



Taxation of Chargeable Gains Act 1992

1992 CHAPTER 12

PART I

CAPITAL GAINS TAX AND CORPORATION TAX ON CHARGEABLE GAINS

General

1 The charge to tax

- (1) Tax shall be charged in accordance with this Act in respect of capital gains, that is to say chargeable gains computed in accordance with this Act and accruing to a person on the disposal of assets.
- (2) Companies shall be chargeable to corporation tax in respect of chargeable gains accruing to them in accordance with section 6 of the Taxes Act and the other provisions of the Corporation Tax Acts.
- (3) Without prejudice to subsection (2), capital gains tax shall be charged for all years of assessment in accordance with the following provisions of this Act.

Capital gains tax

2 Persons and gains chargeable to capital gains tax, and allowable losses

- (1) Subject to any exceptions provided by this Act, and without prejudice to sections 10 and 276, a person shall be chargeable to capital gains tax in respect of chargeable gains accruing to him in a year of assessment during any part of which he is resident in the United Kingdom, or during which he is ordinarily resident in the United Kingdom.
- (2) Capital gains tax shall be charged on the total amount of chargeable gains accruing to the person chargeable in the year of assessment, after deducting—
 - (a) any allowable losses accruing to that person in that year of assessment, and
 - (b) so far as they have not been allowed as a deduction from chargeable gains accruing in any previous year of assessment, any allowable losses accruing

to that person in any previous year of assessment (not earlier than the year 1965-66).

- (3) Except as provided by section 62, an allowable loss accruing in a year of assessment shall not be allowable as a deduction from chargeable gains accruing in any earlier year of assessment, and relief shall not be given under this Act more than once in respect of any loss or part of a loss, and shall not be given under this Act if and so far as relief has been or may be given in respect of it under the Income Tax Acts.

3 Annual exempt amount

- (1) An individual shall not be chargeable to capital gains tax in respect of so much of his taxable amount for any year of assessment as does not exceed the exempt amount for the year.
- (2) Subject to subsection (3) below, the exempt amount for any year of assessment shall be £5,500.
- (3) If the retail prices index for the month of December preceding a year of assessment is higher than it was for the previous December, then, unless Parliament otherwise determines, subsection (2) above shall have effect for that year as if for the amount specified in that subsection as it applied for the previous year (whether by virtue of this subsection or otherwise) there were substituted an amount arrived at by increasing the amount for the previous year by the same percentage as the percentage increase in the retail prices index and, if the result is not a multiple of £100, rounding it up to the nearest amount which is such a multiple.
- (4) The Treasury shall, before each year of assessment, make an order specifying the amount which by virtue of this section is the exempt amount for that year.
- (5) For the purposes of this section an individual's taxable amount for a year of assessment is the amount on which he is chargeable under section 2(2) for that year but—
- (a) where the amount of chargeable gains less allowable losses accruing to an individual in any year of assessment does not exceed the exempt amount for the year, no deduction from that amount shall be made for that year in respect of allowable losses carried forward from a previous year or carried back from a subsequent year in which the individual dies, and
 - (b) where the amount of chargeable gains less allowable losses accruing to an individual in any year of assessment exceeds the exempt amount for the year, the deduction from that amount for that year in respect of allowable losses carried forward from a previous year or carried back from a subsequent year in which the individual dies shall not be greater than the excess.
- (6) Where in a year of assessment—
- (a) the amount of chargeable gains accruing to an individual does not exceed the exempt amount for the year, and
 - (b) the aggregate amount or value of the consideration for all the disposals of assets made by him (other than disposals gains accruing on which are not chargeable gains) does not exceed an amount equal to twice the exempt amount for the year,

a statement to the effect of paragraphs (a) and (b) above shall, unless the inspector otherwise requires, be sufficient compliance with any notice under section 8 of the Management Act requiring the individual to make a return of the chargeable gains accruing to him in that year.

- (7) For the year of assessment in which an individual dies and for the next 2 following years, subsections (1) to (6) above shall apply to his personal representatives as they apply to an individual.
- (8) Schedule 1 shall have effect as respects the application of this section to trustees.

4 Rates of capital gains tax

- (1) Subject to the provisions of this section and section 5, the rate of capital gains tax in respect of gains accruing to a person in a year of assessment shall be equivalent to the basic rate of income tax for the year.
- (2) If income tax is chargeable at the higher rate in respect of any part of the income of an individual for a year of assessment, the rate of capital gains tax in respect of gains accruing to him in the year shall be equivalent to the higher rate.
- (3) If no income tax is chargeable at the higher rate in respect of the income of an individual for a year of assessment, but the amount on which he is chargeable to capital gains tax exceeds the unused part of his basic rate band, the rate of capital gains tax on the excess shall be equivalent to the higher rate of income tax for the year.
- (4) The reference in subsection (3) above to the unused part of an individual's basic rate band is a reference to the amount by which the basic rate limit exceeds his total income (as reduced by any deductions made in accordance with the Income Tax Acts).

5 Accumulation and discretionary settlements

- (1) The rate of capital gains tax in respect of gains accruing to trustees of an accumulation or discretionary settlement in a year of assessment shall be equivalent to the sum of the basic and additional rates of income tax for the year.
- (2) For the purposes of subsection (1) above a trust is an accumulation or discretionary settlement where—
 - (a) all or any part of the income arising to the trustees in the year of assessment is income to which section 686 of the Taxes Act (liability to income tax at the additional rate) applies, or
 - (b) all the income arising to the trustees in the year of assessment is treated as the income of the settlor, but that section would apply to it if it were not so treated, or
 - (c) all the income arising to the trustees in the year of assessment is applied in defraying expenses of the trustees in that year, but that section would apply to it if it were not so applied, or
 - (d) no income arises to the trustees in the year of assessment, but that section would apply if there were income arising to the trustees and none of it were treated as the income of the settlor or applied as mentioned in paragraph (c) above.

6 Other special cases

- (1) References in section 4 to income tax chargeable at the higher rate include references to tax chargeable by virtue of section 353(4), 369(3A), 683(1) or 684(1) of the Taxes Act (restriction to basic rate of relief on certain interest etc. and settlements) in respect

of excess liability (that is, liability to income tax over what it would be if all income tax were charged at the basic rate to the exclusion of any higher rate); and

- (a) where for any year of assessment a deduction is by virtue of section 353(4) or 369(3A) not allowed in computing the total income of a person for the purposes of excess liability then, whether or not he is chargeable to tax otherwise than at the basic rate, that deduction shall not be allowed for the purposes of section 4(4);
- (b) where for any year of assessment income is treated by virtue of section 683(1) or 684(1) as the income of a person for the purposes of excess liability then, whether or not he is chargeable to tax otherwise than at the basic rate, it shall also be treated as his income for the purposes of section 4(4).

(2) Where for any year of assessment—

- (a) by virtue of section 549(2) of the Taxes Act (gains under life policy or life annuity contract) a deduction of an amount is made from a person's total income for the purposes of excess liability, or
- (b) by virtue of section 683(1) or 684(1) of that Act an amount of a person's income is treated as not being his income for those purposes, or
- (c) by virtue of section 699(1) of that Act (income accruing before death) the residuary income of an estate is treated as reduced so as to reduce a person's income by any amount for those purposes,

section 4(4) shall have effect as if his income for the year were reduced by that amount.

(3) Where by virtue of section 547(1)(a) of the Taxes Act (gains from insurance policies etc.) a person's total income for a year of assessment is deemed to include any amount or amounts—

- (a) section 4(4) shall have effect as if his total income included not the whole of the amount or amounts concerned but only the appropriate fraction within the meaning of section 550(3) of that Act, and
- (b) if relief is given under section 550 of that Act and the calculation required by section 550(2)(b) does not involve the higher rate of income tax, section 4(2) and (3) shall have effect as if no income tax were chargeable at the higher rate in respect of his income.

(4) Nothing in subsection (1) above shall be taken to reduce, and nothing in subsections (2) and (3) above shall be taken to increase, the amount of the deduction which a person is entitled to make from his total income by virtue of any provision of Chapter I of Part VII of the Taxes Act which limits any allowance by reference to the level of his total income.

7 **Time for payment of tax**

Capital gains tax assessed on any person in respect of gains accruing in any year shall be payable by that person on or before 1st December following the end of that year, or at the expiration of a period of 30 days beginning with the date of the issue of the notice of assessment, whichever is the later.

Corporation tax

8 Company's total profits to include chargeable gains

- (1) Subject to the provisions of this section and section 400 of the Taxes Act, the amount to be included in respect of chargeable gains in a company's total profits for any accounting period shall be the total amount of chargeable gains accruing to the company in the accounting period after deducting—
 - (a) any allowable losses accruing to the company in the period, and
 - (b) so far as they have not been allowed as a deduction from chargeable gains accruing in any previous accounting period, any allowable losses previously accruing to the company while it has been within the charge to corporation tax.
- (2) For the purposes of corporation tax in respect of chargeable gains, "allowable loss" does not include a loss accruing to a company in such circumstances that if a gain accrued the company would be exempt from corporation tax in respect of it.
- (3) Except as otherwise provided by this Act or any other provision of the Corporation Tax Acts, the total amount of the chargeable gains to be included in respect of chargeable gains in a company's total profits for any accounting period shall for purposes of corporation tax be computed in accordance with the principles applying for capital gains tax, all questions—
 - (a) as to the amounts which are or are not to be taken into account as chargeable gains or as allowable losses, or in computing gains or losses, or charged to tax as a person's gain; or
 - (b) as to the time when any such amount is to be treated as accruing,being determined in accordance with the provisions relating to capital gains tax as if accounting periods were years of assessment.
- (4) Subject to subsection (5) below, where the enactments relating to capital gains tax contain any reference to income tax or to the Income Tax Acts the reference shall, in relation to a company, be construed as a reference to corporation tax or to the Corporation Tax Acts; but—
 - (a) this subsection shall not affect the references to income tax in section 39(2); and
 - (b) in so far as those enactments operate by reference to matters of any specified description, account shall for corporation tax be taken of matters of that description which are confined to companies, but not of any which are confined to individuals.
- (5) This Act as it has effect in accordance with this section shall not be affected in its operation by the fact that capital gains tax and corporation tax are distinct taxes but, so far as is consistent with the Corporation Tax Acts, shall apply in relation to capital gains tax and corporation tax on chargeable gains as if they were one tax, so that, in particular, a matter which in a case involving 2 individuals is relevant for both of them in relation to capital gains tax shall in a like case involving an individual and a company be relevant for him in relation to that tax and for it in relation to corporation tax.
- (6) Where assets of a company are vested in a liquidator under section 145 of the Insolvency Act 1986 or Article 123 of the Insolvency (Northern Ireland) Order 1989 or otherwise, this section and the enactments applied by this section shall apply as if the assets were vested in, and the acts of the liquidator in relation to the assets were

the acts of, the company (acquisitions from or disposals to him by the company being disregarded accordingly).

Residence etc.

9 Residence, including temporary residence

- (1) In this Act “resident” and “ordinarily resident” have the same meanings as in the Income Tax Acts.
- (2) Section 207 of the Taxes Act (disputes as to domicile or ordinary residence) shall apply in relation to capital gains tax as it applies for the purposes mentioned in that section.
- (3) Subject to section 10(1), an individual who is in the United Kingdom for some temporary purpose only and not with any view or intent to establish his residence in the United Kingdom shall be charged to capital gains tax on chargeable gains accruing in any year of assessment if and only if the period (or the sum of the periods) for which he is resident in the United Kingdom in that year of assessment exceeds 6 months.

10 Non-resident with United Kingdom branch or agency

- (1) Subject to any exceptions provided by this Act, a person shall be chargeable to capital gains tax in respect of chargeable gains accruing to him in a year of assessment in which he is not resident and not ordinarily resident in the United Kingdom but is carrying on a trade in the United Kingdom through a branch or agency, and shall be so chargeable on chargeable gains accruing on the disposal—
 - (a) of assets situated in the United Kingdom and used in or for the purposes of the trade at or before the time when the capital gain accrued, or
 - (b) of assets situated in the United Kingdom and used or held for the purposes of the branch or agency at or before that time, or assets acquired for use by or for the purposes of the branch or agency.
- (2) 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.
- (3) For the purposes of corporation tax the chargeable profits of a company not resident in the United Kingdom but carrying on a trade or vocation there through a branch or agency shall be, or include, such chargeable gains accruing on the disposal of assets situated in the United Kingdom as are by this section made chargeable to capital gains tax in the case of an individual not resident or ordinarily resident in the United Kingdom.
- (4) This section shall not apply to a person who, by virtue of Part XVIII of the Taxes Act (double taxation relief agreements), is exempt from income tax or corporation tax chargeable for the chargeable period in respect of the profits or gains of the branch or agency.
- (5) This section shall apply as if references in subsections (1) and (2) above to a trade included references to a profession or vocation, but subsection (1) 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.

- (6) In this Act, unless the context otherwise requires, “branch or agency” means any factorship, agency, receivership, branch or management, but does not include any person within the exemptions in section 82 of the Management Act (general agents and brokers).

11 Visiting forces, agents-general etc

- (1) A period during which a member of a visiting force to whom section 323(1) of the Taxes Act applies is in the United Kingdom by reason solely of his being a member of that force shall not be treated for the purposes of capital gains tax either as a period of residence in the United Kingdom or as creating a change in his residence or domicile.

This subsection shall be construed as one with subsection (2) of section 323 and subsections (4) to (8) of that section shall apply accordingly.

- (2) An Agent-General who is resident in the United Kingdom shall be entitled to the same immunity from capital gains tax as that to which the head of a mission so resident is entitled under the Diplomatic Privileges Act 1964.
- (3) Any person having or exercising any employment to which section 320(2) of the Taxes Act (staff of Agents-General etc.) applies (not being a person employed in any trade, business or other undertaking carried on for the purposes of profit) shall be entitled to the same immunity from capital gains tax as that to which a member of the staff of a mission is entitled under the Diplomatic Privileges Act 1964.
- (4) Subsections (2) and (3) above shall be construed as one with section 320 of the Taxes Act.

12 Foreign assets of person with foreign domicile

- (1) In the case of individuals resident or ordinarily resident but not domiciled in the United Kingdom, capital gains tax shall not be charged in respect of gains accruing to them from the disposal of assets situated outside the United Kingdom (that is, chargeable gains accruing in the year 1965-66 or a later year of assessment) except that the tax shall be charged on the amounts (if any) received in the United Kingdom in respect of those chargeable gains, any such amounts being treated as gains accruing when they are received in the United Kingdom.
- (2) For the purposes of this section there shall be treated as received in the United Kingdom in respect of any gain all amounts paid, used or enjoyed in or in any manner or form transmitted or brought to the United Kingdom, and subsections (6) to (9) of section 65 of the Taxes Act (under which income applied outside the United Kingdom in payment of debts is, in certain cases, treated as received in the United Kingdom) shall apply as they would apply for the purposes of subsection (5) of that section if the gain were income arising from possessions out of the United Kingdom.

13 Attribution of gains to members of non-resident companies

- (1) This section applies as respects chargeable gains accruing to a company—
- (a) which is not resident in the United Kingdom, and
 - (b) which would be a close company if it were resident in the United Kingdom.

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

- (2) Subject to this section, every person who at the time when the chargeable gain accrues to the company is resident or ordinarily resident in the United Kingdom, who, if an individual, is domiciled in the United Kingdom, and who holds shares in the company, shall be treated for the purposes of this Act as if a part of the chargeable gain had accrued to him.
- (3) That part shall be equal to the proportion of the assets of the company to which that person would be entitled on a liquidation of the company at the time when the chargeable gain accrues to the company.
- (4) If the part of a chargeable gain attributable to a person under subsection (2) above is less than one-twentieth, that subsection shall not apply to that person.
- (5) This section shall not apply in relation to—
 - (a) any amount in respect of the chargeable gain which is distributed, whether by way of dividend or distribution of capital or on the dissolution of the company, to persons holding shares in the company, or creditors of the company, within 2 years from the time when the chargeable gain accrued to the company, or
 - (b) a chargeable gain accruing on the disposal of assets, being tangible property, whether movable or immovable, or a lease of such property, where the property was used, and used only, for the purposes of a trade carried on by the company wholly outside the United Kingdom, or
 - (c) a chargeable gain accruing on the disposal of currency or of a debt within section 252(1), where the currency or debt is or represents money in use for the purposes of a trade carried on by the company wholly outside the United Kingdom, or
 - (d) to a chargeable gain in respect of which the company is chargeable to tax by virtue of section 10(3).
- (6) Subsection (5)(a) above shall not prevent the making of an assessment in pursuance of this section but if, by virtue of that paragraph, this section is excluded, all such adjustments, whether by way of repayment or discharge of tax or otherwise, shall be made as will give effect to the provisions of that paragraph.
- (7) The amount of capital gains tax paid by a person in pursuance of subsection (2) above (so far as not reimbursed by the company) shall be allowable as a deduction in the computation under this Act of a gain accruing on the disposal by him of the shares by reference to which the tax was paid.
- (8) So far as it would go to reduce or extinguish chargeable gains accruing by virtue of this section to a person in a year of assessment this section shall apply in relation to a loss accruing to the company on the disposal of an asset in that year of assessment as it would apply if a gain instead of a loss had accrued to the company on the disposal, but shall only so apply in relation to that person; and subject to the preceding provisions of this subsection this section shall not apply in relation to a loss accruing to the company.
- (9) If the person owning any of the shares in the company at the time when the chargeable gain accrues to the company is itself a company which is not resident in the United Kingdom but which would be a close company if it were resident in the United Kingdom, an amount equal to the amount apportioned under subsection (3) above out of the chargeable gain to the shares so owned shall be apportioned among the issued shares of the second-mentioned company, and the holders of those shares shall be treated in accordance with subsection (2) above, and so on through any number of companies.

- (10) The persons treated by this section as if a part of a chargeable gain accruing to a company had accrued to them shall include trustees owning shares in the company if when the gain accrues to the company the trustees are neither resident nor ordinarily resident in the United Kingdom.
- (11) If any tax payable by any person by virtue of subsection (2) above is paid by the company to which the chargeable gain accrues, or in a case under subsection (9) above is paid by any such other company, the amount so paid shall not for the purposes of income tax, capital gains tax or corporation tax be regarded as a payment to the person by whom the tax was originally payable.

14 Non-resident groups of companies

- (1) This section has effect for the purposes of section 13.
- (2) Sections 171 to 174 and 175(1) shall apply in relation to non-resident companies which are members of a non-resident group of companies, as they apply in relation to companies resident in the United Kingdom which are members of a group of companies.
- (3) Sections 178 to 180 shall apply for the purposes of section 13 as if for any reference therein to a group of companies there were substituted a reference to a non-resident group of companies, and as if references to companies were references to companies not resident in the United Kingdom.
- (4) For the purposes of this section —
- (a) a “non-resident group” of companies—
 - (i) in the case of a group, none of the members of which are resident in the United Kingdom, means that group, and
 - (ii) in the case of a group, 2 or more members of which are not resident in the United Kingdom, means the members which are not resident in the United Kingdom;
 - (b) “group” shall be construed in accordance with section 170 without subsections (2)(a), (9) and (12) to (14).

PART II

GENERAL PROVISIONS RELATING TO COMPUTATION OF GAINS AND ACQUISITIONS AND DISPOSALS OF ASSETS

CHAPTER I

INTRODUCTORY

15 Computation of gains

- (1) The amount of the gains accruing on the disposal of assets shall be computed in accordance with this Part, subject to the other provisions of this Act.
- (2) Every gain shall, except as otherwise expressly provided, be a chargeable gain.

16 Computation of losses

- (1) Subject to section 72 of the Finance Act 1991 and except as otherwise expressly provided, the amount of a loss accruing on a disposal of an asset shall be computed in the same way as the amount of a gain accruing on a disposal is computed.
- (2) Except as otherwise expressly provided, all the provisions of this Act which distinguish gains which are chargeable gains from those which are not, or which make part of a gain a chargeable gain, and part not, shall apply also to distinguish losses which are allowable losses from those which are not, and to make part of a loss an allowable loss, and part not; and references in this Act to an allowable loss shall be construed accordingly.
- (3) A loss accruing to a person in a year of assessment during no part of which he is resident or ordinarily resident in the United Kingdom shall not be an allowable loss for the purposes of this Act unless, under section 10, he would be chargeable to tax in respect of a chargeable gain if there had been a gain instead of a loss on that occasion.
- (4) In accordance with section 12(1), losses accruing on the disposal of assets situated outside the United Kingdom to an individual resident or ordinarily resident but not domiciled in the United Kingdom shall not be allowable losses.

