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*Changes to legislation: There are currently no known outstanding effects for the Finance Act 2013, SCHEDULE 29. (See end of Document for details)*

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## SCHEDULES

### SCHEDULE 29 **U.K.**

Section 77

#### MANUFACTURED PAYMENTS

#### **PART 1** **U.K.**

##### INCOME TAX

1 Before Part 11A of ITA 2007 insert—

#### **“PART 11ZA** **U.K.**

##### MANUFACTURED PAYMENTS

#### **Overview of Part**

614ZA This Part deals with the application of the Income Tax Acts to manufactured payment relationships and payments representative of dividends or interest.

#### **Key definitions**

614ZB(1) For the purposes of the Income Tax Acts a person has a manufactured payment relationship if conditions A to C are met.

- (2) Condition A is that under any arrangements—
  - (a) an amount is payable by or to the person, or
  - (b) any other benefit is given by or to the person (including the release of the whole or part of any liability to pay an amount).
- (3) Condition B is that the arrangements relate to the transfer of securities.
- (4) Condition C is that the amount or value of the other benefit—
  - (a) is representative of a dividend or interest on the securities, or
  - (b) will fall to be treated as representative of such a dividend or interest when it is paid or given.
- (5) In subsection (2) the reference to an amount being payable, or other benefit being given, by the person includes a reference to an amount being payable, or other benefit being given, by another person on behalf of the person in question.
- (6) In this Part—

“manufactured payment”, in relation to a manufactured payment relationship, means an amount, or the value of a benefit, within subsection (2), and

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“securities” means—

- (a) shares in a company, and
- (b) loan stock or any similar security (whether the security is of the government of the United Kingdom, any other government, any public or local authority in the United Kingdom or elsewhere, or any other company or body).

### **Treatment of payer of manufactured payment**

- 614Z(1) This section applies where a person has a manufactured payment relationship under which a manufactured payment is paid by or on behalf of the person.
- (2) No deduction is allowed in respect of the manufactured payment in calculating any profits or other income of the person for income tax purposes (subject to subsection (3)).
  - (3) Subsection (2) does not apply in relation to the person so far as the manufactured payment is brought into account under Part 2 of ITTOIA 2005 in calculating the profits of a trade carried on by the person.
  - (4) But nothing in subsection (3) affects the question whether (apart from that provision) a deduction in calculating the profits of a trade carried on by the person is allowed.

### **Treatment of recipient of manufactured payment**

- 614Z(1) Subsection (2) applies if a person has a manufactured payment relationship under which a manufactured payment is payable to the person.
- (2) For the purposes of the charge to income tax on the person's income, the Income Tax Acts apply to the person as if the manufactured payment were a dividend or interest on the securities (as the case may require).
  - (3) Subsection (2) is subject to subsections (4) to (6).
  - (4) Subsection (2) does not apply in relation to the person so far as the manufactured payment is brought into account under Part 2 of ITTOIA 2005 in calculating the profits of a trade carried on by the person.
  - (5) Subsection (2) does not apply in relation to the person for the purposes of determining entitlement to double taxation relief in respect of any dividend or interest.
  - (6) In a case in which the manufactured payment is treated as a dividend by virtue of subsection (2), the person is not entitled to a tax credit under Chapter 3 of Part 4 of ITTOIA 2005 (tax credits for certain recipients of distributions) in respect of the dividend.
  - (7) For the purposes of this section “double taxation relief” means any relief given under or as a result of Part 2 of TIOPA 2010.”

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## PART 2 U.K.

### CORPORATION TAX

2 Before Part 18 of CTA 2010 insert—

## “PART 17A U.K.

### MANUFACTURED DIVIDENDS

#### Overview of Part

814A This Part deals with the application of the Corporation Tax Acts to manufactured dividend relationships and payments representative of dividends.

#### Key definitions

814B) For the purposes of the Corporation Tax Acts a company has a manufactured dividend relationship if conditions A to C are met.

- (2) Condition A is that under any arrangements—
  - (a) an amount is payable by or to the company, or
  - (b) any other benefit is given by or to the company (including the release of the whole or part of any liability to pay an amount).
- (3) Condition B is that the arrangements relate to the transfer of shares in a company.
- (4) Condition C is that the amount or value of the other benefit—
  - (a) is representative of a dividend on the shares, or
  - (b) will fall to be treated as representative of such a dividend when it is paid or given.
- (5) In subsection (2) the reference to an amount being payable, or other benefit being given, by the company includes a reference to an amount being payable, or other benefit being given, by another person on behalf of the company.
- (6) In this Part—

“manufactured dividend”, in relation to a manufactured dividend relationship, means an amount, or the value of a benefit, within subsection (2), and

“the real dividend” means the dividend mentioned in subsection (4)(a).

