



Finance Act 1989

1989 CHAPTER 26

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

Income tax rates and allowances

30 Charge and rates of income tax for 1989-90

- (1) Income tax shall be charged for the year 1989-90, and the basic rate of tax shall be 25 per cent.
- (2) The higher rate at which income tax is charged for the year 1989-90 in respect of so much of an individual's total income as exceeds the basic rate limit (£20,700) shall be 40 per cent.

31 Age allowance

- (1) In section 257 of the Taxes Act 1988—
 - (a) in subsection (3) (increased allowance for those aged 80 and over) for “80”, wherever occurring, there shall be substituted “75”, and
 - (b) in subsection (5) (age allowance withdrawn by two-thirds of amount by which income exceeds a specified limit) for “two-thirds” there shall be substituted “one half”.
- (2) This section shall have effect for the year 1989-90.

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32 Operative date for PAYE

For the year 1989-90, sections 1(5) and 257(10) of the Taxes Act 1988 (which specify the date from which indexed changes in the basic rate limit and in allowances are to be brought into account for the purposes of PAYE) shall have effect as if for the reference to 5th May there were substituted a reference to 18th May.

33 Married couples

- (1) Sections 257 to 257F and 265 of the Taxes Act 1988, as inserted for the year 1990-91 and subsequent years by the Finance Act 1988, shall be amended as follows.
- (2) In section 257(1) for “£2,605” there shall be substituted “£2,785”.
- (3) In section 257(2) for “£3,180” there shall be substituted “£3,400”.
- (4) In section 257(3)—
 - (a) for “80” there shall be substituted “75”, and
 - (b) for “£3,310” there shall be substituted “£3,540”.
- (5) In section 257(5)—
 - (a) for “£10,600” there shall be substituted “£11,400”, and
 - (b) for “two-thirds” there shall be substituted “one half”.
- (6) In section 257A(1) for “£1,490” there shall be substituted “£1,590”.
- (7) In section 257A(2) for “£1,855” there shall be substituted “£1,985”.
- (8) In section 257A(3)—
 - (a) for “80” there shall be substituted “75”, and
 - (b) for “£1,895” there shall be substituted “£2,025”.
- (9) In section 257A(5)—
 - (a) for “£10,600” there shall be substituted “£11,400”, and
 - (b) for “two-thirds” there shall be substituted “one half”.
- (10) In sections 257B(2), 257D(8) and 265(3) after paragraph (b) there shall be inserted “or
 - (c) on account of any payments to which section 593(2) or 639(3) applies,”.
- (11) In section 257E(1)(b) for “80” there shall be substituted “75”.
- (12) In section 257E(2)(a) for “£3,180” there shall be substituted “£3,400”.
- (13) In section 257E(2)(b) for “£3,310” there shall be substituted “£3,540”.

Corporation tax rates etc.

34 Charge and rate of corporation tax for financial year 1989

Corporation tax shall be charged for the financial year 1989 at the rate of 35 per cent.

35 Corporation tax: small companies

- (1) For the financial year 1989—

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- (a) the small companies' rate shall be 25 per cent., and
 - (b) the fraction mentioned in section 13(2) of the Taxes Act 1988 (marginal relief for small companies) shall be one fortieth.
- (2) In section 13(3) of that Act (limits of marginal relief), in paragraphs (a) and (b)—
- (a) for “£100,000” there shall be substituted “£150,000”, and
 - (b) for “£500,000” there shall be substituted “£750,000”.
- (3) Subsection (2) above shall have effect for the financial year 1989 and subsequent financial years; and where by virtue of that subsection section 13 of the Taxes Act 1988 has effect with different relevant maximum amounts in relation to different parts of a company's accounting period, then for the purposes of that section those parts shall be treated as if they were separate accounting periods and the profits and basic profits of the company for that period shall be apportioned between those parts.

Receipts basis etc.

36 Schedule E: revised Cases

- (1) The Taxes Act 1988 shall be amended as follows.
- (2) In paragraph 1 of section 19(1) the following Cases shall be substituted for Cases I, II and III—

“Case I: any emoluments for any year of assessment in which the person holding the office or employment is resident and ordinarily resident in the United Kingdom, subject however to section 192 if the emoluments are foreign emoluments (within the meaning of that section) and to section 193(1) if in the year of assessment concerned he performs the duties of the office or employment wholly or partly outside the United Kingdom;

Case II: any emoluments, in respect of duties performed in the United Kingdom, for any year of assessment in which the person holding the office or employment is not resident (or, if resident, not ordinarily resident) in the United Kingdom, subject however to section 192 if the emoluments are foreign emoluments (within the meaning of that section);

Case III: any emoluments for any year of assessment in which the person holding the office or employment is resident in the United Kingdom (whether or not ordinarily resident there) so far as the emoluments are received in the United Kingdom;”.

- (3) The following paragraph shall be inserted after paragraph 4 of section 19(1)—

Where (apart from this paragraph) emoluments from an office or employment would be for a year of assessment in which a person does not hold the office or employment, the following rules shall apply for the purposes of the Cases set out in paragraph 1 above—

- (a) if in the year concerned the office or employment has never been held, the emoluments shall be treated as emoluments for the first year of assessment in which the office or employment is held;
- (b) if in the year concerned the office or employment is no longer held, the emoluments shall be treated as emoluments for the last year of assessment in which the office or employment was held.”

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- (4) Subsection (2) above shall apply where the year of assessment mentioned in the substituted Case I, II or III is 1989-90 or a subsequent year of assessment.
- (5) Subsection (3) above shall apply where each of the years mentioned in the new paragraph 4A(a) or (b) (as the case may be) is 1989-90 or a subsequent year of assessment.

37 Schedule E: assessment on receipts basis

- (1) The following sections shall be inserted immediately before section 203 of the Taxes Act 1988—

“202A Assessment on receipts basis

- (1) As regards any particular year of assessment—
- (a) income tax shall be charged under Cases I and II of Schedule E on the full amount of the emoluments received in the year in respect of the office or employment concerned;
 - (b) income tax shall be charged under Case III of Schedule E on the full amount of the emoluments received in the United Kingdom in the year in respect of the office or employment concerned.
- (2) Subsection (1) above applies—
- (a) whether the emoluments are for that year or for some other year of assessment;
 - (b) whether or not the office or employment concerned is held at the time the emoluments are received or (as the case may be) received in the United Kingdom.
- (3) Where subsection (1) above applies in the case of emoluments received, or (as the case may be) received in the United Kingdom, after the death of the person who held the office or employment concerned, the charge shall be a charge on his executors or administrators; and accordingly income tax—
- (a) shall be assessed and charged on the executors or administrators, and
 - (b) shall be a debt due from and payable out of the deceased’s estate.
- (4) Section 202B shall have effect for the purposes of subsection (1)(a) above.

202B Receipts basis: meaning of receipt

- (1) For the purposes of section 202A(1)(a) emoluments shall be treated as received at the time found in accordance with the following rules (taking the earlier or earliest time in a case where more than one rule applies)—
- (a) the time when payment is made of or on account of the emoluments;
 - (b) the time when a person becomes entitled to payment of or on account of the emoluments;
 - (c) in a case where the emoluments are from an office or employment with a company, the holder of the office or employment is a director of the company and sums on account of the emoluments are credited in the company’s accounts or records, the time when sums on account of the emoluments are so credited;

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- (d) in a case where the emoluments are from an office or employment with a company, the holder of the office or employment is a director of the company and the amount of the emoluments for a period is determined before the period ends, the time when the period ends;
 - (e) in a case where the emoluments are from an office or employment with a company, the holder of the office or employment is a director of the company and the amount of the emoluments for a period is not known until the amount is determined after the period has ended, the time when the amount is determined.
- (2) Subsection (1)(c), (d) or (e) above applies whether or not the office or employment concerned is that of director.
- (3) Paragraph (c), (d) or (e) of subsection (1) above applies if the holder of the office or employment is a director of the company at any time in the year of assessment in which the time mentioned in the paragraph concerned falls.
- (4) For the purposes of the rule in subsection (1)(c) above, any fetter on the right to draw the sums is to be disregarded.
- (5) In subsection (1) above “director” means—
 - (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that board or similar body,
 - (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
 - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company.
- (6) In subsection (1) above “director”, in relation to a company, also includes any person in accordance with whose directions or instructions the company’s directors (as defined in subsection (5) above) are accustomed to act; and for this purpose a person is not to be deemed to be a person in accordance with whose directions or instructions the company’s directors are accustomed to act by reason only that the directors act on advice given by him in a professional capacity.
- (7) Subsections (1) to (6) above shall have effect subject to subsections (8) to (11) below.
- (8) In a case where section 141(1)(a), 142(1)(a), 143(1)(a) or 148(4) treats a person as receiving or being paid an emolument or emoluments at a particular time, for the purposes of section 202A(1)(a) the emolument or emoluments shall be treated as received at that time; and in such a case subsections (1) to (6) above shall not apply.
- (9) In a case where section 145(1) treats a person as receiving emoluments, for the purposes of section 202A(1)(a) the emoluments shall be treated as received in the period referred to in section 145(1); and in such a case subsections (1) to (6) above shall not apply.
- (10) In a case where section 154(1), 157(1), 158(1), 160(1), 160(2), 162(6) or 164(1) treats an amount as emoluments, for the purposes of section 202A(1)
 - (a) the emoluments shall be treated as received in the year referred to in section 154(1) or the other provision concerned; and in such a case subsections (1) to (6) above shall not apply.

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(11) In a case where—

- (a) emoluments take the form of a benefit not consisting of money, and
- (b) subsection (8), (9) or (10) above does not apply,

for the purposes of section 202A(1)(a) the emoluments shall be treated as received at the time when the benefit is provided; and in such a case subsections (1) to (6) above shall not apply.”

- (2) This section shall apply where the year of assessment mentioned in the new section 202A(1) is 1989-90 or a subsequent year of assessment even if the emoluments concerned are for a year of assessment before 1989-90.
- (3) This section shall not apply in the case of emoluments of an office or employment held by a person who died before 6th April 1989.

38 Schedule E: unpaid emoluments

- (1) This section applies to emoluments of an office or employment if—
 - (a) they are emoluments for a year of assessment (a relevant year) before 1989-90,
 - (b) they fall within Case I or II of Schedule E as the Case applies for years before 1989-90,
 - (c) they have not been paid before 6th April 1989, and
 - (d) they have been received on or after 6th April 1989 and before 6th April 1991; and section 202B of the Taxes Act 1988 shall apply for the purposes of paragraph (d) above as it applies for the purposes of section 202A(1)(a) of that Act.
- (2) The emoluments shall be charged to income tax only by reference to the year of assessment in which they are received.
- (3) Any adjustments consequential on this section (such as the amendment of assessments or the repayment or setting-off of tax paid) shall be made.
- (4) This section shall not apply to emoluments of an office or employment held by a person who died before 6th April 1989.
- (5) This section shall not apply if the only emoluments of the office or employment not paid before 6th April 1989 are emoluments for a period consisting of or falling within the period beginning with 5th March 1989 and ending with 5th April 1989.
- (6) This section shall not apply unless—
 - (a) written notice that it is to apply is given to the inspector before 6th April 1991,
 - (b) the notice is given by or on behalf of the person who holds or held the office or employment concerned, and
 - (c) the notice states the amount of the emoluments falling within subsection (1) above.
- (7) Subsection (8) below applies where emoluments of an office or employment have been or fall to be computed by reference to the accounts basis as regards the year 1987-88 or years of assessment including that year.
- (8) In deciding for the purposes of subsection (1)(a) above whether emoluments are emoluments for a particular year, the emoluments of the office or employment for the year or (as the case may be) years mentioned in subsection (7) above, and for the year 1988-89, shall be computed by reference to that basis.

- (9) In deciding whether subsection (8) above applies in a particular case, any request to revoke the application of the accounts basis shall be ignored if—
 - (a) it is made after 5th April 1989, or
 - (b) it is made before 6th April 1989 otherwise than in writing.
- (10) In the application of this section to emoluments of an office or employment under or with a person carrying on business as an authorised Lloyd's underwriting agent, the references in subsections (1)(d) and (6)(a) above to 6th April 1991 shall be construed as references to 6th April 1994.
- (11) Subsection (10) above shall not apply unless the duties of the office or employment relate wholly or mainly to the underwriting agency business.
- (12) The reference in subsection (10) above to an authorised Lloyd's underwriting agent is to a person permitted by the Council of Lloyd's to act as an underwriting agent at Lloyd's.
- (13) If in a particular case it appears to the Board reasonable to do so they may direct that subsections (1)(d) and (6)(a) above shall have effect in relation to that case as if for the references to 6th April 1991 or (as the case may be) 6th April 1994 there were substituted references to such later date as they may specify in the direction.
- (14) In this section "the accounts basis" means the basis commonly so called (under which emoluments for a year of assessment are computed by reference to the emoluments for a period other than the year of assessment).

39 Schedule E: unremitted emoluments

- (1) This section applies to emoluments of an office or employment if—
 - (a) they are emoluments for a year of assessment (a relevant year) before 1989-90,
 - (b) they are received in the United Kingdom after 5th April 1989, and
 - (c) had this Act not been passed they would have fallen within Case III of Schedule E.
- (2) The emoluments shall be treated as if they were not emoluments for the relevant year.
- (3) But they shall be treated as if they were emoluments for the year of assessment in which they are received in the United Kingdom and as if they fell within Case III as substituted by section 36 above; and accordingly income tax shall be charged, in accordance with section 202A of the Taxes Act 1988, by reference to the year of assessment in which the emoluments are received in the United Kingdom.

40 Schedule E: emoluments already paid

- (1) Subsection (2) below applies to emoluments of an office or employment if—
 - (a) they are emoluments for a year of assessment after 1988-89,
 - (b) they have been paid before 6th April 1989, and
 - (c) they fall within Case I or II of Schedule E as substituted by section 36 above.
- (2) The emoluments shall be treated as if they were received, within the meaning of section 202B of the Taxes Act 1988, on 6th April 1989; and accordingly income tax shall be charged, in accordance with section 202A of that Act, by reference to the year 1989-90.

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- (3) Subsection (4) below applies to emoluments of an office or employment if—
 - (a) they are emoluments for a year of assessment after 1988-89,
 - (b) they have been received in the United Kingdom before 6th April 1989, and
 - (c) they fall within Case III of Schedule E as substituted by section 36 above.
- (4) The emoluments shall be treated as if they were received in the United Kingdom on 6th April 1989; and accordingly income tax shall be charged, in accordance with section 202A of the Taxes Act 1988, by reference to the year 1989-90.

41 Schedule E: pensions etc

- (1) This section applies in relation to the following pensions and other benefits—
 - (a) a pension, stipend or annuity chargeable to income tax under Schedule E by virtue of paragraph 2, 3 or 4 of section 19(1) of the Taxes Act 1988;
 - (b) a pension or annual payment chargeable to income tax under Schedule E by virtue of section 133 of that Act (voluntary pensions);
 - (c) income support chargeable to income tax under Schedule E by virtue of section 151 of that Act;
 - (d) a pension chargeable to income tax under Schedule E by virtue of section 597 of that Act (retirement benefit schemes);
 - (e) a benefit chargeable to income tax under Schedule E by virtue of section 617(1) of that Act (social security benefits).
- (2) As regards any particular year of assessment income tax shall be charged on the amount of the pension or other benefit accruing in respect of the year; and this shall apply irrespective of when any amount is actually paid in respect of the pension or other benefit.
- (3) This section shall apply where the year of assessment mentioned in subsection (2) above is 1989-90 or a subsequent year of assessment.

42 Schedule E: supplementary

- (1) The Taxes Act 1988 shall be amended as follows.
- (2) In section 131(2) (interaction of Cases) the words “for the same or another chargeable period” shall be omitted.
- (3) In section 149(1) (sick pay chargeable as emoluments of employment for a certain period) the words “for that period” and the words “for that or any other period” shall be omitted.
- (4) Section 170 (profit-related pay charged for year of assessment in which it is paid) shall cease to have effect.
- (5) In paragraph 2(2) of Schedule 12 (foreign earnings) for the words from “emoluments from” to “year of assessment” there shall be substituted the words “emoluments for the year of assessment from the relevant employment in respect of which such a deduction is allowed”.
- (6) This section shall apply for the year 1989-90 and subsequent years of assessment.

43 Schedule D: computation

- (1) Subsection (2) below applies where—
 - (a) a calculation is made of profits or gains which are to be charged under Schedule D and are for a period of account ending after 5th April 1989,
 - (b) relevant emoluments would (apart from that subsection) be deducted in making the calculation, and
 - (c) the emoluments are not paid before the end of the period of nine months beginning with the end of that period of account.
- (2) The emoluments—
 - (a) shall not be deducted in making the calculation mentioned in subsection (1)(a) above, but
 - (b) shall be deducted in calculating profits or gains which are to be charged under Schedule D and are for the period of account in which the emoluments are paid.
- (3) Subsections (4) and (5) below apply where—
 - (a) a calculation such as is mentioned in subsection (1)(a) above is made,
 - (b) the calculation is made before the end of the period of nine months beginning with the end of the period of account concerned,
 - (c) relevant emoluments would (apart from subsection (2) above) be deducted in making the calculation, and
 - (d) the emoluments have not been paid when the calculation is made.
- (4) It shall be assumed for the purpose of making the calculation that the emoluments will not be paid before the end of that period of nine months.
- (5) But the calculation shall be adjusted if—
 - (a) the emoluments are paid after the calculation is made but before the end of that period of nine months,
 - (b) a claim to adjust the calculation is made to the inspector, and
 - (c) the claim is made before the end of the period of two years beginning with the end of the period of account concerned.
- (6) In the application of this section to the calculation of a person's profits or gains as an authorised Lloyd's underwriting agent—
 - (a) the references in subsections (1)(c), (3)(b), (4) and (5)(a) above to nine months shall be construed as references to three years and nine months, and
 - (b) the reference in subsection (5)(c) above to two years shall be construed as a reference to five years.
- (7) The reference in subsection (6) above to an authorised Lloyd's underwriting agent is to a person permitted by the Council of Lloyd's to act as an underwriting agent at Lloyd's.
- (8) In a case where the period of account mentioned in subsection (1)(a) above begins before 6th April 1989 and ends before 6th April 1990, the references in subsections (1)(c), (3)(b), (4) and (5)(a) above to nine months shall be construed as references to eighteen months.
- (9) In this section "period of account" means a period for which an account is made up.
- (10) For the purposes of this section "relevant emoluments" are emoluments for a period after 5th April 1989 allocated either—

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- (a) in respect of particular offices or employments (or both), or
 - (b) generally in respect of offices or employments (or both).
- (11) This section applies in relation to potential emoluments as it applies in relation to relevant emoluments, and for this purpose—
- (a) potential emoluments are amounts or benefits reserved in the accounts of an employer, or held by an intermediary, with a view to their becoming relevant emoluments;
 - (b) potential emoluments are paid when they become relevant emoluments which are paid.
- (12) In deciding for the purposes of this section whether emoluments are paid at any time after 5th April 1989, section 202B of the Taxes Act 1988 (time when emoluments are treated as received) shall apply as it applies for the purposes of section 202A(1)(a) of that Act, but reading “paid” for “received” throughout.
- (13) In section 436(1)(b) of the Taxes Act 1988 (profits to be computed in accordance with provisions of that Act applicable to Case I of Schedule D) the reference to that Act shall be deemed to include a reference to this section.

44 Investment and insurance companies: computation

- (1) Subsection (2) below applies where—
- (a) a calculation is made for the purposes of corporation tax of the profits of an investment company for an accounting period ending after 5th April 1989,
 - (b) relevant emoluments would (apart from that subsection) be deducted in making the calculation, and
 - (c) the emoluments are not paid before the end of the period of nine months beginning with the end of the relevant period of account.
- (2) The emoluments—
- (a) shall not be deducted in making the calculation mentioned in subsection (1)(a) above, but
 - (b) shall be deducted in calculating for the purposes of corporation tax the profits of the company concerned for the accounting period in which the emoluments are paid.
- (3) Subsections (4) and (5) below apply where—
- (a) a calculation such as is mentioned in subsection (1)(a) above is made,
 - (b) the calculation is made before the end of the period of nine months beginning with the end of the relevant period of account,
 - (c) relevant emoluments would (apart from subsection (2) above) be deducted in making the calculation, and
 - (d) the emoluments have not been paid when the calculation is made.
- (4) It shall be assumed for the purpose of making the calculation that the emoluments will not be paid before the end of that period of nine months.
- (5) But the calculation shall be adjusted if—
- (a) the emoluments are paid after the calculation is made but before the end of that period of nine months,

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- (b) a claim to adjust the calculation is made to the inspector by or on behalf of the company concerned, and
 - (c) the claim is made before the end of the period of two years beginning with the end of the period of account concerned.
- (6) In a case where the accounting period mentioned in subsection (1)(a) above begins before 6th April 1989 and ends before 6th April 1990, the references in subsections (1)(c), (3)(b), (4) and (5)(a) above to nine months shall be construed as references to eighteen months.
- (7) In this section “investment company” has the same meaning as in Part IV of the Taxes Act 1988.
- (8) For the purposes of this section “relevant emoluments” are emoluments for a period after 5th April 1989 allocated either—
 - (a) in respect of particular offices or employments (or both), or
 - (b) generally in respect of offices or employments (or both).
- (9) This section applies in relation to potential emoluments as it applies in relation to relevant emoluments, and for this purpose—
 - (a) potential emoluments are amounts or benefits reserved in the accounts of an employer, or held by an intermediary, with a view to their becoming relevant emoluments;
 - (b) potential emoluments are paid when they become relevant emoluments which are paid.
- (10) For the purpose of this section the relevant period of account is the period of account which—
 - (a) includes the accounting period concerned, or
 - (b) begins when the accounting period concerned begins and ends when the accounting period concerned ends.
- (11) In deciding for the purposes of this section whether emoluments are paid at any time after 5th April 1989, section 202B of the Taxes Act 1988 (time when emoluments are treated as received) shall apply as it applies for the purposes of section 202A(1)(a) of that Act, but reading “paid” for “received” throughout.
- (12) Where the profits of a company carrying on life assurance business are not charged under Case I of Schedule D, this section shall apply in calculating the profits as it applies in calculating the profits of an investment company; but the effect of section 86 below shall be ignored in construing subsection (1)(b) above.
- (13) In a case where, apart from this subsection and by virtue of subsection (2)(b) above as it applies by virtue of subsection (12) above, emoluments fall to be deducted in calculating profits for a particular accounting period—
 - (a) subsection (2)(b) above shall have effect subject to section 86 below;
 - (b) in construing section 86 the emoluments shall be treated as expenses for that accounting period.

45 PAYE: meaning of payment

- (1) The Taxes Act 1988 shall be amended as follows.
- (2) The following section shall be inserted after section 203—

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“203A PAYE: meaning of payment

- (1) For the purposes of section 203 and regulations under it a payment of, or on account of, any income assessable to income tax under Schedule E shall be treated as made at the time found in accordance with the following rules (taking the earlier or earliest time in a case where more than one rule applies)
 - (a) the time when the payment is actually made;
 - (b) the time when a person becomes entitled to the payment;
 - (c) in a case where the income is income from an office or employment with a company, the holder of the office or employment is a director of the company and sums on account of the income are credited in the company’s accounts or records, the time when sums on account of the income are so credited;
 - (d) in a case where the income is income from an office or employment with a company, the holder of the office or employment is a director of the company and the amount of the income for a period is determined before the period ends, the time when the period ends;
 - (e) in a case where the income is income from an office or employment with a company, the holder of the office or employment is a director of the company and the amount of the income for a period is not known until the amount is determined after the period has ended, the time when the amount is determined.
 - (2) Subsection (1)(c), (d) or (e) above applies whether or not the office or employment concerned is that of director.
 - (3) Paragraph (c), (d) or (e) of subsection (1) above applies if the holder of the office or employment is a director of the company at any time in the year of assessment in which the time mentioned in the paragraph concerned falls.
 - (4) For the purposes of the rule in subsection (1)(c) above, any fetter on the right to draw the sums is to be disregarded.
 - (5) Subsections (5) and (6) of section 202B shall apply for the purposes of subsection (1) above as they apply for the purposes of section 202B(1).”
- (3) Section 203(4) (regulations may define payment) shall cease to have effect.
 - (4) Subsection (2) above shall have effect to determine whether anything occurring on or after the day on which this Act is passed constitutes a payment for the purposes mentioned in the new section 203A.
 - (5) But if an event occurring before the day on which this Act is passed constituted a payment of or on account of income for the purposes mentioned in the new section 203A, nothing occurring on or after that day shall constitute a payment of or on account of the same income for those purposes.

Interest

46 Relief for interest

For the year 1989-90 the qualifying maximum defined in section 367(5) of the Taxes Act 1988 (limit on relief for interest on certain loans) shall be £30,000.

47 Close company loans: business expansion scheme

In section 360 of the Taxes Act 1988 (loans to buy interest in close company), after subsection (3) there shall be inserted—

“(3A) Interest shall not be eligible for relief under section 353 by virtue of paragraph (a) of subsection (1) above in respect of shares acquired on or after 14th March 1989 if at any time the person by whom they are acquired, or that person’s husband or wife, makes a claim for relief in respect of them under Chapter III of Part VII.”

48 Close company loans: material interest

(1) In section 360 of the Taxes Act 1988 for subsection (4) there shall be substituted—

“(4) Subject to section 360A, in this section expressions to which a meaning is assigned by Part XI have that meaning.”

(2) The following section shall be inserted after that section—

“360A Meaning of “material interest” in section 360

(1) For the purposes of section 360(2)(a) an individual shall be treated as having a material interest in a company—

- (a) if he, either on his own or with one or more of his associates, or if any associate of his with or without other such associates, is the beneficial owner of, or able (directly or through the medium of other companies or by any other indirect means) to control, more than 5 per cent. of the ordinary share capital of the company, or
- (b) if, on an amount equal to the whole distributable income of the company falling to be apportioned under Part XI for the purpose of computing total income, more than 5 per cent. of that amount could be apportioned to him together with his associates (if any), or to any associate of his, or any such associates taken together.

(2) Subject to the following provisions of this section, in subsection (1) above “associate”, in relation to an individual, means—

- (a) any relative or partner of the individual;
- (b) the trustee or trustees of a settlement in relation to which the individual is, or any relative of his (living or dead) is or was, a settlor (“settlement” and “settlor” having the same meaning as in section 681(4)); and
- (c) where the individual is interested in any shares or obligations of the company which are subject to any trust, or are part of the estate of a deceased person, the trustee or trustees of the settlement concerned or, as the case may be, the personal representative of the deceased.

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- (3) In relation to any loan made after 5th April 1987, there shall be disregarded for the purposes of subsection (2)(c) above—
- (a) the interest of the trustees of an approved profit sharing scheme (within the meaning of section 187) in any shares which are held by them in accordance with the scheme and have not yet been appropriated to an individual; and
 - (b) any rights exercisable by those trustees by virtue of that interest.
- (4) In relation to any loan made on or after the day on which the Finance Act 1989 was passed, where the individual has an interest in shares or obligations of the company as a beneficiary of an employee benefit trust, the trustees shall not be regarded as associates of his by reason only of that interest unless subsection (6) below applies in relation to him.
- (5) In subsection (4) above “employee benefit trust” has the same meaning as in paragraph 7 of Schedule 8, except that in its application for this purpose paragraph 7(5)(b) shall have effect as if it referred to the day on which the Finance Act 1989 was passed instead of to 14th March 1989.
- (6) This subsection applies in relation to an individual if at any time on or after the day on which the Finance Act 1989 was passed—
- (a) the individual, either on his own or with any one or more of his associates, or
 - (b) any associate of his, with or without other such associates,
- has been the beneficial owner of, or able (directly or through the medium of other companies or by any other indirect means) to control, more than 5 per cent. of the ordinary share capital of the company.
- (7) Sub-paragraphs (9) to (12) of paragraph 7 of Schedule 8 shall apply for the purposes of subsection (6) above in relation to an individual as they apply for the purposes of that paragraph in relation to an employee.
- (8) In relation to any loan made before 14th November 1986, where the individual is interested in any shares or obligations of the company which are subject to any trust, or are part of the estate of a deceased person, subsection (2)(c) above shall have effect as if for the reference to the trustee or trustees of the settlement concerned or, as the case may be, the personal representative of the deceased there were substituted a reference to any person (other than the individual) interested in the settlement or estate, but subject to subsection (9) below.
- (9) Subsection (8) above shall not apply so as to make an individual an associate as being entitled or eligible to benefit under a trust—
- (a) if the trust relates exclusively to an exempt approved scheme as defined in section 592; or
 - (b) if the trust is exclusively for the benefit of the employees, or the employees and directors, of the company or their dependants (and not wholly or mainly for the benefit of directors or their relatives), and the individual in question is not (and could not as a result of the operation of the trust become), either on his own or with his relatives, the beneficial owner of more than 5 per cent. of the ordinary share capital of the company;

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and in applying paragraph (b) above any charitable trusts which may arise on the failure or determination of other trusts shall be disregarded.

(10) In this section “relative” means husband or wife, parent or remoter forebear, child or remoter issue or brother or sister.”

Benefits in kind

49 Car benefits

(1) In Schedule 6 to the Taxes Act 1988 (taxation of directors and others in respect of cars) for Part I (tables of flat rate cash equivalents) there shall be substituted—

“PART I

TABLES OF FLAT RATE CASH EQUIVALENTS

Table A

CARS WITH AN ORIGINAL MARKET VALUE UP TO £19,250 AND HAVING A CYLINDER CAPACITY

<i>Cylinder capacity of car in cubic centimetres</i>	<i>Age of car at end of relevant year of assessment</i>	
	<i>Under 4 years</i>	<i>4 years or more</i>
1400 or less	£1,400	£950
More than 1400 but not more than 2000	£1,850	£1,250
More than 2000	£2,950	£1,950

Table B

CARS WITH AN ORIGINAL MARKET VALUE UP TO £19,250 AND NOT HAVING A CYLINDER CAPACITY

<i>Original market value of car</i>	<i>Age of car at end of relevant year of assessment</i>	
	<i>Under 4 years</i>	<i>4 years or more</i>
Less than £6,000	£1,400	£950
£6,000 or more but less than £8,500	£1,850	£1,250
£8,500 or more but not more than £19,250	£2,950	£1,950

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

Table C

CARS WITH AN ORIGINAL MARKET VALUE OF MORE THAN £19,250

<i>Original market value of car</i>	<i>Age of car at end of relevant year of assessment</i>	
	<i>Under 4 years</i>	<i>4 years or more</i>
More than £19,250 but not more than £29,000	£3,850	£2,600
More than £29,000	£6,150	£4,100 ^{''}

(2) This section shall have effect for the year 1989-90 and subsequent years of assessment.

50 Security assets and services

(1) For the purposes of this section a security asset is an asset which improves personal security, and a security service is a service which improves personal security.

(2) In a case where—

- (a) a security asset or security service is provided for an employee by reason of his employment, or is used by an employee, and
- (b) the cost is wholly or partly borne by or on behalf of a person (the provider) other than the employee,

in charging tax under Schedule E on the emoluments from the employment a deduction shall be allowed of an amount equal to so much of the cost so borne as falls to be included in the emoluments of the employment.

