



Finance Act 1966

1966 CHAPTER 18

PART III

CORPORATION TAX ACTS

26 Rate of corporation tax for financial years 1964 and 1965, and provisional collection of corporation tax.

- (1) For the financial years 1964 and 1965 the rate at which corporation tax is charged shall be 40 per cent.
- (2) Section 49(6) of the Finance Act 1965 (provisional collection of corporation tax) shall have effect subject to the following amendments (under which the latest date for a ways and means resolution fixing the rate of corporation tax for the financial year last ended becomes the same as is, under section 2 of the Provisional Collection of Taxes Act 1913, the latest date for such a resolution imposing income tax for the current year of assessment, and which exclude the conditions in that subsection concerning the agreement of the Commons House of Parliament to such resolutions)—
 - (a) the words " and the Resolution is agreed to by the House " shall cease to have effect,
 - (b) for the words " more than one month " there shall be substituted the words " later than 5th May next ", and
 - (c) the words " and agreed to " shall cease to have effect.

27 Amendments of Corporation Tax Acts.

Schedule 5 to this Act, which contains amendments of the Corporation Tax Acts relating to deductions allowable in computing profits, capital gains, annuity business of assurance companies, close companies, the definition of company distributions and other matters, and Schedule 6 to this Act, which contains administrative provisions for the Corporation Tax Acts, shall have effect.

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28 Dividends paid out of pre-1966-67 profits.

- (1) Subject to this section, in ascertaining under section 85 of the Finance Act 1965 the one year surplus of a company which is a member of a group of companies, there shall be excluded from the dividends taken into account under subsection (3)(a) of that section any dividends paid by another member of the group, and—
 - (a) references in subsections (5) and (8) of that section to the income tax at the said subsection (3)(a) shall be taken as references to the said subsection (3) (a) as restricted by the foregoing provisions of this section,
 - (b) in arriving at the fraction defined at the end of the said subsection (3) (income tax for 1965-66 divided by that plus corporation tax for the financial year 1965) income tax on dividends so excluded shall be excluded from the numerator and denominator, and
 - (c) subsection (4) of the said section 85 (which is superseded by this subsection) shall not apply.
- (2) If the one year surplus of a company which is a member of a group of companies as determined under subsection (1) above is less than the amount on which the repayments of income tax under the said section 85 by reference to a one year surplus would equal the income tax paid by the company on distributions made by it in the year 1966-67 but before 3rd May 1966, then subsection (1) above shall not apply, but the company's one year surplus shall be determined as if in subsection (2)(a) of the said section 85 the reference to distributions made by the company in the year 1966-67 were restricted to distributions made before 3rd May 1966.
- (3) For the purposes of this section a dividend (including a capital dividend) paid on or after 3rd May 1966 shall be regarded as having been paid before that date if—
 - (a) it was declared by the company in general meeting before that date, or
 - (b) 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
 - (c) it was paid in accordance with a decision of the directors and that decision was, with their authority, publicly announced before that date.
- (4) Part I of Schedule 7 to this Act shall have effect as respects the three year surplus under the said section 85 of a company which is a member of a group of companies and for the purposes of this section and paragraphs 1 to 4 of that Schedule—
 - (a) two companies shall be deemed to be members of a group of companies if one is the subsidiary of the other or both are subsidiaries of a third company.
 - (b) " subsidiary " has the meaning assigned to it for certain purposes of the profits tax by section 42 of the Finance Act 1938, and subsections (2) and (3) of that section shall apply as they applied for purposes of that section,and the provisions of the said section 85 relating to the one year surplus shall have effect subject to the provisions of Part II of Schedule 7 to this Act.
- (5) This section and the said Schedule shall have effect as if they had been enacted when the Finance Act 1965 was enacted.

29 Registered friendly societies carrying on life or endowment business.

- (1) Section 440(1) of the Income Tax Act 1952 (which, as applied, and extended to tax on chargeable gains, by the Corporation Tax Acts confers an exemption from tax on

friendly societies) shall not apply to profits arising from life or endowment business unless that business satisfies the conditions in Part I of Schedule 8 to this Act, and so far as the said section 440(1) relates to profits arising from life or endowment business it shall not exempt—