#### Treatment of payer of manufactured dividend

814C) This section applies where a company has a manufactured dividend relationship under which a manufactured dividend is paid by or on behalf of the company.

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- (2) No deduction in calculating income for corporation tax purposes is allowed in respect of the manufactured dividend (subject to subsections (3) to (7)).
- (3) Subsection (2) does not apply in relation to the company so far as the manufactured dividend is brought into account under Part 3 of CTA 2009 in calculating the profits of a trade carried on by the company.
- (4) Subsection (5) applies if—
  - (a) the manufactured dividend relates to investment business which the company has,
  - (b) the company received the real dividend in the accounting period, and
  - (c) the real dividend is taxed by virtue of section 548(5) (recipients of distributions from REITs).
- (5) The manufactured dividend is to be treated as expenses of management of the company's investment business for the accounting period for the purposes of Chapter 2 of Part 16 of CTA 2009.
- (6) Subsection (7) applies if—
  - (a) the manufactured dividend is referable to basic life assurance and general annuity business which the company has,
  - (b) the company received the real dividend in the accounting period, and
  - (c) the real dividend is taxed by virtue of section 548(5) (recipients of distributions from REITs).
- (7) So far as the manufactured dividend is referable as mentioned in subsection (6)(a), the manufactured dividend is to be treated for the purposes of section 76 of FA 2012 as a deemed BLAGAB management expense for the accounting period.
- (8) Nothing in subsection (3) affects the question whether (apart from that provision) a deduction in calculating the profits of a trade carried on by the company is allowed.
- (9) The references in subsections (4) and (6) to the real dividend include references to a manufactured dividend which is treated as a real dividend by virtue of section 814D(2).
- (10) For the purposes of subsections (6) and (7), the manufactured dividend is treated as referable to basic life assurance and general annuity business so far as the real dividend is received by the company and is so referable in accordance with Chapter 4 of Part 2 of FA 2012 (apportionment rules for I-E charge).

#### **Treatment of recipient of manufactured dividend**

- 814D(1) Subsection (2) applies if a company has a manufactured dividend relationship under which a manufactured dividend is payable to it.
- (2) For the purposes of the charge to corporation tax on the income of the company, the Corporation Tax Acts apply to the company, and any company claiming title through or under the company, as if the manufactured dividend were a dividend on the shares.

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- (3) Subsection (2) is subject to subsections (4) to (8).
- (4) Subsection (2) does not apply in relation to a company so far as the manufactured dividend is brought into account under Part 3 of CTA 2009 in calculating the profits of a trade carried on by the company.
- (5) Subsection (2) does not apply in relation to a company for the purposes of determining entitlement to double taxation relief in respect of any dividend.
- (6) Part 9A of CTA 2009 (company distributions), in its application in relation to a manufactured dividend as a result of subsection (2), has effect with the modification in subsection (7).
- (7) The modification is that—
  - (a) references in that Part to the payer are to be treated as references to the company that pays the real dividend, and
  - (b) the definition of “the payer” in section 931T is to be treated as omitted.
- (8) The company to which the manufactured dividend is payable is not entitled to a tax credit under section 1109 (tax credits for certain recipients of exempt qualifying distributions) in respect of the dividend.
- (9) For the purposes of subsection (5) “double taxation relief” means any relief given under or as a result of Part 2 of TIOPA 2010.
- (10) This section has effect regardless of section 358 of CTA 2009 (exclusion of credits on release of connected companies debts) or any other provision of Part 5 of that Act (loan relationships) which prevents a credit from being brought into account.”

### **PART 3** **U.K.**

#### CONSEQUENTIAL ETC AMENDMENTS

##### *Introductory*

3 The following amendments are in consequence of, or otherwise connected with, the amendments made by Parts 1 and 2.

##### *TCGA 1992*

4 TCGA 1992 is amended as follows.

5 In section 263B (stock lending arrangements), for subsection (7) substitute—

“(7) In this section “securities” has the meaning given by section 263AA.”

