

# Bill 6

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A  
**B I L L**

TO

Restate, with minor changes, certain enactments relating to corporation tax; and for connected purposes.

**B**E IT ENACTED by the Queen’s most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

**PART 1**

MANUFACTURED PAYMENTS AND REPOS

**CHAPTER 1**

INTRODUCTION

**1 Overview of Part [\[j6072\]](#)**

- (1) This Part is about the corporation tax treatment of some arrangements for the transfer of securities.

[Origin: Drafting.](#)

- (2) Chapter 2 deals with arrangements for the transfer of securities under which provision is made for the payment of amounts representative of dividends or interest in respect of the securities.

[Origin: Drafting.](#)

- (3) Chapter 3 prevents parties to—
- (a) stock lending arrangements,
  - (b) creditor repos,
  - (c) creditor quasi-repos,
  - (d) debtor repos, and
  - (e) debtor quasi-repos,

from being entitled to tax credits in some circumstances.

[Origin: Drafting.](#)

- (4) Chapter 4 deals with some stock lending arrangements under which the dividends or interest in respect of the transferred securities are paid to a person other than the lender.

Origin: Drafting.

- (5) For the meaning of “stock lending arrangements”, see section 5.

Origin: Drafting.

- (6) For the meaning of “creditor repo”, “creditor quasi-repo”, “debtor repo” and “debtor quasi-repo”, see section 25.

Origin: Drafting.

## 2 Meaning of “UK shares” and “UK securities” [j6069]

- (1) This section applies for the purposes of this Part.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(11), Sch.23A para.1(1); TCGA 1992 s.263B(7).

- (2) “UK shares” means shares in a UK resident company.

Origin: ICTA Sch.23A para.1(1).

- (3) “UK securities” means securities of –
- the government of the United Kingdom,
  - a local authority in the United Kingdom,
  - another public authority in the United Kingdom, or
  - a UK resident company or other UK resident body.

Origin: ICTA Sch.23A para.1(1).

- (4) But “UK securities” does not include UK shares.

Origin: ICTA Sch.23A para.1(1).

- (5) In this section “securities” includes loan stock or any similar security.

Origin: ICTA Sch.23A para.1(1).

## 3 Meaning of “overseas securities” and “overseas dividend” [j6070]

- (1) This section applies for the purposes of this Part.

Origin: ICTA s.736B(3), s.736C(11), Sch.23A para.1(1); TCGA 1992 s.263B(7).

- (2) “Overseas securities” means shares, stock or other securities issued by –
- a government, local authority or other public authority of a territory outside the United Kingdom, or
  - another non-UK resident body of persons.

Origin: ICTA Sch.23A para.1(1).

- (3) “Overseas dividend” means any interest, dividend or other annual payment payable in respect of overseas securities.

Origin: ICTA Sch.23A para.1(1).

- (4) In this section “securities” includes loan stock or any similar security.

Origin: ICTA Sch.23A para.1(1).

#### 4 Meaning of “manufactured dividend” [j60manint]

In this Part “manufactured dividend” has the same meaning as in section 8.

Origin: ICTA s.231AA(4), s.231AB(3), Sch.23A para.2(1).

#### 5 Meaning of “stock lending arrangement” [J6086]

- (1) For the purposes of this Part there is a stock lending arrangement in respect of securities if –

- (a) a person (“the lender”) has transferred the securities to another person (“the borrower”) otherwise than by way of sale,
- (b) the securities are UK shares, UK securities or overseas securities,
- (c) the transfer is under an arrangement between the lender and the borrower, and
- (d) under the arrangement, the borrower is required to transfer the securities back to the lender otherwise than by way of sale.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(11); TCGA 1992 s.263B(1), (7).

- (2) The reference in subsection (1)(d) to the transfer of the securities back to the lender includes a reference to –

- (a) a transfer within subsection (3), and
- (b) a payment within subsection (5).

Origin: ICTA s.231AA(2), s.736B(3), s.736C(12); TCGA 1992 s.263B(5), s.263C(1).

- (3) A transfer is within this subsection if it is a transfer to the lender of securities of the same description as the securities –

- (a) in accordance with a requirement to do so, or
- (b) in exercise of a power to substitute securities of the same description for the securities that are required to be transferred back.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(12); TCGA 1992 s.263B(5).

- (4) For the purposes of subsection (3), securities are taken to be of the same description as other securities if (and only if) they –

- (a) are in the same quantities,
- (b) give the same rights against the same persons, and
- (c) are of the same type and nominal value,

as the other securities.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(12); TCGA 1992 s.263B(6).

- (5) A payment is within this subsection if it is a payment to the lender, in pursuance of a redemption obligation, of an amount equal to the amount of the entitlement under the redemption obligation.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(12); TCGA 1992 s.263C(1).