17 Disposals and acquisitions treated as made at market value

- (1) Subject to the provisions of this Act, a person's acquisition or disposal of an asset shall for the purposes of this Act be deemed to be for a consideration equal to the market value of the asset—
 - (a) where he acquires or, as the case may be, disposes of the asset otherwise than by way of a bargain made at arm's length, and in particular where he acquires or disposes of it by way of gift or on a transfer into settlement by a settlor or by way of distribution from a company in respect of shares in the company, or
 - (b) where he acquires or, as the case may be, disposes of the asset wholly or partly for a consideration that cannot be valued, or in connection with his own or another's loss of office or employment or diminution of emoluments, or otherwise in consideration for or recognition of his or another's services or past services in any office or employment or of any other service rendered or to be rendered by him or another.
- (2) Subsection (1) shall not apply to the acquisition of an asset if—
 - (a) there is no corresponding disposal of it, and
 - (b) there is no consideration in money or money's worth or the consideration is of an amount or value lower than the market value of the asset.

18 Transactions between connected persons

- (1) This section shall apply where a person acquires an asset and the person making the disposal is connected with him.
- (2) Without prejudice to the generality of section 17(1) the person acquiring the asset and the person making the disposal shall be treated as parties to a transaction otherwise than by way of a bargain made at arm's length.
- (3) Subject to subsection (4) below, if on the disposal a loss accrues to the person making the disposal, it shall not be deductible except from a chargeable gain accruing to him

on some other disposal of an asset to the person acquiring the asset mentioned in subsection (1) above, being a disposal made at a time when they are connected persons.

- (4) Subsection (3) above shall not apply to a disposal by way of gift in settlement if the gift and the income from it is wholly or primarily applicable for educational, cultural or recreational purposes, and the persons benefiting from the application for those purposes are confined to members of an association of persons for whose benefit the gift was made, not being persons all or most of whom are connected persons.
- (5) Where the asset mentioned in subsection (1) above is an option to enter into a sale or other transaction given by the person making the disposal a loss accruing to the person acquiring the asset shall not be an allowable loss unless it accrues on a disposal of the option at arm's length to a person who is not connected with him.
- (6) Subject to subsection (7) below, in a case where the asset mentioned in subsection (1) above is subject to any right or restriction enforceable by the person making the disposal, or by a person connected with him, then (where the amount of the consideration for the acquisition is, in accordance with subsection (2) above, deemed to be equal to the market value of the asset) that market value shall be—
 - (a) what its market value would be if not subject to the right or restriction, minus—
 - (b) the market value of the right or restriction or the amount by which its extinction would enhance the value of the asset to its owner, whichever is the less.
- (7) If the right or restriction is of such a nature that its enforcement would or might effectively destroy or substantially impair the value of the asset without bringing any countervailing advantage either to the person making the disposal or a person connected with him or is an option or other right to acquire the asset or, in the case of incorporeal property, is a right to extinguish the asset in the hands of the person giving the consideration by forfeiture or merger or otherwise, the market value of the asset shall be determined, and the amount of the gain accruing on the disposal shall be computed, as if the right or restriction did not exist.
- (8) Subsections (6) and (7) above shall not apply to a right of forfeiture or other right exercisable on breach of a covenant contained in a lease of land or other property, and shall not apply to any right or restriction under a mortgage or other charge.

19 Deemed consideration in certain cases where assets disposed of in a series of transactions

- (1) For the purposes of this Act, in any case where—
 - (a) by way of 2 or more material transactions which are linked (a series of linked transactions), one person disposes of assets to another person with whom he is connected or to 2 or more other persons with each of whom he is connected, and
 - (b) the original market value of the assets disposed of by any of the transactions in the series, as determined under section 20, is less than the appropriate portion of the aggregate market value of the assets disposed of by all the transactions in the series, as so determined,

then, subject to subsection (2) below, the disposal effected by any linked transaction in the series in respect of which the condition in paragraph (b) above is fulfilled shall

be deemed to be for a consideration equal to the appropriate portion referred to in that paragraph.

- (2) Where the disposal effected by a material transaction is one to which section 58 applies, nothing in subsection (1) above shall affect the amount which, for the purposes of this Act, is the consideration for that disposal.
- (3) Subject to subsection (5) below, any reference in this section to a material transaction is a reference to a transaction by way of gift or otherwise; and, for the purposes of this section, 2 or more material transactions are linked if they occur within the period of 6 years ending on the date of the last of them.
- (4) This section shall apply or, as the case may be, shall again apply—
 - (a) when a second material transaction causes a series of linked transactions to come into being; and
 - (b) whenever, on the occurrence of a further material transaction, an existing series is extended by the inclusion of that transaction (whether or not an earlier transaction ceases to form part of the series);
 and all such assessments and adjustments of assessments shall be made as may be necessary to give effect to this section on each such occasion.
- (5) Where a member of a group of companies disposes of an asset to another member of the group in circumstances such that, by virtue of section 171, both companies are treated, so far as relates to corporation tax on chargeable gains, as if the consideration for the disposal were of such an amount as would secure that neither a gain nor a loss would accrue, the transaction by which that disposal is effected is not a material transaction; and a disposal in these circumstances is in this section referred to as an “inter-group transfer”.
- (6) In any case where—
 - (a) a company (“company A”) disposes of an asset by way of a material transaction, and
 - (b) company A acquired the asset after 19th March 1985 by way of an inter-group transfer, and
 - (c) the disposal by company A is to a person who is connected with another company (“company B”) which at some time after 19th March 1985 disposed of the asset by way of an inter-group transfer, and
 - (d) either the disposal by way of inter-group transfer which is referred to in paragraph (c) above was the occasion of the acquisition referred to in paragraph (b) above or, between that disposal and that acquisition, there has been no disposal of the asset which was not an inter-group transfer,

then, for the purpose of determining whether subsection (1) above applies in relation to a series of linked transactions, the disposal by company A shall be treated as having been made by company B; but any increase in the consideration for that disposal resulting from the application of subsection (1) above shall have effect with respect to company A.

20 **Original market value and aggregate market value for purposes of section 19**

- (1) This section has effect for determining the original market value of assets and the aggregate market value of assets as mentioned in subsection (1)(b) of section 19.
- (2) Expressions used in this section have the same meaning as in that section.

- (3) Where there is a series of linked transactions, the original market value of the assets disposed of by each transaction in the series shall be determined as follows—
- (a) if at the time in question the transaction is the most recent in the series, the original market value of the assets disposed of by that transaction is the market value which, apart from section 19, would be deemed to be the consideration for that transaction for the purposes of this Act; and
 - (b) in the case of any other transaction in the series, the original market value of the assets disposed of by that transaction is the value which, prior to the occurrence of the most recent transaction in the series, was or would have been deemed for the purposes of this Act to be the consideration for the transaction concerned (whether by virtue of the previous operation of section 19, or by virtue of any other provision of this Act).
- (4) Subject to subsections (6) to (9) below, in relation to any transaction in a series of linked transactions—
- (a) any reference in this section or section 19 to the aggregate market value of the assets disposed of by all the transactions in the series is a reference to what would have been the market value of all those assets for the purposes of this Act if, considering all the assets together, they had been disposed of by one disposal occurring at the time of the transaction concerned; and
 - (b) any reference in section 19 to the appropriate portion of the aggregate market value of the assets disposed of by all the transactions in the series is a reference to that portion of the market value determined in accordance with paragraph (a) above which it is reasonable to apportion to those of the assets which were actually disposed of by the transaction concerned.
- (5) The reference in subsection (4)(a) above to considering all the assets together includes a reference not only to considering them as a group or holding or collection of assets retaining their separate identities but also (if it gives a higher market value) to considering them as brought together, physically or in law, so as to constitute either a single asset or a number of assets which are distinct from those which were comprised in each of the transactions concerned.
- (6) If any of the assets disposed of by all the transactions in a series of linked transactions were acquired after the time of the first of those transactions, then, in the application of subsections (4) and (5) above in relation to each of the transactions in the series—
- (a) no account shall be taken of any assets which were acquired after the time of that transaction unless they were acquired by way of an inter-group transfer; and
 - (b) subject to subsection (7) below, the number of assets of which account is to be taken shall be limited to the maximum number which were held by the person making the disposal at any time in the period beginning immediately before the first of the transactions in the series and ending immediately before the last.
- (7) If, before the first of the transactions referred to in paragraph (b) of subsection (6) above, the person concerned (being a company) disposed of any assets by way of an inter-group transfer, the maximum number of assets referred to in that paragraph shall be determined as if the inter-group transfer had occurred after that first transaction.
- (8) In the application of subsection (6) above in a case where the assets disposed of are securities, the assets disposed of by any of the transactions in a series of linked

transactions shall be identified with assets acquired on an earlier date rather than with assets acquired on a later date.

- (9) In subsection (8) above “securities” includes any assets which are of a nature to be dealt in without identifying the particular assets disposed of or acquired.

CHAPTER II

ASSETS AND DISPOSALS OF ASSETS

General provisions

21 Assets and disposals

- (1) All forms of property shall be assets for the purposes of this Act, whether situated in the United Kingdom or not, including—
- (a) options, debts and incorporeal property generally, and
 - (b) any currency other than sterling, and
 - (c) any form of property created by the person disposing of it, or otherwise coming to be owned without being acquired.
- (2) For the purposes of this Act—
- (a) references to a disposal of an asset include, except where the context otherwise requires, references to a part disposal of an asset, and
 - (b) there is a part disposal of an asset where an interest or right in or over the asset is created by the disposal, as well as where it subsists before the disposal, and generally, there is a part disposal of an asset where, on a person making a disposal, any description of property derived from the asset remains undisposed of.

22 Disposal where capital sums derived from assets

- (1) Subject to sections 23 and 26(1), and to any other exceptions in this Act, there is for the purposes of this Act a disposal of assets by their owner where any capital sum is derived from assets notwithstanding that no asset is acquired by the person paying the capital sum, and this subsection applies in particular to—
- (a) capital sums received by way of compensation for any kind of damage or injury to assets or for the loss, destruction or dissipation of assets or for any depreciation or risk of depreciation of an asset,
 - (b) capital sums received under a policy of insurance of the risk of any kind of damage or injury to, or the loss or depreciation of, assets,
 - (c) capital sums received in return for forfeiture or surrender of rights, or for refraining from exercising rights, and
 - (d) capital sums received as consideration for use or exploitation of assets.
- (2) In the case of a disposal within paragraph (a), (b), (c) or (d) of subsection (1) above, the time of the disposal shall be the time when the capital sum is received as described in that subsection.
- (3) In this section “capital sum” means any money or money’s worth which is not excluded from the consideration taken into account in the computation of the gain.

23 Receipt of compensation and insurance money not treated as a disposal

- (1) If the recipient so claims, receipt of a capital sum within paragraph (a), (b), (c) or (d) of section 22(1) derived from an asset which is not lost or destroyed shall not be treated for the purposes of this Act as a disposal of the asset if—

- (a) the capital sum is wholly applied in restoring the asset, or
- (b) (subject to subsection (2) below), the capital sum is applied in restoring the asset except for a part of the capital sum which is not reasonably required for the purpose and which is small as compared with the whole capital sum, or
- (c) (subject to subsection (2) below), the amount of the capital sum is small, as compared with the value of the asset,

but, if the receipt is not treated as a disposal, all sums which would, if the receipt had been so treated, have been brought into account as consideration for that disposal in the computation of the gain shall be deducted from any expenditure allowable under Chapter III of this Part as a deduction in computing a gain on the subsequent disposal of the asset.

- (2) If the allowable expenditure is less than the consideration for the disposal constituted by the receipt of the capital sum (or is nil)—

- (a) paragraphs (b) and (c) of subsection (1) above shall not apply, and
- (b) if the recipient so elects (and there is any allowable expenditure)—
 - (i) the amount of the consideration for the disposal shall be reduced by the amount of the allowable expenditure, and
 - (ii) none of that expenditure shall be allowable as a deduction in computing a gain accruing on the occasion of the disposal or any subsequent occasion.

In this subsection “allowable expenditure” means expenditure which, immediately before the disposal, was attributable to the asset under paragraphs (a) and (b) of section 38(1).

- (3) If, in a case not falling within subsection (1)(b) above, a part of a capital sum within paragraph (a) or paragraph (b) of section 22(1) derived from an asset which is not lost or destroyed is applied in restoring the asset, then if the recipient so claims, that part of the capital sum shall not be treated as consideration for the disposal deemed to be effected on receipt of the capital sum but shall be deducted from any expenditure allowable under Chapter III of this Part as a deduction in computing a gain on the subsequent disposal of the asset.
- (4) If an asset is lost or destroyed and a capital sum received by way of compensation for the loss or destruction, or under a policy of insurance of the risk of the loss or destruction, is within one year of receipt, or such longer period as the inspector may allow, applied in acquiring an asset in replacement of the asset lost or destroyed the owner shall if he so claims be treated for the purposes of this Act—
- (a) as if the consideration for the disposal of the old asset were (if otherwise of a greater amount) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him, and
 - (b) as if the amount of the consideration for the acquisition of the new asset were reduced by the excess of the amount of the capital sum received by way of compensation or under the policy of insurance, together with any residual or scrap value, over the amount of the consideration which he is treated as receiving under paragraph (a) above.

- (5) A claim shall not be made under subsection (4) above if part only of the capital sum is applied in acquiring the new asset but if all of that capital sum except for a part which is less than the amount of the gain (whether all chargeable gain or not) accruing on the disposal of the old asset is so applied, then the owner shall if he so claims be treated for the purposes of this Act—
- (a) as if the amount of the gain so accruing were reduced to the amount of the said part (and, if not all chargeable gain, with a proportionate reduction in the amount of the chargeable gain), and
 - (b) as if the amount of the consideration for the acquisition of the new asset were reduced by the amount by which the gain is reduced under paragraph (a) of this subsection.
- (6) This section shall not apply in relation to a wasting asset.

24 Disposals where assets lost or destroyed, or become of negligible value

- (1) Subject to the provisions of this Act and, in particular to section 144, the occasion of the entire loss, destruction, dissipation or extinction of an asset shall, for the purposes of this Act, constitute a disposal of the asset whether or not any capital sum by way of compensation or otherwise is received in respect of the destruction, dissipation or extinction of the asset.
- (2) If, on a claim by the owner of an asset, the inspector is satisfied that the value of an asset has become negligible, he may allow the claim and thereupon this Act shall have effect as if the claimant had sold, and immediately reacquired, the asset for a consideration of an amount equal to the value specified in the claim.
- (3) For the purposes of subsections (1) and (2) above, a building and any permanent or semi-permanent structure in the nature of a building may be regarded as an asset separate from the land on which it is situated, but where either of those subsections applies in accordance with this subsection, the person deemed to make the disposal of the building or structure shall be treated as if he had also sold, and immediately reacquired, the site of the building or structure (including in the site any land occupied for purposes ancillary to the use of the building or structure) for a consideration equal to its market value at that time.

25 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 this Act—
- (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 this Act—
- (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 shall not apply to an asset by reason of a transfer of the whole or part of the long term business of an insurance company to another company if section 139 has effect in relation to the asset by virtue of section 211.
- (5) 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.
- (6) 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 276.
- (7) 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 10(1), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 10(3).
- (8) This section shall apply as if references to a trade included references to a profession or vocation.

26 Mortgages and charges not to be treated as disposals

- (1) The conveyance or transfer by way of security of an asset or of an interest or right in or over it, or transfer of a subsisting interest or right by way of security in or over an asset (including a retransfer on redemption of the security), shall not be treated for the purposes of this Act as involving any acquisition or disposal of the asset.
- (2) Where a person entitled to an asset by way of security or to the benefit of a charge or incumbrance on an asset deals with the asset for the purpose of enforcing or giving effect to the security, charge or incumbrance, his dealings with it shall be treated for the purposes of this Act as if they were done through him as nominee by the person entitled to it subject to the security, charge or incumbrance; and this subsection shall apply to the dealings of any person appointed to enforce or give effect to the security, charge or incumbrance as receiver and manager or judicial factor as it applies to the dealings of the person entitled as aforesaid.
- (3) An asset shall be treated as having been acquired free of any interest or right by way of security subsisting at the time of any acquisition of it, and as being disposed of free

of any such interest or right subsisting at the time of the disposal; and where an asset is acquired subject to any such interest or right the full amount of the liability thereby assumed by the person acquiring the asset shall form part of the consideration for the acquisition and disposal in addition to any other consideration.

27 Disposals in cases of hire-purchase and similar transactions

A hire-purchase or other transaction under which the use and enjoyment of an asset is obtained by a person for a period at the end of which the property in the asset will or may pass to that person shall be treated for the purposes of this Act, both in relation to that person and in relation to the person from whom he obtains the use and enjoyment of the asset, as if it amounted to an entire disposal of the asset to that person at the beginning of the period for which he obtains the use and enjoyment of the asset, but subject to such adjustments of tax, whether by way of repayment or discharge of tax or otherwise, as may be required where the period for which that person has the use and enjoyment of the asset terminates without the property in the asset passing to him.

28 Time of disposal and acquisition where asset disposed of under contract

- (1) Subject to section 22(2), and subsection (2) below, where an asset is disposed of and acquired under a contract the time at which the disposal and acquisition is made is the time the contract is made (and not, if different, the time at which the asset is conveyed or transferred).
- (2) If the contract is conditional (and in particular if it is conditional on the exercise of an option) the time at which the disposal and acquisition is made is the time when the condition is satisfied.

Value shifting

29 General provisions

- (1) Without prejudice to the generality of the provisions of this Act as to the transactions which are disposals of assets, any transaction which under the following subsections is to be treated as a disposal of an asset—
 - (a) shall be so treated (with a corresponding acquisition of an interest in the asset) notwithstanding that there is no consideration, and
 - (b) so far as, on the assumption that the parties to the transaction were at arm's length, the party making the disposal could have obtained consideration, or additional consideration, for the disposal, shall be treated as not being at arm's length and the consideration so obtainable, or the additional consideration so obtainable added to the consideration actually passing, shall be treated as the market value of what is acquired.
- (2) If a person having control of a company exercises his control so that value passes out of shares in the company owned by him or a person with whom he is connected, or out of rights over the company exercisable by him or by a person with whom he is connected, and passes into other shares in or rights over the company, that shall be a disposal of the shares or rights out of which the value passes by the person by whom they were owned or exercisable.

- (3) A loss on the disposal of an asset shall not be an allowable loss to the extent to which it is attributable to value having passed out of other assets, being shares in or rights over a company which by virtue of the passing of value are treated as disposed of under subsection (2) above.
- (4) If, after a transaction which results in the owner of land or of any other description of property becoming the lessee of the property there is any adjustment of the rights and liabilities under the lease, whether or not involving the grant of a new lease, which is as a whole favourable to the lessor, that shall be a disposal by the lessee of an interest in the property.
- (5) If an asset is subject to any description of right or restriction the extinction or abrogation, in whole or in part, of the right or restriction by the person entitled to enforce it shall be a disposal by him of the right or restriction.

30 Tax-free benefits

- (1) This section has effect as respects the disposal of an asset if a scheme has been effected or arrangements have been made (whether before or after the disposal) whereby—
 - (a) the value of the asset or a relevant asset has been materially reduced, and
 - (b) a tax-free benefit has been or will be conferred—
 - (i) on the person making the disposal or a person with whom he is connected, or
 - (ii) subject to subsection (4) below, on any other person.
- (2) 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 171(1),
 - (b) no disposal of the asset is treated as having occurred during that period by virtue of section 178 or 179, 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 132.
- (3) For the purposes of subsection (1)(b) above a benefit is conferred on a person if he becomes entitled to any money or money’s worth or the value of any asset in which he has an interest is increased or he is wholly or partly relieved from any liability to which he is subject; and a benefit is tax-free unless it is required, on the occasion on which it is conferred on the person in question, to be brought into account in computing his income, profits or gains for the purposes of income tax, capital gains tax or corporation tax.

- (4) This section shall not apply by virtue of subsection (1)(b)(ii) above if it is shown that avoidance of tax was not the main purpose or one of the main purposes of the scheme or arrangements in question.
- (5) Where this section has effect in relation to any disposal, any allowable loss or chargeable gain accruing on the disposal shall be calculated as if the consideration for the disposal were increased by such amount as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable having regard to the scheme or arrangements and the tax-free benefit in question.
- (6) Where—
 - (a) by virtue of subsection (5) above the consideration for the disposal of an asset has been treated as increased, and
 - (b) the benefit taken into account under subsection (1)(b) above was an increase in the value of another asset,
 any allowable loss or chargeable gain accruing on the first disposal of the other asset after the increase in its value shall be calculated as if the consideration for that disposal were reduced by such amount as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable having regard to the scheme or arrangements in question and the increase made in relation to the disposal mentioned in paragraph (a) above.
- (7) References in this section to a disposal do not include references to any disposal falling within section 58(1), 62(4) or 171(1).
- (8) 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 31 to 33 and, in those sections, the disposal, the asset and those companies are referred to respectively as “the section 30 disposal”, “the principal asset”, “the first company” and “the second company”.
- (9) In relation to a case in which the disposal of an asset precedes its acquisition the references in subsections (1)(a) and (2) above to a reduction shall be read as including a reference to an increase.