(3) In a case where—

- (a) a security asset or security service is provided for or used by an employee,
- (b) expenses in connection with the provision or use are incurred out of the emoluments of the employment, and
- (c) the expenses are reimbursed by or on behalf of a person (the provider) other than the employee,

in charging tax under Schedule E on the emoluments from the employment a deduction shall be allowed of an amount equal to the amount of the expenses.

(4) Subsection (2) or (3) above shall not apply unless the asset or service is provided for or used by the employee to meet a threat which—

- (a) is a special threat to his personal physical security, and
- (b) arises wholly or mainly by virtue of the particular employment concerned.

(5) Subsection (2) or (3) above shall not apply unless the provider has the meeting of that threat as his sole object in wholly or partly bearing the cost or reimbursing the expenses (as the case may be).

(6) Subsection (2) or (3) above shall not apply in the case of a service unless the benefit resulting to the employee consists wholly or mainly of an improvement of his personal physical security.

(7) Subsection (2) or (3) above shall not apply in the case of an asset unless the provider intends the asset to be used solely to improve personal physical security.

51 Assets used partly for security

- (1) In a case where—
 - (a) apart from section 50(7) above, section 50(2) above would apply in the case of an asset, and
 - (b) the provider intends the asset to be used partly to improve personal physical security,section 50(2) shall nevertheless apply, but only so as to allow a deduction of the appropriate proportion of the amount there mentioned.
- (2) For the purposes of subsection (1) above the appropriate proportion of the amount mentioned in section 50(2) above is such proportion of that amount as is attributable to the provider's intention that the asset be used to improve personal physical security.
- (3) In a case where—
 - (a) apart from section 50(7) above, section 50(3) above would apply in the case of an asset, and
 - (b) the provider intends the asset to be used partly to improve personal physical security,section 50(3) shall nevertheless apply, but only so as to allow a deduction of the appropriate proportion of the amount there mentioned.
- (4) For the purposes of subsection (3) above the appropriate proportion of the amount mentioned in section 50(3) above is such proportion of that amount as is attributable to the provider's intention that the asset be used to improve personal physical security.

52 Security: supplementary

- (1) If the provider intends the asset to be used solely to improve personal physical security, but there is another use for the asset which is incidental to improving personal physical security, that other use shall be ignored in construing section 50(7) above.
- (2) The fact that an asset or service improves the personal physical security of any member of the employee's family or household, as well as that of the employee, shall not prevent section 50(2) or (3) above from applying.
- (3) In sections 50 and 51 above and this section—
 - (a) references to an asset do not include references to a car, a ship or an aircraft,
 - (b) references to an asset or service do not include references to a dwelling, grounds appurtenant to a dwelling, or living accommodation,
 - (c) references to an asset include references to equipment and a structure (such as a wall),
 - (d) references to an employee are to a person who holds an employment, and
 - (e) references to an employment include references to an office.
- (4) For the purposes of sections 50 and 51 above and this section in their application to an asset, it is immaterial whether or not the asset becomes affixed to land (whether constituting a dwelling or otherwise).
- (5) For the purposes of sections 50 and 51 above and this section in their application to an asset, it is immaterial whether or not the employee is or becomes entitled to the property in the asset or (in the case of a fixture) an estate or interest in the land concerned.

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- (6) Sections 50 and 51 above and this section apply where expenditure is incurred on or after 6th April 1989 in or towards bearing a cost or in reimbursing expenses (as the case may be).

53 Employees earning £8,500 or more and directors

- (1) For section 167 of the Taxes Act 1988 (which defines “director’s or higher-paid employment” for the purposes of Chapter II of Part V) there shall be substituted—

“167 Employment to which this Chapter applies

- (1) This Chapter applies—
- (a) to employment as a director of a company (but subject to subsection (5) below), and
 - (b) to employment with emoluments at the rate of £8,500 a year or more.
- (2) For this purpose emoluments are to be calculated—
- (a) on the basis that they include all such amounts as come, or would but for section 157(3) come, into charge under this Chapter or section 141, 142, 143 or 145, and
 - (b) without any deduction under section 198, 201 or 332(3).
- (3) Where a person is employed in two or more employments by the same employer and either—
- (a) the total of the emoluments of those employments (applying this section) is at the rate of £8,500 a year or more, or
 - (b) this Chapter applies (apart from this subsection) to one or more of those employments,
- this Chapter shall apply to all the employments.
- (4) All employees of a partnership or body over which an individual or another partnership or body has control are to be treated for the purposes of this section (but not for any other purpose) as if the employment were an employment by the individual or by that other partnership or body as the case may be.
- (5) This Chapter shall not apply to a person’s employment by reason only of its being employment as a director of a company (without prejudice to its application by virtue of subsection (1)(b) or (3) above) if he has no material interest in the company and either—
- (a) his employment is as a full-time working director; or
 - (b) the company is non-profit making (meaning that neither does it carry on a trade nor do its functions consist wholly or mainly in the holding of investments or other property) or is established for charitable purposes only.”
- (2) In consequence of subsection (1) above—
- (a) for the heading to Chapter II of Part V of the Taxes Act 1988 there shall be substituted “EMPLOYEES EARNING £8,500 OR MORE AND DIRECTORS”;
 - (b) the words “employment to which this Chapter applies” shall be substituted for the words “director’s or higher-paid employment” in sections 153(1), 154(1), 157(1), 158(1), 160(1) and (2), 162(1), 163(1) and 165(6)(b) of that Act;

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- (c) for section 160(3) of that Act there shall be substituted—
 - “(3) Where—
 - (a) there was outstanding, at any time when a person was in employment to which this Chapter applies, the whole or part of a loan to him (or a relative of his) the benefit of which was obtained by reason of his employment, and
 - (b) that employment has terminated or ceased to be employment to which this Chapter applies,
subsection (2) above applies as if the employment had not terminated or, as the case may be, had not ceased to be employment to which this Chapter applies.”;
- (d) in section 162(5) of that Act, after the words “section 160(2)” there shall be inserted the words “(and where appropriate section 160(3))”;
- (e) for section 162(7) of that Act there shall be substituted—
 - “(7) If at the time of the event giving rise to a charge by virtue of subsection (6) above the employment in question has terminated, that subsection shall apply as if it had not.”
- (f) the words “employment to which Chapter II of Part V applies” shall be substituted for the words from “director's” to “section 167)” in sections 332(2)(c) and 418(3)(a) of that Act;
- (g) the words “employment to which Chapter II of Part V of the principal Act applies” shall be substituted for the words “director’s or higher paid employment” in section 15(3)(a) of the Taxes Management Act 1970.

Medical insurance

54 Relief

- (1) This section applies where—
 - (a) on or after 6th April 1990 an individual makes a payment in respect of a premium under a contract of private medical insurance (whenever issued),
 - (b) the contract meets the requirement in subsection (2) below as to the person or persons insured,
 - (c) at the time the payment is made the contract is an eligible contract,
 - (d) the individual making the payment does not make it out of resources provided by another person for the purpose of enabling it to be made, and
 - (e) the individual making the payment is not entitled to claim any relief or deduction in respect of it under any other provision of the Tax Acts.
- (2) The requirement mentioned in subsection (1)(b) above is that the contract insures—
 - (a) an individual who at the time the payment is made is aged 60 or over and resident in the United Kingdom,
 - (b) individuals each of whom at that time is aged 60 or over and resident in the United Kingdom, or
 - (c) two individuals who are married to each other at that time, at least one of whom is aged 60 or over at that time, and each of whom is resident in the United Kingdom at that time.

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- (3) If the payment is made by an individual who at the time it is made is resident in the United Kingdom (whether or not he is the individual or one of the individuals insured by the contract) it shall be deducted from or set off against his income for the year of assessment in which it is made; but relief under this subsection shall be given only on a claim made for the purpose, except where subsections (4) to (6) below apply.
- (4) In such cases and subject to such conditions as the Board may specify in regulations, relief under subsection (3) above shall be given in accordance with subsections (5) and (6) below.
- (5) An individual who is entitled to such relief in respect of a payment may deduct and retain out of it an amount equal to income tax on it at the basic rate for the year of assessment in which it is made.
- (6) The person to whom the payment is made—
 - (a) shall accept the amount paid after deduction in discharge of the individual's liability to the same extent as if the deduction had not been made, and
 - (b) may, on making a claim, recover from the Board an amount equal to the amount deducted.
- (7) The Treasury may make regulations providing that in circumstances prescribed in the regulations—
 - (a) an individual who has made a payment in respect of a premium under a contract of private medical insurance shall cease to be and be treated as not having been entitled to relief under subsection (3) above; and
 - (b) he or the person to whom the payment was made (depending on the terms of the regulations) shall account to the Board for tax from which relief has been given on the basis that the individual was so entitled.
- (8) Regulations under subsection (7) above may include provision adapting or modifying the effect of any enactment relating to income tax in order to secure the performance of any obligation imposed under paragraph (b) of that subsection.
- (9) In this section—
 - (a) references to a premium, in relation to a contract of insurance, are to any amount payable under the contract to the insurer, and
 - (b) references to an individual who is resident in the United Kingdom at any time include references to an individual who is at that time performing duties which are treated by virtue of section 132(4)(a) of the Taxes Act 1988 as performed in the United Kingdom.

55 Eligible contracts

- (1) This section has effect to determine whether a contract is at a particular time (the relevant time) an eligible contract for the purposes of section 54 above.
- (2) A contract is an eligible contract at the relevant time if—
 - (a) it was entered into by an insurer who at the time it was entered into was a qualifying insurer and was approved by the Board for the purposes of this section,
 - (b) the period of insurance under the contract does not exceed one year (commencing with the date it was entered into),

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- (c) the contract is not connected with any other contract at the relevant time and has not been connected with any other contract at any time since it was entered into,
 - (d) no benefit has been provided by virtue of the contract other than an approved benefit, and
 - (e) the contract meets one or more of the three conditions set out below.
- (3) The first condition is that the contract is certified by the Board under section 56 below at the relevant time.
- (4) The second condition is that, at the time the contract was entered into, it conformed with a standard form certified by the Board as a standard form of eligible contract.
- (5) The third condition is that, at the time the contract was entered into, it conformed with a form varying from a standard form so certified in no other respect than by making additions—
- (a) which were (at the time the contract was entered into) certified by the Board as compatible with an eligible contract when made to that standard form, and
 - (b) which (at that time) satisfied any conditions subject to which the additions were so certified.
- (6) Where a contract is varied, and the relevant time falls after the time the variation takes effect, subsections (1) to (5) above shall have effect as if “entered into” read “varied” in each place where it occurs in subsections (4) and (5) above.
- (7) For the purposes of this section a contract is connected with another contract at any time if—
- (a) they are simultaneously in force at that time,
 - (b) either of them was entered into with reference to the other, or with a view to enabling the other to be entered into on particular terms, or with a view to facilitating the other being entered into on particular terms, and
 - (c) the terms on which either of them was entered into would have been significantly less favourable to the insured if the other had not been entered into.
- (8) For the purposes of this section each of the following is a qualifying insurer—
- (a) an insurer lawfully carrying on in the United Kingdom business of any of the classes specified in Part I of Schedule 2 to the Insurance Companies Act 1982;
 - (b) an insurer not carrying on business in the United Kingdom but carrying on business in another member State and being either a national of a member State or a company or partnership formed under the law of any part of the United Kingdom or another member State and having its registered office, central administration or principal place of business in a member State.
- (9) For the purposes of this section a benefit is an approved benefit if it is provided in pursuance of a right of a description mentioned in section 56(3)(a) below.

56 Certification of contracts

- (1) The Board shall certify a contract under this section if it satisfies the conditions set out in subsection (3) below; and the certification shall be expressed to take effect from the time the conditions are satisfied, and shall take effect accordingly.

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- (2) The Board shall revoke a certification of a contract under this section if it comes to their notice that the contract has ceased to satisfy the conditions set out in subsection (3) below; and the revocation shall be expressed to take effect from the time the conditions ceased to be satisfied, and shall take effect accordingly.
- (3) The conditions referred to above are that—
 - (a) the contract either provides indemnity in respect of all or any of the costs of all or any of the treatments, medical services and other matters for the time being specified in regulations made by the Treasury, or in addition to providing indemnity of that description provides cash benefits falling within rules for the time being so specified,
 - (b) the contract does not confer any right other than such a right as is mentioned in paragraph (a) above or is for the time being specified in regulations made by the Treasury,
 - (c) the premium under the contract is in the Board's opinion reasonable, and
 - (d) the contract satisfies such other requirements as are for the time being specified in regulations made by the Treasury.
- (4) The certification of a contract by the Board under this section shall cease to have effect if the contract is varied; but this is without prejudice to the application of the preceding provisions of this section to the contract as varied.
- (5) Where the Board refuse to certify a contract under this section, or they revoke a certification, an appeal may be made to the Special Commissioners by—
 - (a) the insurer, or
 - (b) any person who (if the policy were certified) would be entitled to relief under section 54 above.
- (6) Where a contract is certified under this section, or a certification is revoked or otherwise ceases to have effect, any adjustments resulting from the certification or from its revocation or ceasing to have effect shall be made.
- (7) Subsection (6) above applies where a certification or revocation takes place on appeal as it applies in the case of any other certification or revocation.
- (8) In this section the reference to a premium, in relation to a contract of insurance, is to any amount payable under the contract to the insurer.

57 Medical insurance: supplementary

- (1) The Board may by regulations—
 - (a) provide that a claim under section 54(3) or (6)(b) above shall be made in such form and manner, shall be made at such time, and shall be accompanied by such documents, as may be prescribed;
 - (b) make provision, in relation to payments in respect of which a person is entitled to relief under section 54 above, for the giving by insurers in such circumstances as may be prescribed of certificates of payment in such form as may be prescribed to such persons as may be prescribed;
 - (c) provide that a person who provides (or has at any time provided) insurance under contracts of private medical insurance shall comply with any notice which is served on him by the Board and which requires him within a

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- prescribed period to make available for the Board’s inspection documents (of a prescribed kind) relating to such contracts;
- (d) provide that persons of such a description as may be prescribed shall, within a prescribed period of being required to do so by the Board, furnish to the Board information (of a prescribed kind) about contracts of private medical insurance;
 - (e) make provision with respect to the approval of insurers for the purposes of section 55 above and the withdrawal of approval for the purposes of that section;
 - (f) make provision for and with respect to appeals against decisions of the Board with respect to the giving or withdrawal of approval of insurers for the purposes of section 55 above;
 - (g) make provision with respect to the certification by the Board of standard forms of eligible contract and variations from standard forms of eligible contract certified by them;
 - (h) make provision for and with respect to appeals against decisions of the Board with respect to the certification of standard forms of eligible contract or variations from standard forms of eligible contract certified by them;
 - (i) provide that certification, or the revocation of a certification, under section 56 above shall be carried out in such form and manner as may be prescribed;
 - (j) make provision with respect to appeals against decisions of the Board with respect to certification or the revocation of certification under section 56 above;
 - (k) make provision generally as to administration in connection with sections 54 to 56 above.
- (2) The words “Regulations under section 57 of the Finance Act 1989” shall be added at the end of each column in the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to furnish information etc.).
- (3) The following provisions of the Taxes Management Act 1970, namely—
- (a) section 29(3)(c) (excessive relief),
 - (b) section 30 (tax repaid in error etc.),
 - (c) section 88 (interest), and
 - (d) section 95 (incorrect return or accounts),
- shall apply in relation to the payment of an amount claimed under section 54(6)(b) above to which the claimant was not entitled as if it had been income tax repaid as a relief which was not due.
- (4) In sections 257B(2), 257D(8) and 265(3) of the Taxes Act 1988 after paragraph (c) there shall be inserted “or
- (d) on account of any payments to which section 54(5) of the Finance Act 1989 applies”.
- (5) In subsection (1) above—
- “eligible contract” has the meaning given by section 55 above, and
 - “prescribed” means prescribed by or, in relation to form, under the regulations.

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

Charities

58 Payroll deduction scheme

- (1) In section 202(7) of the Taxes Act 1988 (which limits to £240 the deductions attracting relief) for “£240” there shall be substituted “£480”.
- (2) This section shall have effect for the year 1989-90 and subsequent years of assessment.

59 Covenanted subscriptions

- (1) In determining whether a payment made to a charity within subsection (2) below is —
 - (a) an annual payment for the purposes of the Tax Acts, or
 - (b) a payment to which section 125(1) of the Taxes Act 1988 applies, or
 - (c) a covenanted payment to charity within the meaning given by section 660(3) of that Act,
 there shall be disregarded any consideration for the payment which is of a kind described in subsection (3) below.
- (2) A charity is within this subsection if its sole or main purpose is—
 - (a) the preservation of property for the public benefit, or
 - (b) the conservation of wildlife for the public benefit.
- (3) The consideration referred to in subsection (1) above is the right of admission—
 - (a) to view property the preservation of which is the sole or main purpose of the charity, or
 - (b) to observe wildlife the conservation of which is the sole or main purpose of the charity.
- (4) In subsection (3) above “right of admission” refers to admission of the person making the payment (or of any member of his family who may be admitted because of the payment) either free of the charges normally payable for admission by members of the public, or on payment of a reduced charge.
- (5) Subsection (1) above shall not apply unless the opportunity to make payments of the kind in question is available to members of the public.
- (6) For the purposes of this section—
 - (a) “charity” means a body of persons or trust established for charitable purposes only, and
 - (b) the bodies mentioned in section 507 shall each be treated as having been so established.
- (7) This section shall apply to payments due on or after 14th March 1989.

60 British Museum and Natural History Museum

- (1) In subsection (1) of section 507 of the Taxes Act 1988 (which gives tax exemption to the National Heritage Memorial Fund and the Historic Buildings and Monuments Commission) after paragraph (b) there shall be inserted—
 - “(c) the Trustees of the British Museum;
 - (d) the Trustees of the British Museum (Natural History);”

and subsection (2) of that section (which gives partial tax exemption to those Trustees) shall cease to have effect.

- (2) In section 339(9) of that Act, for the words from “the Trustees” (where those words first occur) to “History) and” there shall be substituted the words “each of the bodies mentioned in section 507, and in subsections (1) to (5) above includes”.
- (3) In section 660(4) of that Act, for the words from “the Trustees” to “England” there shall be substituted the words “the bodies mentioned in section 507”.
- (4) Subsection (1) above shall apply in relation to accounting periods ending on or after 14th March 1989, and subsections (2) and (3) above shall apply to payments due on or after that day.

Profit-related pay, share schemes etc.

61 Profit-related pay

Schedule 4 to this Act (which amends the provisions of the Taxes Act 1988 relating to profit-related pay) shall have effect.

62 Savings-related share option schemes

- (1) Part III of Schedule 9 to the Taxes Act 1988 (requirements applicable to savings-related share option schemes) shall be amended as follows.
- (2) In paragraph 24(2)(a) (scheme not to permit monthly amount of contributions linked to schemes to exceed £100), for “£100” there shall be substituted “£150”.
- (3) In paragraph 25(b) (requirement that price at which share may be acquired under scheme be not less than 90 per cent. of market value), for the words “90 per cent.” there shall be substituted the words “80 per cent.”.
- (4) Subsection (2) above shall come into force on such day as the Treasury may by order made by statutory instrument appoint.

63 Profit sharing schemes

- (1) In section 187(2) of the Taxes Act 1988, in the definition of “relevant amount” (limit on the value of shares that may be appropriated to a participant in a year of assessment), for the words “not less than £1,250 and not more than £5,000” there shall be substituted the words “not less than £2,000 and not more than £6,000”.
- (2) This section shall apply for the year 1989-90 and subsequent years of assessment.

64 Share option and profit sharing schemes: shares of consortium member

In paragraph 10 of Schedule 9 to the Taxes Act 1988, paragraph (c)(ii) (which requires a consortium member to hold not less than three-twentieths of share capital of grantor company etc. if member’s shares are to qualify as scheme shares) shall cease to have effect.

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65 Employee share schemes: material interest

In Schedule 9 to the Taxes Act 1988 the following paragraph shall be inserted after paragraph 39—

“Shares subject to an employee benefit trust

- 40 (1) Where an individual has an interest in shares or obligations of the company as a beneficiary of an employee benefit trust, the trustees shall not be regarded as associates of his by reason only of that interest unless sub-paragraph (3) below applies in relation to him.
- (2) In this paragraph “employee benefit trust” has the same meaning as in paragraph 7 of Schedule 8.
- (3) This sub-paragraph applies in relation to an individual if at any time on or after 14th March 1989—
- (a) the individual, either on his own or with any one or more of his associates, or
 - (b) any associate of his, with or without other such associates,
- has been the beneficial owner of, or able (directly or through the medium of other companies or by any other indirect means) to control, more than 25 per cent., or in the case of a share option scheme which is not a savings-related share option scheme more than 10 per cent., of the ordinary share capital of the company.
- (4) Sub-paragraphs (9) to (12) of paragraph 7 of Schedule 8 shall apply for the purposes of this paragraph in relation to an individual as they apply for the purposes of that paragraph in relation to an employee.”

66 Priority share allocations for employees etc

- (1) In relation to offers made on or after 11th October 1988, section 68 of the Finance Act 1988 (which provides for the benefits derived from priority rights in share offers to be disregarded in certain circumstances) shall have effect with the following amendments.
- (2) In subsection (1), the words from “at the fixed price” to “tendered” shall be omitted.
- (3) After that subsection there shall be inserted—
- “(1A) Where the price payable by the director or employee is less than the fixed price or the lowest price successfully tendered, subsection (1) above shall not apply to the benefit represented by the difference in price.”
- (4) In subsection (2), for paragraph (a) (priority shares not to exceed 10 per cent. of shares subject to the offer) there shall be substituted—
- “(a) that the aggregate number of shares subject to the offer that may be allocated as mentioned in subsection (1)(b) above does not exceed the limit specified in subsection (2A) below or, as the case may be, either of the limits specified in subsection (2B) below”.
- (5) After subsection (2) there shall be inserted—

“(2A) Except where subsection (2B) below applies, the limit relevant for the purposes of subsection (2)(a) above is 10 per cent. of the shares subject to the offer (including the shares that may be allocated as mentioned in subsection (1)(b) above).

(2B) Where the offer is part of arrangements which include one or more other offers to the public of shares of the same class, the limits relevant for the purposes of subsection (2)(a) above are—

- (a) 40 per cent. of the shares subject to the offer (including the shares that may be allocated as mentioned in subsection (1)(b) above), and
- (b) 10 per cent. of all the shares of the class in question (including the shares that may be so allocated) that are subject to any of the offers forming part of the arrangements.”

Employee share ownership trusts

67 Tax relief

(1) This section applies where—

- (a) a company expends a sum in making a payment by way of contribution to the trustees of a trust which is a qualifying employee share ownership trust at the time the sum is expended,
- (b) at that time, the company or a company which it then controls has employees who are eligible to benefit under the terms of the trust deed,
- (c) at that time the company is resident in the United Kingdom,
- (d) before the expiry of the expenditure period the sum is expended by the trustees for one or more of the qualifying purposes, and
- (e) before the end of the claim period a claim for relief under this section is made.

(2) In such a case the sum—

- (a) shall be deducted in computing for the purposes of Schedule D the profits or gains of a trade carried on by the company, or
- (b) if the company is an investment company or a company in the case of which section 75 of the Taxes Act 1988 applies by virtue of section 76 of that Act, shall be treated as expenses of management.

(3) For the purposes of subsection (1)(b) above, the question whether one company is controlled by another shall be construed in accordance with section 840 of the Taxes Act 1988.

(4) For the purposes of subsection (1)(d) above each of the following is a qualifying purpose—

- (a) the acquisition of shares in the company which established the trust;
- (b) the repayment of sums borrowed;
- (c) the payment of interest on sums borrowed;
- (d) the payment of any sum to a person who is a beneficiary under the terms of the trust deed;
- (e) the meeting of expenses.

(5) For the purposes of subsection (1)(d) above the expenditure period is the period of nine months beginning with the day following the end of the period of account in which

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the sum is charged as an expense of the company, or such longer period as the Board may allow by notice given to the company.

- (6) For the purposes of subsection (1)(e) above the claim period is the period of two years beginning with the day following the end of the period of account in which the sum is charged as an expense of the company.
- (7) For the purposes of this section the trustees of an employee share ownership trust shall be taken to expend sums paid to them in the order in which the sums are received by them (irrespective of the number of companies making payments).

68 Principal charges to tax

- (1) This section applies where a chargeable event (within the meaning of section 69 below) occurs in relation to the trustees of an employee share ownership trust.
- (2) In such a case—
 - (a) the trustees shall be treated as receiving, when the event occurs, annual profits or gains whose amount is equal to the chargeable amount (within the meaning of section 70 below),
 - (b) the profits or gains shall be chargeable to tax under Case VI of Schedule D for the year of assessment in which the event occurs, and
 - (c) the rate at which the tax is chargeable shall be a rate equal to the sum of the basic rate and the additional rate for the year of assessment in which the event occurs.
- (3) If the whole or any part of the tax assessed on the trustees is not paid before the expiry of the period of six months beginning with the day on which the assessment becomes final and conclusive, a notice of liability to tax under this subsection may be served on a qualifying company and the tax or the part unpaid (as the case may be) shall be payable by the company on service of the notice.
- (4) Where a notice of liability is served under subsection (3) above—
 - (a) any interest which is due on the tax or the part (as the case may be) and has not been paid by the trustees, and
 - (b) any interest accruing due on the tax or the part (as the case may be) after the date of service,shall be payable by the company.
- (5) Where a notice of liability is served under subsection (3) above and any amount payable by the company (whether on account of tax or interest) is not paid by the company before the expiry of the period of three months beginning with the date of service, the amount unpaid may be recovered from the trustees (without prejudice to the right to recover it instead from the company).
- (6) For the purposes of this section each of the following is a qualifying company—
 - (a) the company which established the employee share ownership trust;
 - (b) any company falling within subsection (7) below.
- (7) A company falls within this subsection if, before it is sought to serve a notice of liability on it under subsection (3) above—
 - (a) it has paid a sum to the trustees, and
 - (b) the sum has been deducted as mentioned in section 67(2)(a) above or treated as mentioned in section 67(2)(b) above.

69 Chargeable events

- (1) For the purposes of section 68 above each of the following is a chargeable event in relation to the trustees of an employee share ownership trust—
 - (a) the transfer of securities by the trustees, if the transfer is not a qualifying transfer;
 - (b) the transfer of securities by the trustees to persons who are at the time of the transfer beneficiaries under the terms of the trust deed, if the terms on which the transfer is made are not qualifying terms;
 - (c) the retention of securities by the trustees at the expiry of the period of seven years beginning with the date on which they acquired them;
 - (d) the expenditure of a sum by the trustees for a purpose other than a qualifying purpose.
- (2) For the purposes of subsection (1)(a) above a transfer is a qualifying transfer if it is made to a person who at the time of the transfer is a beneficiary under the terms of the trust deed.
- (3) For the purposes of subsection (1)(a) above a transfer is also a qualifying transfer if—
 - (a) it is made to the trustees of a scheme which at the time of the transfer is a profit sharing scheme approved under Schedule 9 to the Taxes Act 1988, and
 - (b) it is made for a consideration which is not less than the price the securities might reasonably be expected to fetch on a sale in the open market.
- (4) For the purposes of subsection (1)(b) above a transfer of securities is made on qualifying terms if—
 - (a) all the securities transferred at the same time are transferred on similar terms,
 - (b) securities have been offered to all the persons who are beneficiaries under the terms of the trust deed when the transfer is made, and
 - (c) securities are transferred to all such beneficiaries who have accepted.
- (5) For the purposes of subsection (1)(d) above each of the following is a qualifying purpose—
 - (a) the acquisition of shares in the company which established the trust;
 - (b) the repayment of sums borrowed;
 - (c) the payment of interest on sums borrowed;
 - (d) the payment of any sum to a person who is a beneficiary under the terms of the trust deed;
 - (e) the meeting of expenses.
- (6) For the purposes of subsection (4) above, the fact that terms vary according to the levels of remuneration of beneficiaries, the length of their service, or similar factors, shall not be regarded as meaning that the terms are not similar.
- (7) In ascertaining for the purposes of this section whether particular securities are retained, securities acquired earlier by the trustees shall be treated as transferred by them before securities acquired by them later.
- (8) For the purposes of this section trustees—
 - (a) acquire securities when they become entitled to them (subject to the exceptions in subsection (9) below);
 - (b) transfer securities to another person when that other becomes entitled to them;
 - (c) retain securities if they remain entitled to them.

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- (9) The exceptions are these—
- (a) if securities are issued to trustees in exchange in circumstances mentioned in section 85(1) of the Capital Gains Tax Act 1979, they shall be treated as having acquired them when they became entitled to the securities for which they are exchanged;
 - (b) if trustees become entitled to securities as a result of a reorganisation, they shall be treated as having acquired them when they became entitled to the original shares which those securities represent (construing “reorganisation” and “original shares” in accordance with section 77 of that Act).
- (10) If trustees agree to take a transfer of securities, for the purposes of this section they shall be treated as becoming entitled to them when the agreement is made and not on a later transfer made pursuant to the agreement.
- (11) If trustees agree to transfer securities to another person, for the purposes of this section the other person shall be treated as becoming entitled to them when the agreement is made and not on a later transfer made pursuant to the agreement.
- (12) For the purposes of this section the following are securities—
- (a) shares;
 - (b) debentures.

70 Chargeable amounts

- (1) This section has effect to determine the chargeable amount for the purposes of section 68 above.
- (2) If the chargeable event falls within section 69(1)(a), (b) or (c) above the following rules shall apply—
- (a) if the event constitutes a disposal of the securities by the trustees for the purposes of the Capital Gains Tax Act 1979, the chargeable amount is an amount equal to the sums allowable under section 32(1)(a) and (b) of that Act;
 - (b) if the event does not constitute such a disposal, the chargeable amount is an amount equal to the sums which would be so allowable had the trustees made a disposal of the securities for the purposes of that Act at the time the chargeable event occurs.
- (3) If the chargeable event falls within section 69(1)(d) above the chargeable amount is an amount equal to the sum concerned.