- (6) A redemption obligation is an obligation that arises on a person’s becoming entitled to receive an amount in respect of the redemption of the securities.

Origin: ICTA s.231AA(2), s.736B(3), s.736C(12); TCGA 1992 s.263C(1).

## CHAPTER 2

### MANUFACTURED PAYMENTS

#### *Introduction*

#### 6 Overview of Chapter [\[j6026\]](#)

This Chapter is about the situation where a person –

- (a) pays another person an amount which is representative of –
  - (i) a dividend on UK shares,
  - (ii) an overseas dividend on overseas securities, or
  - (iii) a payment of interest under a loan relationship, and
- (b) does so under a requirement of an arrangement between them for the transfer of the UK shares, the overseas securities or an asset representing the loan relationship.

Origin: Drafting.

#### 7 Meaning of “manufactured interest” and “manufactured overseas dividend” [\[j60manint2\]](#)

In this Chapter –

“manufactured interest” has the same meaning as in section [\[j061097i\]](#) of [\[Bill 5\]](#) (manufactured interest treated as interest under loan relationship), and

“manufactured overseas dividend” has the same meaning as in section 11.

Origin: ICTA Sch.23A para.4(1); Annex 1, Change [\[jc609\]](#).

#### *Manufactured dividends on UK shares*

#### 8 Manufactured dividends on UK shares [\[j6025\]](#)

- (1) This section applies if a person –
  - (a) pays another person an amount (a “manufactured dividend”) which is representative of a dividend on UK shares, and
  - (b) does so under a requirement of an arrangement between them for the transfer of the shares.

Origin: ICTA Sch.23A para.2(1), (2).

- (2) The Corporation Tax Acts apply in relation to the recipient, and companies claiming title through or under the recipient, as if the manufactured dividend were a dividend on the shares.

Origin: ICTA Sch.23A para.2(2), (3).

- (3) If the payer is a UK resident company, the Corporation Tax Acts apply in relation to the payer as if the manufactured dividend were a dividend of the company.

Origin: ICTA Sch.23A para.2(2).

- (4) This section is subject to—
- (a) section 9 (manufactured dividends on UK shares: Real Estate Investment Trusts),
  - (b) section 14 (manufactured payments exceeding underlying payments), and
  - (c) section 16 (power to deal with other special cases).

Origin: Drafting.

## 9 Manufactured dividends on UK shares: Real Estate Investment Trusts [j6093]

- (1) This section applies (instead of section 8(2) and (3)) if—
- (a) a person (“the payer”) pays a manufactured dividend as mentioned in section 8(1), and
  - (b) the manufactured dividend is representative of a dividend which is—
    - (i) paid by a company to which [Part 4 of FA 2006] applies (Real Estate Investment Trusts) in respect of profits of C (tax-exempt), or
    - (ii) paid by the principal company of a group to which that Part applies in respect of profits of G (property rental business).

Origin: FA 2006 s.139(1), (2), Sch.17 para.30.

- (2) This section applies only so far as the manufactured dividend is representative of such a dividend.

Origin: FA 2006 s.139(1), (2).

- (3) The Corporation Tax Acts apply in relation to the recipient, and companies claiming title through or under the recipient, as if the manufactured dividend were a dividend to which [section 121 of FA 2006] applied (distributions treated as UK property business profits).

Origin: FA 2006 s.139(2).

- (4) If—
- (a) the payer is a company, and
  - (b) the manufactured dividend is paid in the course of a trade carried on in the United Kingdom,
- the manufactured dividend is treated as an expense of the trade.

Origin: FA 2006 s.139(2).

- (5) If—
- (a) the payer is a company, and
  - (b) the manufactured dividend is paid in connection with investment business,
- the manufactured dividend is treated as expenses of management within Part [16] of [Bill 5] (companies with investment business).

Origin: FA 2006 s.139(2).

- (6) If the payer is a company carrying on life assurance business, so far as the manufactured dividend meets one of the conditions in subsection (7) it is treated for the purposes of section 76 of ICTA as if it were an expense payable

falling to be brought into account at step 3 of section 76(7) of that Act (insurance companies: amount of expenses deduction).

Origin: FA 2006 s.139(2).

- (7) The conditions are that the manufactured dividend –
- (a) is referable to basic life assurance and general annuity business,
  - (b) is treated under section 432A of ICTA (apportionment of income and gains) as so referable, or
  - (c) would be so treated if received by the payer.

Origin: FA 2006 s.139(2).

- (8) This section is subject to –
- (a) section 14 (manufactured dividends exceeding underlying payments), and
  - (b) section 16 (power to deal with other special cases).

Origin: Drafting.

## 10 Statements about manufactured dividends [j6010]

- (1) Subsections (3) to (7) apply to a non-UK resident company within the charge to corporation tax if it pays a manufactured dividend as mentioned in section 8(1).

