



# Finance Act 1965

## 1965 CHAPTER 25

### PART IV

#### TAXATION OF COMPANIES AND OF COMPANY DISTRIBUTIONS.

##### *General system of taxation.*

#### **46 Introduction for companies etc. of corporation tax, in place of income tax and profits tax.**

- (1) For the financial years 1964 and 1965 there shall be charged on profits of companies a tax, to be called corporation tax, at such rate as Parliament may hereafter determine; and corporation tax shall be charged also, and this Part of this Act shall apply, for any later financial year for which Parliament so determines.
- (2) For years of assessment after the year 1965-66 the provisions of the Income Tax Acts relating to the charge of income tax other than surtax shall not apply to income of a company (not arising to it in a fiduciary or representative capacity) if—
  - (a) the company is resident in the United Kingdom; or
  - (b) the income is, in the case of a company not so resident, within the chargeable profits of the company as defined for purposes of corporation tax.
- (3) The profits tax shall not be chargeable for accounting periods or parts of accounting periods falling after the end of the year 1965-66, and references to the years of charge to the national defence contribution shall be construed accordingly as references to a period ending with that year.
- (4) A company shall not be chargeable to capital gains tax in respect of gains accruing to it so that it is chargeable in respect of them to corporation tax or would be so chargeable but for an exemption from corporation tax.
- (5) In this Part of this Act, unless the context otherwise requires—
  - (a) " company " means, subject to sections 66 and 67 of this Act, any body corporate or unincorporated association, but does not include a partnership ;

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- (b) " profits " means income and chargeable gains, and " chargeable gains " has the same meaning as in Part III of this Act.

**47 Taxation of company distributions.**

- (1) Except as otherwise provided by this Part of this Act, corporation tax shall not be chargeable on dividends and other distributions of a company resident in the United Kingdom, nor shall any such dividends or distributions be taken into account in computing income for corporation tax; but income tax for a year of assessment after the year 1965-66 shall be chargeable under a new Schedule F in respect of all dividends and other distributions in that year of a company resident in the United Kingdom which are not charged under Schedule D or Schedule E and are not specially exempted from income tax, and for purposes of income tax all such distributions shall be regarded as income, however they fall to be dealt with in the hands of the recipient.

- (2) Income tax under Schedule F for any year of assessment shall be charged in respect of any distribution made in the year on such sum as, after deduction of income tax thereon at the standard rate, equals the amount or value of the distribution after any deduction of income tax actually made; and, subject to any enactment to the contrary, the distribution shall be deemed for purposes of income tax to represent income, of an amount equal to that sum, on which income tax has been borne by deduction:

Provided that in the case of preference dividends the tax chargeable and the amount of income represented by the dividends shall be determined by reference to the fixed gross rate of dividend.

- (3) Where, in the year 1966-67 or any later year of assessment, a company resident in the United Kingdom makes any distribution, not being a payment of interest other than yearly interest nor a payment in respect of which deductions or repayments of income tax may fall to be made under section 157 (pay as you earn) of the Income Tax Act 1952, the company shall under this subsection account for and pay income tax in respect of the distribution at the standard rate for that year.
- (4) Where a company is liable under subsection (3) above to account for income tax in respect of any payment made by it, and the company is not otherwise entitled to deduct income tax from the payment, the company on making the payment shall be entitled under this subsection to deduct out of it an amount equal to the income tax for which it is liable to account in respect of the payment; and as against any person entitled to the payment the company shall be acquitted and discharged of so much money as is represented by the deduction, as if that sum had been actually paid.

Section 50 of the Finance Act 1963 (certificates of deduction) shall apply in relation to this subsection as it applies in relation to section 169 or 170 of the Income Tax Act 1952.

- (5) Schedule 11 to this Act shall have effect with respect to the meaning in this Part of this Act of " distribution ", and for determining the persons to whom certain distributions are to be treated as made; but references in this Part of this Act to distributions of a company, except references in any provision specially relating to a winding-up, shall not apply to distributions made in respect of share capital in a winding-up, nor shall any dividend or bonus deductible in computing income as mentioned in section 444(2) of the Income Tax Act 1952 (which relates to industrial and provident societies and bodies engaged in mutual trading) be regarded as a distribution.

#### **48 Tax on distributions etc. received by U.K. company.**

- (1) Subject to the provisions of this Part of this Act a company resident in the United Kingdom shall not, in respect of distributions received in the year 1966-67 or a later year of assessment from another such company (in this Part of this Act referred to as the recipient's "franked investment income"), be entitled to repayment of income tax on any surplus in amount or value of that franked investment income over the aggregate amount or value of the distributions made by it in that year.
- (2) Where in any such year of assessment a company has such a surplus of franked investment income, the surplus shall be carried forward to the following year and treated for purposes of this section (including any further application of this subsection) as an amount of franked investment income received in that year; but where by virtue of this subsection income tax in respect of franked investment income received in any year of assessment becomes repayable in a later year, it shall be repaid at the rate for the year in which the income was received, and tax for an earlier year of assessment shall be repaid before tax for a later year.
- (3) Where a company receives dividends from another company (both being resident in the United Kingdom), and either—
  - (a) the company paying the dividends is a subsidiary of the other or of a company so resident of which the other is a subsidiary; or
  - (b) the business of the company paying the dividends consists wholly or mainly of the carrying on of a trade or trades, and three-quarters or more of the ordinary share capital of that company is owned between them by five or fewer companies so resident, of which the company receiving the dividends is one and of which none owns less than one-twentieth of that capital;

then, subject to Schedule 12 to this Act, the company receiving the dividends and the company paying them may jointly elect that this subsection shall apply to the dividends received from the latter by the former, and so long as the election is in force any such dividends shall be excluded from section 47(3) of this Act and from this section, and are accordingly not included, unless otherwise stated, in references to the franked investment income of the company receiving them (but are in this Part of this Act referred to as "group income" of that company):

Provided that an election under this subsection shall not prevent the payment of any amount of dividends under deduction of income tax, and where notwithstanding the election any amount is so paid, this Part of this Act shall have effect in relation to it as if there had been no such election.

- (4) Subsection (1) above shall not apply to a company which is wholly exempt from corporation tax or is only not exempt in respect of trading income, nor to any distributions received by a company which fall, or would if they consisted of dividends on shares fall, within any exemption from income tax conferred by any provision of the Income Tax Acts having effect at the passing of this Act.
- (5) No payment made in or after the year 1966-67 by a company resident in the United Kingdom shall by virtue of this section or otherwise be treated for any purpose of the Income Tax Acts as paid out of profits or gains brought into charge to income tax; nor shall any right or obligation under the Income Tax Acts to deduct income tax from any payment be affected by the fact that the recipient is a company not chargeable to income tax in respect of the payment.
- (6) Subject to the provisions of this Part of this Act, where in the year 1966-67 or any later year of assessment a company resident in the United Kingdom receives any payment

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on which it bears income tax by deduction (not being franked investment income), the income tax thereon shall be set off against any corporation tax assessable on the company by an assessment made for the accounting period in which that payment falls to be taken into account for corporation tax (or would fall to be taken into account but for any exemption from corporation tax); and accordingly in respect of that payment the company, unless wholly exempt from corporation tax, shall not be entitled to a repayment of income tax before the assessment for that accounting period is finally determined and it appears that a repayment is due.

- (7) Where in the year 1966-67 or any later year of assessment a company receives from another company (both being resident in the United Kingdom) any such payments as are referred to below in this subsection, and the conditions of subsection (3)(a) or (b) above would be satisfied in relation to the companies if the payments were dividends, then, subject to Schedule 12 to this Act, the company receiving the payments and the company paying them may jointly elect that this subsection shall apply to any such payments received from the latter by the former, and so long as the election is in force those payments may be made without deduction of income tax and section 170 of the Income Tax Act 1952 shall not apply thereto.

The payments for which an election may be made under this subsection are any payments which are for corporation tax charges on income of the company making them.

- (8) Schedule 12 to this Act shall have effect for the purpose of implementing the foregoing subsections, and for regulating the time and manner in which companies resident in the United Kingdom are to account for and pay income tax in respect of distributions made by them, and in respect of payments from which tax is deductible other than distributions, or are to be repaid income tax in respect of distributions and payments received by them.
- (9) References in this section to distributions or payments received by a company apply to any received by another person on behalf of or in trust for the company, but not to any received by the company on behalf of or in trust for another person, and nothing in this section shall apply to distributions in respect of which the company making them is not liable (apart from any election under subsection (3) above) to account for income tax under section 47(3) of this Act; and references to " franked investment income " and " group income " shall be construed accordingly.

#### *Corporation tax.*

### **49      General scheme of corporation tax.**

- (1) Subject to any exceptions provided for by this Part of this Act, a company shall be chargeable to corporation tax on all its profits wherever arising.
- (2) A company shall be chargeable to corporation tax on profits accruing for its benefit under any trust, or arising under any partnership, in any case in which it would be so chargeable if the profits accrued to it directly; and a company shall be chargeable to corporation tax on profits arising in the winding up of the company, but shall not otherwise be chargeable to corporation tax on profits accruing to it in a fiduciary or representative capacity except as respects its own beneficial interest (if any) in those profits.

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- (3) Corporation tax for any financial year shall be charged on profits arising in that year; but assessments to corporation tax shall be made on a company by reference to accounting periods, and the amount chargeable (after making all proper deductions) of the profits arising in an accounting period shall, where necessary, be apportioned between the financial years in which the accounting period falls.
- (4) Except as provided by this Part of this Act, corporation tax assessed for an accounting period shall be paid within nine months from the end of that period or, if it is later, within one month from the making of the assessment.
- (5) No assessment to corporation tax for the financial year 1964 or 1965 shall be made before the passing of an Act fixing the rate of tax for the year ; but in the financial year 1966 or any later year assessments for accounting periods falling wholly or partly in that year or (subject to subsection (6) below) in the preceding year may, notwithstanding that corporation tax has not at the time been charged for the year in question, charge tax for so much of the period as falls within that year according to the rate of tax last fixed, but any such charge shall be subject to later adjustment, if need be, by discharge or repayment of tax or by a further assessment if for that year corporation tax is not charged by an Act passed not later than 5th August next after the end of the year or is charged otherwise than as it has been assessed.
- (6) Where the Committee of Ways and Means of the House of Commons (being a Committee of the whole House) passes a Resolution for fixing the rate of corporation tax for the financial year 1966 or any later year, or for altering the tax for any such year, and the Resolution is agreed to by the House, then any assessment to tax afterwards made by virtue of subsection (5) above may be made in accordance with the Resolution; but no assessment made by virtue of that subsection more than one month after the end of any financial year shall charge tax for that year, unless a Resolution for charging corporation tax for that year has been so passed and agreed to, nor shall any assessment be made by virtue of any such Resolution more than four months after the date on which the Resolution is passed by the Committee of Ways and Means.
- (7) Corporation tax shall be under the care and management of the Commissioners of Inland Revenue (in this Part of this Act referred to as " the Board "), and the Board may do all such acts as may be deemed necessary and expedient for raising, collecting, receiving and accounting for the tax in the like manner as they are authorised to do with relation to any other duties under their care and management; and all enactments relating to the assessing, collecting, receiving and accounting for income tax (including enactments conferring or regulating a right of appeal), so far as they are consistent with the provisions of this Part of this Act, shall apply in like manner as nearly as may be in relation to corporation tax.

## **50 Companies not resident in U.K.**

- (1) A company not resident in the United Kingdom shall not be within the charge to corporation tax unless it carries on a trade in the United Kingdom through a branch or agency but, if it does so, it shall, subject to any exceptions provided for by this Part of this Act, be chargeable to corporation tax on all its chargeable profits wherever arising.
- (2) For purposes of corporation tax the chargeable profits of a company not resident in the United Kingdom but carrying on a trade there through a branch or agency shall be—
  - (a) any trading income arising directly or indirectly through or from the branch or agency, and any income from property or rights used by, or held by or for,

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the branch or agency (but so that this paragraph shall not include distributions received from companies resident in the United Kingdom); and

- (b) such chargeable gains accruing on the disposal of assets situated in the United Kingdom as are by Part III of this Act made chargeable to capital gains tax in the case of an individual not resident or ordinarily resident in the United Kingdom.
- (3) Where, in the year 1966-67 or any later year of assessment, a company not resident in the United Kingdom receives any payment on which it bears income tax by deduction, and the payment forms part of, or is to be taken into account in computing, the company's income chargeable to corporation tax, the income tax thereon shall be set off against any corporation tax assessable on that income by an assessment made for the accounting period in which the payment falls to be taken into account for corporation tax ; and accordingly in respect of that payment the company shall not be entitled to a repayment of income tax before the assessment for that accounting period is finally determined and it appears that a repayment is due.
- (4) Without prejudice to the general application of income tax procedure to corporation tax, the provisions of Part XVI of the Income Tax Act 1952 relating to the assessment and charge of income tax on persons not resident in the United Kingdom, so far as they are applicable to tax chargeable on a company, shall apply with any necessary adaptations in relation to corporation tax chargeable on companies not resident in the United Kingdom.

## **51 Basis of, and periods for, assessment.**

- (1) Except as otherwise provided by this Part of this Act, corporation tax shall be assessed and charged for any accounting period of a company on the full amount of the profits arising in the period (whether or not received in or transmitted to the United Kingdom) without any other deduction than is authorised by this Act.
- (2) An accounting period of a company shall begin for purposes of corporation tax whenever—
  - (a) the company, not then being within the charge to tax, comes within it, whether by the coming into force of any provision of this Part of this Act, or by the company becoming resident in the United Kingdom or acquiring a source of income, or otherwise; or
  - (b) an accounting period of the company ends without the company then ceasing to be within the charge to tax.
- (3) An accounting period of a company shall end for purposes of corporation tax on the first occurrence of any of the following:—
  - (a) the expiration of twelve months from the beginning of the accounting period;
  - (b) an accounting date of the company or, if there is a period for which the company does not make up accounts, the end of that period ;
  - (c) the company beginning or ceasing to carry on any trade, or to be, in respect of a trade, within the charge to tax;
  - (d) the company beginning or ceasing to be resident in the United Kingdom;
  - (e) the company ceasing to be within the charge to tax.
- (4) For the purposes of this section a company resident in the United Kingdom, if not otherwise within the charge to corporation tax, shall be treated as coming within the

charge to tax at the beginning of the year 1966-67 or at the time when it commences to carry on business, whichever is the later.

- (5) If a company carrying on more than one trade makes up accounts of any of them to different dates, and does not make up general accounts for the whole of the company's activities, subsection (3)(b) above shall apply with reference to the accounting date of such one of the trades as the Board may determine.
- (6) Notwithstanding anything in the foregoing subsections, where a company is wound up, an accounting period shall end and a new one begin with the commencement of the winding up, and thereafter an accounting period shall not end otherwise than by the expiration of twelve months from its beginning or by the completion of the winding up.

For this purpose a winding up is to be taken to commence on the passing by the company of a resolution for the winding up of the company, or on the presentation of a winding up petition if no such resolution has previously been passed and a winding up order is made on the petition, or on the doing of any other act for a like purpose in the case of a winding up otherwise than under the Companies Act 1948.

- (7) Where it appears to the inspector that the beginning or end of any accounting period of a company is uncertain, he may make an assessment on the company for such period, not exceeding twelve months, as appears to him appropriate, and that period shall be treated for all purposes as an accounting period of the company unless either the inspector on further facts coming to his knowledge sees fit to revise it or on an appeal against the assessment in respect of some other matter the company shows the true accounting periods; and if on an appeal against an assessment made by virtue of this subsection the company shows the true accounting periods, the assessment appealed against shall, as regards the period to which it relates, have effect as an assessment or assessments for the true accounting periods, and there may be made such other assessments for any such periods or any of them as might have been made at the time when the assessment appealed against was made.

## **52 Allowance of charges on income.**

- (1) In computing the corporation tax chargeable for any accounting period of a company any charges on income paid by the company in the accounting period (but not before the year 1966-67), so far as paid out of the company's profits brought into charge to corporation tax, shall be allowed as deductions against the total profits for the period as reduced by any other relief from tax.
- (2) Subject to the following subsections, " charges on income " means for the purposes of corporation tax payments of any description mentioned in subsection (3) below, not being dividends or other distributions of the company ; but no payment which is deductible in computing profits or any description of profits for purposes of corporation tax shall be treated as a charge on income.
- (3) The payments referred to in subsection (2) above are—
  - (a) any yearly interest, annuity or other annual payment and any such other payments as are mentioned in section 169(3) of the Income Tax Act 1952, but not including sums falling within section 169(4) (rents, etc.); and
  - (b) any other interest payable in the United Kingdom on an advance from a bank carrying on a bona fide banking business in the United Kingdom, or from a person who in the opinion of the Board is bona fide carrying on business as a

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member of a stock exchange in the United Kingdom or bona fide carrying on the business of a discount house in the United Kingdom;

and for the purposes of this section any interest payable by a company as mentioned in paragraph (b) above shall be treated as paid on its being debited to the company's account in the books of the person to whom it is payable.

- (4) No such payment made by a company as is mentioned in subsection (3) above shall be treated as a charge on income if—
- (a) the payment is charged to capital, or the payment is not ultimately borne by the company; or
  - (b) the payment is not made under a liability incurred for a valuable and sufficient consideration (and, in the case of a company not resident in the United Kingdom, incurred wholly and exclusively for the purposes of a trade carried on by it in the United Kingdom through a branch or agency), and is not a covenanted donation to charity.

