

# Deeply Discounted Securities: Incidental Expenses: Repeal of Relief

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## Who is likely to be affected?

Individuals and trusts with deeply discounted securities (DDS) which they have held since at least 26 March 2003.

## General description of the measure

DDS are certain kinds of government securities and corporate bonds that are issued at a discount. This discount, which would otherwise be taxed as capital gains, is taxed as income. There is limited relief for incidental expenses incurred on the acquisition and disposal of DDS held before 27 March 2003. Legislation will repeal relief for incidental expenses of disposal which are incurred on or after 6 April 2015. Relief for expenses incurred before 27 March 2003 will remain.

## Policy objective

The repeal supports the Government's objective to simplify the tax system and is part of a package of measures which will repeal reliefs that are no longer necessary, have not achieved their policy rationale or are distortive.

## Background to the measure

Following the Office of Tax Simplification review of reliefs, the Government announced at Budget 2011 that it would repeal seven reliefs in Finance Act 2011 and confirmed its intention to abolish a further 36 reliefs in Finance Bill 2012 and beyond, subject to a period of consultation.

*Consultation on the abolition of 36 tax reliefs* was published on 27 May 2011 and views were requested on the Government's proposal to repeal this relief. The Government response was published on 6 December 2011. All documents are available on both the HM Treasury and HM Revenue & Customs (HMRC) websites.

## Detailed proposal

### Operative date

The relief for the incidental costs of disposal of DDS will be repealed for costs incurred on or after 6 April 2015.

### Current law

The current law provides for the relief of incidental expenses incurred on the acquisition or disposal of DDS in three circumstances, all of which apply only to disposals of securities held since at least 26 March 2003.

Firstly, section 439(4) of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) provides for the deduction of expenses incurred before 27 March 2003 from the profit of the person disposing of a DDS.

Secondly, section 455(1) of ITTOIA extends the provision for the deduction of expenses to include those incurred on or after 27 March 2003, but only in the case of the disposal of listed securities held since 26 March 2003.

Thirdly, section 455(2) of ITTOIA provides that the deduction of incidental costs of acquisition or disposal may increase the loss on disposal of listed securities held since 26 March 2003. These costs are deductible whenever they are incurred but they cannot create a loss.

### Proposed revisions

Legislation will be introduced in Finance Bill 2012. Section 439 will be retained but section 455 of ITTOIA will be amended to remove the reliefs in respect of incidental expenses incurred on or after 6 April 2015 in connection with the disposal of DDS.

### Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	-	-	-	negligible
	This measure is expected to have a negligible impact on the Exchequer. Any impact will be set out at Budget 2012.				
<b>Economic impact</b>	The change has no significant economic impacts.				
<b>Impact on individuals and households</b>	The measure may affect a small number of individuals and households. For any individuals and households who are affected, no incidental costs of disposal incurred on or after 6 April 2015 will be deductible for disposals of DDS held since 26 March 2003 and disposed of on or after 6 April 2015.				
<b>Equalities impacts</b>	Potential impacts have been considered and no different impact has been identified on people with protected characteristics.				
<b>Impact on business including civil society organisations</b>	This measure affects individuals and trusts and has no specific business impact. It is possible that a non-corporate business may hold DDS as investments, in which case the impact would be as for individuals above.				
<b>Operational impact (£m) (HMRC or other)</b>	There will be a negligible operational impact for HMRC.				
<b>Other impacts</b>	The potential for other impacts has been considered and none have been identified.				

### Monitoring and evaluation

This change does not require monitoring or evaluation. It removes a relief which is of limited application. Any correspondence received on the impact of the repeal will be dealt with on a case by case basis.

### Further advice

If you have any questions about this change, please contact Judith Diamond on 020 7147 3422 (email: [judith.diamond@hmrc.gsi.gov.uk](mailto:judith.diamond@hmrc.gsi.gov.uk)).

**1 Deeply discounted securities: incidental expenses**

- (1) In section 455 of ITTOIA 2005 (listed securities held since 26 March 2003: calculating the profit or loss on disposals) –
  - (a) in subsection (1), after “incurred” insert “before 6 April 2015”, and
  - (b) in subsection (3)(b), after “incurred” insert “before 6 April 2015”.
- (2) The amendments made by this section have effect for the tax year 2015-16 and subsequent tax years.

**EXPLANATORY NOTE**

**DEEPLY DISCOUNTED SECURITIES: INCIDENTAL EXPENSES**

**SUMMARY**

1. This clause withdraws relief for incidental expenses incurred in connection with the disposal of deeply discounted securities (DDS).

**DETAILS OF THE CLAUSE**

2. Section 1 provides for the rules for the calculation of the profit or loss on disposal of DDS in Chapter 8 of Part 4 of the Income Tax (Trading and Other Income Act) (ITTOIA) 2005 to be amended.
3. Section 1(1) amends section 455 ITTOIA 2005 to limit the provision for the deduction of incidental expenses incurred in connection with the disposal of DDS which are listed securities and which have been held since 26 March 2003. The deduction is limited to expenses incurred before 6 April 2015.
4. Section 1(2) provides the commencement provision.

**BACKGROUND NOTE**

5. DDS are certain government securities and commercial bonds and loan stock for which the amount paid on redemption may be higher than the price at which they were issued.
6. Paragraph 6 of Schedule 39 of Finance Act 2003 abolished relief for incidental expenses in respect of ‘relevant discounted securities’ (the predecessor description of DDS) incurred on or after 27 March 2003, except for those expenses incurred on the acquisition or disposal of listed securities held since at least 26 March 2003. These expenses can be deducted from a profit or loss on disposal but cannot create a loss.
7. The Office of Tax Simplification was commissioned by the Chancellor to undertake a review of the reliefs and allowances available in the tax system. Following their review, the Government announced at Budget 2011 that it would repeal seven reliefs immediately and abolish a further 36 reliefs, subject to a period of consultation over the summer. The Government response to the consultation, published on 6 December 2011, outlined the extent of the withdrawal of the provision for the deduction of these expenses.
8. If you have any questions about this change, or comments on the draft legislation, please contact Judith Diamond on 020 7147 3422 (email: [judith.diamond@hmrc.gsi.gov.uk](mailto:judith.diamond@hmrc.gsi.gov.uk)).