

# **INCOME TAX (TRADING AND OTHER INCOME) ACT 2005**

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## **EXPLANATORY NOTES**

### **COMMENTARY ON SECTIONS**

#### **Part 4: Savings and investment income**

#### *Chapter 5: Stock dividends from UK resident companies*

#### *Section 412: Cash equivalent of share capital*

1662. This section explains how to calculate the cash equivalent of the stock dividend (in other words the net amount of the stock dividend income to be grossed up). It is based on section 251 of ICTA. This section also rewrites part of Statement of Practice A8.
1663. The source legislation is complex, particularly where the stock dividend is bonus share capital. Section 412 simplifies the rules for both types of stock dividend (ie, stock dividends in lieu of cash dividends and bonus share capital). See *Change 85* in Annex 1.
1664. *Subsection (1)* deals with stock dividends within section 249(1)(a) of ICTA – an issue of share capital in lieu of a cash dividend. The cash equivalent of such share capital is the amount of the cash dividend alternative unless subsection (2) applies.
1665. *Subsection (2)* applies if the difference between the cash dividend alternative and the share capital's market value equals or exceeds 15% of that market value. In that case, the cash equivalent is not the amount of the cash dividend alternative but rather the market value of the share capital.
1666. *Subsection (3)* deals with stock dividends within section 249(1)(b) of ICTA - bonus share capital. The cash equivalent of such share capital is its market value.
1667. Section 251(2)(a)(ii) and (4) of ICTA have been omitted, making the rule relating to bonus share capital more straightforward. See *Change 85* in Annex 1.
1668. *Subsection (4)* specifies the date on which the “market value” is to be taken for the purposes of these provisions. It is based on section 251(2) and (3) of ICTA.
1669. *Subsection (5)* gives definitions for “listed” and “market value”. Section 251(3) of ICTA includes more complicated references to the relevant provisions in TCGA. Subsection (5) instead simply imports the definition of “market value” in sections 272 to 273 of TCGA save for subsection (2) of section 272 of TCGA.