These notes refer to the Income Tax (Trading and Other Income) Act 2005 (c.5) which received Royal Assent on 24 March 2005

INCOME TAX (TRADING AND OTHER INCOME) ACT 2005

EXPLANATORY NOTES

COMMENTARY ON SECTIONS

Part 4: Savings and investment income

Chapter 2: Interest

Section 380: Funding bonds

1531. This section provides for an issue of funding bonds in respect of a liability to pay interest to be treated as a payment of interest. It is based on section 582 of ICTA.

1532. There is one specific situation where a funding bond is chargeable to tax under Schedule D Case VI rather than Schedule D Case III. Section 582(2)(a) of ICTA provides that where funding bonds are issued some bonds have to be retained on account of income tax. However, section 582(2)(b) of ICTA provides that where it is “impracticable” to do this the recipient is chargeable to tax under Schedule D Case VI on the amount of interest treated as having been paid by the issue of the bonds. This section charges this income also as interest for income tax purposes. One consequence is that all funding bond interest will be included in what was Schedule D Case III income in section 1A of ICTA as consequentially amended. See *Change 82* in Annex 1.

1533. Relief for losses under the former Schedule D Case VI provisions will still be available under section 392 of ICTA.

1534. Section 582(1) of ICTA treats the issue of funding bonds as a payment of interest and they are taxed accordingly. The deemed interest is equal to the value of the bond at the time of issue. This section clarifies that the value which applies is the market value of the bond and not its nominal value. If the value were the nominal value a change in value could only occur in the unlikely circumstance of a change in the face value of the bond after issue. Moreover, tax could be easily avoided by issuing bonds with a low face value but repaying at a premium.