31 Distributions within a group followed by a disposal of shares

- (1) The references in section 30 to a reduction in the value of an asset, in the case mentioned in subsection (8) 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 3 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 171(1), or
 - (b) an exchange, or a transaction treated for the purposes of section 135(2) and (3) 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 transaction, and is treated by virtue of section 135(3) 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 33), 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 30 disposal, there is no disposal of the asset with enhanced value to any person, other than a disposal falling within section 171(1), and
 - (b) no disposal of the asset with enhanced value is treated as having occurred during that period by virtue of section 178 or 179.
- (8) The third condition is that, immediately after the section 30 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 30 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.

32 Disposals within a group followed by a disposal of shares

- (1) The references in section 30 to a reduction in the value of an asset, in the case mentioned in subsection (8) 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 171(1), 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.

33 Provisions supplementary to sections 30 to 32

- (1) For the purposes of sections 30(2) and 31(7) to (9), 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 30(2)(a) and (b) and 31(7) to a disposal are to a disposal other than a part disposal.
- (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 30(2) or, as the case may be, of 31(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 2 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 30(2) to the asset owned at the time of the disposal by a company associated with the disposing company and the reference in section 31(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 30(2), 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 2 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 the Commissioners concerned, to be just and reasonable.
- (8) For the purposes of section 31, 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,
- 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 the Commissioners concerned, to be just and reasonable.
- (9) For the purposes of sections 30 to 32 and this section, companies are associated if they are members of the same group.
 - (10) Section 170(2) to (11) applies for the purposes of sections 30 to 32 and this section as it applies for the purposes of that section.

34 Transactions treated as a reorganisation of share capital

- (1) Where—
 - (a) but for sections 127 and 135(3), section 30 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 30 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 128(3) as receiving, on the reorganisation of share capital that is treated as occurring by virtue of section 135(3), that amount for the disposal of the original holding.
- (2) For the purposes of subsection (1) above it shall be assumed that section 136 has effect generally for the purposes of this Act, and in that subsection “group” has the same meaning as in sections 30 to 33.

CHAPTER III

COMPUTATION OF GAINS: GENERAL PROVISIONS

Re-basing to 1982, and assets held on 6th April 1965

35 Assets held on 31st March 1982 (including assets held on 6th April 1965)

- (1) This section applies to a disposal of an asset which was held on 31st March 1982 by the person making the disposal.
- (2) Subject to the following provisions of this section, in computing for the purpose of this Act the gain or loss accruing on the disposal it shall be assumed that the asset was on 31st March 1982 sold by the person making the disposal, and immediately reacquired by him, at its market value on that date.

- (3) Subject to subsection (5) below, subsection (2) above shall not apply to a disposal—
- (a) where a gain would accrue on the disposal to the person making the disposal if that subsection did apply, and either a smaller gain or a loss would so accrue if it did not,
 - (b) where a loss would so accrue if that subsection did apply, and either a smaller loss or a gain would accrue if it did not,
 - (c) where, either on the facts of the case or by virtue of Schedule 2, neither a gain nor a loss would accrue if that subsection did not apply, or
 - (d) where neither a gain nor a loss would accrue by virtue of any of—
 - (i) sections 58, 73, 139, 171, 172, 215, 216, 218 to 221, 257(3), 258(4), 264 and 267(2) of this Act;
 - (ii) section 148 of the 1979 Act;
 - (iii) section 148 of the Finance Act 1982;
 - (iv) paragraph 2 of Schedule 2 to the Trustee Savings Banks Act 1985;
 - (v) section 130(3) of the Transport Act 1985;
 - (vi) section 486(8) of the Taxes Act; and
 - (vii) paragraph 2(1) of Schedule 12 to the Finance Act 1990.
- (4) Where in the case of a disposal of an asset—
- (a) the effect of subsection (2) above would be to substitute a loss for a gain or a gain for a loss, but
 - (b) the application of subsection (2) is excluded by subsection (3),
- it shall be assumed in relation to the disposal that the asset was acquired by the person making the disposal for a consideration such that, on the disposal, neither a gain nor a loss accrues to him.
- (5) If a person so elects, disposals made by him (including any made by him before the election) shall fall outside subsection (3) above (so that subsection (2) above is not excluded by that subsection).
- (6) An election by a person under subsection (5) above shall be irrevocable and shall be made by notice to the inspector at any time before 6th April 1990 or at any time during the period beginning with the day of the first relevant disposal and ending—
- (a) 2 years after the end of the year of assessment or accounting period in which the disposal is made, or
 - (b) at such later time as the Board may allow;
- and “the first relevant disposal” means the first disposal to which this section applies which is made by the person making the election.
- (7) An election made by a person under subsection (5) above in one capacity does not cover disposals made by him in another capacity.
- (8) All such adjustments shall be made, whether by way of discharge or repayment of tax, the making of assessments or otherwise, as are required to give effect to an election under subsection (5) above.
- (9) Schedule 2 shall have effect in relation to disposals of assets owned on 6th April 1965 in cases where neither subsection (2) nor subsection (4) above applies.
- (10) Schedule 3, which contains provisions supplementary to subsections (1) to (8) above, shall have effect.

36 Deferred charges on gains before 31st March 1982

Schedule 4, which provides for the reduction of a deferred charge to tax where the charge is wholly or partly attributable to an increase in the value of an asset before 31st March 1982, shall have effect.

Allowable deductions

37 Consideration chargeable to tax on income

- (1) There shall be excluded from the consideration for a disposal of assets taken into account in the computation of the gain any money or money's worth charged to income tax as income of, or taken into account as a receipt in computing income or profits or gains or losses of, the person making the disposal for the purposes of the Income Tax Acts.
- (2) Subsection (1) above shall not be taken as excluding from the consideration so taken into account any money or money's worth which is—
 - (a) taken into account in the making of a balancing charge under the 1990 Act, including the provisions of the Taxes Act which are to be treated as contained in the 1990 Act but excluding Part III of the 1990 Act, or
 - (b) brought into account as the disposal value of machinery or plant under section 24 of the 1990 Act.
- (3) This section shall not preclude the taking into account in a computation of the gain, as consideration for the disposal of an asset, of the capitalised value of a rentcharge (as in a case where a rentcharge is exchanged for some other asset) or of the capitalised value of a ground annual or feu duty, or of a right of any other description to income or to payments in the nature of income over a period, or to a series of payments in the nature of income.
- (4) The reference in subsection (1) above to computing income or profits or gains or losses shall not be taken as applying to a computation of a company's income for the purposes of subsection (2) of section 76 of the Taxes Act (expenses of management of insurance companies).

38 Acquisition and disposal costs etc

- (1) Except as otherwise expressly provided, the sums allowable as a deduction from the consideration in the computation of the gain accruing to a person on the disposal of an asset shall be restricted to—
 - (a) the amount or value of the consideration, in money or money's worth, given by him or on his behalf wholly and exclusively for the acquisition of the asset, together with the incidental costs to him of the acquisition or, if the asset was not acquired by him, any expenditure wholly and exclusively incurred by him in providing the asset,
 - (b) the amount of any expenditure wholly and exclusively incurred on the asset by him or on his behalf for the purpose of enhancing the value of the asset, being expenditure reflected in the state or nature of the asset at the time of the disposal, and any expenditure wholly and exclusively incurred by him in establishing, preserving or defending his title to, or to a right over, the asset,
 - (c) the incidental costs to him of making the disposal.

- (2) For the purposes of this section and for the purposes of all other provisions of this Act, the incidental costs to the person making the disposal of the acquisition of the asset or of its disposal shall consist of expenditure wholly and exclusively incurred by him for the purposes of the acquisition or, as the case may be, the disposal, being fees, commission or remuneration paid for the professional services of any surveyor or valuer, or auctioneer, or accountant, or agent or legal adviser and costs of transfer or conveyance (including stamp duty) together—
- (a) in the case of the acquisition of an asset, with costs of advertising to find a seller, and
 - (b) in the case of a disposal, with costs of advertising to find a buyer and costs reasonably incurred in making any valuation or apportionment required for the purposes of the computation of the gain, including in particular expenses reasonably incurred in ascertaining market value where required by this Act.
- (3) Except as provided by section 40, no payment of interest shall be allowable under this section.
- (4) Any provision in this Act introducing the assumption that assets are sold and immediately reacquired shall not imply that any expenditure is incurred as incidental to the sale or reacquisition.

39 Exclusion of expenditure by reference to tax on income

- (1) There shall be excluded from the sums allowable under section 38 as a deduction in the computation of the gain any expenditure allowable as a deduction in computing the profits or gains or losses of a trade, profession or vocation for the purposes of income tax or allowable as a deduction in computing any other income or profits or gains or losses for the purposes of the Income Tax Acts and any expenditure which, although not so allowable as a deduction in computing any losses, would be so allowable but for an insufficiency of income or profits or gains; and this subsection applies irrespective of whether effect is or would be given to the deduction in computing the amount of tax chargeable or by discharge or repayment of tax or in any other way.
- (2) Without prejudice to the provisions of subsection (1) above, there shall be excluded from the sums allowable under section 38 as a deduction in the computation of the gain any expenditure which, if the assets, or all the assets to which the computation relates, were, and had at all times been, held or used as part of the fixed capital of a trade the profits or gains of which were (irrespective of whether the person making the disposal is a company or not) chargeable to income tax would be allowable as a deduction in computing the profits or gains or losses of the trade for the purposes of income tax.
- (3) No account shall be taken of any relief under Chapter II of Part IV of the Finance Act 1981 or under Schedule 5 to the Finance Act 1983, in so far as it is not withdrawn and relates to shares issued before 19th March 1986, in determining whether any sums are excluded by virtue of subsection (1) or (2) above from the sums allowable as a deduction in the computation of gains or losses for the purposes of this Act.

40 Interest charged to capital

- (1) Where—
- (a) a company incurs expenditure on the construction of any building, structure or works, being expenditure allowable as a deduction under section 38 in

computing a gain accruing to the company on the disposal of the building, structure or work, or of any asset comprising it, and

(b) that expenditure was defrayed out of borrowed money,

the sums so allowable under section 38 shall, subject to subsection (2) below, include the amount of any interest on that borrowed money which is referable to a period or part of a period ending on or before the disposal.

(2) Subsection (1) above has effect subject to section 39 and does not apply to interest which is a charge on income.

(3) In relation to interest paid in any accounting period ending before 1st April 1981 subsection (1) above shall have effect with the substitution for all following paragraph (b) of—

“and

(c) the company charged to capital all or any of the interest on that borrowed money referable to a period or part of a period ending on or before the disposal,

and the sums so allowable under section 38 shall include the amount of that interest charged to capital.”;

and subsection (2) above shall not apply.

41 Restriction of losses by reference to capital allowances and renewals allowances

(1) Section 39 shall not require the exclusion from the sums allowable as a deduction in the computation of the gain of any expenditure as being expenditure in respect of which a capital allowance or renewals allowance is made, but the amount of any losses accruing on the disposal of an asset shall be restricted by reference to capital allowances and renewals allowances as follows.

(2) In the computation of the amount of a loss accruing to the person making the disposal, there shall be excluded from the sums allowable as a deduction any expenditure to the extent to which any capital allowance or renewals allowance has been or may be made in respect of it.

(3) If the person making the disposal acquired the asset—

(a) by a transfer by way of sale in relation to which an election under section 158 of the 1990 Act was made, or

(b) by a transfer to which section 78(2) of that Act applies,

(being enactments under which a transfer is treated for the purposes of capital allowances as being made at written down value), the preceding provisions of this section shall apply as if any capital allowance made to the transferor in respect of the asset had (except so far as any loss to the transferor was restricted under those provisions) been made to the person making the disposal (that is the transferee); and where the transferor acquired the asset by such a transfer, capital allowances which by virtue of this subsection can be taken into account in relation to the transferor shall also be taken into account in relation to the transferee (that is the person making the disposal), and so on for any series of transfers before the disposal.

(4) In this section “capital allowance” means—

(a) any allowance under the 1990 Act, including the provisions of the Taxes Act which are to be treated as contained in the 1990 Act, other than an

- allowance under section 33(1) of the Taxes Act (relief for cost of maintenance of agricultural land),
- (b) any relief given under section 30 of the Taxes Act (expenditure on sea walls), and
- (c) any deduction in computing profits or gains allowable under section 91 of the Taxes Act (cemeteries).
- (5) In this section “renewals allowance” means a deduction allowable in computing the profits or gains of a trade, profession or vocation for the purpose of income tax by reference to the cost of acquiring an asset for the purposes of the trade, profession or vocation in replacement of another asset, and for the purposes of this Chapter a renewals allowance shall be regarded as a deduction allowable in respect of the expenditure incurred on the asset which is being replaced.
- (6) The amount of capital allowances to be taken into account under this section in relation to a disposal include any allowances falling to be made by reference to the event which is the disposal, and there shall be deducted from the amount of the allowances the amount of any balancing charge to which effect has been or is to be given by reference to the event which is the disposal, or any earlier event.
- (7) Where the disposal is of machinery or plant in relation to expenditure on which allowances or charges have been made under Part II of the 1990 Act, and neither section 79 (assets used only partly for trade purposes) nor section 80 (wear and tear subsidies) of that Act applies, the capital allowances to be taken into account under this section are to be regarded as equal to the difference between the capital expenditure incurred, or treated as incurred, under that Part on the provision of the machinery or plant by the person making the disposal and the disposal value required to be brought into account in respect of the machinery or plant.

42 Part disposals

- (1) Where a person disposes of an interest or right in or over an asset, and generally wherever on the disposal of an asset any description of property derived from that asset remains undisposed of, the sums which under paragraphs (a) and (b) of section 38(1) are attributable to the asset shall, both for the purposes of the computation of the gain accruing on the disposal and for the purpose of applying this Part in relation to the property which remains undisposed of, be apportioned.
- (2) The apportionment shall be made by reference—
- (a) to the amount or value of the consideration for the disposal on the one hand (call that amount or value A), and
- (b) to the market value of the property which remains undisposed of on the other hand (call that market value B),

and accordingly the fraction of the said sums allowable as a deduction in the computation of the gain accruing on the disposal shall be—

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

and the remainder shall be attributed to the property which remains undisposed of.

- (3) Any apportionment to be made in pursuance of this section shall be made before operating the provisions of section 41 and if, after a part disposal, there is a subsequent disposal of an asset the capital allowances or renewals allowances to be taken into

account in pursuance of that section in relation to the subsequent disposal shall, subject to subsection (4) below, be those referable to the sums which under paragraphs (a) and (b) of section 38(1) are attributable to the asset whether before or after the part disposal, but those allowances shall be reduced by the amount (if any) by which the loss on the earlier disposal was restricted under the provisions of section 41.

- (4) This section shall not be taken as requiring the apportionment of any expenditure which, on the facts, is wholly attributable to what is disposed of, or wholly attributable to what remains undisposed of.
- (5) It is hereby declared that this section, and all other provisions for apportioning on a part disposal expenditure which is deductible in computing a gain, are to be operated before the operation of, and without regard to, section 58(1), sections 152 to 158 (but without prejudice to section 152(10)), section 171(1) or any other enactment making an adjustment to secure that neither a gain nor a loss occurs on a disposal.

43 Assets derived from other assets

If and so far as, 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 value of an asset is derived from any other asset in the same ownership, an appropriate proportion of the sums allowable as a deduction in the computation of a gain in respect of the other asset under paragraphs (a) and (b) of section 38(1) shall, both for the purpose of the computation of a gain accruing on the disposal of the first-mentioned asset and, if the other asset remains in existence, on a disposal of that other asset, be attributed to the first-mentioned asset.

Wasting assets

44 Meaning of “wasting asset”

- (1) In this Chapter “wasting asset” means an asset with a predictable life not exceeding 50 years but so that—
 - (a) freehold land shall not be a wasting asset whatever its nature, and whatever the nature of the buildings or works on it;
 - (b) “life”, in relation to any tangible movable property, means useful life, having regard to the purpose for which the tangible assets were acquired or provided by the person making the disposal;
 - (c) plant and machinery shall in every case be regarded as having a predictable life of less than 50 years, and in estimating that life it shall be assumed that its life will end when it is finally put out of use as being unfit for further use, and that it is going to be used in the normal manner and to the normal extent and is going to be so used throughout its life as so estimated;
 - (d) a life interest in settled property shall not be a wasting asset until the predictable expectation of life of the life tenant is 50 years or less, and the predictable life of life interests in settled property and of annuities shall be ascertained from actuarial tables approved by the Board.
- (2) In this Chapter “the residual or scrap value”, in relation to a wasting asset, means the predictable value, if any, which the wasting asset will have at the end of its predictable life as estimated in accordance with this section.

- (3) The question what is the predictable life of an asset, and the question what is its predictable residual or scrap value at the end of that life, if any, shall, so far as those questions are not immediately answered by the nature of the asset, be taken, in relation to any disposal of the asset, as they were known or ascertainable at the time when the asset was acquired or provided by the person making the disposal.

45 Exemption for certain wasting assets

- (1) Subject to the provisions of this section, no chargeable gain shall accrue on the disposal of, or of an interest in, an asset which is tangible movable property and which is a wasting asset.
- (2) Subsection (1) above shall not apply to a disposal of, or of an interest in, an asset—
- (a) if, from the beginning of the period of ownership of the person making the disposal to the time when the disposal is made, the asset has been used and used solely for the purposes of a trade, profession or vocation and if that person has claimed or could have claimed any capital allowance in respect of any expenditure attributable to the asset or interest under paragraph (a) or paragraph (b) of section 38(1); or
 - (b) if the person making the disposal has incurred any expenditure on the asset or interest which has otherwise qualified in full for any capital allowance.
- (3) In the case of the disposal of, or of an interest in, an asset which, in the period of ownership of the person making the disposal, has been used partly for the purposes of a trade, profession or vocation and partly for other purposes, or has been used for the purposes of a trade, profession or vocation for part of that period, or which has otherwise qualified in part only for capital allowances—
- (a) the consideration for the disposal, and any expenditure attributable to the asset or interest by virtue of section 38(1)(a) and (b), shall be apportioned by reference to the extent to which that expenditure qualified for capital allowances, and
 - (b) the computation of the gain shall be made separately in relation to the apportioned parts of the expenditure and consideration, and
 - (c) subsection (1) above shall not apply to any gain accruing by reference to the computation in relation to the part of the consideration apportioned to use for the purposes of the trade, profession or vocation, or to the expenditure qualifying for capital allowances.
- (4) Subsection (1) above shall not apply to a disposal of commodities of any description by a person dealing on a terminal market or dealing with or through a person ordinarily engaged in dealing on a terminal market.

46 Straightline restriction of allowable expenditure

- (1) In the computation of the gain accruing on the disposal of a wasting asset it shall be assumed—
- (a) that any expenditure attributable to the asset under section 38(1)(a) after deducting the residual or scrap value, if any, of the asset, is written off at a uniform rate from its full amount at the time when the asset is acquired or provided to nothing at the end of its life, and

(b) that any expenditure attributable to the asset under section 38(1)(b) is written off from the full amount of that expenditure at the time when that expenditure is first reflected in the state or nature of the asset to nothing at the end of its life, so that an equal daily amount is written off day by day.

(2) Thus, calling the predictable life of a wasting asset at the time when it was acquired or provided by the person making the disposal L, the period from that time to the time of disposal T(1), and, in relation to any expenditure attributable to the asset under section 38(1)(b), the period from the time when that expenditure is first reflected in the state or nature of the asset to the said time of disposal T(2), there shall be excluded from the computation of the gain—

(a) out of the expenditure attributable to the asset under section 38(1)(a) a fraction—

$$\frac{T(1)}{L}$$

of an amount equal to the amount of that expenditure minus the residual or scrap value, if any, of the asset, and

(b) out of the expenditure attributable to the asset under section 38(1)(b) a fraction—

$$\frac{T(2)}{L - (T(1) - T(2))}$$

of the amount of the expenditure.

(3) If any expenditure attributable to the asset under section 38(1)(b) creates or increases a residual or scrap value of the asset, the provisions of subsection (1)(a) above shall be applied so as to take that into account.