In this subsection " covenanted donation to charity " means a payment under a disposition or covenant made by the company in favour of a body of persons or trust established for charitable purposes only, whereby the like annual payments (of which the donation is one) become payable for a period which may exceed six years and is not capable of earlier termination under any power exercisable without the consent of the persons for the time being entitled to the payments.

- (5) No such payment as is mentioned in subsection (3) (a) above made by a company to a person not resident in the United Kingdom shall be treated as a charge on income unless the company is so resident and either—
- (a) the company deducts income tax from the payment in accordance with section 170 of the Income Tax Act 1952, and accounts under this Part of this Act for the tax so deducted ; or
  - (b) the company is carrying on a trade and the payment is a payment of interest satisfying the conditions of section 138(1)(c) to (e) of the Income Tax Act 1952 (under which section certain interest payable overseas is deductible in computing trading profits for purposes of income tax) and the liability to pay the interest was incurred wholly or mainly for the purposes of activities of that trade carried on outside the United Kingdom; or
  - (c) the payment is one payable out of income brought into charge to tax under Case IV or V of Schedule D :

Provided that for purposes of paragraph (b) above the company shall be treated as carrying on any trade carried on by a subsidiary of it (both being bodies corporate), if the subsidiary also is resident in the United Kingdom; and for this purpose " subsidiary ", subject to subsection (6) below, has the meaning assigned to it for certain purposes of the profits tax by section 42 of the Finance Act 1938.

- (6) In determining for the purpose of subsection (5)(b) above whether one company is a subsidiary of another that other company shall be treated as not being the owner—
- (a) of any share capital which it owns directly in a body corporate if a profit on a sale of the shares would be treated as a trading receipt of its trade ; or
  - (b) of any share capital which it owns indirectly, and which is owned directly by a body corporate for which a profit on the sale of the shares would be a trading receipt; or
  - (c) of any share capital which it owns directly or indirectly in a body corporate not resident in the United Kingdom.



- (7) The deductions authorised by subsection (3)(a) above shall include five-sixths and no more of any payment made as an instalment, or part of an instalment, of an annuity within the meaning of the Tithe Acts 1936 and 1951; and subsection (4) (b) shall not apply to any such payment.

### **53 General rules for computation of income.**

- (1) Except as otherwise provided by this Part of this Act, the amount of any income shall for purposes of corporation tax be computed in accordance with income tax principles, all questions as to the amounts which are or are not to be taken into account as income, or in computing income, or charged to tax as a person's income, or as to the time when any such amount is to be treated as arising, being determined in accordance with income tax law and practice as if accounting periods were years of assessment.
- (2) For the purposes of this section " income tax law " means, in relation to any accounting period, the law applying, for the year of assessment in which the period ends, to the charge on individuals of income tax other than surtax, except that—
- (a) it includes also all such enactments of the Income Tax Acts applying for the year 1965-66 as make special provision for companies in relation to matters referred to in subsection (1) above ; and
  - (b) it does not include such of the enactments of the Income Tax Acts so applying as make special provision for individuals in relation to those matters.
- (3) Accordingly for purposes of corporation tax income shall be computed, and the assessment shall be made, under the like Schedules and Cases as apply for purposes of income tax, and in accordance with the rules applicable to those Schedules and Cases, but (subject to the provisions of this Part of this Act) the amounts so computed for the several sources of income, if more than one, together with any amount to be included in respect of chargeable gains shall be aggregated to arrive at the total profits.
- (4) Nothing in this section shall be taken to mean that income arising in any period is to be computed by reference to any other period (except in so far as this results from apportioning to different parts of a period income of the whole period).
- (5) Subject to the next following section and to any enactment applied by this section which expressly authorises such a deduction, no deduction shall be made in computing income from any source—
- (a) in respect of dividends or other distributions; nor
  - (b) in respect of any yearly interest, annuity or other annual payment or in respect of any such other payments as are mentioned in section 169(3) of the Income Tax Act 1952, but not including sums falling within section 169(4) (rents, etc.).
- (6) Without prejudice to the generality of subsection (1) above, any provision of the Income Tax Acts which confers an exemption from income tax, or which provides for a person to be charged to income tax on any amount (whether expressed to be income or not, and whether an actual amount or not), shall have the like effect for purposes of corporation tax, so far as is consistent with this Part of this Act.

### **54 Miscellaneous special rules for computation of income.**

- (1) For purposes of corporation tax, income tax law as applied by section 53 above shall have effect subject to the following subsections.

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- (2) Where a company begins or ceases to carry on a trade, or to be within the charge to corporation tax in respect of a trade, the company's income shall be computed as if that were the commencement or, as the case may be, discontinuance of the trade, whether or not the trade is in fact commenced or discontinued:

Provided that where any provision of the Income Tax Acts is applied for corporation tax by this Part of this Act, this subsection shall not have effect for any purpose of that provision if under any enactment other than section 19 of the Finance Act 1953 a trade is not to be treated by virtue of that section as permanently discontinued for the corresponding income tax purpose.

- (3) In computing income from a trade neither section 53(5)(b) above nor section 137(f) of the Income Tax Act 1952 shall prevent the deduction of yearly interest payable in the United Kingdom on an advance from a bank carrying on a bona fide banking business in the United Kingdom; but section 138 of the Income Tax Act 1952 (under which certain interest payable overseas is deductible in computing trading profits) shall not apply for corporation tax.
- (4) In computing a company's income for any accounting period from the letting of rights to work minerals in the United Kingdom there may be deducted any sums disbursed by the company wholly, exclusively and necessarily as expenses of management or supervision of those minerals in that period :

Provided that any enactments restricting the relief from income tax that might be given under section 181 of the Income Tax Act 1952 shall apply to restrict in like manner the deductions that may be made under this subsection.

- (5) In so far as a company's income for any accounting period is to be computed by reference to the annual value of woodlands, the income arising in a period of less than twelve months shall be computed by reference to a proportionate part of the annual value and, if the annual value is different in different parts of an accounting period, shall be separately computed for each of those parts.
- (6) Where a company is chargeable to corporation tax in respect of a trade under Case V of Schedule D, the income from the trade shall be computed in accordance with the rules applicable to Case I of Schedule D.
- (7) The amount of any income assessed under Case IV or V of Schedule D shall be treated as reduced (where such a deduction cannot be made under, and is not forbidden by, any provision of the Income Tax Acts applied by this Act) by any sum which has been paid in respect of income tax in the place where the income has arisen.
- (8) Cases IV and V of Schedule D shall for purposes of corporation tax extend to companies not resident in the United Kingdom, so far as those companies are chargeable to tax on income of descriptions which, in the case of companies resident in the United Kingdom, fall within those Cases (but without prejudice to any provision of the Income Tax Acts specially exempting non-residents from income tax on any particular description of income).

## **55 Computation of chargeable gains.**

- (1) Subject to the provisions of this section, the amount to be included in respect of chargeable gains in a company's total profits for any accounting period shall be the total amount of chargeable gains accruing to the company in the accounting period after deducting any allowable losses accruing to the company in the period and, so far

as they have not been allowed as a deduction from chargeable gains accruing in any previous accounting period, any allowable losses previously accruing to the company while it has been within the charge to corporation tax:

Provided that nothing in this subsection shall apply to gains or losses accruing before the year 1965-66.

- (2) Except as otherwise provided by this Part of this Act, the total amount of the chargeable gains to be so included shall for purposes of corporation tax be computed in accordance with the principles applying for capital gains tax, all questions as to the amounts which are or are not to be taken into account as chargeable gains or as allowable losses, or in computing gains or losses, or charged to tax as a person's gain, or as to the time when any such amount is to be treated as accruing, being determined in accordance with the provisions relating to capital gains tax as if accounting periods were years of assessment.
- (3) Subject to subsection (7) below, where the provisions of this Act relating to capital gains tax contain any reference to income tax or to the Income Tax Acts the reference shall, in relation to a company, be construed as a reference to corporation tax or to the Corporation Tax Acts, except where the reference is to income tax in respect of a hypothetical trade ; but—
  - (a) nothing in this section shall be taken as applying for corporation tax the alternative method of charging capital gains tax by reference to a notional charge to income tax under Case VI of Schedule D; and
  - (b) in so far as the said provisions operate by reference to matters of any specified description, account shall for corporation tax be taken of matters of that description which are confined to companies, but not of any which are confined to individuals.
- (4) The provisions of this Act relating to capital gains tax in connection with the replacement of trade assets shall, in their application for corporation tax, have effect, with any necessary modifications, in relation to the discharge of the functions of a public authority as they have effect in relation to a trade.
- (5) For purposes of corporation tax the provisions of this Act relating to capital gains tax shall have effect subject to the provisions made in relation to groups of companies by Part I of Schedule 13 to this Act; and Part II of that Schedule shall have effect with reference to the collection from persons connected with a company of corporation tax chargeable on the company in respect of chargeable gains.
- (6) Part I of Schedule 13 to this Act, except in so far as it relates to recovery of tax, shall also have effect in relation to bodies from time to time established by or under any enactment for the carrying on of any industry or part of an industry, or of any undertaking, under national ownership or control as if they were companies within the meaning of the said Part I, and as if any such bodies charged with related functions (and in particular the Boards and Holding Company established under the Transport Act 1962) and subsidiaries of any of them formed a group, and as if also any two or more such bodies charged at different times with the same or related functions were members of a group:

Provided that this subsection shall have effect subject to any enactment by virtue of which property, rights, liabilities or activities of one such body fall to be treated for corporation tax as those of another.

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- (7) Part III of this Act as extended by this section shall not be affected in its operation by the fact that capital gains tax and corporation tax are distinct taxes but, so far as is consistent with this Part of this Act, shall apply in relation to capital gains tax and corporation tax on chargeable gains as if they were one tax, so that, in particular, a matter which in a case involving two individuals is relevant for both of them in relation to capital gains tax shall in a like case involving an individual and a company be relevant for him in relation to that tax and for it in relation to corporation tax.
- (8) In this Part of this Act " allowable loss " does not include for purposes of corporation tax in respect of chargeable gains a loss accruing to a company in such circumstances that if a gain accrued the company would be exempt from corporation tax in respect of it.

**56 Deductions and additions in computation of profits for capital allowances and related charges.**

- (1) In computing for purposes of corporation tax a company's profits for any accounting period there shall be made in accordance with this section all such deductions and additions as are required to give effect to the provisions of the Income Tax Acts which relate to allowances (including investment allowances) and charges in respect of capital expenditure, as those provisions are applied by this Part of this Act.
- (2) Allowances and charges which fall to be made for any accounting period in taxing a trade shall be given effect by treating the amount of any allowance as a trading expense of the trade in that period, and by treating the amount on which any such charge is to be made as a trading receipt of the trade in that period.
- (3) Allowances which are to be made for any accounting period by way of discharge or repayment of tax shall, as far as may be, be given effect by deducting the amount of the allowance from any income of the period, being income of the class against which the allowance is available or primarily available.
- (4) Balancing charges for any accounting period not falling to be made in taxing a trade shall, notwithstanding any provision for them to be made under Case VI of Schedule D, be given effect by treating the amount on which the charge is to be made as income of the same class as that against which the corresponding allowances are available or primarily available.
- (5) Where an allowance which is to be made for any accounting period by way of discharge or repayment of tax cannot be given full effect under subsection (3) above in that period by reason of a want or deficiency of income of the relevant class, then (so long as the company remains Within the charge to tax) the amount unallowed shall be carried forward to the succeeding accounting period, except in so far as effect is given to it under subsection (6) below; and the amount so carried forward shall be treated for purposes of this section, including any further application of this subsection, as the amount of a corresponding allowance for that period.
- (6) Where an allowance which is to be made for any accounting period by way of discharge or repayment of tax, and which is available primarily against income of a specified class cannot be given full effect under subsection (3) above in that period by reason of a want or deficiency of income of that class, the company may claim that effect shall be given to the allowance against the profits (of whatever description) of that accounting period and, if the company was then within the charge to tax, of preceding accounting periods ending within the time specified in subsection (7) below;

and, subject to that subsection and to any relief for earlier allowances or for losses, the profits of any of those accounting periods shall then be treated as reduced by the amount unallowed under subsection (3) above, or by so much of that amount as cannot be given effect under this subsection against profits of a later accounting period.

- (7) The time referred to in subsection (6) above is a time equal in length to the accounting period for which the allowance falls to be made; but the amount or aggregate amount of the reduction which may be made under that subsection in the profits of an accounting period falling partly before that time shall not, with the amount of any reduction falling to be made therein under any corresponding provision of this Part of this Act relating to losses, exceed a part of those profits proportionate to the part of the period falling within that time.
- (8) This section shall not affect the manner of making allowances or charges falling to be made by virtue of section 72(2) (b) of the Finance Act 1960 (estate management expenditure), except in so far as it affects the operation of section 313 of the Income Tax Act, 1952; but in relation to allowances and charges falling to be made by virtue of section 72(2) (a) (business management expenditure), subsections (1) to (4) of this section shall apply as if any such allowances were to be made by way of discharge or repayment of tax and to be available against income of the business referred to in section 72(2)(a).

## **57 Deduction of management expenses of investment companies (including savings banks).**

- (1) In computing for purposes of corporation tax the total profits for any accounting period of an investment company resident in the United Kingdom there shall be deducted any sums disbursed as expenses of management (including commissions) for that period, except any such expenses as are deductible in computing income for the purpose of Case VIII of Schedule D:

Provided that—

- (a) there shall be deducted from the amount treated as expenses of management the amount of any income derived from sources not charged to tax, other than franked investment income and group income; and
  - (b) any enactment restricting the relief from income tax that might be given under section 425 of the Income Tax Act 1952 shall apply to restrict in like manner the deductions that may be made under this subsection,
- (2) Where in any accounting period of an investment company the expenses of management deductible under subsection (1) above, together with any charges on income paid in the accounting period wholly and exclusively for purposes of the company's business, exceed the amount of the profits from which they are deductible, the excess shall be carried forward to the succeeding accounting period ; and the amount so carried forward shall be treated for purposes of this section, including any further application of this subsection, as if it had been disbursed as expenses of management for that accounting period.
  - (3) For purposes of subsections (1) and (2) above, there shall be added to a company's expenses of management in any accounting period the amount of any allowances falling to be made to the company for that period by virtue of section 72 of the Finance Act 1960, in so far as effect cannot be given to them under section 56(3) of this Act.

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- (4) For purposes of this section and of other provisions of this Act relating to expenses of management " investment company " means any company whose business consists wholly or mainly in the making of investments, and the principal part of whose income is derived therefrom, but includes any savings bank or other bank for savings.
- (5) Section 425 of the Income Tax Act 1952 (relief for expenses of management) shall not have effect for corporation tax, nor for income tax for any year of assessment after the year 1965-66, except in so far as section 425(6) is applied under this Part of this Act to the computation of any income.

Accordingly in section 72(2) of the Finance Act 1960 for sub-paragraphs (i) and (ii) of paragraph (a) there shall be substituted the words " the business of an investment company (as defined in section 57 of the Finance Act 1965) or of a company carrying on the business of life assurance ".

## **58 Relief for trading losses, other than terminal losses.**

- (1) Where in any accounting period a company carrying on a trade incurs a loss in the trade, the company may claim to set the loss off for purposes of corporation tax against any trading income from the trade in succeeding accounting periods ; and (so long as the company continues to carry on the trade) its trading income from the trade in any succeeding accounting period shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot, on that claim or on a claim (if made) under subsection (2) below, be relieved against income or profits of an earlier accounting period.
- (2) Where in any accounting period a company carrying on a trade incurs a loss in the trade, then (subject to subsection (4) below) the company may claim to set the loss off for purposes of corporation tax against profits (of whatever description) of that accounting period and, if the company was then carrying on the trade and the claim so requires, of preceding accounting periods ending within the time specified in subsection (3) below; and, subject to that subsection and to any relief for an earlier loss, the profits of any of those periods shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against profits of a later accounting period.
- (3) The time referred to in subsection (2) above is a time equal in length to the accounting period in which the loss is incurred ; but the amount of the reduction which may be made under that subsection in the profits of an accounting period falling partly before that time shall not exceed a part of those profits proportionate to the part of the period falling within that time.
- (4) Subsection (2) above shall not apply to trades falling within Case V of Schedule D; and, except in so far as it represents an excess in respect of expenditure incurred before the year 1960-61 of capital allowances over balancing charges, a loss incurred in a trade in any accounting period shall not be relieved under that subsection, unless the trade is one carried on in the exercise of functions conferred by or under any enactment (including an enactment contained in a local or private Act), or it is shown that for that accounting period the trade was being carried on on a commercial basis and with a view to the realisation of gain in the trade or in any larger undertaking of which the trade formed part.
- (5) For purposes of subsection (4) above, the fact that a trade was being carried on at any time so as to afford a reasonable expectation of gain shall be conclusive evidence that

it was then being carried on with a view to the realisation of gain; and where in an accounting period there is a change in the manner in which a trade is being carried on, it shall for those purposes be treated as having throughout the accounting period been carried on in the way in which it was being carried on by the end of that period.