Origin: ICTA Sch.23A para.2(6).

- (2) But those subsections do not apply so far as the manufactured dividend [falls within section 9(1)(b)].

Origin: FA 2006 s.139(1), (2), Sch.17 para.30.

- (3) The company must, at the same time as paying the manufactured dividend, give the recipient a statement.

Origin: ICTA Sch.23A para.2(6).

- (4) The statement must set out –
- (a) the amount of the manufactured dividend paid,
  - (b) the date of the payment, and
  - (c) the amount of associated tax credit.

Origin: ICTA Sch.23A para.2(7).

- (5) The statement must be in writing.

Origin: ICTA Sch.23A para.2(6).

- (6) The amount of associated tax credit is the amount of tax credit to which the recipient, or a person claiming title through or under the recipient –
- (a) is entitled in respect of the manufactured dividend as a result of section 8(2) of this Act or section 573(2) of ITA, or
  - (b) would be so entitled if all the conditions for a tax credit had been met in the case of the deemed dividend and the recipient or that person.

Origin: ICTA Sch.23A para.2(7).

- (7) The duty under subsection (3) to give a statement is enforceable by the recipient.

Origin: ICTA Sch.23A para.2(8).

- (8) For provisions corresponding to subsections (3) to (7) which apply if the payer of a manufactured dividend is a UK resident company, see the following sections (which apply as a result of section 8(3)) –
- (a) section 12F of TMA (companies paying dividends or interest: duty to provide tax certificates), and
  - (b) section 12H of that Act (meaning of “tax certificate” etc).

Origin: Drafting.

#### *Manufactured overseas dividends*

### **11 Manufactured overseas dividends: treatment of payer [j6063a]**

- (1) This section applies if –
- (a) a person (“the payer”) pays another person an amount (a “manufactured overseas dividend”) which is representative of an overseas dividend on overseas securities, and
  - (b) the payer does so under a requirement of an arrangement between them for the transfer of the securities.

Origin: ICTA Sch.23A para.4(1).

- (2) If –
- (a) the payer is a company carrying on a trade, and
  - (b) the manufactured overseas dividend relates to the trade,
- the manufactured overseas dividend is treated as an expense of the trade.

Origin: ICTA Sch.23A para.4(1A).

- (3) If –
- (a) the payer is a company with an investment business, and
  - (b) the manufactured overseas dividend relates to the business,
- the manufactured overseas dividend is treated as expenses of management within Part [16] of [Bill 5] (companies with investment business).

Origin: ICTA Sch.23A para.4(1A).

- (4) Subsection (5) applies if the payer is a company carrying on life assurance business.

Origin: ICTA Sch.23A para.4(1A).

- (5) So far as the manufactured overseas dividend is referable to basic life assurance and general annuity business, the manufactured overseas dividend is treated for the purposes of section 76 of ICTA as if it were an expense payable falling to be brought into account at step 3 of section 76(7) of ICTA (insurance companies: amount of expenses deduction).

Origin: ICTA Sch.23A para.4(1A).

- (6) The manufactured overseas dividend is to be treated as so referable so far as the overseas dividend of which it is representative –

- (a) is treated under section 432A of ICTA (apportionment of income and gains) as so referable, or
- (b) would be so treated if received by the payer.

Origin: ICTA Sch.23A para.4(1A).

## 12 Manufactured overseas dividends: treatment of recipient [j6063]

- (1) This section applies if –
  - (a) a person pays a manufactured overseas dividend as mentioned in section 11(1), and
  - (b) the condition in subsection (2) is met.

Origin: ICTA Sch.23A para.4(1), (4).

- (2) The condition is that –
  - (a) in a case within section 922(1) of ITA 2007 (manufactured overseas dividends: payments by UK residents etc), the amount required to be deducted as a result of that section has been deducted, or
  - (b) in a case within section 923(1) of that Act (foreign payers of manufactured overseas dividends: the reverse charge), the amount of income tax required to be accounted for and paid as a result of that section has been accounted for and paid.

Origin: ICTA Sch.23A para.4(4).

- (3) Subsections (4) and (5) apply in relation to the recipient, and companies claiming title through or under the recipient, for all purposes of the Corporation Tax Acts except Part [6] of [Bill 5] (loan relationships).

Origin: ICTA Sch.23A para.4(4), (9).

- (4) The manufactured overseas dividend is treated as if it were –
  - (a) an overseas dividend of an amount equal to the gross amount of the manufactured overseas dividend, but
  - (b) paid after the withholding from it, on account of overseas tax, of the amount deducted as a result of section 922 of ITA 2007 or, as the case may be, accounted for and paid as a result of section 923 of that Act.

Origin: ICTA Sch.23A para.4(4).

- (5) The amount so deducted or so accounted for and paid is accordingly to be treated as an amount withheld on account of overseas tax instead of as an amount on account of income tax.

