

1 Substantial shareholding exemption: institutional investors

- (1) Schedule 7AC to TCGA 1992 (exemptions for disposals by companies with substantial shareholding) is amended as follows.
- (2) After paragraph 3 insert –

“Subsidiary exemption: qualifying institutional investors

3A (1) This paragraph applies in relation to a gain or loss accruing to a company (“the investing company”) on a disposal of shares or an interest in shares in another company (“the company invested in”).

(2) This paragraph applies if –

- (a) the requirement in paragraph 7 is met (substantial shareholder requirement),
- (b) the requirement in paragraph 19 is not met (requirement relating to company invested in), and
- (c) the investing company is not a disqualified listed company.

(3) If, immediately before the disposal, 80% or more of the ordinary share capital of the investing company is owned by qualifying institutional investors, no chargeable gain or loss accrues on the disposal.

(4) If, immediately before the disposal, at least 25% but less than 80% of the ordinary share capital of the investing company is owned by qualifying institutional investors, the amount of the chargeable gain or loss accruing on the disposal is reduced by the percentage of the ordinary share capital of the investing company which is owned by the qualifying institutional investors.

(5) A company is a “disqualified listed company” for the purposes of this Part of this Schedule if –

- (a) any of the shares forming part of the ordinary share capital of the company are listed on a recognised stock exchange,
- (b) the company is not a qualifying institutional investor, and
- (c) the company is not a qualifying UK REIT

(6) In sub-paragraph (5)(c) “qualifying UK REIT” means a UK REIT within the meaning of Part 12 of CTA 2010 which –

- (a) meets the condition in section 528(4)(b) of that Act (company not a close company by virtue of having an institutional investor as a participant), or
- (b) by virtue of section 443 of that Act (companies controlled by or on behalf of Crown) is not treated as a close company.

3B (1) This paragraph applies for the purposes of paragraph 3A.

(2) A person “owns” ordinary share capital if the person owns it –

- (a) directly,
- (b) indirectly, or
- (c) partly directly and partly indirectly.

(3) Sections 1155 to 1157 of CTA 2010 (meaning of “indirect ownership” and calculation of amounts owned indirectly) apply for the purposes of sub-paragraph (2).

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- (4) For the purposes of sections 1155 to 1157 of CTA 2010 as applied by sub-paragraph (3) –
- (a) ordinary share capital may not be owned through a disqualified listed company;
 - (b) treat references to a body corporate as including an exempt unauthorised unit trust (and references to ordinary share capital, in the case of such a trust, as references to units in the trust).
- (5) A person is also to be regarded as owning ordinary share capital in a company in circumstances where a person would, under paragraphs 12 and 13 of this Schedule, be regarded as holding shares in a company.
- (6) Where the assets of a partnership include ordinary share capital of a company, each partner is to be regarded as owning a proportion of that share capital equal to the partner’s proportionate interest in that ordinary share capital.
- (7) In this Schedule “exempt unauthorised unit trust” has the same meaning as in the Unauthorised Unit Trusts (Tax) Regulations 2013 (SI 2013/2819).”
- (3) After paragraph 8 insert –
- “8A (1) This paragraph applies for the purposes of the exemption in paragraph 3 or 3A in a case where at least 25% of the ordinary share capital of the investing company is owned by qualifying institutional investors.
- (2) The investing company also holds a “substantial shareholding” in the company invested in for the purposes of paragraph 7 if –
- (a) the investing company holds shares or interests in shares in the company invested in the cost of which on acquisition was at least £20,000,000, and
 - (b) by virtue of those shares or interests in shares the investing company –
 - (i) is beneficially entitled to not less than a proportionate percentage of the profits available for distribution to equity holders of the company invested in, and
 - (ii) would be beneficially entitled on a winding up to not less than a proportionate percentage of the assets of the company invested in available for distribution to equity holders.
- (3) In sub-paragraph (2) –
- “cost” means the amount or value of the consideration, in money or money’s worth, given by the investing company or on its behalf wholly and exclusively for the acquisition of the shares or interests in shares, together with the incidental costs to it of the acquisition;
- “proportionate percentage” means a percentage equal to the percentage of the ordinary share capital held by the investing company by virtue of the shares and interests in shares referred to in sub-paragraph (2)(a).
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- (4) For the purposes of sub-paragraph (2)(a) it does not matter whether there was a single acquisition or a series of acquisitions.
- (5) Paragraph 3B (owning ordinary share capital) applies for the purposes of sub-paragraph (1).
- (6) Paragraph 8(2) applies for the purposes of sub-paragraph (2).”
- (4) In paragraph 9 (aggregation), in sub-paragraph (1), for “paragraph 7” substitute “paragraphs 7 and 8A(2)”.
- (5) After paragraph 30 insert –

“Meaning of “qualifying institutional investor”

30A (1) In this Schedule “qualifying institutional investor” means a person falling within any of A to G below.

Pension schemes

- A The trustee or manager of –
- (a) a registered pension scheme, other than an investment-regulated pension scheme, or
 - (b) an overseas pension scheme, other than one which would be an investment-regulated pension scheme if it were a registered pension scheme.

“Investment-regulated pension scheme” has the same meaning as in Part 1 of Schedule 29A to the Finance Act 2004.

“Overseas pension scheme” has the same meaning as in Part 4 of that Act.

Life assurance businesses

- B A company carrying on life assurance business, if immediately before the disposal its interest in the investing company is held as part of its long-term business fixed capital.

“Life assurance business” has the meaning given in section 56 of the Finance Act 2012.

Section 137 of that Act applies for the purposes of determining whether an interest forms part of the long-term business fixed capital of a company.

Sovereign wealth funds etc

- C A person who cannot be liable for corporation tax or income tax (as relevant) on the ground of sovereign immunity.

Charities

- D A charity.

Investment trusts

- E An investment trust.

Authorised investment funds

F An authorised investment fund which meets the genuine diversity of ownership condition throughout the accounting period of the fund in which the disposal is made.

“Authorised investment fund” has the same meaning as in the Authorised Investment Funds (Tax) Regulations 2006 (SI 2006/964).

Regulation 9A of the Authorised Investment Funds (Tax) Regulations 2006 (genuine diversity of ownership) applies for this purpose.

Exempt unauthorised unit trusts

G The trustees of an exempt unauthorised unit trust, where the trust meets the genuine diversity of ownership condition throughout the accounting period of the trust in which the disposal is made.

Regulation 9A of the Authorised Investment Funds (Tax) Regulations 2006 (genuine diversity of ownership) applies for this purpose (treating references to an authorised investment fund as including an exempt unauthorised unit trust).

(2) The Treasury may by regulations amend this Schedule so as to add or remove a person as a “qualifying institutional investor” (and may in particular do so by changing the conditions subject to which a person is a qualifying institutional investor).”

(6) In paragraph 31 (index), at the appropriate places insert –

“Exempt unauthorised unit trust	paragraph 3B(7)”
“Qualifying institutional investor	paragraph 30A”.

(7) The amendments made by this section have effect in relation to disposals made on or after 1 April 2017.