Dividend stripping. CTA76 s139 622.—(1) This section shall apply where one company (in this section referred to as “the first company”) has a holding in another company (in this section referred to as “the second company”) and the following conditions are fulfilled—

(a) that the holding amounts to, or is an ingredient in a holding amounting to, 10 per cent of all holdings of the same class in the second company,

(b) that the first company is not a dealing company in relation to the holding,

(c) that a distribution is or has been made on or after the 6th day of April, 1974, to the first company in respect of the holding, and

(d) that the effect of the distribution is that the value of the holding is or has been materially reduced.

(2) (a) Where this section applies in relation to a holding, section 621 shall apply in relation to any disposal of any shares or securities comprised in the holding, whether the disposal is by the first company or by any other company to which the holding is transferred by a transfer to which section 617 applies, as if the distribution were a depreciatory transaction and, if the companies concerned are not members of a group of companies, as if they were.

(b) Notwithstanding paragraph (a), the distribution shall not be treated as a depreciatory transaction to the extent that it consists of a payment which is required to be or has been taken into account, for the purposes of corporation tax on chargeable gains, in computing a chargeable gain or allowable loss accruing to the person making the ultimate disposal.

(3) This section shall be construed together with section 621.

(4) For the purposes of this section, a company shall be a dealing company in relation to a holding if a profit on the sale of the holding would be taken into account in computing the company's trading profits.

(5) References in this section to a holding in a company are references to a holding of shares or securities by virtue of which the holder may receive distributions made by the company, but so that—

(a) a company's holdings of different classes in another company shall be treated as separate holdings, and

(b) holdings of shares or securities which differ in the entitlements or obligations they confer or impose shall be regarded as holdings of different classes.

(6) For the purposes of subsection (1)—

(a) all a company's holdings of the same class in another company shall be treated as ingredients

constituting a single holding, and

(b) a company's holding of a particular class shall be treated as an ingredient in a holding amounting to 10 per cent of all holdings of that class if the aggregate of that holding and other holdings of that class held by connected persons amounts to 10 per cent of all holdings of that class.