Origin: ICTA Sch.23A para.4(4).

- (6) For the purposes of this section, the gross amount of a manufactured overseas dividend is an amount equal to the gross amount of the overseas dividend of which the manufactured overseas dividend is representative.

Origin: ICTA Sch.23A para.4(5).

- (7) For the purposes of this section, the gross amount of an overseas dividend is the sum of –
  - (a) so much of the overseas dividend as remains after the deduction of any overseas tax chargeable on it,
  - (b) the amount of any overseas tax so deducted, and

- (c) the amount of any overseas tax credit in respect of the overseas dividend.

Origin: ICTA Sch.23A para.4(5).

### 13 Powers about manufactured overseas dividends [j6067]

- (1) The Treasury may by regulations make provision as mentioned in subsections (2) and (3) about prescribed cases where a person –
  - (a) pays or receives a manufactured overseas dividend as mentioned in section 11(1), or
  - (b) is treated as doing so for any purposes of this Chapter or regulations made under it.

Origin: ICTA Sch.23A para.8(1A).

- (2) The regulations may provide for removing or reducing any right of the person to claim relief under Part 18 of ICTA (double taxation relief).

Origin: ICTA Sch.23A para.8(1A).

- (3) The regulations may provide for adjusting a relevant amount by reference to a provision which has effect under the law of a territory outside the United Kingdom.

Origin: ICTA Sch.23A para.8(1A).

- (4) A “relevant amount” is an amount which is treated for prescribed purposes of the Corporation Tax Acts as the amount paid or payable to a person in respect of a relevant transaction.

Origin: ICTA Sch.23A para.8(1A).

- (5) A “relevant transaction” is a sale, repurchase or other transfer of the overseas securities to which the manufactured overseas dividend relates.

Origin: ICTA Sch.23A para.8(1A).

#### *Special cases*

### 14 Manufactured dividends exceeding underlying payments [j6021]

- (1) This section applies if –
  - (a) an amount paid by way of manufactured dividend would otherwise exceed the amount of the dividend of which it is representative, or
  - (b) the sum of –
    - (i) an amount paid by way of manufactured overseas dividend, and
    - (ii) the income tax required to be accounted for and paid in connection with the making of the payment,would otherwise exceed the gross amount of the overseas dividend of which it is representative (within the meaning of section 12(6)).

Origin: ICTA Sch.23A para.7(1).

- (2) The payment, to the extent of an amount equal to the excess, is treated for the purposes of this Chapter as not made under the requirement mentioned in

section 8(1)(b) or 11(1)(b) (criteria for application of provisions about manufactured payments).

Origin: ICTA Sch.23A para.7(1).

- (3) Instead it is treated, to that extent, for all purposes of the Corporation Tax Acts as a separate fee for entering into the arrangement under which it was made.

Origin: ICTA Sch.23A para.7(1).

- (4) Subsection (3) applies despite anything in—
- (a) sections 8 to 10 (main rules about manufactured dividends on UK shares), or
  - (b) section 12 (manufactured overseas dividends: treatment of recipient).

Origin: ICTA Sch.23A para.7(1).

- (5) But subsection (3) does not apply so far as Part [6] of [Bill 5] (loan relationships) applies to the amount as if it were interest under a loan relationship as a result of section [j061097] of that Act (manufactured interest treated as interest under loan relationship).

Origin: ICTA Sch.23A para.7(1A).

## 15 Manufactured overseas dividend less than underlying payments [j6065]

- (1) This section applies if the sum of—
- (a) an amount paid by way of manufactured overseas dividend, and
  - (b) the income tax required to be accounted for and paid in connection with the making of the payment,
- is less than the gross amount of the overseas dividend of which it is representative (within the meaning of section 12(6)).

Origin: ICTA Sch.23A para.7(3).

- (2) For the purpose of giving relief under the Corporation Tax Acts in a case to which section 12 applies (manufactured overseas dividends: treatment of recipient), the gross amount of the manufactured overseas dividend is not the amount specified in section 12(6).

Origin: ICTA Sch.23A para.7(3).

- (3) Instead it is treated as being an amount equal to the sum of the amounts mentioned in paragraphs (a) and (b) of subsection (1).

Origin: ICTA Sch.23A para.7(3).

- (4) In this section “relief” means relief by way of—
- (a) deduction in calculating profits or gains, or
  - (b) deduction against total profits.

Origin: ICTA Sch.23A para.7(4).

## 16 Power to deal with other special cases [j6066]

- (1) The Treasury may by regulations make provision about—
- (a) such manufactured dividends or manufactured overseas dividends as may be prescribed,

- (b) such persons who receive, or become entitled to receive, manufactured dividends or manufactured overseas dividends as may be prescribed, or
- (c) such payers of manufactured dividends or manufactured overseas dividends as may be prescribed.