71 Further charges to tax: borrowing

- (1) This section applies where—
- (a) a chargeable event (within the meaning of section 69 above) occurs in relation to the trustees of an employee share ownership trust,
 - (b) at the time the event occurs anything is outstanding in respect of the principal of an amount or amounts borrowed at any time by the trustees, and
 - (c) the chargeable event is one as regards which section 72(2)(b) below applies.
- (2) In the following provisions of this section—
- (a) “the initial chargeable event” means the event referred to in subsection (1)(a) above, and

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- (b) “the total outstanding amount” means the total amount outstanding, at the time the initial chargeable event occurs, in respect of the principal of an amount or amounts borrowed at any time by the trustees.
- (3) If any of the total outstanding amount is repaid after the initial chargeable event occurs, a further chargeable event shall occur in relation to the trustees at the end of the year of assessment in which the repayment is made.
- (4) In such a case—
- (a) the trustees shall be treated as receiving, when the further event occurs, annual profits or gains whose amount is equal to the chargeable amount,
 - (b) the profits or gains shall be chargeable to tax under Case VI of Schedule D for the year of assessment at the end of which the further event occurs, and
 - (c) the rate at which the tax is chargeable shall be a rate equal to the sum of the basic rate and the additional rate for the year of assessment at the end of which the further event occurs.
- (5) Subject to subsection (6) below, for the purposes of subsection (4) above the chargeable amount is an amount equal to the aggregate of the total outstanding amount repaid in the year of assessment.
- (6) In a case where section 72(2)(b) below had effect in the case of the initial chargeable event, for the purposes of subsection (4) above the chargeable amount is an amount equal to the smaller of—
- (a) the aggregate of the total outstanding amount repaid in the year of assessment, and
 - (b) an amount found by applying the formula A-B-C.
- (7) For the purposes of subsection (6) above—
- (a) A is the amount which would be the chargeable amount for the initial chargeable event apart from section 72(2) below,
 - (b) B is the chargeable amount for the initial chargeable event, and
 - (c) C is the amount (if any) found under subsection (8) below.
- (8) If, before the further chargeable event occurs, one or more prior chargeable events have occurred in relation to the trustees by virtue of the prior repayment of any of the total outstanding amount found for the time the initial chargeable event occurs, the amount found under this subsection is an amount equal to the chargeable amount for the prior chargeable event or to the aggregate of the chargeable amounts for the prior chargeable events (as the case may be).
- (9) In a case where—
- (a) a chargeable event (within the meaning of section 69 above) occurs in relation to the trustees in circumstances mentioned in subsection (1) above,
 - (b) a sum falls to be included in the total outstanding amount found for the time the event occurs,
 - (c) another chargeable event (within the meaning of that section) occurs in relation to the trustees in circumstances mentioned in subsection (1) above, and
 - (d) the same sum or a part of it would (apart from this subsection) fall to be included in the total outstanding amount found for the time the event occurs,
- the sum or part (as the case may be) shall not be included in the total outstanding amount found for the time the other chargeable event occurs.

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- (10) In ascertaining for the purposes of this section whether a repayment is in respect of a particular amount, amounts borrowed earlier shall be taken to be repaid before amounts borrowed later.
- (11) Subsections (3) to (7) of section 68 above shall apply where tax is assessed by virtue of this section as they apply where tax is assessed by virtue of that section.

72 Limit on chargeable amount

- (1) For the purposes of this section each of the following is a chargeable event in relation to the trustees of an employee share ownership trust—
- (a) an event which is a chargeable event by virtue of section 69 above;
 - (b) an event which is a chargeable event by virtue of section 71 above.
- (2) If a chargeable event (the event in question) occurs in relation to the trustees of an employee share ownership trust, the following rules shall apply—
- (a) the amount which would (apart from this subsection) be the chargeable amount for the event in question shall be aggregated, for the purposes of paragraph (b) below, with the chargeable amounts for other chargeable events (if any) occurring in relation to the trustees before the event in question,
 - (b) if the amount which would (apart from this subsection) be the chargeable amount for the event in question (or the aggregate found under paragraph (a) above, if there is one) exceeds the deductible amount, the chargeable amount for the event in question shall be the amount it would be apart from this subsection less an amount equal to the excess, and
 - (c) section 70(2) and (3) and section 71(5) above shall have effect subject to paragraph (b) above.
- (3) For the purposes of subsection (2) above the deductible amount (as regards the event in question) is an amount equal to the total of the sums falling within subsection (4) below.
- (4) A sum falls within this subsection if it has been received by the trustees before the occurrence of the event in question and—
- (a) it has been deducted as mentioned in section 67(2)(a) above, or treated as mentioned in section 67(2)(b) above, before the occurrence of that event, or
 - (b) it would fall to be so deducted or treated if a claim for relief under section 67 above had been made immediately before the occurrence of that event.

73 Information

- (1) An inspector may by notice in writing require a return to be made by the trustees of an employee share ownership trust if they have at any time received a sum which has been deducted as mentioned in section 67(2)(a) above or treated as mentioned in section 67(2)(b) above.
- (2) Where he requires such a return to be made the inspector shall specify the information to be contained in it.
- (3) The information which may be specified is information the inspector needs for the purposes of sections 68 to 72 above, and may include information about—
- (a) sums received (including sums borrowed) by the trustees;

- (b) expenditure incurred by them;
 - (c) assets acquired by them;
 - (d) transfers of assets made by them.
- (4) The information which may be required under subsection (3)(a) above may include the persons from whom the sums were received.
- (5) The information which may be required under subsection (3)(b) above may include the purpose of the expenditure and the persons receiving any sums.
- (6) The information which may be specified under subsection (3)(c) above may include the persons from whom the assets were acquired and the consideration furnished by the trustees.
- (7) The information which may be included under subsection (3)(d) above may include the persons to whom assets were transferred and the consideration furnished by them.
- (8) In a case where a sum has been deducted as mentioned in section 67(2)(a) above, or treated as mentioned in section 67(2)(b) above, the inspector shall send to the trustees to whom the payment was made a certificate stating—
- (a) that a sum has been so deducted or so treated, and
 - (b) what sum has been so deducted or so treated.
- (9) In the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to comply with notices etc.) at the end of the first column there shall be inserted—
“Section 73 of the Finance Act 1989”.

74 Interpretation

Schedule 5 to this Act shall have effect to determine whether, for the purposes of sections 67 to 73 above, a trust is at a particular time—

- (a) an employee share ownership trust;
- (b) a qualifying employee share ownership trust.

Pensions etc.

75 Retirement benefits schemes

Schedule 6 to this Act (which relates to retirement benefits schemes) shall have effect.

76 Non-approved retirement benefits schemes

- (1) In computing the amount of the profits or gains to be charged under Case I or Case II of Schedule D, no sum shall be deducted in respect of any expenses falling within subsection (2) or (3) below; and no expenses falling within either of those subsections shall be treated for the purposes of section 75 of the Taxes Act 1988 (investment companies) as expenses of management.
- (2) Expenses fall within this subsection if—
- (a) they are expenses of providing benefits pursuant to a relevant retirement benefits scheme, and

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- (b) the benefits are not ones in respect of which a person is on receipt chargeable to income tax.
- (3) Expenses fall within this subsection if—
- (a) they are expenses of paying any sum pursuant to a relevant retirement benefits scheme with a view to the provision of any benefits, and
 - (b) the sum is not one which when paid is treated as the income of a person by virtue of section 595(1) of the Taxes Act 1988 (sum paid with a view to the provision of any relevant benefits for an employee).
- (4) No sum shall be deducted in respect of any expenses falling within subsection (5) or (6) below—
- (a) in computing the amount of the profits or gains to be charged under Case I or Case II of Schedule D, or
 - (b) by virtue of section 75 of the Taxes Act 1988,
- unless the sum has actually been expended.
- (5) Expenses fall within this subsection if—
- (a) they are expenses of providing benefits pursuant to a relevant retirement benefits scheme, and
 - (b) the benefits are ones in respect of which a person is on receipt chargeable to income tax.
- (6) Expenses fall within this subsection if—
- (a) they are expenses of paying any sum pursuant to a relevant retirement benefits scheme with a view to the provision of any benefits, and
 - (b) the sum is one which when paid is treated as the income of a person by virtue of section 595(1) of the Taxes Act 1988.
- (7) In this section—
- “retirement benefits scheme” has the same meaning as in Chapter I of Part XIV of the Taxes Act 1988, and
- references to a relevant retirement benefits scheme are references to a retirement benefits scheme which is not of a description mentioned in section 596(1)(a), (b) or (c) of the Taxes Act 1988.
- (8) This section has effect in relation to expenses incurred on or after the day on which this Act is passed.

77 Personal pension schemes

Schedule 7 to this Act (which relates to personal pension schemes) shall have effect.

Unit trusts etc.

78 Certified unit trusts

The following sections shall be inserted after section 468 of the Taxes Act 1988—

“468A Certified unit trusts

- (1) For the purposes of sections 468B and 468C “certified unit trust” means, as respects an accounting period, a unit trust scheme in the case of which—
 - (a) an order under section 78 of the Financial Services Act 1986 is in force during the whole or part of that accounting period, and
 - (b) a certificate under section 78(8) of that Act, certifying that the scheme complies with the conditions necessary for it to enjoy the rights conferred by the UCITS directive, has been issued before or at any time during that accounting period.
- (2) In this section—

“the UCITS directive” means the directive of the Council of the European Communities, dated 20th December 1985, on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (no. 85/611/EEC), and

“unit trust scheme” has the same meaning as in section 469.

468B Certified unit trusts: corporation tax

- (1) This section has effect as regards an accounting period of the trustees of a certified unit trust ending after 31st December 1989.
- (2) Subject to subsection (3) below, the rate of corporation tax for a financial year shall be deemed to be the rate at which income tax at the basic rate is charged for the year of assessment which begins on 6th April in the financial year concerned.
- (3) Where the period begins before 1st January 1990, subsection (2) above shall only apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1990 and subsection (4) below shall apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1989.
- (4) So much of the period as falls after 31st December 1989 and before 1st April 1990 shall be deemed to fall in a financial year for which the rate of corporation tax is the rate at which income tax at the basic rate is charged for the year 1989-90.
- (5) Where the period begins after 31st December 1989, section 338 shall have effect as if any reference to interest of any description were a reference to interest of that description on borrowing of a relevant description.
- (6) For the purposes of subsection (5) above borrowing is of a relevant description if it is borrowing in respect of which there has been no breach during the accounting period of the duties imposed on the manager of the scheme by regulations under section 81 of the Financial Services Act 1986 with respect to borrowing by the trustees of the scheme.
- (7) The Treasury may by regulations provide that for subsection (6) above (as it has effect for the time being) there shall be substituted a subsection containing

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a different definition of what constitutes borrowing of a relevant description for the purposes of subsection (5) above.

- (8) Regulations under subsection (7) above may contain such supplementary, incidental, consequential or transitional provision as the Treasury think fit.
- (9) In this section “certified unit trust” has the meaning given by section 468A.

468C Certified unit trusts: distributions

- (1) Subsection (2) below applies where—
- (a) as regards a distribution period ending after 31st December 1989 a dividend is treated by virtue of section 468(2) as paid to a unit holder (whether or not income is in fact paid to the unit holder),
 - (b) the dividend is treated as paid by the trustees of a unit trust scheme which is a certified unit trust as respects the accounting period in which the distribution period falls, and
 - (c) on the date of payment the unit holder is within the charge to corporation tax and not a dual resident.
- (2) For the purpose of computing corporation tax chargeable in the case of the unit holder the payment shall be deemed—
- (a) to be an annual payment, and not a dividend or other distribution, and
 - (b) to have been received by the unit holder after deduction of income tax at the basic rate, for the year of assessment in which the date of payment falls, from a corresponding gross amount.
- (3) Subsection (2) above shall not apply where the rights in respect of which the dividend is treated as paid are held by the trustees of a unit trust scheme which on the date of payment is a fund of funds.
- (4) Where the unit holder is on the date of payment the manager of the scheme, subsection (2) above shall not apply in so far as the rights in respect of which the dividend is treated as paid are rights held by him in the ordinary course of his business as manager of the scheme.
- (5) Subsection (2) above shall not apply to so much of the payment as is attributable to income of the trustees arising before 1st January 1990.
- (6) In this section—
- “certified unit trust” has the meaning given by section 468A,
- “distribution period” has the same meaning as in section 468,
- “dual resident” means a person who is resident in the United Kingdom and falls to be regarded for the purposes of any arrangements having effect by virtue of section 788 as resident in a territory outside the United Kingdom,
- “fund of funds” means a unit trust scheme the sole object of which is to enable the unit holders to participate in or receive profits or income arising from the acquisition, holding, management or disposal of units in unit trust schemes, and
- “unit trust scheme” has the same meaning as in section 469.”

79. Funds of funds.

The following section shall be inserted after section 468C of the Taxes Act 1988—

“468D Funds of funds: distributions

- (1) Subsection (2) below applies where—
 - (a) as regards a distribution period ending after 31st December 1989 a dividend is treated by virtue of section 468(2) as paid to a unit holder (whether or not income is in fact paid to the unit holder),
 - (b) the dividend is treated as paid by the trustees of a unit trust scheme which on the date of payment is a fund of funds, and
 - (c) on the date of payment the unit holder is within the charge to corporation tax and not a dual resident.
- (2) For the purpose of computing corporation tax chargeable in the case of the unit holder the payment shall be deemed—
 - (a) to be an annual payment, and not a dividend or other distribution, and
 - (b) to have been received by the unit holder after deduction of income tax at the basic rate, for the year of assessment in which the date of payment falls, from a corresponding gross amount.
- (3) Where the unit holder is on the date of payment the manager of the scheme, subsection (2) above shall not apply in so far as the rights in respect of which the dividend is treated as paid are rights held by him in the ordinary course of his business as manager of the scheme.
- (4) Subsection (2) above shall not apply to so much of the payment as is attributable to income of the trustees arising before 1st January 1990.
- (5) In this section—

“distribution period” has the same meaning as in section 468,
“dual resident” and “fund of funds” have the same meanings as in section 468C,
“unit trust scheme” has the same meaning as in section 469.”

80 Gilt unit trusts

- (1) Where, in the case of a certified unit trust and apart from this subsection, section 468(5) of the Taxes Act 1988 would apply as regards a distribution period beginning after 31st December 1989, section 468(5) shall not apply in the case of the trust as regards that period.
- (2) Where by virtue of subsection (1) above the last distribution period as regards which section 468(5) applies in the case of a certified unit trust is one beginning on or before, and ending after, 31st December 1989, the trustees' liability to income tax in respect of any source of income chargeable under Case III of Schedule D shall be assessed as if they had ceased to possess the source of income on the last day of that distribution period.
- (3) But where section 67 of the Taxes Act 1988 applies by virtue of subsection (2) above, it shall apply with the omission from subsection (1)(b) of the words from “and shall” to “this provision”.

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- (4) For the purposes of this section “certified unit trust” means, as respects a distribution period, a unit trust scheme in the case of which—
- (a) an order under section 78 of the Financial Services Act 1986 is in force during the whole or part of the accounting period in which the distribution period falls, and
 - (b) a certificate under section 78(8) of that Act, certifying that the scheme complies with the conditions necessary for it to enjoy the rights conferred by the UCITS directive, has been issued before or at any time during that accounting period.
- (5) In this section—
- “distribution period” has the same meaning as in section 468 of the Taxes Act 1988,
- “the UCITS directive” means the directive of the Council of the European Communities, dated 20th December 1985, on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (No. 85/611/EEC), and
- “unit trust scheme” has the same meaning as in section 469 of the Taxes Act 1988.

81 Offshore funds operating equalisation arrangements

- (1) In section 758 of the Taxes Act 1988 (offshore funds operating equalisation arrangements) in subsection (6) (reference to section 78 of the Capital Gains Tax Act 1979 not to include reference to it as applied by section 82) for the words “but not” there shall be substituted the words “and a reference to section 78”.
- (2) This section shall apply where a conversion of securities occurs on or after 14th March 1989; and “conversion of securities” here has the same meaning as in section 82 of the Capital Gains Tax Act 1979.

Life assurance

82 Calculation of profits

- (1) Where the profits of an insurance company in respect of its life assurance business are, for the purposes of the Taxes Act 1988, computed in accordance with the provisions of that Act applicable to Case I of Schedule D, then, in calculating the profits for any period of account,—
 - (a) there shall be taken into account as an expense (so far as not so taken into account apart from this section) any amounts which, in respect of the period, are allocated to or expended on behalf of policy holders or annuitants; and
 - (b) if, at the end of the period, the company has an unappropriated surplus on valuation, as shown in its return for the purposes of the Insurance Companies Act 1982, then, subject to subsection (3) below, the closing liabilities of the period may include such amount, forming part of that surplus, as is required to meet the reasonable expectations of policy holders or annuitants with regard to bonuses or other additions to benefit of a discretionary nature.
- (2) For the purposes of this section an amount is allocated to policy holders or annuitants if, and only if,—

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- (a) bonus payments are made to them; or
 - (b) reversionary bonuses are declared in their favour or a reduction is made in the premiums payable by them;and the amount of the allocation is, in a case within paragraph (a) above, the amount of the payments and, in a case within paragraph (b) above, the amount of the liabilities assumed by the company in consequence of the declaration or reduction.
- (3) The amount which, apart from this subsection, would be included in the closing liabilities of a period of account by virtue of subsection (1)(b) above shall be reduced or, as the case may be, extinguished by deducting therefrom the total of the amounts which—
 - (a) for periods of account ending before 14th March 1989 have been excluded, by virtue of section 433 of the Taxes Act 1988, as being reserved for policy holders or annuitants, and
 - (b) have not before that date either been allocated to or expended on behalf of policy holders or annuitants or been treated as profits of an accounting period on ceasing to be so reserved.
- (4) Where the closing liabilities of a period of account include an amount by virtue of subsection (1)(b) above, the like amount shall be included in the opening liabilities of the next following period of account.
- (5) This section has effect with respect to periods of account ending on or after 14th March 1989; and the following provisions of this section shall apply for the purposes of the application of this section to any such period which begins before that date (in this section referred to as a “straddling period”).
- (6) For the purposes referred to in subsection (5) above, it shall be assumed that the straddling period consists of two separate periods of account,—
 - (a) the first beginning at the beginning of the straddling period and ending on 13th March 1989 (in this section referred to as “the first notional period”); and
 - (b) the second beginning on 14th March 1989 and ending at the end of the straddling period (in this section referred to as “the second notional period”);and any reference in subsection (7) or subsection (8) below to a time apportionment is a reference to an apportionment made by reference to the respective lengths of the two notional periods.
- (7) To determine the profits of the first notional period and the amount excluded from the profits of that period by virtue of section 433 of the Taxes Act 1988 as being reserved for policy holders or annuitants,—
 - (a) in the first instance the profits of the straddling period and the amount so excluded from those profits shall be computed as if subsections (1) to (4) above did not apply with respect to any part of the straddling period; and
 - (b) there shall then be determined that part of the profits and the amount computed under paragraph (a) above which, on a time apportionment, is properly attributable to the first notional period.
- (8) To determine the profits of the second notional period,—
 - (a) in the first instance the profits of the straddling period shall be computed as if subsections (1) to (4) above applied to the whole of the straddling period; and
 - (b) there shall then be determined that part of the profits computed under paragraph (a) above which, on a time apportionment, is properly attributable to the second notional period.

83 Receipts to be brought into account

- (1) Where the profits of an insurance company in respect of its life assurance business are, for the purposes of the Taxes Act 1988, computed in accordance with the provisions of that Act applicable to Case I of Schedule D, then, so far as referable to that business, the following items, as brought into account for a period of account (and not otherwise), namely,—
- (a) the company's investment income from the assets of its long-term business fund, and
 - (b) any increase in the value (whether realised or not) of those assets,
- shall be taken into account as receipts of the period; and if for any period of account there is a reduction in the value referred to in paragraph (b) above (as brought into account for the period), that reduction shall be taken into account as an expense of that period.
- (2) Except in so far as regulations made by the Treasury otherwise provide, in subsection (1) above “brought into account” means brought into account in the revenue account prepared for the purposes of the Insurance Companies Act 1982.
- (3) Subject to subsection (5) below, this section has effect with respect to periods of account ending on or after 1st January 1990; and the following provisions of this section shall apply for the purposes of the application of this section to any such period which begins before that date (in this section referred to as a “straddling period”).
- (4) Subject to subsection (5) below, for the purposes referred to in subsection (3) above, it shall be assumed that the straddling period consists of two separate periods of account,—
- (a) the first beginning at the beginning of the straddling period and ending on 31st December 1989 (in this section referred to as “the first notional period”); and
 - (b) the second beginning on 1st January 1990 and ending at the end of the straddling period (in this section referred to as “the second notional period”);
- and any reference in subsection (6) or subsection (7) below to a time apportionment is a reference to an apportionment made by reference to the respective lengths of the two notional periods.
- (5) In the case of any company which, by notice in writing given to the inspector on or before 31st December 1992, so elects,—
- (a) subsections (3) and (4)(b) above shall have effect as if for “1st January 1990” there were substituted “14th March 1989”; and
 - (b) subsection (4)(a) above shall have effect as if for “31st December” there were substituted “13th March”.
- (6) To determine the profits of the first notional period,—
- (a) in the first instance the profits of the straddling period shall be computed as if subsections (1) and (2) above did not apply with respect to any part of that period; and
 - (b) there shall then be determined that part of the profits computed under paragraph (a) above which, on a time apportionment, is properly attributable to the first notional period.
- (7) To determine the profits of the second notional period,—

- (a) in the first instance the profits of the straddling period shall be computed as if subsections (1) and (2) above applied with respect to the whole of that period; and
- (b) there shall then be determined that part of the profits computed under paragraph (a) above which, on a time apportionment, is properly attributable to the second notional period.

84 Interpretation of sections 85 to 89 and further provisions about insurance companies

- (1) In sections 85 to 89 below “basic life assurance business” means life assurance business other than general annuity business and pension business.
- (2) Any reference in the sections referred to in subsection (1) above or the following provisions of this section to a straddling period is a reference to an accounting period which begins before 1st January 1990 and ends on or after that date.
- (3) For the purposes of the sections referred to in subsection (1) above and for the purposes of subsection (5)(b) below it shall be assumed that a straddling period consists of two separate accounting periods—
 - (a) the first beginning at the beginning of the straddling period and ending on 31st December 1989; and
 - (b) the second beginning on 1st January 1990 and ending at the end of the straddling period;and in those sections and subsection (5)(b) below the first of those two notional accounting periods is referred to as “the 1989 component period” and the second is referred to as “the 1990 component period”.
- (4) Chapter I of Part XII of the Taxes Act 1988 (insurance companies) shall have effect subject to the amendments in Schedule 8 to this Act, being—
 - (a) amendments relating to franked investment income, loss relief and group relief; and
 - (b) amendments consequential on or supplemental to sections 82 and 83 above and sections 85 to 89 below.
- (5) Subject to subsection (6) below, in Schedule 8 to this Act,—
 - (a) paragraphs 2 and 6 shall be deemed to have come into force on 14th March 1989; and
 - (b) the remainder shall have effect with respect to accounting periods beginning on or after 1st January 1990 (including the 1990 component period).
- (6) Nothing in subsection (5) above affects the operation, by virtue of any provision of sections 82 and 83 above and sections 85 to 89 below, of any enactment repealed or amended by Schedule 8 to this Act and, so long as the provisions of that Schedule do not have effect in relation to sections 434 and 435 of the Taxes Act 1988, nothing in subsection (5)(a) above affects the continuing operation of section 433 of that Act for the purpose only of determining the fraction of the profits referred to in subsection (6) of section 434 and subsection (1)(b) of section 435.

85 Charge of certain receipts of basic life assurance business

- (1) Subject to subsection (2) below, where the profits of an insurance company in respect of its life assurance business are not charged under Case I of Schedule D, there shall

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be chargeable under Case VI of that Schedule any receipts referable to the company's basic life assurance business—

- (a) which, if those profits were charged under Case I of Schedule D, would be taken into account in computing those profits; and
- (b) which would not be within the charge to tax (except under Case I of Schedule D) apart from this section;

and for the purposes of paragraph (a) above, the provisions of section 83 above as to the manner in which any item is to be taken into account shall be disregarded.

- (2) The receipts referred to in subsection (1) above do not include—
 - (a) any premium; or
 - (b) any sum received by virtue of a claim under an insurance contract (including a re-insurance contract); or
 - (c) any repayment or refund (in whole or in part) of a sum disbursed by the company as acquisition expenses falling within paragraphs (a) to (c) of subsection (1) of section 86 below; or
 - (d) any sum which is taken into account under section 76(1)(a) of the Taxes Act 1988 as a deduction from the amount treated as expenses of management of the company; or
 - (e) any sum which is not within the charge to tax (except under Case I of Schedule D) because of an exemption from tax.
- (3) This section has effect with respect to the receipts of accounting periods beginning on or after 1st January 1990 (including the 1990 component period).

86 Spreading of relief for acquisition expenses

- (1) For the purposes of this section, the acquisition expenses for any period of an insurance company carrying on life assurance business are such of the following expenses of management as are for that period attributable to the company's basic life assurance business,—
 - (a) commissions (however described), other than commissions in respect of industrial life assurance business carried on by the company,
 - (b) any other expenses of management which are disbursed solely for the purpose of the acquisition of business, and
 - (c) so much of any other expenses of management which are disbursed partly for the purpose of the acquisition of business and partly for other purposes as are properly attributable to the acquisition of business,
 less any such repayments or refunds falling within section 76(1)(c) of the Taxes Act 1988 as are received in the period.
- (2) The exclusion from paragraph (a) of subsection (1) above of commissions in respect of industrial life assurance business shall not prevent such commissions constituting expenses of management for the purposes of paragraph (b) or paragraph (c) of that subsection.
- (3) Nothing in subsections (1) and (2) above applies to commissions (however described) in respect of insurances made before 14th March 1989, but without prejudice to the application of those subsections to any commission attributable to a variation on or after that date in a policy issued in respect of an insurance made before that date; and, for this purpose, the exercise of any rights conferred by a policy shall be regarded as a variation of it.

- (4) In subsection (1) above “the acquisition of business” includes the securing on or after 14th March 1989 of the payment of increased or additional premiums in respect of a policy of insurance issued in respect of an insurance already made (whether before, on or after that date).
- (5) In relation to any period, the expenses of management attributable to a company’s basic life assurance business are expenses—
 - (a) which are disbursed for that period (disregarding any treated as so disbursed by section 75(3) of the Taxes Act 1988); and
 - (b) which, disregarding subsection (6) below, are deductible as expenses of management in accordance with sections 75 and 76 of the Taxes Act 1988.
- (6) Notwithstanding anything in sections 75 and 76 of the Taxes Act 1988 but subject to subsection (7) below, only one-seventh of the acquisition expenses for any accounting period (in this section referred to as “the base period”) shall be treated as deductible under those sections for the base period, and in subsections (8) and (9) below any reference to the full amount of the acquisition expenses for the base period is a reference to the amount of those expenses which would be deductible for that period apart from this subsection.
- (7) In the case of the acquisition expenses for an accounting period or part of an accounting period falling wholly within 1990, subsection (6) above shall have effect as if for “one-seventh” there were substituted “five-sevenths”; and, in the case of the acquisition expenses for an accounting period or part of an accounting period falling wholly within 1991, 1992 or 1993, the corresponding substitution shall be “four-sevenths”, “three-sevenths” or “two-sevenths” respectively.
- (8) Where, by virtue of subsection (6) (and, where appropriate, subsection (7)) above, only a fraction of the full amount of the acquisition expenses for the base period is deductible under sections 75 and 76 of the Taxes Act 1988 for that period, then, subject to subsection (9) below, a further one-seventh of the full amount shall be so deductible for each succeeding accounting period after the base period until the whole of the full amount has become so deductible, except that, for any accounting period of less than a year, the fraction of one-seventh shall be proportionately reduced.
- (9) For any accounting period for which the fraction of the full amount of the acquisition expenses for the base period which would otherwise be deductible in accordance with subsection (8) above exceeds the balance of those expenses which has not become deductible for earlier accounting periods, only that balance shall be deductible.
- (10) This section has effect for accounting periods beginning on or after 1st January 1990 (including the 1990 component period).

87 Management expenses

- (1) Section 76 of the Taxes Act 1988 shall be amended in accordance with subsections (2) and (3) below.
- (2) In subsection (1), after paragraph (b) there shall be inserted “and
 - (c) there shall be deducted from the amount treated as the expenses of management for any accounting period any repayment or refund (in whole or in part) of a sum disbursed by the company (for that or any earlier period) as acquisition expenses; and

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- (d) the amount treated as expenses of management shall not include any amount in respect of expenses referable to general annuity business or pension business; and
- (e) the amount of profits from which expenses of management may be deducted for any accounting period shall not exceed the net income and gains of that accounting period referable to basic life assurance business;

and for this purpose “net income and gains” means income and gains after deducting any reliefs or exemptions which fall to be applied before taking account of this section.”

(3) For subsection (8) there shall be substituted—

“(8) In this section—

“acquisition expenses” means expenses falling within paragraphs (a) to (c) of subsection (1) of section 86 of the Finance Act 1989;

“basic life assurance business” has the meaning assigned by section 84(1) of that Act;

and other expressions have the same meaning as in Chapter I of Part XII.”

- (4) In consequence of the amendment made by subsection (2) above, section 436(3)(b) of the Taxes Act 1988 (no deduction of expenses of management in certain cases) shall cease to have effect.
- (5) This section has effect with respect to accounting periods beginning on or after 1st January 1990; and, in relation to a straddling period, sections 75, 76 and 436 of the Taxes Act 1988—
- (a) shall have effect in relation to the 1989 component period without regard to the amendments made by subsections (2) to (4) above; and
 - (b) shall have effect in relation to the 1990 component period as amended by those subsections.
- (6) If, for the 1989 component period, there is an amount of expenses of management available to be carried forward to the 1990 component period under section 75(3)(a) of the Taxes Act 1988 (as applied by section 76 thereof),—
- (a) that amount shall form a pool to which the following provisions of this section shall apply and to which section 75(3)(b) of that Act (in this subsection referred to as “the carry-forward provision”) shall apply only to the extent specified in paragraph (c) below;
 - (b) if, for the 1990 component period or any subsequent accounting period, the amount which (disregarding the pool) may be deducted in respect of expenses of management is less than the amount of the profits from which, disregarding section 76(1)(e) of that Act (as set out in subsection (2) above), the expenses of management are deductible, paragraph (c) below shall apply for that period; and in that paragraph the difference between the amount which may be so deducted and that amount of profits is referred to as “the potential deficiency” for the period;
 - (c) where this paragraph applies for an accounting period (including the 1990 component period) the carry-forward provision shall be taken to have had effect to carry forward to the accounting period (as if disbursed as expenses for that period) so much of the pool as does not exceed the potential deficiency

for the period and is permitted under section 76(2) of the Taxes Act 1988; and the amount of the pool shall be reduced accordingly.

- (7) In the case of a company which has an accounting period beginning on 1st January 1990, subsection (6) above shall apply as if—
- (a) any reference therein to the 1989 component period were a reference to the accounting period ending on 31st December 1989; and
 - (b) any reference therein to the 1990 component period were a reference to the accounting period beginning on 1st January 1990.

88 Corporation tax: policy holders' fraction of profits

- (1) Subject to subsection (2) below, in the case of a company carrying on life assurance business, the rate of corporation tax chargeable for any financial year on the policy holders' fraction of its relevant profits for any accounting period shall be deemed to be the rate at which income tax at the basic rate is charged for the year of assessment which begins on 6th April in the financial year concerned.
- (2) Subsection (1) above does not apply in relation to profits charged under Case I of Schedule D.
- (3) For the purposes of subsection (1) above, the relevant profits of a company for an accounting period are the total profits of its life assurance business, less any deduction due under section 76 of the Taxes Act 1988, but before allowing any relief under Chapter II or Chapter IV of Part X of that Act.
- (4) In determining for the purposes of section 13 of the Taxes Act 1988 (small companies' relief) the profits and basic profits (within the meaning of that section) of an accounting period of a company carrying on life assurance business, the policy holders' fraction of the company's relevant profits for that period shall be left out of account.
- (5) This section has effect with respect to the profits of a company for accounting periods beginning on or after 1st January 1990 (including the 1990 component period); and, for this purpose, the profits of the 1990 component period shall be taken to be that portion of the profits of the straddling period which the length of the 1990 component period bears to the length of the straddling period.