47 Wasting assets qualifying for capital allowances

(1) Section 46 shall not apply in relation to a disposal of an asset—

- (a) which, from the beginning of the period of ownership of the person making the disposal to the time when the disposal is made, is used and used solely for the purposes of a trade, profession or vocation and in respect of which that person has claimed or could have claimed any capital allowance in respect of any expenditure attributable to the asset under paragraph (a) or paragraph (b) of section 38(1), or
- (b) on which the person making the disposal has incurred any expenditure which has otherwise qualified in full for any capital allowance.

(2) In the case of the disposal of an asset which, in the period of ownership of the person making the disposal, has been used partly for the purposes of a trade, profession or vocation and partly for other purposes, or has been used for the purposes of a trade, profession or vocation for part of that period, or which has otherwise qualified in part only for capital allowances—

- (a) the consideration for the disposal, and any expenditure attributable to the asset by paragraph (a) or paragraph (b) of section 38(1) shall be apportioned by reference to the extent to which that expenditure qualified for capital allowances, and

- (b) the computation of the gain shall be made separately in relation to the apportioned parts of the expenditure and consideration, and
- (c) section 46 shall not apply for the purposes of the computation in relation to the part of the consideration apportioned to use for the purposes of the trade, profession or vocation, or to the expenditure qualifying for capital allowances, and
- (d) if an apportionment of the consideration for the disposal has been made for the purposes of making any capital allowance to the person making the disposal or for the purpose of making any balancing charge on him, that apportionment shall be employed for the purposes of this section, and
- (e) subject to paragraph (d) above, the consideration for the disposal shall be apportioned for the purposes of this section in the same proportions as the expenditure attributable to the asset is apportioned under paragraph (a) above.

Miscellaneous provisions

48 Consideration due after time of disposal

In the computation of the gain consideration for the disposal shall be brought into account without any discount for postponement of the right to receive any part of it and, in the first instance, without regard to a risk of any part of the consideration being irrecoverable or to the right to receive any part of the consideration being contingent; and if any part of the consideration so brought into account is subsequently shown to the satisfaction of the inspector to be irrecoverable, such adjustment, whether by way of discharge or repayment of tax or otherwise, shall be made as is required in consequence.

49 Contingent liabilities

- (1) In the first instance no allowance shall be made in the computation of the gain—
 - (a) in the case of a disposal by way of assigning a lease of land or other property, for any liability remaining with, or assumed by, the person making the disposal by way of assigning the lease which is contingent on a default in respect of liabilities thereby or subsequently assumed by the assignee under the terms and conditions of the lease,
 - (b) for any contingent liability of the person making the disposal in respect of any covenant for quiet enjoyment or other obligation assumed as vendor of land, or of any estate or interest in land, or as a lessor,
 - (c) for any contingent liability in respect of a warranty or representation made on a disposal by way of sale or lease of any property other than land.
- (2) If it is subsequently shown to the satisfaction of the inspector that any such contingent liability has become enforceable, and is being or has been enforced, such adjustment, whether by way of discharge or repayment of tax or otherwise, shall be made as is required in consequence.
- (3) Subsection (2) above also applies where the disposal in question was before the commencement of this section.

50 Expenditure reimbursed out of public money

There shall be excluded from the computation of a gain any expenditure which has been or is to be met directly or indirectly by the Crown or by any Government, public or local authority whether in the United Kingdom or elsewhere.

51 Exemption for winnings and damages etc

- (1) It is hereby declared that winnings from betting, including pool betting, or lotteries or games with prizes are not chargeable gains, and no chargeable gain or allowable loss shall accrue on the disposal of rights to winnings obtained by participating in any pool betting or lottery or game with prizes.
- (2) It is hereby declared that sums obtained by way of compensation or damages for any wrong or injury suffered by an individual in his person or in his profession or vocation are not chargeable gains.

52 Supplemental

- (1) No deduction shall be allowable in a computation of the gain more than once from any sum or from more than one sum.
- (2) References in this Chapter to sums taken into account as receipts or as expenditure in computing profits or gains or losses for the purposes of income tax shall include references to sums which would be so taken into account but for the fact that any profits or gains of a trade, profession, employment or vocation are not chargeable to income tax or that losses are not allowable for those purposes.
- (3) In this Chapter references to income or profits charged or chargeable to tax include references to income or profits taxed or as the case may be taxable by deduction at source.
- (4) For the purposes of any computation of the gain any necessary apportionments shall be made of any consideration or of any expenditure and the method of apportionment adopted shall, subject to the express provisions of this Chapter, be such method as appears to the inspector or on appeal the Commissioners concerned to be just and reasonable.
- (5) In this Chapter “capital allowance” and “renewals allowance” have the meanings given by subsections (4) and (5) of section 41.

CHAPTER IV

COMPUTATION OF GAINS: THE INDEXATION ALLOWANCE

General

53 The indexation allowance and interpretative provisions

- (1) Subject to any provision to the contrary, an allowance (“the indexation allowance”) shall, on the disposal of an asset, either be set against the unindexed gain or, as the case may be, added to the unindexed loss so as to give the gain or loss for the purposes of this Act as follows—

- (a) if there is an unindexed gain, the indexation allowance shall be deducted from the gain and, if the allowance exceeds the unindexed gain, the excess shall constitute a loss;
 - (b) if there is an unindexed loss, the indexation allowance shall be added to it so as to increase the loss; and
 - (c) if the unindexed gain or loss is nil, there shall be a loss equal to the indexation allowance;
- and any reference in this Act to an indexation allowance or to the making of an indexation allowance shall be construed accordingly.
- (2) For the purposes of subsection (1) above, in relation to any disposal of an asset—
- (a) “the unindexed gain or loss” means the amount of the gain or loss on the disposal computed in accordance with this Part, and, if neither a gain nor a loss on the disposal is so given, the unindexed gain or loss shall be nil; and
 - (b) “relevant allowable expenditure” means, subject to subsection (3) below, any sum which, in the computation of the unindexed gain or loss was taken into account by virtue of paragraph (a) or paragraph (b) of section 38(1).
- (3) In determining what sum (if any) was taken into account as mentioned in subsection (2) (b) above, account shall be taken of any provision of any enactment which, for the purpose of the computation of the gain, increases, excludes or reduces the whole or any part of any item of expenditure falling within section 38 or provides for it to be written-down.
- (4) Sections 54 and 108 and this section have effect subject to sections 56, 57, 109, 110, 113, 131 and 145.

54 Calculation of indexation allowance

- (1) Subject to any provision to the contrary, the indexation allowance is the aggregate of the indexed rise in each item of relevant allowable expenditure; and, in relation to any such item of expenditure, the indexed rise is a sum produced by multiplying the amount of that item by a figure expressed as a decimal and determined, subject to subsections (2) and (3) below, by the formula—

$$\frac{(RD - RI)}{RI}$$

where—

RD is the retail prices index for the month in which the disposal occurs; and

RI is the retail prices index for March 1982 or the month in which the expenditure was incurred, whichever is the later.

- (2) If, in relation to any item of expenditure—
- (a) the expenditure is attributable to the acquisition of relevant securities, within the meaning of section 108, which are disposed of within the period of 10 days beginning on the day on which the expenditure was incurred, or
 - (b) RD, as defined in subsection (1) above, is equal to or less than RI, as so defined,
- the indexed rise in that item is nil.

- (3) If, in relation to any item of expenditure, the figure determined in accordance with the formula in subsection (1) above would, apart from this subsection, be a figure having more than 3 decimal places, it shall be rounded to the nearest third decimal place.
- (4) For the purposes of this section—
 - (a) relevant allowable expenditure falling within paragraph (a) of subsection (1) of section 38 shall be assumed to have been incurred at the time when the asset in question was acquired or provided; and
 - (b) relevant allowable expenditure falling within paragraph (b) of that subsection shall be assumed to have been incurred at the time when that expenditure became due and payable.

55 Assets owned on 31st March 1982 or acquired on a no gain/no loss disposal

- (1) For the purpose of computing the indexation allowance on a disposal of an asset where, on 31st March 1982, the asset was held by the person making the disposal, it shall be assumed that on that date the asset was sold by the person making the disposal and immediately reacquired by him at its market value on that date.
- (2) Except where an election under section 35(5) has effect, neither subsection (1) above nor section 35(2) shall apply for the purpose of computing the indexation allowance in a case where that allowance would be greater if they did not apply.
- (3) If under subsection (1) above it is to be assumed that any asset was on 31st March 1982 sold by the person making the disposal and immediately reacquired by him, sections 41 and 47 shall apply in relation to any capital allowance or renewals allowance made in respect of the expenditure actually incurred by him in providing the asset as if it were made in respect of expenditure which, on that assumption, was incurred by him in reacquiring the asset on 31st March 1982.
- (4) Where, after 31st March 1982, an asset which was held on that date has been merged or divided or has changed its nature or rights in or over the asset have been created, then, subject to subsection (2) above, subsection (1) above shall have effect to determine for the purposes of section 43 the amount of the consideration for the acquisition of the asset which was so held.
- (5) Subsection (6) below applies to a disposal of an asset which is not a no gain/no loss disposal if—
 - (a) the person making the disposal acquired the asset after 31st March 1982; and
 - (b) the disposal by which he acquired the asset and any previous disposal of the asset after 31st March 1982 was a no gain/no loss disposal;
 and for the purposes of this subsection a no gain/no loss disposal is one on which, by virtue of section 257(2) or 259(2) or any of the enactments specified in section 35(3) (d), neither a gain nor a loss accrues (or accrued) to the person making the disposal.
- (6) Where this subsection applies to a disposal of an asset—
 - (a) the person making the disposal shall be treated for the purpose of computing the indexation allowance on the disposal as having held the asset on 31st March 1982; and
 - (b) for the purpose of determining any gain or loss on the disposal, the consideration which, apart from this subsection, that person would be treated as having given for the asset shall be taken to be reduced by deducting

therefrom any indexation allowance brought into account by virtue of section 56(2) on any disposal falling within subsection (5)(b) above.

56 Part disposals and disposals on a no-gain/no-loss basis

- (1) For the purpose of determining the indexation allowance (if any) on the occasion of a part disposal of an asset, the apportionment under section 42 of the sums which make up the relevant allowable expenditure shall be effected before the application of section 54 and, accordingly, in relation to a part disposal—
 - (a) references in section 54 to an item of expenditure shall be construed as references to that part of that item which is so apportioned for the purposes of the computation of the unindexed gain or loss on the part disposal; and
 - (b) no indexation allowance shall be determined by reference to the part of each item of relevant allowable expenditure which is apportioned to the property which remains undisposed of.
- (2) On the disposal of an asset which, by virtue of any enactment, is treated as one on which neither a gain nor a loss accrues to the person making the disposal (“the transferor”)—
 - (a) the amount of the consideration shall be calculated for the purposes of this Act on the assumption that, on the disposal, an unindexed gain accrues to the transferor which is equal to the indexation allowance on the disposal, and
 - (b) the disposal shall accordingly be one on which, after taking account of the indexation allowance, neither a gain nor a loss accrues;and for the purposes of the application of sections 53 and 54 there shall be disregarded so much of any enactment as provides that, on the subsequent disposal of the asset by the person acquiring the asset on the disposal (“the transferee”), the transferor’s acquisition of the asset is to be treated as the transferee’s acquisition of it.

57 Receipts etc. which are not treated as disposals but affect relevant allowable expenditure

- (1) This section applies where, in determining the relevant allowable expenditure in relation to a disposal of an asset, account is required to be taken, as mentioned in section 53(3), of any provision of any enactment which, by reference to a relevant event, reduces the whole or any part of an item of expenditure as mentioned in that subsection.
- (2) For the purpose of determining, in a case where this section applies, the indexation allowance (if any) to which the person making the disposal is entitled, no account shall in the first instance be taken of the provision referred to in subsection (1) above in calculating the indexed rise in the item of expenditure to which that provision applies but, from that indexed rise as so calculated, there shall be deducted a sum equal to the indexed rise (determined as for the purposes of the actual disposal) in a notional item of expenditure which—
 - (a) is equal to the amount of the reduction effected by the provision concerned; and
 - (b) was incurred on the date of the relevant event referred to in subsection (1) above.
- (3) In this section “relevant event” means any event which does not fall to be treated as a disposal for the purposes of this Act.

PART III

INDIVIDUALS, PARTNERSHIPS, TRUSTS AND COLLECTIVE INVESTMENT SCHEMES

CHAPTER I

MISCELLANEOUS PROVISIONS

58 Husband and wife

- (1) If, in any year of assessment, and in the case of a woman who in that year of assessment is a married woman living with her husband, the man disposes of an asset to the wife, or the wife disposes of an asset to the man, both shall be treated as if the asset was acquired from the one making the disposal for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.
- (2) This section shall not apply—
 - (a) if until the disposal the asset formed part of trading stock of a trade carried on by the one making the disposal, or if the asset is acquired as trading stock for the purposes of a trade carried on by the one acquiring the asset, or
 - (b) if the disposal is by way of donatio mortis causa,
 but this section shall have effect notwithstanding the provisions of section 18 or 161, or of any other provisions of this Act fixing the amount of the consideration deemed to be given on a disposal or acquisition.

59 Partnerships

Where 2 or more persons carry on a trade or business in partnership—

- (a) tax in respect of chargeable gains accruing to them on the disposal of any partnership assets shall, in Scotland as well as elsewhere in the United Kingdom, be assessed and charged on them separately, and
- (b) any partnership dealings shall be treated as dealings by the partners and not by the firm as such, and
- (c) section 112(1) and (2) of the Taxes Act (residence of partnerships) shall apply in relation to tax chargeable in pursuance of this Act as it applies in relation to income tax.

60 Nominees and bare trustees

- (1) In relation to assets held by a person as nominee for another person, or as trustee for another person absolutely entitled as against the trustee, or for any person who would be so entitled but for being an infant or other person under disability (or for 2 or more persons who are or would be jointly so entitled), this Act shall apply as if the property were vested in, and the acts of the nominee or trustee in relation to the assets were the acts of, the person or persons for whom he is the nominee or trustee (acquisitions from or disposals to him by that person or persons being disregarded accordingly).
- (2) It is hereby declared that references in this Act to any asset held by a person as trustee for another person absolutely entitled as against the trustee are references to a case where that other person has the exclusive right, subject only to satisfying any

outstanding charge, lien or other right of the trustees to resort to the asset for payment of duty, taxes, costs or other outgoings, to direct how that asset shall be dealt with.

61 Funds in court

- (1) For the purposes of section 60, funds in court held by the Accountant General shall be regarded as held by him as nominee for the persons entitled to or interested in the funds, or as the case may be for their trustees.
- (2) Where funds in court standing to an account are invested or, after investment, are realised, the method by which the Accountant General effects the investment or the realisation of investments shall not affect the question whether there is for the purposes of this Act an acquisition, or as the case may be a disposal, of an asset representing funds in court standing to the account, and in particular there shall for those purposes be an acquisition or disposal of shares in a court investment fund notwithstanding that the investment in such shares of funds in court standing to an account, or the realisation of funds which have been so invested, is effected by setting off, in the Accountant General's accounts, investment in one account against realisation of investments in another.
- (3) In this section "funds in court" means—
 - (a) money in the Supreme Court, money in county courts and statutory deposits described in section 40 of the Administration of Justice Act 1982, and
 - (b) money in the Supreme Court of Judicature of Northern Ireland and money in a county court in Northern Ireland,

and investments representing such money; and references in this section to the Accountant General are references to the Accountant General of the Supreme Court of Judicature in England and, in relation to money within paragraph (b) above and investments representing such money, include references to the Accountant General of the Supreme Court of Judicature of Northern Ireland or any other person by whom such funds are held.

62 Death: general provisions

- (1) For the purposes of this Act the assets of which a deceased person was competent to dispose—
 - (a) shall be deemed to be acquired on his death by the personal representatives or other person on whom they devolve for a consideration equal to their market value at the date of the death, but
 - (b) shall not be deemed to be disposed of by him on his death (whether or not they were the subject of a testamentary disposition).
- (2) Allowable losses sustained by an individual in the year of assessment in which he dies may, so far as they cannot be deducted from chargeable gains accruing in that year, be deducted from chargeable gains accruing to the deceased in the 3 years of assessment preceding the year of assessment in which the death occurs, taking chargeable gains accruing in a later year before those accruing in an earlier year.
- (3) In relation to property forming part of the estate of a deceased person the personal representatives shall for the purposes of this Act be treated as being a single and continuing body of persons (distinct from the persons who may from time to time be the personal representatives), and that body shall be treated as having the deceased's residence, ordinary residence, and domicile at the date of death.

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

- (4) On a person acquiring any asset as legatee (as defined in section 64)—
 - (a) no chargeable gain shall accrue to the personal representatives, and
 - (b) the legatee shall be treated as if the personal representatives' acquisition of the asset had been his acquisition of it.
- (5) Notwithstanding section 17(1) no chargeable gain shall accrue to any person on his making a disposal by way of donatio mortis causa.
- (6) Subject to subsections (7) and (8) below, where within the period of 2 years after a person's death any of the dispositions (whether effected by will, under the law relating to intestacy or otherwise) of the property of which he was competent to dispose are varied, or the benefit conferred by any of those dispositions is disclaimed, by an instrument in writing made by the persons or any of the persons who benefit or would benefit under the dispositions—
 - (a) the variation or disclaimer shall not constitute a disposal for the purposes of this Act, and
 - (b) this section shall apply as if the variation had been effected by the deceased or, as the case may be, the disclaimed benefit had never been conferred.
- (7) Subsection (6) above does not apply to a variation unless the person or persons making the instrument so elect by notice given to the Board within 6 months after the date of the instrument or such longer time as the Board may allow.
- (8) Subsection (6) above does not apply to a variation or disclaimer made for any consideration in money or money's worth other than consideration consisting of the making of a variation or disclaimer in respect of another of the dispositions.
- (9) Subsection (6) above applies whether or not the administration of the estate is complete or the property has been distributed in accordance with the original dispositions.
- (10) In this section references to assets of which a deceased person was competent to dispose are references to assets of the deceased which (otherwise than in right of a power of appointment or of the testamentary power conferred by statute to dispose of entailed interests) he could, if of full age and capacity, have disposed of by his will, assuming that all the assets were situated in England and, if he was not domiciled in the United Kingdom, that he was domiciled in England, and include references to his severable share in any assets to which, immediately before his death, he was beneficially entitled as a joint tenant.

63 Death: application of law in Scotland

- (1) The provisions of this Act, so far as relating to the consequences of the death of an heir of entail in possession of any property in Scotland subject to an entail, whether sui juris or not, or of a proper liferenter of any property, shall have effect subject to the provisions of this section.
- (2) For the purposes of this Act, on the death of any such heir or liferenter the heir of entail next entitled to the entailed property under the entail or, as the case may be, the person (if any) who, on the death of the liferenter, becomes entitled to possession of the property as fiar shall be deemed to have acquired all the assets forming part of the property at the date of the deceased's death for a consideration equal to their market value at that date.

64 Expenses in administration of estates and trusts

- (1) In the case of a gain accruing to a person on the disposal of, or of a right or interest in or over, an asset to which he became absolutely entitled as legatee or as against the trustees of settled property—
 - (a) any expenditure within section 38(2) incurred by him in relation to the transfer of the asset to him by the personal representatives or trustees, and
 - (b) any such expenditure incurred in relation to the transfer of the asset by the personal representatives or trustees,shall be allowable as a deduction in the computation of the gain accruing to that person on the disposal.
- (2) In this Act, unless the context otherwise requires, “legatee” includes any person taking under a testamentary disposition or on an intestacy or partial intestacy, whether he takes beneficially or as trustee, and a person taking under a donatio mortis causa shall be treated (except for the purposes of section 62) as a legatee and his acquisition as made at the time of the donor’s death.
- (3) For the purposes of the definition of “legatee” above, and of any reference in this Act to a person acquiring an asset “as legatee”, property taken under a testamentary disposition or on an intestacy or partial intestacy includes any asset appropriated by the personal representatives in or towards satisfaction of a pecuniary legacy or any other interest or share in the property devolving under the disposition or intestacy.

65 Liability for tax of trustees or personal representatives

- (1) Capital gains tax chargeable in respect of chargeable gains accruing to the trustees of a settlement or capital gains tax due from the personal representatives of a deceased person may be assessed and charged on and in the name of any one or more of those trustees or personal representatives, but where an assessment is made in pursuance of this subsection otherwise than on all the trustees or all the personal representatives the persons assessed shall not include a person who is not resident or ordinarily resident in the United Kingdom.
- (2) Subject to section 60 and any other express provision to the contrary, chargeable gains accruing to the trustees of a settlement or to the personal representatives of a deceased person, and capital gains tax chargeable on or in the name of such trustees or personal representatives, shall not be regarded for the purposes of this Act as accruing to, or chargeable on, any other person, nor shall any trustee or personal representative be regarded for the purposes of this Act as an individual.