Origin: ICTA Sch.23A para.8(1).

- (2) The provision which may be made is for any prescribed manufactured dividend, manufactured overseas dividend or person to be treated, in prescribed circumstances, otherwise than as mentioned in section 8 to 12 (rules about manufactured dividends and manufactured overseas dividends), for any prescribed purposes of the Corporation Tax Acts.

Origin: ICTA Sch.23A para.8(1).

*Manufactured payments under arrangements with unallowable purpose*

**17 Manufactured payments under arrangements with unallowable purpose [j623A7A]**

- (1) This section applies if—
  - (a) a manufactured payment falls to be made by a company in an accounting period in pursuance of any arrangements,
  - (b) the arrangements have an unallowable purpose at any time (see section 18),
  - (c) any of the manufactured payment is attributable to the unallowable purpose, and
  - (d) the company is not subject to another relevant tax relief restriction.

Origin: ICTA Sch.23A para.7A(1), (2), (8).

- (2) The company is not entitled (whether as a result of any provision made in or under this Chapter, or otherwise), to any relevant tax relief, so far as the relief is in respect of, or referable to, so much of the manufactured payment as is attributable to the unallowable purpose.

Origin: ICTA Sch.23A para.7A(2).

- (3) In this section “relevant tax relief” means—
  - (a) a deduction in calculating profits or gains for the purposes of corporation tax,
  - (b) a deduction against total profits,
  - (c) the bringing into account of any debit for the purposes of Part [6] of [Bill 5] (loan relationships), or
  - (d) the surrender of an amount by way of group relief.

Origin: ICTA Sch.23A para.7A(10) (“relevant tax relief”).

- (4) For the purposes of this section a company is subject to another relevant tax relief restriction if it is not entitled to a relevant tax relief in respect of, or referable to, the whole or any part of the manufactured payment as a result of any of the provisions specified in subsection (5).

Origin: ICTA Sch.23A para.7A(8).

- (5) The provisions are—

- (a) section 76(4)(d) of ICTA (expenses of insurance companies: unallowable purposes), and
- (b) section [j0696913] of [Bill 5] (loan relationships with unallowable purposes), and
- (c) section [j2000](2)(b) of [Bill 5] (expenses of management of company’s investment business: unallowable purpose).

Origin: ICTA Sch.23A para.7A(8).

- (6) The part of the manufactured payment attributable to the unallowable purpose must be determined by just and reasonable apportionment.

Origin: ICTA Sch.23A para.7A(2).

- (7) For the meaning of “arrangements”, see 19(1).

Origin: Drafting.

## 18 Arrangements with an unallowable purpose [j623A7B]

- (1) This section applies for the purposes of section 17.

Origin: ICTA Sch.23A para.7A(10); drafting.

- (2) Arrangements have an unallowable purpose at any time if at that time the purposes for which the company is a party to them include a purpose which is not among the business or other commercial purposes of the company.

Origin: ICTA Sch.23A para.7A(3).

- (3) Arrangements also have an unallowable purpose at any time if at that time such a purpose is the only purpose, or one of the purposes, for which the company is a party to –
  - (a) any related transaction, or
  - (b) any transaction in pursuance of the arrangements.

Origin: ICTA Sch.23A para.7A(3).

- (4) The business and other commercial purposes of a company only include the purposes of any part of its activities in respect of which it is within the charge to corporation tax.

Origin: ICTA Sch.23A para.7A(4).

- (5) Subsection (6) applies if a tax avoidance purpose is one of the purposes for which a company is at any time a party to –
  - (a) any arrangements,
  - (b) any related transaction in the case of any arrangements, or
  - (c) any transaction in pursuance of any arrangements.

Origin: ICTA Sch.23A para.7A(5).

- (6) The tax avoidance purpose is taken to be a business or other commercial purpose of the company only if it is not the main purpose, or one of the main purposes, for which the company is party to the arrangements or transaction at that time.

Origin: ICTA Sch.23A para.7A(5).

- (7) In this section –  
“tax advantage” has the meaning given by section 840ZA of ICTA, and  
“tax avoidance purpose” means any purpose that consists in securing a  
tax advantage for the company in question or any other person.

Origin: ICTA Sch.23A para.7A(10).

- (8) For the meaning of other expressions used in this section, see section 19.

Origin: Drafting.

## 19 Sections 17 and 18: supplementary provisions [j623A7C]

- (1) For the purposes of sections 17 and 18 and this section –  
(a) “arrangements” includes understandings, and  
(b) “manufactured payment” means –  
(i) any manufactured dividend,  
(ii) any manufactured interest,  
(iii) any manufactured overseas dividend, and  
(iv) any payment which, as a result of section 14(3), constitutes a fee.

Origin: ICTA Sch.23A para.7A(10); Annex 1, Change [jc609].