- (6) The amount of a loss incurred in a trade in an accounting period shall be computed for purposes of this section in like manner as trading income from the trade in that period would have been computed.
- (7) For purposes of this section " trading income " means, in relation to any trade, the income which falls or would fall to be included in respect of the trade in the total profits of the company ; but where in an accounting period a company incurs a loss in a trade in respect of which it is within the charge to corporation tax under Case I or V of Schedule D, and in any later accounting period to which the loss or any part of it is carried forward under subsection (1) above relief in respect thereof cannot be given, or cannot wholly be given, because the amount of the trading income of the trade is insufficient, any interest or dividends on investments which would fall to be taken into account as trading receipts in computing that trading income but for the fact that they have been subjected to tax under other provisions shall be treated for purposes of subsection (1) above as if they were trading income of the trade.
- (8) Where in an accounting period the charges on income paid by a company—
- (a) exceed the amount of the profits against which they are deductible; and
  - (b) include payments made wholly and exclusively for the purposes of a trade carried on by the company ;
- then, up to the amount of that excess or of those payments, whichever is the less, the charges on income so paid shall in computing a loss for purposes of subsection (1) above be deductible as if they were trading expenses of the trade.
- (9) In this section references to a company carrying on a trade refer to the company carrying it on so as to be within the charge to corporation tax in respect of it.

## **59 Relief for terminal loss in a trade.**

- (1) Where a company ceasing to carry on a trade has in an accounting period falling wholly or partly within the previous twelve months incurred a loss in the trade, the company may claim to set the loss off for purposes of corporation tax against trading income from the trade in accounting periods falling wholly or partly within the three years preceding those twelve months (or within any less period throughout which the company has carried on the trade); and, subject to the following subsections and to any relief for earlier losses, the trading income of any of those periods shall be then treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this subsection against income of a later accounting period:

Provided that relief shall not be given under this subsection in respect of any loss in so far as the loss has been or can be otherwise taken into account so as to reduce or relieve any charge to tax.

- (2) Where a loss is incurred in an accounting period falling partly outside the twelve months mentioned in subsection (1) above, relief shall be given under that subsection in respect of a part only of that loss proportionate to the part of the period falling within those twelve months ; and the amount of the reduction which may be made under that subsection in the trading income of an accounting period falling partly outside the

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three years there mentioned shall not exceed a part of that income proportionate to the part of the period falling within those three years.

- (3) A claim for relief under this section may require that capital allowances in respect of the trade, being allowances which fall to be made to the company by way of discharge or repayment of tax and to be so made for an accounting period falling wholly or partly within the twelve months ending when the company ceases to carry on the trade, shall (so far as they cannot be otherwise taken into account so as to reduce or relieve any charge to corporation tax) be added to the loss incurred by the company in that accounting period or, if the company has not incurred a loss in the period, shall be treated as a loss so incurred:

Provided that the allowances for any period shall not be treated as including amounts carried forward from an earlier period.

- (4) Section 58(6) to (9) above shall apply for purposes of this section as they apply for purposes of section 58(1); and relief shall not be given under this section in respect of a loss incurred in a trade so as to interfere with any relief under section 52 above in respect of payments made wholly and exclusively for purposes of that trade.

## **60 Losses in transactions from which income would be chargeable under Schedule D Case VI.**

- (1) Subject to subsection (2) below, where in any accounting period a company incurs a loss in a transaction in respect of which the company is within the charge to corporation tax under Case VI of Schedule D, the company may claim to set the loss off against the amount of any income arising from transactions in respect of which the company is assessed to corporation tax under that Case for the same or any subsequent accounting period; and the company's income in any accounting period from such transactions shall then be treated as reduced by the amount of the loss, or by so much of that amount as cannot be relieved under this section against income of an earlier accounting period.
- (2) This section shall not apply to a loss incurred in a transaction falling within section 22, 23 or 24 of the Finance Act 1963 (treatment of premiums as rent, etc.).

## **61 Company reconstructions without change of ownership.**

- (1) Where, on a company (" the predecessor ") ceasing to carry on a trade, another company (" the successor ") begins to carry it on, and—
- (a) on or at any time within two years after that event the trade or an interest amounting to not less than a three-fourths share in it belongs to the same persons as the trade or such an interest belonged to at some time within a year before that event; and
  - (b) the trade is not, within the period taken for the comparison under paragraph (a) above, carried on otherwise than by a company which is within the charge to tax in respect of it;

then this Part of this Act shall have effect subject to subsections (2) to (6) below. In paragraphs (a) and (b) above references to the trade shall apply also to any other trade of which the activities comprise the activities of the first mentioned trade.

- (2) The trade shall not be treated as permanently discontinued nor a new trade as set up and commenced for the purpose of the allowances and charges provided for by section 56 of this Act; but there shall be made to or on the successor in accordance with that section all such allowances and charges as would, if the predecessor had continued



to carry on the trade, have fallen to be made to or on it, and the amount of any such allowance or charge shall be computed as if the successor had been carrying on the trade since the predecessor began to do so and as if everything done to or by the predecessor had been done to or by the successor (but so that no sale or transfer which on the transfer of the trade is made to the successor by the predecessor of any assets in use for the purpose of the trade shall be treated as giving rise to any such allowance or charge).

- (3) The predecessor shall not be entitled to relief under section 59 of this Act, except as provided by subsection (6) below; and, subject to any claim made by the predecessor under section 58(2) of this Act, the successor shall be entitled to relief under section 58(1), as for a loss sustained by the successor in carrying on the trade, for any amount for which the predecessor would have been entitled to claim relief if it had continued to carry on the trade.
- (4) Any securities (within the meaning of section 23 of the Finance Act 1959) which at the time when the predecessor ceases to carry on the trade form part of the trading stock belonging to the trade shall be treated for purposes of that section as having been sold at that time in the open market by the predecessor and as having been purchased at that time in the open market by the successor.
- (5) For purposes of Schedule 8 to the Finance Act 1963 (transitional allowances for annual value of trade premises) any occupation of land for the purposes of the trade by the predecessor shall be treated as having been the occupation of the successor.
- (6) On the successor ceasing to carry on the trade—
  - (a) if the successor does so within four years of succeeding to it, any relief which might be given to the successor under section 59 of this Act on its ceasing to carry on the trade may, so far as it cannot be given to the successor, be given to the predecessor as if the predecessor had incurred the loss (including any amount treated as a loss under section 59(3)); and
  - (b) if the successor ceases to carry on the trade within one year of succeeding to it, relief may be given to the predecessor under section 59 of this Act in respect of any loss incurred by it (or amount treated as such a loss under section 59(3));but for the purposes of section 59 of this Act, as it applies by virtue of this subsection to the giving of relief to the predecessor, the predecessor shall be treated as ceasing to carry on the trade when the successor does so.
- (7) Where the successor ceases to carry on the trade within the period taken for the comparison under subsection (1)(o) above and, on its doing so a third company begins to carry on the trade, then no relief shall be given to the predecessor by virtue of subsection (6) above by reference to that event, but subject to that subsections (2) to (6) above shall apply both in relation to that event (together with the new predecessor and successor) and to the earlier event (together with the original predecessor and successor), but so that—
  - (a) in relation to the earlier event " successor " shall include the successor at either event; and
  - (b) in relation to the later event " predecessor " shall include the predecessor at either event;and if the conditions of this subsection are thereafter again satisfied, it shall apply again in like manner.
- (8) Where, on a company ceasing to carry on a trade, another company begins to carry on the activities of the trade as part of its trade, then that part of the trade carried on

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by the successor shall be treated for the purposes of this section as a separate trade, if the effect of so treating it is that subsection (1) or (7) has effect on that event in relation to that separate trade; and where, on a company ceasing to carry on part of a trade, another company begins to carry on the activities of that part as its trade or part of its trade, the predecessor shall for purposes of this section be treated as having carried on that part of its trade as a separate trade if the effect of so treating it is that subsection (1) or (7) above has effect on that event in relation to that separate trade.

Where under this subsection any activities of a company's trade fall, on the company ceasing or beginning to carry them on, to be treated as a separate trade, the accounting periods of the company shall be adjusted accordingly, and any necessary apportionment shall be made of receipts, expenses, allowances or charges.

- (9) Section 17(4) to (7) of the Finance Act 1954 (which state the persons a trade is to be treated as belonging to) shall apply for the purposes of this section, with the substitution for the reference in subsection (4)(c) to the conditions there mentioned being satisfied of a reference to subsection (1) or (7) of this section having effect in relation to an event; but that section (together with section 15 of the Finance Act 1964) shall cease to have effect for any other purpose, except as respects any relevant change occurring before the year 1966-67.

*General provisions affecting both income tax and corporation tax.*

## **62 Set-off of losses etc. against franked investment income.**

- (1) Where a company has a surplus of franked investment income for any year of assessment, the company may claim that the amount of the surplus shall for all or any of the purposes mentioned in subsection (2) below be treated as if it were a like amount of profits chargeable to corporation tax, and subject to subsection (4) below those provisions shall apply in accordance with this section to reduce the amount of the surplus for purposes of section 48 of this Act so that income tax shall be repayable accordingly.
- (2) The purposes for which a claim may be made under subsection (1) above are those of—
- (a) the deduction of charges on income under section 52 of this Act;
  - (b) the deduction of expenses of management under section 57 of this Act;
  - (c) the setting of certain capital allowances against total profits under section 56(6) of this Act;
  - (d) the setting of trading losses against total profits under section 58(2) of this Act.
- (3) Where a company makes a claim under this section for any year of assessment, then—
- (a) the amount to which the claim relates shall for purposes of the claim be treated as profits of the accounting period or periods comprising or together comprising that year, and shall be apportioned between them (if more than one) in proportion to the parts of the year respectively comprised in them;
  - (b) the reduction falling to be made in profits of an accounting period shall be made as far as may be in profits chargeable to corporation tax rather than in the amount treated as profits so chargeable under this section.
- (4) Where a claim under this section relates to section 56(6) or 58(2) and an accounting period of the company falls partly before and partly after the time mentioned in that subsection, then—

- (a) the restriction imposed by section 56(7) or 58(3) on the amount of the relief shall be applied only to any relief to be given apart from this section, and shall be applied without regard to any amount treated as income of the period under this section; but
- (b) relief under this section shall be given only against so much (if any) of the amount so treated as would under subsection (3) (a) above be apportioned to the part of the period falling after the said time if that part were a separate accounting period.

## (5) Where—

- (a) on a claim made under this section for any year of assessment relief is given in respect of the whole or part of any loss incurred in a trade, or of any amount which could be treated as a loss under section 58(8) of this Act; and
- (b) in a later year of assessment the distributions on which the company pays the income tax under section 47(3) of this Act exceed its franked investment income;

then (unless the company has ceased to carry on the trade or to be within the charge to corporation tax in respect of it) the company shall, for purposes of section 58(1) of this Act, be treated as having, in the accounting period ending at or last before the beginning of the later year of assessment, incurred a loss equal to whichever is the lesser of—

- (i) the excess referred to in paragraph (b) above ; and
- (ii) the amount in respect of which relief was given as aforesaid, or so much of that amount as remains after deduction of any part of it dealt with under this subsection in relation to an earlier year of assessment.

## (6) Subsection (5) above shall apply, with the necessary adaptations.—

- (a) in relation to relief given in respect of management expenses; and
- (b) in relation to relief given in respect of capital allowances ;

as it applies in relation to relief given in respect of a loss (the reference to the company ceasing to be within the charge to corporation tax in respect of the trade being construed as a reference to its ceasing to be within that charge at all):

Provided that any amount which may be dealt with under subsection (5) as a loss shall be so dealt with rather than under this subsection, except in so far as the company concerned otherwise elects.

## (7) Where a company has a surplus of franked investment income in any year of assessment, the company, instead of or in addition to making a claim under subsection (1) above, may claim that the surplus shall be taken into account for relief under section 58(1) or under section 59 of this Act, up to the amount of franked investment income for the year which, if chargeable to corporation tax, would have been so taken into account by virtue of section 58(7); and where the company makes a claim under this subsection, then (subject to the restriction to the said amount of franked investment income)—

- (a) if the claim relates to section 58(1), subsections (3) and (5) of this section shall apply in relation to it, with the substitution in subsection (3) of references to trading income for the references to profits; and
- (b) if the claim relates to section 59, subsections (3) and (4) of this section shall apply in relation to it, with the like substitution in subsection (3) and with the substitution in subsection (4) of a reference to section 59(1) for the reference

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to section 56(6) or 58(2) and of a reference to section 59(2) for the reference to section 56(7) or 58(3).

- (8) For the purposes of a claim made under this section for any year of assessment the surplus of franked investment income for any year of assessment shall be calculated without regard to the part, if any, carried forward from an earlier year of assessment.

**63 Application and adaptation of Income Tax Acts as to capital allowances and other matters.**

- (1) Except in so far as this Part of this Act otherwise provides, Parts X and XI of the Income Tax Act 1952, and any other provisions of the Income Tax Acts relating to the making of allowances or charges under or in accordance with the said Parts X and XI, including section 16 of the Finance Act 1954 (investment allowances), shall apply equally for purposes of corporation tax and for purposes of income tax, and to that intent shall be amended in accordance with Schedule 14 to this Act.
- (2) For purposes of corporation tax the right to an allowance or liability to a charge for an accounting period, and the rate or amount of any such allowance or charge, shall be determined under the provisions referred to in subsection (1) above by applying the law in force for the year of assessment in which the accounting period ends, and similarly with all matters related to years of assessment and not to accounting periods.
- (3) Where a company not resident in the United Kingdom is within the charge to corporation tax in respect of one source of income and to income tax in respect of another source, then in applying the provisions referred to in subsection (1) above allowances related to any source of income shall be given effect against income chargeable to the same tax as is chargeable on income from that source.
- (4) Without prejudice to the general application to corporation tax of the provisions of the Income Tax Acts relating to the computation of income, Part I of Schedule 15 to this Act shall have effect for the purpose of applying to corporation tax or otherwise adapting the provisions of those Acts there mentioned; and Part II of that Schedule shall have effect for securing the continuity of income tax and corporation tax in relation to the carry forward of losses and other matters.
- (5) Where by virtue of this Part of this Act any provision of the Income Tax Acts applies both to income tax and to corporation tax, it shall not be affected in its operation by the fact that they are distinct taxes but, so far as consistent with this Part of this Act, shall apply in relation to income tax and corporation tax as if they were one tax, so that, in particular, a matter which in a case involving two individuals is relevant for both of them in relation to income tax shall in a like case involving an individual and a company be relevant for him in relation to that tax and for it in relation to corporation tax; and for that purpose in any such provision of the Income Tax Acts references to a relief from or charge to income tax or to a specified provision of those Acts shall, in the absence of or subject to any express adaptation made by this Act, be construed as being or including a reference to any corresponding relief from or charge to corporation tax or to any corresponding provision of the Corporation Tax Acts.

**64 Double taxation relief, and overseas trade corporations.**

- (1) Subject to any express amendments made by this Part of this Act, Part XIII of the Income Tax Act 1952, together with any other enactment relating or referring to double taxation relief, and (except in so far as arrangements made after the

passing of this Act provide otherwise) any arrangements made under section 347 in relation to the profits tax, shall have effect in relation to corporation tax and income chargeable thereto as they are expressed to have effect in relation to the profits tax and profits chargeable thereto (with the substitution of accounting periods for chargeable accounting periods), and not as they have effect in relation to income tax:

Provided that—

- (a) section 352 (shipping or air transport profits, and profits arising through agencies) shall have effect as if references in that section and in any arrangements under it to income tax included corporation tax ; and
- (b) this subsection shall not affect the operation, as they are applied to corporation tax by this Part of this Act, of the following provisions (which relate to procedural matters), that is to say, sections 347(3), 348(3) and 353 and paragraph 13 of Schedule 16; and
- (c) in relation to corporation tax in respect of chargeable gains such of the provisions of the said Part XIII as are applicable to capital gains tax shall have effect as they have effect in relation to that tax.

(2) There shall cease to have effect in the Income Tax Act 1952—

- (a) as from the year 1966-67, section 201 (relief, in respect of dividends paid by companies resident abroad, for United Kingdom income tax on their profits); and
- (b) as from such date as Parliament may hereafter determine, paragraph 4 of Part I of Schedule 17 (unilateral relief, in respect of dividends paid by companies resident in the Commonwealth territories, for overseas taxation on their profits);

and Part I of Schedule 16 to this Act shall have effect in relation to the taking into account in connection with dividends of non-resident companies of taxation on their profits, in relation to the computation of income where double taxation relief is allowed, and in relation to the limits on double taxation relief from income tax.

The said section 201 shall not have effect for corporation tax for any financial year.

(3) Part IV of the Finance Act 1957 (overseas trade corporations) shall not apply for purposes of corporation tax, except in so far as the operation of corporation tax in relation to a company depends on the operation of income tax in the period before the year 1966-67 and the operation of income tax in that period is affected by a company being or having been an overseas trade corporation; but the provisions of Part II of Schedule 16 to this Act shall have effect for transitional purposes in connection with overseas trade corporations.

## **65 Dividend stripping, and bond washing.**

(1) Where a person has a holding in a company resident in the United Kingdom (being a body corporate), and—

- (a) the holding amounts to, or is an ingredient in a holding amounting to, ten per cent of all holdings of the same class in the company ; and
- (b) that person acquired the holding at a time in or after the year 1960-61 (but whether before or after the commencement of this Act); and
- (c) a distribution not falling within subsection (7) or (8) below is made to him in respect of the holding in or after the year 1966-67 otherwise than wholly out of profits arising to the company since that time;

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then for the purpose of the charge on that person (hereinafter referred to as " the recipient") to corporation tax or income tax, and of any liability or right of his to account for and pay or to set off or be repaid either tax, subsections (2) to (5) below shall have effect in relation to that distribution or so much of it as is made otherwise than out of profits arising as aforesaid (hereinafter referred to as " the relevant distribution "); and section 4 of the Finance (No. 2) Act 1955 shall not apply to dividends paid in or after the year 1966-67.