66 Insolvents' assets

- (1) In relation to assets held by a person as trustee or assignee in bankruptcy or under a deed of arrangement this Act shall apply as if the assets were vested in, and the acts of the trustee or assignee in relation to the assets were the acts of, the bankrupt or debtor (acquisitions from or disposals to him by the bankrupt or debtor being disregarded accordingly), and tax in respect of any chargeable gains which accrue to any such trustee or assignee shall be assessable on and recoverable from him.
- (2) Assets held by a trustee or assignee in bankruptcy or under a deed of arrangement at the death of the bankrupt or debtor shall for the purposes of this Act be regarded as held by a personal representative of the deceased and—

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

- (a) subsection (1) above shall not apply after the death, and
 - (b) section 62(1) shall apply as if any assets held by a trustee or assignee in bankruptcy or under a deed of arrangement at the death of the bankrupt or debtor were assets of which the deceased was competent to dispose and which then devolved on the trustee or assignee as if he were a personal representative.
- (3) Assets vesting in a trustee in bankruptcy after the death of the bankrupt or debtor shall for the purposes of this Act be regarded as held by a personal representative of the deceased, and subsection (1) above shall not apply.
- (4) The definition of “settled property” in section 68 shall not include any property as being property held by a trustee or assignee in bankruptcy or under a deed of arrangement.
- (5) In this section—
- “deed of arrangement” means a deed of arrangement to which the Deeds of Arrangement Act 1914 or any corresponding enactment forming part of the law of Scotland or Northern Ireland applies, and
 - “trustee in bankruptcy” includes a permanent trustee within the meaning of the Bankruptcy (Scotland) Act 1985.

67 Provisions applicable where section 79 of the Finance Act 1980 has applied

- (1) In this section “a claim” means a claim under section 79 of the Finance Act 1980 (“section 79”) and “relief” means relief under that section (which provided general relief for gifts).
- (2) Where a disposal in respect of which a claim is or has been made is or proves to be a chargeable transfer for inheritance tax purposes, there shall be allowed as a deduction in computing (for capital gains tax purposes) the chargeable gain accruing to the transferee on the disposal of the asset in question an amount equal to whichever is the lesser of—
- (a) the inheritance tax attributable to the value of the asset; and
 - (b) the amount of the chargeable gain as computed apart from this subsection;
- and in the case of a disposal which, being a potentially exempt transfer, proves to be a chargeable transfer, all necessary adjustments shall be made, whether by the discharge or repayment of capital gains tax or otherwise.
- (3) Where an amount of inheritance tax—
- (a) falls to be redetermined in consequence of the transferor’s death within 7 years of making the chargeable transfer in question; or
 - (b) is otherwise varied,
- after it has been taken into account under subsection (2) above (or under section 79(5)), all necessary adjustments shall be made, whether by the making of an assessment to capital gains tax or by the discharge or repayment of such tax.
- (4) Where—
- (a) a claim for relief has been made in respect of the disposal of an asset to a trustee, and
 - (b) the trustee is deemed to have disposed of the asset, or part of it, by virtue of section 71(1) or 72(1)(a),

sections 72(1)(b) and 73(1)(a) shall not apply to the disposal of the asset, or part by the trustee, but any chargeable gain accruing to the trustee on the disposal shall be restricted to the amount of the held-over gain (or a corresponding part of it) on the disposal of the asset to him.

(5) Subsection (4) above shall not have effect in a case within section 73(2) but in such a case the reduction provided for by section 73(2) shall be diminished by an amount equal to the proportion there mentioned of the held-over gain.

(6) Section 168 shall apply where relief has been given—

(a) with the substitution for subsection (1) of the following—

“(1) If—

(a) relief has been given under section 79 of the Finance Act 1980 in respect of a disposal made after 5th April 1981 to an individual (“the relevant disposal”); and

(b) at a time when he has not disposed of the asset in question, the transferee becomes neither resident nor ordinarily resident in the United Kingdom,

then, subject to the following provisions of this section, a chargeable gain shall be deemed to have accrued to the transferee immediately before that time, and its amount shall be equal to the held-over gain (within the meaning of section 67) on the relevant disposal.”; and

(b) with the substitution in subsections (2), (6) and (10) for the references to section 165(4)(b) of references to section 79(1)(b).

(7) In this section “held-over gain”, in relation to a disposal, means the chargeable gain which would have accrued on that disposal apart from section 79, reduced where applicable in accordance with subsection (3) of that section, and references to inheritance tax include references to capital transfer tax.

CHAPTER II

SETTLEMENTS

General provisions

68 Meaning of “settled property”

In this Act, unless the context otherwise requires, “settled property” means any property held in trust other than property to which section 60 applies.

69 Trustees of settlements

(1) In relation to settled property, the trustees of the settlement shall for the purposes of this Act be treated as being a single and continuing body of persons (distinct from the persons who may from time to time be the trustees), and that body shall be treated as being resident and ordinarily resident in the United Kingdom unless the general administration of the trusts is ordinarily carried on outside the United Kingdom and the trustees or a majority of them for the time being are not resident or not ordinarily resident in the United Kingdom.

- (2) Notwithstanding subsection (1) above, a person carrying on a business which consists of or includes the management of trusts, and acting as trustee of a trust in the course of that business, shall be treated in relation to that trust as not resident in the United Kingdom if the whole of the settled property consists of or derives from property provided by a person not at the time (or, in the case of a trust arising under a testamentary disposition or on an intestacy or partial intestacy, at his death) domiciled, resident or ordinarily resident in the United Kingdom, and if in such a case the trustees or a majority of them are or are treated in relation to that trust as not resident in the United Kingdom, the general administration of the trust shall be treated as ordinarily carried on outside the United Kingdom.
- (3) For the purposes of this section, and of sections 71(1) and 72(1), where part of the property comprised in a settlement is vested in one trustee or set of trustees and part in another (and in particular where settled land within the meaning of the Settled Land Act 1925 is vested in the tenant for life and investments representing capital money are vested in the trustees of the settlement), they shall be treated as together constituting and, in so far as they act separately, as acting on behalf of a single body of trustees.
- (4) If tax assessed on the trustees, or any one trustee, of a settlement in respect of a chargeable gain accruing to the trustees is not paid within 6 months from the date when it becomes payable by the trustees or trustee, and before or after the expiration of that period of 6 months the asset in respect of which the chargeable gain accrued, or any part of the proceeds of sale of that asset, is transferred by the trustees to a person who as against the trustees is absolutely entitled to it, that person may at any time within 2 years from the time when the tax became payable be assessed and charged (in the name of the trustees) to an amount of capital gains tax not exceeding tax chargeable on an amount equal to the amount of the chargeable gain and, where part only of the asset or of the proceeds was transferred, not exceeding a proportionate part of that amount.

70 Transfers into settlement

A transfer into settlement, whether revocable or irrevocable, is a disposal of the entire property thereby becoming settled property notwithstanding that the transferor has some interest as a beneficiary under the settlement and notwithstanding that he is a trustee, or the sole trustee, of the settlement.

71 Person becoming absolutely entitled to settled property

- (1) On the occasion when a person becomes absolutely entitled to any settled property as against the trustee all the assets forming part of the settled property to which he becomes so entitled shall be deemed to have been disposed of by the trustee, and immediately reacquired by him in his capacity as a trustee within section 60(1), for a consideration equal to their market value.
- (2) On the occasion when a person becomes absolutely entitled to any settled property as against the trustee, any allowable loss which has accrued to the trustee in respect of property which is, or is represented by, the property to which that person so becomes entitled (including any allowable loss carried forward to the year of assessment in which that occasion falls), being a loss which cannot be deducted from chargeable gains accruing to the trustee in that year, but before that occasion, shall be treated as if it were an allowable loss accruing at that time to the person becoming so entitled, instead of to the trustee.

- (3) References in this section to the case where a person becomes absolutely entitled to settled property as against the trustee shall be taken to include references to the case where a person would become so entitled but for being an infant or other person under disability.

72 Termination of life interest on death of person entitled

- (1) On the termination, on the death of the person entitled to it, of a life interest in possession in all or any part of settled property—
- (a) the whole or a corresponding part of each of the assets forming part of the settled property and not ceasing at that time to be settled property shall be deemed for the purposes of this Act at that time to be disposed of and immediately reacquired by the trustee for a consideration equal to the whole or a corresponding part of the market value of the asset; but
 - (b) no chargeable gain shall accrue on that disposal.

For the purposes of this subsection a life interest which is a right to part of the income of settled property shall be treated as a life interest in a corresponding part of the settled property.

- (2) Subsection (1) above shall apply where the person entitled to a life interest in possession in all or any part of settled property dies (although the interest does not then terminate) as it applies on the termination of such a life interest.
- (3) In this section “life interest” in relation to a settlement—
- (a) includes a right under the settlement to the income of, or the use or occupation of, settled property for the life of a person other than the person entitled to the right, or for lives,
 - (b) does not include any right which is contingent on the exercise of the discretion of the trustee or the discretion of some other person, and
 - (c) subject to subsection (4) below, does not include an annuity, notwithstanding that the annuity is payable out of or charged on settled property or the income of settled property.
- (4) In this section the expression “life interest” shall include entitlement to an annuity created by the settlement if—
- (a) some or all of the settled property is appropriated by the trustees as a fund out of which the annuity is payable, and
 - (b) there is no right of recourse to settled property not so appropriated, or to the income of settled property not so appropriated;
- and, without prejudice to subsection (5) below, the settled property so appropriated shall, while the annuity is payable, and on the occasion of the death of the annuitant, be treated for the purposes of this section as being settled property under a separate settlement.
- (5) If there is a life interest in a part of the settled property and, where that is a life interest in income, there is no right of recourse to, or to the income of, the remainder of the settled property, the part of the settled property in which the life interest subsists shall while it subsists be treated for the purposes of this section as being settled property under a separate settlement.

73 Death of life tenant: exclusion of chargeable gain

- (1) Where, by virtue of section 71(1), the assets forming part of any settled property are deemed to be disposed of and reacquired by the trustee on the occasion when a person becomes (or would but for a disability become) absolutely entitled thereto as against the trustee, then, if that occasion is the termination of a life interest (within the meaning of section 72) by the death of the person entitled to that interest—
 - (a) no chargeable gain shall accrue on the disposal, and
 - (b) if on the death the property reverts to the disponer, the disposal and reacquisition under that subsection shall be deemed to be for such consideration as to secure that neither a gain nor a loss accrues to the trustee, and shall, if the trustee had first acquired the property at a date earlier than 6th April 1965, be deemed to be at that earlier date.
- (2) Where the life interest referred to in subsection (1) above is an interest in part only of the settled property to which section 71 applies, subsection (1)(a) above shall not apply but any chargeable gain accruing on the disposal shall be reduced by a proportion corresponding to that represented by the part.
- (3) The last sentence of subsection (1) of section 72 and subsection (5) of that section shall apply for the purposes of subsection (2) above as they apply for the purposes of section 72(1).

74 Effect on sections 72 and 73 of relief under section 165 or 260

- (1) This section applies where—
 - (a) a claim for relief was made under section 165 or 260 in respect of the disposal of an asset to a trustee, and
 - (b) the trustee is deemed to have disposed of the asset, or part of it, by virtue of section 71(1) or 72(1)(a).
- (2) Sections 72(1)(b) and 73(1)(a) shall not apply to the disposal of the asset or part by the trustee, but any chargeable gain accruing to the trustee on the disposal shall be restricted to the amount of the held-over gain (or a corresponding part of it) on the disposal of the asset to him.
- (3) Subsection (2) above shall not have effect in a case within section 73(2) but in such a case the reduction provided for by section 73(2) shall be diminished by an amount equal to the proportion there mentioned of the held-over gain.
- (4) In this section “held-over gain” has the same meaning as in section 165 or, as the case may be, 260.

75 Death of annuitant

Sections 71(1) and 72(1) shall apply, where an annuity which is not a life interest is terminated by the death of the annuitant, as they apply on the termination of a life interest by the death of the person entitled thereto.

In this section “life interest” has the same meaning as in section 72.

76 Disposal of interests in settled property

- (1) No chargeable gain shall accrue on the disposal of an interest created by or arising under a settlement (including, in particular, an annuity or life interest, and the reversion to an annuity or life interest) by the person for whose benefit the interest was created by the terms of the settlement or by any other person except one who acquired, or derives his title from one who acquired, the interest for a consideration in money or money's worth, other than consideration consisting of another interest under the settlement.
- (2) Subject to subsection (1) above, where a person who has acquired an interest in settled property (including in particular the reversion to an annuity or life interest) becomes, as the holder of that interest, absolutely entitled as against the trustee to any settled property, he shall be treated as disposing of the interest in consideration of obtaining that settled property (but without prejudice to any gain accruing to the trustee on the disposal of that property deemed to be effected by him under section 71(1)).

77 Charge on settlor with interest in settlement

- (1) Subject to subsections (6), (7) and (8) below, subsection (2) below applies where—
 - (a) in a year of assessment chargeable gains accrue to the trustees of a settlement from the disposal of any or all of the settled property,
 - (b) after making any deductions provided for by section 2(2) in respect of disposals of the settled property there remains an amount on which the trustees would, disregarding section 3 (and apart from this section), be chargeable to tax for the year in respect of those gains, and
 - (c) at any time during the year the settlor has an interest in the settlement.
- (2) Where this subsection applies, the trustees shall not be chargeable to tax in respect of the gains concerned but instead chargeable gains of an amount equal to that referred to in subsection (1)(b) above shall be treated as accruing to the settlor in the year.
- (3) Subject to subsections (4) and (5) below, for the purposes of subsection (1)(c) above a settlor has an interest in a settlement if—
 - (a) any property which may at any time be comprised in the settlement or any income which may arise under the settlement is, or will or may become, applicable for the benefit of or payable to the settlor or the spouse of the settlor in any circumstances whatsoever, or
 - (b) the settlor, or the spouse of the settlor, enjoys a benefit deriving directly or indirectly from any property which is comprised in the settlement or any income arising under the settlement.
- (4) A settlor does not have an interest in a settlement by virtue of subsection (3)(a) above if and so long as none of the property which may at any time be comprised in the settlement and none of the income which may arise under the settlement can become applicable or payable as mentioned in that subsection except in the event of—
 - (a) the bankruptcy of some person who is or may become beneficially entitled to that property or income;
 - (b) any assignment of or charge on that property or income being made or given by some such person;
 - (c) in the case of a marriage settlement, the death of both the parties to the marriage and of all or any of the children of the marriage; or
 - (d) the death under the age of 25 or some lower age of some person who would be beneficially entitled to that property or income on attaining that age.

- (5) A settlor does not have an interest in a settlement by virtue of subsection (3)(a) above if and so long as some person is alive and under the age of 25 during whose life none of the property which may at any time be comprised in the settlement and none of the income which may arise under the settlement can become applicable or payable as mentioned in subsection (3)(a) above except in the event of that person becoming bankrupt or assigning or charging his interest in that property or income.
- (6) Subsection (2) above does not apply where the settlor dies during the year.
- (7) In a case where the settlor has an interest in the settlement only for either or both of the following reasons, namely—
 - (a) that property or income is, or will or may become, applicable for the benefit of or payable to the settlor's spouse, and
 - (b) that the settlor's spouse enjoys a benefit from property or income,
 subsection (2) above does not apply where the spouse dies, or the settlor and the spouse cease to be married, during the year.
- (8) Subsection (2) above does not apply unless the settlor is, and the trustees are, either resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year.

78 Right of recovery

- (1) Where any tax becomes chargeable on and is paid by a person in respect of gains treated as accruing to him under section 77(2) he shall be entitled—
 - (a) to recover the amount of the tax from any trustee of the settlement, and
 - (b) for that purpose to require an inspector to give him a certificate specifying—
 - (i) the amount of the gains accruing to the trustees in respect of which he has paid tax; and
 - (ii) the amount of tax paid;
 and any such certificate shall be conclusive evidence of the facts stated in it.
- (2) In order to ascertain for the purposes of subsection (1) above the amount of tax chargeable for any year by virtue of section 77(2) in respect of gains treated as accruing to any person, those gains shall be regarded as forming the highest part of the amount on which he is chargeable to capital gains tax for the year.
- (3) In a case where—
 - (a) gains are treated as accruing to a person in a year under section 86(4), and
 - (b) gains are treated as accruing to the same person under section 77(2) in the same year,
 subsection (2) above shall have effect subject to section 86(4)(b).

79 Provisions supplemental to sections 77 and 78

- (1) For the purposes of this section and sections 77 and 78 a person is a settlor in relation to a settlement if the settled property consists of or includes property originating from him.
- (2) In this section and sections 77 and 78—

- (a) references to settled property (and to property comprised in a settlement), in relation to any settlor, are references only to property originating from that settlor, and
 - (b) references to income arising under a settlement, in relation to any settlor, are references only to income originating from that settlor.
- (3) References in this section to property originating from a settlor are references to—
 - (a) property which that settlor has provided directly or indirectly for the purposes of the settlement,
 - (b) property representing that property, and
 - (c) so much of any property which represents both property so provided and other property as, on a just apportionment, represents the property so provided.
- (4) References in this section to income originating from a settlor are references to—
 - (a) income from property originating from that settlor, and
 - (b) income provided directly or indirectly by that settlor.
- (5) In subsections (3) and (4) above—
 - (a) references to property or income which a settlor has provided directly or indirectly include references to property or income which has been provided directly or indirectly by another person in pursuance of reciprocal arrangements with that settlor, but do not include references to property or income which that settlor has provided directly or indirectly in pursuance of reciprocal arrangements with another person, and
 - (b) references to property which represents other property include references to property which represents accumulated income from that other property.
- (6) An inspector may by notice require any person who is or has been a trustee of, a beneficiary under, or a settlor in relation to, a settlement to give him within such time as he may direct, not being less than 28 days, such particulars as he thinks necessary for the purposes of this section and sections 77 and 78.
- (7) The reference in section 77(1)(a) to gains accruing to trustees from the disposal of settled property includes a reference to gains treated as accruing to them under section 13 and the reference in section 77(1)(b) to deductions in respect of disposals of the settled property includes a reference to deductions on account of losses treated under section 13 as accruing to the trustees.
- (8) Where the trustees of a settlement have elected that section 691(2) of the Taxes Act (certain income of maintenance funds for historic buildings not to be income of settlor etc.) shall have effect in the case of any settlement or part of a settlement in relation to a year of assessment, sections 77 and 78 and subsections (1) to (7) above shall not apply in relation to the settlement or part for the year.

Migration of settlements, non-resident settlements and dual resident settlements

80 Trustees ceasing to be resident in U.K

- (1) This section applies if the trustees of a settlement become at any time (“the relevant time”) neither resident nor ordinarily resident in the United Kingdom.
- (2) The trustees shall be deemed for all purposes of this Act—

- (a) to have disposed of the defined assets immediately before the relevant time, and
 - (b) immediately to have reacquired them,

at their market value at that time.
- (3) Subject to subsections (4) and (5) below, the defined assets are all assets constituting settled property of the settlement immediately before the relevant time.
- (4) If immediately after the relevant time—
 - (a) the trustees carry on a trade in the United Kingdom through a branch or agency, and
 - (b) any assets are situated in the United Kingdom and either used in or for the purposes of the trade or used or held for the purposes of the branch or agency,

the assets falling within paragraph (b) above shall not be defined assets.
- (5) Assets shall not be defined assets if—
 - (a) they are of a description specified in any double taxation relief arrangements, and
 - (b) were the trustees to dispose of them immediately before the relevant time, the trustees would fall to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to them on the disposal.
- (6) Section 152 shall not apply where the trustees—
 - (a) have disposed of the old assets, or their interest in them, before the relevant time, and
 - (b) acquire the new assets, or their interest in them, after that time,

unless the new assets are excepted from this subsection by subsection (7) below.
- (7) If at the time when the new assets are acquired—
 - (a) the trustees carry on a trade in the United Kingdom through a branch or agency, and
 - (b) any new assets are situated in the United Kingdom and either used in or for the purposes of the trade or used or held for the purposes of the branch or agency,

the assets falling within paragraph (b) above shall be excepted from subsection (6) above.
- (8) In this section “the old assets” and “the new assets” have the same meanings as in section 152.

81 Death of trustee: special rules

- (1) Subsection (2) below applies where—
 - (a) section 80 applies as a result of the death of a trustee of the settlement, and
 - (b) within the period of 6 months beginning with the death, the trustees of the settlement become resident and ordinarily resident in the United Kingdom.
- (2) That section shall apply as if the defined assets were restricted to such assets (if any) as—
 - (a) would be defined assets apart from this section, and
 - (b) fall within subsection (3) or (4) below.

