph (2) below shall apply in relation to the company which issued the security.
- (2) For the purposes of sections 338 and 494 of the Taxes Act 1988 (allowance of charges on income) the relevant amount shall be treated as if it were interest—
- (a) falling within section 338(3)(b), and
  - (b) paid by the company in the accounting period in which the redemption occurs (and not as mentioned in the words of section 338(3) which follow paragraph (b)).
- (3) In this paragraph “the relevant amount” means so much of the amount paid on the redemption as exceeds the issue price of the security.

### PART IV U.K.

#### AMENDMENTS

##### *(1) Deep discount securities*

- 26 (1) Schedule 4 to the Taxes Act 1988 (deep discount securities) shall be amended as follows.
- (2) In paragraph 1 (interpretation) the following sub-paragraph shall be inserted after sub-paragraph (1)—
- “(1A) Notwithstanding anything in sub-paragraph (1) above, for the purposes of this Schedule a security is not a deep discount security if—
- (a) it was issued by a company on or after 1st August 1990, and
  - (b) under the terms of issue it can be converted into share capital in a company (whether or not the company is the one which issued the security).”

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*Status: Point in time view as at 06/03/1992.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 1990, SCHEDULE 10. (See end of Document for details)*

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(3) The following shall be inserted after paragraph 20—

**Convertible securities: special rules**

“21 In a case where—

- (a) a security is a qualifying convertible security, for the purposes of Schedule 10 to the Finance Act 1990, at the time of its issue, and
- (b) apart from this paragraph it would be a deep discount security at that time,

the security shall be treated, at the time of its issue and at all subsequent times, as not being a deep discount security.”

*(2) Deep gain securities*

27 (1) Schedule 11 to the <sup>M5</sup> Finance Act 1989 (deep gain securities) shall be amended as follows.

(2) In paragraph 4 (meaning of transfer etc.) the following sub-paragraph shall be inserted after sub-paragraph (2)—

“(2A) But (notwithstanding sub-paragraph (2) above) “transfer” does not include a transfer made on a conversion of a security into share capital in a company.”

(3) The following shall be inserted after paragraph 22—

**Convertible securities: special rules (1)**

“22A(1) Sub-paragraph (2) below applies where—

- (a) a security is a qualifying convertible security, for the purposes of Schedule 10 to the Finance Act 1990, at the time of its issue,
- (b) apart from paragraph 21 of Schedule 4 to the Taxes Act 1988, it would be a deep discount security at that time, and
- (c) at a later time it ceases to be a qualifying convertible security for the purposes of Schedule 10 to the Finance Act 1990.

(2) As regards any event occurring in relation to the security after the time mentioned in sub-paragraph (1)(c) above, paragraphs 5 to 19 above shall have effect as if—

- (a) the security were a deep gain security, and
- (b) it had been acquired as such (whatever the time it was acquired).

(3) For the purposes of sub-paragraph (2) above events, in relation to a security, include anything constituting a transfer or acquisition for the purposes of this Schedule.

**Convertible securities: special rules (2)**

22B(1) In a case where—

- (a) a security is a qualifying convertible security, for the purposes of Schedule 10 to the Finance Act 1990, at the time of its issue, and

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*Changes to legislation: There are currently no known outstanding effects for the Finance Act 1990, SCHEDULE 10. (See end of Document for details)*

- (b) apart from this sub-paragraph it would be a deep gain security at that time,  
then (subject to sub-paragraph (3) below) the security shall be treated, at the time of its issue and at all subsequent times, as not being a deep gain security.
- (2) Sub-paragraph (3) below applies where—
  - (a) sub-paragraph (1) above applies in the case of a security, and
  - (b) at a time after its issue it ceases to be a qualifying convertible security for the purposes of Schedule 10 to the Finance Act 1990.
- (3) As regards any event occurring in relation to the security after the time mentioned in sub-paragraph (2)(b) above, paragraphs 5 to 19 above shall have effect as if—
  - (a) the security were a deep gain security, and
  - (b) it had been acquired as such (whatever the time it was acquired).
- (4) For the purposes of sub-paragraph (3) above events, in relation to a security, include anything constituting a transfer or acquisition for the purposes of this Schedule.”

**Marginal Citations**

M5 1989 c. 26.

*(3) Corporate bonds*

F2<sup>28</sup>

**Textual Amendments**

F2 Sch. 10 para. 28 repealed (6.3.1992 with effect as mentioned in s. 289 (1)(2) of the repealing Act) by Taxation of Chargeable Gains Act 1992 (c. 12), s. 290, Sch. 12 (with ss. 60, 101(1), 201(3), Sch. 11 paras. 22, 26(2), 27).

**PART V U.K.**

APPLICATION OF SCHEDULE

29 (1) The amendment made by paragraph 27(2) above shall be deemed always to have had effect.

F3(2) .....

F3(3) .....

(4) Subject to sub-paragraphs (1) to (3) above, this Schedule shall be deemed to have come into force on 9th June 1989.



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*Status: Point in time view as at 06/03/1992.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 1990, SCHEDULE 10. (See end of Document for details)*

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### **Textual Amendments**

- F3** Sch. 10 para. 29(2)(3) repealed (6.3.1992 with effect as mentioned in s. 289 (1)(2) of the repealing Act) by Taxation of Chargeable Gains Act 1992 (c. 12), s. 290, **Sch.12** (with ss. 60, 101(1), 201(3), Sch. 11 paras. 22, 26(2), 27).

**Status:**

Point in time view as at 06/03/1992.

**Changes to legislation:**

There are currently no known outstanding effects for the Finance Act 1990, SCHEDULE 10.