89 Shareholders' and policy holders' fractions

- (1) In relation to an accounting period of an insurance company carrying on life assurance business, any reference to the shareholders' fraction or the policy holders' fraction is a reference to the appropriate fraction determined, subject to subsections (7) and (8) below, by the formulae in subsection (2) below.
- (2) The formulae referred to in subsection (1) above are—
- (a) for the shareholders' fraction,

$$\frac{A}{A + B},$$

and

- (b) for the policy holders' fraction,

$$\frac{B}{A + B},$$

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where “A” and “B” are determined in accordance with the following provisions of this section.

- (3) In the formulae in subsection (2) above “A” is the profits of the company for the accounting period in respect of its life assurance business, computed in accordance with the provisions of the Taxes Act 1988 applicable to Case I of Schedule D, and, if there are no such profits (or there is a loss), “A” is zero.
- (4) Subject to subsection (6) below, in those formulae “B” is such a sum as, after deduction of corporation tax at the rate provided for by subsection (1) of section 88 above in relation to the policy holders' fraction of the company's relevant profits for the accounting period (within the meaning of that subsection), is equal to the excess (if any) for the corresponding period of account of—
- (a) the aggregate of—
 - (i) the closing liabilities to policy holders referable to the company's basic life assurance business,
 - (ii) the sums paid to policy holders in the period in respect of claims referable to that business, and
 - (iii) any amounts allocated to policy holders in respect of that period which do not fall within sub-paragraph (i) or sub-paragraph (ii) above and which are referable to that business,

over
 - (b) the aggregate of the premiums receivable by the company for the period in respect of its basic life assurance business and the opening liabilities to policy holders referable to that business,
- and, if there is no such excess, “B” is zero.
- (5) The references in subsection (4) above to the opening and closing liabilities to policy holders are references to those liabilities including any such amount as is referred to in section 82(1)(b) above.
- (6) In relation to an accounting period, references in subsection (4) above to the corresponding period of account are references,—
- (a) if the accounting period coincides with a period of account, to that period; and
 - (b) in any other case, to the period of account in which the accounting period is comprised;
- and, for the purpose of determining “B” in a case where paragraph (b) above applies, the aggregates referred to in paragraphs (a) and (b) of subsection (4) above shall each be proportionately reduced to reflect the length of the accounting period as compared with the length of the corresponding period of account.
- (7) Subject to subsection (8) below, if in the case of any accounting period of a company both “A” and “B” in the formulae in subsection (2) above are zero,—
- (a) the shareholders' fraction shall be taken to be the whole; and
 - (b) the policy holders' fraction shall be taken to be nil.
- (8) In relation to an accounting period of an insurance company carrying on mutual life assurance business,—
- (a) any reference to the shareholders' fraction is a reference to nil; and
 - (b) any reference to the policy holders' fraction is a reference to the whole.

90 Life policies etc. held by companies

Schedule 9 to this Act (which imposes tax on certain benefits relating to life policies, life annuities and capital redemption policies held by companies, and makes related provision) shall have effect.

Underwriters

91 Premiums trust funds: stock lending

(1) In section 725 of the Taxes Act 1988 (Lloyd’s underwriters) the following subsections shall be inserted after subsection (9)—

“(10) Subsection (11) below applies where the following state of affairs exists at the beginning of 1st January of any year or the end of 31st December of any year—

- (a) securities have been transferred by the trustees of a premiums trust fund in pursuance of an arrangement mentioned in section 129(1) or (2),
- (b) the transfer was made to enable another person to fulfil a contract or to make a transfer,
- (c) securities have not been transferred in return, and
- (d) section 129(3) applies to the transfer made by the trustees.

(11) The securities transferred by the trustees shall be treated for the purposes of subsections (1) to (6) above as if they formed part of the premiums trust fund at the beginning of 1st January concerned or the end of 31st December concerned (as the case may be).”

(2) In section 142A of the Capital Gains Tax Act 1979 (assets in premiums trust fund) the following subsections shall be inserted after subsection (4)—

“(4A) Subsection (4B) below applies where the following state of affairs exists at the beginning of an accounting period or the end of an accounting period—

- (a) securities have been transferred by the trustees of a premiums trust fund in pursuance of an arrangement mentioned in section 129(1) or (2) of the Taxes Act 1988 (stock lending),
- (b) the transfer was made to enable another person to fulfil a contract or to make a transfer,
- (c) securities have not been transferred in return, and
- (d) the transfer made by the trustees constitutes a disposal which by virtue of section 149B(9) below is to be disregarded as there mentioned.

(4B) The securities transferred by the trustees shall be treated for the purposes of subsection (3) above as if they formed part of the premiums trust fund at the beginning concerned or the end concerned (as the case may be).”

(3) This section applies where the transfer by the trustees of a premiums trust fund is made after the date specified as mentioned in section 129(6) of the Taxes Act 1988.

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92 Regulations about underwriters etc

- (1) In section 451(1A) of the Taxes Act 1988 (regulations about underwriters) for the words from “with respect to” to the end there shall be substituted the words “with respect to any year or years of assessment; and the year (or any of the years) may be the one in which the regulations are made or any year falling before or after that year.”
- (2) The following subsection shall be inserted after section 451(1A) of that Act—
 - “(1B) But the regulations may not make provision with respect to any year of assessment which precedes the next but one preceding the year of assessment in which the regulations are made.”
- (3) In section 142A of the Capital Gains Tax Act 1979 (regulations about premiums trust funds) subsection (5)(c) shall be omitted and the following subsections shall be inserted after subsection (5)—
 - “(6) Regulations under subsection (5) above may make provision with respect to any year or years of assessment; and the year (or any of the years) may be the one in which the regulations are made or any year falling before or after that year.
 - (7) But the regulations may not make provision with respect to any year of assessment which precedes the next but one preceding the year of assessment in which the regulations are made.”
- (4) Subsection (5) below applies in the case of any provision of the Tax Acts, the Taxes Management Act 1970, the Capital Gains Tax Act 1979, or any other enactment relating to capital gains tax, which imposes a time limit for making a claim or an election or an application.
- (5) The Board may by regulations provide that where the claim or election or application falls to be made by an underwriting member of Lloyd’s or his spouse (or both) the provision shall have effect as if it imposed such longer time limit as is specified in the regulations.
- (6) Regulations under subsection (5) above—
 - (a) shall be made by statutory instrument subject to annulment in pursuance of a resolution of the House of Commons;
 - (b) may make different provision for different provisions or different purposes.
- (7) Regulations under subsection (5) above may make provision with respect to any year or years of assessment; and the year (or any of the years) may be the one in which the regulations are made or any year falling before or after that year.

Securities

93 Deep discount securities: amendments

Schedule 10 to this Act (which amends Schedule 4 to the Taxes Act 1988) shall have effect.

94 Deep gain securities

Schedule 11 to this Act (which contains provisions about securities capable of yielding a deep gain) shall have effect.

95 Treasury securities issued at a discount

- (1) Section 126 of the Taxes Act 1988 (tax not to be charged on certain securities in respect of discount under Case III of Schedule D) shall be amended as mentioned in subsections (2) and (3) below.
- (2) In subsection (2) (the securities affected) for the words “except Treasury bills” there shall be substituted the words “except—
 - (a) Treasury bills,
 - (b) relevant deep discount securities, and
 - (c) deep gain securities.”
- (3) The following subsection shall be inserted after subsection (2)—

“(3) For the purposes of subsection (2) above—
 - (a) a relevant deep discount security is a security falling within paragraph 1(1)(dd) of Schedule 4 to this Act, and
 - (b) a deep gain security is a security which is a deep gain security for the purposes of Schedule 11 to the Finance Act 1989.”
- (4) The preceding provisions of this section shall apply—
 - (a) in the case of a deep discount security, where there is a disposal (within the meaning of Schedule 4 to the Taxes Act 1988) on or after 14th March 1989;
 - (b) in the case of a deep gain security, where there is a transfer within the meaning of Schedule 11 to this Act, or a redemption, on or after 14th March 1989.
- (5) Subsection (7) below applies where—
 - (a) by virtue of paragraph 19(2) of Schedule 4 to the Taxes Act 1988, a security falls to be treated as a deep discount security as there mentioned, and
 - (b) after the time mentioned in paragraph 19(1)(d) of that Schedule there is a disposal (within the meaning of that Schedule) of the security.
- (6) Subsection (7) below also applies where—
 - (a) by virtue of paragraph 20(2) of Schedule 11 to this Act, a security falls to be treated as a deep gain security as there mentioned, and
 - (b) after the time mentioned in paragraph 20(1)(d) of that Schedule there is a transfer (within the meaning of that Schedule) or a redemption of the security.
- (7) In a case where this subsection applies, section 126 of the Taxes Act 1988 shall not apply in the case of the disposal, transfer or redemption (as the case may be).

96 Securities: miscellaneous

- (1) In section 452(8) of the Taxes Act 1988 (special reserve funds) for the words from “In paragraph (a) above” to the end there shall be substituted—

“In paragraph (a) above “income” includes—
 - (a) annual profits or gains chargeable to tax by virtue of section 714(2) or 716(3),

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- (b) amounts treated as income chargeable to tax by virtue of paragraph 4 of Schedule 4, and
 - (c) amounts treated as income chargeable to tax by virtue of paragraph 5 of Schedule 11 to the Finance Act 1989.”
- (2) In section 687 of the Taxes Act 1988 (payments under discretionary trusts) the following shall be inserted after subsection (3)(g)—
- “(h) the amount of any tax on an amount which is treated as income of the trustees by virtue of paragraph 4 of Schedule 4 and is charged to tax at a rate equal to the sum of the basic rate and the additional rate by virtue of paragraph 17 of that Schedule;
 - (i) the amount of any tax on an amount which is treated as income of the trustees by virtue of paragraph 5 of Schedule 11 to the Finance Act 1989 and is charged to tax at a rate equal to the sum of the basic rate and the additional rate by virtue of paragraph 11 of that Schedule;”.
- (3) The following subsections shall be inserted at the end of section 132A of the Capital Gains Tax Act 1979 (deep discount securities)—
- “(5) Where by virtue of paragraph 18(3) of Schedule 4 to the Taxes Act 1988 trustees are deemed for the purposes of that Schedule to dispose of a security at a particular time—
 - (a) they shall be deemed to dispose of the security at that time for the purposes of this Act, and
 - (b) the disposal deemed by paragraph (a) above shall be deemed to be at the market value of the security.
 - (6) Where by virtue of paragraph 18(4) of Schedule 4 to the Taxes Act 1988 trustees are deemed for the purposes of that Schedule to acquire a security at a particular time—
 - (a) they shall be deemed to acquire the security at that time for the purposes of this Act, and
 - (b) the acquisition deemed by paragraph (a) above shall be deemed to be at the market value of the security.”
- (4) The new paragraphs (b) and (c) inserted by subsection (1) above, and subsection (2) above, shall apply—
- (a) in the case of a deep discount security, where there is a disposal (within the meaning of Schedule 4 to the Taxes Act 1988) on or after 14th March 1989;
 - (b) in the case of a deep gain security, where there is a transfer within the meaning of Schedule 11 to this Act, or a redemption, on or after 14th March 1989.

Groups of companies

97 Set-off of ACT where companies remain in same group

- (1) In section 240 of the Taxes Act 1988 (set-off of company’s ACT against subsidiary’s liability to corporation tax) at the end of subsection (5) (set-off not to be made against subsidiary’s liability to corporation tax for any accounting period in which, or in any part of which, it was not a subsidiary of the surrendering company) there shall be added the words “unless throughout that period or part both companies were subsidiaries of a third company”.

- (2) This section shall have effect in relation to accounting periods ending on or after 14th March 1989.

98 Restriction on set-off of ACT

- (1) After section 245 of the Taxes Act 1988 there shall be inserted—

“245A Restriction on application of section 240 in certain circumstances

- (1) This section applies if—
- (a) there is a change in the ownership of a company (“the relevant company”);
 - (b) by virtue of section 240 the relevant company is treated as having paid an amount of advance corporation tax in respect of a distribution made by it at any time before the change; and
 - (c) within the period of six years beginning three years before the change, there is a major change in the nature or conduct of a trade or business of the company which is for the purposes of section 240 the surrendering company in relation to that amount.
- (2) No advance corporation tax which the relevant company is treated by virtue of section 240 as having paid in respect of a distribution made by it in an accounting period beginning before the change of ownership shall be treated under section 239(4) as paid by it in respect of distributions made in an accounting period ending after the change of ownership; and this subsection shall apply to an accounting period in which the change of ownership occurs as if the part ending with the change of ownership, and the part after, were two separate accounting periods.
- (3) Subsections (4) and (5) of section 245 shall apply also for the purposes of this section and as if the reference in subsection (4) of section 245 to the period of three years mentioned in subsection (1)(a) of that section were a reference to the period mentioned in subsection (1)(c) above.
- (4) Sections 768(8) and (9) and 769 shall apply also for the purposes of this section and as if in subsection (3) of section 769 the reference to the benefit of losses were a reference to the benefit of advance corporation tax.

245B Restriction on set-off where asset transferred after change in ownership of company

- (1) Subsection (4) below applies if—
- (a) there is a change in the ownership of a company (“the relevant company”);
 - (b) any advance corporation tax paid by the relevant company in respect of distributions made by it in an accounting period beginning before the change is treated under section 239(4) as paid by it in respect of distributions made by it in an accounting period ending after the change;
 - (c) after the change the relevant company acquires an asset from another company in such circumstances that section 273(1) of the Taxes Act 1970 applies to the acquisition; and

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- (d) a chargeable gain accrues to the relevant company on the disposal of the asset within the period of three years beginning with the change of ownership.
- (2) Subsection (1)(b) above shall apply to an accounting period in which the change of ownership occurs as if the part ending with the change of ownership, and the part after, were two separate accounting periods.
- (3) For the purposes of subsection (1)(d) above an asset acquired by the relevant company as mentioned in subsection (1)(c) above shall be treated as the same as an asset owned at a later time by that company if the value of the second asset is derived in whole or in part from the first asset, and in particular where the second asset is a freehold, and the first asset was a leasehold and the lessee has acquired the reversion.
- (4) In relation to the accounting period in which the chargeable gain accrues to the relevant company (“the relevant period”), section 239 shall have effect as if the limit imposed by subsection (2) of that section on the amount of advance corporation tax to be set against the relevant company’s liability to corporation tax were reduced by whichever is the lesser of—
 - (a) the amount of advance corporation tax that would have been payable (apart from section 241) in respect of a distribution made at the end of the relevant period of an amount which, together with the advance corporation tax so payable in respect of it, is equal to the chargeable gain, and
 - (b) the amount of surplus advance corporation tax in relation to the accounting period which by virtue of subsection (2) above is treated for the purposes of subsection (1)(b) above as ending with the change of ownership.
- (5) Sections 768(8) and (9) and 769 shall apply also for the purposes of this section and as if in subsection (3) of section 769 the reference to the benefit of losses were a reference to the benefit of advance corporation tax.”
- (2) This section shall have effect where the change in the ownership of the relevant company occurs on or after 14th March 1989.

99 Dividends etc. paid by one member of a group to another

- (1) Section 247 of the Taxes Act 1988 (dividends etc. paid by one member of a group to another) shall be amended in accordance with this section.
- (2) In subsection (1) for paragraph (b) there shall be substituted—
 - “(b) a trading or holding company which does not fall within subsection (1A) below and which is owned by a consortium the members of which include the receiving company,”.
- (3) After subsection (1) there shall be inserted—
 - “(1A) A company falls within this subsection if—
 - (a) it is a 75 per cent. subsidiary of any other company, or
 - (b) arrangements of any kind (whether in writing or not) are in existence by virtue of which it could become such a subsidiary.”
- (4) After subsection (8) there shall be inserted—

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- “(8A) Notwithstanding that at any time a company (“the subsidiary company”) is a 51 per cent. subsidiary of another company (“the parent company”) it shall not be treated at that time as such a subsidiary for the purposes of this section unless, additionally, at that time—
- (a) the parent company would be beneficially entitled to more than 50 per cent. of any profits available for distribution to equity holders of the subsidiary company; and
 - (b) the parent company would be beneficially entitled to more than 50 per cent. of any assets of the subsidiary company available for distribution to its equity holders on a winding-up.”
- (5) For subsection (9)(c) there shall be substituted—
- “(c) a company is owned by a consortium if 75 per cent. or more of the ordinary share capital of the company is beneficially owned between them by companies resident in the United Kingdom of which none—
- (i) beneficially owns less than 5 per cent. of that capital,
 - (ii) would be beneficially entitled to less than 5 per cent. of any profits available for distribution to equity holders of the company, or
 - (iii) would be beneficially entitled to less than 5 per cent. of any assets of the company available for distribution to its equity holders on a winding-up,
- and those companies are called the members of the consortium.”
- (6) After subsection (9) there shall be inserted—
- “(9A) Schedule 18 shall apply for the purposes of subsections (8A) and (9)(c) above as it applies for the purposes of section 413(7).”
- (7) This section shall have effect in relation to dividends and other sums paid on or after the day on which this Act is passed.

100 Change in ownership of company

- (1) Section 769 of the Taxes Act 1988 (which contains rules for determining whether for the purposes of sections 245 and 768 of that Act there is a change in the ownership of a company) shall be amended in accordance with this section.
- (2) For subsection (6) there shall be substituted—
- “(6) If there is a change in the ownership of a company, including a change occurring by virtue of the application of this subsection but not a change which is to be disregarded under subsection (5) above, then—
- (a) in a case falling within subsection (1)(a) above, the person mentioned in subsection (1)(a) shall be taken for the purposes of this section to acquire at the time of the change any relevant assets owned by the company;
 - (b) in a case falling within subsection (1)(b) above but not within subsection (1)(a) above, each of the persons mentioned in subsection (1)(b) shall be taken for the purposes of this section to acquire at the time of the change the appropriate proportion of any relevant assets owned by the company; and

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- (c) in any other case, each of the persons mentioned in paragraph (c) of subsection (1) above (other than any whose holding is disregarded under that paragraph) shall be taken for the purposes of this section to acquire at the time of the change the appropriate proportion of any relevant assets owned by the company.

(6A) In subsection (6) above—

“the appropriate proportion”, in relation to one of two or more persons mentioned in subsection (1)(b) or (c) above, means a proportion corresponding to the proportion which the percentage of the ordinary share capital acquired by him bears to the percentage of that capital acquired by all those persons taken together; and

“relevant assets”, in relation to a company, means—

- (a) any ordinary share capital of another company, and
- (b) any property or rights which under subsection (3) above may be taken into account instead of ordinary share capital of another company.

(6B) Notwithstanding that at any time a company (“the subsidiary company”) is a 75 per cent. subsidiary of another company (“the parent company”) it shall not be treated at that time as such a subsidiary for the purposes of this section unless, additionally, at that time—

- (a) the parent company would be beneficially entitled to not less than 75 per cent. of any profits available for distribution to equity holders of the subsidiary company; and
- (b) the parent company would be beneficially entitled to not less than 75 per cent. of any assets of the subsidiary company available for distribution to its equity holders on a winding-up.

(6C) Schedule 18 shall apply for the purposes of subsection (6B) above as it applies for the purposes of section 413(7).”

- (3) Subsection (7)(b) and (c) shall cease to have effect.
- (4) This section shall have effect where the change of ownership of a company would be treated as occurring on or after 14th March 1989.

101 Treatment of convertible shares or securities for purposes relating to group relief etc

- (1) Paragraph 1 of Schedule 18 to the Taxes Act 1988 (which contains definitions relating to group relief) shall be amended in accordance with this section.
- (2) For sub-paragraph (3)(b) there shall be substituted—
 - “(b) do not carry any right either to conversion into shares or securities of any other description except—
 - (i) shares to which sub-paragraph (5A) below applies,
 - (ii) securities to which sub-paragraph (5B) below applies, or
 - (iii) shares or securities in the company’s quoted parent company, or to the acquisition of any additional shares or securities;”.
- (3) For sub-paragraph (5)(a) there shall be substituted—

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- “(a) which does not carry any right either to conversion into shares or securities of any other description except—
- (i) shares to which sub-paragraph (5A) below applies,
 - (ii) securities to which sub-paragraph (5B) below applies, or
 - (iii) shares or securities in the company’s quoted parent company, or to the acquisition of any additional shares or securities;”.

(4) After sub-paragraph (5) there shall be inserted—

“(5A) This sub-paragraph applies to any shares which—

 - (a) satisfy the requirements of sub-paragraph (3)(a), (c) and (d) above, and
 - (b) do not carry any rights either to conversion into shares or securities of any other description, except shares or securities in the company’s quoted parent company, or to the acquisition of any additional shares or securities.

(5B) This sub-paragraph applies to any securities representing a loan of or including new consideration and—

 - (a) which satisfies the requirements of sub-paragraph (5)(b) and (c) above, and
 - (b) which does not carry any such rights as are mentioned in sub-paragraph (5A)(b) above.

(5C) For the purposes of sub-paragraphs (3) and (5) to (5B) above a company (“the parent company”) is another company’s “quoted parent company” if and only if—

 - (a) the other company is a 75 per cent. subsidiary of the parent company,
 - (b) the parent company is not a 75 per cent. subsidiary of any company, and
 - (c) the parent company’s ordinary shares (or, if its ordinary share capital is divided into two or more classes, its ordinary shares of each class) are quoted on a recognised stock exchange or dealt in on the Unlisted Securities Market;

and in this sub-paragraph “ordinary shares” means shares forming part of ordinary share capital.

(5D) In the application of sub-paragraphs (3) and (5) to (5B) above in determining for the purposes of sub-paragraph (5C)(a) above who are the equity holders of the other company (and, accordingly, whether section 413(7) prevents the other company from being treated as a 75 per cent. subsidiary of the parent company for the purposes of sub-paragraph (5C)(a)), it shall be assumed that the parent company is for the purposes of sub-paragraphs (3) and (5) to (5B) above the other company’s quoted parent company.”

(5) In sub-paragraph (6) for the words “to (5)” there shall be substituted the words “to (5D)”.

(6) This section, so far as relating to Schedule 18 of the Taxes Act 1988 in its application (by virtue of section 138 below) for the purposes of subsections (1D) and (1E) of

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section 272 of the Taxes Act 1970, shall be deemed to have come into force on 14th March 1989.

102 Surrender of company tax refund etc. within group

- (1) Subsection (2) below applies where—
- (a) there falls to be made to a company (“the surrendering company”) which is a member of a group throughout the appropriate period a tax refund relating to an accounting period of the company (“the relevant accounting period”), and
 - (b) another company (“the recipient company”) which is a member of the same group throughout the appropriate period also has the relevant accounting period as an accounting period.
- (2) Where this subsection applies the two companies may, at any time before the refund is made to the surrendering company, jointly give notice to the inspector in such form as the Board may require that subsection (4) below is to have effect in relation to the refund or to any part of the refund specified in the notice.
- (3) In subsection (1) above—
- “appropriate period” means the period beginning with the relevant accounting period and ending on the day on which the notice under subsection (2) above is given, and
- “tax refund relating to an accounting period” means, in relation to a company—
- (a) a repayment of corporation tax paid by the company for the period,
 - (b) a repayment of income tax in respect of a payment received by the company in the period, or
 - (c) a payment of the whole or part of the tax credit comprised in any franked investment income received by the company in the period.
- (4) Subject to subsection (6) below, where this subsection has effect in relation to any refund or part of a refund—
- (a) the recipient company shall be treated for all purposes of the Tax Acts as having paid on the relevant date an amount of corporation tax for the relevant accounting period equal to the amount of the refund or part, and
 - (b) there shall be treated for all those purposes as having been made to the surrendering company on the relevant date a repayment of corporation tax or income tax or a payment of tax credit (as the case may be) equal to the amount of the refund or part;
- and where the refund is a repayment of corporation tax, any interest relating to it which has been paid by the surrendering company shall be treated as having been paid by the recipient company.
- (5) In subsection (4) above “relevant date”, in relation to a refund, means—
- (a) in so far as it consists of a repayment of corporation tax paid by the surrendering company after the date on which it became due and payable under section 10 of the Taxes Act 1988, the day on which it was paid by that company, and
 - (b) otherwise, the date on which corporation tax for the relevant accounting period became due and payable.

- (6) For the purpose of ascertaining the amount of any penalty to which the recipient company is liable under section 94(6) of the Taxes Management Act 1970, the corporation tax which the company is treated as having paid by subsection (4)(a) above shall be treated as paid on the day on which the notice under subsection (2) above is given (and not on the relevant date).
- (7) A payment for a transferred tax refund—
- (a) shall not be taken into account in computing profits or losses of either company for corporation tax purposes, and
 - (b) shall not for any of the purposes of the Corporation Tax Acts be regarded as a distribution or a charge on income;
- and in this subsection “a payment for a transferred tax refund” means a payment made by the receiving company to the surrendering company in pursuance of an agreement between them as respects the giving of a notice under this section, being a payment not exceeding the amount of the refund in question.
- (8) For the purposes of this section two companies are members of the same group if and only if they would be for the purposes of Chapter IV of Part X of the Taxes Act 1988.
- (9) This section shall not apply unless the relevant accounting period ends after such day, not being earlier than 31st March 1992, as the Treasury may by order made by statutory instrument appoint.

Close companies

103 Repeal of apportionment provisions

- (1) Except as provided by subsection (2) below, Chapter III of Part XI of the Taxes Act 1988 (apportionment of undistributed income etc. of close companies) shall not have effect in relation to accounting periods beginning after 31st March 1989.
- (2) Section 427(4) of the Taxes Act 1988 (which gives relief to an individual where income apportioned to him in an earlier accounting period of a close company is included in a distribution received by him in a later accounting period), and section 427(5) of, and Part I of Schedule 19 to, that Act so far as they relate to section 427(4), shall continue to have effect in any case where the subsequent distribution referred to in section 427(4) is made before 1st April 1992.

104 Meaning of “close company”

- (1) In section 414 of the Taxes Act 1988 for subsection (2) (further case in which a company is a close company for the purposes of the Tax Acts) there shall be substituted—
- “(2) Subject to section 415 and subsection (5) below, a company resident in the United Kingdom (but not falling within subsection (1)(b) above) is also a close company if five or fewer participators, or participators who are directors, together possess or are entitled to acquire—
- (a) such rights as would, in the event of the winding-up of the company (“the relevant company”) on the basis set out in subsection (2A) below, entitle them to receive the greater part of the assets of the

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- relevant company which would then be available for distribution among the participators, or
- (b) such rights as would in that event so entitle them if any rights which any of them or any other person has as a loan creditor (in relation to the relevant company or any other company) were disregarded.
- (2A) In the notional winding-up of the relevant company, the part of the assets available for distribution among the participators which any person is entitled to receive is the aggregate of—
- (a) any part of those assets which he would be entitled to receive in the event of the winding-up of the company, and
- (b) any part of those assets which he would be entitled to receive if—
- (i) any other company which is a participator in the relevant company and is entitled to receive any assets in the notional winding-up were also wound up on the basis set out in this subsection, and
- (ii) the part of the assets of the relevant company to which the other company is entitled were distributed among the participators in the other company in proportion to their respective entitlement to the assets of the other company available for distribution among the participators.
- (2B) In the application of subsection (2A) above to the notional winding-up of the other company and to any further notional winding-up required by paragraph (b) of that subsection (or by any further application of that paragraph), references to “the relevant company” shall have effect as references to the company concerned.
- (2C) In ascertaining under subsection (2) above whether five or fewer participators, or participators who are directors, together possess or are entitled to acquire rights such as are mentioned in paragraph (a) or (b) of that subsection—
- (a) a person shall be treated as a participator in or director of the relevant company if he is a participator in or director of any other company which would be entitled to receive assets in the notional winding-up of the relevant company on the basis set out in subsection (2A) above, and
- (b) except in the application of subsection (2A) above, no account shall be taken of a participator which is a company unless the company possesses or is entitled to acquire the rights in a fiduciary or representative capacity.
- (2D) Subsections (4) to (6) of section 416 apply for the purposes of subsections (2) and (2A) above as they apply for the purposes of subsection (2) of that section.”
- (2) Subsection (3) of that section shall cease to have effect.
- (3) In subsection (5)(b) of that section for the words from “paragraph (c)” to “that paragraph” there shall be substituted the words “paragraph (a) of subsection (2) above or paragraph (c) of section 416(2) and it would not be a close company if the references in those paragraphs”.
- (4) This section shall be deemed to have come into force on 1st April 1989.

105 Small companies' rate not available to certain close companies

- (1) In section 13 of the Taxes Act 1988 (small companies' relief) in subsection (1) for the words “a company resident in the United Kingdom” there shall be substituted the words “a company which—
- (a) is resident in the United Kingdom, and
 - (b) is not a close investment-holding company (as defined in section 13A) at the end of that period.”.

- (2) After that section there shall be inserted the following section—

“13A Close investment-holding companies

- (1) A close company is for the purposes of section 13(1) a “close investment-holding company” unless it complies with subsection (2) below.
- (2) A company (“the relevant company”) complies with this subsection in any accounting period if throughout that period it exists wholly or mainly for any one or more of the following purposes—
- (a) the purpose of carrying on a trade or trades on a commercial basis,
 - (b) the purpose of making investments in land or estates or interests in land in cases where the land is, or is intended to be, let to persons other than—
 - (i) any person connected with the relevant company, or
 - (ii) any person who is the wife or husband of an individual connected with the relevant company, or is a relative, or the wife or husband of a relative, of such an individual or of the husband or wife of such an individual,
 - (c) the purpose of holding shares in and securities of, or making loans to, one or more companies each of which is a qualifying company or a company which—
 - (i) is under the control of the relevant company or of a company which has control of the relevant company, and
 - (ii) itself exists wholly or mainly for the purpose of holding shares in or securities of, or making loans to, one or more qualifying companies,
 - (d) the purpose of co-ordinating the administration of two or more qualifying companies,
 - (e) the purpose of a trade or trades carried on on a commercial basis by one or more qualifying companies or by a company which has control of the relevant company, and
 - (f) the purpose of the making, by one or more qualifying companies or by a company which has control of the relevant company, of investments as mentioned in paragraph (b) above.
- (3) For the purposes of subsection (2) above, a company is a “qualifying company”, in relation to the relevant company, if it—
- (a) is under the control of the relevant company or of a company which has control of the relevant company, and
 - (b) exists wholly or mainly for either or both of the purposes mentioned in subsection (2)(a) or (b) above.

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- (4) Where a company is wound up, it shall not be treated as failing to comply with subsection (2) above in the accounting period that (by virtue of subsection (7) of section 12) begins with the time which is for the purposes of that subsection the commencement of the winding up, if it complied with subsection (2) above in the accounting period that ends with that time.
- (5) In this section—
 - “control” shall be construed in accordance with section 416, and
 - “relative” has the meaning given by section 839(8).
- (6) Section 839 shall apply for the purposes of this section.”
- (3) This section shall have effect in relation to accounting periods beginning after 31st March 1989.