- (3) Assets fall within this subsection if they were disposed of by the trustees in the period which—
 - (a) begins with the death, and
 - (b) ends when the trustees become resident and ordinarily resident in the United Kingdom.
- (4) Assets fall within this subsection if—
 - (a) they are of a description specified in any double taxation relief arrangements,
 - (b) they constitute settled property of the settlement at the time immediately after the trustees become resident and ordinarily resident in the United Kingdom, and
 - (c) were the trustees to dispose of them at that time, the trustees would fall to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to them on the disposal.
- (5) Subsection (6) below applies where—
 - (a) at any time the trustees of a settlement become resident and ordinarily resident in the United Kingdom as a result of the death of a trustee of the settlement, and
 - (b) section 80 applies as regards the trustees of the settlement in circumstances where the relevant time (within the meaning of that section) falls within the period of 6 months beginning with the death.
- (6) That section shall apply as if the defined assets were restricted to such assets (if any) as—
 - (a) would be defined assets apart from this section, and
 - (b) fall within subsection (7) below.
- (7) Assets fall within this subsection if—
 - (a) the trustees acquired them in the period beginning with the death and ending with the relevant time, and
 - (b) they acquired them as a result of a disposal in respect of which relief is given under section 165 or in relation to which section 260(3) applies.

82 Past trustees: liability for tax

- (1) This section applies where—
 - (a) section 80 applies as regards the trustees of a settlement (“the migrating trustees”), and
 - (b) any capital gains tax which is payable by the migrating trustees by virtue of section 80(2) is not paid within 6 months from the time when it became payable.
- (2) The Board may, at any time before the end of the period of 3 years beginning with the time when the amount of the tax is finally determined, serve on any person to whom subsection (3) below applies a notice—
 - (a) stating particulars of the tax payable, the amount remaining unpaid and the date when it became payable;
 - (b) stating particulars of any interest payable on the tax, any amount remaining unpaid and the date when it became payable;

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- (c) requiring that person to pay the amount of the unpaid tax, or the aggregate amount of the unpaid tax and the unpaid interest, within 30 days of the service of the notice.
- (3) This subsection applies to any person who, at any time within the relevant period, was a trustee of the settlement, except that it does not apply to any such person if—
 - (a) he ceased to be a trustee of the settlement before the end of the relevant period, and
 - (b) he shows that, when he ceased to be a trustee of the settlement, there was no proposal that the trustees might become neither resident nor ordinarily resident in the United Kingdom.
- (4) 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 migrating trustees.
- (5) 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.
- (6) For the purposes of this section—
 - (a) where the relevant time (within the meaning of section 80) falls within the period of 12 months beginning with 19th March 1991, the relevant period is the period beginning with that date and ending with that time;
 - (b) in any other case, the relevant period is the period of 12 months ending with the relevant time.

83 Trustees ceasing to be liable to U.K. tax

- (1) This section applies if the trustees of a settlement, while continuing to be resident and ordinarily resident in the United Kingdom, become at any time (“the time concerned”) trustees who fall to be regarded for the purposes of any double taxation relief arrangements—
 - (a) as resident in a territory outside the United Kingdom, and
 - (b) as not liable in the United Kingdom to tax on gains accruing on disposals of assets (“relevant assets”) which constitute settled property of the settlement and fall within descriptions specified in the arrangements.
- (2) The trustees shall be deemed for all purposes of this Act—
 - (a) to have disposed of their relevant assets immediately before the time concerned, and
 - (b) immediately to have reacquired them, at their market value at that time.

84 Acquisition by dual resident trustees

- (1) Section 152 shall not apply where—
 - (a) the new assets are, or the interest in them is, acquired by the trustees of a settlement,
 - (b) at the time of the acquisition the trustees are resident and ordinarily resident in the United Kingdom and fall to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom,

- (c) the assets are of a description specified in the arrangements, and
- (d) were the trustees to dispose of the assets immediately after the acquisition, the trustees would fall to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to them on the disposal.

(2) In this section “the new assets” has the same meaning as in section 152.

85 Disposal of interests in non-resident settlements

- (1) Subsection (1) of section 76 shall not apply to the disposal of an interest in settled property, other than one treated under subsection (2) of that section as made in consideration of obtaining the settled property, if at the time of the disposal the trustees are neither resident nor ordinarily resident in the United Kingdom.
- (2) Subject to subsections (4) and (9) below, subsection (3) below applies where—
 - (a) section 80 applies as regards the trustees of a settlement,
 - (b) after the relevant time (within the meaning of that section) a person disposes of an interest created by or arising under the settlement and the circumstances are such that subsection (1) above prevents section 76(1) applying, and
 - (c) the interest was created for his benefit, or he otherwise acquired it, before the relevant time.
- (3) For the purpose of calculating any chargeable gain accruing on the disposal of the interest, the person disposing of it shall be treated as having—
 - (a) disposed of it immediately before the relevant time, and
 - (b) immediately reacquired it,at its market value at that time.
- (4) Subsection (3) above shall not apply if section 83 applied as regards the trustees in circumstances where the time concerned (within the meaning of that section) fell before the time when the interest was created for the benefit of the person disposing of it or when he otherwise acquired it.
- (5) Subsection (7) below applies where—
 - (a) section 80 applies as regards the trustees of a settlement,
 - (b) after the relevant time (within the meaning of that section) a person disposes of an interest created by or arising under the settlement and the circumstances are such that subsection (1) above prevents section 76(1) applying,
 - (c) the interest was created for his benefit, or he otherwise acquired it, before the relevant time, and
 - (d) section 83 applied as regards the trustees in circumstances where the time concerned (within the meaning of that section) fell in the relevant period.
- (6) The relevant period is the period which—
 - (a) begins when the interest was created for the benefit of the person disposing of it or when he otherwise acquired it, and
 - (b) ends with the relevant time.
- (7) For the purpose of calculating any chargeable gain accruing on the disposal of the interest, the person disposing of it shall be treated as having—
 - (a) disposed of it immediately before the time found under subsection (8) below, and

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(b) immediately reacquired it,
at its market value at that time.

(8) The time is—

- (a) the time concerned (where there is only one such time), or
- (b) the earliest time concerned (where there is more than one because section 83 applied more than once).

(9) Subsection (3) above shall not apply where subsection (7) above applies.

86 Attribution of gains to settlors with interest in non-resident or dual resident settlements

(1) This section applies where the following conditions are fulfilled as regards a settlement in a particular year of assessment—

- (a) the settlement is a qualifying settlement in the year;
- (b) the trustees of the settlement fulfil the condition as to residence specified in subsection (2) below;
- (c) a person who is a settlor in relation to the settlement (“the settlor”) is domiciled in the United Kingdom at some time in the year and is either resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year;
- (d) at any time during the year the settlor has an interest in the settlement;
- (e) by virtue of disposals of any of the settled property originating from the settlor, there is an amount on which the trustees would be chargeable to tax for the year under section 2(2) if the assumption as to residence specified in subsection (3) below were made;
- (f) paragraph 3, 4 or 5 of Schedule 5 does not prevent this section applying.

(2) The condition as to residence is that—

- (a) the trustees are not resident or ordinarily resident in the United Kingdom during any part of the year, or
- (b) the trustees are resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year, but at any time of such residence or ordinary residence they fall to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom.

(3) Where subsection (2)(a) above applies, the assumption as to residence is that the trustees are resident or ordinarily resident in the United Kingdom throughout the year; and where subsection (2)(b) above applies, the assumption as to residence is that the double taxation relief arrangements do not apply.

(4) Where this section applies—

- (a) chargeable gains of an amount equal to that referred to in subsection (1)(e) above shall be treated as accruing to the settlor in the year, and
- (b) those gains shall be treated as forming the highest part of the amount on which he is chargeable to capital gains tax for the year.

(5) Schedule 5 (which contains provisions supplementary to this section) shall have effect.

87 Attribution of gains to beneficiaries

- (1) This section applies to a settlement for any year of assessment during which the trustees are at no time resident or ordinarily resident in the United Kingdom if the settlor or one of the settlors is at any time during that year, or was when he made his settlement, domiciled and either resident or ordinarily resident in the United Kingdom.
- (2) There shall be computed in respect of every year of assessment for which this section applies the amount on which the trustees would have been chargeable to tax under section 2(2) if they had been resident or ordinarily resident in the United Kingdom in the year; and that amount, together with the corresponding amount in respect of any earlier such year so far as not already treated under subsection (4) below or section 89(2) as chargeable gains accruing to beneficiaries under the settlement, is in this section and sections 89 and 90 referred to as the trust gains for the year.
- (3) Where as regards the same settlement and for the same year of assessment—
 - (a) chargeable gains, whether of one amount or of 2 or more amounts, are treated as accruing by virtue of section 86(4), and
 - (b) an amount falls to be computed under subsection (2) above,the amount so computed shall be treated as reduced by the amount, or aggregate of the amounts, mentioned in paragraph (a) above.
- (4) Subject to the following provisions of this section, the trust gains for a year of assessment shall be treated as chargeable gains accruing in that year to beneficiaries of the settlement who receive capital payments from the trustees in that year or have received such payments in any earlier year.
- (5) The attribution of chargeable gains to beneficiaries under subsection (4) above shall be made in proportion to, but shall not exceed, the amounts of the capital payments received by them.
- (6) A capital payment shall be left out of account for the purposes of subsections (4) and (5) above to the extent that chargeable gains have by reason of the payment been treated as accruing to the recipient in an earlier year.
- (7) A beneficiary shall not be charged to tax on chargeable gains treated by virtue of subsection (4) above as accruing to him in any year unless he is domiciled in the United Kingdom at some time in that year.
- (8) In computing an amount under subsection (2) above in respect of the year 1991-92 or a subsequent year of assessment, the effect of sections 77 to 79 shall be ignored.
- (9) For the purposes of this section a settlement arising under a will or intestacy shall be treated as made by the testator or intestate at the time of his death.
- (10) Subsection (1) above does not apply in relation to any year beginning before 6th April 1981; and the reference in subsections (4) and (5) to capital payments received by beneficiaries do not include references to any payment received before 10th March 1981 or any payment received on or after that date and before 6th April 1984 so far as it represents a chargeable gain which accrued to the trustees before 6th April 1981.

88 Gains of dual resident settlements

- (1) Section 87 also applies to a settlement for any year of assessment beginning on or after 6th April 1991 if—

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- (a) the trustees are resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year,
 - (b) at any time of such residence or ordinary residence they fall to be regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (c) the settlor or one of the settlors is at any time during that year, or was when he made his settlement, domiciled and either resident or ordinarily resident in the United Kingdom.
- (2) In respect of every year of assessment for which section 87 applies by virtue of this section, section 87 shall have effect as if the amount to be computed under section 87(2) were the assumed chargeable amount; and the reference in section 87(2) to the corresponding amount in respect of an earlier year shall be construed as a reference to the amount computed under section 87(2) apart from this section or (as the case may be) the amount computed under section 87(2) by virtue of this section.
- (3) For the purposes of subsection (2) above the assumed chargeable amount in respect of a year of assessment is the lesser of the following 2 amounts—
 - (a) the amount on which the trustees would be chargeable to tax for the year under section 2(2) on the assumption that the double taxation relief arrangements did not apply;
 - (b) the amount on which, by virtue of disposals of protected assets, the trustees would be chargeable to tax for the year under section 2(2) on the assumption that those arrangements did not apply.
- (4) For the purposes of subsection (3)(b) above assets are protected assets if—
 - (a) they are of a description specified in the double taxation relief arrangements, and
 - (b) were the trustees to dispose of them at any relevant time, the trustees would fall to be regarded for the purposes of the arrangements as not liable in the United Kingdom to tax on gains accruing to them on the disposal.
- (5) For the purposes of subsection (4) above—
 - (a) the assumption specified in subsection (3)(b) above shall be ignored;
 - (b) a relevant time is any time, in the year of assessment concerned, when the trustees fall to be regarded for the purposes of the arrangements as resident in a territory outside the United Kingdom;
 - (c) if different assets are identified by reference to different relevant times, all of them are protected assets.
- (6) In computing the assumed chargeable amount in respect of a particular year of assessment, the effect of sections 77 to 79 shall be ignored.
- (7) For the purposes of section 87 as it applies by virtue of this section, capital payments received before 6th April 1991 shall be disregarded.

89 Migrant settlements etc

- (1) Where a period of one or more years of assessment for which section 87 applies to a settlement (“a non-resident period”) succeeds a period of one or more years of assessment for each of which section 87 does not apply to the settlement (“a resident period”), a capital payment received by a beneficiary in the resident period shall be

disregarded for the purposes of section 87 if it was not made in anticipation of a disposal made by the trustees in the non-resident period.

(2) Where—

- (a) a non-resident period is succeeded by a resident period, and
- (b) the trust gains for the last year of the non-resident period are not (or not wholly) treated as chargeable gains accruing in that year to beneficiaries,

then, subject to subsection (3) below, those trust gains (or the outstanding part of them) shall be treated as chargeable gains accruing in the first year of the resident period to beneficiaries of the settlement who receive capital payments from the trustees in that year; and so on for the second and subsequent years until the amount treated as accruing to beneficiaries is equal to the amount of the trust gains for the last year of the non-resident period.

(3) Subsections (5) and (7) of section 87 shall apply in relation to subsection (2) above as they apply in relation to subsection (4) of that section.

90 Transfers between settlements

(1) If in a year of assessment for which section 87 or 89(2) applies to a settlement (“the transferor settlement”) the trustees transfer all or part of the settled property to the trustees of another settlement (“the transferee settlement”) then, subject to the following provisions—

- (a) if section 87 applies to the transferee settlement for the year, its trust gains for the year shall be treated as increased by an amount equal to the outstanding trust gains for the year of the transferor settlement or, where part only of the settled property is transferred, to a proportionate part of those trust gains;
- (b) if subsection (2) of section 89 applies to the transferee settlement for the year (otherwise than by virtue of paragraph (c) below), the trust gains referred to in that subsection shall be treated as increased by the amount mentioned in paragraph (a) above;
- (c) if (apart from this paragraph) neither section 87 nor section 89(2) applies to the transferee settlement for the year, subsection (2) of section 89 shall apply to it as if the year were the first year of a resident period succeeding a non-resident period and the trust gains referred to in that subsection were equal to the amount mentioned in paragraph (a) above.

(2) Subject to subsection (3) below, the reference in subsection (1)(a) above to the outstanding trust gains for the year of the transferor settlement is a reference to the amount of its trust gains for the year so far as they are not treated under section 87(4) as chargeable gains accruing to beneficiaries in that year.

(3) Where section 89(2) applies to the transferor settlement for the year, the reference in subsection (1)(a) above to the outstanding trust gains of the settlement is a reference to the trust gains referred to in section 89(2) so far as not treated as chargeable gains accruing to beneficiaries in that or an earlier year.

(4) This section shall not apply to a transfer so far as it is made for consideration in money or money’s worth.

91 Increase in tax payable under section 87 or 89(2)

(1) This section applies where—

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- (a) a capital payment is made by the trustees of a settlement on or after 6th April 1992,
 - (b) the payment is made in a year of assessment for which section 87 applies to the settlement or in circumstances where section 89(2) treats chargeable gains as accruing in respect of the payment,
 - (c) the whole payment is, in accordance with sections 92 to 95, matched with a qualifying amount of the settlement for a year of assessment falling at some time before that immediately preceding the one in which the payment is made, and
 - (d) a beneficiary is charged to tax in respect of the payment by virtue of section 87 or 89(2).
- (2) The tax payable by the beneficiary in respect of the payment shall be increased by the amount found under subsection (3) below, except that it shall not be increased beyond the amount of the payment; and an assessment may charge tax accordingly.
- (3) The amount is one equal to the interest that would be yielded if an amount equal to the tax which would be payable by the beneficiary in respect of the payment (apart from this section) carried interest for the chargeable period at the rate of 10 per cent. per annum.
- (4) The chargeable period is the period which—
- (a) begins with the later of the 2 days specified in subsection (5) below, and
 - (b) ends with 30th November in the year of assessment following that in which the capital payment is made.
- (5) The 2 days are—
- (a) 1st December in the year of assessment following that for which the qualifying amount mentioned in subsection (1)(c) above is the qualifying amount, and
 - (b) 1st December falling 6 years before 1st December in the year of assessment following that in which the capital payment is made.
- (6) The Treasury may by order substitute for the percentage specified in subsection (3) above (whether as originally enacted or as amended at any time under this subsection) such other percentage as they think fit.
- (7) An order under subsection (6) above may provide that an alteration of the percentage is to have effect for periods beginning on or after a day specified in the order in relation to interest running for chargeable periods beginning before that day (as well as interest running for chargeable periods beginning on or after that day).
- (8) Sections 92 to 95 have effect for the purpose of supplementing subsections (1) to (5) above.

92 Qualifying amounts and matching

- (1) If section 87 applies to a settlement for the year 1992-93 or a subsequent year of assessment the settlement shall have a qualifying amount for the year, and the amount shall be the amount computed for the settlement in respect of the year concerned under section 87(2).
- (2) The settlement shall continue to have the same qualifying amount (if any) for the year 1990-91 or 1991-92 as it had for that year by virtue of paragraph 2 of Schedule 17 to the Finance Act 1991 (subject to subsection (3) below).

- (3) Where—
- (a) capital payments are made by the trustees of a settlement on or after 6th April 1991, and
 - (b) the payments are made in a year or years of assessment for which section 87 applies to the settlement or in circumstances where section 89(2) treats chargeable gains as accruing in respect of the payments,
- the payments shall be matched with qualifying amounts of the settlement for the year 1990-91 and subsequent years of assessment (so far as the amounts are not already matched with payments by virtue of this subsection).
- (4) In applying subsection (3) above—
- (a) earlier payments shall be matched with earlier amounts;
 - (b) payments shall be carried forward to be matched with future amounts (so far as not matched with past amounts);
 - (c) a payment which is less than an unmatched amount (or part) shall be matched to the extent of the payment;
 - (d) a payment which is more than an unmatched amount (or part) shall be matched, as to the excess, with other unmatched amounts.
- (5) Where part only of a capital payment is taxable, the part which is not taxable shall not fall to be matched until taxable parts of other capital payments (if any) made in the same year of assessment have been matched; and subsections (3) and (4) above shall have effect accordingly.
- (6) For the purposes of subsection (5) above a part of a capital payment is taxable if the part results in chargeable gains accruing under section 87 or 89(2).

93 Matching: special cases

- (1) Subsection (2) or (3) below applies (if the case permits) where—
- (a) a capital payment is made by the trustees of a settlement on or after 6th April 1992,
 - (b) the payment is made in a year of assessment for which section 87 applies to the settlement or in circumstances where section 89(2) treats chargeable gains as accruing in respect of the payment, and
 - (c) a beneficiary is charged to tax in respect of the payment by virtue of section 87 or 89(2).
- (2) If the whole payment is matched with qualifying amounts of the settlement for different years of assessment, each falling at some time before that immediately preceding the one in which the payment is made, then—
- (a) the capital payment (“the main payment”) shall be treated as being as many payments (“subsidiary payments”) as there are qualifying amounts,
 - (b) a qualifying amount shall be attributed to each subsidiary payment and each payment shall be quantified accordingly, and
 - (c) the tax in respect of the main payment shall be divided up and attributed to the subsidiary payments on the basis of a just and reasonable apportionment,
- and section 91 shall apply in the case of each subsidiary payment, the qualifying amount attributed to it and the tax attributed to it.

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- (3) If part of the payment is matched with a qualifying amount of the settlement for a year of assessment falling at some time before that immediately preceding the one in which the payment is made, or with qualifying amounts of the settlement for different years of assessment each so falling, then—
- (a) only tax in respect of so much of the payment as is so matched shall be taken into account, and references below to the tax shall be construed accordingly,
 - (b) the capital payment shall be divided into 2, the first part representing so much as is matched as mentioned above and the second so much as is not,
 - (c) the second part shall be ignored, and
 - (d) the first part shall be treated as a capital payment, the whole of which is matched with the qualifying amount or amounts mentioned above, and the whole of which is charged to the tax,
- and section 91, or that section and subsections (1) and (2) above (as the case may be), shall apply in the case of the capital payment arrived at under this subsection, the qualifying amount or amounts, and the tax.
- (4) Section 91 and subsections (1) to (3) above shall apply (with appropriate modifications) where a payment or part of a payment is to any extent matched with part of an amount.

