

INCOME TAX (TRADING AND OTHER INCOME) ACT 2005

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 4: Savings and investment income

Chapter 8: Profits from deeply discounted securities

Section 447: Restriction of profits on strips by reference to original acquisition cost

1804. This section restricts profits to the amount by which disposal proceeds exceed the original acquisition cost. Because there is a 5 April revaluation of strips on a deemed disposal each year the cost taken into account on actual disposal is the last 5 April value. This section ensures that in such cases a profit cannot exceed the difference between the disposal proceeds and the original cost of the security. It prevents taxation of an artificial gain and is the obverse of the loss restriction in section 448. See paragraph 81 of Schedule 2 to this Act where strips are acquired before 15 January 2004. The section is based on paragraph 14D of Schedule 13 to FA 1996.
1805. *Subsection (1)* sets out when the rule in this section applies, namely when a profit would, apart from this section, arise on disposal but the market value of the strip is less than the amount paid by the person to acquire the strip, thus giving rise to a greater profit than would be the case if the market value had not replaced the cost.
1806. *Subsections (2) and (3)* restrict that profit to the excess of the disposal proceeds over the cost of acquisition. If there is no excess because the acquisition cost does not exceed the market value, no profit is made.
1807. *Subsections (4) and (5)* require that the deemed disposal on 5 April (section 445) is to be ignored in considering the original acquisition cost. Paragraph 14D(6)(b) of Schedule 13 to FA 1996, which provides that the original acquisition cost should reflect the open market value rules, is not rewritten. It is considered unnecessary given that the purpose of the open market value rules for acquisition costs applies for the purposes of the whole Chapter (section 441).