- (a) a friendly society registered after 31st December 1957 which at any time in the period of three months ending on 3rd May 1966 entered into any transaction in return for a single premium, being a transaction forming part of its life or endowment business, or
 - (b) subject to subsections (2) and (3) below, a friendly society registered after 3rd May 1966, or a friendly society which was registered in the period of three months ending on 3rd May 1966 but which at no time earlier than 3rd May 1966 carried on any life or endowment business.
- (2) Subsection (1)(b) above shall not apply to a friendly society if, by the rules of the society, the only life or endowment business which it may carry on is—
- (a) industrial assurance business as defined in section 1(2) of the Industrial Assurance Act 1923,
 - (b) assurance affording provision for sickness or other infirmity, whether bodily or mental, which is also assurance for a gross sum independent of sickness or other infirmity, where not less than sixty per cent. of the amount of the premiums is attributable to the provision afforded during sickness or other infirmity, and no bonus or addition may be declared upon the assurance of the gross sum, or
 - (c) contracts exclusively for the assurance of a gross sum or annuity payable on death to or for the benefit of the deceased's widow or dependent child,
- or business which falls within any two or all three of paragraphs (a), (b) or (c) above taken together.
- (3) Subsection (1)(b) above shall not apply to any part of a friendly society's tax exempt life or endowment business which it acquires by way of transfer of engagements or amalgamation from another friendly society, and which consists of business relating to contracts made not later than the time of transfer or amalgamation.
- (4) The limits of £500 and £104 in the proviso to section 8(1), and in section 41, of the Friendly Societies Act 1896 (which restrict the life assurance and annuity business which a registered friendly society may transact either generally or with any one person) shall be increased in accordance with Part II of Schedule 8 to this Act, and so much of section 440(1) of the Income Tax Act 1952 as applies limits of those amounts shall cease to have effect, but the said section 440(1) shall not apply to profits arising from life or endowment business consisting of the assurance of gross sums exceeding £500 or of the granting of annuities of annual amounts exceeding £104.

In applying the said limits of £500 and £104 any bonus or addition declared upon assurance of a gross sum or annuity shall be disregarded.

- (5) Subject to the said section 440(1) of the Income Tax Act 1952, the Corporation Tax Acts shall apply to the life or endowment business carried on by registered friendly societies in the same way as they apply to mutual life assurance business carried on by assurance companies, so however that the Treasury may by regulations contained in a statutory instrument subject to annulment in pursuance of a resolution of the Commons House of Parliament provide that those Acts as so applied shall have effect subject to such modifications and exceptions as may be prescribed by the regulations, and

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those regulations may in particular require any part of any business to be treated as a separate business.

- (6) If a friendly society registered not later than 3rd May 1966 begins after that date to carry on tax exempt life or endowment business or, in the opinion of the Chief Registrar of Friendly Societies, begins to carry on tax exempt life or endowment business on an enlarged scale, or of a new character, and it appears to the Chief Registrar, having regard to the restrictions placed on friendly societies registered after the said date by subsection (1)(b) of this section, that for the protection of the revenue it is expedient to do so, he may serve a notice on the friendly society referring to the provisions of this subsection and stating that he is considering the question whether, for the protection of the revenue, it is expedient to give a direction that, as from such date as may be specified in the notice, being the date when in the opinion of the Chief Registrar the relevant change in the society's activities took place, the society is to be treated as one within subsection (1)(b) of this section, and—
- (a) he shall consider any representations or undertakings made or offered to him by the friendly society within the period of one month from service of the notice, and if the society so requests shall afford it an opportunity of being heard by him not later than three weeks after the end of that period of one month,
 - (b) if after consideration of any such representations or undertakings, he remains of opinion that it is expedient to do so, direct that the society shall, subject to any further direction given by him cancelling that direction, be treated for the purposes of this section as a friendly society registered after 3rd May 1966, but subject to the like right of appeal as is conferred by section 77(6) of the Friendly Societies Act 1896 on cancellation of registration.
- In the application of this subsection to Scotland for references to the Chief Registrar of Friendly Societies there shall be substituted references to the assistant registrar for Scotland.
- (7) Nothing in this section shall affect the exemption conferred by section 440(1) of the Income Tax Act 1952 on unregistered friendly societies.
- (8) In this section and Schedule 8 to this Act " life or endowment business " means any business within section 8(1)(b) or (d) or (dd) of the Friendly Societies Act 1896 (life insurance and endowments and insurance of money payable on the duration of a life for a specified period) and any other business within the definition of " life assurance business" in section 33(1) of the Insurance Companies Act 1958 but—
- (a) shall include business within section 8(1)(a) of the Friendly Societies Act 1896 for the relief or maintenance of any person in old age (meaning any age after fifty),
 - (b) shall not include the granting of any such annuities as are referred to in section 26(1) of the Finance Act 1956 (retirement annuities, etc.),
 - (c) shall not include the assurance of any annuity the consideration for which consists of sums obtainable on the maturity, or on the surrender, of any other policy of assurance issued by the friendly society, being a policy of assurance forming part of the tax exempt life or endowment business of the friendly society.
- (9) In this section and the said Schedule—