- (2) If the recipient is a dealer (that is to say for the purposes of this section, a person dealing in investments or whose profits on the sale of investments are part of his trading profits), then the relevant distribution and any income tax deducted or treated under this Part of this Act as deducted from it shall be disregarded, except that the net amount of the relevant distribution shall in computing the income from his trade as a dealer be brought into account as a trading receipt, and in the case of a company shall be so brought into account notwithstanding that it is franked investment income.
- (3) If the recipient is a company and is not a dealer, the relevant distribution and any income tax deducted or treated under this Part of this Act as deducted from it shall be disregarded, except that for the purpose of corporation tax in respect of any chargeable gains the net amount of the relevant distribution shall be treated as if it were a capital distribution (within the meaning of Part III of this Act) received in respect of the holding.
- (4) If the recipient is neither a company nor a dealer, but is carrying on a trade, then in ascertaining whether any or what repayment of income tax is to be made to him in respect of a loss incurred in the trade, the relevant distribution and any income tax deducted or treated under this Part of this Act as deducted from it shall be disregarded.
- (5) If the recipient is entitled (for himself or for any trust or fund) to claim exemption in any respect from income tax, the exemption shall not extend to tax on the relevant distribution, but the relevant distribution and any income tax deducted or treated under this Part of this Act as deducted from it shall be disregarded in determining whether any payment made by the recipient is to be treated as made out of profits or gains brought into charge to income tax.
- (6) If the recipient is a company, any election made under section 48(3) of this Act shall not apply to the relevant distribution.
- (7) Subsection (1)(c) above shall not apply to a distribution if in accordance with section 203(3) of the Income Tax Act 1952 (which relates to the sale and re-purchase of securities) the acquisition of the holding on which the distribution is made is to be disregarded in computing for the purposes specified therein the profits arising from, or loss sustained in, the recipient's trade.
- (8) Where a distribution is made to a person in respect of a holding in a company within one year of his acquisition of that holding, subsection (1)(c) above shall not apply to the distribution if the annual rate of distribution on the holding in the said year—
  - (a) is not substantially greater than the annual rate of distribution on the holding in the period of three years ending with the acquisition ; and
  - (b) does not substantially exceed a normal return on the cost to that person of acquiring the holding:

Provided that—

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- (i) paragraph (a) of this subsection shall not apply where the holding was acquired in the ordinary course of a business of arranging public issues and placings of shares and securities ; and
  - (ii) in applying that paragraph in any other case there shall be taken and made such averages and adjustments as appear to be necessary for a fair comparison, including adjustments to take account of new issues affecting the proportion of the company's capital represented by the holding and of distribution made on holdings formerly representing the same capital or part of it.
- (9) Where the application of subsection (1)(c) above to a distribution is excluded by subsection (8) above, then section 24(1) or 26(1) of the Finance Act 1959 (which relate to certain purchases and sales of securities) shall also not apply to it; but where in a case falling within section 23 of that Act the first buyer is a company, and is not a dealer, subsection (3) above shall apply in relation to the appropriate amount in respect of the interest as determined in accordance with Schedule 6 to that Act as it is expressed to apply in relation to a relevant distribution, and shall so apply in relation to securities and interest within the meaning of the said section 23, whatever their nature.
- (10) Where a person having a holding in a company is a dealer, but a profit on the sale of the holding would not form part of his trading profits, then as regards that holding he shall be treated for purposes of this section as if he were not a dealer.
- (11) The provisions of Schedule 17 to this Act shall have effect for the interpretation of this section and for its modification in particular cases, and for transitional purposes relating to this section or section 4 of the Finance (No. 2) Act 1955.

*Local authorities, unit trusts and special classes of company.*

## **66 Local authorities.**

- (1) A local authority in the United Kingdom shall after the year 1965-66 be exempt from all charge to income tax in respect of its income, and shall be exempt from corporation tax and capital gains tax, and is not included in the expression " company " as used in this Part of this Act; and this subsection shall apply to a local authority association as it applies to a local authority.
- (2) In this section " local authority " means—
- (a) in relation to England and Wales, any authority being, within the meaning of the Local Loans Act 1875, an authority having power to levy a rate, and includes a joint board or joint committee of such authorities;
  - (b) in relation to Scotland, any county council, town council or district council, and any statutory authority, commissioners or trustees having power to levy a rate as defined in section 379 of the Local Government (Scotland) Act 1947, or to issue a requisition for payment of money to be raised out of such a rate, and includes any joint board or joint committee of such authorities appointed under any enactment, order or scheme;
  - (c) in relation to Northern Ireland, the council of any county, county or other borough, or urban or rural district, any other body of which all or substantially all the members are elected by local government electors and which is established for public local purposes and has power to raise money for those purposes by rates leviable on the basis of assessments in respect of land, and any committee or board appointed wholly or partly by a county or district council or by several such councils jointly.

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- (3) In subsection (2)(a) and (b) above any reference to a joint board or joint committee of such authorities as are there mentioned applies, and applies only, to a joint board or joint committee of which all the constituent members are such authorities or which, having such authorities and other bodies corporate as its constituent members, is authorised by or under any enactment to require from those authorities, but not from other constituent members, the payment of sums to meet or towards meeting the amount or estimated amount by which its revenue for any period falls short or may fall short of its expenditure for that period; and for this purpose, if a member of a joint board or joint committee is a representative of or appointed by any authority or body, that authority or body (and not he) is to be treated as a constituent member of the board or committee.
- (4) In this section " local authority association " means any incorporated or unincorporated association of which all the constituent members are local authorities, groups of local authorities or local authority associations and which has for its object or primary object the protection and furtherance of the interests in general of local authorities or any description of local authorities ; and for this purpose, if a member of an association is a representative of or appointed by any authority, group of authorities or association, that authority, group or association (and not he) is to be treated as a constituent member of the association.
- (5) In section 166 of the Income Tax Act 1952 (which restricts the operation of Chapter II of Part VI of that Act in relation to persons in employment with a local authority) for the reference to a local authority as defined for the purposes of section 171 of that Act there shall be substituted a reference to a local authority as defined in this section.

## **67 Unit trusts and investment trusts.**

- (1) Section 69 of the Finance Act 1960 (which provides for unit trusts to be dealt with for income tax purposes as investment companies) shall apply in relation to corporation tax as it is expressed to apply in relation to income tax, as if in section 71(1), in the definition of "authorised unit trust scheme ", for the words " or chargeable accounting period (for profits tax purposes)" there were substituted the words " or accounting period (for corporation tax purposes) " , and references in this Part of this Act to a body corporate shall be construed accordingly ; but—
- (a) the first reference to income in section 69(1) shall include chargeable gains ; and
  - (b) for the references in section 69(2) to sections 425 and 184(1) of the Income Tax Act 1952 there shall be substituted respectively references to section 57 and to section 47(4) of this Act.
- (2) Where in an accounting period of a unit trust the aggregate of the capital sums paid in respect of the cancellation of units exceeds the aggregate of the capital sums received in respect of the creation of units, then the amount (as computed apart from this provision) of any chargeable gain or allowable loss accruing to the unit trust in that period shall be taken as reduced by the appropriate fraction of it, that is to say, by the same fraction as the said excess is of the total net consideration received by the unit trust on the disposal of chargeable assets during the period after deduction of the incidental costs of making the disposal (or, if the said excess is greater than the said total net consideration, shall be taken to be nil).
- (3) For purposes of section 37 of this Act the total net gains of a unit trust for an accounting period are the excess, if any, of the chargeable gains accruing to the unit trust in the



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period over the allowable losses deductible from those gains (as those gains and losses are computed for the charge to tax on the unit trust), after deduction from that excess of the tax which will be charged on the unit trust for the period in respect of chargeable gains, and the proportion attributable to any unit holder of the total net gains for any accounting period shall be determined by the unit trust, regard being among other things had, as between units of different classes, to the proportion of the assets of the unit trust representing gains on capital which would be attributable to the respective classes in a liquidation of the unit trust; and no apportionment which the unit trust makes under this section shall be questionable in any proceedings by the unit holders or by any other person.

(4) After carrying out an apportionment under subsection (3) of this section the unit trust shall give any unit holder to whom part of the total net gains is attributable a notice referring to the provisions of this section and certifying—

- (a) the total net gains (employing that term) of the unit trust for the accounting period, so far as known; and
- (b) the amount apportioned to him ;

and the unit holders between whom the total net gains are to be apportioned shall (except on an apportionment made in accordance with subsection (5) below) be determined by reference to the same date as the right to payment of the first dividend after the end of the accounting period, and that date shall be deemed to be the date when the apportionment is made and shall be specified in the notice.

(5) The apportionment under subsection (3) of this section shall be carried out separately for each accounting period but a notice may be issued in respect of part of an accounting period apportioned in the light of the information available at the time, and an apportionment (or final apportionment) for an accounting period may be made at or after the end of the period, notwithstanding that any amounts are not finally ascertained ; but if at any time it is found that too much or too little has been apportioned it shall be corrected as soon as may be by deduction from or addition to the total net gains of a later accounting period or periods.

(6) A notice under subsection (4) of this section may be combined with the statement in writing required to be given under section 199 of the Income Tax Act 1952 (statements in dividend warrants, etc.).

(7) Before the notices under subsection (4) of this section are sent out, particulars of the apportionments shall be submitted to the inspector, and the notices shall not be sent out without his approval, but subject to a right of appeal to the General Commissioners having jurisdiction in any assessment on the unit trust, being a right of appeal against the refusal of the inspector to give his approval.

In the application of this subsection to Northern Ireland for the reference to the General Commissioners there shall be substituted a reference to the Special Commissioners.

(8) Anything required by subsections (3) to (7) above to be done by a unit trust shall be done by the managers of the unit trust with the approval of the trustee.

(9) Subsections (3) to (7) above shall apply in relation to an investment trust as they apply in relation to a unit trust with the necessary adaptations of references to units and unit holders; and for this purpose "investment trust" has the meaning assigned to it by section 37 of this Act.

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## **68 Rate of tax for unit trusts and investment trusts.**

The rate of tax payable by a unit trust or by an investment trust approved by the Board for the purposes of sections 37 and 67 of this Act on any chargeable gains accruing in any accounting period (as calculated in accordance with section 55 of this Act) shall not exceed that payable in that period by an individual under section 20(3) of this Act.

## **69 Insurance companies.**

- (1) Subject to the provisions of this section and of section 426(1) of the Income Tax Act 1952 (under which life assurance business is to be treated as a separate business), section 57 of this Act shall apply for computing the profits of a company carrying on life assurance business, whether mutual or proprietary, (and not charged to corporation tax in respect of it under Case I of Schedule D), whether or not the company is resident in the United Kingdom, as that section applies in relation to an investment company, except that—
  - (a) there shall be deducted from the amount treated as expenses of management for any accounting period the amount of any fines, fees or profits arising from reversions ; and
  - (b) no deduction shall be made under proviso (a) to section 57(1) in respect of income derived from sources not charged to tax, but proviso (b) shall include enactments applying to companies carrying on life assurance business though not to investment companies.
- (2) The relief in respect of management expenses given under subsection (1) above for any accounting period shall not reduce the corporation tax paid by the company to less than would have been paid if it had been charged to tax in respect of its life assurance business under Case I of Schedule D, and where in any accounting period this subsection applies to prevent or restrict the deduction of expenses of management in computing profits chargeable to corporation tax, then—
  - (a) if the amount on which the company would be so charged under Case I of Schedule D exceeds those profits (before any such deduction) an amount equal to that excess shall be deducted from the amount of franked investment income that may be treated as profits of the period chargeable to corporation tax for purposes of a claim under section 62 of this Act; and
  - (b) subject to any claim under section 62 for that accounting period, the excess to be carried forward by virtue of section 57(2) of this Act shall be increased accordingly.

The reference in paragraph 2(1) of Schedule 6 to this Act to computing income or profits or gains or losses shall not be taken as applying to a computation of a company's income for purposes of this subsection.

- (3) The foregoing sections of this Part of this Act shall, in relation to companies carrying on life assurance business, have effect subject to the following modifications:—
  - (a) the exclusion from the charge to corporation tax of the distributions of companies resident in the United Kingdom shall not prevent franked investment income of a company so resident from being taken into account as part of the profits in computing trading income in accordance with the rules applicable to Case I of Schedule D, and in ascertaining for purposes of section 58 or 59 of this Act whether and to what extent a company has incurred a loss on its life assurance business any profits derived from the investments

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- of its life assurance fund (including franked investment income of a company so resident) shall be treated as part of the profits of that business;
- (b) in the case of a company carrying on general annuity business, the annuities paid by the company, so far as referable to that business and so far as they do not exceed the income charged to corporation tax and franked investment income of the part of the annuity fund so referable, shall be treated as charges on income, but section 60 of this Act shall not be taken to apply to a loss incurred by a company on its pension annuity business or its general annuity business;
- (c) the extent to which, and the manner in which, income from investments of the life assurance fund is to be charged to corporation tax shall—
- (i) in cases falling within section 429 of the Income Tax Act 1952, be determined in accordance with that section (and, where they apply, paragraph 3 of Part III of Schedule 18 to that Act and section 28(1) of the Finance Act 1959); and
- (ii) in cases falling within section 430 of the Income Tax Act 1952, be determined in accordance with that section (and, where it applies, section 436(3)), distributions received from companies resident in the United Kingdom being brought into account notwithstanding their exclusion from the charge to corporation tax;
- (d) where section 429 of the Income Tax Act 1952 has effect in relation to income arising from investments of any part of a company's life assurance fund, it shall have the like effect in relation to chargeable gains accruing from the disposal of any such investments, and losses so accruing shall not be allowable losses.
- (4) Where by virtue of section 429 of the Income Tax Act 1952 corporation tax is payable by reference to the amount of income received in the United Kingdom, and under section 347 or 348 credit for any tax falls to be allowed in respect of that income, the amount received shall be treated as increased by an amount equal to the tax which falls to be taken into account in determining whether any, and if so what, credit is to be allowed against corporation tax (including in the case of a dividend any such tax not charged directly or by deduction in respect of the dividend, but excluding tax not payable but falling to be taken into account by virtue of section 17 of the Finance Act 1961 (foreign tax reliefs to promote development)).
- (5) Without prejudice to the general application of income tax law for purposes of corporation tax, sections 426(1) and (2) and 427 of the Income Tax Act 1952 and section 24 of the Finance Act 1956 shall, subject to the provisions of this section, apply for purposes of corporation tax, including corporation tax in respect of chargeable gains, as they applied for purposes of income tax, and references to profits or income shall accordingly include chargeable gains; and the exclusion from the charge to corporation tax of the distributions of companies resident in the United Kingdom shall not prevent them from being taken into account as part of the profits in computing under section 24 of the Finance Act 1956 the profits arising to an assurance company from pension annuity business or from general annuity business.
- (6) Section 427(2) of the Income Tax Act 1952 (which provides for repayment of income tax on income reserved for policy holders where the standard rate exceeds seven shillings and sixpence in the pound) shall apply to chargeable gains as it applies to income, applying—

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- (a) to franked investment income as if income tax deducted or treated under this Part of this Act as deducted from it were income tax borne by the company; and
  - (b) to income chargeable to corporation tax and to chargeable gains as if references to the standard rate of income tax were references to the rate of corporation tax.
- (7) Except under section 427(2) of the Income Tax Act 1952 a company resident in the United Kingdom shall not be entitled to repayment of income tax deducted or treated under this Part of this Act as deducted from such part of the franked investment income from investments held in connection with its life assurance business as belongs or is allocated to, or is reserved for,
- or expended on behalf of, policy holders; but notwithstanding anything in section 48 of this Act, any such company carrying on life assurance business shall be entitled to repayment of income tax in respect of franked investment income of the company's annuity fund in so far as—
- (a) it is referable in accordance with section 24 of the Finance Act 1956 to pension annuity business; or
  - (b) being referable to general annuity business, it does not have to be taken into account to enable annuities referable to that business to be treated as charges on income.

Any franked investment income on which income tax is repayable as mentioned in this subsection, or which is taken into account as mentioned in paragraph (b), shall be left out of account under section 48 of this Act.

- (8) Where—
- (a) a company carrying on life assurance business has before the date of the passing of this Act issued policies of life assurance—
    - (i) providing for benefits which consist to any extent of investments of a specified description or of a sum of money to be determined by reference to the value of such investments; but
    - (ii) not providing for the deduction from those benefits of any amount by reference to tax chargeable in respect of chargeable gains; and
  - (b) the investments of the company's life assurance fund, so far as referable to those policies, consist wholly or mainly of investments of the description so specified; and
  - (c) on the company becoming liable under any of those policies for any such benefits (including benefits to be provided on the surrender of a policy), a chargeable gain accrues to the company from the disposal in meeting or for the purpose of meeting that liability of investments of that description forming part of its life assurance fund, or would so accrue if the liability were met by or from the proceeds of such a disposal;

then the company shall be entitled as against the person receiving the benefits to retain out of them a part of them not exceeding in amount or value corporation tax in respect of the gain referred to at (c) above, computed without regard to any amount retained under this provision, and computed at the rate of corporation tax for the time being in force or, if no rate has yet been fixed for the financial year, at the rate last in force or, if no rate has yet been fixed for any financial year, at a rate of thirty-five per cent. :

Provided that in so far as the chargeable gain represents or would represent a gain belonging or allocated to, or reserved for, policy holders the amount that is to be

retained shall be computed by reference to a rate of tax not exceeding thirty-seven and a half per cent.