- (2) For the purposes of section 18, one or more transactions are treated as related transactions, in the case of any arrangements, if it would be reasonable to assume, from –  
(a) the likely effect of the transactions,  
(b) the circumstances in which the transactions are entered into or effected,  
or  
(c) both that effect and those circumstances,  
that none of the transactions would have been entered into or effected independently of the arrangements.

Origin: ICTA Sch.23A para.7A(6).

- (3) Transactions may be related transactions, in the case of any arrangements, even if the transactions –  
(a) are not between the same parties, or  
(b) are not between the parties to the arrangements.

Origin: ICTA Sch.23A para.7A(7).

### *General regulation-making powers*

## 20 Powers about administrative provisions [j6003]

The Treasury may by regulations make provision about –  
(a) the accounts and other records which are to be kept, and  
(b) the vouchers which are to be issued or produced,  
by payers of manufactured dividends.

Origin: ICTA Sch.23A para.8(2).

**21 Regulation-making powers: general [j6068]**

Regulations under this Chapter may make different provision for different cases.

Origin: ICTA Sch.23A para.8(4).

**CHAPTER 3**

## TAX CREDITS: STOCK LENDING ARRANGEMENTS AND REPOS

*Stock lending arrangements***22 No tax credits for borrower under stock lending arrangement [J6081]**

- (1) This section applies if –
- there is a stock lending arrangement in respect of UK shares,
  - a qualifying distribution is made to the person who is the borrower under the arrangement,
  - the qualifying distribution is, or is a payment representative of, a dividend in respect of the UK shares, and
  - a manufactured dividend representative of the dividend is paid by the borrower in respect of any UK shares in respect of which the arrangement is made.

Origin: ICTA s.231AA(1), (4); TCGA 1992 s.263B(1), (7).

- (2) The borrower is not entitled to a tax credit under section {j5231} (tax credits for certain recipients of qualifying distributions) in respect of the distribution.

Origin: ICTA s.231AA(1).

*Repos***23 No tax credits for lender under creditor repo or creditor quasi-repo [J6083]**

- (1) This section applies if –
- there is a creditor repo or creditor quasi-repo in respect of UK shares,
  - a qualifying distribution is made to the lender under the repo or quasi-repo,
  - the qualifying distribution is, or is a payment representative of, a dividend in respect of the UK shares, and
  - a manufactured dividend representative of the dividend is paid by the lender under the repo or quasi-repo in respect of any UK shares to which the repo or quasi-repo relates.

Origin: ICTA s.231AA(1), (4).

- (2) The lender under the repo or quasi-repo is not entitled to a tax credit under section {j5231} (tax credits for certain recipients of qualifying distributions) in respect of the distribution.

Origin: ICTA s.231AA(1).

- (3) For the purposes of this section a person is taken to have paid a manufactured dividend representative of a dividend in respect of UK shares to which a creditor repo or creditor quasi-repo relates if –
- (a) the person is treated for the purposes of Chapter 9 of Part 15 of ITA 2007 (deduction of income tax at source: manufactured payments) as making a payment which is representative of the income payable on the shares, and
  - (b) the person is so treated as a result of paragraph 13(1) of Schedule 13 to FA 2007 (requirements to deduct tax from manufactured payments: creditor repos and debtor repos).

Origin: ICTA s.231AA(5).

## 24 No tax credits for borrower under debtor repo or debtor quasi-repo [J6084]

- (1) This section applies if –
- (a) there is a debtor repo or debtor quasi-repo in respect of UK shares,
  - (b) a qualifying distribution is made,
  - (c) the qualifying distribution is a manufactured dividend paid to the borrower under the repo or quasi-repo in respect of the UK shares as a result of the repo or quasi-repo, and
  - (d) the arrangements in relation to the repo or quasi-repo are such that the actual dividend which the manufactured dividend represents is receivable by the borrower under the repo or quasi-repo.

Origin: ICTA s.231AB(1).

- (2) The borrower under the repo is not entitled to a tax credit under section {j5231} (tax credits for certain recipients of qualifying distributions) in respect of the distribution.

Origin: ICTA s.231AB(1).

## 25 Meaning of “creditor repo”, “creditor quasi-repo”, “debtor repo” and “debtor quasi-repo” [J6087]

In this Chapter –

- “creditor repo” has the same meaning as in Chapter [9] of Part [7] of [Bill 5] (repos) (see section [j6077] of that Act),
- “creditor quasi-repo” has the same meaning as in that Chapter (see section [j6078] of that Act),
- “debtor repo” has the same meaning as in that Chapter (see section [j6072] of that Act), and
- “debtor quasi-repo” has the same meaning as in that Chapter (see section [j6073] of that Act).

Origin: ICTA s.231AA(3), s.231AB(2).