94 Transfers of settled property where qualifying amounts not wholly matched

- (1) This section applies if—
- (a) in the year 1990-91 or a subsequent year of assessment the trustees of a settlement (“the transferor settlement”) transfer all or part of the settled property to the trustees of another settlement (“the transferee settlement”), and
 - (b) looking at the state of affairs at the end of the year of assessment in which the transfer is made, there is a qualifying amount of the transferor settlement for a particular year of assessment (“the year concerned”) and the amount is not (or not wholly) matched with capital payments.
- (2) If the whole of the settled property is transferred—
- (a) the transferor settlement’s qualifying amount for the year concerned shall be treated as reduced by so much of it as is not matched, and
 - (b) so much of that amount as is not matched shall be treated as (or as an addition to) the transferee settlement’s qualifying amount for the year concerned.
- (3) If part of the settled property is transferred—
- (a) so much of the transferor settlement’s qualifying amount for the year concerned as is not matched shall be apportioned on such basis as is just and reasonable, part being attributed to the transferred property and part to the property not transferred,
 - (b) the transferor settlement’s qualifying amount for the year concerned shall be treated as reduced by the part attributed to the transferred property, and
 - (c) that part shall be treated as (or as an addition to) the transferee settlement’s qualifying amount for the year concerned.
- (4) If the transferee settlement did not in fact exist in the year concerned, it shall be treated as having been made at the beginning of that year.

- (5) If the transferee settlement did in fact exist in the year concerned, this section shall apply whether or not section 87 applies to the settlement for that year or for any year of assessment falling before that year.

95 Matching after transfer

- (1) This section applies as regards the transferee settlement in a case where section 94 applies.
- (2) Matching shall be made under section 92 by reference to the state of affairs existing immediately before the beginning of the year of assessment in which the transfer is made, and the transfer shall not affect matching so made.
- (3) Subject to subsection (2) above, payments shall be matched with amounts in accordance with section 92 and by reference to amounts arrived at under section 94.

96 Payments by and to companies

- (1) Where a capital payment is received from a qualifying company which is controlled by the trustees of a settlement at the time it is received, for the purposes of sections 87 to 90 it shall be treated as received from the trustees.
- (2) Where a capital payment is received from the trustees of a settlement (or treated as so received by virtue of subsection (1) above) and it is received by a non-resident qualifying company, the rules in subsections (3) to (6) below shall apply for the purposes of sections 87 to 90.
- (3) If the company is controlled by one person alone at the time the payment is received, and that person is then resident or ordinarily resident in the United Kingdom, it shall be treated as a capital payment received by that person.
- (4) If the company is controlled by 2 or more persons (taking each one separately) at the time the payment is received, then—
- (a) if one of them is then resident or ordinarily resident in the United Kingdom, it shall be treated as a capital payment received by that person;
 - (b) if 2 or more of them are then resident or ordinarily resident in the United Kingdom (“the residents”) it shall be treated as being as many equal capital payments as there are residents and each of them shall be treated as receiving one of the payments.
- (5) If the company is controlled by 2 or more persons (taking them together) at the time the payment is received and each of them is then resident or ordinarily resident in the United Kingdom—
- (a) it shall be treated as being as many capital payments as there are participators in the company at the time it is received, and
 - (b) each such participator (whatever his residence or ordinary residence) shall be treated as receiving one of the payments, quantified on the basis of a just and reasonable apportionment,
- but where (by virtue of the preceding provisions of this subsection and apart from this provision) a participator would be treated as receiving less than one-twentieth of the payment actually received by the company, he shall not be treated as receiving anything by virtue of this subsection.

- (6) For the purposes of subsection (1) above a qualifying company is a close company or a company which would be a close company if it were resident in the United Kingdom.
- (7) For the purposes of subsection (1) above a company is controlled by the trustees of a settlement if it is controlled by the trustees alone or by the trustees together with a person who (or persons each of whom) falls within subsection (8) below.
- (8) A person falls within this subsection if—
 - (a) he is a settlor in relation to the settlement, or
 - (b) he is connected with a person falling within paragraph (a) above.
- (9) For the purposes of subsection (2) above a non-resident qualifying company is a company which is not resident in the United Kingdom and would be a close company if it were so resident.
- (10) For the purposes of this section—
 - (a) the question whether a company is controlled by a person or persons shall be construed in accordance with section 416 of the Taxes Act, but in deciding that question for those purposes no rights or powers of (or attributed to) an associate or associates of a person shall be attributed to him under section 416(6) if he is not a participator in the company;
 - (b) “participator” has the meaning given by section 417(1) of the Taxes Act.
- (11) This section shall apply to payments received on or after 19th March 1991.

97 Supplementary provisions

- (1) In sections 87 to 96 and this section “capital payment”—
 - (a) means any payment which is not chargeable to income tax on the recipient or, in the case of a recipient who is neither resident nor ordinarily resident in the United Kingdom, any payment received otherwise than as income, but
 - (b) does not include a payment under a transaction entered into at arm’s length if it is received on or after 19th March 1991.
- (2) In subsection (1) above references to a payment include references to the transfer of an asset and the conferring of any other benefit, and to any occasion on which settled property becomes property to which section 60 applies.
- (3) The fact that the whole or part of a benefit is by virtue of section 740(2)(b) of the Taxes Act treated as the recipient’s income for a year of assessment after that in which it is received—
 - (a) shall not prevent the benefit or that part of it being treated for the purposes of sections 87 to 96 as a capital payment in relation to any year of assessment earlier than that in which it is treated as his income; but
 - (b) shall preclude its being treated for those purposes as a capital payment in relation to that or any later year of assessment.
- (4) For the purposes of sections 87 to 96 the amount of a capital payment made by way of loan, and of any other capital payment which is not an outright payment of money, shall be taken to be equal to the value of the benefit conferred by it.
- (5) For the purposes of sections 87 to 90 a capital payment shall be regarded as received by a beneficiary from the trustees of a settlement if—

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- (a) he receives it from them directly or indirectly, or
 - (b) it is directly or indirectly applied by them in payment of any debt of his or is otherwise paid or applied for his benefit, or
 - (c) it is received by a third person at the beneficiary's direction.
- (6) Section 16(3) shall not prevent losses accruing to trustees in a year of assessment for which section 87 of this Act or section 17 of the 1979 Act applied to the settlement from being allowed as a deduction from chargeable gains accruing in any later year (so far as they have not previously been set against gains for the purposes of a computation under either of those sections or otherwise).
- (7) In sections 87 to 96 and in the preceding provisions of this section—
 - “settlement” and “settlor” have the meaning given by section 681(4) of the Taxes Act and “settlor” includes, in the case of a settlement arising under a will or intestacy, the testator or intestate, and
 - “settled property” shall be construed accordingly.
- (8) In a case where—
 - (a) at any time on or after 19th March 1991 a capital payment is received from the trustees of a settlement or is treated as so received by virtue of section 96(1),
 - (b) it is received by a person, or treated as received by a person by virtue of section 96(2) to (5),
 - (c) at the time it is received or treated as received, the person is not (apart from this subsection) a beneficiary of the settlement, and
 - (d) subsection (9) or (10) below does not prevent this subsection applying,for the purposes of sections 87 to 90 the person shall be treated as a beneficiary of the settlement as regards events occurring at or after that time.
- (9) Subsection (8) above shall not apply where a payment mentioned in paragraph (a) is made in circumstances where it is treated (otherwise than by subsection (8) above) as received by a beneficiary.
- (10) Subsection (8) above shall not apply so as to treat—
 - (a) the trustees of the settlement referred to in that subsection, or
 - (b) the trustees of any other settlement,as beneficiaries of the settlement referred to in that subsection.

98 Power to obtain information for purposes of sections 87 to 90

- (1) The Board may by notice require any person to furnish them within such time as they may direct, not being less than 28 days, with such particulars as they think necessary for the purposes of sections 87 to 90.
- (2) Subsections (2) to (5) of section 745 of the Taxes Act shall have effect in relation to subsection (1) above as they have effect in relation to section 745(1), but in their application by virtue of this subsection—
 - (a) references to Chapter III of Part XVII of the Taxes Act shall be construed as references to sections 87 to 90; and
 - (b) the expressions “settlement” and “settlor” have the same meanings as in those sections.

CHAPTER III

COLLECTIVE INVESTMENT SCHEMES AND INVESTMENT TRUSTS

99 Application of Act to unit trust schemes

- (1) This Act shall apply in relation to any unit trust scheme as if—
 - (a) the scheme were a company,
 - (b) the rights of the unit holders were shares in the company, and
 - (c) in the case of an authorised unit trust, the company were resident and ordinarily resident in the United Kingdom,
 except that nothing in this section shall be taken to bring a unit trust scheme within the charge to corporation tax on chargeable gains.
- (2) Subject to subsection (3) below, in this Act—
 - (a) “unit trust scheme” has the same meaning as in the Financial Services Act 1986,
 - (b) “authorised unit trust” has the meaning given by section 468(6) of the Taxes Act.
- (3) The Treasury may by regulations provide that any scheme of a description specified in the regulations shall be treated as not being a unit trust scheme for the purposes of this Act; and regulations under this section may contain such supplementary and transitional provisions as appear to the Treasury to be necessary or expedient.

100 Exemption for authorised unit trusts etc

- (1) Gains accruing to an authorised unit trust, an investment trust or a court investment fund shall not be chargeable gains.
- (2) If throughout a year of assessment all the issued units in a unit trust scheme (other than an authorised unit trust) are assets such that any gain accruing if they were disposed of by the unit holder would be wholly exempt from capital gains tax or corporation tax (otherwise than by reason of residence) gains accruing to the unit trust scheme in that year of assessment shall not be chargeable gains.
- (3) In this Act “court investment fund” means a fund established under section 42 of the Administration of Justice Act 1982.

101 Transfer of company’s assets to investment trust

- (1) Where section 139 has applied on the transfer of a company’s business (in whole or in part) to a company which at the time of the transfer was not an investment trust, then if—
 - (a) at any time after the transfer the company becomes for an accounting period an investment trust, and
 - (b) at the beginning of that accounting period the company still owns any of the assets of the business transferred,
 the company shall be treated for all the purposes of this Act as if immediately after the transfer it had sold, and immediately reacquired, the assets referred to in paragraph (b) above at their market value at that time.

- (2) Notwithstanding any limitation on the time for making assessments, an assessment to corporation tax chargeable in consequence of subsection (1) above may be made at any time within 6 years after the end of the accounting period referred to in subsection (1) above, and where under this section a company is to be treated as having disposed of, and reacquired, an asset of a business, all such recomputations of liability in respect of other disposals and all such adjustments of tax, whether by way of assessment or by way of discharge or repayment of tax, as may be required in consequence of the provisions of this section shall be carried out.

102 Collective investment schemes with property divided into separate parts

- (1) Subsection (2) 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.
- (2) If a participant exchanges rights in one such part for rights in another, section 127 shall not prevent the exchange constituting a disposal and acquisition for the purposes of this Act.
- (3) The reference in subsection (2) above to section 127—
- (a) includes a reference to that section as applied by section 132, but
 - (b) does not include a reference to section 127 as applied by section 135;
- and in this section “participant” shall be construed in accordance with the Financial Services Act 1986.

103 Restriction on availability of indexation allowance

- (1) An indexation allowance shall not be made in the case of a disposal if each of the 2 conditions set out below is fulfilled.
- (2) The first condition is that the disposal is of rights in property to which arrangements which constitute a collective investment scheme relate.
- (3) Subject to subsection (4) below, the second condition is that, at some time in the relevant ownership period, not less than 90 per cent. of the market value (at that time) of the investment property then falling within the arrangements was represented by—
- (a) non-chargeable assets,
 - (b) shares in a building society, or
 - (c) such assets and such shares.
- (4) In a case where—
- (a) the arrangements are ones under which 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 disposal is of rights in property falling within a separate part,
- subsection (3) above shall have effect as if the reference to the arrangements were to the separate part.

- (5) For the purposes of subsection (3) above the relevant ownership period is the period which begins with the later of—
- (a) the earliest date on which any relevant consideration was given for the acquisition of the rights, and
 - (b) 1st April 1982,
- and ends with the day on which the disposal is made.
- (6) For the purposes of subsection (3) above investment property is all property other than cash awaiting investment.
- (7) For the purposes of subsection (3) above an asset is a non-chargeable asset if, were it to be disposed of—
- (a) at the time the rights are disposed of, and
 - (b) by a person resident in the United Kingdom,
- any gain accruing on the disposal would not be a chargeable gain.
- (8) For the purposes of subsection (5) above relevant consideration is consideration which, assuming the application of Chapter III of Part II to the disposal of the rights, would fall to be taken into account in determining the amount of the gain or loss accruing on the disposal, whether that consideration was given by or on behalf of the person making the disposal or by or on behalf of a predecessor in title of his whose acquisition cost represents (directly or indirectly) the whole or any part of the acquisition cost of the person making the disposal.

PART IV

SHARES, SECURITIES, OPTIONS ETC.

CHAPTER I

GENERAL

Share pooling, identification of securities, and indexation

104 Share pooling: general interpretative provisions

- (1) Any number of securities of the same class acquired by the same person in the same capacity shall for the purposes of this Act be regarded as indistinguishable parts of a single asset growing or diminishing on the occasions on which additional securities of the same class are acquired or some of the securities of that class are disposed of.
- (2) Subsection (1) above—
- (a) does not apply to any securities which were acquired before 6th April 1982 or in the case of a company 1st April 1982; and
 - (b) has effect subject to sections 105, 106 and 107.
- (3) For the purposes of this section and sections 105, 107, 110 and 114—
- “a new holding” is a holding of securities which, by virtue of subsection (1) above, is to be regarded as a single asset;

“securities” does not include relevant securities as defined in section 108 but, subject to that, means—

- (i) shares or securities of a company; and
- (ii) any other assets where they are of a nature to be dealt in without identifying the particular assets disposed of or acquired; and

“relevant allowable expenditure” has the meaning assigned to it by section 53(2)(b) and (3);

but shares or securities of a company shall not be treated as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt with on a recognised stock exchange.

(4) This section and sections 110 and 114—

- (a) shall apply separately in relation to any securities held by a person to whom they were issued as an employee of the company or of any other person on terms which restrict his rights to dispose of them, so long as those terms are in force, and
- (b) while applying separately to any such securities, shall have effect as if the owner held them in a capacity other than that in which he holds any other securities of the same class.

(5) Nothing in this section or sections 110 and 114 shall be taken as affecting the manner in which the market value of any securities is to be ascertained.

(6) Without prejudice to the generality of subsections (1) and (2) above, a disposal of securities in a new holding, other than a disposal of the whole of it, is a disposal of part of an asset and the provisions of this Act relating to the computation of a gain accruing on a disposal of part of an asset shall apply accordingly.

105 Disposal on or before day of acquisition of shares and other unidentified assets

(1) The following provisions shall apply where securities of the same class are acquired or disposed of by the same person on the same day and in the same capacity—

- (a) all the securities so acquired shall be treated as acquired by a single transaction and all the securities so disposed of shall be treated as disposed of by a single transaction, and
- (b) all the securities so acquired shall, so far as their quantity does not exceed that of the securities so disposed of, be identified with those securities.

(2) Subject to section 106, where the quantity of the securities so disposed of exceeds the quantity of the securities so acquired, then so far as the excess is not required by any provision of section 104 or 107 or Schedule 2 to be identified with securities acquired before the day of the disposal, it shall be treated as diminishing a quantity subsequently acquired, and a quantity so acquired at an earlier date, rather than one so acquired at a later date.

106 Disposal of shares and securities by company within prescribed period of acquisition

(1) For the purposes of corporation tax on chargeable gains, shares disposed of by a company shall be identified in accordance with the following provisions where—

- (a) the number of shares of that class held by the company at any time during the prescribed period before the disposal amounted to not less than 2 per cent. of the number of issued shares of that class; and
 - (b) shares of that class have been or are acquired by the company within the prescribed period before or after the disposal.
- (2) Where a company is a member of a group, shares held or acquired by another member of the group shall be treated for the purposes of paragraphs (a) and (b) of subsection (1) above as held or acquired by that company and for the purposes of paragraph (b) any shares acquired by that company from another company which was a member of the group throughout the prescribed period before and after the disposal shall be disregarded.
- (3) References in subsection (1) above to a company's disposing, holding and acquiring shares are references to its doing so in the same capacity; and references in that subsection to the holding or acquisition of shares do not include references to the holding or acquisition of shares as trading stock.
- (4) The shares disposed of shall be identified—
 - (a) with shares acquired as mentioned in subsection (1)(b) above ("available shares") rather than other shares; and
 - (b) with available shares acquired by the company making the disposal rather than other available shares.
- (5) The shares disposed of shall be identified with available shares acquired before the disposal rather than available shares acquired after the disposal and—
 - (a) in the case of available shares acquired before the disposal, with those acquired later rather than those acquired earlier;
 - (b) in the case of available shares acquired after the disposal, with those acquired earlier rather than those acquired later.
- (6) Where available shares could be identified—
 - (a) with shares disposed of either by the company that acquired them or by another company; or
 - (b) with shares disposed of either at an earlier date or at a later date,
 they shall in each case be identified with the former rather than the latter; and the identification of any available shares with shares disposed of by a company on any occasion shall preclude their identification with shares comprised in a later disposal by that company or in a disposal by another company.
- (7) Where a company disposes of shares which have been identified with shares disposed of by another company, the shares disposed of by the first-mentioned company shall be identified with the shares that would, apart from this section, have been comprised in the disposal by the other company or, if those shares have themselves been identified with shares disposed of by a third company, with the shares that would, apart from this section, have been comprised in the disposal by the third company and so on.
- (8) Where shares disposed of by one company are identified with shares acquired by another, the sums allowable to the company making the disposal under section 38 shall be—
 - (a) the sums allowable under subsection (1)(c) of that section; and

- (b) the sums that would have been allowable under subsection (1)(a) and (b) of that section to the company that acquired the shares if they have been disposed of by that company.
- (9) This section shall have effect subject to section 105(1).
- (10) In this section—
 - “group” has the meaning given in section 170(2) to (14);
 - “the prescribed period” means—
 - (a) in the case of a disposal through a stock exchange or Automated Real-Time Investments Exchange Limited, one month;
 - (b) in any other case, 6 months.
- (11) Shares shall not be treated for the purpose of this section as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt with on such a stock exchange.
- (12) This section applies to securities as defined in section 132 as it applies to shares.

107 Identification of securities etc: general rules

- (1) Where a person disposes of securities, the securities disposed of shall be identified in accordance with the provisions of this section with securities of the same class acquired by him which could be comprised in that disposal.
- (2) This section applies notwithstanding that securities disposed of are otherwise identified by the disposal or by a transfer or delivery giving effect to it (but so that where a person disposes of securities in one capacity, they shall not be identified with securities which he holds or can dispose of only in some other capacity).
- (3) Without prejudice to section 105 if, within a period of 10 days, a number of securities are acquired and subsequently a number of securities are disposed of and, apart from this subsection—
 - (a) the securities acquired would increase the size of, or constitute a new holding, and
 - (b) the securities disposed of would decrease the size of, or extinguish, the same new holding,then, subject to subsections (4) and (5) below, the securities disposed of shall be identified with the securities acquired and none of them shall be regarded as forming part of an existing new holding or constituting a new holding.
- (4) If, in a case falling within subsection (3) above, the number of securities acquired exceeds the number disposed of—
 - (a) the excess shall be regarded as forming part of an existing new holding or, as the case may be, as constituting a new holding; and
 - (b) if the securities acquired were acquired at different times (within the 10 days referred to in subsection (3) above) the securities disposed of shall be identified with securities acquired at an earlier time rather than with securities acquired at a later time.
- (5) If, in a case falling within subsection (3) above, the number of securities disposed of exceeds the number acquired, the excess shall not be identified in accordance with that subsection.

- (6) Securities which, by virtue of subsection (3) above, do not form part of or constitute a new holding shall be treated for the purposes of section 54(2) as relevant securities within the meaning of section 108.
- (7) The identification rules set out in subsections (8) and (9) below have effect subject to section 105 but, subject to that, have priority according to the order in which they are so set out.
- (8) Securities disposed of shall be identified with securities forming part of a new holding rather than with other securities.
- (9) Securities disposed of shall be identified with securities forming part of a 1982 holding, within the meaning of section 109, rather than with other securities and, subject to that, shall be identified with securities acquired at a later time rather than with securities acquired at an earlier time.