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" tax exempt life or endowment business " means life or endowment business other than business profits arising from which are excluded from section 440(1) of the Income Tax Act 1952 by subsection (4) of this section.

" policy ", in relation to life or endowment business, includes an instrument evidencing a contract to pay an annuity upon human life,

and references in this section and the said Schedule to a friendly society include references to any branch of that friendly society.

- (10) It is hereby declared that for the purposes of this section and the said Schedule a registered friendly society formed on the amalgamation of two or more friendly societies shall be treated as different from the amalgamated societies:

Provided that—

- (a) the society shall be treated as registered not later than 3rd May 1966 if at the time of the amalgamation all the friendly societies amalgamated were societies which, subject to satisfying the conditions of Part I of Schedule 8 to this Act, were eligible for the exemption conferred by section 440(1) of the Income Tax Act 1952 in respect of life or endowment business and at least one of them was a society not within subsection (1)(b) of this section,
 - (b) in determining, as respects a society resulting from an amalgamation and coming within subsection (6) of this section by virtue of proviso (a) above, the questions in that subsection in the period immediately following the amalgamation, the activities of the amalgamated societies in the period immediately preceding the amalgamation shall be treated as if they were the activities then being carried on by the society resulting from the amalgamation.
- (11) This section has effect for corporation tax for the financial year 1966 and later financial years and for income tax for the year 1966-67 and later years of assessment, but nothing in this section shall withdraw exemption under section 440(1) of the Income Tax Act 1952 for profits arising from any part of a life or endowment business relating to contracts made not later than 3rd May 1966.
- (12) In the application of this section and the said Schedule to a friendly society which is for the time being registered or deemed to be registered in Northern Ireland under the enactments relating to friendly societies in Northern Ireland—
- (a) for references to section 1(2) and section 24 of the Industrial Assurance Act 1923 there shall be substituted references to section 1(2) and section 24 respectively of the Industrial Assurance Act (Northern Ireland) 1924,
 - (b) for references to the Friendly Societies Act 1896 or to any provision of that Act there shall be substituted references to that Act or provision as it applies in Northern Ireland,
 - (c) for the reference in paragraph 1(1)(c) of the said Schedule to section 3 of the Industrial Assurance and Friendly Societies Act 1929 there shall be substituted a reference to the Industrial Assurance and Friendly Societies Act (Northern Ireland) 1929,
 - (d) for the reference to section 33(1) of the Insurance Companies Act 1958 there shall be substituted a reference to section 1(a) of the Assurance Companies Act 1909,
 - (e) for references to the Chief Registrar of Friendly Societies there shall be substituted references to the registrar having corresponding functions under the law of Northern Ireland, and so that any power exercisable by the Chief

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Registrar with the consent of the Treasury shall be exercisable by that registrar with the consent of the Ministry of Commerce of the Government of Northern Ireland,

and nothing in this section or the said Schedule shall restrict the powers of the Parliament of Northern Ireland to make laws with respect to any matter with respect to which that Parliament has power to make laws.

Double taxation relief.

30 Unilateral relief for underlying tax etc.

- (1) Paragraph 4 of Part I of Schedule 17 to the Income Tax Act 1952 (which as extended by section 64 of the Finance Act 1965 affords unilateral relief from income tax and corporation tax in respect of dividends paid by companies resident in the Commonwealth territories, for overseas taxation on their profits) shall be repealed as respects any dividend paid (in the sense of section 89(4) of the Finance Act 1965) after 5th April 1966, and section 64(2)(b) of the Finance Act 1965 (which provides for the prospective repeal of the said paragraph 4) shall also be repealed.
- (2) Relief from income tax for the year 1968-69 or later years of assessment, or from corporation tax for the financial year 1968 or later years, shall not be given by allowing credit under paragraph 1 of Part I of the said Schedule 17 for overseas tax on a dividend paid by a company resident in a territory outside the United Kingdom unless—
 - (a) the overseas tax is directly charged on the dividend, whether by charge to tax or deduction of tax at source or otherwise, and the whole of it represents tax which neither the company nor the recipient would have borne if the dividend had not been paid, or
 - (b) the dividend is paid to a company within paragraph 3 in the said Part I (that is to say a company resident in the United Kingdom which controls, directly or indirectly, not less than a fraction of the voting power in the company paying the dividend, the fraction being, by virtue of paragraph 4(3) of Schedule 16 to the Finance Act 1965, one-tenth as respects dividends paid by a company resident in the Commonwealth territories and one-quarter in other cases), or
 - (c) the dividend is paid to a company to which paragraph 5(1) of the said Schedule 16 (companies carrying on foreign insurance business) applies and is a dividend of the kind described in that sub-paragraph.