- (9) Without prejudice to the general application of income tax law for purposes of corporation tax, section 431 of the Income Tax Act 1952 (capital redemption business) shall apply for purposes of corporation tax, including corporation tax in respect of chargeable gains, as it applies for purposes of income tax, but as if section 431(2) provided that in ascertaining for purposes of section 58 or 59 of this Act whether and to what extent a company has incurred a loss on its capital redemption business any profits derived from investments held in connection with the capital redemption business (including franked investment income of a company resident in the United Kingdom) shall be treated as part of the profits of that business.

## **70 Industrial and provident societies.**

- (1) Notwithstanding anything in this Act, share interest or loan interest paid by a registered industrial and provident society shall not be treated as a distribution, and subject to subsection (3) below any share interest or loan interest paid in an accounting period of the society—
- (a) shall be deductible in computing for purposes of corporation tax the income of the society for that period from the trade carried on by the society ; or
  - (b) if the society is not carrying on a trade, shall be treated as a charge on the income of the society.
- (2) As regards share interest and loan interest paid in or after the year 1966-67 section 443(4) of the Income Tax Act 1952 shall not have effect, but at the end of section 442 there shall be added as a new subsection (4):—
- “(4) Every registered industrial and provident society shall, within three months after the end of any accounting period for corporation tax of the society, deliver to the surveyor a return in such form as the Commissioners of Inland Revenue may prescribe showing—
- (a) the name and place of residence of every person to whom the society has by virtue of this section paid without deduction of income tax sums amounting to more than fifteen pounds in that period; and
  - (b) the amount so paid in that period to each of those persons.”
- (3) If for any accounting period of a registered industrial and provident society a return under section 442(4) of the Income Tax Act 1952 is not duly made, share interest and loan interest paid by the society in that period shall not be deductible in computing income for purposes of corporation tax or be treated as a charge on income.
- (4) As regards share interest and loan interest paid before the year 1966-67 subsection (3) above shall apply to the returns required by section 443(4) of the Income Tax Act 1952; but subsection (1)(b) above shall not apply to share interest or loan interest so paid, except in so far as relief cannot be given in respect of it under section 443(1) (a) of that Act.
- (5) Any claim made by a housing association under section 43 of the Finance Act 1963 after the year 1965-66 shall be made as theretofore for a year of assessment or part of a year of assessment.
- (6) A housing association within the meaning of the said section 43 shall be exempt from corporation tax in respect of chargeable gains accruing to it on the disposal by way of

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sale of any property which has been or is being occupied by a tenant of the housing association:

Provided that this subsection shall not apply to an association except on a claim made on that behalf for an accounting period or part thereof during which it was approved for the purposes of the said section 43, and Schedule 10 to the Finance Act 1963 shall have effect in relation to any such claim, with any necessary adaptations, as it has effect in relation to a claim under that section.

- (7) If in the course of, or as part of, a union or amalgamation of two or more industrial and provident societies, or a transfer of engagements from one industrial and provident society to another, there is a disposal of an asset by one society to another, both shall be treated for purposes of corporation tax in respect of chargeable gains as if the asset were acquired from the one making the disposal for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.
- (8) Where in accordance with a scheme approved under section 5 of the Housing Act 1964 the Housing Corporation acquires from a housing society the society's interest in all the land held by the society for carrying out its objects, or where after the Housing Corporation has so acquired from a housing society all the land so held by it the Corporation disposes to a single housing society of the whole of that land (except any part previously disposed of or agreed to be disposed of otherwise than to a housing society), together with all related assets, then both parties to the disposal of the land to the Housing Corporation or, as the case may be, by the Housing Corporation shall be treated for purposes of corporation tax in respect of chargeable gains as if the land and any related assets disposed of therewith (and each part of that land and those assets) were acquired from the one making the disposal for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.

In this subsection " housing society " has the same meaning as in Part I of the Housing Act 1964, and " related assets " means in relation to an acquisition of land by the Housing Corporation assets acquired by the Corporation in accordance with the same scheme as that land, and in relation to a disposal of land by the Housing Corporation assets held by the Corporation for purposes of the same scheme as that land.

- (9) Subsections (1) and (7) of this section shall have effect as if references to a registered industrial and provident society included any co-operative association established and resident in the United Kingdom, and having as its object or primary object to assist its members in the carrying on of agricultural or horticultural businesses on land occupied by them in the United Kingdom or in the carrying on of businesses consisting in the catching or taking of fish or shellfish.

In this subsection " co-operative association " means a body of persons having a written constitution from which the Minister of Agriculture, Fisheries and Food (as regards England or Wales), the Secretary of State (as regards Scotland) or the Ministry of Agriculture for Northern Ireland (as regards Northern Ireland) is satisfied, having regard to the provision made as to the manner in which the income of the body is to be applied for the benefit of its members and all other relevant provisions, that the body is in substance a co-operative association.

- (10) Section 446 of the Income Tax Act 1952 shall apply for the interpretation of this section as it applies for the interpretation of Part XXI of that Act.

## 71 Building societies.

- (1) As respects the year 1966-67 and later years of assessment section 445 of the Income Tax Act 1952 (under which a building society may make and receive interest payments without deduction of income tax under arrangements for it to be specially assessed under Schedule D) shall have effect notwithstanding the provisions of this Part of this Act requiring income tax to be deducted from distributions; and—
- (a) in section 445(1) there shall be substituted for paragraph (a)—
- “(a) on such sums as may be determined in accordance with the arrangements the society is liable to account for and pay an amount representing income tax calculated in part at the standard rate and in part at a reduced rate which takes into account the operation of the subsequent provisions of this section ;”
- and accordingly in the proviso, immediately before the words " the total tax ", there shall be inserted the words " (if the amount so payable by the society under the arrangements is regarded as income tax for the year of assessment) ";
- (b) section 445 (3) (b) shall not apply to interest paid by a company not resident in the United Kingdom under a liability incurred wholly and exclusively for the purposes of a trade carried on by it in the United Kingdom through a branch or agency.
- (2) Where for any such year of assessment a building society enters into arrangements under section 445 of the Income Tax Act 1952, dividends or interest payable in respect of shares in, or deposits with or loans to, the society shall be dealt with for the purposes of corporation tax as follows:—
- (a) in computing for any accounting period ending in the year of assessment the total profits of the society there shall be allowed as a deduction the actual amount paid or credited in the accounting period of any such dividends or interest, together with the amount accounted for and paid by the society in respect thereof as representing income tax;
- (b) in computing the income of a company which is paid or credited in the year of assessment with any such dividends or interest, the company shall be treated as having received an amount which, after deduction of income tax at the standard rate for the year of assessment, is equal to the amount paid or credited, and shall be entitled to a set off or repayment of income tax accordingly, except that the dividends or interest shall not be brought into account under Schedule 12 to this Act;
- (c) no part of any such dividends or interest paid or credited in the year of assessment shall be treated as a distribution of the society or as franked investment income of any company resident in the United Kingdom.
- (3) Where for the year 1965-66 a building society enters into arrangements under section 445 of the Income Tax Act 1952—
- (a) if a society which but for the arrangements would be assessed to income tax for the year 1965-66 by reference to a period ending before that year is under the arrangements (and without any election thereunder by the society) so assessed by reference to a period ending in that year, then subsection (4) below shall apply to the society in place of the general provisions of this Part of this Act as to the time for payment of corporation tax; and
- (b) subsection (2) (a) above shall have effect in relation to any accounting period of the society ending in that year with the substitution for the reference to the

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amount accounted for and paid by the society in respect of the dividends and interest as representing income tax of a reference to the amount computed by reference to the dividends or interest in accordance with the provision made by those arrangements with reference to dividends and interest for charging the society to income tax for that year.

- (4) Where this subsection applies to a building society, then—
- (a) corporation tax assessed on the society for any accounting period shall be paid within one month from the making of the assessment, except that if the society's basis period for the year 1965-66 does not extend into the year 1966, the tax shall not be payable before the like time after the last day of the accounting period as 1st January 1966 is after the last day of that basis period; but
  - (b) if corporation tax has not become payable by the society for an accounting period by the like time from the beginning of that period as there is between the beginning of the said basis period and 1st January 1966, the society shall at that time from the beginning of the accounting period make a provisional payment of tax computed on the amount on which the society is chargeable to corporation tax for the accounting period last ended (or, as the case may be, is chargeable to income tax by reference to the said basis period), with such adjustments, if any, as may be required for periods of different length or as may be agreed between the society and the inspector.

References in this subsection to a society's basis period for the year 1965-66 are references to the period by reference to which the society is assessed to income tax for that year under the arrangements referred to in subsection (3) above.

- (5) If in the course of, or as part of, a union or amalgamation of two or more building societies, or a transfer of engagements from one building society to another, there is a disposal of an asset by one society to another, both shall be treated for purposes of corporation tax in respect of chargeable gains as if the asset were acquired from the one making the disposal for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.

## **72 Companies carrying on mutual business, or not carrying on a business.**

- (1) Subject to subsection (2) below, where a company carries on any business of mutual trading or mutual insurance or other mutual business, the provisions of this Part of this Act relating to distributions shall apply to distributions made by the company notwithstanding that they are made to persons participating in the mutual activities of that business and derive from those activities, but shall so apply only to the extent to which the distributions are made out of profits of the company which are brought into charge to corporation tax or out of franked investment income (including group income).
- (2) In the case of a company carrying on any mutual life assurance business, the provisions of this Act relating to distributions shall not apply to distributions made to persons participating in the mutual activities of that business and derived from those activities; but if the business includes annuity business, the annuities payable in the course of that business shall not be treated as charges on the income of the company to any greater extent than if the business were not mutual but were being carried on by the company with a view to the realisation of profits for the company.



- (3) Subject to the foregoing subsections, the fact that a distribution made by a company carrying on any such business is derived from the mutual activities of that business and the recipient is a person participating in those activities shall not affect the character which the payment or other receipt has for purposes of corporation tax or income tax in the hands of the recipient.
- (4) Where a company does not and never has carried on a trade or a business of holding investments, and is not established for purposes which include the carrying on of a trade or of such a business, the provisions of this Part of this Act relating to distributions shall apply to distributions made by the company only to the extent to which the distributions are made out of profits of the company which are brought into charge to corporation tax or out of franked investment income.

### **73 Company partnerships.**

- (1) So long as a trade is carried on by persons in partnership, and any of those persons is a company, the profits of the - trade and any loss (including a terminal loss) incurred therein shall be computed for purposes of corporation tax in like manner and by reference to the like accounting periods as if the partnership were a company, and without regard to any change in the persons engaged in carrying on the trade:

Provided that—

- (a) references to distributions shall not apply ;
  - (b) no deduction or addition shall be made for charges on income, or for capital allowances and charges, nor in any accounting period for losses incurred in any other period;
  - (c) a change in the persons engaged in carrying on the trade shall be treated as the transfer of the trade to a different company, if there continues to be a company so engaged after the change but not a company that was so engaged before the change.
- (2) A company's share in the profits or loss of any accounting period or in any matter excluded from the computation by proviso (b) to subsection (1) above shall be determined according to the interests of the partners during that period and corporation tax shall be chargeable as if that share derived from a trade carried on by it alone, and the company shall be assessed and charged to tax accordingly:

Provided that for purposes of any relief from tax which may be given against total profits a company may claim that any profits in respect of which it is chargeable in accordance with this section and, so far as it cannot be relieved against those profits, any matter for which relief may be given against them in accordance with this section shall be dealt with as if they derived from a separate trade carried on by it otherwise than in partnership (any necessary apportionment being made where accounting periods of the company do not coincide with those of the partnership).

- (3) Where any of the persons engaged in carrying on the trade is an individual, income tax shall be chargeable in respect of his share of the profits, and he shall be entitled to relief for his share of any loss, as if all the partners had been individuals, except that—
  - (a) income tax shall be chargeable and any relief from income tax shall be given by reference to the computations made for corporation tax, but so that the amounts so computed for an accounting period of the capital allowances and charges falling to be made in taxing the trade shall (as regards the individual's

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- share of them) be given or made for the year or years of assessment comprising that period and, where necessary, be apportioned accordingly; and
- (b) section 19 of the Finance Act 1953 (discontinuances) shall not apply by reason of any change in the persons engaged in carrying on the trade unless an individual begins or ceases to be so engaged, and where it does apply, an election under section 19(3) shall be made only by the individuals so engaged and only if an individual so engaged before the change continues to be so engaged after it; and
  - (c) section 18 of the Finance Act 1954 (terminal loss) shall not apply except where section 59 of this Act applies to the partnership as a whole.
- (4) Section 144 of the Income Tax Act 1952 (partnership statements and assessments) shall apply to income tax chargeable in accordance with this section, matters relevant only to corporation tax being omitted from the statement required by section 144 and from the assessment, and the obligation to make and deliver the statement being that of the individual partner or partners.
- (5) Where a trade or business is carried on by two or more persons in partnership, and the control and management of the trade or business is situated abroad but those persons include a company resident in the United Kingdom, then as regards that company this section shall have effect as if the partnership were resident in the United Kingdom, and an assessment may be made on the company accordingly.
- (6) Subject to subsection (5) above, where the partners in a partnership include a company, section 147 of the Income Tax Act 1952 shall apply whether for corporation tax or income tax, and this section shall have effect accordingly.
- (7) In this section " capital allowances and charges " means any such allowances and charges as are within section 56 of this Act, other than those which for income tax are given or made by deduction or addition in the computation of profits or gains.

*Close companies.*

**74      Restriction for close companies on deduction for directors' remuneration.**

- (1) In computing for corporation tax the profits of a close company for any accounting period, the deduction that may be made for the remuneration of directors other than whole-time service directors shall not, subject to subsection (2) below, exceed, fifteen per cent. of the company's profits, computed before making any deduction for that remuneration or for investment allowances, and with the addition of franked investment income from companies not within its group (if it has one):

Provided that for any accounting period for which the company so elects this subsection shall apply with the substitution for the reference to fifteen per cent. of the company's profits for that period of a reference to fifteen per cent. of the profits of a period of the same length, computed as aforesaid but according to the average of the three years preceding the accounting period, or of such part (not being less than twelve months) of those three years as falls after the company commenced to carry on business or became resident in the United Kingdom, so, however, that in arriving at the average for a period beginning before the year 1966-67 there shall be brought into the computation profits arising from the company's trade or business which are chargeable to profits tax, computed as for that tax, together with any such franked investment

income (within the meaning of that tax) as would not, if received in like circumstances after the year 1965-66, be treated as coming from within the company's group.

For this purpose distributions received by the company from another are to be treated as coming from within the company's group if but only if dividends so received are group income or would be group income if the companies so elected, and, where the proviso to this subsection has effect, the amount of the profits of the three years there mentioned or the relevant part of those three years shall, if the case requires, be arrived at by division and apportionment or aggregation of profits or losses for periods of account wholly or partly comprised therein.

- (2) Subsection (1) above shall not reduce the deduction for any accounting period below £4,000 nor, if there are for more than half the accounting period at least two directors to whom subsection (3) below applies, below the aggregate remuneration, within the limits permitted by subsection (3), of those directors.
  - (3) This subsection applies to directors who are required to devote substantially the whole of their time to the service of the company in a managerial or technical capacity but are not whole-time service directors, and the limits on the deduction permitted by reference to their remuneration are as follows:—
    - (a) an overall limit of £13,000, reduced to £10,000 if for half or more of the accounting period there are less than four such directors, and to £7,000 if for half or more of it there are less than three; and
    - (b) a limit of £4,000 on the remuneration of the highest paid such director and £3,000 on that of any other, except that if the remuneration of the highest paid such director is less than £4,000, an amount equal to the difference may be made up on the remuneration of the others.
- " The highest paid such director ", if no one such director is the highest paid, means one such director having remuneration as high as that of any of the others.
- (4) In relation to an accounting period of less than twelve months each of the sums of money numerically specified in subsections (2) and (3) shall be proportionately reduced.
  - (5) Where a company is a close company for part only of an accounting period and the deduction which would otherwise be allowable for that period for directors' remuneration is decreased under this section, the decrease shall be such part of that which would be made apart from this subsection as is proportionate to that part of the period.
  - (6) This section shall apply in relation to a company having more than one source of income so as to restrict the aggregate deductions to be made in any manner for the remuneration of directors, including deductions giving rise to or augmenting a loss.

## **75 Assessment of close companies to income tax in respect of certain loans.**

- (1) Where after the end of the year 1965-66 a close company, otherwise than in the ordinary course of a business carried on by it which includes the lending of money, makes any loan or advances any money to an individual who is a participator in the company or an associate of a participator, there shall be assessed on and recoverable from the company, as if it were an amount of income tax chargeable on the company, an amount equal to income tax on the grossed up equivalent of the loan or advance.

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- (2) Where, after a company has paid the amount assessed on it under subsection (1) above in respect of any loan or advance, the loan or advance or any part of it is repaid to the company, the amount paid by the company or a proportionate part of it shall be repaid.
- (3) Where a company is assessed or liable to be assessed under this section in respect of a loan or advance, and releases or writes off the whole or part of the debt in respect of it, the person to whom it was made shall be treated for purposes of surtax as having then received an amount of income equal to the grossed up equivalent of the amount so released or written off:

Provided that if the loan or advance was made to a person who has since died, or to trustees of a trust which has come to an end, this subsection instead of applying to the person to whom it was made shall apply to the person from whom the debt is due at the time of the release or writing off (and if it is due from him as personal representative within the meaning of Part XIX of the Income Tax Act 1952, the amount treated as received by him shall accordingly be, as regards surtax, included for purposes of the said Part XIX in the aggregate income of the estate).