## CHAPTER 4

### DEEMED MANUFACTURED PAYMENTS RESULTING FROM STOCK LENDING ARRANGEMENTS

#### *Stock lending arrangements: general*

#### **26 Deemed manufactured payments: stock lending arrangements [j6009]**

- (1) This section applies if –
- (a) there is a stock lending arrangement in respect of securities,
  - (b) a dividend or interest on the securities is paid, as a result of the arrangement, to a person other than the person who is the lender under the arrangement, and
  - (c) no provision is made for securing that the lender receives payments representative of the dividend or interest.

*Origin:* ICTA s.736B(1), (3).

- (2) The rules about manufactured payments apply for corporation tax purposes as if the person who is the borrower under the arrangement –
- (a) were required, under the arrangement, to pay the lender an amount representative of the dividend or interest, and
  - (b) discharged the requirement when the dividend or interest was paid.

*Origin:* ICTA s.231AA(4), s.736B(2).

- (3) But the borrower is not entitled (whether as a result of the rules about manufactured payments or otherwise) to –
- (a) a deduction in calculating profits or gains for corporation tax purposes, or
  - (b) a deduction against total profits,
- in respect of the deemed requirement to pay or the deemed payment.

*Origin:* ICTA s.736B(2), (2A).

- (4) “The rules about manufactured payments” means –
- (a) Chapter 2 and regulations made under it,
  - (b) Chapter 3, and
  - (c) Chapter [8] of Part [7] of [Bill 5] (manufactured interest etc).

*Origin:* ICTA s.231AA(4), s.231AB(3), s.736B(2).

#### *Cash collateral under stock lending arrangements*

#### **27 Deemed interest: cash collateral under stock lending arrangements [j6089]**

- (1) This section applies if –
- (a) the borrower under a stock lending arrangement is treated under section 26(2) as paying under the arrangement an amount representative of a dividend or interest on any securities (“the relevant securities”),
  - (b) an amount of money (“cash collateral”) is payable to or for the benefit of the lender under the arrangement for the purpose of securing the

discharge of the requirement to transfer the relevant securities back to the lender,

- (c) the stock lending arrangement is designed to produce a return to the borrower which equates, in substance, to the return on an investment of money at interest, and
- (d) the main purpose, or one of the main purposes, of the stock lending arrangement is the obtaining of a tax advantage.

**Origin:** ICTA s.736C(1).

- (2) If this section applies –
  - (a) the Corporation Tax Acts apply as if the borrower receives an amount of interest payable in respect of the cash collateral, and
  - (b) the amount of the interest is calculated in accordance with subsections (3) to (7).

**Origin:** ICTA s.736C(2).

- (3) The interest is treated for the purposes of the Corporation Tax Acts as if it were received on the date (“the return date”) on which the borrower transfers the relevant securities back to the lender.

**Origin:** ICTA s.736C(3).

- (4) The interest is treated for the purposes of the Corporation Tax Acts as if it were payable in respect of the period (“the interest period”) –
  - (a) beginning with the date on which the lender transfers the relevant securities to the borrower, and
  - (b) ending with the return date.

**Origin:** ICTA s.736C(4).

- (5) The rate of interest payable in respect of the cash collateral is a rate that is reasonably comparable to the rate that the borrower could obtain by placing the cash collateral on deposit for the interest period.

**Origin:** ICTA s.736C(5).

- (6) For the purposes of this section, the amount of the cash collateral on which the interest is payable is taken to be –
  - (a) in any case where the amount of the cash collateral varies at any time on or before the return date, the highest amount of the cash collateral at any time on or before the return date, and
  - (b) in any other case, the amount of the cash collateral as at the return date.

**Origin:** ICTA s.736C(6).

- (7) The amount of the interest which the borrower is treated as receiving in respect of the cash collateral for the interest period is reduced (but not below nil) by any interest which the borrower actually receives in respect of that collateral for that period.

**Origin:** ICTA s.736C(7).

- (8) In this section “tax advantage” has the meaning given by section 840ZA of ICTA.

**Origin:** ICTA s.736C(11).

- (9) This section needs to be read with sections 28 to 30.

Origin: Drafting.

**28 Tax treatment of interest payable in respect of cash collateral under stock lending arrangements [j6089a]**

- (1) This section applies if a borrower under a stock lending arrangement is treated as receiving interest under section 27.

Origin: ICTA s.736C(9).

- (2) Subsections (3) to (5) apply for the purposes of Part [6] of [Bill 5] (loan relationships) if the borrower is a company within the charge to corporation tax.

Origin: ICTA s.736C(9).

- (3) The interest is treated as interest payable to the borrower on a money debt.

Origin: ICTA s.736C(9).

- (4) The money debt is treated as a relationship to which Chapter [2] of Part [7] of that Act (relevant non-lending relationships) applies.

Origin: ICTA s.736C(9).

