

EXPLANATORY NOTE

CLAUSE 49 SCHEDULE 25: TRANSFERS OF INCOME STREAMS

AMENDMENTS 178 + 179 + 180

SUMMARY

1. The amendment prevents the transfers of income streams legislation from applying to transfers of rights to annual payments under certain life annuities or annuities which are pension income.

DETAILS OF THE AMENDMENT

2. Amendment 178 inserts new section 809AZCA into new Chapter 5A of Income Tax Act 2007 (transfers of income: income tax treatment). The amendment, which applies to certain types of annuity, provides a further exception to the rule in new section 809AZB that transfers of income are generally to be treated as giving rise to income for income tax purposes.
3. Amendment 179 identifies the annuities that the amendment excludes from the legislation. These are rights to annual payments under life annuities as defined in section 473(2) of Income Tax (Trading and Other Income) Act 2005 and to annual payments under an annuity which is pension income within the meaning of Part 9 of Income Tax (Earnings and Pensions) Act 2003.
4. The amendments replicate exceptions to section 775A of Income and Corporation Tax Act 1988 (*sales of annual payments taxed as income*) contained in subsection (4) of that section. Section 775A is repealed in consequence of the introduction of the new transfers of income rules; the amendments ensure that the exceptions continue to apply.
5. Amendment 180 makes two consequential amendments.

BACKGROUND NOTE

6. Clause 49 and Schedule 25 of the Finance Bill (transfers of income streams or “TOI”) replace a number of enactments (“repealed provisions”) that currently ensure that sales of rights to income are taxed as income (and not as capital). The repealed provisions are superseded by the TOI rules which (subject to exceptions) tax all such sales as income.
7. Amongst the repealed provisions is a rule (section 775A of Income and Corporation Tax Act 1988) that currently taxes the sale of the right to *annual payments* as income. Annual payments are recurring payments of an income nature paid under a legal obligation.

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8. This repealed provision contains exceptions for the sale by individuals of rights to certain types of annual payments. This is because there are already comprehensive tax rules for the sale of such rights to ensure that the taxpayer is taxed on his or her economic profit on the sale. There is an important market for such transactions and the tax rules have been agreed with the industry over a number of years.
9. By oversight the TOI rules do not replicate these exclusions. In consequence, in the absence of the amendment, the TOI rules could impose an additional charge on such transactions not based on economic profit.
10. The amendments prevent this from happening by replicating the existing exclusion. It ensures that the legislation operates correctly and does not create anomalous results.

Mr Stephen Timms **178**

Schedule 25, page 247, line 6, after ‘taxed),’ insert—

‘(aa) section 809AZCA (certain annuities),’.

Mr Stephen Timms **179**

Schedule 25, page 248, line 15, at end insert—

‘809AZCA Exception: certain annuities

This Chapter does not apply to a transfer of a right to—

- (a) annual payments under a life annuity as defined in section 473(2) of ITTOIA 2005, or
- (b) annual payments under an annuity which is pension income within the meaning of Part 9 of ITEPA 2003 (see section 566(2) of that Act).’.

Mr Stephen Timms **180**

Schedule 25, page 250, line 32, at end insert ‘and

- (i) in CTA 2009, in Schedule 1, paragraphs 214 and 230.’.