- (4) For purposes of this section the grossed up equivalent of an amount is such sum as after deduction of income tax at the standard rate is equal to that amount, and shall be computed by reference to the standard rate for the year of assessment in which the loan or advance is made or, as the case may be, the debt is wholly or partly released or written off.
- (5) Subsection (3) of this section shall not have effect in relation to a loan or advance made to a person if any sum falls in respect of the loan or advance to be included in his income by virtue of section 408 of the Income Tax 1952, except in so far as the amount released or written off exceeds the sums previously falling to be so included (without the addition for income tax provided for by section 408(4)); and where any amount is included in a person's income by virtue of subsection (3) above in respect of any loan or advance, there shall be a corresponding reduction in the amount (if any) afterwards falling to be so included in respect of it by virtue of the said section 408.
- (6) Where under arrangements made by any person otherwise than in the ordinary course of a business carried on by him—
- (a) a close company makes a loan or advance to a person who is not a participator in the company or an associate of a participator; and
  - (b) some person other than the close company makes a payment or transfers property to, or releases or satisfies (in whole or in part) a liability of, an individual who is a participator in the company or an associate of a participator;

then, unless in respect of the matter referred to at (b) above there falls to be included in the total income for purposes of surtax of the participator or associate an amount not less than the grossed up equivalent of the loan or advance, this section shall apply as if the loan or advance had been made to him.

- (7) In subsections (1) and (6)(b) above the references to an individual shall apply also to a company receiving the loan or advance in a fiduciary or representative capacity and to a company not resident in the United Kingdom.

**76 Assessment of close companies on consideration for certain restrictive covenants etc.**

- (1) Where, in respect of any payment made or consideration given by a company after the year 1965-66, any sum falls by virtue of section 242 of the Income Tax Act 1952 (charge of surtax on consideration for certain restrictive covenants etc.) to be included in an individual's total income for purposes of surtax, and at the time when the payment is made or the consideration is given the company is a close company and the individual is a participator in the company or an associate of a participator, there shall be assessed on and recoverable from the company, as if it were an amount of income tax chargeable on the company, an amount equal to income tax on the sum falling to be included in the individual's income as aforesaid, at the standard rate for the year of assessment in which the payment is made or consideration is given.
- (2) Where subsection (1) above would apply to any payment or consideration if the condition that the company is a close company and the individual a participator in it or an associate of a participator were satisfied at the time when the payment is made or the consideration is given, the subsection shall apply if either—
  - (a) at that time the individual holds or is about to hold an office or employment with the company and the condition is satisfied within two years afterwards ;  
or
  - (b) at that time the individual holds or has held an office or employment with the company and the condition has been satisfied within two years previously.

**77 Shortfall in distributions of close company (income tax at standard rate).**

- (1) If in any accounting period of a close company there is a shortfall in the company's distributions, there shall be assessed on and recoverable from the company, as if it were an amount of income tax chargeable on the company, an amount equal to the income tax for which the company would be liable to account under section 47(3) of this Act on a distribution equal in amount (before deduction of income tax) to the shortfall and made twelve months after the end of the accounting period (income tax having been deducted).
- (2) For the purposes of this section the shortfall in a company's distributions for any accounting period is, save as otherwise provided by this section, the amount (if any) by which the distributions for the period fall short of the required standard; and the required standard is the distributable income for the period, less so much of that income (not exceeding, in the case of a company which is neither a trading company nor a member of a trading group, the amount of the estate or trading income) as the company shows could not be distributed without prejudice to the requirements of the company's business :

Provided that the required standard shall in no case exceed the company's distributable investment income for the period plus sixty per cent. of the estate or trading income of the period, and for the purpose of this proviso in its application to a trading company not having any associated company the estate or trading income for the period, if it is less than £9,000, shall be treated as reduced by one-fifth of the amount required to make it up to £9,000 or, if it is less than £1,500, shall be disregarded.

- (3) In arriving at the required standard for any accounting period—
  - (a) regard shall be had not only to the current requirements of the company's business but also to such other requirements as may be necessary or advisable for the maintenance and development of that business, but for this purpose

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sections 246(2) and (3) and 258(1) and (4) of the Income Tax Act 1952, except section 246(2) proviso, shall apply as they applied for the corresponding purpose of section 245 ;

- (b) the amount of the estate or trading income shall be taken at the amount included in respect of it in the distributable income;
  - (c) for an accounting period of less than twelve months the sums of £9,000 and £1,500 specified in the proviso to subsection (2) above shall be proportionately reduced ;
  - (d) if the company is a trading company and for part of the period has, and for part of the period has not, got an associated company, the required standard shall be arrived at by aggregating the amounts for those parts separately computed as if they were distinct accounting periods.
- (4) Where a company is subject to any restriction imposed by law as regards the making of distributions, any shortfall in its distributions for an accounting period shall be disregarded to the extent to which the company could not make distributions up to the required standard without contravening that restriction.
- (5) Where a company is in respect of any year of assessment assessed under this section in respect of a shortfall in distributions, and there is in that year a surplus of franked investment income (including any amount carried forward from an earlier year), the company may claim that the shortfall shall be set off as far as may be against that surplus, and each of them shall then (as regards the company) be treated as reduced by the amount of the set-off.

Effect shall be given to a claim under this subsection in priority to any claim for the same year under section 62 of this Act, but the set-off shall be made as far as may be against any part of the surplus which has been carried forward from an earlier year of assessment.

- (6) Where a company is assessed under this section in respect of a shortfall in distributions for any accounting period, then (so long as the company remains a close company) it may for any later accounting period for which there is no such shortfall claim that the shortfall of the earlier period, or so much of it as has not been dealt with under this subsection, shall, in determining the income tax payable by the company in respect of distributions for the later period or, as the case may be, in arriving at any surplus of franked investment income, be deducted rateably from the distributions made by the company for the later period :

Provided that no deduction shall be made under this subsection from the distributions for any accounting period so as to reduce those distributions below the required standard or below the amount of the directors' remuneration included in the distributions in computing them for purposes of this section.

## **78 Apportionment for surtax of close company's income.**

- (1) Subject to the provisions of this section, the income of a close company for any accounting period may for purposes of surtax be apportioned by the Board among the participators, and any amount apportioned to a close company (whether originally or by one or more sub-apportionments under this provision) may be further apportioned among the participators in that company; and on any such apportionment section 249 of the Income Tax Act 1952, as adapted by this section, shall apply as it applied on an apportionment of a company's income under Chapter III of Part IX of that Act.

- (2) For purposes of an apportionment under this section, there shall be added to the amount of income to be apportioned any amounts which were deducted in respect of annual payments in arriving at the company's distributable income for the accounting period and which in the case of an individual would not have been deductible or would have been treated as his income in computing his total income for surtax.
- (3) Except in the case of a trading company, there may be apportioned under this section, if the Board see reason for it, the whole of a company's income for an accounting period up to the amount of the required standard (notwithstanding that there has been no shortfall in distributions for that period), together with any addition to be made under subsection (2) above but with such reduction, if any, as may be just in respect of distributions made for the period to persons other than participators and associates of participators (or amounts treated as such for purposes of section 77 above) :
- Provided that for this purpose the required standard shall be treated as reduced by so much of any shortfall in the distributions for the period as would under section 77(4) above be disregarded in an assessment made in respect of that shortfall.
- (4) Subject to subsections (2) and (3) above, an apportionment shall not be made under this section of a company's income for an accounting period unless an assessment is made on the company under section 77 of this Act in respect of a shortfall in its distributions for that period, and the amount apportioned shall be the amount of that assessment.
- (5) Any apportionment made under this section, including any sub-apportionment of an amount directly or indirectly apportioned to a company, shall be made according to the respective interests in the company in question of the participators, except that—
- (a) in the case of any company, the provisos to section 258(3) of the Income Tax Act 1952 and section 259(1) of that Act (which enable regard to be had to beneficial interests in loans, or to the interests which would arise in a winding up) shall apply as they applied in the case of an investment company to apportionments under Chapter III of Part IX of that Act (a reference to a participator being substituted for any reference to a member or to a loan creditor); and
  - (b) if the company is not a trading company, section 260 of that Act (which gave further powers to have regard to underlying interests) except subsection (5) shall also apply in like manner.
- (6) Where an apportionment is made by virtue of subsection (3) above, an individual shall not be charged to surtax on an amount treated in consequence of the apportionment or any sub-apportionment as being his income except in so far as it exceeds the amount which, apart from the apportionment, falls in respect of distributions made by the company in the accounting period to be included in the statement of total income to be made by him for purposes of surtax ; and no individual shall be charged to surtax by virtue of any apportionment under this section unless the sum or (where there is a sub-apportionment) aggregate sum on which he is so chargeable amounts either to £100 or more or to five per cent. or more of the amount apportioned.
- (7) Subject to subsection (6) above, on an apportionment under this section, section 249 of the Income Tax Act 1952 shall apply subject to the following modifications:—
- (a) for any reference to a member there shall be substituted a reference to a participator;
  - (b) subsection (2)(c) shall not apply, and any amount treated under the section as a person's income for purposes of surtax shall be deemed for those purposes

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to have been received by him at the end of the accounting period to which the apportionment relates; and

- (c) there shall not be deducted from the amount apportioned to any person (whether on the original apportionment or any sub-apportionment) any amount in fact distributed to him; and
- (d) so much of section 249(5) as provides for undistributed income not to rank for surtax when subsequently distributed shall not apply unless on the occasion of its distribution the distributions for the accounting period exceed the required standard, and shall then apply only to the same fraction of any amount to which an individual is entitled as that excess is of the whole distributions for the period.

## **79 Supplementary provisions about close companies.**

The provisions of Schedule 18 to this Act shall have effect for the interpretation and operation of the foregoing sections of this Act relating to close companies, for their modification in certain cases and for other purposes there dealt with; and those sections shall have effect subject to and in accordance with the provisions of that Schedule.

*Commencement and transitional.*

## **80 Commencement of corporation tax for existing companies, and transition from income tax.**

- (1) A company not within the charge to income tax for the year 1965-66 in respect of a source of income shall not come within the charge to corporation tax in respect of that source for any period before the end of that year.
- (2) Where a company is within the charge to income tax for that year in respect of a source of income, the company shall not come within the charge to corporation tax in respect of the source for any period before the end of that year, unless the charge to income tax for that year falls to be ascertained by reference to a period ending before the end of that year and the company possesses the source at the end of that year, but shall in that case be within the charge to corporation tax in respect of the source from the end of the basis period for income tax for that year or, if it is later, the end of the basis period for the year 1964-65.
- (3) Where, in respect of a trade chargeable under Case I or II of Schedule D, a company is within the charge to income tax from a time before the financial year 1965, then (so long as the company continues to be within the charge to corporation tax in respect of that trade) section 49(4) of this Act shall not apply to the company, but corporation tax assessed on the company (or on some person in its place) for any accounting period, whether or not in respect of the trade, shall be paid within the like interval from the end of the accounting period as there was between the end of the basis period of the trade for the year 1965-66 and 1st January 1966 or, if it is later, within one month from the making of the assessment:

Provided that this subsection shall not apply unless the said interval is longer than nine months. Where this subsection applies to a company having distinct trades with different basis periods, that one of the basis periods which ends soonest shall be taken.

- (4) In this section any reference to the basis period for the year 1964-65 or 1965-66 is, in relation to any source of income, a reference to the period on the income of which the



income tax (if any) chargeable for that year falls to be finally computed in respect of the source or, where by virtue of any provision of the Income Tax Acts the income of any other period is to be taken to be the income of the said period, that other period.

- (5) Where a company is within the charge to income tax in respect of a trade at the end of the year 1965-66, and continues to carry on the trade after the end of that year, section 54(2) of this Act shall not apply to treat the trade as permanently discontinued and a new trade as set up and commenced on the company first coming within the charge to corporation tax in respect of the trade.
- (6) Where in the case of a trade carried on by a company the year 1965-66 is the second year of assessment within the meaning of section 129 of the Income Tax Act 1952 (period of computation of profits for second and third years of trade), the company may at any time within the following six years give or revoke the like notice under that section for that year as, but for this Part of this Act, could be given for that and the succeeding year.
- (7) Section 130 of the Income Tax Act 1952 (period of computation of profits on discontinuance of trade) shall not apply in relation to income tax for any year of assessment on the discontinuance after the end of the year 1965-66 of a trade carried on by a company; nor shall section 18 of the Finance Act 1952 (period of computation under Case III, IV or V of Schedule D for source of income disposed of etc.) apply in the case of a company in relation to income tax for the year 1965-66, unless that year is the last year in which the company possesses the source, or that year or the preceding year is to be treated under section 18(1)(c), (2) or (4) as if it were the last year.
- (8) Where a company is carrying on a trade at the end of the year 1965-66, and a relevant change within the meaning of Schedule 3 (company reconstructions) to the Finance Act 1954 has occurred in the trade before the end of that year, then for all purposes of corporation tax the company and all other persons affected shall be treated as if the company had carried on the trade from the end of the basis period for the year 1965-66 and as if anything done to or by its predecessors in carrying on the trade since the end of that period had been done to or by it; and they shall also be so treated for purposes of any relief from income tax in respect of losses incurred in the trade after the end of that basis period.
- (9) Where subsections (1), (2) and (7) above would operate differently for different parts of a source of income (not being a trade) if those parts were treated as separate sources for the purposes of those subsections, they shall be so treated.

## **81 Winding up of the profits tax.**

- (1) Subject to subsection (4) below, there shall be disregarded for the purposes of the profits tax for any chargeable accounting period profits in respect of which a body corporate, society or other body is within the charge to corporation tax, and all amounts which would be deductible in computing any such profits for profits tax purposes (in so far as they are also deductible in computing other profits for those purposes) and which are deductible for corporation tax, except that—
  - (a) if that body or society is within the charge to corporation tax in respect of the profits for part only of the chargeable accounting period, this subsection shall apply in relation to that part, and there shall be made the like apportionments between that part and the remainder, as if the two parts were separate chargeable accounting periods; and

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- (b) in the case of a close company, a deduction may be made in respect of the remuneration of directors other than whole-time service directors, so long as the deduction, when added to the amount of any deduction that may be made for corporation tax (or such part of any such deduction as is apportionable to the chargeable accounting period), does not exceed the deduction which would have been permitted under paragraph 11 of Schedule 4 to the Finance Act 1937 if this subsection had not had effect.
- (2) Subject to subsection (4) below, where a body or society is within the charge to corporation tax in respect of a trade for periods comprising the whole or part of the year 1964-65 or 1965-66, then in respect of allowances and charges made for purposes of income tax in charging the profits or gains of the trade for that year no deduction or addition shall be made under paragraph 1 or 2 (capital allowances) of Part I of Schedule 8 to the Finance Act 1947 for purposes of the profits tax for any accounting period falling wholly or partly within the said periods, except such deduction or addition, if any, as would be made for any part of that accounting period falling outside the said periods if that part were a separate accounting period.
- (3) Paragraph 4 of Part I of Schedule 8 to the Finance Act 1947 (which provides for capital allowances and charges to be made in the case of businesses not chargeable to income tax under Case I of Schedule D) shall not have effect for the making of deductions or additions by reference to the period after the year 1965-66.
- (4) Where, apart from this provision, the profits tax would be chargeable in accordance with this section on profits of any trade or business, the body or society chargeable may, by notice in writing given to the Board before 6th April 1968 or within such longer time as the Board may in any case allow, elect that this section, except subsection (3), shall not have effect in relation to that body or society.
- (5) No enactment limiting the time for making assessments to the profits tax shall prevent the making of such an assessment in consequence of an election under section 80(6) of this Act, if it is made within the time allowed for making an assessment to income tax in consequence of that election.
- (6) No assessment shall be made to profits tax in respect of any distribution made after 5th April 1966.

**82 Interim charge of tax on capital gains of companies, and exclusion of companies and local authorities from Case VII of Schedule D.**

- (1) Where after the end of the year 1964-65 a company is resident in the United Kingdom, or is carrying on a trade there through a branch or agency, but has not come within the charge to corporation tax in respect of any source of income or part of a source, capital gains tax at the rate of thirty-five per cent. shall be assessed and charged on the company in respect of the total amount of chargeable gains accruing to the company before it comes within the charge to corporation tax as aforesaid, after deducting any allowable losses accruing to it in that period and any losses which, under Chapter II of Part II of the Finance Act 1962, are allowable against gains accruing to it in the year 1964-65 but cannot be so allowed.
- (2) Income tax shall not be charged by virtue of section 10 or section 14 of the Finance Act 1962 (short-term gains) in respect of an acquisition and disposal of any chargeable assets by a company or by a local authority (as defined in section 66 of this Act) or a local authority association (as so defined), and section 10(7) (profits tax on short-

term gains) shall cease to have effect; and accordingly sections 10 and 14 shall not apply for corporation tax.

