Accrued Income Scheme

Contacts
Please phone:
- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to **www.hmrc.gov.uk**

This helpsheet will help you decide whether the Accrued Income Scheme applies, and if so, how to work out your accrued income profits or losses. It covers most cases, but it does not tell you everything about the Accrued Income Scheme. Where special rules apply, you will need more help and guidance.

You can get more help by:
- phoning the SA Helpline on **0845 9000 444**
- looking at the more detailed information on the Accrued Income Scheme in our Savings and Investment Manual at **www.hmrc.gov.uk**
- talking to an accountant or tax adviser.

What is the Accrued Income Scheme?

If you sell a gilt-edged or similar security, the person buying it will generally get the next interest payment. The closer it gets to the next interest payment date, the more a buyer will be prepared to pay for the security. The value of the security is made up of two amounts:
- the basic value (called the **clean price**), plus
- an amount that represents the value of the next interest payment (the **accrued interest**).

Example 1

8% Treasury Stock 2015 pays interest on 7 June and 7 December. So someone buying £10,000 nominal value of this gilt on 7 May knows that they will receive £400 interest on 7 June. (The nominal value of the gilt is the face value - the amount on which the interest is calculated.)

The amount of accrued interest to be added to the basic price goes up by the same amount every day. The total time between the last interest payment on 7 December and the next one on 7 June is 182 days. On 7 May, 152 days have gone by since the last interest payment was made. So the amount of accrued interest is:

£400 x $^{152}/_{182}$ = £334.

If you sell a security with accrued interest, the Accrued Income Scheme treats the additional amount you receive as part of your income. It is called an **accrued income profit**. You will need to add this amount to the interest that you enter in box 3 on page Ai 1 of the *Additional information* pages.

If you buy a security with accrued interest, you will have to pay tax on the full amount of the next interest payment that you receive. But, because you have already paid an extra amount to buy the security, you can get tax relief under the Accrued Income Scheme. The extra amount you have paid is an **accrued income loss**. You deduct this from the interest that you get.

Where a security is sold just a few days before the next interest payment is due, the person selling it will often still be entitled to the next interest payment. Because of this, someone buying it will pay less than the clean price. Where this happens, the seller is still taxed on the interest they receive. But they can claim an accrued income loss for the difference between the clean price and the amount they are actually paid for the security and deduct this from the interest they receive. The person buying the security pays tax on an equivalent amount.

When is the Accrued Income Scheme relevant?

If you have transferred securities in the tax year, or if someone else has transferred securities to you, you need to think about the Accrued Income Scheme. 'Securities' include UK government securities (gilt-edged securities or gilts), and other sorts of bonds and loan notes – there is more about this below.

Does the Accrued Income Scheme apply to everyone?

The scheme is relevant to individuals, trustees of trusts, and personal representatives of someone who has died. It will not normally apply if you are not resident in the UK. But you should get more advice if you have recently arrived in or left the UK, or if you are not UK resident but carry on a trade in the UK.

There are also a number of **exemptions** from the Accrued Income Scheme – see below.

What are securities?

Securities include:
- gilts issued by the UK government (including index-linked gilts)
- investment bonds issued by banks or building societies, if they can be transferred to someone else
- bonds, loan notes, debentures or alternative finance investment bonds (including sukuk) issued by UK companies, local authorities or other bodies, and
- any similar securities issued by overseas companies or governments – although for these you will need to make the Accrued Income Scheme adjustments to the interest you report on the *Foreign* pages of the tax return.

But the Accrued Income Scheme does not apply to:
- National Savings Certificates or Ulster Savings Certificates
- shares in a company, or holdings in a unit trust or other collective investment scheme, even if they pay you a regular return that is like interest
- securities that do not pay interest
- most securities that are issued for less than their face value, or where a bonus will or might be paid when they are cashed in (deeply discounted securities).

Example 2

A bank issues investment bonds that are based on the FTSE-100 share index. They pay a small amount of interest, but after two years they will be repaid with a bonus that depends on how well the FTSE-100 has performed. If an investor sells these bonds, the Accrued Income Scheme will not apply. But the investor will have to pay Income Tax on any profit they make, under the rules for deeply discounted securities.

A **transfer** of securities happens:
- if you buy or sell securities, or
- if you give them away or receive them as a gift, or
- if you exchange them for something other than cash (such as shares).

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There are special rules where securities are included in the estate of someone who has died.

When the Accrued Income Scheme does not apply

The Accrued Income Scheme does not apply to some transfers of securities. The following are the most common circumstances in which no Accrued Income Scheme profit or loss will arise.