106 Restriction on payment of tax credits.

- (1) In section 231 of the Taxes Act 1988 (tax credits for certain recipients of qualifying distributions) in subsection (3) after the words “made and” there shall be inserted the words “subject to subsections (3A) to (3D) below” and after that subsection there shall be inserted—
 - “(3A) Subject to subsection (3B) below, where it appears to the inspector that, in any accounting period of a company at the end of which it is a close investment-holding company—
 - (a) arrangements relating to the distribution of the profits of the company exist or have existed the main purpose of which or one of the main purposes of which is to enable payments, or payments of a greater amount, to be made to any one or more individuals under subsection (3) above in respect of such an excess as is mentioned in that subsection, and
 - (b) by virtue of those arrangements, any eligible person—
 - (i) receives a qualifying distribution consisting of a payment made by the company on the redemption, repayment or purchase of its own shares, or
 - (ii) receives any other qualifying distribution in respect of shares in or securities of the company, where the amount or value of the distribution is greater than might in all the circumstances have been expected but for the arrangements,

the entitlement of the eligible person to have paid to him under subsection (3) above all or part of a tax credit in respect of any distribution made by the company in the period shall be restricted to such extent as appears to the inspector to be just and reasonable.
 - (3B) Subsection (3A) above does not apply in relation to a tax credit in respect of a dividend paid by a company in any accounting period in respect of its ordinary share capital if—
 - (a) throughout the period, the company’s ordinary share capital consisted of only one class of shares, and
 - (b) no person waived his entitlement to any dividend which would have become payable by the company in the period or failed to receive any

dividend which had become due and payable to him by the company in the period.

(3C) In subsection (3A) above—

“arrangements” means arrangements of any kind whether in writing or not,

“close investment-holding company” has the meaning given by section 13A, and

“eligible person”, in relation to a qualifying distribution, means an individual resident in the United Kingdom who would (apart from subsection (3A) above) be entitled to have paid to him under subsection (3) above all or part of a tax credit in respect of the distribution.

(3D) In determining under subsection (3) above whether a person is entitled to have any excess of tax credit paid to him in a case where subsection (3A) above applies, tax credits shall be set against income tax in the order that results in the greatest payment in respect of the excess.”

(2) This section shall have effect in relation to distributions made by companies in accounting periods beginning after 31st March 1989.

107 Close companies: consequential amendments

Schedule 12 to this Act (in which Part I contains administrative provisions relating to close companies and Part II makes amendments connected with section 103 above) shall have effect.

Settlements etc.

108 Outright gifts etc. between husband and wife

(1) Section 685 of the Taxes Act 1988 (provisions supplementary to sections charging settlor to tax in excess of basic rate on certain settlement income) shall be amended as follows.

(2) In subsection (3), after the word “above” there shall be inserted the words “and subsection (4B) below”.

(3) At the end of subsection (4) there shall be added the words “, but subject to subsections (4A) and (4C) below”.

(4) After subsection (4) there shall be inserted—

“(4A) References in section 683 to a settlement do not include references to an outright gift by one spouse to the other of property from which income arises unless—

- (a) the gift does not carry a right to the whole of that income, or
- (b) the property given is wholly or substantially a right to income.

(4B) For the purposes of subsection (4A) above a gift is not an outright gift if it is subject to conditions, or if the property given or any derived property is or will or may become, in any circumstances whatsoever, payable to or applicable for the benefit of the donor.

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(4C) References in section 683 to a settlement do not include references to the irrevocable allocation of pension rights by one spouse to the other in accordance with the terms of a relevant statutory scheme (within the meaning of Chapter I of Part XIV).”

(5) This section shall have effect for the year 1990-91 and subsequent years of assessment.

109 Settlements where settlor retains interest in settled property

(1) After section 674 of the Taxes Act 1988 there shall be inserted—

“674A Other settlements where settlor retains interest in settled property

(1) Where, during the life of the settlor, income arising under a settlement is, under the settlement and in the events that occur, payable to or applicable for the benefit of any person other than the settlor, then, unless, under the settlement and in those events, the income—(a) consists of annual payments made under a partnership agreement to or for the benefit of a former member, or the widow or dependants of a deceased former member, of the partnership, being payments made under a liability incurred for full consideration; or

(b) is of a kind excluded from subsection (1) of section 683 by subsection (6) or (9) of that section; or

(c) is income arising under a settlement made by one party to a marriage by way of provision for the other after the dissolution or annulment of the marriage, or while they are separated under an order of a court or under a separation agreement or in such circumstances that the separation is likely to be permanent, being income payable to or applicable for the benefit of that other party; or

(d) is income from property of which the settlor has divested himself absolutely by the settlement; or

(e) consists of covenanted payments to charity (as defined by section 660(3)); or

(f) is income which, by virtue of any provision of the Income Tax Acts other than this section, is to be treated for all the purposes of those Acts as income of the settlor;

the income shall be treated for all the purposes of the Income Tax Acts as the income of the settlor and not as the income of any other person.

(2) Subsections (6) to (10) of section 683 shall apply in relation to subsection (1) above as they apply in relation to subsection (1) of that section.

(3) Subsections (1), (2), (3) and (for the year 1990-91 and subsequent years of assessment) (4A) to (4C) of section 685 shall have effect for the purposes of this section as they have effect for the purposes of section 683, but with the omission from subsections (1) and (2) of the words “in the case of a settlement made after 6th April 1965”.

(4) For the year 1990-91 and subsequent years of assessment subsection (1)(a) above shall have effect with the insertion after the word “widow” of the word “widower”.

(5) This section applies in relation to income—

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- (a) which arises on or after 14th March 1989 under a settlement made on or after that day, or
 - (b) which arises on or after 6th April 1990 under a settlement made before 14th March 1989, so far as it is payable to or applicable for the benefit of the settlor's husband or wife,
except income consisting of annual payments made under an obligation which is an existing obligation for the purposes of section 36(3) of the Finance Act 1988.”
- (2) In section 125(3) of the Taxes Act 1988, in paragraph (a), for the words “section 683(1) (a) or (c) or (6)” there shall be substituted the words “subsection (1)(a) or (c) of section 674A or 683 or subsection (6) of section 683 (including that subsection as it applies in relation to section 674A(1))”.
- (3) In sections 675(1), (4) and (5) and 676(1)(a) of that Act, for the words “or 674” there shall be substituted the words “674 or 674A”.
- (4) In section 677(2)(c) of that Act, after “674” there shall be inserted “674A”.

110 Residence of trustees.

- (1) Where the trustees of a settlement include at least one who is not resident in the United Kingdom as well as at least one who is, then for all the purposes of the Income Tax Acts—
- (a) if the condition in subsection (2) below is satisfied, the trustee or trustees not resident in the United Kingdom shall be treated as resident there, and
 - (b) otherwise, the trustee or trustees resident in the United Kingdom shall be treated as not resident there (but as resident outside the United Kingdom).
- (2) The condition referred to in subsection (1) above is that the settlor or, where there is more than one, any of them is at any relevant time—
- (a) resident in the United Kingdom,
 - (b) ordinarily resident there, or
 - (c) domiciled there.
- (3) For the purposes of subsection (2) above the following are relevant times in relation to a settlor—
- (a) in the case of a settlement arising under a testamentary disposition of the settlor or on his intestacy, the time of his death, and
 - (b) in the case of any other settlement, the time or, where there is more than one, each of the times when he has provided funds directly or indirectly for the purposes of the settlement.
- (4) For the purposes of this section “settlor”, in relation to a settlement, includes any person who has provided or undertaken to provide funds directly or indirectly for the purposes of the settlement.
- (5) In section 824(9) of the Taxes Act 1988 (repayment supplements), for the words “or a United Kingdom trust (as defined in section 231),” there shall be substituted the words “the trustees of a settlement”.
- (6) Subject to subsections (7) to (9) below, this section shall apply for the year 1989-90 and subsequent years of assessment.

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

- (7) For the purpose of determining the residence of trustees at any time during the year 1989-90, the condition in subsection (2) above shall be regarded as not having been satisfied if none of the trustees of the settlement is resident in the United Kingdom at any time during the period beginning with 1st October 1989 and ending with 5th April 1990.
- (8) This section shall not apply for any of the purposes of section 739 of the Taxes Act 1988 in relation to income payable before 15th June 1989, or for the purposes of subsection (3) of that section in relation to income payable on or after that date if—
 - (a) the capital sum there referred to is received, or the right to receive it is acquired, before that date, and
 - (b) that sum is wholly repaid, or the right to it waived, before 1st October 1989.
- (9) This section shall not apply for any of the purposes of section 740 of the Taxes Act 1988 in relation to benefits received before 15th June 1989; and, in relation to benefits received on or after that date, “relevant income” for those purposes shall include income arising to trustees before 6th April 1989 notwithstanding that one or more of them was not resident outside the United Kingdom, unless they have been charged to tax in respect of it.

111 Residence of personal representatives.

- (1) Where the personal representatives of a deceased person include at least one who is not resident in the United Kingdom as well as at least one who is, then for all the purposes of the Income Tax Acts—
 - (a) if the condition in subsection (2) below is satisfied, the personal representative or representatives not resident in the United Kingdom shall be treated as resident there, and
 - (b) otherwise, the personal representative or representatives resident in the United Kingdom shall be treated as not resident there (but as resident outside the United Kingdom).
- (2) The condition referred to in subsection (1) above is that the deceased person is at his death—
 - (a) resident in the United Kingdom,
 - (b) ordinarily resident there, or
 - (c) domiciled there.
- (3) In this section “personal representatives” means—
 - (a) in relation to England and Wales, the deceased person’s personal representatives as defined by section 55 of the Administration of Estates Act 1925;
 - (b) in relation to Scotland, his executor or the judicial factor on his estate;
 - (c) in relation to Northern Ireland, his personal representatives as defined by section 45(1) of the Administration of Estates Act (Northern Ireland) 1955; and
 - (d) in relation to another country or territory, the persons having in relation to him under its law any functions corresponding to the functions for administration purposes of personal representatives under the law of England and Wales.

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

- (4) In section 824(9) of the Taxes Act 1988 (repayment supplements), for the words from “or, in” to “section 701” there shall be substituted the words “or personal representatives (within the meaning of section 111 of the Finance Act 1989)”.
- (5) Subject to subsections (6) to (8) below, this section shall apply for the year 1989-90 and subsequent years of assessment.
- (6) For the purpose of determining the residence of personal representatives at any time during the year 1989-90, the condition in subsection (2) above shall be regarded as not having been satisfied if none of the personal representatives is resident in the United Kingdom at any time during the period beginning with 1st October 1989 and ending with 5th April 1990.
- (7) This section shall not apply for any of the purposes of section 739 of the Taxes Act 1988 in relation to income payable before 15th June 1989, or for the purposes of subsection (3) of that section in relation to income payable on or after that date if—
 - (a) the capital sum there referred to is received, or the right to receive it is acquired, before that date, and
 - (b) that sum is wholly repaid, or the right to it waived, before 1st October 1989.
- (8) This section shall not apply for any of the purposes of section 740 of the Taxes Act 1988 in relation to benefits received before 15th June 1989 and, in relation to benefits received on or after that date, “relevant income” for those purposes shall include income arising to personal representatives before 6th April 1989 notwithstanding that one or more of them was not resident outside the United Kingdom, unless they have been charged to tax in respect of it.

Miscellaneous

112 Security: trades etc

- (1) This section applies in computing, for the purposes of Case I or Case II of Schedule D, the profits or gains of a trade, profession or vocation carried on by an individual or by a partnership of individuals.
- (2) In a case where this section applies, nothing in section 74(a) or (b) of the Taxes Act 1988 (deductions limited by reference to purposes of trade etc.) shall prevent the deduction of a sum in respect of expenditure incurred in connection with the provision for or use by the individual, or any of the individuals, of a security asset or security service.
- (3) Subsection (2) above shall not apply unless the asset or service is provided or used to meet a threat which—
 - (a) is a special threat to the individual’s personal physical security, and
 - (b) arises wholly or mainly by virtue of the particular trade, profession or vocation concerned.
- (4) Subsection (2) above shall not apply unless the person incurring the expenditure has as his sole object in doing so the meeting of that threat.
- (5) Subsection (2) above shall not apply in the case of a service unless the benefit resulting to the individual consists wholly or mainly of an improvement of his personal physical security.

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- (6) Subsection (2) above shall not apply in the case of an asset unless the person incurring the expenditure intends the asset to be used solely to improve personal physical security.
- (7) But in a case where—
- (a) apart from subsection (6) above, subsection (2) above would apply in the case of an asset, and
 - (b) the person incurring the expenditure intends the asset to be used partly to improve personal physical security,
- subsection (2) shall nevertheless apply, but only as regards the appropriate proportion of the expenditure there mentioned.
- (8) For the purposes of subsection (7) above the appropriate proportion of the expenditure mentioned in subsection (2) above is such proportion of that expenditure as is attributable to the intention of the person incurring it that the asset be used to improve personal physical security.

113 Security: trades etc. (supplementary)

- (1) For the purposes of section 112 above—
- (a) a security asset is an asset which improves personal security,
 - (b) a security service is a service which improves personal security,
 - (c) references to an asset do not include references to a car, a ship or an aircraft,
 - (d) references to an asset or service do not include references to a dwelling or grounds appurtenant to a dwelling, and
 - (e) references to an asset include references to equipment and a structure (such as a wall).
- (2) If the person incurring the expenditure intends the asset to be used solely to improve personal physical security, but there is another use for the asset which is incidental to improving personal physical security, that other use shall be ignored in construing section 112(6) above.
- (3) The fact that an asset or service improves the personal physical security of any member of the family or household of the individual concerned, as well as that of the individual, shall not prevent section 112(2) above from applying.
- (4) For the purposes of section 112 above in its application to an asset, it is immaterial whether or not the asset becomes affixed to land (whether constituting a dwelling or otherwise).
- (5) For the purposes of section 112 above in its application to an asset, it is immaterial whether or not the individual concerned is or becomes entitled to the property in the asset or (in the case of a fixture) an estate or interest in the land concerned.
- (6) Section 112 above applies where expenditure is incurred on or after 6th April 1989.

114 Relief for pre-trading expenditure

- (1) In section 401(1) of the Taxes Act 1988 (which gives relief for expenditure incurred by a person within three years before he begins to carry on a trade, profession or vocation), for the word “three” there shall be substituted the word “five”.

- (2) This section shall have effect where the time when the person begins to carry on the trade, profession or vocation falls after the end of March 1989.

115 Double taxation: tax credits

- (1) Where any arrangements having effect by virtue of section 788 of the Taxes Act 1988 provide —

- (a) for persons who are resident outside the United Kingdom and who receive distributions from companies resident in the United Kingdom to be entitled to tax credits, and
- (b) for the amount paid to such a person by way of tax credit to be determined by reference to the amount to which an individual resident in the United Kingdom would have been entitled, subject to a deduction calculated by reference to the aggregate of the amount or value of the distribution and the amount of the tax credit paid,

the arrangements shall be construed as providing for that deduction to be calculated by reference to the gross amount or value of the distribution and tax credit, without any allowance for the deduction itself.

- (2) This section shall have effect in relation to payments made before the passing of this Act as well as those made after that time, except that it shall not affect—

- (a) the judgment of any court given before 25th October 1988, or
- (b) the law to be applied in proceedings on appeal to the Court of Appeal or the House of Lords where the judgment of the High Court or the Court of Session which is in issue was given before that date.

116 Interest payments to Netherlands Antilles subsidiaries

- (1) A payment to which this section applies shall be treated for the purposes of—

- (a) section 338 of the Taxes Act 1988 (payment of interest within section 124 of that Act to be a charge on income), and
- (b) section 349 of that Act (such a payment to be made gross),

as if it were a payment of interest within section 124 of that Act (quoted Eurobonds).

- (2) This section applies to a payment of interest if—

- (a) it is made on or after 1st April 1989 by a relevant United Kingdom company to a relevant Netherlands Antilles subsidiary, and
- (b) not later than 90 days after the payment is received by the subsidiary, it is applied by the subsidiary in paying interest on quoted Eurobonds issued by it before 26th July 1984 or in meeting expenses incurred in connection with the issue of quoted Eurobonds so issued.

- (3) In subsection (2) above—

- (a) “relevant Netherlands Antilles subsidiary” means a company which—
 - (i) at the time when the quoted Eurobonds were issued was resident in the Netherlands Antilles (including Aruba) and was a 90 per cent. subsidiary of a company resident in the United Kingdom, and
 - (ii) at the time when the payment is made is resident in the Netherlands Antilles (but not Aruba) and is a 90 per cent. subsidiary of the relevant United Kingdom company; and

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- (b) “relevant United Kingdom company” means a company which is resident in the United Kingdom and which is not a 51 per cent. subsidiary of a company not resident in the United Kingdom.
- (4) For the purpose of determining whether a company is a relevant Netherlands Antilles subsidiary, its residence (whether before 1st April 1989 or at any later time) shall be ascertained in accordance with the terms of the arrangements made with the Government of the Kingdom of the Netherlands on behalf of the Government of the Netherlands Antilles which had effect by virtue of section 788 of the Taxes Act 1988 immediately before 1st April 1989.
- (5) In this section “quoted Eurobond” has the same meaning as in section 124 of the Taxes Act 1988.

CHAPTER II

CAPITAL ALLOWANCES

117 Security

- (1) This section applies where—
 - (a) an individual, or a partnership of individuals, carries on a trade, profession or vocation,
 - (b) expenditure is incurred by the individual or partnership in connection with the provision for or use by the individual, or any of the individuals, of a security asset,
 - (c) no sum in respect of the expenditure could be deducted in computing the profits or gains of the trade, profession or vocation for the purposes of Case I or Case II of Schedule D, and
 - (d) apart from this section, paragraph (a) or paragraph (b) (or both) of section 44(1) of the Finance Act 1971 (capital allowances) would not apply.
- (2) In a case where this section applies, Chapter I of Part III of the Finance Act 1971 shall apply as if—
 - (a) the expenditure were capital expenditure incurred on the provision of machinery or plant wholly and exclusively for the purposes of the trade, profession or vocation concerned,
 - (b) in consequence of the expenditure being incurred, the machinery or plant belonged to the individual or partnership carrying on the trade, profession or vocation, and
 - (c) the disposal value of the machinery or plant were nil.
- (3) Subsection (2) above shall not apply unless the asset is provided or used to meet a threat which—
 - (a) is a special threat to the individual’s personal physical security, and
 - (b) arises wholly or mainly by virtue of the particular trade, profession or vocation concerned.
- (4) Subsection (2) above shall not apply unless the person incurring the expenditure has as his sole object in doing so the meeting of that threat.

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- (5) Subsection (2) above shall not apply unless the person incurring the expenditure intends the asset to be used solely to improve personal physical security.
- (6) But in a case where—
- (a) apart from subsection (5) above, subsection (2) above would apply, and
 - (b) the person incurring the expenditure intends the asset to be used partly to improve personal physical security,
- subsection (2) shall nevertheless apply, but only so as to treat the appropriate proportion of the expenditure there mentioned as capital expenditure incurred as there mentioned.
- (7) For the purposes of subsection (6) above the appropriate proportion of the expenditure mentioned in subsection (2) above is such proportion of that expenditure as is attributable to the intention of the person incurring it that the asset be used to improve personal physical security.

118 Security: supplementary

- (1) For the purposes of section 117 above—
- (a) a security asset is an asset which improves personal security,
 - (b) references to an asset do not include references to a car, a ship or an aircraft,
 - (c) references to an asset do not include references to a dwelling or grounds appurtenant to a dwelling, and
 - (d) references to an asset include references to equipment and a structure (such as a wall).
- (2) If the person incurring the expenditure intends the asset to be used solely to improve personal physical security, but there is another use for the asset which is incidental to improving personal physical security, that other use shall be ignored in construing section 117(5) above.
- (3) The fact that an asset improves the personal physical security of any member of the family or household of the individual concerned, as well as that of the individual, shall not prevent section 117(2) above from applying.
- (4) For the purposes of section 117 above, it is immaterial whether or not the asset becomes affixed to land (whether constituting a dwelling or otherwise).
- (5) Section 117 above applies where expenditure is incurred on or after 6th April 1989.

119 Expenditure on stands at sports grounds

- (1) If a person carrying on a trade incurs expenditure, in respect of a regulated stand at a sports ground used by him for the purposes of his trade, in taking—
- (a) steps necessary for compliance with the terms and conditions of a safety certificate issued for the stand, or
 - (b) steps specified in a letter or other document sent or given to him by or on behalf of the local authority for the area in which the ground is situated as steps the taking of which either would be taken into account by them in deciding what terms and conditions to include in a safety certificate to be issued for the stand or would lead to the amendment or replacement of a safety certificate issued or to be issued for it,

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

then, if an allowance or deduction in respect of the expenditure could not, apart from this section, be made in taxing the trade or computing the profits or gains arising from it, Chapter I of Part III of the Finance Act 1971 shall apply as if the expenditure were capital expenditure incurred on the provision of machinery or plant for the purposes of the trade, and as if the machinery or plant had, in consequence of his incurring the expenditure, belonged to him, and as if the disposal value of the machinery or plant were nil.

- (2) In this section “local authority”, “regulated stand”, “safety certificate” and “sports ground” have the same meanings as in Part III of the Fire Safety and Safety of Places of Sport Act 1987.
- (3) This section shall be construed as if contained in Chapter I of Part III of the Finance Act 1971.
- (4) This section shall be deemed to have come into force on 1st January 1989.

120 Forestry land: abolition of agricultural buildings allowances

- (1) This section applies to any allowance under—
 - (a) section 68 of the Capital Allowances Act 1968 (agricultural buildings allowances in respect of expenditure incurred before 1st April 1986); or
 - (b) Schedule 15 to the Finance Act 1986 (agricultural buildings allowances in respect of expenditure incurred on or after that date),
 which would not fall to be made if that section or Schedule had been enacted without any reference to forestry land or the purposes of forestry; and any reference in this section to an allowance is a reference to an allowance to which this section applies.
- (2) Subject to subsection (4) below, no allowance shall be made for a chargeable period beginning on or after 20th June 1989.
- (3) Subject to subsection (4) below, any allowance which falls to be made—
 - (a) for the year of assessment 1989-90; or
 - (b) for an accounting period of a company beginning before and ending on or after 20th June 1989,
 shall be apportioned (on a time basis according to their respective lengths) between the part of that year or period beginning on that date and the other part; and so much of any such allowance as is apportioned to the part beginning on that date shall not be made.
- (4) Subsections (2) and (3) above shall not have effect in relation to an allowance which falls to be made for a chargeable period which begins before 6th April 1993 and is a period in relation to which an election under paragraph 4 of Schedule 6 to the Finance Act 1988 (commercial woodlands: Schedule D election for transitional period) has effect in respect of the relevant land.
- (5) Any such allowance as is mentioned in subsection (4) above which, for an accounting period of a company ending on or after 6th April 1993, falls to be made otherwise than under paragraph 11(1) of Schedule 15 to the Finance Act 1986 shall be apportioned (on a time basis according to their respective lengths) between the part of that period beginning on that date and the other part; and so much of any such allowance as is apportioned to the part beginning on that date shall not be made.

- (6) In subsection (4) above “the relevant land”, in relation to an allowance falling to be made in respect of any expenditure, means the land for the purposes of forestry on which that expenditure was incurred.

121 Miscellaneous amendments

- (1) Schedule 13 to this Act (which makes miscellaneous amendments of the enactments relating to capital allowances) shall have effect.
- (2) That Schedule shall be construed as one with Part I of the Capital Allowances Act 1968.

CHAPTER III

CAPITAL GAINS

Exemptions

122 Annual exempt amount for 1989-90

For the year 1989-90 section 5 of the Capital Gains Tax Act 1979 (annual exempt amount) shall have effect as if the amount specified in subsection (1A) were £5,000; and accordingly subsection (1B) of that section (indexation) shall not apply for that year.

123 Increase of chattel exemption

- (1) In the following enactments, namely—
- (a) section 128 of the Capital Gains Tax Act 1979 (chattel exemption by reference to consideration of £3,000),
 - (b) section 12(2)(b) of the Taxes Management Act 1970 (information about assets acquired), and
 - (c) section 25(7) of that Act (information about assets disposed of),
- for “£3,000”, in each place where it occurs, there shall be substituted “£6,000”.
- (2) This section applies to disposals on or after 6th April 1989 and accordingly, in relation to subsection (1)(b) above, to assets acquired on or after that date.

Gifts

124 Relief for gifts

- (1) Section 79 of the Finance Act 1980 (which gives general relief for gifts and other disposals not at arm’s length) shall cease to have effect.
- (2) Schedule 14 to this Act (which extends relief for gifts of business assets, provides relief for gifts on which inheritance tax is chargeable, gifts for political parties, gifts of property of historic interest etc. or works of art and gifts to certain maintenance funds etc., and makes provision for payment of tax by instalments in the case of gifts where relief is not available) shall have effect.

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

- (3) This section shall have effect in relation to disposals on or after 14th March 1989 (except that it shall not affect the operation of any enactment in relation to such a disposal in a case where the enactment operates in consequence of relief having been given under section 79 of the Finance Act 1980 in respect of a disposal made before that date).

125 Gifts to housing associations

- (1) The following section shall be inserted in the Capital Gains Tax Act 1979 after section 146—

“146A Gifts to housing associations

- (1) Subsection (2) below shall apply where—
- (a) a disposal of an estate or interest in land in the United Kingdom is made to a registered housing association otherwise than under a bargain at arm’s length, and
 - (b) a claim for relief under this section is made by the transferor and the association.
- (2) Section 29A(1) above (consideration deemed to be equal to market value) shall not apply; but if the disposal is by way of gift or for a consideration not exceeding the sums allowable as a deduction under section 32 above, then—
- (a) the disposal and acquisition shall be treated for the purposes of this Act as being made for such consideration as to secure that neither a gain nor a loss accrues on the disposal, and
 - (b) where, after the disposal, the estate or interest is disposed of by the association, its acquisition by the person making the earlier disposal shall be treated for the purposes of this Act as the acquisition of the association.
- (3) In this section “registered housing association” means a registered housing association within the meaning of the Housing Associations Act 1985 or Part VII of the Housing (Northern Ireland) Order 1981.”

- (2) This section shall apply to disposals made on or after 14th March 1989.

Non-residents etc.

126 Non-resident carrying on profession or vocation in the United Kingdom

- (1) For the year 1988-89, section 12 of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency) shall have effect with the insertion of the following subsection after subsection (2)—

“(2A) In the case of a disposal made on or after 14th March 1989, this section shall apply as if references to a trade included references to a profession or vocation, but not so as to make a person chargeable to capital gains tax by virtue of a profession or vocation which he ceased to carry on in the United Kingdom through a branch or agency before 14th March 1989.”

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

- (2) For the year 1989-90 and subsequent years of assessment section 12 of the Capital Gains Tax Act 1979 shall have effect with the insertion of the following subsection after subsection (2)—
- “(2A) This section shall apply as if references to a trade included references to a profession or vocation.”
- (3) Where immediately before 14th March 1989 a person is not resident and not ordinarily resident in the United Kingdom but is carrying on a profession or vocation in the United Kingdom through a branch or agency, he shall be deemed for all purposes of capital gains tax—
- (a) to have disposed immediately before 14th March 1989 of every asset to which subsection (4) below applies, and
- (b) immediately to have reacquired every such asset, at its market value at the time of the deemed disposal.
- (4) This subsection applies to any asset which was held by the person immediately before 14th March 1989 and which at the beginning of 14th March 1989 is a chargeable asset in relation to him by virtue of his carrying on the profession or vocation.
- (5) For the purposes of subsection (4) above an asset is at the beginning of 14th March 1989 a chargeable asset in relation to the person if, were it to be disposed of at that time, any chargeable gains accruing to him on the disposal would be gains in respect of which he would be chargeable to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979.
- (6) In the case of a person carrying on a profession or vocation in the United Kingdom through a branch or agency, the charge to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979 shall not apply in respect of chargeable gains accruing on the disposal of assets only used in or for the purposes of the profession or vocation before 14th March 1989 or only used or held for the purposes of the branch or agency before that date.

127 Non-residents: deemed disposals

- (1) Where an asset ceases by virtue of becoming situated outside the United Kingdom to be a chargeable asset in relation to a person, he shall be deemed for all purposes of the Capital Gains Tax Act 1979—
- (a) to have disposed of the asset immediately before the time when it became situated outside the United Kingdom, and
- (b) immediately to have reacquired it, at its market value at that time.
- (2) Subsection (1) above does not apply—
- (a) where the asset becomes situated outside the United Kingdom contemporaneously with the person there mentioned ceasing to carry on a trade in the United Kingdom through a branch or agency, or
- (b) where the asset is an exploration or exploitation asset.
- (3) Where an asset ceases to be a chargeable asset in relation to a person by virtue of his ceasing to carry on a trade in the United Kingdom through a branch or agency, he shall be deemed for all purposes of the Capital Gains Tax Act 1979—

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

- (a) to have disposed of the asset immediately before the time when he ceased to carry on the trade in the United Kingdom through a branch or agency, and
 - (b) immediately to have reacquired it,
- at its market value at that time.
- (4) Subsection (3) above does not apply to an asset which is a chargeable asset in relation to the person there mentioned at any time after he ceases to carry on the trade in the United Kingdom through a branch or agency and before the end of the chargeable period in which he does so.
- (5) In this section—
- “exploration or exploitation asset” means an asset used in connection with exploration or exploitation activities carried on in the United Kingdom or a designated area, and
 - “designated area” and “exploration or exploitation activities” have the same meanings as in section 38 of the Finance Act 1973.
- (6) For the purposes of this section an asset is at any time a chargeable asset in relation to a person if, were it to be disposed of at that time, any chargeable gains accruing to him on the disposal—
- (a) would be gains in respect of which he would be chargeable to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 11(2)(b) of the Taxes Act 1988 (non-resident companies).
- (7) Subsection (1) above shall apply where an asset ceases to be situated in the United Kingdom on or after 14th March 1989.
- (8) Subsection (3) above shall apply where a person ceases to carry on a trade in the United Kingdom through a branch or agency on or after 14th March 1989.
- (9) This section shall apply as if references to a trade included references to a profession or vocation.

128 Non-residents: post-cessation disposals

- (1) For the year 1988-89, section 12 of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency) shall have effect with the insertion of the following subsection after subsection (1)—
- “(1A) In the case of a disposal made on or after 14th March 1989, subsection (1) above only applies—
- (a) if it is made at a time when the person is carrying on the trade in the United Kingdom through a branch or agency, or
 - (b) if he ceased to carry on the trade in the United Kingdom through a branch or agency before 14th March 1989.”
- (2) For the year 1989-90 and subsequent years of assessment, section 12 of the Capital Gains Tax Act 1979 shall have effect with the insertion of the following subsection after subsection (1)—

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

“(1A) Subsection (1) above does not apply unless the disposal is made at a time when the person is carrying on the trade in the United Kingdom through a branch or agency.”

