
TRANSFERS OF INCOME STREAMS

Who is likely to be affected?

1. Companies and individuals, including partnerships, that dispose of rights to receive future income streams without disposing of any underlying asset.

General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to ensure that receipts derived from a right to receive income (and which are an economic substitute for income) are taxed as income for the purposes of corporation tax and income tax.
3. The legislation is the result of consultation on the use of principles-based drafting to counter arrangements that could otherwise be used to reduce tax liabilities through the sale of income streams. The new legislation sets out a rule that comprehensively taxes the sale of income streams as income, for both corporation tax and income tax purposes.
4. As a result of the consultation changes have been made to exempt certain types of transaction.

Operative date

5. The legislation will have effect for transfers of income taking place on or after 22 April 2009.

Current law and proposed revisions

6. In many cases where a person sells or otherwise disposes of a right to receive income (whether one amount or many) without selling the underlying asset from which the income derives, tax law provides that the sum obtained by the seller is taxed as income rather than as a chargeable gain.

7. This may be the result of case law or of specific statutory provisions, the most important of which are sections 730 (dividends), 775A (annual payments) and 785A (chattel lease rentals) of the Income and Corporation Taxes Act 1988 (ICTA).
8. These statutory rules are not comprehensive. The proposed new rules will introduce a comprehensive principles-based code to ensure receipts of this type are dealt with appropriately for tax purposes.
9. Following consultation since the 2008 Pre-Budget Report, the draft legislation has been amended to include exceptions for transfers of income that result from the grant or surrender of leases or the disposal of any interest in an oil licence. The legislation has also been amended to ensure that it will not apply in relation to sales of income that arise from loan relationships or derivative contracts where that income would have been subject to any exclusions under those rules.
10. There are provisions to exclude amounts which are already taxed as income, or where the transfer of the income is by way of security.
11. The measure allows repeal of existing piecemeal legislation that currently taxes as income transfers of certain types of income streams (for instance, the sale of income from shares).
12. Where the transferee is a company the company will be taxable only on its accounting profit from acquiring the income stream.

Further advice

13. If you have any questions about this change, please contact Richard Rogers on 020 7147 2625 (email: richard.rogers@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk