

EXPLANATORY MEMORANDUM TO
THE CAPITAL GAINS TAX (DEFINITION OF PERMANENT INTEREST BEARING
SHARE) REGULATIONS 2006

2006 No. 3291

- 1.** This explanatory memorandum has been prepared by HM Revenue & Customs (HMRC) and is laid before the House of Commons by Command of Her Majesty. This memorandum contains information for the Select Committee on Statutory Instruments.

2. Description

These Regulations amend the definition of “permanent interest bearing share” in section 117 of the “Taxation of Chargeable Gains Act 1992” (TCGA).

3. Matters of special interest to the Select Committee on Statutory Instruments

None

4. Legislative Background

The tax definition of PIBS can be changed by Treasury Regulations under section 117 TCGA.

5. Territorial Extent and Application

This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Paymaster General (Dawn Primarolo) has confirmed that the provisions of these Regulations are compatible with Convention rights.

7. Policy background

Permanent Interest Bearing Shares (PIBS) are subject to special tax provisions, designed broadly to treat them like loan finance. In particular, a sterling PIBS is subject to the same tax treatment as a “qualifying corporate bond” (QCB). A gain accruing on any disposal of a PIBS which is a QCB is therefore not a chargeable gain for capital gains tax purposes.

A definition of a “permanent interest bearing share” is needed for the purposes of these tax rules. The current definition is based on the ‘Interim Prudential Sourcebook for Building Societies’ made by the Financial Services Authority (FSA). This Sourcebook will be superseded by a ‘General Prudential Sourcebook’ with effect from 1st January 2007. The changes being made by the FSA mean that an alteration of the tax definition of PIBS is required.

8. Impact

The new Regulations will ensure that the definition of PIBS remains unchanged in substance and therefore will not impose new costs on business or taxpayers. There are no identifiable costs to the Exchequer.

9. Contact

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