129 Non residents: roll-over relief

- (1) Section 115 of the Capital Gains Tax Act 1979 (roll-over relief) shall not apply in the case of a person if the old assets are chargeable assets in relation to him at the time they are disposed of, unless the new assets are chargeable assets in relation to him immediately after the time they are acquired.
- (2) Subsection (1) above shall not apply where—
 - (a) the person acquires the new assets after he has disposed of the old assets, and
 - (b) immediately after the time they are acquired the person is resident or ordinarily resident in the United Kingdom.
- (3) Subsection (2) above shall not apply where immediately after the time the new assets are acquired—
 - (a) the person is a dual resident, and
 - (b) the new assets are prescribed assets.
- (4) This section shall apply where the disposal of the old assets or the acquisition of the new assets (or both) takes place on or after 14th March 1989.
- (5) But where the acquisition of the new assets takes place before 14th March 1989 and the disposal of the old assets takes place on or after that date, this section shall not apply if the disposal of the old assets takes place within twelve months of the acquisition of the new assets or such longer period as the Board may by notice in writing allow.
- (6) For the purposes of this section an asset is at any time a chargeable asset in relation to a person if, were it to be disposed of at that time, any chargeable gains accruing to him on the disposal—
 - (a) would be gains in respect of which he would be chargeable to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 11(2)(b) of the Taxes Act 1988 (non-resident companies).
- (7) In this section—

“dual resident” means a person who is resident or ordinarily resident in the United Kingdom and falls to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom;

“double taxation relief arrangements” means arrangements having effect by virtue of section 788 of the Taxes Act 1988 (as extended to capital gains tax by section 10 of the Capital Gains Tax Act 1979);

“prescribed asset”, in relation to a dual resident, means an asset in respect of which, by virtue of the asset being of a description specified in any double taxation relief arrangements, he falls to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to him on a disposal.
- (8) In this section—

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- (a) “the old assets” and “the new assets” have the same meanings as in section 115 of the Capital Gains Tax Act 1979,
- (b) references to disposal of the old assets include references to disposal of an interest in them, and
- (c) references to acquisition of the new assets include references to acquisition of an interest in them or to entering into an unconditional contract for the acquisition of them.

130 Exploration or exploitation assets: definition

- (1) In section 38 of the Finance Act 1973 (territorial extension) in subsection (3B) (definition of exploration or exploitation asset for purposes of that section)—
 - (a) in paragraph (a) the words “within the period of two years ending at the date of the disposal” shall be omitted, and
 - (b) in paragraph (b) for the words “, at some time within the period of two years ending at the date of the disposal, has” there shall be substituted the words “has at some time”.
- (2) This section shall apply where assets are disposed of on or after 14th March 1989.

131 Exploration or exploitation assets: deemed disposals

- (1) Where an exploration or exploitation asset which is a mobile asset ceases to be chargeable in relation to a person by virtue of ceasing to be dedicated to an oil field in which he, or a person connected with him within the meaning of section 839 of the Taxes Act 1988, is or has been a participator, he shall be deemed for all purposes of the Capital Gains Tax Act 1979—
 - (a) to have disposed of the asset immediately before the time when it ceased to be so dedicated, and
 - (b) immediately to have reacquired it,
at its market value at that time.
- (2) Where a person who is not resident and not ordinarily resident in the United Kingdom ceases to carry on a trade in the United Kingdom through a branch or agency, he shall be deemed for all purposes of the Capital Gains Tax Act 1979—
 - (a) to have disposed immediately before the time when he ceased to carry on the trade in the United Kingdom through a branch or agency of every asset to which subsection (3) below applies, and
 - (b) immediately to have reacquired every such asset,
at its market value at that time.
- (3) This subsection applies to any exploration or exploitation asset, other than a mobile asset, used in or for the purposes of the trade at or before the time of the deemed disposal.
- (4) A person shall not be deemed by subsection (2) above to have disposed of an asset if, immediately after the time when he ceases to carry on the trade in the United Kingdom through a branch or agency, the asset is used in or for the purposes of exploration or exploitation activities carried on by him in the United Kingdom or a designated area.
- (5) Where in a case to which subsection (4) above applies the person ceases to use the asset in or for the purposes of exploration or exploitation activities carried on by him

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- in the United Kingdom or a designated area, he shall be deemed for all purposes of the Capital Gains Tax Act 1979—
- (a) to have disposed of the asset immediately before the time when he ceased to use it in or for the purposes of such activities, and
 - (b) immediately to have reacquired it,
at its market value at that time.
- (6) For the purposes of this section an asset is at any time a chargeable asset in relation to a person if, were it to be disposed of at that time, any chargeable gains accruing to him on the disposal—
- (a) would be gains in respect of which he would be chargeable to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 11(2)(b) of the Taxes Act 1988 (non-resident companies).
- (7) In this section—
- (a) “exploration or exploitation asset” means an asset used in connection with exploration or exploitation activities carried on in the United Kingdom or a designated area;
 - (b) “designated area” and “exploration or exploitation activities” have the same meanings as in section 38 of the Finance Act 1973; and
 - (c) the expressions “dedicated to an oil field” and “participator” shall be construed as if this section were included in Part I of the Oil Taxation Act 1975.
- (8) Subsection (1) above shall apply where an asset ceases to be dedicated as mentioned in that subsection on or after 14th March 1989.
- (9) Subsection (2) above shall apply where a person ceases to carry on a trade in the United Kingdom through a branch or agency on or after 14th March 1989.
- (10) Subsection (5) above shall apply where a person ceases to use an asset in or for the purposes of exploration or exploitation activities on or after 14th March 1989.

132 Dual resident companies: deemed disposal

- (1) For the purposes of this section, a company is a dual resident company if it is resident in the United Kingdom and falls to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom.
- (2) Where an asset of a dual resident company becomes a prescribed asset, the company shall be deemed for all purposes of the Capital Gains Tax Act 1979—
- (a) to have disposed of the asset immediately before the time at which it became a prescribed asset, and
 - (b) immediately to have reacquired it,
at its market value at that time.
- (3) Subsection (2) above does not apply where the asset becomes a prescribed asset on the company becoming a company which falls to be regarded as mentioned in subsection (1) above.

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(4) This section applies where an asset becomes a prescribed asset on or after 14th March 1989.

(5) In this section—

“double taxation relief arrangements” means arrangements having effect by virtue of section 788 of the Taxes Act 1988 (as extended to capital gains tax by section 10 of the Capital Gains Tax Act 1979);

“prescribed asset”, in relation to a dual resident company, means an asset in respect of which, by virtue of the asset being of a description specified in any double taxation relief arrangements, the company falls to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to it on a disposal.

133 Dual resident companies: roll-over relief

(1) Where a company is a dual resident company at the time it disposes of the old assets and at the time it acquires the new assets, and the old assets are not prescribed assets at the time of disposal, section 115 of the Capital Gains Tax Act 1979 (roll-over relief) shall not apply unless the new assets are not prescribed assets immediately after the time of acquisition.

(2) This section shall apply where the disposal of the old assets or the acquisition of the new assets (or both) takes place on or after 14th March 1989.

(3) But where the acquisition of the new assets takes place before 14th March 1989 and the disposal of the old assets takes place on or after that date, this section shall not apply if the disposal takes place within twelve months of the acquisition or such longer period as the Board may by notice in writing allow.

(4) In this section—

“dual resident company” means a company which is resident in the United Kingdom and falls to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom;

“double taxation relief arrangements” means arrangements having effect by virtue of section 788 of the Taxes Act 1988 (as extended to capital gains tax by section 10 of the Capital Gains Tax Act 1979);

“prescribed asset”, in relation to a dual resident company, means an asset in respect of which, by virtue of the asset being of a description specified in any double taxation relief arrangements, the company falls to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to it on a disposal.

(5) In this section—

- (a) “the old assets” and “the new assets” have the same meanings as in section 115 of the Capital Gains Tax Act 1979,
- (b) references to disposal of the old assets include references to disposal of an interest in them, and
- (c) references to acquisition of the new assets include references to acquisition of an interest in them or to entering into an unconditional contract for the acquisition of them.

134 Non-payment of tax by non-resident companies

- (1) This section applies where—
 - (a) a chargeable gain has accrued to a company not resident in the United Kingdom (the taxpayer company) on the disposal of an asset on or after 14th March 1989,
 - (b) the gain forms part of its chargeable profits for corporation tax purposes by virtue of section 11(2)(b) of the Taxes Act 1988, and
 - (c) any of the corporation tax assessed on the company for the accounting period in which the gain accrued is not paid within six months from the time when it becomes payable.
- (2) The Board may, at any time before the end of the period of three years beginning with the time when the amount of corporation tax for the accounting period in which the chargeable gain accrued is finally determined, serve on any person to whom subsection (4) below applies a notice—
 - (a) stating the amount which remains unpaid of the corporation tax assessed on the taxpayer company for the accounting period in which the gain accrued and the date when the tax became payable, and
 - (b) requiring that person to pay the relevant amount within thirty days of the service of the notice.
- (3) For the purposes of subsection (2) above the relevant amount is the lesser of—
 - (a) the amount which remains unpaid of the corporation tax assessed on the taxpayer company for the accounting period in which the gain accrued, and
 - (b) an amount equal to corporation tax on the amount of the chargeable gain at the rate in force when the gain accrued.
- (4) This subsection applies to the following persons—
 - (a) any company which is, or within the relevant period was, a member of the same group as the taxpayer company, and
 - (b) any person who is, or within the relevant period was, a controlling director of the taxpayer company or of a company which has, or within that period had, control over the taxpayer company.
- (5) Any amount which a person is required to pay by a notice under this section may be recovered from him as if it were tax due and duly demanded of him; and he may recover any such amount paid by him from the taxpayer company.
- (6) A payment in pursuance of a notice under this section shall not be allowed as a deduction in computing any income, profits or losses for any tax purposes.
- (7) In this section—

“director”, in relation to a company, has the meaning given by subsection (6) of section 168 of the Taxes Act 1988 (read with subsection (9) of that section) and includes any person falling within subsection (5) of section 417 of that Act (read with subsection (6) of that section);

“controlling director”, in relation to a company, means a director of the company who has control of it (construing control in accordance with section 416 of the Taxes Act 1988);

“group” has the meaning which would be given by section 272 of the Taxes Act 1970 if in that section references to residence in the United Kingdom were

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omitted and for references to 75 per cent. subsidiaries there were substituted references to 51 per cent. subsidiaries.

- (8) In this section “the relevant period” means—
- (a) where the time when the chargeable gain accrues is less than twelve months after 14th March 1989, the period beginning with that date and ending with that time;
 - (b) in any other case, the period of twelve months ending with that time.

Value shifting and groups of companies

135 Value shifting.

- (1) In section 26 of the Capital Gains Tax Act 1979 (value shifting: further provisions) in subsection (1)(a) (schemes whereby value of the asset disposed of is materially reduced) after the words “the asset” there shall be inserted the words “or a relevant asset” and at the end of that subsection there shall be inserted—

“(1A) For the purposes of this section, where the asset disposed of by a company (“the disposing company”) consists of shares in, or securities of, another company, another asset is a relevant asset if, at the time of the disposal, it is owned by a company associated with the disposing company; but no account shall be taken of any reduction in the value of a relevant asset except in a case where—

- (a) during the period beginning with the reduction in value and ending immediately before the disposal by the disposing company, there is no disposal of the asset to any person, other than a disposal falling within section 273(1) of the Taxes Act 1970 (transfers within a group: no gain/no loss),
- (b) no disposal of the asset is treated as having occurred during that period by virtue of section 278 of the Taxes Act 1970 (company ceasing to be member of group), and
- (c) if the reduction had not taken place but any consideration given for the relevant asset and any other material circumstances (including any consideration given before the disposal for the asset disposed of) were unchanged, the value of the asset disposed of would, at the time of the disposal, have been materially greater;

and in this subsection “securities” has the same meaning as in section 82 below.”

- (2) For subsection (7) of that section there shall be substituted—

“(7) References in this section, in relation to any disposal, to a reduction in the value of an asset, where the asset consists of shares owned by a company in another company, shall be interpreted in accordance with sections 26A to 26C below and, in those sections, the disposal, the asset and those companies are referred to respectively as “the section 26 disposal”, “the principal asset”, “the first company” and “the second company”.”

- (3) In subsection (8) of that section for the words “reference in subsection (1)(a)” there shall be substituted the words “references in subsections (1)(a) and (1A)”.

- (4) This section shall have effect in respect of any disposal of an asset on or after 14th March 1989.

136 Value shifting: reductions attributable to distributions within a group

- (1) After section 26 of the Capital Gains Tax Act 1979 there shall be inserted—

“26A Value shifting: distributions within a group followed by a disposal of shares

- (1) The references in section 26 above to a reduction in the value of an asset, in the case mentioned in subsection (7) of that section, do not include a reduction attributable to the payment of a dividend by the second company at a time when it and the first company are associated, except to the extent (if any) that the dividend is attributable to chargeable profits of the second company and, in such a case, the tax-free benefit shall be ascertained without regard to any part of the dividend that is not attributable to such profits.
- (2) Subsections (3) to (11) below apply for the interpretation of subsection (1) above.
- (3) Chargeable profits shall be ascertained as follows—
- (a) the distributable profits of any company are chargeable profits of that company to the extent that they are profits arising on a transaction caught by this section, and
 - (b) where any company makes a distribution attributable wholly or partly to chargeable profits (including any profits that are chargeable profits by virtue of this paragraph) to another company, the distributable profits of the other company, so far as they represent that distribution or so much of it as was attributable to chargeable profits, are chargeable profits of the other company,
- and for this purpose any loss or other amount to be set against the profits of a company in determining the distributable profits shall be set first against profits other than the profits so arising or, as the case may be, representing so much of the distribution as was attributable to chargeable profits.
- (4) The distributable profits of a company are such profits computed on a commercial basis as, after allowing for any provision properly made for tax, the company is empowered, assuming sufficient funds, to distribute to persons entitled to participate in the profits of the company.
- (5) Profits of a company (“company A”) are profits arising on a transaction caught by this section where each of the following three conditions is satisfied.
- (6) The first condition is that the transaction is—
- (a) a disposal of an asset by company A to another company in circumstances such that company A and the other company are treated as mentioned in section 273(1) of the Taxes Act 1970 (transfers within a group: no gain/no loss), or
 - (b) an exchange, or a transaction treated for the purposes of section 85(2) and (3) below as an exchange, of shares in or debentures of a company held by company A for shares in or debentures of another company, being a company associated with company A immediately after the

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transaction, and is treated by virtue of section 85(3) below as a reorganisation of share capital, or

- (c) a revaluation of an asset in the accounting records of company A.

In the following conditions the “asset with enhanced value” means (subject to section 26C below), in the paragraph (a) case, the asset acquired by the person to whom the disposal is made, in the paragraph (b) case, the shares in or debentures of the other company and, in the paragraph (c) case, the revalued asset.

- (7) The second condition is that—
- (a) during the period beginning with the transaction referred to in subsection (6) above and ending immediately before the section 26 disposal, there is no disposal of the asset with enhanced value to any person, other than a disposal falling within section 273(1) of the Taxes Act 1970, and
 - (b) no disposal of the asset with enhanced value is treated as having occurred during that period by virtue of section 278 of the Taxes Act 1970 (company ceasing to be member of group).
- (8) The third condition is that, immediately after the section 26 disposal, the asset with enhanced value is owned by a person other than the company making that disposal or a company associated with it.
- (9) The conditions in subsections (6) to (8) above are not satisfied if—
- (a) at the time of the transaction referred to in subsection (6) above, company A carries on a trade and a profit on a disposal of the asset with enhanced value would form part of the trading profits, or
 - (b) by reason of the nature of the asset with enhanced value, a disposal of it could give rise neither to a chargeable gain nor to an allowable loss, or
 - (c) immediately before the section 26 disposal, the company owning the asset with enhanced value carries on a trade and a profit on a disposal of the asset would form part of the trading profits.
- (10) The amount of chargeable profits of a company to be attributed to any distribution made by the company at any time in respect of any class of shares, securities or rights shall be ascertained by—
- (a) determining the total of distributable profits, and the total of chargeable profits, that remains after allowing for earlier distributions made in respect of that or any other class of shares, securities or rights, and for distributions made at or to be made after that time in respect of other classes of shares, securities or rights, and
 - (b) attributing first to that distribution distributable profits other than chargeable profits.
- (11) The amount of chargeable profits of a company to be attributed to any part of a distribution made at any time to which a person is entitled by virtue of any part of his holding of any class of shares, securities or rights, shall be such proportion of the chargeable profits as are attributable under subsection (10) above to the distributions made at that time in respect of that class as corresponds to that part of his holding.

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26B Value shifting: disposals within a group followed by a disposal of shares

- (1) The references in section 26 above to a reduction in the value of an asset, in the case mentioned in subsection (7) of that section, do not include a reduction attributable to the disposal of any asset (“the underlying asset”) by the second company at a time when it and the first company are associated, being a disposal falling within section 273(1) of the Taxes Act 1970 (transfers within group: no gain/no loss), except in a case within subsection (2) below.
- (2) A case is within this subsection if the amount or value of the actual consideration for the disposal of the underlying asset—
 - (a) is less than the market value of the underlying asset, and
 - (b) is less than the cost of the underlying asset,unless the disposal is effected for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to corporation tax.
- (3) For the purposes of subsection (2) above, the cost of an asset owned by a company is the aggregate of—
 - (a) any capital expenditure incurred by the company in acquiring or providing the asset, and
 - (b) any other capital expenditure incurred by the company in respect of the asset while owned by that company.
- (4) For the purposes of this section, where the disposal of the underlying asset is a part disposal, the reference in subsection (2)(a) above to the market value of the underlying asset is to the market value of the asset acquired by the person to whom the disposal is made and the amounts to be attributed to the underlying asset under paragraphs (a) and (b) of subsection (3) above shall be reduced to the appropriate proportion of those amounts, that is—
 - (a) the proportion of capital expenditure in respect of the underlying asset properly attributed in the accounting records of the company to the asset acquired by the person to whom the disposal is made, or
 - (b) where paragraph (a) above does not apply, such proportion as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable.
- (5) Where by virtue of a distribution in the course of dissolving or winding up the second company the first company is treated as disposing of an interest in the principal asset, the exception mentioned in subsection (1) above does not apply.

26C Value shifting: supplementary

- (1) For the purposes of sections 26(1A) and 26A(7) to (9) above, subsections (2) to (6) below apply for the purpose of determining in the case of any asset (“the original asset”) whether it is subsequently disposed of or treated as disposed of or owned or any other condition is satisfied in respect of it.
- (2) References in sections 26(1A)(a) and (b) and 26A(7) to a disposal are to a disposal other than a part disposal.

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- (3) References to an asset are to the original asset or, where at a later time one or more assets are treated by virtue of subsections (5) or (6) below as the same as the original asset—
- (a) if no disposal falling within paragraph (a) or (b) of section 26(1A) or, as the case may be, of 26A(7) has occurred, those references are to the asset so treated or, as the case may be, all the assets so treated, and
 - (b) in any other case, those references are to an asset or, as the case may be, all the assets representing that part of the value of the original asset that remains after allowing for earlier disposals falling within the paragraphs concerned,
- references in this subsection to a disposal including a disposal which would fall within the paragraphs concerned but for subsection (2) above.
- (4) Where by virtue of subsection (3) above those references are to two or more assets—
- (a) those assets shall be treated as if they were a single asset,
 - (b) any disposal of any one of them is to be treated as a part disposal, and
 - (c) the reference in section 26(1A) to the asset owned at the time of the disposal by a company associated with the disposing company and the reference in section 26A(8) to the asset with enhanced value is to all or any of those assets.
- (5) Where there is a part disposal of an asset, that asset and the asset acquired by the person to whom the disposal is made are to be treated as the same.
- (6) Where the value of an asset is derived from any other asset in the ownership of the same or an associated company, in a case where assets have been merged or divided or have changed their nature or rights or interests in or over assets have been created or extinguished, the first asset is to be treated as the same as the second.
- (7) For the purposes of section 26(1A) above, where account is to be taken under that subsection of a reduction in the value of a relevant asset and at the time of the disposal by the disposing company referred to in that subsection—
- (a) references to the relevant asset are by virtue of this section references to two or more assets treated as a single asset, and
 - (b) one or more but not all of those assets are owned by a company associated with the disposing company,
- the amount of the reduction in the value of the relevant asset to be taken into account by virtue of that subsection shall be reduced to such amount as appears to the inspector, or on appeal to the Commissioners concerned, to be just and reasonable.
- (8) For the purposes of section 26A above, where—
- (a) a dividend paid by the second company is attributable to chargeable profits of that company, and
 - (b) the condition in subsection (7), (8) or (9)(c) of that section is satisfied by reference to an asset, or assets treated as a single asset, treated by virtue of subsection (3)(b) above as the same as the asset with enhanced value,

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the amount of the reduction in value of the principal asset shall be reduced to such amount as appears to the inspector, or on appeal to the Commissioners concerned, to be just and reasonable.

- (9) For the purposes of sections 26 to 26B above and this section, companies are associated if they are members of the same group.
- (10) Section 272(1) to (4) of the Taxes Act 1970 (groups of companies: definitions) applies for the purposes of sections 26 to 26B above and this section as it applies for the purposes of that section.”
- (2) This section shall have effect in respect of any disposal of an asset on or after 14th March 1989, but—
 - (a) no account shall be taken by virtue of section 26A of the Capital Gains Tax Act 1979 of any reduction in the value of an asset attributable to the payment of a dividend unless it is paid on or after that date, and
 - (b) no account shall be taken by virtue of section 26B of that Act of a reduction in the value of an asset attributable to the disposal of another asset unless the disposal took place on or after that date.

137 Value shifting: transactions treated as a reorganisation of share capital.

- (1) After section 26C of the Capital Gains Tax Act 1979 there shall be inserted—

“26D Value shifting: transactions treated as a reorganisation of share capital.

- (1) Where—
 - (a) but for sections 78 and 85(3) below, section 26 above would have effect as respects the disposal by a company (“the disposing company”) of an asset consisting of shares in or debentures of another company (“the original holding”) in exchange for shares in or debentures of a further company which, immediately after the disposal, is not a member of the same group as the disposing company, and
 - (b) if section 26 above had effect as respects that disposal, any allowable loss or chargeable gain accruing on the disposal would be calculated as if the consideration for the disposal were increased by an amount, the disposing company shall be treated for the purposes of section 79(2) below as receiving, on the reorganisation of share capital that is treated as occurring by virtue of section 85(3) below, that amount for the disposal of the original holding.
- (2) For the purposes of subsection (1) above it shall be assumed that section 86 below has effect generally for the purposes of this Act, and in that subsection “group” has the same meaning as in sections 26 to 26C above.”
- (2) This section shall have effect where the reduction in value, by reason of which the amount referred to in section 26D(1)(b) of the Capital Gains Tax Act 1979 falls to be calculated, occurred on or after 14th March 1989.

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138 Groups of companies.

(1) In section 272 of the Taxes Act 1970 (groups of companies: definitions) in subsection (1), for paragraphs (b) and (c) there shall be substituted—

“(b) subsections (1A) to (1D) below apply to determine whether companies form a group and, where they do, which is the principal company of the group;”.

(2) After that subsection there shall be inserted—

“(1A) Subject to subsections (1B) to (1D) below—

- (a) a company (referred to below in this Chapter as the “principal company of the group”) and all its 75 per cent. subsidiaries form a group and, if any of those subsidiaries have 75 per cent. subsidiaries, the group includes them and their 75 per cent. subsidiaries, and so on, but
- (b) a group does not include any company (other than the principal company of the group) that is not an effective 51 per cent. subsidiary of the principal company of the group.

(1B) A company cannot be the principal company of a group if it is itself a 75 per cent. subsidiary of another company.

(1C) Where a company (“the subsidiary”) is a 75 per cent. subsidiary of another company but those companies are prevented from being members of the same group by subsection (1A)(b) above, the subsidiary may, where the requirements of subsection (1A) above are satisfied, itself be the principal company of another group notwithstanding subsection (1B) above unless this subsection enables a further company to be the principal company of a group of which the subsidiary would be a member.

(1D) A company cannot be a member of more than one group; but where, apart from this subsection, a company would be a member of two or more groups (the principal company of each group being referred to below as the “head of a group”), it is a member only of that group, if any, of which it would be a member under one of the following tests (applying earlier tests in preference to later tests)—

- (a) it is a member of the group it would be a member of if, in applying subsection (1A)(b) above, there were left out of account any amount to which a head of a group is or would be beneficially entitled of any profits available for distribution to equity holders of a head of another group or of any assets of a head of another group available for distribution to its equity holders on a winding-up,
- (b) it is a member of the group the head of which is beneficially entitled to a percentage of profits available for distribution to equity holders of the company that is greater than the percentage of those profits to which any other head of a group is so entitled,
- (c) it is a member of the group the head of which would be beneficially entitled to a percentage of any assets of the company available for distribution to its equity holders on a winding-up that is greater than the percentage of those assets to which any other head of a group would be so entitled,
- (d) it is a member of the group the head of which owns directly or indirectly a percentage of the company’s ordinary share capital that is

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greater than the percentage of that capital owned directly or indirectly by any other head of a group (interpreting this paragraph as if it were included in section 838(1)(a) of the Taxes Act 1988).

- (1E) For the purposes referred to in subsection (1) above, a company (“the subsidiary”) is an effective 51 per cent. subsidiary of another company (“the parent”) at any time if and only if—
- (a) the parent is beneficially entitled to more than 50 per cent. of any profits available for distribution to equity holders of the subsidiary; and
 - (b) the parent would be beneficially entitled to more than 50 per cent. of any assets of the subsidiary available for distribution to its equity holders on a winding-up.
- (1F) Schedule 18 to the Taxes Act 1988 (group relief: equity holders and profits or assets available for distribution) shall apply for the purposes of subsections (1D) and (1E) above as if the references to subsection (7), or subsections (7) to (9), of section 413 of that Act were references to subsections (1D) and (1E) above and as if, in paragraph 1(4), the words from “but” to the end and paragraph 7(1)(b) were omitted.”
- (3) In subsection (3) of that section for the words from “75 per cent. subsidiary of another company” to “is the principal company” there shall be substituted the words “member of another group, the first group and the other group shall be regarded as the same”.
- (4) In subsection (4) of that section—
- (a) for the words “a company” there shall be substituted the words “a member of a group of companies”, and
 - (b) for the words from “that company, or” to the end there shall be substituted the words “that or any other company ceasing to be a member of the group”.
- (5) In section 278 of that Act (deemed disposal of certain assets held by company leaving group) after subsection (3A) there shall be inserted—
- “(3B) Where, apart from subsection (3C) below, a company ceasing to be a member of a group by reason only of the fact that the principal company of the group becomes a member of another group would be treated by virtue of subsection (3) above as selling an asset at any time, subsections (3C) to (3E) below shall apply.
- (3C) The company in question shall not be treated as selling the asset at that time; but if—
- (a) within six years of that time the company in question ceases at any time (“the relevant time”) to satisfy the following conditions, and
 - (b) at the relevant time, the company in question, or a company in the same group as that company, owns otherwise than as trading stock the asset or property to which a chargeable gain has been carried forward from the asset on a replacement of business assets,
- the company in question shall be treated for all the purposes of the Capital Gains Tax Act 1979 as if, immediately after its acquisition of the asset, it had sold and immediately reacquired the asset at the value that, at the time of acquisition, was its market value.
- (3D) Those conditions are—

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- (a) that the company is a 75 per cent. subsidiary of one or more members of the other group referred to in subsection (3B) above, and
 - (b) that the company is an effective 51 per cent. subsidiary of one or more of those members.
- (3E) Any chargeable gain or allowable loss accruing to the company on that sale shall be treated as accruing at the relevant time.
- (3F) Where—
- (a) by virtue of this section a company is treated as having sold an asset at any time, and
 - (b) if at that time the company had in fact sold the asset at market value at that time, then, by virtue of section 26 of that Act, any allowable loss or chargeable gain accruing on the disposal would have been calculated as if the consideration for the disposal were increased by an amount,
- subsections (3) and (3C) above shall have effect as if the market value at that time had been that amount greater.”
- (6) In section 97 of the Inheritance Tax Act 1984 (transfers within group etc.)—
- (a) for the words “principal member” and “principal member's”, wherever appearing, there shall be substituted “principal company” and “principal company's” respectively,
 - (b) for subsection (2)(a) there shall be substituted—
 - “(a) section 272 of the Taxes Act 1970 (groups of companies: definitions) applies as for the purposes of sections 273 to 281 of that Act”, and
 - (c) the words from “and in this section” in subsection (2) to the end shall be omitted.
- (7) Subject to the following provisions, this section shall be deemed to have come into force on 14th March 1989; but section 278(3E) of the Taxes Act 1970 shall have effect where the accounting period in which the company referred to in subsection (3B) of that section ceases to be a member of a group ends after the day appointed for the purposes of paragraph 4 of Schedule 6 to the Finance (No. 2) Act 1987.
- (8) Where—
- (a) at the beginning of the commencement day a company ceases for the purposes of the group provisions to be a member of a group by reason only of the substitution for the old definition of the new definition, and
 - (b) in consequence of ceasing to be such a member the company would, apart from this subsection, be treated by virtue of section 278(3) of the Taxes Act 1970 as selling an asset at any time,
- the company in question shall not be treated as selling that asset at that time unless the conditions in subsection (9) below become satisfied, assuming for that purpose that the old definition applies.
- (9) Those conditions are—
- (a) that for the purposes of section 278 of that Act the company in question ceases at any time (“the relevant time”) to be a member of the group referred to in subsection (8)(a) above,

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- (b) that, at the relevant time, the company in question, or an associated company also leaving that group at that time, owns otherwise than as trading stock the asset or property to which a chargeable gain has been carried forward from the asset on a replacement of business assets, and
 - (c) that the time of acquisition referred to in section 278(1) of that Act fell within the period of six years ending with the relevant time.
- (10) Where, under any compromise or arrangement agreed to on any date before 14th March 1989 in pursuance of section 425 of the Companies Act 1985 and sanctioned by the court, one company acquires at any time, directly or indirectly, an interest in ordinary share capital of another company and immediately after that time—
- (a) under the old definition the two companies are, by virtue of that acquisition, members of a group for the purposes of the group provisions, but
 - (b) the second company is not an effective 51 per cent. subsidiary of the first company,
- subsection (11) below applies; and in that subsection those companies and any other members of the group are referred to as “relevant companies”.
- (11) In respect of the period beginning with the time of acquisition and ending with—
- (a) the expiry of the six months beginning with the date of the agreement, or
 - (b) if earlier, the date when, under the old definition, the other company ceases for the purposes of the group provisions to be a member of the group referred to in subsection (10)(a) above,
- the old definition shall apply in relation to the relevant companies for the purposes of the group provisions and the commencement day in relation to those companies is the day following the end of that period.
- (12) In subsections (8) to (11) above—
- “arrangement” has the same meaning as in section 425 of the Companies Act 1985,
 - “commencement day”, subject to subsection (11) above, is 14th March 1989,
 - “effective 51 per cent. subsidiary” has the meaning given by section 272(1E) of the Taxes Act 1970,
 - “group provisions” means sections 273 to 281 of that Act, and
 - “the new definition” means section 272 of that Act as amended by this section and “the old definition” means that section as it had effect on 13th March 1989,
- and section 278(4) of that Act shall apply for the purposes of those subsections.