6 Omit section 263D (gains accruing to persons paying manufactured dividends).

7 In section 263F (power to modify repo provisions: non-standard repo cases)—

(a) in subsection (1)—

(i) at the end of paragraph (c) insert “ or ”, and

(ii) omit paragraph (d) (and the word “or” at the end of it), and

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- (b) in subsection (2), omit “or 263D”.
- 8 In section 263G (power to modify repo provisions: redemption arrangements)—
  - (a) in subsection (1), omit paragraph (d) (but not the word “or” at the end of it), and
  - (b) in subsection (2), omit “or 263D”.
- 9 In section 263H (sections 263F and 263G: supplementary provisions), in subsection (3)(b) omit “or 263D”.
- 10 (1) Section 263I (powers about manufactured overseas dividend) is amended as follows.
  - (2) In subsection (1), for paragraphs (a) and (b) substitute—
    - “(a) pays or receives an amount (a “manufactured overseas dividend”) which is representative of an overseas dividend on overseas securities where the payment or receipt is required to be made under an arrangement for the transfer of the securities, or
    - (b) is treated as doing so for any purposes of the Tax Acts.”
  - (3) For subsection (6) substitute—
    - “(6) In this section—
      - (a) “overseas securities” means shares, stock or other securities issued by—
        - (i) a government, local authority or other public authority of a territory outside the United Kingdom, or
        - (ii) another body of persons not resident in the United Kingdom,
      - (b) “overseas securities” includes shares in a company which is not resident in the United Kingdom,
      - (c) “overseas dividend” means any interest, dividend or other annual payment payable in respect of overseas securities, and
      - (d) “securities” includes loan stock or any similar security.”

*FA 2004*

- 11 In Schedule 24 to FA 2004 (manufactured dividends), omit paragraph 3(1) and (3).

*ITTOIA 2005*

- 12 ITTOIA 2005 is amended as follows.

<sup>F1</sup>13 .....

**Textual Amendments**

**F1** Sch. 29 para. 13 omitted (15.9.2016) (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 71\(b\)](#)

- 14 In section 397A (tax credit for distributions of non-UK resident companies)—
  - <sup>F2</sup>(a) .....
  - (b) omit subsection (8).

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### Textual Amendments

**F2** Sch. 29 para. 14(a) omitted (15.9.2016) (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 71\(b\)](#)

15 Omit section 397B (tax credits under section 397A: manufactured overseas dividends).

### ITA 2007

16 ITA 2007 is amended as follows.

17 In section 2 (overview of Act)—

- (a) omit subsection (11), and
- (b) before subsection (11A) insert—

“(11ZA) Part 11ZA is about manufactured payments.”

18 Omit the following provisions (which deal with manufactured payments and repos)

- (a) sections 565 to 595,
- (b) section 596(1) to (4), and
- (c) section 606(8).

19 In section 647 (makers of manufactured payments), for subsection (6) substitute—

“(6) In this section “manufactured payments contract” means a contract under which—

- (a) the seller is required to pay another person an amount which is representative of a periodical payment of interest on UK securities under an arrangement between them for the transfer of the securities, or
- (b) the seller is required to pay another person an amount which is representative of an overseas dividend on overseas securities under an arrangement between them for the transfer of the securities.

(7) In this section—

- (a) “overseas securities” means shares, stock or other securities issued by—
  - (i) a government, local authority or other public authority of a territory outside the United Kingdom, or
  - (ii) another non-UK resident body of persons, and includes shares in a non-UK resident company,
- (b) “overseas dividend” means any interest, dividend or other annual payment payable in respect of overseas securities, and
- (c) “UK securities” means securities of—
  - (i) the government of the United Kingdom,
  - (ii) a local authority in the United Kingdom,
  - (iii) another public authority in the United Kingdom, or
  - (iv) a UK resident company or other UK resident body, but does not include shares in a UK resident company.”

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- 20 In section 658 (powers to modify: supplementary), for subsection (5) substitute—
- “(5) Subsections (6) to (10) apply for the purposes of sections 656 and 657 and this section.
- (6) “UK shares” means shares in a UK resident company.
- (7) “UK securities” means securities of—
- (a) the government of the United Kingdom,
  - (b) a local authority in the United Kingdom,
  - (c) another public authority in the United Kingdom, or
  - (d) a UK resident company or other UK resident body.
- (8) But “UK securities” does not include UK shares.
- (9) “Overseas securities” means shares, stock or other securities issued by—
- (a) a government, local authority or other public authority of a territory outside the United Kingdom, or
  - (b) another non-UK resident body of persons.
- (10) “Overseas securities” includes shares in a non-UK resident company.”
- 21 In section 918(1) (manufactured dividends on UK shares: REITs), for paragraph (a) substitute—
- “(a) a person pays a manufactured payment as mentioned in section 614ZC(1) and the amount payable is representative of a dividend (a “manufactured dividend”), and”.
- 22 In section 919 (manufactured interest on UK securities)—
- (a) for subsection (1) substitute—
 