31 Transitory provisions for company dividends paid to non-residents.

- (1) This section applies to dividends paid in the period comprising the years 1966-67 and 1967-68 to persons resident in the overseas territories with the Governments of which the double taxation agreements mentioned in Schedule 9 to this Act are made, but the Treasury may by order contained in a statutory instrument, of which a draft has been laid before and approved by the Commons House of Parliament, extend or further extend that period in relation to dividends paid to residents in any of those territories specified in the order (or in relation to dividends paid to residents in all those territories), and the period as so extended or further extended may include part only of a year of assessment.
- (2) Subject to this section and the said Schedule, the amount of income tax under Schedule F chargeable in respect of a dividend to which this section applies shall be subject to such limitation or exemption, if any, as would apply under the relevant agreement in

the converse case (that is in the case of a dividend paid by a company resident in the overseas territory to a person resident in the United Kingdom, and assuming that all the circumstances of that case are the exact converse of those of the actual case) so as to afford relief from any description of tax in the overseas territory chargeable on the dividend in that converse case.

- (3) If without this subsection subsection (2) above would attach a condition making the limitation or exemption dependent on the recipient of the dividend being subject to tax where he resides in respect of the dividend, that condition shall not apply if he is not so subject to tax by reason only of a provision in an agreement having effect under section 347 of the Income Tax Act 1952 which in all or any circumstances confers exemption from all tax where he resides in respect of dividends.
- (4) Any limitation (as well as any exemption) applied by subsection (2) above to the amount of income tax under Schedule F chargeable in respect of a dividend—
 - (a) shall be included in the references to exemption from income tax in section 65(5) of the Finance Act 1965 (dividend stripping, etc.), and
 - (b) where the recipient of the dividend is not subject to tax where he resides in respect of the dividend, shall for the purposes of section 23 of the Finance Act 1959 (certain transactions involving purchase and sale of securities) be included in the references to exemption from income tax in section 25(1) of that Act.
- (5) If any agreement, or any provision in an agreement, ceases to have effect, this section and Schedule 9 to this Act shall cease to have effect in relation to that agreement or that provision as respects dividends paid after the time when that agreement ceases to have effect for the purposes of income tax (other than surtax), or as the case may be as respects dividends paid after the time when that provision ceases to have effect.
- (6) If effect is given by an Order in Council to an amending agreement which, as regards dividends paid after a specified time, affords (in any circumstances) relief from income tax at the standard rate under Schedule F (other than relief corresponding to that afforded by section 227(2) of the Income Tax Act 1952) this section and Schedule 9 to this Act shall, as regards dividends paid after that time, cease to have effect in relation to the agreement which is amended.
- (7) In determining for the purposes of section 347(4) of the Income Tax Act 1952 (under which effect may be given to double taxation agreements giving retrospective relief) whether retrospective provisions are provisions for relief the relief afforded by this section, and the withdrawal of that relief by virtue of the last foregoing subsection in consequence of the amendment of the relevant agreement, shall be disregarded.
- (8) The obligations as to secrecy imposed by the Income Tax Acts and the Corporation Tax Acts upon persons employed in relation to Inland Revenue shall not prevent the disclosure to the authorised officer of the Government of an overseas territory which is a party to any of the double taxation agreements mentioned in Schedule 9 to this Act of such facts as may be necessary to enable the proper relief to be given under this section.
- (9) The powers of making regulations conferred by section 351 of the Income Tax Act 1952 shall be exercisable for the purpose of carrying out the provisions of this section, and the provisions of double taxation agreements as applied by this section, as they are exercisable for the purpose of carrying out the provisions of section 347 of that Act, and of arrangements having effect thereunder.