Miscellaneous

139 Corporate bonds

- (1) In relation to disposals on or after 14th March 1989 Chapter III of Part II of the Finance Act 1984 shall have effect subject to the following provisions of this section (and, in relation to such disposals, those provisions shall be regarded as always having had effect).
- (2) In subsection (2) of section 64 (which defines “corporate bond” for the purposes of that section and accordingly for the purposes of certain other enactments including,

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by virtue of section 64(1) of the Capital Gains Tax Act 1979, that Act) paragraph (a) shall be omitted.

(3) After subsection (3) of section 64 there shall be inserted—

- “(3A) For the purposes of this section “corporate bond” also includes a security—
- (a) which is not included in the definition in subsection (2) above, and
 - (b) which is a deep gain security for the purposes of Schedule 11 to the Finance Act 1989.
- (3B) For the purposes of this section “corporate bond” also includes a security—
- (a) which is not included in the definition in subsection (2) above, and
 - (b) which, by virtue of paragraph 21(2) of Schedule 11 to the Finance Act 1989, falls to be treated as a deep gain security as there mentioned.
- (3C) For the purposes of this section “corporate bond” also includes a security—
- (a) which is not included in the definition in subsection (2) above, and
 - (b) which, by virtue of paragraph 22(2) of Schedule 11 to the Finance Act 1989, falls to be treated as a deep gain security as there mentioned.”

(4) After subsection (5) of section 64 there shall be inserted—

- “(5A) Subject to subsection (6) below, for the purposes of this section and Schedule 13 to this Act a corporate bond which falls within subsection (3A) above is a qualifying corporate bond, whatever the date of its issue; and subsections (4) and (5) above shall not apply in the case of such a bond.
- (5B) Subject to subsection (6) below, for the purposes of this section and Schedule 13 to this Act a corporate bond which falls within subsection (3B) above is a qualifying corporate bond as regards a disposal made after the time mentioned in paragraph 21(1)(c) of Schedule 11 to the Finance Act 1989, whatever the date of its issue; and subsections (4) and (5) above shall not apply in the case of such a bond.
- (5C) Subject to subsection (6) below, for the purposes of this section and Schedule 13 to this Act a corporate bond which falls within subsection (3C) above is a qualifying corporate bond as regards a disposal made after the time the agreement mentioned in paragraph 22(1)(b) of Schedule 11 to the Finance Act 1989 is made, whatever the date of its issue; and subsections (4) and (5) above shall not apply in the case of such a bond.”

(5) In subsection (6) of section 64, after the words “this Act” there shall be inserted the words “except in relation to a disposal by a person who (at the time of the disposal) is not a member of the same group as the company which issued the security”.

(6) In paragraph 10(2) of Schedule 13—

- (a) after paragraph (b) there shall be inserted—
 - “(bb) section 267 of the Taxes Act (company reconstructions and amalgamations); or”, and
- (b) the word “not” shall be inserted after the words “previous disposal”.

140 Collective investment schemes

(1) In this section—

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“collective investment scheme” has the same meaning as in the Financial Services Act 1986, and

“participant” shall be construed in accordance with that Act.

- (2) Subsection (3) below applies in the case of arrangements which constitute a collective investment scheme and under which—
 - (a) the contributions of the participants, and the profits or income out of which payments are to be made to them, are pooled in relation to separate parts of the property in question, and
 - (b) the participants are entitled to exchange rights in one part for rights in another.
- (3) If a participant exchanges rights in one such part for rights in another section 78 of the Capital Gains Tax Act 1979 (reorganisations etc.) shall not prevent the exchange constituting a disposal and acquisition for the purposes of that Act.
- (4) The reference in subsection (3) above to section 78 of that Act—
 - (a) includes a reference to that section as applied by section 82 of that Act (conversion of securities), but
 - (b) does not include a reference to section 78 as applied by section 85 of that Act (exchange of securities for those in another company).
- (5) Subsection (3) above shall apply where rights are exchanged on or after 14th March 1989.
- (6) Section 78 of the Finance (No.2) Act 1987 shall cease to have effect as regards any case where the question it mentions is determined in relation to a disposal made on or after 14th March 1989.

141 Re-basing to 1982 etc

Schedule 15 to this Act (which makes further provision about charges etc. postponed from 31st March 1982 or before, assets held on that date and related matters) shall have effect.

CHAPTER IV

MANAGEMENT

Information

142 Power to call for documents and information

- (1) Section 20 of the Taxes Management Act 1970 (power to call for documents of taxpayer and others) shall be amended in accordance with subsections (2) to (8) below.
- (2) In subsection (1), for the words “a person” onwards there shall be substituted the words “a person—
 - (a) to deliver to him such documents as are in the person’s possession or power and as (in the inspector’s reasonable opinion) contain, or may contain, information relevant to—
 - (i) any tax liability to which the person is or may be subject, or

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- (ii) the amount of any such liability, or
- (b) to furnish to him such particulars as the inspector may reasonably require as being relevant to, or to the amount of, any such liability.”
- (3) In subsection (2), for the words “a person” onwards there shall be substituted the words “a person—
 - (a) to deliver to a named officer of the Board such documents as are in the person’s possession or power and as (in the Board’s reasonable opinion) contain, or may contain, information relevant to—
 - (i) any tax liability to which the person is or may be subject, or
 - (ii) the amount of any such liability, or
 - (b) to furnish to a named officer of the Board such particulars as the Board may reasonably require as being relevant to, or to the amount of, any such liability.”
- (4) In subsection (3)—
 - (a) for the words “of the persons who in relation to the taxpayer are subject to this subsection” there shall be substituted the words “other person”, and
 - (b) at the end there shall be added the words “; and the persons who may be required to deliver or make available a document under this subsection include the Director of Savings.”
- (5) Subsections (4) and (5) shall be omitted.
- (6) In subsection (6)—
 - (a) for the words “under subsections (3) and (4)” there shall be substituted the words “for the purposes of this section”, and
 - (b) the words “and in relation” onwards shall be omitted.
- (7) For subsection (8) there shall be substituted—

“(8) Subject to subsection (8A) below, a notice under subsection (3) above shall name the taxpayer with whose liability the inspector (or, where section 20B(3) below applies, the Board) is concerned.”
- (8) After subsection (8B) there shall be inserted—

“(8C) In this section references to documents do not include—

 - (a) personal records (as defined in section 12 of the Police and Criminal Evidence Act 1984), or
 - (b) journalistic material (as defined in section 13 of that Act),

and references to particulars do not include particulars contained in such personal records or journalistic material.

(8D) Subject to subsection (8C) above, references in this section to documents and particulars are to those specified or described in the notice in question; and—

 - (a) the notice shall require documents to be delivered (or delivered or made available), or particulars to be furnished, within such time (which, except in the case of a notice under subsection (2) above, shall not be less than thirty days after the date of the notice) as may be specified in the notice; and
 - (b) the person to whom they are delivered, made available or furnished may take copies of them or of extracts from them.”

- (9) In section 12(3) of the National Savings Bank Act 1971, for the words “20(4)(b)” onwards there shall be substituted the words “20(3) of that Act (requirement to deliver or make available documents relating to liability of a taxpayer).”
- (10) This section shall apply with respect to notices given on or after the day on which this Act is passed.

143 Power to call for papers of tax accountant

- (1) In section 20A of the Taxes Management Act 1970 (power to call for papers of tax accountant) for the last sentence of subsection (1) there shall be substituted—
- “(1A) The reference to documents in subsection (1) above does not include—
- (a) personal records (as defined in section 12 of the Police and Criminal Evidence Act 1984), or
 - (b) journalistic material (as defined in section 13 of that Act).
- (1B) Subject to subsection (1A) above, the reference to documents in subsection (1) above is to those specified or described in the notice in question; and—
- (a) the notice shall require documents to be delivered within such time (which shall not be less than thirty days after the date of the notice) as may be specified in the notice; and
 - (b) the inspector may take copies of them or of extracts from them.”
- (2) This section shall apply with respect to notices given on or after the day on which this Act is passed.

144 Restrictions on powers under TMA ss.20 and 20A

- (1) Section 20B of the Taxes Management Act 1970 (restrictions on powers under sections 20 and 20A) shall be amended as follows.
- (2) In subsection (1), after the word “question” there shall be inserted the words “, or to furnish the particulars in question”.
- (3) After that subsection there shall be inserted—
- “(1A) Subject to subsection (1B) below, where a notice is given to any person under section 20(3) the inspector shall give a copy of the notice to the taxpayer to whom it relates.
- (1B) If, on an application by the inspector, a General or Special Commissioner so directs, a copy of a notice under section 20(3) need not be given to the taxpayer to whom it relates; but such a direction shall not be given unless the Commissioner is satisfied that the inspector has reasonable grounds for suspecting the taxpayer of fraud.”
- (4) In subsection (2), after the words “deliver documents”, in the first place where they occur, there shall be inserted the words “or furnish particulars”.
- (5) In subsection (5), for the words from “if” to “or company” there shall be substituted the words “does not oblige a person”.
- (6) In subsection (7), the words from “to a person” to “daughter” shall be omitted.

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(7) For subsection (9) there shall be substituted—

“(9) Subject to subsections (11) and (12) below, a notice under section 20(3) or (8A)—

- (a) does not oblige a person who has been appointed as an auditor for the purposes of any enactment to deliver or make available documents which are his property and were created by him or on his behalf for or in connection with the performance of his functions under that enactment, and
- (b) does not oblige a tax adviser to deliver or make available documents which are his property and consist of relevant communications.

(10) In subsection (9) above “relevant communications” means communications between the tax adviser and—

- (a) a person in relation to whose tax affairs he has been appointed, or
- (b) any other tax adviser of such a person,

the purpose of which is the giving or obtaining of advice about any of those tax affairs; and in subsection (9) above and this subsection “tax adviser” means a person appointed to give advice about the tax affairs of another person (whether appointed directly by that other person or by another tax adviser of his).

(11) Subject to subsection (13) below, subsection (9) above shall not have effect in relation to any document which contains information explaining any information, return, accounts or other document which the person to whom the notice is given has, as tax accountant, assisted any client of his in preparing for, or delivering to, the inspector or the Board.

(12) Subject to subsection (13) below, in the case of a notice under section 20(8A) subsection (9) above shall not have effect in relation to any document which contains information giving the identity or address of any taxpayer to whom the notice relates or of any person who has acted on behalf of any such person.

(13) Subsection (9) above is not disapplied by subsection (11) or (12) above in the case of any document if—

- (a) the information within subsection (11) or (12) is contained in some other document, and
- (b) either—
 - (i) that other document, or a copy of it, has been delivered to the inspector or the Board, or
 - (ii) that other document has been inspected by an officer of the Board.

(14) Where subsection (9) above is disapplied by subsection (11) or (12) above in the case of a document, the person to whom the notice is given either shall deliver the document to the inspector or make it available for inspection by an officer of the Board or shall—

- (a) deliver to the inspector (or, where subsection (3) above applies, the Board) a copy (which is photographic or otherwise by way of facsimile) of any parts of the document which contain the information within subsection (11) or (12), and

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- (b) if so required by the inspector (or, as the case may be, the Board), make available for inspection by a named officer of the Board such parts of the document as contain that information;
and failure to comply with any requirement under paragraph (b) above shall constitute a failure to comply with the notice.”
- (8) This section shall apply with respect to notices given on or after the day on which this Act is passed.

145 Falsification etc. of documents

- (1) After section 20B of the Taxes Management Act 1970 there shall be inserted—

“20BB Falsification etc. of documents

- (1) Subject to subsections (2) to (4) below, a person shall be guilty of an offence if he intentionally falsifies, conceals, destroys or otherwise disposes of, or causes or permits the falsification, concealment, destruction or disposal of, a document which—
 - (a) he has been required by a notice under section 20 or 20A above, or
 - (b) he has been given an opportunity in accordance with section 20B(1) above,to deliver, or to deliver or make available for inspection.
- (2) A person does not commit an offence under subsection (1) above if he acts—
 - (a) with the written permission of a General or Special Commissioner, the inspector or an officer of the Board,
 - (b) after the document has been delivered or, in a case within section 20(3) or (8A) above, inspected, or
 - (c) after a copy has been delivered in accordance with section 20B(4) or (14) above and the original has been inspected.
- (3) A person does not commit an offence under subsection (1)(a) above if he acts after the end of the period of two years beginning with the date on which the notice is given, unless before the end of that period the inspector or an officer of the Board has notified the person in writing that the notice has not been complied with to his satisfaction.
- (4) A person does not commit an offence under subsection (1) (b) above if he acts—
 - (a) after the end of the period of six months beginning with the date on which an opportunity to deliver the document was given, or
 - (b) after an application for consent to a notice being given in relation to the document has been refused.
- (5) A person guilty of an offence under subsection (1) above shall be liable—
 - (a) on summary conviction, to a fine not exceeding the statutory maximum;
 - (b) on conviction on indictment, to imprisonment for a term not exceeding two years or to a fine or to both.”

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- (2) This section shall apply to any falsification, concealment, destruction or disposal of a document occurring on or after the day on which this Act is passed.

146 Entry with warrant to obtain documents

- (1) Section 20C of the Taxes Management Act 1970 (entry with warrant to obtain documents) shall be amended as follows.

- (2) In subsection (1)—

- (a) for the words “any form of fraud” there shall be substituted the words “serious fraud”, and
- (b) for the words “has been” there shall be substituted the words “is being, has been or is about to be”.

- (3) After that subsection there shall be inserted—

“(1A) Without prejudice to the generality of the concept of serious fraud—

- (a) any offence which involves fraud is for the purposes of this section an offence involving serious fraud if its commission had led, or is intended or likely to lead, either to substantial financial gain to any person or to serious prejudice to the proper assessment or collection of tax; and
- (b) an offence which, if considered alone, would not be regarded as involving serious fraud may nevertheless be so regarded if there is reasonable ground for suspecting that it forms part of a course of conduct which is, or but for its detection would be, likely to result in serious prejudice to the proper assessment or collection of tax.

(1B) The powers conferred by a warrant under this section shall not be exercisable—

- (a) by more than such number of officers of the Board as may be specified in the warrant;
- (b) outside such times of day as may be so specified;
- (c) if the warrant so provides, otherwise than in the presence of a constable in uniform.”

- (4) For subsections (3) to (5) there shall be substituted—

“(3) An officer who enters the premises under the authority of a warrant under this section may—

- (a) take with him such other persons as appear to him to be necessary;
- (b) seize and remove any things whatsoever found there which he has reasonable cause to believe may be required as evidence for the purposes of proceedings in respect of such an offence as is mentioned in subsection (1) above; and
- (c) search or cause to be searched any person found on the premises whom he has reasonable cause to believe to be in possession of any such things;

but no person shall be searched except by a person of the same sex.

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- (4) Nothing in subsection (3) above authorises the seizure and removal of documents in the possession of a barrister, advocate or solicitor with respect to which a claim to professional privilege could be maintained.
 - (5) An officer of the Board seeking to exercise the powers conferred by a warrant under this section or, if there is more than one such officer, that one of them who is in charge of the search—
 - (a) if the occupier of the premises concerned is present at the time the search is to begin, shall supply a copy of the warrant endorsed with his name to the occupier;
 - (b) if at that time the occupier is not present but a person who appears to the officer to be in charge of the premises is present, shall supply such a copy to that person; and
 - (c) if neither paragraph (a) nor paragraph (b) above applies, shall leave such a copy in a prominent place on the premises.
 - (6) Where entry to premises has been made with a warrant under this section, and the officer making the entry has seized any things under the authority of the warrant, he shall endorse on or attach to the warrant a list of the things seized.
 - (7) Subsections (10) to (12) of section 16 of the Police and Criminal Evidence Act 1984 (return, retention and inspection of warrants) apply to a warrant under this section (together with any list endorsed on or attached to it under subsection (6) above) as they apply to a warrant issued to a constable under any enactment.
 - (8) Subsection (7) above extends to England and Wales only.”
- (5) This section shall apply with respect to warrants issued on or after the day on which this Act is passed.

147 Procedure where documents etc. are removed

- (1) The following section shall be inserted after section 20C of the Taxes Management Act 1970—

“20CC Procedure where documents etc. are removed

- (1) An officer of the Board who removes anything in the exercise of the power conferred by section 20C above shall, if so requested by a person showing himself—
 - (a) to be the occupier of premises from which it was removed, or
 - (b) to have had custody or control of it immediately before the removal, provide that person with a record of what he removed.
- (2) The officer of the Board shall provide the record within a reasonable time from the making of the request for it.
- (3) Where anything which has been removed by an officer of the Board as mentioned in subsection (1) above is of such a nature that a photograph or copy of it would be sufficient—
 - (a) for use as evidence at a trial for an offence, or

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- (b) for forensic examination or for investigation in connection with an offence,
- it shall not be retained longer than is necessary to establish that fact and to obtain the photograph or copy.
- (4) Subject to subsection (8) below, if a request for permission to be granted access to anything which—
- (a) has been removed by an officer of the Board, and
- (b) is retained by the Board for the purpose of investigating an offence,
- is made to the officer in overall charge of the investigation by a person who had custody or control of the thing immediately before it was so removed or by someone acting on behalf of any such person, the officer shall allow the person who made the request access to it under the supervision of an officer of the Board.
- (5) Subject to subsection (8) below, if a request for a photograph or copy of any such thing is made to the officer in overall charge of the investigation by a person who had custody or control of the thing immediately before it was so removed, or by someone acting on behalf of any such person, the officer shall—
- (a) allow the person who made the request access to it under the supervision of an officer of the Board for the purpose of photographing it or copying it, or
- (b) photograph or copy it, or cause it to be photographed or copied.
- (6) Where anything is photographed or copied under subsection (5)(b) above the photograph or copy shall be supplied to the person who made the request.
- (7) The photograph or copy shall be supplied within a reasonable time from the making of the request.
- (8) There is no duty under this section to grant access to, or to supply a photograph or copy of, anything if the officer in overall charge of the investigation for the purposes of which it was removed has reasonable grounds for believing that to do so would prejudice—
- (a) that investigation;
- (b) the investigation of an offence other than the offence for the purposes of the investigation of which the thing was removed; or
- (c) any criminal proceedings which may be brought as a result of—
- (i) the investigation of which he is in charge, or
- (ii) any such investigation as is mentioned in paragraph (b) above.
- (9) Any reference in this section to the officer in overall charge of the investigation is a reference to the person whose name and address are endorsed on the warrant concerned as being the officer so in charge.”
- (2) This section shall apply with respect to warrants issued on or after the day on which this Act is passed.

148 Interpretation

- (1) Section 20D of the Taxes Management Act 1970 shall be amended as follows.

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- (2) In subsection (2), for the words “of returns or accounts to be made or delivered by the other” there shall be substituted the words “or delivery of any information, return, accounts or other document which he knows will be, or is or are likely to be, used”.
- (3) For subsection (3) there shall be substituted—
 - “(3) Without prejudice to section 127 of the Finance Act 1988, in sections 20 to 20CC above “document” has, subject to sections 20(8C) and 20A(1A), the same meaning as it has—
 - (a) in relation to England and Wales, in Part I of the Civil Evidence Act 1968,
 - (b) in relation to Scotland, in Part III of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1968, and
 - (c) in relation to Northern Ireland, in Part I of the Civil Evidence Act (Northern Ireland) 1971.”
- (4) Subsection (3) above shall not affect the meaning of “business” in sections 20 and 20C of the Taxes Management Act 1970 before the coming into force of sections 142 and 146 above.

Assessments, claims etc.

149 Assessments founded on fraudulent or negligent conduct

- (1) The following section shall be substituted for section 36 of the Taxes Management Act 1970—

“36 Fraudulent or negligent conduct

- (1) An assessment on any person (in this section referred to as “the person in default”) for the purpose of making good to the Crown a loss of tax attributable to his fraudulent or negligent conduct or the fraudulent or negligent conduct of a person acting on his behalf may be made at any time not later than twenty years after the end of the chargeable period to which the assessment relates.
 - (2) Where the person in default is an individual who carried on a trade or profession in partnership with another individual, or with other persons at least one of whom is an individual, at any time in the year for which the assessment is made, an assessment in respect of the profits or gains of the trade or profession for the purpose mentioned in subsection (1) above may be made not only on the person in default but also on his partner or, as the case may be, on any of his partners who is an individual.
 - (3) If the person on whom the assessment is made so requires, in determining the amount of the tax to be charged for any chargeable period in any assessment made for the purpose mentioned in subsection (1) above, effect shall be given to any relief or allowance to which he would have been entitled for that chargeable period on a claim or application made within the time allowed by the Taxes Acts.”
- (2) Sections 37 to 39 (special provisions as to “neglect”) and section 41 (leave required for certain assessments) of the Taxes Management Act 1970 shall cease to have effect.

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- (3) The words “section 36” shall be substituted—
- (a) for the words “sections 36, 37 and 39” in section 30(6) of the Taxes Management Act 1970 (tax repaid in error etc.),
 - (b) for the words “sections 37 to 39” in section 118(3) of that Act (effect under law of Scotland of assessment in partnership name),
 - (c) for the words “sections 36 and 39” in paragraph 10(1) of Schedule 13 to the Taxes Act 1988 (assessments to advance corporation tax), and
 - (d) for the words “sections 36 and 37” in paragraph 10(1) of Schedule 16 to that Act (assessments to income tax on company payments which are not distributions).
- (4) The words “fraudulent or negligent conduct” shall be substituted—
- (a) for the words “fraud, wilful default or neglect” in—
 - (i) section 37A of the Taxes Management Act 1970 (married couples),
 - (ii) section 40(2) of that Act (assessment on personal representatives), and
 - (iii) paragraph 9 of Schedule 16A to the Finance Act 1973 and of Schedule 19A to the Taxes Act 1988 (Lloyd's), and
 - (b) for the words “fraud and wilful default) and section 37 of that Act (neglect” in section 307(5) of the Taxes Act 1988 (assessments for withdrawing relief under Chapter III of Part VII of that Act).
- (5) In section 105 of the Taxes Management Act 1970 (admissibility of evidence), for the words “fraud or default” and the words “fraud or wilful default” there shall be substituted the words “fraudulent conduct”.
- (6) In paragraph 9 of Schedule 16A to the Finance Act 1973 and of Schedule 19A to the Taxes Act 1988, for “37, 40 and 41” there shall be substituted “and 40”.
- (7) Nothing in this section shall affect the making of assessments—
- (a) for years of assessment before the year 1983-84, or
 - (b) for accounting periods which ended before 1st April 1983.

150 Further assessments: claims etc

- (1) The following sections shall be inserted after section 43 of the Taxes Management Act 1970—

“43A Further assessments: claims etc

- (1) This section applies where—
- (a) by virtue of section 29(3) of this Act an assessment is made on any person for a chargeable period, and
 - (b) the assessment is not made for the purpose of making good to the Crown any loss of tax attributable to his fraudulent or negligent conduct or the fraudulent or negligent conduct of a person acting on his behalf.
- (2) Without prejudice to section 43(2) above but subject to section 43B below, where this section applies—

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- (a) any relevant claim, election, application or notice which could have been made or given within the time allowed by the Taxes Acts may be made or given at any time within one year from the end of the chargeable period in which the assessment is made, and
 - (b) any relevant claim, election, application or notice previously made or given may at any such time be revoked or varied—
 - (i) in the same manner as it was made or given, and
 - (ii) by or with the consent of the same person or persons who made, gave or consented to it (or, in the case of any such person who has died, by or with the consent of his personal representatives),except where by virtue of any enactment it is irrevocable.
- (3) For the purposes of this section and section 43B below, a claim, election, application or notice is relevant in relation to an assessment for a chargeable period if—
- (a) it relates to that chargeable period or is made or given by reference to an event occurring in that chargeable period, and
 - (b) it or, as the case may be, its revocation or variation has or could have the effect of reducing any of the liabilities mentioned in subsection (4) below.
- (4) The liabilities referred to in subsection (3) above are—
- (a) the increased liability to tax resulting from the assessment,
 - (b) any other liability to tax of the person concerned for—
 - (i) the chargeable period to which the assessment relates, or
 - (ii) any chargeable period which follows that chargeable period and ends not later than one year after the end of the chargeable period in which the assessment is made.
- (5) Where a claim, election, application or notice is made, given, revoked or varied by virtue of subsection (2) above, all such adjustments shall be made, whether by way of discharge or repayment of tax or the making of assessments or otherwise, as are required to take account of the effect of the taking of that action on any person's liability to tax for any chargeable period.
- (6) The provisions of this Act relating to appeals against decisions on claims shall apply with any necessary modifications to a decision on the revocation or variation of a claim by virtue of subsection (2) above.

43B Limits on application of section 43A

- (1) If the effect of the exercise by any person of a power conferred by section 43A(2) above—
- (a) to make or give a claim, election, application or notice, or
 - (b) to revoke or vary a claim, election, application or notice previously made or given,
- would be to alter the liability to tax of another person, that power may not be exercised except with the consent in writing of that other person or, where he has died, his personal representatives.
- (2) Where—

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

- (a) a power conferred by subsection (2) of section 43A above is exercised in consequence of an assessment made on a person, and
- (b) the exercise of the power increases the liability to tax of another person,

that section shall not apply by reason of any assessment made because of that increased liability.

(3) In any case where—

- (a) one or more relevant claims, elections, applications or notices are made, given, revoked or varied by virtue of the application of section 43A above in the case of an assessment, and
- (b) the total of the reductions in liability to tax which, apart from this subsection, would result from the action mentioned in paragraph (a) above would exceed the additional liability to tax resulting from the assessment,

the excess shall not be available to reduce any liability to tax.

(4) Where subsection (3) above has the effect of limiting either the reduction in a person's liability to tax for more than one period or the reduction in the liability to tax of more than one person, the limited amount shall be apportioned between the periods or persons concerned—

- (a) except where paragraph (b) below applies, in such manner as may be specified by the inspector by notice in writing to the person or persons concerned, or
- (b) where the person concerned gives (or the persons concerned jointly give) notice in writing to the inspector within the relevant period, in such manner as may be specified in the notice given by the person or persons concerned.

(5) For the purposes of paragraph (b) of subsection (4) above the relevant period is the period of 30 days beginning with the day on which notice under paragraph (a) of that subsection is given to the person concerned or, where more than one person is concerned, the latest date on which such notice is given to any of them.”

(2) This section shall apply in relation to any assessment notice of which is issued on or after the day on which this Act is passed.

151 Assessment of trustees etc

- (1) Income tax chargeable in respect of income arising to the trustees of a settlement, or to the personal representatives of a deceased person, may be assessed and charged on and in the name of any one or more of the relevant trustees or, as the case may be, the relevant personal representatives.
- (2) In this section “the relevant trustees”, in relation to any income, means the trustees to whom the income arises and any subsequent trustees of the settlement, and “the relevant personal representatives” has a corresponding meaning.
- (3) In this section “personal representatives” has the same meaning as in section 111 of this Act.
- (4) This section shall be deemed always to have had effect.

Distress and poinding etc.

152 Distress for non-payment of tax

- (1) Section 61 of the Taxes Management Act 1970 (distress) shall be amended as follows.
- (2) In subsection (1), for the words “the collector shall” onwards there shall be substituted the words “the collector may distrain upon the goods and chattels of the person charged (in this section referred to as “the person in default”).”
- (3) In subsection (2), for the words from “a collector” to “Commissioners” there shall be substituted the words “a justice of the peace, on being satisfied by information on oath that there is reasonable ground for believing that a person is neglecting or refusing to pay a sum charged, may issue a warrant in writing authorising a collector to”.
- (4) In subsection (4), for the words “neglecting or refusing to pay” there shall be substituted the words “in default”.
- (5) In subsection (5)—
 - (a) for the word “aforesaid” there shall be substituted the words “in default”,
 - (b) the words “within the said five days” shall be omitted,
 - (c) for the words from “two or more inhabitants of the parish” to “sufficient persons” there shall be substituted the words “one or more independent persons appointed by the collector”, and
 - (d) the words from “The costs” to “the collector, and” shall be omitted.
- (6) The following subsection shall be added after that subsection—

“(6) The Treasury may by regulations make provision with respect to—

 - (a) the fees chargeable on or in connection with the levying of distress, and
 - (b) the costs and charges recoverable where distress has been levied;

and any such regulations shall be made by statutory instrument which shall be subject to annulment in pursuance of a resolution of the House of Commons.”
- (7) This section shall come into force on such day as the Treasury may by order made by statutory instrument appoint.

153 Priority in cases of distraint by others

- (1) Section 62 of the Taxes Management Act 1970 (priority of claim for tax) shall be amended as follows.
- (2) In subsection (1)—
 - (a) for the words from the beginning to “shall be” there shall be substituted the words “If at any time at which any goods or chattels belonging to any person (in this section referred to as “the person in default”) are”,
 - (b) for the word “unless” there shall be substituted the words “the person in default is in arrears in respect of any such sums as are referred to in subsection (1A) below, the goods or chattels may not be so taken unless on demand made by the collector”, and
 - (c) for the words “arrears of tax” onwards there shall be substituted the words “such sums as have fallen due at or before the date of seizure.”

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(3) The following subsection shall be inserted after that subsection—

“(1A) The sums referred to in subsection (1) above are—

- (a) sums due from the person in default on account of deductions of income tax from emoluments paid during the period of twelve months next before the date of seizure, being deductions which the person in default was liable to make under section 203 of the principal Act (pay as you earn) less the amount of the repayments of income tax which he was liable to make during that period; and
- (b) sums due from the person in default in respect of deductions required to be made by him for that period under section 559 of the principal Act (sub-contractors in the construction industry).”

(4) In subsection (2)—

- (a) for the words from the beginning to “the collector shall” there shall be substituted the words “If the sums referred to in subsection (1) above are not paid within ten days of the date of the demand referred to in that subsection, the collector may”,
- (b) for the words “shall proceed” there shall be substituted the words “may proceed”, and
- (c) for the words “the tax charged and claimed” there shall be substituted the words “those sums”.

154 Recovery of tax from debtor in Scotland

(1) Section 63 of the Taxes Management Act 1970 (recovery of tax in Scotland) shall be amended as follows.

(2) In subsection (3), for the words “which relates to” onwards there shall be substituted the words “insofar as it relates to sums due in respect of—

- (a) deductions of income tax which any person specified in the application was liable to make under section 203 of the principal Act (pay as you earn); or
- (b) deductions required to be made under section 559 of the principal Act (sub-contractors in the construction industry) by any person specified in the application.”

(3) The following subsection shall be added after that subsection—

“(4) In this section references to amounts of tax due and references to sums due in respect of deductions include references to amounts which are deemed to be—

- (a) amounts of tax which the person is liable to pay by virtue of the Income Tax (Employments) Regulations 1973; or
- (b) amounts which the person is liable to pay by virtue of the Income Tax (Sub-Contractors in the Construction Industry) Regulations 1975.”

155 Priority in cases of poinding etc. by others in Scotland

(1) Section 64 of the Taxes Management Act 1970 (priority of claim for tax in Scotland) shall be amended as follows.