- If the exemption for small holdings of securities applies to you – see the box below.
- If any interest you received on the securities would be exempt from tax. This includes securities that are held in a tax-exempt savings vehicle such as an ISA or Child Trust Fund.

> ### Exemption for small holdings
> If you transfer securities in a tax year, or they are transferred to you, the Accrued Income Scheme does not apply if the total nominal value (face value) of all of the securities you hold is not more than £5,000 at any time:
> - in that tax year, or
> - in the previous tax year.
>
> In adding up the nominal values, you should include any securities held through a nominee, and any held by your minor children, if interest on those securities is added to your income for tax purposes.
>
> This exemption only applies to individuals, personal representatives and trusts for disabled people - not to other trusts.
>
> If you hold securities with a nominal value of more than £5,000, the Accrued Income Scheme applies to any transfer, however small.

Working out your accrued income profit or loss

This section tells you how to find your **accrued income profit** or **loss** for the tax year in most cases. There are two steps to this:

1 find the accrued income profit or loss that has arisen in the tax year on each individual transfer of securities

2 work out the total accrued income profit or loss to include on your tax return.

Step 1

If you have bought or sold securities through a broker or other market professional, or through your bank, you should have been given a **contract note**. This will show the clean price of the security and, separately, the amount that has been added to or taken away from the clean price for accrued interest.

Ask your broker or bank if you find it difficult to pick out the accrued interest amount in any paperwork you have been given.

If:

- you have **sold** securities, and an amount has been **added** to the price you received because of accrued interest, or
- if you have **bought** securities, and an amount has been **taken away** from the clean price (because the seller of the securities will get the next interest payment)

that amount is your **accrued income profit** on that transfer.

If:

- you have **bought** securities, and an amount has been **added** to the clean price because you will get the next interest payment, or
- you have **sold** securities, and an amount has been **taken away** from the price you receive because you will still get the next interest payment

that amount is your **accrued income loss** on that transfer.

You may not have a contract note for some transfers of securities – perhaps because you have bought or sold them privately, or given or received them as a gift. Where this is the case, you can use the Working Sheet on page 6 to calculate your accrued income profit or loss on the transfer.

If you have paid or received amounts in a foreign currency, you should translate them into sterling at the spot rate of exchange for the day on which your sale or purchase of the security was settled.

When do accrued income profits or losses arise?

You should only take into account accrued income profits or losses that arise in the tax year you are looking at. The general rule is that you:

- identify the date on which your sale or purchase of the securities took place, and then
- look for the date when the next interest payment falls due.

The accrued income profit or loss on the transfer arises in the tax year into which that next interest payment date falls.

This means that the year in which a profit is taxed, or in which a loss is relieved, will not always be the year the securities were transferred, particularly if the transfer happens near the end of a tax year.

Example 3

A bond issued by a company pays interest on 31 March, 30 June, 30 September and 31 December each year. You sell part of your holding of the bond on 2 October 2011. The next payment of interest after the sale falls due on 31 December 2011. The accrued income profit from this sale arises in the tax year 2011-12.

You sell the rest of your holding on 3 April 2012. The next interest payment after this sale falls due on 30 June 2012, which is in the tax year 2012-13. You must include the accrued income profit from this transfer in your calculation for 2012-13 and not for the earlier tax year.

Step 2

Once you have worked out all of your accrued income profits or losses arising in the tax year, you should:

- add together all of the profits
- add together all of the losses, and
- subtract the total losses from the total profits.

If the result is a profit, you should **add** this amount to the total gross interest from UK securities that you enter in box 3 on page Ai 1 of the *Additional information* pages. (Do not include pence – round your profit **down** to the nearest whole pound.)

If the result is a loss, you should **subtract** this amount from the total gross interest you enter in box 3. (Round your loss **up** to the nearest whole pound.)

You should not change the figures for net interest and tax deducted that you enter in boxes 1 and 2 on page Ai 1 of the *Additional information* pages.

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If you have any accrued income profits or losses from transfers of foreign securities, you should add these up separately and add profits to, or subtract losses from, the amounts you enter in column B of the overseas savings income box on the *Foreign* pages.

Please note, this is a simplification of what the law actually tells you to do. In almost all cases, it gives you the right answer. But in a few situations you will need to do a more detailed calculation, or there are special rules that apply. The final section of this helpsheet tells you about the situations in which you may need further advice.