“(1) This section applies if—

    - (a) a person pays a manufactured payment as mentioned in section 614ZC(1),
    - (b) the amount payable is representative of interest on UK securities (“manufactured interest”), and
    - (c) the person —
      - (i) is UK resident, or
      - (ii) pays the manufactured interest in the course of a trade carried on in the United Kingdom through a branch or agency.”,
  - (b) in subsection (4), omit the words from “section 583” to “special cases”, and
  - (c) after subsection (5) insert—
 

“(6) In subsection (1) “UK securities” means securities of—

    - (a) the government of the United Kingdom,
    - (b) a local authority in the United Kingdom,
    - (c) another public authority in the United Kingdom, or
    - (d) a UK resident company or other UK resident body.

(7) But “UK securities” does not include shares in a UK resident company.



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- (8) In this section “securities” includes loan stock or any similar security.”
- 23 Omit section 920 (foreign payers of manufactured interest: the reverse charge).
- 24 In section 921 (cases where interest on underlying securities paid gross), in subsection (3), for the words from “ “securities”” to the end substitute “ “manufactured interest” has the same meaning as in section 919. ”
- 25 Omit sections 922 to 925 (manufactured overseas dividends).
- 26 In section 925A(2) (creditor repos), for “to 925” substitute “ , 919 and 921 ”.
- 27 Omit section 925B (debtor repos).
- 28 In section 925C (actual payments ignored)—
- (a) in the heading, omit “or 925B”,
  - (b) omit “or 925B(2)”, and
  - (c) for “to 925” substitute “ , 919 and 921 ”.
- 29 In section 926 (interpretation of Chapter 9 of Part 15), omit subsections (1) and (1A).
- 30 In Schedule 1 (minor and consequential amendments), omit paragraph 335(1) to (4) and (6) to (8).
- 31 In Schedule 2 (transitionals and savings), omit paragraphs 108 to 111 (and the headings “Part 12”, “Manufactured payments and repos” and “Tax credits: stock lending arrangements and repos” immediately preceding paragraph 108).
- 32 In Schedule 4 (index of defined expressions), omit the entries for— “ buying back securities, in the context of a repo (in Part 11) ”, “ company UK REIT (in Chapter 2 of Part 11) ”, “ gross amount (in Chapter 2 of Part 11) ”, “ group (in Chapter 2 of Part 11) ”, “ group UK REIT (in Chapter 2 of Part 11) ”, “ manufactured dividend (in Chapter 2 of Part 11) ”, “ manufactured dividend (in Chapter 3 of Part 11) ”, “ manufactured interest (in Chapter 2 of Part 11) ”, “ manufactured overseas dividend (in Chapter 2 of Part 11) ”, “ overseas dividend (in Part 11) ”, “ overseas dividend (in Chapter 9 of Part 15) ”, “ overseas securities (in Part 11) ”, “ overseas tax (in Chapter 2 of Part 11) ”, “ overseas tax (in Chapter 9 of Part 15) ”, “ overseas tax credit (in Chapter 2 of Part 11) ”, “ prescribed (in Chapter 2 of Part 11) ”, “ principal company (in Chapter 2 of Part 11) ”, “ principal company (in Chapter 9 of Part 15) ”, “ property rental business (in Chapter 2 of Part 11) ”, “ property rental business (in Chapter 9 of Part 15) ”, “ related agreements (in Part 11) ”, “ relevant withholding tax (in Chapter 2 of Part 11) ”, “ repo (in Part 11) ”, “ the rules about manufactured payments (in Chapter 4 of Part 11) ”, “ stock lending arrangement (in Part 11) ”, “ trade carried on through a branch or agency (in Chapter 2 of Part 11) ”, “ transfer (in Chapter 2 of Part 11) ”, “ UK securities (in Part 11) ”, and “ UK shares (in Part 11) ”.

#### FA 2008

- 33 (1) FA 2008 is amended as follows.
- (2) In Schedule 12 (tax credit for certain foreign distributions), omit paragraphs 26, 27(2) (a) and (c) and (3), 28(2)(a) and (c) and (3), 29(2)(a), (c)(i) and (d) and (3) and 30.
  - (3) In Schedule 23 (manufactured payments: anti avoidance), omit paragraphs 1 to 4, 6, 7 and 9 to 11.