(2) In subsection (1)—

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- (a) for the words from the beginning to “shall be” there shall be substituted the words “If at any time at which any moveable goods and effects belonging to any person (in this section referred to as “the person in default”) are”,
 - (b) for the word “unless” there shall be substituted the words “the person in default is in arrears in respect of any such sums as are referred to in subsection (1A) below, the goods and effects may not be so taken unless on demand made by the collector”, and
 - (c) for the words “the tax so in arrear” onwards there shall be substituted the words “such sums as have fallen due at or before the date of poinding or, as the case may be, other diligence or assignation.”
- (3) The following subsection shall be inserted after that subsection—
- “(1A) The sums referred to in subsection (1) above are—
- (a) sums due from the person in default on account of deductions of income tax from emoluments paid during the period of twelve months next before the date of poinding, being deductions which the person in default was liable to make under section 203 of the principal Act (pay as you earn) less the amount of the repayments of income tax which he was liable to make during that period; and
 - (b) sums due from the person in default in respect of deductions required to be made by him for that period under section 559 of the principal Act (sub-contractors in the construction industry).”
- (4) In subsection (2)—
- (a) for the words from the beginning to “the tax claimed shall” there shall be substituted the words “If the sums referred to in subsection (1) above are not paid within ten days of the date of the demand referred to in that subsection, the sums shall”, and
 - (b) for the words “proceeding at his instance” there shall be substituted the word “proceedings”.

Interest etc.

156 Interest on overdue tax

- (1) In section 86 of the Taxes Management Act 1970, for subsection (3) and the words in subsection (4) preceding the Table there shall be substituted—
- “(3) For the purposes of this section—
- (a) the reckonable date in relation to any tax charged by an assessment to income tax under Schedule E, and
 - (b) subject to subsection (3A) below, the reckonable date in relation to tax charged by any other assessment to which this section applies,
- is the date on which the tax becomes due and payable.
- (3A) Where an appeal has been made against an assessment and any of the tax charged by the assessment is due and payable on a date later than the date given by the Table in subsection (4) below, the reckonable date in relation to the tax so due and payable is the later of—
- (a) the date given by that Table, and

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- (b) the date on which the tax would have been due and payable if there had been no appeal against the assessment (assuming in a case where the tax would not have been charged by the assessment if there had been no appeal that it was so charged).
- (4) The Table referred to in subsection (3A) above is as follows—”.
- (2) In section 55 of that Act—
- (a) in subsection (2), for the words “it were” onwards there shall be substituted the words “there had been no appeal.”,
 - (b) in subsection (6), for paragraphs (a) and (b) there shall be substituted—
 - “(a) in the case of a determination made on an application under subsection (3) above, other than an application made by virtue of subsection (3A) above, the date on which any tax the payment of which is not so postponed is due and payable shall be determined as if the tax were charged by an assessment notice of which was issued on the date of that determination and against which there had been no appeal; and
 - (b) in the case of a determination made on an application under subsection (4) above—
 - (i) the date on which any tax the payment of which ceases to be so postponed is due and payable shall be determined as if the tax were charged by an assessment notice of which was issued on the date of that determination and against which there had been no appeal; and
 - (ii) any tax overpaid shall be repaid.”, and
 - (c) for subsection (9) there shall be substituted—
 - “(9) On the determination of the appeal—
 - (a) the date on which any tax payable in accordance with that determination is due and payable shall, so far as it is tax the payment of which had been postponed, or which would not have been charged by the assessment if there had been no appeal, be determined as if the tax were charged by an assessment—
 - (i) notice of which was issued on the date on which the inspector issues to the appellant a notice of the total amount payable in accordance with the determination, and
 - (ii) against which there had been no appeal; and
 - (b) any tax overpaid shall be repaid.”
- (3) In section 56(9) of that Act, for the words “amount of” there shall be substituted the words “amount charged by”.
- (4) This section shall apply to tax charged by any assessment notice of which is issued after 30th July 1982.

157 Effect of certain claims on interest

- (1) In relation to any tax charged by an assessment made under section 252(1) of the Taxes Act 1988 to recover corporation tax that becomes payable as a result of the making of a claim under section 240 of that Act, the reckonable date for the purposes of section 86 of the Taxes Management Act 1970 (in this section referred to as “section 86”) is the date which is given by paragraph 5 of the Table in subsection (4) of that section.
- (2) Subsections (3) and (4) below apply in any case where—
 - (a) there is in any accounting period of a company (in this section referred to as “the later period”) an amount of surplus advance corporation tax, as defined in subsection (3) of section 239 of the Taxes Act 1988, and
 - (b) pursuant to a claim under the said subsection (3), the whole or any part of that amount is treated for the purposes of the said section 239 as discharging liability for an amount of corporation tax for an earlier accounting period (in this section referred to as “the earlier period”), and
 - (c) if the claim under the said subsection (3) had not been made—
 - (i) an amount of corporation tax assessed for the earlier period would carry interest in accordance with section 86, or
 - (ii) an assessment could have been made under section 252(1) of that Act to recover corporation tax for the earlier period.
- (3) In determining the amount of interest payable under section 86 on corporation tax unpaid for the earlier period, no account shall be taken of any reduction in the amount of that tax which results from section 239(3) of the Taxes Act 1988 except so far as concerns interest for any time after the day following the expiry of nine months from the end of the later period.
- (4) Where, but for the claim under section 239(3) of the Taxes Act 1988, an assessment could have been made under section 252(1) of that Act to recover corporation tax for the earlier period, interest under section 86 shall be chargeable, in relation to any time not later than the day referred to in subsection (3) above, as if the claim had not been made and such an assessment had been made.
- (5) In relation to interest charged under section 86 by virtue of subsection (4) above, section 69 of the Taxes Management Act 1970 shall have effect with the substitution for the words following paragraph (c) of the words “as if it were tax charged and due and payable under an assessment”.
- (6) In this section—
 - (a) subsection (1) above shall have effect where the claim under 240 of the Taxes Act 1988 is made on or after 14th March 1989, and
 - (b) subsections (2) to (5) above shall have effect where the claim under section 239(3) of that Act is made on or after that date,but this section shall not have effect in relation to corporation tax for any accounting period ending after the day which is the appointed day for the purposes of section 85 of the Finance (No.2) Act 1987.

158 Small amounts of interest

- (1) In the Taxes Management Act 1970—
 - (a) section 86(6) (remission of interest payable on overdue income tax, capital gains tax or corporation tax where interest would not exceed £30), and

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- (b) section 87(4) (no interest payable on overdue advance corporation tax or income tax on company payments where interest would not exceed £30), shall cease to have effect.
- (2) The words “of not less than £25” in—
 - (a) section 47(1) of the Finance (No.2) Act 1975 (no repayment supplement where overdue repayment of capital gains tax less than £25), and
 - (b) section 824(1)(a) and (b) and (5) of the Taxes Act 1988 (no repayment supplement where overdue repayment of income tax etc. less than £25),
 and the words “of not less than £100” in section 825(2) of the Taxes Act 1988 (no repayment supplement where overdue repayment of company tax less than £100) shall cease to have effect.
- (3) Paragraph (a) of subsection (1) above shall have effect—
 - (a) in relation to income tax under Schedule E, where the demand for the tax is made on or after the appointed day, and
 - (b) in any other case, where the tax is charged by an assessment notice of which is issued on or after the appointed day.
- (4) Paragraph (b) of that subsection shall have effect where the tax is charged by an assessment relating to an accounting period beginning on or after the appointed day.
- (5) Subsection (2) above shall have effect in relation to repayments of tax made on or after the appointed day.
- (6) In this section “the appointed day” means such day as the Treasury may by order made by statutory instrument appoint; and different days may be appointed for different enactments or for different purposes of the same enactment.

159 Interest on tax in case of failure or error

- (1) Section 88 of the Taxes Management Act 1970 (interest on tax recovered to make good loss due to taxpayer’s fault) shall be amended as follows.
- (2) In subsection (1), for the words “the fraud, wilful default or neglect of any person” there shall be substituted the words—
 - “(a) a failure to give a notice, make a return or produce or furnish a document or other information required by or under the Taxes Acts, or
 - (b) an error in any information, return, accounts or other document delivered to an inspector or other officer of the Board.”.
- (3) The following subsection shall be added at the end—
 - “(7) In paragraph (a) of subsection (1) above the reference to a failure to do something includes, in relation to anything required to be done at a particular time or within a particular period, a reference to a failure to do it at that time or within that period; and, accordingly, section 118(2) of this Act shall not apply for the purposes of that paragraph.”
- (4) This section shall have effect in relation to failures occurring, and errors in any information or documents delivered, on or after the day on which this Act is passed.

160 Determinations under TMA

- (1) In subsection (1) of section 88 of the Taxes Management Act 1970, for the words “shall carry” there shall be substituted the words “shall, if an inspector or the Board so determine, carry”.
- (2) The following section shall be inserted after that section—

“88A Determinations under section 88

- (1) Notice of a determination under section 88 above shall be served on the person liable to pay the interest to which it relates and shall specify—
 - (a) the date on which it is issued,
 - (b) the amount of the tax which carries interest and the assessment by which that tax was charged,
 - (c) the date when for the purposes of section 88 above that tax ought to have been paid, and
 - (d) the time within which an appeal against the determination may be made.
- (2) After the notice of a determination under section 88 above has been served the determination shall not be altered except in accordance with this section.
- (3) A determination under section 88 above may be made at any time—
 - (a) within six years after the end of the chargeable period for which the tax carrying the interest is charged (or, in the case of development land tax, of the financial year in which the liability for that tax arose), or
 - (b) within three years after the date of the final determination of the amount of that tax.
- (4) An appeal may be brought against a determination under section 88 above and, subject to the following provisions of this section, the provisions of this Act relating to appeals shall have effect in relation to an appeal against such a determination as they have effect in relation to an appeal against an assessment to tax.
- (5) On an appeal against a determination under section 88 above section 50(6) to (8) of this Act shall not apply but the Commissioners may—
 - (a) if it appears to them that the tax carries no interest under that section, set the determination aside,
 - (b) if the determination appears to them to be correct, confirm the determination, or
 - (c) if the determination appears to them to be incorrect as to the amount of tax or the date on which the tax ought to have been paid, revise the determination accordingly.”
- (3) In section 70 (certificates) of the Taxes Management Act 1970, for subsection (3) there shall be substituted—
 - “(3) A certificate of the inspector or any other officer of the Board that it has been determined that tax carries interest under section 88 of this Act, together with a certificate of the collector that payment of the interest has not been made to him, or, to the best of his knowledge and belief, to any other collector, or

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to any person acting on his behalf or on behalf of another collector, shall be sufficient evidence—

- (a) that interest is chargeable on the tax from the date when for the purposes of section 88 of this Act the tax ought to have been paid, and
- (b) that the sum mentioned in the certificate is unpaid and is due to the Crown;

and any document purporting to be such a certificate as is mentioned in this subsection shall be deemed to be such a certificate unless the contrary is proved.”

- (4) In section 113 of that Act (form of documents), the following subsection shall be inserted after subsection (1B)—

“(1C) Where an officer of the Board has decided that an amount of tax carries interest under section 88 of this Act and has taken the decisions needed for arriving at the date when for the purposes of that section that tax ought to have been paid, he may entrust to any other officer of the Board responsibility for completing the determination procedure, whether by means involving the use of a computer or otherwise, including responsibility for serving notice of the determination on the person liable to the interest.”

- (5) In section 114 of that Act (want of form not to invalidate), after the word “assessment”, in each place where it occurs, there shall be inserted the words “or determination”.

- (6) In paragraph 5 of Schedule 3 to that Act (rules for assigning proceedings to Commissioners), the following entry shall be inserted in the first column after the entry relating to an appeal against an assessment to capital gains tax—

“An appeal against a determination under section 88 of this Act.”

161 Tax carrying interest under TMA ss. 86 and 88

The following subsection shall be substituted for section 88(3) of the Taxes Management Act 1970—

“(3) Where it is finally determined that any tax carries interest under this section, the tax shall carry no interest under section 86 or 86A above (and, accordingly, any interest under either of those sections which has been paid before the final determination shall be set off against the amount of the interest under this section); and for the purposes of this subsection a determination that tax carries interest is not final until it can no longer be varied, whether by any Commissioners on appeal or by the order of any court.”

Penalties

162 Failure to make return

- (1) Section 93 of the Taxes Management Act 1970 (failure to comply with notice to make return for income tax or capital gains tax) shall be amended as follows.

- (2) In subsection (1) (initial and daily penalties), for paragraphs (a) and (b) there shall be substituted—

“(a) to a penalty not exceeding £300, and

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- (b) if the failure continues after a penalty is imposed under paragraph (a) above, to a further penalty or penalties not exceeding £60 for each day on which the failure continues after the day on which the penalty under paragraph (a) above was imposed (but excluding any day for which a penalty under this paragraph has already been imposed).”
- (3) The following subsection shall be substituted for subsection (2)—
 - “(2) If a failure by a person to comply with a notice such as is referred to in subsection (1) above continues after the end of the year of assessment following that during which it was served then, without prejudice to any penalty under subsection (1) above, he shall be liable to a penalty of an amount not exceeding so much of the tax with which he is charged (whether for one or for more than one year of assessment) in assessments—
 - (a) based wholly or partly on any income or chargeable gains that ought to have been included in the return required by the notice, and
 - (b) made after the end of the year next following the year of assessment in which the notice was served,as is attributable to the income or chargeable gains that ought to have been so included.”
- (4) The following subsection shall be substituted for subsection (5)—
 - “(5) No penalty shall be imposed under subsection (1) above in respect of a failure at any time after the failure has been remedied.”
- (5) The following subsection shall be substituted for subsection (7)—
 - “(7) If the person on whom a notice is served proves that there was no income or chargeable gain to be included in the return, the penalty under this section shall not exceed £100.”
- (6) This section shall apply in relation to any failure to comply with a notice served on or after 6th April 1989.

163 Incorrect return, accounts etc

- (1) In—
 - (a) section 95(1) of the Taxes Management Act 1970 (incorrect return etc. for income tax or capital gains tax), and
 - (b) section 96(1) of that Act (incorrect return etc. for corporation tax),for the words “the aggregate” onwards there shall be substituted the words “the amount of the difference specified in subsection (2) below.”
- (2) This section shall apply in relation to returns, statements, declarations or accounts delivered, made or submitted on or after the day on which this Act is passed.

164 Special returns, information etc

- (1) Section 98 of the Taxes Management Act 1970 (special returns, information etc.) shall be amended as follows.
- (2) In subsection (1) (initial and daily penalties)—

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- (a) for the word “Where” there shall be substituted the words “Subject to section 98A below, where”, and
 - (b) for the words “subsection (3)” onwards there shall be substituted the words “subsections (3) and (4) below—
 - (i) to a penalty not exceeding £300, and
 - (ii) if the failure continues after a penalty is imposed under paragraph (i) above, to a further penalty or penalties not exceeding £60 for each day on which the failure continues after the day on which the penalty under paragraph (i) above was imposed (but excluding any day for which a penalty under this paragraph has already been imposed).”
- (3) In subsection (2) (maximum penalty for information given fraudulently or negligently)
- (a) for the word “Where” there shall be substituted the words “Subject to section 98A below, where”, and
 - (b) for the words “ £250, or, in the case of fraud, £500” there shall be substituted “ £3,000”.
- (4) The following subsections shall be substituted for subsection (3)—
- “(3) No penalty shall be imposed under subsection (1) above in respect of a failure within paragraph (a) of that subsection at any time after the failure has been remedied.
 - (4) No penalty shall be imposed under paragraph (ii) of subsection (1) above in respect of a failure within paragraph (b) of that subsection at any time after the failure has been remedied.”
- (5) In the Table—
- (a) in the first column, in the entry relating to Part III of the Taxes Management Act 1970, the words “, except sections 16 and 24(2)” shall be omitted;
 - (b) the entries relating to sections 38(5) and 42 of the Taxes Act 1988 shall be moved from the second column to the appropriate place in the first column; and
 - (c) the entry relating to section 481(5)(k) of that Act shall be omitted from the first column and an entry relating to section 482(2) of that Act shall be inserted at the appropriate place in the second column.
- (6) In consequence of the amendment made by subsection (5)(a) above section 16(6) of the Taxes Management Act 1970 shall cease to have effect.
- (7) This section shall apply in relation to—
- (a) any failure to comply with a notice or to furnish information, give a certificate or produce a document or record beginning on or after the day on which this Act is passed, and
 - (b) the furnishing, giving, producing or making of any incorrect information, certificate, document, record or declaration on or after that day.

165 Special penalties in the case of certain returns

- (1) The following section shall be inserted after section 98 of the Taxes Management Act 1970—

“98A Special penalties in the case of certain returns

- (1) Regulations under section 203(2) (PAYE) or 566(1) (sub-contractors) of the principal Act may provide that this section shall apply in relation to any specified provision of the regulations.
- (2) Where this section applies in relation to a provision of regulations, any person who fails to make a return in accordance with the provision shall be liable—
- (a) to a penalty or penalties of the relevant monthly amount for each month (or part of a month) during which the failure continues, but excluding any month after the twelfth or for which a penalty under this paragraph has already been imposed, and
 - (b) if the failure continues beyond twelve months, without prejudice to any penalty under paragraph (a) above, to a penalty not exceeding so much of the amount payable by him in accordance with the regulations for the year of assessment to which the return relates as remained unpaid at the end of 19th April after the end of that year.
- (3) For the purposes of subsection (2)(a) above, the relevant monthly amount in the case of a failure to make a return—
- (a) where the number of persons in respect of whom particulars should be included in the return is fifty or less, is £100, and
 - (b) where that number is greater than fifty, is £100 for each fifty such persons and an additional £100 where that number is not a multiple of fifty.
- (4) Where this section applies in relation to a provision of regulations, any person who fraudulently or negligently makes an incorrect return of a kind mentioned in the provision shall be liable to a penalty not exceeding the difference between—
- (a) the amount payable by him in accordance with the regulations for the year of assessment to which the return relates, and
 - (b) the amount which would have been so payable if the return had been correct.”
- (2) In relation to a failure to make a return beginning before such day as the Treasury may by order made by statutory instrument appoint, section 98A(2) shall have effect with the substitution of the following paragraph for paragraph (a)—
- “(a) to—
- (i) a penalty not exceeding twelve times the relevant monthly amount, and
 - (ii) if the failure continues after a penalty is imposed under sub-paragraph (i) above, a further penalty or penalties of the relevant monthly amount for each month (or part of a month) during which the failure continues, but excluding any month after the twelfth or for which a penalty under this sub-paragraph has already been imposed,”.

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166 Assisting in preparation of incorrect return etc

- (1) The following section shall be substituted for section 99 of the Taxes Management Act 1970—

“99 Assisting in preparation of incorrect return etc

Any person who assists in or induces the preparation or delivery of any information, return, accounts or other document which—

- (a) he knows will be, or is or are likely to be, used for any purpose of tax, and
- (b) he knows to be incorrect,

shall be liable to a penalty not exceeding £3,000.”

- (2) This section shall apply in relation to assistance and inducements occurring on or after the day on which this Act is passed.

167 Determination of penalties

The following sections shall be substituted for section 100 of the Taxes Management Act 1970—

“100 Determination of penalties by officer of Board

- (1) Subject to subsection (2) below and except where proceedings for a penalty have been instituted under section 100D below or a penalty has been imposed by the Commissioners under section 53 of this Act, an officer of the Board authorised by the Board for the purposes of this section may make a determination imposing a penalty under any provision of the Taxes Acts and setting it at such amount as, in his opinion, is correct or appropriate.
- (2) Subsection (1) above does not apply where the penalty is a penalty under—
 - (a) section 93(1) above as it has effect before the amendments made by section 162 of the Finance Act 1989 or section 93(1)(a) above as it has effect after those amendments,
 - (b) section 94(1) above as it has effect before the substitution made by section 83 of the Finance (No.2) Act 1987,
 - (c) section 98(1) above as it has effect before the amendments made by section 164 of the Finance Act 1989 or section 98(1)(i) above as it has effect after those amendments, or
 - (d) paragraph (a)(i) of section 98A(2) above as it has effect by virtue of section 165(2) of the Finance Act 1989.
- (3) Notice of a determination of a penalty under this section shall be served on the person liable to the penalty and shall state the date on which it is issued and the time within which an appeal against the determination may be made.
- (4) After the notice of a determination under this section has been served the determination shall not be altered except in accordance with this section or on appeal.
- (5) If it is discovered by an officer of the Board authorised by the Board for the purposes of this section that the amount of a penalty determined under this

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section is or has become insufficient the officer may make a determination in a further amount so that the penalty is set at the amount which, in his opinion, is correct or appropriate.

- (6) In any case where—
- (a) a determination under this section is of a penalty under section 94(6) above, and
 - (b) after the determination has been made it is discovered by an officer of the Board authorised by the Board for the purposes of this section that the amount which was taken into account as the relevant amount of tax is or has become excessive,
- the determination shall be revised so that the penalty is set at the amount which is correct; and, where more than the correct amount has already been paid, the appropriate amount shall be repaid.

100A Provisions supplementary to section 100

- (1) Where a person who has incurred a penalty has died, a determination under section 100 above which could have been made in relation to him may be made in relation to his personal representatives, and any penalty imposed on personal representatives by virtue of this subsection shall be a debt due from and payable out of his estate.
- (2) A penalty determined under section 100 above shall be due and payable at the end of the period of thirty days beginning with the date of the issue of the notice of determination.
- (3) A penalty determined under section 100 above shall for all purposes be treated as if it were tax charged in an assessment and due and payable.

100B Appeals against penalty determinations

- (1) An appeal may be brought against the determination of a penalty under section 100 above and, subject to the following provisions of this section, the provisions of this Act relating to appeals shall have effect in relation to an appeal against such a determination as they have effect in relation to an appeal against an assessment to tax.
- (2) On an appeal against the determination of a penalty under section 100 above section 50(6) to (8) of this Act shall not apply but—
 - (a) in the case of a penalty which is required to be of a particular amount, the Commissioners may—
 - (i) if it appears to them that no penalty has been incurred, set the determination aside,
 - (ii) if the amount determined appears to them to be correct, confirm the determination, or
 - (iii) if the amount determined appears to them to be incorrect, increase or reduce it to the correct amount,
 - (b) in the case of any other penalty, the Commissioners may—
 - (i) if it appears to them that no penalty has been incurred, set the determination aside,

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- (ii) if the amount determined appears to them to be appropriate, confirm the determination,
 - (iii) if the amount determined appears to them to be excessive, reduce it to such other amount (including nil) as they consider appropriate, or
 - (iv) if the amount determined appears to them to be insufficient, increase it to such amount not exceeding the permitted maximum as they consider appropriate.
- (3) Without prejudice to section 56 of this Act, an appeal from a decision of the Commissioners against the amount of a penalty which has been determined under section 100 above or this section shall lie, at the instance of the person liable to the penalty, to the High Court or, in Scotland, to the Court of Session as the Court of Exchequer in Scotland; and on that appeal the court shall have the like jurisdiction as is conferred on the Commissioners by virtue of this section.

100C Penalty proceedings before Commissioners

- (1) An officer of the Board authorised by the Board for the purposes of this section may commence proceedings before the General or Special Commissioners for any penalty to which subsection (1) of section 100 above does not apply by virtue of subsection (2) of that section.
- (2) Proceedings under this section shall be by way of information in writing, made to the Commissioners, and upon summons issued by them to the defendant (or defender) to appear before them at a time and place stated in the summons; and they shall hear and decide each case in a summary way.
- (3) Any penalty determined by the Commissioners in proceedings under this section shall for all purposes be treated as if it were tax charged in an assessment and due and payable.
- (4) An appeal against the determination of a penalty in proceedings under this section shall lie to the High Court or, in Scotland, the Court of Session as the Court of Exchequer in Scotland—
 - (a) by any party on a question of law, and
 - (b) by the defendant (or, in Scotland, the defender) against the amount of the penalty.
- (5) On any such appeal the court may—
 - (a) if it appears that no penalty has been incurred, set the determination aside,
 - (b) if the amount determined appears to be appropriate, confirm the determination,
 - (c) if the amount determined appears to be excessive, reduce it to such other amount (including nil) as the court considers appropriate, or
 - (d) if the amount determined appears to be insufficient, increase it to such amount not exceeding the permitted maximum as the court considers appropriate.

100D Penalty proceedings before court

- (1) Where in the opinion of the Board the liability of any person for a penalty arises by reason of the fraud of that or any other person, proceedings for the penalty may be instituted before the High Court or, in Scotland, the Court of Session as the Court of Exchequer in Scotland.
- (2) Proceedings under this section which are not instituted (in England, Wales or Northern Ireland) under the Crown Proceedings Act 1947 by and in the name of the Board as an authorised department for the purposes of that Act shall be instituted—
 - (a) in England and Wales, in the name of the Attorney General,
 - (b) in Scotland, in the name of the Lord Advocate, and
 - (c) in Northern Ireland, in the name of the Attorney General for Northern Ireland.
- (3) Any proceedings under this section instituted in England and Wales shall be deemed to be civil proceedings by the Crown within the meaning of Part II of the Crown Proceedings Act 1947 and any such proceedings instituted in Northern Ireland shall be deemed to be civil proceedings within the meaning of that Part of that Act as for the time being in force in Northern Ireland.
- (4) If in proceedings under this section the court does not find that fraud is proved but consider that the person concerned is nevertheless liable to a penalty, the court may determine a penalty notwithstanding that, but for the opinion of the Board as to fraud, the penalty would not have been a matter for the court.”

168 Amendments consequential on section 167

- (1) In consequence of the amendment made by section 167 above the Taxes Management Act 1970 shall be amended in accordance with subsections (2) to (8) below.
- (2) In section 20A (power to call for papers of tax accountant)—
 - (a) in subsection (1), for the words “awarded against him a penalty incurred by” there shall be substituted the words “a penalty imposed on”,
 - (b) in subsection (2), for the word “award” in the first place where it occurs there shall be substituted the word “penalty” and for that word in the second place where it occurs there shall be substituted the word “imposition”, and
 - (c) in subsection (4), for the words “award against” there shall be substituted the words “imposition on” and for the word “award” there shall be substituted the word “penalty”.
- (3) In section 53 (summary award of penalties by Commissioners)—
 - (a) in subsection (1), for the word “awarded” there shall be substituted the word “determined” and for the words “for its recovery” there shall be substituted the words “under section 100C of this Act”,
 - (b) in subsection (2), for the words “award” and “decision” there shall be substituted the word “determination” and for the word “awarded” there shall be substituted the word “determined”, and
 - (c) in subsection (3), for the word “awarded” there shall be substituted the word “determined”.

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- (4) In section 102 (mitigation of penalties), for the words “recovery thereof” there shall be substituted the words “a penalty”.
- (5) In section 105 (evidence)—
- (a) the following paragraph shall be substituted for paragraph (a) of subsection (1)
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- “(a) pecuniary settlements may be accepted instead of a penalty being determined, or proceedings being instituted, in relation to any tax,”
- (b) in paragraph (b) of subsection (2), for the words “sum” onwards there shall be substituted the words “tax due from him”, and
- (c) after that paragraph there shall be inserted the words “and
- (c) any proceedings for a penalty or on appeal against the determination of a penalty.”
- (6) In section 112 (loss of documents etc.), the following subsection shall be added at the end—
- “(3) The references in subsection (1) above to assessments to tax include references to determinations of penalties; and in its application to such determinations the proviso to that subsection shall have effect with the appropriate modifications.”
- (7) In section 113 (form of documents)—
- (a) the following subsection shall be inserted after subsection (1C)—
- “(1D) Where an officer of the Board has decided to impose a penalty under section 100 of this Act and has taken all other decisions needed for arriving at the amount of the penalty, he may entrust to any other officer of the Board responsibility for completing the determination procedure, whether by means involving the use of a computer or otherwise, including responsibility for serving notice of the determination on the person liable to the penalty.”, and
- (b) in subsection (3)—
- (i) after the words “Every assessment,” there shall be inserted the words “determination of a penalty,”
- (ii) after the words “notice of assessment” there shall be inserted the words “, of determination”, and
- (iii) after the words “levying tax” there shall be inserted the words “or determining a penalty”.
- (8) In paragraph 5 of Schedule 3 (rules for assigning proceedings to Commissioners), for the words “section 100(4)” there shall be substituted the words “section 100C or an appeal under section 100B against the determination of a penalty”.
- (9) In section 41 of the Development Land Tax Act 1976 (administration of development land tax) the following subsection shall be inserted after subsection (1)—
- “(1A) Nothing in sections 167 to 169 of the Finance Act 1989 shall apply to penalties relating to development land tax.”

169 Time limits

- (1) The following section shall be substituted for section 103 of the Taxes Management Act 1970—

“103 Time limits for penalties

- (1) Subject to subsection (2) below, where the amount of a penalty is to be ascertained by reference to tax payable by a person for any period, the penalty may be determined by an officer of the Board, or proceedings for the penalty may be commenced before the Commissioners or a court—
- (a) at any time within six years after the date on which the penalty was incurred, or
 - (b) at any later time within three years after the final determination of the amount of tax by reference to which the amount of the penalty is to be ascertained.
- (2) Where the tax was payable by a person who has died, and the determination would be made in relation to his personal representatives, subsection (1)(b) above does not apply if the tax was charged in an assessment made later than six years after the end of the chargeable period for which it was charged.
- (3) A penalty under section 99 of this Act may be determined by an officer of the Board, or proceedings for such a penalty may be commenced before a court, at any time within twenty years after the date on which the penalty was incurred.
- (4) A penalty to which neither subsection (1) nor subsection (3) above applies may be so determined, or proceedings for such a penalty may be commenced before the Commissioners or a court, at any time within six years after the date on which the penalty was incurred or began to be incurred.”
- (2) The amendment made by subsection (1) above shall not affect the application of section 103(4) of the Taxes Management Act 1970 to proceedings under section 100 of that Act as it has effect before the amendment made by section 167 above.

170 Up-rating of certain penalties

- (1) In section 23(8) of the Taxes Act 1988 (maximum penalty for agents failing to make certain payments on behalf of principals), for “£50” there shall be substituted “£300”.
- (2) In section 234(4) of that Act (penalty for failure to comply with provisions as to explanation of deduction from dividends etc.), for “£10” and “£100” there shall be substituted respectively “£60” and “£600”.
- (3) In section 306(6) of that Act (maximum penalty for false certificates or statements relating to investment in corporate trades), for the words “£250 or, in the case of fraud, £500” there shall be substituted “£3,000”.
- (4) In—
- (a) section 619(7) of that Act (maximum penalty for false statements or representations relating to relief for qualifying premiums),
 - (b) section 653 of that Act (maximum penalty for statements or representations about personal pension schemes), and

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- (c) section 658(5) of that Act (maximum penalty for false statements or representations relating to purchased life annuities), for “£500” there shall be substituted “£3,000”.
- (5) In paragraph 2(4) of Schedule 19A to that Act and Schedule 16A to the Finance Act 1973 (maximum penalty for incorrect return by Lloyd’s agent), for the words “£500 in the case of fraud and £250 in the case of negligence” there shall be substituted “£3,000”.
- (6) This section shall apply in relation to things done or omitted on or after the day on which this Act is passed.