

Taxation of Strips of Securities

Part 4 / Chapter 1

This document should be read in conjunction with section 55 TCA 1997

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Section 55 TCA 1997 provides for the taxation of strips of securities.

Strips of an interest bearing security are created when the right to receive each interest payment is separated from the right to receive the capital from the redemption of the security. Section 55 applies not only to Irish Government securities but also to strips of any security, whether of a domestic or foreign issue.

Section 55 provides that the stripping of a security is a disposal of the security and an acquisition of the strips. Similarly, when a security is being reconstituted from a series of strips, this is a disposal of the strips and an acquisition of the security.

The strips are treated for tax purposes as deep discount securities (non interest bearing security), the profits or gains on disposal or redemption of which are assessable to income/corporation tax. Section 55 provides that strips will be deemed to have been sold and immediately acquired at their market value each year. This has the effect of taxing the growth in value of strips on an annual basis rather than when the discount is realised on redemption.