This subsection has effect—

- (a) in relation to an acquisition or disposal if either the acquisition or the disposal, whichever is the earlier, occurs on or before 6th April 1965 but the disposal or acquisition, whichever is the later, occurs after 6th April 1965 ; and
  - (b) in relation to an acquisition and disposal if both the acquisition and the disposal occur on or after 6th April 1965.
- (3) In the case of a gain of any amount accruing to a company on an acquisition and disposal within subsection (2)(a) above, the gain shall be treated for purposes of subsection (1) above or, as the case may be, of corporation tax as if it were a chargeable gain, and any loss so accruing shall be brought into account accordingly; and for those purposes the question whether any and, if so what, gain or loss so accrues shall accordingly be determined in accordance with the provisions applicable to income tax chargeable under Case VII of Schedule D and not in accordance with the provisions of Part III of this Act.
- (4) Any losses which are allowable against chargeable gains under subsection (1) above or would be so allowable but for the company being within the charge to corporation tax from the beginning of the year 1965-66, in so far as they cannot be allowed against chargeable gains under subsection (1), shall be treated for purposes of corporation tax as if they were allowable losses accruing to the company while within the charge to corporation tax and not earlier than the year 1965-66.
- (5) Capital gains tax shall not be charged under this section in respect of gains accruing to an overseas trade corporation on the disposal of assets which constitute property, or an interest in property, which is situated outside the United Kingdom and directly employed for the purposes of a trade carried on by the overseas trade corporation; and accordingly losses arising on the disposal of assets situated outside the United Kingdom which constitute property, or an interest in property, directly employed for the purposes of a trade carried on by an overseas trade corporation shall not be allowable losses for purposes of this section.
- (6) The provisions applicable by virtue of this Part of this Act to corporation tax in respect of chargeable gains shall, with any necessary modifications, apply in relation to capital gains tax chargeable by virtue of this section, in so far as they are provisions which—
- (a) confer or relate to any exemption or relief from tax, including the relief from tax of gains not received in the United Kingdom, or provide for any corresponding restriction of allowable losses; or
  - (b) affect the incidence of tax or the computation of gains or losses, or the matters which may give rise to a charge to tax;
- and the provisions so applied shall extend to all the provisions of Schedule 13 to this Act, including those relating to the recovery of tax, and to the provisions relating to the apportionment of chargeable gains accruing to unit trusts and investment trusts:
- Provided that references in Part I of the said Schedule 13 to a company shall not apply to an overseas trade corporation.

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### **83 Dividend increases in 1965-66.**

- (1) Where in the year 1965-66 a company resident in the United Kingdom pays a gross amount in dividends greater than the standard amount, then subject to the provisions of this section the excess shall (as regards that company) be brought into account under sections 47(3) and 48 of this Act as if it were the gross amount of dividends paid by the company on the first day of the year 1966-67 after deduction of income tax at the standard rate for that year (and were not the subject of an election under section 48(3)):

Provided that, in relation to the cases dealt with by Schedule 19 to this Act, this section shall have effect subject to the provisions of that Schedule.

- (2) Except in the case of a company not carrying on business earlier than December 1963, the standard amount shall be taken to be the amount of the standard dividends unless and until the standard amount is ascertained in accordance with subsection (3) below.
- (3) Except in the case of a company not carrying on business earlier than December 1963, if the amount ascertained in accordance with this subsection is higher than the amount of the standard dividends, the standard amount shall be whichever is the higher of—
- (a) seven and a half per cent. of the company's share capital in the financial year 1965; and
  - (b) up to the amount of the company's profits in the financial year 1965, the amount of the standard dividends increased (if there is occasion) in proportion either—
    - (i) to any increase in the profits in the financial year 1965 as compared with the standard profits; or
    - (ii) if it is the larger proportionate increase, to any increase in the share capital in the financial year 1965 as compared with that in the standard period:

Provided that in the case of a company not having a period of account ending before December 1964, or not having commenced to carry on business three years at least before the end of the last such period of account, the standard amount shall not be less than one half the amount of the profits of the financial year 1965.

- (4) In the case of a company not carrying on business earlier than December 1963, the standard amount shall be whichever is the higher of—
- (a) seven and a half per cent. of the company's share capital in the financial year 1965; and
  - (b) one-half the amount of the company's profits in the financial year 1965.
- (5) Where in the year 1965-66 a company pays a dividend for a period ending in the financial year 1964, being a period of account of not more than twelve months, then if the company so requires subsection (3) above, or in the case of a company not carrying on business earlier than December 1963 subsection (4), shall have effect in relation to the company with the company's profits in that period of account substituted for those in the financial year 1965.
- (6) For purposes of this section, except as otherwise provided by subsection (7) below—
- (a) a company's profits and share capital in the financial year 1965, if the company so requires, shall both be ascertained by reference to a period of twelve months selected by the company, being a period ending in that year and not beginning earlier than the end of the standard period or earlier than the time when the company commenced to carry on business ;

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- (b) the standard period of a company is the three years ending with the company's last accounting date before December 1964;
  - (c) the standard dividends of a company are whichever is the greater of—
    - (i) one third of the gross amount of the dividends of the company which were paid in the three years up to the beginning of December 1964 ;  
and
    - (ii) seven and a half per cent. of the company's share capital in the standard period;
  - (d) the standard profits of a company are whichever is the greater of—
    - (i) one third of the company's profits for the standard period; and
    - (ii) ten per cent. of the company's share capital in the standard period.
- (7) Where a company's last accounting date before December 1964 is less than three years after it commenced to carry on business, the company's standard period is the period between its commencing to carry on business and the beginning of December 1964, or if that is more than three years, the last three years or such other three years as the company may select in that period ; and if the standard period is less than three years, then the three years referred to in subsection (6)(c) above shall be replaced for the company by the standard period, and the references to one third in subsection (6)(c) and (d) above shall be replaced for the company by references to the fraction which one year is of the standard period.
- (8) For purposes of this section a company's share capital in any period shall be computed by taking the initial capital and adjusting it—
- (a) by adding the amount or value of any consideration actually received during the period for the issue of share capital or on the payment up of issued share capital, but so that the addition shall be reduced in each case by such fraction of the amount or value as the part of the period before receipt is of the whole period; and
  - (b) by deducting the amount or value of any money or other assets paid or transferred by the company during the period for the repayment of any share capital, but so that the deduction shall be reduced in each case by such fraction of the amount or value as the part of the period before the payment or transfer is of the whole period.

In this subsection " the initial capital " means—

- (i) in relation to the standard period, the amount at the beginning of the period of the paid-up share capital and of any share premium account (or other comparable account by whatever name called); and
  - (ii) in relation to any later period, the said amount adjusted by making for the period from the beginning of the standard period to the beginning of the later period the like additions and deductions as are provided for by paragraphs (a) and (b) above, but so that no such addition or deduction shall be reduced as there mentioned.
- (9) For purposes of this section the amount of a company's profits for any period shall be taken to be the amount (as it would, apart from the provisions of this Act, be computed for purposes of the profits tax) of the profits of the company, computed without abatement and including franked investment income, except that regard shall not be had to section 22 of the Finance Act 1937 (under which profits or losses of a subsidiary may be treated as those of the principal company) or to any limitation on the deductions that may be allowed in respect of the remuneration of the directors, nor to

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any investment allowances, initial allowances or balancing charges, to any scientific research allowance in respect of expenditure incurred after 5th November 1962 or to so much of any annual allowance made at a rate determined under section 38 or 39 of the Finance Act 1963 (free depreciation in development districts) or under section 14 of this Act, as exceeds an allowance at a yearly rate of fifteen per cent. of the relevant amount of expenditure.

- (10) For purposes of this section the amount of a company's profits for any period when it was an overseas trade corporation shall be computed as if it had never been an overseas trade corporation; and any amount treated by virtue of this section as dividends paid in the year 1966-67 shall be disregarded for purposes of section 26 of the Finance Act 1957 (under which an overseas trade corporation is chargeable to income tax by reference to dividends paid out of exempt trading income), and shall for this purpose be treated as comprising dividends paid later rather than dividends paid earlier.
- (11) Where a company has in the year 1965-66 paid a gross amount in dividends greater than the standard amount, it may, not later than two years after the end of that year, apply to the Board to be exempted from the foregoing provisions of this section, and if the company shows that it was not the company's main purpose or one of its main purposes in paying that excess to avoid or reduce a liability under section 47(3) of this Act in respect of dividends paid after that year, the Board shall certify that the company is entitled to exemption under this subsection, and subsection (1) above shall then not apply to the company.

If on an application duly made by a company the Board refuse a certificate under this subsection, the company shall have the like right of appeal to the Special Commissioners against the refusal as if it were an assessment made on the company under Schedule D, and the enactments relating to an appeal against such an assessment (including any enactment relating to the statement of a case for the opinion of the High Court) shall apply accordingly.

- (12) In the foregoing subsections " dividend " does not include a capital dividend; but where in the year 1965-66 after 27th April 1965 a company resident in the United Kingdom pays an amount in capital dividends greater than the yearly average of the amounts so paid by it before that year and since the beginning of the year 1962-63 (or, if later, the date the company commenced to carry on business) the excess shall as regards that company be brought into account under sections 47(3) and 48 of this Act as if it were the gross amount of dividends paid by the company on the first day of the year 1966-67 after deduction of income tax at the standard rate for that year (and were not the subject of an election under section 48(3)):

Provided that any capital dividend paid after 27th April 1965 shall be regarded for the purposes of this subsection as having been paid before that date if—

- (i) it was declared by the company in general meeting before that date ; or
  - (ii) it was declared in general meeting after that date but in accordance with a recommendation of the directors and the directors' decision to make that recommendation was, with the authority of the directors, publicly announced before that date; or
  - (iii) it was paid in accordance with a decision of the directors, and that decision was, with their authority, publicly announced before that date.
- (13) For the purposes of this section " gross amount " in relation to any dividends paid or treated as paid means the amount which, after deduction of income tax thereon at the

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standard rate for the year of assessment when the payment or supposed payment takes place, is equal to the amount paid or treated as paid:

Provided that the gross amount of dividends paid after deduction of income tax at a reduced rate in accordance with section 19 of the Finance Act 1962 shall be determined by reference to that reduced rate instead of the standard rate.

- (14) This section shall not apply to a company which has ceased to carry on business before the year 1966-67 or of which the business is at the beginning of that year being carried on by a liquidator in the winding up of the company, nor shall this section have effect by virtue of section 69 of the Finance Act 1960 in relation to the trustees of a unit trust scheme.

#### **84 Transitional relief for existing companies with overseas trading income.**

- (1) Where a company resident in the United Kingdom shows, as regards the base year (that is to say, such one of the years 1962-63, 1963-64 and 1964-65 as the company may select as its base year for purposes of this section).—
- (a) that the company possessed an overseas source of trading income; and
  - (b) that in respect of that source there was allowed credit for foreign tax which exceeds the current charge to corporation tax in any of the seven years of assessment beginning with the year 1966-67, calculated on the income from the source in the base year;

then for each source and each of those seven years for which it is shown to be so, the company shall, subject to the adjustments and restrictions below mentioned, be given relief in an amount equal to the excess at (b) above:

Provided that the aggregate relief for all sources, as calculated apart from this proviso, shall be reduced by one-fifth in the year 1969-70, by two-fifths in the year 1970-71, by three-fifths in the year 1971-72 and by four-fifths in the year 1972-73.

- (2) The aggregate relief for any year of assessment, as calculated in accordance with subsection (1) above apart from any reduction under the proviso to that subsection, shall, where necessary, be reduced so as not to exceed the adjusted aggregate amount in the related period of the unused credit for foreign tax in respect of the company's income from overseas sources of trading income; and for this purpose the said aggregate amount is to be adjusted by computing the unused credit for foreign tax in respect of the income from any source—
- (a) where the company is not within the charge to corporation tax in respect of the source, by treating the income as nevertheless chargeable to corporation tax and not chargeable to income tax or profits tax; and
  - (b) where the foreign tax is more than 56  $\frac{1}{4}$  per cent., by disallowing the unused credit in respect of the excess; and
  - (c) by calculating the income without any deduction for the unused credit.
- (3) The aggregate relief for any year of assessment, as calculated in accordance with the foregoing subsections apart from any reduction under the proviso to subsection (1), shall, where necessary, be reduced so as not to exceed the amount after deducting income tax borne by the company on franked investment income of the income tax deducted or deductible from the company's dividends paid in that year, reduced in the proportion (if it is less than one) which, in the related period, the amount charged to corporation tax of the company's income from overseas sources of trading

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income having an unused credit for foreign tax bears to the amount so charged of the company's income from all sources:

Provided that—

- (a) the amount of any income shall for purposes of this subsection be calculated without deduction for any unused credit for foreign tax; and
  - (b) where in the related period or any part of it, the company is not within the charge to corporation tax in respect of any source of income, this subsection shall have effect in relation thereto as if income from the source (so far as of a description chargeable to corporation tax) had been charged to corporation tax and not charged to income tax or profits tax.
- (4) If, in any year of assessment for which relief is claimed, the net amount of the dividends paid by the company exceeds the net amount of the company's dividends in each of the four years of assessment 1962-63, 1963-64, 1964-65 and 1965-66, then the aggregate relief, as calculated in accordance with the foregoing subsections apart from any reduction under the proviso to subsection (1), shall be reduced by four-fifths of whichever excess is the least:

Provided that—

- (a) if the net amount of the dividends in any of the years 1962-63, 1963-64 and 1964-65 is higher than the corresponding amount for the year before that year, and is also higher than the corresponding amount for the year after (adjusted, if it is the year 1965-66, for the increase in the standard rate of income tax), the year to which this applies shall be left out of account, but if it applies to the year 1962-63, the year 1961-62 shall be substituted; and
  - (b) in determining whether there is any such excess in the case of the year 1965-66, or what is the amount of that excess, there shall be deducted from the dividends paid in that year any amount treated under section 83 of this Act as paid in the following year; and
  - (c) if between any earlier year of assessment and that for which relief is claimed there has been any increase in the paid up share capital of the company for any new consideration received by the company, then the dividends paid in the earlier year shall be treated as increased by such amount as is equal before deduction of income tax therefrom to six per cent. of the amount or value of that consideration.
- (5) Where, in any year of assessment for which relief is claimed, the company by virtue of an election under section 48 of this Act pays any dividends without deduction of income tax, then the relief shall be reduced in the proportion which those dividends bear to the total amount of the dividends paid by the company in that year or, if all the dividends so paid are paid without deduction of income tax, relief shall not be given to the company for that year.
- (6) In relation to the cases dealt with by Schedule 20 to this Act, this section shall have effect subject to the provisions of that Schedule.
- (7) A company entitled to relief under this section shall, on making a claim to the inspector and on proof to his satisfaction of the amount due, be paid by the Board out of moneys provided by Parliament a sum equal to that amount (which shall not be treated as income for purposes of corporation tax); but the Board may by statutory instrument make regulations as to the time and manner of making claims for relief, and the information and evidence to be furnished in connection therewith, and as to the manner



in which any sums paid by way of relief and afterwards found not to have been due may be recovered.

Section 9 of the Income Tax Management Act 1964 shall apply to any claim under this section.

- (8) For the calculation of relief under this section—
- (a) references to income in the base year and to the profits tax thereon are references to income as computed for the charge to income tax for that year (omitting any amount on which relief from tax is allowed otherwise than by way of credit for foreign tax or on which the company charges the tax against any other person otherwise than under section 184 of the Income Tax Act 1952) and to the profits tax on the income of the period used in the computation;
  - (b) "credit for foreign tax" means a credit under Part XIII of the Income Tax Act 1952 and, in relation to the base year, means the credit allowed against income tax for that year and, where credit was allowed against income tax, any credit allowed against the profits tax on the income in the base year, and "unused credit for foreign tax" means foreign tax which cannot be allowed as a credit because the foreign tax exceeds the United Kingdom taxes;
  - (c) "the current charge to corporation tax" means in relation to any year of assessment the corporation tax which, at the rate for the preceding financial year, would be chargeable on the income in question;
  - (d) "dividend" does not include a capital dividend, and in relation to any dividends "net amount" means the amount, less any income tax deducted or deductible, and "income tax deducted or deductible" includes any income tax that might have been deducted but for the dividends being group income;
  - (e) "the related period" in relation to any year of assessment is the company's accounting period ending at or last before the beginning of that year or, if that is a period of less than twelve months, the twelve months ending with that period (the necessary amounts for any such period of twelve months being found by division and aggregation or apportionment of amounts for accounting periods wholly or partly comprised in it).
- (9) For the purposes of this section "overseas source of trading income" means a trade exercised outside the United Kingdom by the company claiming relief (a trade exercised in more than one territory being for this purpose regarded as so many separate trades), except that it includes also any investment of that company in a company resident in a territory outside the United Kingdom where either—
- (a) the company claiming relief controls directly or indirectly, not less than one tenth of the voting power in the latter company ; or
  - (b) a third company having such control also controls directly or indirectly, not less than one-half of the voting power in the company claiming relief.

## **85 Transitional relief for companies paying dividends out of pre-1966-67 profits.**

- (1) With a view to taking account in relation to distributions made by a company in or after the year 1966-67 (but not after the year 1968-69) of income tax borne by the company in earlier years of assessment, a company resident in the United Kingdom shall be entitled to be treated for purposes of section 48 of this Act as if the provisions of that section about the carry forward from one year to another of a surplus of franked investment income applied to a carry forward from the year 1965-66, and as if in

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that year the company had had a surplus of franked investment income of an amount computed in accordance with this section (" the notional surplus ").

