

Disallowance of reliefs in respect of bonus issues. CTA76 s89 137.—(1) This section shall apply where any person (in this section referred to as “the recipient”) receives an amount treated as a distribution by virtue of—

(a) paragraph (c) or (d) of section 130 (2),

(b) section 131, or

(c) section 132 (2)(a),

and, in this section, a distribution within paragraph (a), (b) or (c) is referred to as a “bonus issue”, and “relevant tax credit”, in relation to a bonus issue, means the tax credit to which the recipient of the bonus issue becomes entitled under section 136 in respect of the bonus issue.

(2) Subject to subsection (5), where the recipient is entitled by reason of—

(a) any exemption from tax,

(b) the setting-off of losses against profits or income, or

(c) the payment of interest,

to recover tax in respect of any distribution which the recipient has received, no account shall be taken, for the purposes of any such exemption, set-off or payment of interest, of any bonus issue or relevant tax credit which the recipient has received.

(3) Subject to subsection (5), a bonus issue and the relevant tax credit shall be treated as not being franked investment income within the meaning of section 156.

(4) Subject to subsection (5), the relevant tax credit relating to a bonus issue shall not be available to set against any income tax which the recipient is entitled to deduct under section 237 or with which the recipient is chargeable by virtue of section 238.

(5) Nothing in subsections (2) to (4) shall affect the proportion (if any) of any bonus issue made in respect of any shares or securities which, if that bonus issue were declared as a dividend, would represent a normal return to the recipient on the consideration provided by the recipient for the relevant shares or securities, that is, those in respect of which the bonus issue was made and, if those securities are derived from shares or securities previously acquired by the recipient, the shares or securities which were previously acquired; and nothing in those subsections shall affect the like proportion of the relevant tax credit relating to that bonus issue.

(6) For the purposes of subsection (5)—

(a) if the consideration provided by the recipient for any of the relevant shares or securities was in excess of their market value at the time the recipient acquired them, or if no consideration was provided by the recipient for any of the relevant shares or securities, the recipient shall be taken to have provided for those shares or securities consideration equal to their market value at the time the recipient acquired them, and

(b) in determining whether an amount received by means of dividend exceeds a normal return, regard shall be had to the length of time before the receipt of that amount that the recipient first acquired any of the relevant shares or securities and to any dividends and other distributions made in respect of the relevant shares or securities during that time.