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- (10) Effect shall be given to the relief afforded by this section on a claim to which section 9 of the Income Tax Management Act 1964 shall apply, but subject to any provisions made pursuant to the last foregoing subsection for the payment of dividends without deduction of all or any tax.
- (11) In this section and in Schedule 9 to this Act—
- (a) in relation to a dividend paid to a person resident in an overseas territory " the overseas territory " means that territory and " the relevant agreement " means the double taxation agreement in the Order in Council mentioned in Schedule 9 to this Act which concerns that overseas territory with any amendments to which effect is given by any subsequent Order in Council made before or after the passing of this Act,
 - (b) references to residence shall be construed in accordance with the relevant agreement,
- and section 89(4) of the Finance Act 1965 shall apply to determine for the purposes of this section and Schedule 9 to this Act the date when any dividend chargeable to income tax under Schedule F is paid.

32 Transitory provisions for interest and royalties paid to non-residents.

- (1) This section applies to any payments to a person resident in an overseas territory made in the period comprising the financial years 1966 and 1967, but the Treasury may by order contained in a statutory instrument, of which a draft has been laid before and approved by the Commons House of Parliament, extend or further extend that period in relation to residents in an overseas territory specified in the order (or residents in all overseas territories) and the period as so extended or further extended may include part only of a financial year.
- (2) In Schedule 11 to the Finance Act 1965 (which defines company distributions) neither—
 - (a) paragraph 1(1)(d)(iv) (which, as amended by this Act, relates to interest, etc., in respect of securities held by a company which is not resident in the United Kingdom and is in the same group of companies as the paying company), nor
 - (b) paragraph 9(1)(c) (royalties paid by a close company to a participator),
 shall apply to any such payment if, under an existing double taxation agreement, the recipient is entitled to relief (whether by way of exemption from tax, or by virtue of a limitation on the rate of tax) from income tax (not including surtax) chargeable in the United Kingdom on that payment.
- (3) Subsection (2) above shall not apply to any payment to a company more than fifty per cent. of the voting power in which is controlled, directly or indirectly, by a person or persons resident in the United Kingdom.
- (4) In this section " existing double taxation agreement " means any arrangements having effect by virtue of section 347 of the Income Tax Act 1952, being arrangements specified in an Order in Council under that section of which the draft was approved by the Commons House of Parliament before 1st January 1966, together with any other such arrangements, whenever made, providing for their modification in any respect; but any arrangements taking effect under the said section 347 after the passing of this Act and modifying an existing double taxation agreement in any respect may exclude the provisions of this section as they apply in relation to that agreement, and the exclusion shall be as respects payments, or a specified description of payments,

made after the date specified in the arrangements, which may be a date before or after the making of the arrangements.

- (5) In this section "overseas territory", in relation to an existing double taxation agreement, means the territory (other than the United Kingdom) to which the agreement applies.

33 Transitory provisions for double taxation agreements having retrospective effect.

- (1) Any arrangements to which effect is given under section 347 of the Income Tax Act 1952 by virtue of an Order in Council made in pursuance of an Address presented to Her Majesty by the Commons House of Parliament before 1st January 1968 may include a provision which withdraws relief from corporation tax afforded by provisions of an existing double taxation agreement concerning interest or royalties notwithstanding that the relief so withdrawn is for periods which include periods before the making of the arrangements.
- (2) In this section "existing double taxation agreement" means any arrangements to which effect has been given under the said section 347 by virtue of an Order in Council made before the passing of this Act.
- (3) This section applies in relation to corporation tax for the financial years 1964 and 1965 or for any later financial year.

34 Regulations relating to double taxation relief.

- (1) In section 351(1)(c) of the Income Tax Act 1952 (which authorises the making of the necessary adjustments in respect of income tax deductible from any periodical payment where the tax has not been, but ought to have been, deducted) the word "periodical" (in the expression "periodical payment") shall cease to have effect.
- (2) The giving of relief under Part XIII of the Income Tax Act 1952 (double taxation relief), or under this Act, in respect of income tax under Schedule F by authorising, pursuant to regulations under the said section 351, the making of distributions of amounts exceeding what would otherwise be distributed shall not affect the provisions of section 47(2) of the Finance Act 1965 (which determine the amount of income tax under Schedule F chargeable in respect of any distribution), and references in that subsection to the amount of the distribution shall be taken as references to that amount, apart from any increase made in pursuance of such regulations.