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### CTA 2009

- 34 CTA 2009 is amended as follows.
- 35 In section 539 (introduction to Chapter about manufactured interest), omit subsection (7).
- 36 In section 540(3) (manufactured interest treated as interest under loan relationship), omit “and to section 799 of CTA 2010”.
- 37 In section 550 (which makes provision about the effect of the sale of securities on a borrower)—
- (a) in subsection (4), for “(6)” substitute “ (5C) ”,
  - (b) after subsection (5A) insert—
    - “(5B) Nothing in subsection (3) entitles the borrower to double taxation relief in respect of any income payable in respect of overseas securities.
    - (5C) But nothing in subsection (3) affects the entitlement of the borrower to double taxation relief in respect of any overseas tax deducted from any amount representative of income payable in respect of overseas securities.
    - (5D) In subsection (5C) “overseas tax” means tax under the law of a territory outside the United Kingdom.”, and
  - (c) omit subsection (6).
- 38 In section 1221(1) (amounts treated as expenses of management), for paragraph (i) substitute—
- “(i) section 814C(5) of CTA 2010 (treatment of payer of manufactured dividend)”.
- 39 In section 1248 (expenses in connection with arrangements for securing a tax advantage)—
- (a) omit subsection (3), and
  - (b) in subsection (5), omit the definition of “relevant tax relief”.

### FA 2009

- 40 In Schedule 19 to FA 2009 (income tax credits for foreign distributions), omit paragraphs 4 and 13(b).

### CTA 2010

- 41 CTA 2010 is amended as follows.
- 42 In section 1 (overview of Act), in subsection (4)—
- (a) omit paragraph (d), and
  - (b) before paragraph (e) insert—
    - “(da) manufactured dividends (see Part 17A)”.
- 43 Omit Part 17 (manufactured payments and repos).
- 44 (1) Section 1109(5) (provisions to which section 1109 is subject) is amended as follows.
- (2) Omit paragraphs (a) to (c) (and the word “and” at the end of paragraph (c)).

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<sup>F3</sup>(3) .....

**Textual Amendments**

**F3** Sch. 29 para. 44(3) omitted (15.9.2016) (with effect in accordance with Sch. 1 para. 73 of the amending Act) by virtue of [Finance Act 2016 \(c. 24\)](#), [Sch. 1 para. 71\(b\)](#)

- 45 In Schedule 1 (minor and consequential amendments), omit paragraphs 259, 537, 538, 539(b) and (c), 635, 636 and 689(a) and (b)(i).
- 46 In Schedule 2 (transitionals and savings), omit Part 17 (manufactured payments and repos).
- 47 In Schedule 4 (index of defined expressions), omit the entries for—  
“creditor quasi-repo (in Chapter 5 of Part 17)”, “creditor repo (in Chapter 5 of Part 17)”, “debtor quasi-repo (in Chapter 5 of Part 17)”, “debtor repo (in Chapter 5 of Part 17)”, “manufactured dividend (in Part 17)”, “manufactured overseas dividend (in Part 17)”, “overseas dividend (in Part 17)”, “overseas securities (in Part 17)”, “overseas tax (in Part 17)”, “prescribed (in Chapter 4 of Part 17)”, “stock lending arrangement (in Chapter 5 of Part 17)”, and ““UK shares (in Part 17)”. ”.

*TIOPA 2010*

- 48 (1) TIOPA 2010 is amended as follows.
- (2) In section 85A(4) (schemes involving deemed foreign tax), omit paragraph (b) of the definition of “real foreign tax”.
- (3) In Schedule 7 (miscellaneous relocations), omit paragraph 113.
- (4) In Schedule 8 (minor and consequential amendments), omit paragraph 82.

*FA 2011*

- 49 In Schedule 13 to FA 2011 (profits of foreign permanent establishments), omit paragraphs 22 to 24.

*FA 2012*

- 50 (1) FA 2012 is amended as follows.
- (2) Omit section 22 (treatment of the receipt of manufactured overseas dividends).
- (3) In section 78(3) (amounts which are deemed BLAGAB management expense for accounting period), for “783(6), 785(4) or 791(6)” substitute “814C(7) ”.
- (4) In Schedule 16 (minor and consequential amendments), omit paragraphs 220 to 223.

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## **PART 4** **U.K.**

### COMMENCEMENT

- 51 The amendments made by Parts 1 and 2 of this Schedule have effect in relation to any payment representative of a dividend or interest which is made on or after 1 January 2014.
- 52 The amendments made by Part 3 of this Schedule come into force on that date.

**Changes to legislation:**

There are currently no known outstanding effects for the Finance Act 2013, SCHEDULE 29.