- (5) The credits to be brought into account in respect of the interest must be determined using an amortised cost basis of accounting.

Origin: ICTA s.736C(9).

- (6) The fact that the borrower is treated as receiving an amount of interest under section 27 does not imply that the interest is payable by the lender or any other person.

Origin: ICTA s.736C(10).

**29 Cash collateral under stock lending arrangements: supplementary [j6090]**

- (1) This section supplements sections 27 and 28.

Origin: Drafting.

- (2) For the purposes of those sections –

- (a) any reference in section 27 to the transfer of securities back has the same meaning as the reference in section 5(1)(d) (see subsections (2) to (6) of section 5), but
- (b) if it becomes apparent that the borrower will not comply with the requirement to transfer any securities back, the borrower is treated as transferring them back on the date on which it becomes so apparent.

Origin: ICTA s.736C(12).

- (3) For the purposes of sections 27 and 28 it does not matter –

- (a) whether the cash collateral is payable by the borrower or by any other person,
- (b) whether the cash collateral is payable under the stock lending arrangement or under any other arrangement, or

- (c) whether collateral in another form is also provided in connection with the stock lending arrangement.

Origin: ICTA s.736C(13).

- (4) See section 30—
  - (a) for provision treating some arrangements as stock lending arrangements for the purposes of sections 27, 28 and this section, and
  - (b) for provision treating some amounts as cash collateral for those purposes.

Origin: ICTA s.736C(14).

#### *Quasi stock lending arrangements*

### **30 Quasi-stock lending arrangements and quasi-cash collateral [j6092]**

- (1) For the purposes of sections 26 to 29, a quasi-stock lending arrangement is treated as if it were a stock lending arrangement.

Origin: ICTA s.736D(4).

- (2) For the purposes of sections 27 to 29, in relation to a stock lending arrangement or quasi-stock lending arrangement—
  - (a) quasi-cash collateral is treated as if it were cash collateral, and
  - (b) the amount of that cash collateral is taken to be the amount of the quasi-cash collateral in relation to the stock lending arrangement or quasi-stock lending arrangement.

Origin: ICTA s.736D(5).

- (3) If—
  - (a) section 27 applies in relation to a quasi-stock lending arrangement, and
  - (b) the person for whom the tax advantage was designed to be obtained is a person (“the other person”) other than the borrower under the arrangement,

sections 27 to 29 have effect as if the other person were the person who receives the amount of interest mentioned in section 27.

Origin: ICTA s.736D(7).

- (4) If section 27 applies in relation to a quasi-stock lending arrangement—
  - (a) any reference in that section to cash collateral being payable to or for the benefit of the lender includes its being payable to or for the benefit of a person connected with the lender,
  - (b) the reference in subsection (1)(c) of that section to a return to the borrower includes a return to any other person, and
  - (c) any reference in that section and section 29 to the transfer back of the relevant securities by the borrower to the lender includes the transfer back of any or all of the securities, or any other property, by any person to the lender or any other person.

Origin: ICTA s.736D(8).

- (5) In subsection (4)(c) “property” means property in any form.

Origin: ICTA s.736D(10).

**31 Meaning of “quasi-stock lending arrangement” and “quasi-cash collateral” [j6091]**

- (1) This section applies for the purposes of sections 26 to 30.

*Origin: ICTA s.736D(1); drafting.*

- (2) “Quasi-stock lending arrangement” means so much of any arrangements between two or more persons as are not stock lending arrangements, but are arrangements under which—
- (a) a person (“the lender”) transfers securities to another person (“the borrower”) otherwise than by way of sale, and
  - (b) a requirement is imposed on a person to transfer any or all of the securities, or any other property, back to the lender or any other person otherwise than by way of sale.

*Origin: ICTA s.736D(1).*

- (3) For the purposes of subsection (2) it does not matter whether the person on whom the requirement is imposed is the borrower or any other person.

*Origin: ICTA s.736D(1).*

- (4) “Quasi-cash collateral”, in relation to a stock lending arrangement or quasi-stock lending arrangement, means—
- (a) any money which is payable for a relevant purpose, and
  - (b) any other property which is transferable for a relevant purpose.

*Origin: ICTA s.736D(2).*

- (5) Money or other property is payable or transferable for a relevant purpose if it is payable or transferable to or for the benefit of—
- (a) the lender under the stock lending arrangement or quasi-stock lending arrangement, or
  - (b) a person connected with the lender,
- for the purpose of securing the discharge of the requirement mentioned in subsection (2)(b).

*Origin: ICTA s.736D(3).*

- (6) If any property other than money is transferable for a relevant purpose, the amount of the quasi-cash collateral so far as relating to that property is determined by reference to its market value.

*Origin: ICTA s.736D(6).*

- (7) In this section “property” means property in any form.

*Origin: ICTA s.736D(10).*