Securities held in the estate of someone who has died

If you are a personal representative of someone who has died, you may have to complete a tax return for the deceased up to the date on which they died. If that person held interest-bearing securities when they died, their death does not count as a transfer of the securities. No Accrued Income Scheme profits or losses arise.

As a personal representative, you may transfer securities to someone who has inherited them under the terms of a will, or through the operation of the intestacy rules. The Accrued Income Scheme does not apply if you transfer the securities before the next interest payment is due.

If you make the transfer at a later date, the Accrued Income Scheme applies in the normal way. You should use the Working Sheet on page 6 to calculate the accrued income profit or loss on the transfer.

Example 4

John owns some 8% Treasury Stock 2014, which pays interest on 27 March and 27 September each year. He dies on 3 May 2011. In his will, he leaves the gilts to his daughter. His executors arrange for the gilts to be re-registered in his daughter's name, and this happens on 5 August 2011. Because this happens before 27 September, when the next interest payment is due, the Accrued Income Scheme does not apply to the transfer. But if the transfer is delayed until after 27 September, the scheme will apply. An accrued income profit will then form part of the income of John's estate for 2011-12, and his daughter will have an accrued income loss.

This helpsheet gives only a basic guide to the Accrued Income Scheme. These are some of the situations in which you should contact us or your tax adviser for more information:
- the securities that you have transferred, or which are transferred to you, have unusual terms – see 'Securities with unusual terms' on page 6
- there is interest on the securities that has fallen due but has not been paid. This may be because the company, or other body issuing the securities, has not had the money to pay the interest. Or it may be because the interest needs to be claimed and you, or a previous holder of the securities, have not done this
- you have accrued income losses for the tax year as a result of transfers of securities of a particular kind, and those losses are more than the interest you receive in the year **on that kind of security.** You must look at each sort of security separately – for example, 5 percent Treasury Stock 2012 is a different kind of security from 5¼ percent Treasury Gilt 2012
- you have bought or sold securities that come with extra interest to make them yield the same return as similar securities issued earlier by the same company or other body.

Securities with unusual terms

Most securities that are bought or sold, including gilts, carry interest at a fixed rate (for example, 5 percent a year), or the interest is linked to a published base rate (such as the Bank of England base rate), or to the Retail Price Index. And the interest will normally be paid at regular intervals, such as every six months.

Special Accrued Income Scheme rules may apply if the security:

- carries interest at a rate that can vary, for example, if it pays 5 percent interest for the first year and 10 percent subsequently, or
- interest is only paid at irregular intervals, or the issuer can decide whether or not to make a particular interest payment, or
- the interval between interest payments is more than 12 months.

Working Sheet for calculating your accrued income profit or loss on a transfer of securities

This Working Sheet is to help you calculate the accrued income profit or loss through **time apportionment**. If you have bought or sold securities, and you have a contract note or other document that shows the clean price and the accrued interest separately, you do not need to use this Working Sheet. You can read the accrued income amount from the contract note.

Working Sheet

Enter the date on which the transfer of securities was settled *DD MM YYYY**	1	
Enter the date on which the last interest payment before the transfer was made	2	
Enter the date on which the next interest payment after the transfer was due	3	
Work out, and enter, the number of days between the date in box 2 and the date in box 3. This gives you the length of the 'interest period'	4	
Work out, and enter, the number of days between the date in box 2 and the date in box 1	5	
How much interest was payable on the securities that were transferred on the date in box 3? *See Example 5 on page 7*	6	£
Work out the accrued income profit or loss on the transfer *Box 6 x (box 5 divided by box 4)*	7	£

The figure in box 7 is a profit if:

- you are the person who disposed of the security and the person who gets the security is entitled to the interest payment in box 6, or
- you are the person who received the security but the person who transferred it to you remains entitled to the interest payment.

The figure in box 7 is a loss if:

- you are the person who disposed of the security and you were entitled to the interest payment in box 6, or
- you are the person who received the security and you were entitled to the interest payment in box 6.

*If the transfer of securities was not a purchase or a sale (for example, a gift) you should enter the date on which the securities actually changed hands. If there was a sale, enter the date on which it was agreed the buyer should pay for them (or if payment was by instalments, the date of the first instalment).

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Example 5

Sarah sold her securities with a face value of £10,000 on 1 June 2011. The securities paid interest of 5% a year, with payments being made every six months on 1 March and 1 September.

The amount of interest to be entered in box 6 would be:

£10,000 x 5% x $^{6}/_{12}$ = £250

The amount of accrued income to be entered in box 7 would be:

£250 x (92 divided by 183) = £125.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at **www.hmrc.gov.uk**