- (2) Subject to subsections (7) and (8) below, the notional surplus shall be whichever is the greater of—
- (a) an amount (" the one year surplus ") calculated so that income tax on it at the standard rate for the year 1965-66 may represent, according to the rules prescribed by this section, the proportion referable to the company's income arising in that year which is subject to income tax and profits tax of the extra charge to those taxes as compared with a charge to corporation tax, but so that the one year surplus shall not exceed the amount on which the repayments of income tax under this section would equal the income tax paid by the company on distributions made by it in the year 1966-67;
  - (b) an amount ("the three year surplus") calculated in accordance with the rules prescribed by this section to represent the excess, adjusted for any relief under section 84 of this Act, of the company's dividends (other than capital dividends) in the years 1966-67, 1967-68 and 1968-69 over the distributable profits of the financial years 1966, 1967 and 1968, but so that the three-year surplus shall not exceed the amount on which the repayments of income tax under this section would equal the income tax ultimately borne by the company in the years 1963-64, 1964-65 and 1965-66.
- (3) For the calculation of the one year surplus, the extra charge to income tax and profits tax as compared with a charge to corporation tax for the year 1965-66 shall be arrived at (subject to subsection (4) below) by aggregating—
- (a) the income tax (at the standard rate or the net United Kingdom rate, as the case may be) deducted from dividends received by the company in the year from companies resident in the United Kingdom, in so far as that tax is ultimately borne by the company; and
  - (b) the profits tax charged on the company for any chargeable accounting period or part of a chargeable accounting period falling within the year (or, if the liability to profits tax was affected by a notice under section 22 of the Finance Act 1937 (groups of companies), the tax which would have been so charged but for the notice); and
  - (c) the appropriate fraction of the income tax ultimately borne by the company on income arising in the year other than the tax deducted from dividends received from companies resident in the United Kingdom, the appropriate fraction being that obtained by dividing by the standard rate of income tax for the year the difference between that rate and the rate of corporation tax for the financial year 1965 ;

and the proportion of this referable to the company's income arising in the year which is subject to income tax and profits tax shall be taken to be the fraction obtained by dividing the aggregate amount of the income tax at (a) and (c) above by the sum of that amount and the amount of the corporation tax charged on the company for the financial year 1965.

The reference in paragraph (c) above to income arising in the year shall, where income tax is to be computed by reference to the amount received in the United Kingdom, be construed as a reference to the income so received.

- (4) Where the dividends received by the company in the year 1965-66 include dividends from a member of the same group of companies, and that member pays in the year a gross amount in dividends greater than its standard amount, then there shall be

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excluded from the dividends taken into account under subsection (3) (a) above a part of the dividends received from that member which bears to the whole the same proportion as the excess bears to all the dividends paid by that member in the year 1965-66:

Provided that this subsection shall not apply unless the gross amount of the dividends received by the company in the year 1965-66 from members of the same group of companies exceeds one-third of the gross amount of the dividends received by the company in its standard period from companies then being members of the same group of companies (or, if the standard period is less than three years, an amount bearing to the dividends last mentioned the same proportion as one year bears to the standard period), and where any dividends would fall to be excluded under this subsection, the company may elect that the exclusion shall be of such part of the dividends received from members of the same group as is equal to the excess referred to in this proviso.

This subsection shall be construed in accordance with section 83 of and Schedule 19 to this Act.

- (5) In arriving at the amount ultimately borne by the company of the income tax at (3)(c) and (c) above, the deduction of tax by the company under section 184 (dividends) of the Income Tax Act 1952 shall not be treated as reducing the tax ultimately borne by the company, but any tax otherwise charged against any person by the company and any relief under section 341 of that Act (relief for trade loss against general income) shall be set, as far as may be, against income tax borne by the company in the year other than the tax at 3(a) or (c), then against the tax at (3)(c), then against the tax at (3)(a).
- (6) For the calculation of the three year surplus—
- (a) the dividends in the three years of assessment shall be taken before deduction of income tax, and (except in the calculation under paragraph (c) below) shall be taken to include any amount treated under section 83 of this Act as a dividend paid in the year 1966-67 ;
  - (b) the distributable profits for the three financial years shall be arrived at by taking the profits on which corporation tax is charged for those years, less the corporation tax so charged and any credit for foreign tax allowed against corporation tax, and less the amount of any directors' remuneration not deductible in computing those profits, and adding—
    - (i) franked investment income and group income received in those years ;
    - (ii) the amount of any deductions made in assessing that tax for investment allowances or scientific research allowances (on the basis that deductions for capital allowances are referred to other allowances in priority to investment or scientific research allowances), and of any deductions so made for losses, allowances or expenses of management of any period falling outside those years;
  - (c) the excess of the dividends at (a) above over the distributable profits at (b) above shall be adjusted for relief under section 84 by—
    - (i) finding the balance of those dividends that remains after deduction of the amount on which income tax at the standard rate for the year 1965-66 would equal the aggregate relief under section 84 for the three years of assessment; and
    - (ii) reducing the excess in the proportion which that balance bears to the actual dividends ;
  - (d) the income tax ultimately borne by the company in the years 1963-64, 1964-65 and 1965-66 shall be taken to be the amount borne by it in respect of its income

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by deduction or otherwise (at the standard rate or at the net United Kingdom rate), after deduction of all reliefs and of all tax charged in any of those years against any other person under section 184 of the Income Tax Act 1952 or otherwise.

- (7) Where a company is wound up, the three year surplus shall be computed by reference to the period ending with its last accounting period, if that ends before the end of the financial year 1968.
- (8) If in the case of any company the income tax at (3)(a) and (c) above is not greater than the corporation tax with which the company is charged for the financial year 1965, any one year surplus shall be disregarded, and the notional surplus shall be taken to be the three year surplus (if any).
- (9) Relief may be claimed and allowed under this section by reference to any one year surplus, notwithstanding that the notional surplus may fall to be finally determined by reference to a three year surplus.
- (10) Part I of Schedule 12 to this Act shall have effect in relation to claims for relief under this section as it has effect in relation to other claims made for purposes of section 48 of this Act, except that a claim under this section may be made in relation to a one year surplus before the time otherwise allowed under the said Part I and, if made before the passing of an Act fixing the rate of corporation tax for the financial year 1965, may be determined (subject to later adjustment if need be) in accordance with any Resolution for fixing that rate which may have been passed by the Committee of Ways and Means of the House of Commons and agreed to by the House.
- (11) In a case where section 350 of the Income Tax Act 1952 applies, the tax deducted from a dividend shall be deemed for purposes of this section to be tax at the net United Kingdom rate, for the purpose of reckoning either the tax borne by the recipient or the tax charged against another person by the company paying the dividend; and the amount charged against another person by deduction of tax from any other payment shall for the purposes of this section, in a case to which section 350(2) applies, be taken not to include the tax chargeable under section 170 of that Act by virtue of section 350(2).
- (12) A company claiming relief under this section may, if the greater part of its undertaking consists in the ownership or operation of ships, elect that in the application to it of subsection (2) (b) above there shall be substituted for the income tax ultimately borne by the company in the years 1963-64, 1964-65 and 1965-66 the income tax ultimately borne by it in a period ending with the year 1965-66, but beginning with such year of assessment earlier than the year 1963-64, but not earlier than the year 1956-57, as may be specified in the election ; and subsection (6) (b) shall then apply to the years comprised in that period as it is expressed to apply to the years 1963-64, 1964-65 and 1965-66.

## **86 Transitional assistance to water companies in respect of taxation on dividends.**

- (1) Where a water company is liable to account for and pay income tax in respect of dividends paid by it in the year 1966-67 or either of the two following years of assessment, the Minister of Housing and Local Government may, subject to such conditions as he sees fit to impose, make to the Board such payments towards satisfaction of that liability as are authorised by this section, and his expenses of so doing shall be defrayed out of moneys provided by Parliament.

- (2) In computing the payments authorised by this section to be made for the benefit of a water company in respect of dividends paid in any year of assessment, there shall be deducted from the amount of the dividends paid in the year—
  - (a) the amount of any franked investment income received by the company in the year ; and
  - (b) forty per cent. of the related profits on which the company is charged to corporation tax.
- (3) For purposes of subsection (2) (b) above the related profits on which the company is charged to corporation tax are, in relation to dividends paid for any period, the amount of the profits on which the company is so charged in respect of that period (ascertained, if need be, by division and apportionment or aggregation of amounts for accounting periods wholly or partly comprised in that period), but where dividends are paid for the same period in more than one year of assessment, the said amount shall be apportioned rateably between the parts paid in each of those years.
- (4) The payment that may be made under this section in respect of a company's dividends shall be an amount not exceeding for the year 1966-67 three-quarters, for the year 1967-68 one-half and for the year 1968-69 one-quarter of the amount (if any) by which income tax at the standard rate on the amount ascertained in accordance with subsections (2) and (3) above exceeds the yield to the company in that year of a water rate of twopence in the pound.
- (5) No payment shall be made for the benefit of a company under this section except on a claim made to the Minister of Housing and Local Government in such manner, and supported by such evidence, as he may direct; and it shall be lawful for the Board and their officers to disclose to the Minister such particulars as he may reasonably require for determining whether any, and if so what, payment is authorised by this section in the case of any company.
- (6) In relation to water companies whose area of supply lies wholly or mainly in Wales references to the Secretary of State shall be substituted in this section for the references to the Minister of Housing and Local Government.
- (7) In this section " water company " means any company (being a body corporate) which is a statutory water undertaker for purposes of the Water Act 1945.
- (8) Notwithstanding anything in the Government of Ireland Act 1920 the Parliament of Northern Ireland shall have power to make laws for purposes similar to the purposes of this section.

## **87 Transitional relief for existing companies on cessation of trade etc.**

- (1) Where a company is, in respect of any source of income, within the charge to corporation tax under any relevant Case of Schedule D during the year 1965-66, and ceases to possess that source at any time between that year and the year 1971-72, then subject to the provisions of this section the company shall be entitled to relief from tax in respect of any amount by which, if the company had ceased to possess the source at the end of the year 1965-66, the taxed income from the source during the cessation period would have been less than the actual taxed income during that period.
- (2) Relief under this section shall be an allowance equal to whichever is the less of—
  - (a) the amount referred to in subsection (1) above; and

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- (b) an amount equal to the appropriate fraction of the taxed income from the source during a period equal in length to the cessation period but ending when the company ceases to possess the source :

Provided that if the company ceases to possess the source in the year 1968-69 the allowance shall be reduced by one quarter: if in the year 1969-70, by one half: and if in the year 1970-71, by three-quarters.

- (3) Where a company is entitled to an allowance under this section in respect of any source of income, then for the purpose of any liability of the company to corporation tax or income tax (but not for any other purpose) the amount of the income arising to the company from the source shall be treated as reduced by the amount of the allowance (the reduction being made, as far as may be, in the income arising in accounting periods for which the company is chargeable to corporation tax in respect of the source and, subject to that, in the income chargeable to income tax before the year 1966-67, and being made, as far as may be, in the income of a later rather than in that of an earlier period or year); and relief under this section shall be given in priority to any other relief.
- (4) For purposes of this section " taxed income " means, in relation to any source, the amount of the income falling to be included in assessments for the purpose of charging the company to income tax or corporation tax in respect of the source.
- (5) For purposes of this section the relevant Cases of Schedule D are Cases I to V; and in relation to any source of income—
- (a) " the cessation period " means the period over which assessments to income tax might have been revised on the company ceasing to possess the source at the end of the year 1965-66 (and accordingly is three years for Cases I and II and two years for Cases III, IV and V); and
- (b) " the appropriate fraction " is such fraction of the cessation period as falls after the time when the company is first within the charge to corporation tax in respect of the source (and accordingly is, for Cases III, IV and V, one half).
- (6) In relation to Cases I and II of Schedule D, the provisions contained in Schedule 21 to this Act shall have effect to supplement the foregoing subsections, and those subsections shall have effect subject to and in accordance with those provisions.
- (7) In relation to Cases III, IV and V of Schedule D, this section shall, if a company at any material time ceases to possess part of a source of income, apply as if that part had been a separate source, but shall not apply to a source or part of a source where the income from it falls to be charged in accordance with section 430(1) of the Income Tax Act 1952 (which relates to the taxation of investment income of certain life assurance companies).
- (8) There shall be made any such adjustments of any person's liability to corporation tax or income tax, whether by way of repayment of tax, assessment or otherwise, as may be necessary to give effect to this section or Schedule 21 to this Act, and any such adjustment may be made at any time not later than six years after the event giving rise to the adjustment.

*Supplementary.*

**88 Consequential amendments of estate duty.**

- (1) For purposes of Part IV of the Finance Act 1940 (which provides, in relation to certain companies, for estate duty to be charged on assets of the company) the net income of a company or a loss sustained by a company shall for any accounting year ending before 6th April 1966 be determined in accordance with section 49 of that Act as if this Part of this Act had not been passed, and if the last accounting year in relation to any death ends before that date, shall also be so determined for the period between the end of that year and the death of the deceased.
- (2) Subject to subsection (1) above, the income of a company for any accounting year or for the period between the end of the last accounting year and the death of the deceased, shall be determined for purposes of Part IV of the Finance Act 1940 according to the rules applicable under this Part of this Act to the computation for corporation tax of the total profits of a company resident in the United Kingdom (losses of any description being deducted from income of any description), except that—
  - (a) franked investment income and group income shall be included, but not profits which are neither bona fide earned in the ordinary course of business nor produce of income yielding assets ;
  - (b) no regard shall be had—
    - (i) to any investment allowances, initial allowances or balancing charges; nor
    - (ii) to any deduction falling to be made in respect of losses, allowances or expenses of management outside the period in which a deduction originally falls to be made in respect thereof; nor
    - (iii) to any restriction on the deduction that may be made for directors' remuneration;

and the net income of the company for any accounting year shall be determined by deducting from the income of the company for that year any corporation tax borne by the company in respect of the year, and (in so far as a deduction is not made in respect of the same matter in computing the income) the liabilities of the company for that year in respect of any kind of payment from which income tax is deductible, or which is assessable to income tax, but excluding liabilities in respect of any dividend on shares in or interest on debentures of the company and liabilities incurred otherwise than for the purposes of the business of the company wholly and exclusively.

This subsection shall apply for determining a loss sustained by a company in an accounting year as it applies for determining the net income for an accounting year.

- (3) In Schedule 7 to the Finance Act 1940, in paragraph 4(1) (which provides for making adjustments for purposes of Part IV of that Act in respect of an addition's having been made to the assets of the company) the reference to receipts representing income in respect of which the company was liable to pay or bear income tax shall include any franked investment income or group income and the reference to income tax shall include corporation tax.
- (4) In the Finance Act 1954, in section 30(3) (under which in valuing a company's assets for purposes of Part IV of the Finance Act 1940 allowances may be made for the company's prospective tax liabilities, with special provision for the estimation of a liability based on past profits to tax on future profits) the words from " and in their estimation" onwards shall be omitted.

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*Status: This is the original version (as it was originally enacted).*

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- (5) Nothing in this Part of this Act or in the repeals consequential thereon shall affect the operation of section 58(1) of the Finance Act 1940 (which defines the companies falling within certain provisions of that Act by reference to income tax law).

## 89 Interpretation.

- (1) In this Act and in any Act passed after this Act " the Corporation Tax Acts ", except in so far as the context otherwise requires, means this Part of this Act (including provisions relating to income tax), together with the Income Tax Acts so far as those Acts apply for purposes of corporation tax and any other enactments relating to corporation tax.
- (2) For the purposes of this Part of this Act, except in so far as the context otherwise requires.—
- (a) " accounting date " means the date to which a company makes up its accounts, and " period of account " means the period for which it does so;
  - (b) " branch or agency " means any factorship, agency, receivership, branch or management;
  - (c) " charges on income ", subject to section 70(3) of this Act, has the meaning assigned to it by section 52;
  - (d) " distribution " has the meaning assigned to it by Schedule 11 to this Act;
  - (e) " the financial year 1965 " means the financial year beginning with April 1965, and similarly with references embodying other dates;
  - (f) " franked investment income " and " group income " shall be construed in accordance with section 48 of this Act, and any reference to a " surplus of franked investment income " is a reference to such a surplus as is referred to in section 48(1);
  - (g) " new consideration " has in other provisions the same meaning as in Part I of Schedule 11 to this Act;
  - (h) " preference dividend " means a dividend payable on a preferred share or preferred stock at a fixed gross rate per cent. or, where a dividend is payable on a preferred share or preferred stock partly at a fixed gross rate per cent. and partly at a variable rate, such part of that dividend as is payable at a fixed gross rate per cent., but it does not include any dividend or part of a dividend which is paid without deduction of income tax (and for this purpose a payment shall be treated as made without deduction of income tax unless either there is made from it the full deduction authorised by this Part of this Act or the payment is, before the passing of an Act imposing income tax for the year of assessment, made subject to deduction of tax by reference to a standard rate less than that ultimately imposed);
  - (i) " recognised stock exchange " has the same meaning as in the Prevention of Fraud (Investments) Act 1958, except that it includes the Belfast Stock Exchange ;
  - (j) " trade " includes " vocation ", and includes also an office or employment or the occupation of woodlands in any context in which the expression is applied to that in the Income Tax Acts ;
  - (k) a source of income is " within the charge to " corporation tax or income tax if that tax is chargeable on the income arising from it, or would be so chargeable if there were any such income, and references to a person, or to income, being within the charge to tax, shall be similarly construed.



- (3) Except as otherwise provided by this Part of this Act and except in so far as the context otherwise requires, expressions used in the Income Tax Acts have the same meaning in this Part of this Act as in those Acts; but no provision of this Part of this Act as to the interpretation of any expression, other than a provision expressed to extend to the use of that expression in the Income Tax Acts, shall be taken to affect its meaning in those Acts as they apply for the purposes of corporation tax.
- (4) For all purposes of the Corporation Tax Acts dividends shall be treated as paid on the date when they become due and payable, except in so far as section 69(1) of the Finance Act 1960 (authorised unit trust schemes) makes other provision as to amounts treated under that section as dividends.
- (5) Section 63(2) of the Finance Act 1947 and section 71 of the Finance Act 1948 (which contain provisions for treating certain amounts as being or not being remuneration of a director) shall apply for the purposes of corporation tax as they applied for purposes of the profits tax (references to section 74 of this Act being substituted for references to paragraph 11 of Schedule 4 to the Finance Act 1937).
- (6) Except as otherwise provided by this Part of this Act, any apportionment to different periods which falls to be made thereunder shall be made on a time basis according to the respective lengths of those periods.