108 Identification of relevant securities

- (1) In this section “relevant securities” means—
 - (a) securities, within the meaning of section 710 of the Taxes Act;
 - (b) deep discount securities, within the meaning of Schedule 4 to that Act; and
 - (c) securities which are, or have at any time been, material interests in a non-qualifying offshore fund, within the meaning of Chapter V of Part XVII of that Act;

and shares or securities of a company shall not be treated for the purposes of this section as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt with on a recognised stock exchange.
- (2) Where a person disposes of relevant securities, the securities disposed of shall be identified in accordance with the rules contained in this section with the securities of the same class acquired by him which could be comprised in that disposal, and shall be so identified notwithstanding that they are otherwise identified by the disposal or by a transfer or delivery giving effect to it (but so that where a person disposes of securities in one capacity, they shall not be identified with securities which he holds or can dispose of only in some other capacity).
- (3) Relevant securities disposed of on an earlier date shall be identified before securities disposed of on a later date, and the identification of the securities first disposed of shall accordingly determine the securities which could be comprised in the later disposal.
- (4) Relevant securities disposed of for transfer or delivery on a particular date or in a particular period—
 - (a) shall not be identified with securities acquired for transfer or delivery on a later date or in a later period; and
 - (b) shall be identified with securities acquired for transfer or delivery on or before that date or in or before that period, but on or after the date of the disposal, rather than with securities not so acquired.
- (5) The relevant securities disposed of shall be identified—
 - (a) with securities acquired within the 12 months preceding the disposal rather than with securities not so acquired, and with securities so acquired on an earlier date rather than with securities so acquired on a later date, and

- (b) subject to paragraph (a) above, with securities acquired on a later date rather than with securities acquired on an earlier date; and
 - (c) with securities acquired at different times on any one day in as nearly as may be equal proportions.
- (6) The rules contained in the preceding subsections shall have priority according to the order in which they are so contained.
- (7) Notwithstanding anything in subsections (3) to (5) above, where, under arrangements designed to postpone the transfer or delivery of relevant securities disposed of, a person by a single bargain acquires securities for transfer or delivery on a particular date or in a particular period and disposes of them for transfer or delivery on a later date or in a later period, then—
 - (a) the securities disposed of by that bargain shall be identified with the securities thereby acquired; and
 - (b) securities previously disposed of which, but for the operation of paragraph (a) above in relation to acquisitions for transfer or delivery on the earlier date or in the earlier period, would have been identified with the securities acquired by that bargain—
 - (i) shall, subject to subsection (3) above, be identified with any available securities acquired for such transfer or delivery (that is to say, any securities so acquired other than securities to which paragraph (a) above applies and other than securities with which securities disposed of for such transfer or delivery would be identified apart from this subsection); and
 - (ii) in so far as they cannot be so identified shall be treated as disposed of for transfer or delivery on the later date, or in the later period, mentioned above.
- (8) This section shall have effect subject to section 106 but shall not apply—
 - (a) where the disposal is of quoted securities (within the meaning of paragraph 8 of Schedule 2), unless an election has been made with respect to the securities under paragraph 4 of that Schedule or under section 109(4), or
 - (b) where the disposal is of securities as respects which paragraph 17 or 18 of Schedule 2 has effect.

109 Pre-April 1982 share pools

- (1) This section has effect in relation to any 1982 holding, and in this section “1982 holding” means a holding which, immediately before the coming into force of this section, was a 1982 holding for the purposes of Part II of Schedule 19 to the Finance Act 1985.
- (2) Subject to subsections (3) to (5) below—
 - (a) the holding shall continue to be regarded as a single asset for the purposes of this Act, but one which cannot grow by the acquisition of additional securities of the same class, and
 - (b) every sum, which on a disposal of the holding, would be an item of relevant allowable expenditure shall be regarded for the purposes of section 54 as having been incurred at such a time that the month which determines RI in the formula in subsection (1) of that section is March 1982.

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

Securities of a company shall not be treated for the purposes of this section as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt with on a recognised stock exchange.

- (3) Nothing in subsection (2) above affects the operation of section 127 in relation to the holding, but without prejudice to section 131.
- (4) If a person so elects, quoted securities, as defined in paragraph 8 of Schedule 2 which are covered by the election—
 - (a) shall be treated as an accretion to an existing 1982 holding or, as the case may be, as constituting a new 1982 holding; and
 - (b) shall be excluded from paragraph 2 of that Schedule;
 and the relevant allowable expenditure which is attributable to that 1982 holding shall be adjusted or determined accordingly.
- (5) Paragraphs 4(8) to (13) and 5 to 8 of Schedule 2 shall apply in relation to an election under subsection (4) above as they apply in relation to an election under paragraph 4(2) of that Schedule, but with the substitution for any reference to 19th March 1968 of a reference to 31st March 1985 in the case of holdings or disposals by companies and 5th April 1985 in any other case.
- (6) For the purpose of computing the indexation allowance (if any) on a disposal of a 1982 holding, the relevant allowable expenditure attributable to the holding on the coming into force of this section shall be the amount which, if the holding had been disposed of immediately before the coming into force of this section, would have been the relevant allowable expenditure in relation to that holding on that disposal, and for the purposes of section 54(4) relevant allowable expenditure attributable to a 1982 holding shall be deemed to be expenditure falling within section 38(1)(a).

110 New holdings: indexation allowance

- (1) This section and section 114—
 - (a) apply in place of section 54 in relation to a disposal of a new holding for the purpose of computing the indexation allowance;
 - (b) have effect subject to sections 105 and 106.
- (2) On any disposal of a new holding, other than a disposal of the whole of it—
 - (a) the qualifying expenditure and the indexed pool of expenditure shall each be apportioned between the part disposed of and the remainder in the same proportions as, under this Act, the relevant allowable expenditure is apportioned; and
 - (b) the indexation allowance is the amount by which the portion of the indexed pool which is attributed to the part disposed of exceeds the portion of the qualifying expenditure which is attributed to that part.
- (3) On a disposal of the whole of a new holding, the indexation allowance is the amount by which the indexed pool of expenditure at the time of the disposal exceeds the qualifying expenditure at that time.
- (4) In relation to a new holding, the qualifying expenditure is at any time the amount which would be the aggregate of the relevant allowable expenditure in relation to a disposal of the whole of the holding occurring at that time.

- (5) Subject to subsection (6) below and section 114 the indexed pool of expenditure shall come into being at the time that the holding comes into being or, if it is earlier, when any of the qualifying expenditure is incurred and shall at the time it comes into being be the same as the qualifying expenditure at that time.
- (6) In relation to a new holding which was in existence immediately before the coming into force of this section, the indexed pool of expenditure on the coming into force of this section shall be the same as it was for the purposes of Part III of Schedule 19 to the Finance Act 1985 immediately before then.
- (7) Any reference below to an operative event is a reference to any event (whether a disposal or otherwise) which has the effect of reducing or increasing the qualifying expenditure referable to the new holding.
- (8) Whenever an operative event occurs—
- there shall be added to the indexed pool of expenditure the indexed rise, as calculated under subsection (10) or (11) below, in the value of the pool since the last operative event or, if there has been no previous operative event, since the pool came into being; and
 - if the operative event results in an increase in the qualifying expenditure then, in addition to any increase under paragraph (a) above, the same increase shall be made to the indexed pool of expenditure; and
 - if the operative event is a disposal resulting in a reduction in the qualifying expenditure, the indexed pool of expenditure shall be reduced in the same proportion as the qualifying expenditure is reduced; and
 - if the operative event results in a reduction in the qualifying expenditure but is not a disposal, the same reduction shall be made to the indexed pool of expenditure.
- (9) Where the operative event is a disposal—
- any addition under subsection (8)(a) above shall be made before the calculation of the indexation allowance under subsection (2) above; and
 - the reduction under subsection (8)(c) above shall be made after that calculation.
- (10) At the time of any operative event, the indexed rise in the indexed pool of expenditure is a sum produced by multiplying the value of the pool immediately before the event by a figure expressed as a decimal and determined, subject to subsection (11) below, by the formula—
- $$\frac{RE - RL}{RL}$$
- where—
- RE is the retail prices index for the month in which the operative event occurs; and
- RL is the retail prices index for the month in which occurred the immediately preceding operative event or, if there has been no such event, in which the indexed pool of expenditure came into being.
- (11) If RE, as defined in subsection (10) above, is equal to or less than RL, as so defined, the indexed rise is nil.

111 Indexation: building society etc. shares

An indexation allowance shall not be made in the case of—

- (a) shares in a building society, or
- (b) shares in a registered industrial and provident society as defined in section 486 of the Taxes Act.

112 Parallel pooling regulations

- (1) The Capital Gains Tax (Parallel Pooling) Regulations 1986 made by the Treasury under paragraph 21 of Schedule 19 to the Finance Act 1985 shall continue to have effect notwithstanding the repeal by this Act of that Schedule, and for the purposes of section 14 of the Interpretation Act 1978 that paragraph shall be deemed not to have been repealed.
- (2) An election under Schedule 6 to the Finance Act 1983 which has not been revoked before 6th April 1992 shall not have effect in relation to any disposal after 5th April 1992 and may, if the Board allow, be revoked by notice to the inspector.
- (3) 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 in consequence of a revocation under subsection (2) above.

113 Calls on shares

- (1) Subsection (2) below applies where—
 - (a) on a disposal to which section 53 applies, the relevant allowable expenditure is or includes the amount or value of the consideration given for the issue of shares or securities in, or debentures of, a company; and
 - (b) the whole or some part of that consideration was given after the expiry of the period of 12 months beginning on the date of the issue of the shares, securities or debentures.
- (2) For the purpose of computing the indexation allowance (if any) on the disposal referred to in subsection (1)(a) above—
 - (a) so much of the consideration as was given after the expiry of the period referred to in subsection (1)(b) above shall be regarded as an item of expenditure separate from any consideration given during that period; and
 - (b) section 54(4) shall not apply to that separate item of expenditure which, accordingly, shall be regarded as incurred at the time the consideration in question was actually given.

114 Consideration for options

- (1) If, in a case where section 110(8)(b) applies, the increase in the qualifying expenditure is, in whole or in part, attributable to the cost of acquiring an option binding the grantor to sell (“the option consideration”), then, in addition to any increase under section 110(8)(a) or (b), the indexed pool of expenditure shall be increased by an amount equal to the indexed rise in the option consideration, as determined under subsection (2) below.

- (2) The indexed rise in the option consideration is a sum produced by multiplying the consideration by a figure expressed as a decimal and determined, subject to subsection (3) below, by the formula—

$$\frac{RO-RA}{RA}$$

where—

RO is the retail prices index for the month in which falls the date on which the option is exercised; and

RA is the retail prices index for the month in which falls the date in which the option was acquired or, if it is later, March 1982.

- (3) If RO, as defined in subsection (2) above, is equal to or less than RA, as so defined, the indexed rise is nil.

Gilt-edged securities and qualifying corporate bonds

115 Exemptions for gilt-edged securities and qualifying corporate bonds etc

- (1) A gain which accrues on the disposal by any person of—
- (a) gilt-edged securities or qualifying corporate bonds, or
 - (b) any option or contract to acquire or dispose of gilt-edged securities or qualifying corporate bonds,
- shall not be a chargeable gain.
- (2) In subsection (1) above the reference to the disposal of a contract to acquire or dispose of gilt-edged securities or qualifying corporate bonds is a reference to the disposal of the outstanding obligations under such a contract.
- (3) Without prejudice to section 143(5), where a person who has entered into any such contract as is referred to in subsection (1)(b) above closes out that contract by entering into another contract with obligations which are reciprocal to those of the first-mentioned contract, that transaction shall for the purposes of this section constitute the disposal of an asset, namely, his outstanding obligations under the first-mentioned contract.

116 Reorganisations, conversions and reconstructions

- (1) This section shall have effect in any case where a transaction occurs of such a description that, apart from the provisions of this section—
- (a) sections 127 to 130 would apply by virtue of any provision of Chapter II of this Part; and
 - (b) either the original shares would consist of or include a qualifying corporate bond and the new holding would not, or the original shares would not and the new holding would consist of or include such a bond;
- and in paragraph (b) above “the original shares” and “the new holding” have the same meaning as they have for the purposes of sections 127 to 130.
- (2) In this section “relevant transaction” means a reorganisation, conversion of securities or other transaction such as is mentioned in subsection (1) above, and, in addition to

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its application where the transaction takes place after the coming into force of this section, subsection (10) below applies where the relevant transaction took place before the coming into force of this section so far as may be necessary to enable any gain or loss deferred under paragraph 10 of Schedule 13 to the Finance Act 1984 to be taken into account on a subsequent disposal.

- (3) Where the qualifying corporate bond referred to in subsection (1)(b) above would constitute the original shares for the purposes of sections 127 to 130, it is in this section referred to as “the old asset” and the shares or securities which would constitute the new holding for those purposes are referred to as “the new asset”.
- (4) Where the qualifying corporate bond referred to in subsection (1)(b) above would constitute the new holding for the purposes of sections 127 to 130, it is in this section referred to as “the new asset” and the shares or securities which would constitute the original shares for those purposes are referred to as “the old asset”.
- (5) So far as the relevant transaction relates to the old asset and the new asset, sections 127 to 130 shall not apply in relation to it.
- (6) In accordance with subsection (5) above, the new asset shall not be treated as having been acquired on any date other than the date of the relevant transaction or, subject to subsections (7) and (8) below, for any consideration other than the market value of the old asset as determined immediately before that transaction.
- (7) If, on the relevant transaction, the person concerned receives, or becomes entitled to receive, any sum of money which, in addition to the new asset, is by way of consideration for the old asset, that sum shall be deducted from the consideration referred to in subsection (6) above.
- (8) If, on the relevant transaction, the person concerned gives any sum of money which, in addition to the old asset, is by way of consideration for the new asset, that sum shall be added to the consideration referred to in subsection (6) above.
- (9) In any case where the old asset consists of a qualifying corporate bond, then, so far as it relates to the old asset and the new asset, the relevant transaction shall be treated for the purposes of this Act as a disposal of the old asset and an acquisition of the new asset.
- (10) Except in a case falling within subsection (9) above, so far as it relates to the old asset and the new asset, the relevant transaction shall be treated for the purposes of this Act as not involving any disposal of the old asset but—
 - (a) there shall be calculated the chargeable gain or allowable loss that would have accrued if, at the time of the relevant transaction, the old asset had been disposed of for a consideration equal to its market value immediately before that transaction; and
 - (b) subject to subsections (12) to (14) below, the whole or a corresponding part of the chargeable gain or allowable loss mentioned in paragraph (a) above shall be deemed to accrue on a subsequent disposal of the whole or part of the new asset (in addition to any gain or loss that actually accrues on that disposal); and
 - (c) on that subsequent disposal, section 115 shall have effect only in relation to any gain or loss that actually accrues and not in relation to any gain or loss which is deemed to accrue by virtue of paragraph (b) above.
- (11) Subsection (10)(b) and (c) above shall not apply to any disposal falling within section 58(1), 62(4), 139, 171(1) or 172, but a person who has acquired the new asset

on a disposal falling within any of those sections (and without there having been a previous disposal not falling within any of those sections or a devolution on death) shall be treated for the purposes of subsection (10)(b) and (c) above as if the new asset had been acquired by him at the same time and for the same consideration as, having regard to subsections (5) to (8) above, it was acquired by the person making the disposal.

(12) In any case where—

- (a) on the calculation under subsection (10)(a) above, a chargeable gain would have accrued, and
- (b) the consideration for the old asset includes such a sum of money as is referred to in subsection (7) above,

then, subject to subsection (13) below, the proportion of that chargeable gain which that sum of money bears to the market value of the old asset immediately before the relevant transaction shall be deemed to accrue at the time of that transaction.

(13) If the inspector is satisfied that the sum of money referred to in subsection (12)(b) above is small, as compared with the market value of the old asset immediately before the relevant transaction, and so directs, subsection (12) above shall not apply.

(14) In a case where subsection (12) above applies, the chargeable gain which, apart from that subsection, would by virtue of subsection (10)(b) above be deemed to accrue on a subsequent disposal of the whole or part of the new asset shall be reduced or, as the case may be, extinguished by deducting therefrom the amount of the chargeable gain which, by virtue of subsection (12) above, is deemed to accrue at the time of the relevant transaction.

(15) In any case where—

- (a) the new asset mentioned in subsections (10) and (11) above is a qualifying corporate bond in respect of which an allowable loss is treated as accruing under section 254(2), and
- (b) the loss is treated as accruing at a time falling after the relevant transaction but before any actual disposal of the new asset subsequent to the relevant transaction,

then for the purposes of subsections (10) and (11) above a subsequent disposal of the new asset shall be treated as occurring at (and only at) the time the loss is treated as accruing.

117 Meaning of “qualifying corporate bond”

(1) For the purposes of this section, a “corporate bond” is a security, as defined in section 132(3)(b)—

- (a) the debt on which represents and has at all times represented a normal commercial loan; and
- (b) which is expressed in sterling and in respect of which no provision is made for conversion into, or redemption in, a currency other than sterling,

and in paragraph (a) above “normal commercial loan” has the meaning which would be given by sub-paragraph (5) of paragraph 1 of Schedule 18 to the Taxes Act if for paragraph (a)(i) to (iii) of that sub-paragraph there were substituted the words “corporate bonds (within the meaning of section 117 of the 1992 Act)”.

(2) For the purposes of subsection (1)(b) above—

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- (a) a security shall not be regarded as expressed in sterling if the amount of sterling falls to be determined by reference to the value at any time of any other currency or asset; and
 - (b) a provision for redemption in a currency other than sterling but at the rate of exchange prevailing at redemption shall be disregarded.
- (3) For the purposes of this section “corporate bond” also includes a security which is not included in the definition in subsection (1) above, and which—
 - (a) is a deep gain security for the purposes of Schedule 11 to the Finance Act 1989 (“the 1989 Act”), or
 - (b) by virtue of paragraph 21(2) of Schedule 11 to the 1989 Act falls to be treated as a deep gain security as there mentioned, or
 - (c) by virtue of paragraph 22(2) of that Schedule, falls to be treated as a deep gain security as there mentioned, or
 - (d) by virtue of paragraph 22A(2) or 22B(3) of that Schedule, falls to be treated as a deep gain security as mentioned in the paragraph concerned.
- (4) For the purposes of this section “corporate bond” also includes a share in a building society—
 - (a) which is a qualifying share,
 - (b) which is expressed in sterling, and
 - (c) in respect of which no provision is made for conversion into, or redemption in, a currency other than sterling.
- (5) For the purposes of subsection (4) above, a share in a building society is a qualifying share if—
 - (a) it is a permanent interest bearing share, or
 - (b) it is of a description specified in regulations made by the Treasury for the purposes of this paragraph.
- (6) Subsection (2) above applies for the purposes of subsection (4) above as it applies for the purposes of subsection (1)(b) above, treating the reference to a security as a reference to a share.
- (7) Subject to subsections (9) and (10) below, for the purposes of this Act, a corporate bond—
 - (a) is a “qualifying” corporate bond if it is issued after 13th March 1984; and
 - (b) becomes a “qualifying” corporate bond if, having been issued on or before that date, it is acquired by any person after that date and that acquisition is not as a result of a disposal which is excluded for the purposes of this subsection, or which was excluded for the purposes of section 64(4) of the Finance Act 1984.
- (8) Where a person disposes of a corporate bond which was issued on or before 13th March 1984 and, before the disposal, the bond had not become a qualifying corporate bond, the disposal is excluded for the purposes of subsection (7) above if, by virtue of any enactment—
 - (a) the disposal is treated for the purposes of this Act as one on which neither a gain nor a loss accrues to the person making the disposal; or
 - (b) the consideration for the disposal is treated for the purposes of this Act as reduced by an amount equal to the held-over gain on that disposal, as defined for the purposes of section 165 or 260.

- (9) Subject to subsection (10) below, for the purposes of this Act—
- (a) a corporate bond which falls within subsection (3)(a) above is a qualifying corporate bond, whatever the date of its issue;
 - (b) a corporate bond which falls within subsection (3)(b) 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 1989 Act, whatever the date of its issue;
 - (c) a corporate bond which falls within subsection (3)(c) above is a qualifying corporate bond as regards a disposal made after the time the agreement mentioned in paragraph 22(1)(b) of that Schedule is made, whatever the date of its issue;
 - (d) a corporate bond which falls within subsection (3)(d) above is a qualifying corporate bond as regards a disposal made after the time mentioned in paragraph 22A(1)(c) or 22B(2)(b) of that Schedule (as the case may be);
- and subsections (7) and (8) above shall not apply in the case of any such bond.
- (10) A security which is issued by a member of a group of companies to another member of the same group is not a qualifying corporate bond for the purposes of this Act 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; and references in this subsection to a group of companies or to a member of a group shall be construed in accordance with section 170(2) to (14).
- (11) For the purposes of this section—
- (a) where a security is comprised in a letter of allotment or similar instrument and the right to the security thereby conferred remains provisional until accepted, the security shall not be treated as issued until there has been acceptance; and
 - (b) “permanent interest bearing share” has the same meaning as in the Building Societies (Designated Capital Resources) (Permanent Interest Bearing Shares) Order 1991.
- (12) The Treasury may by regulations provide that for the definition of the expression “permanent interest bearing share” in subsection (11) above (as it has effect for the time being) there shall be substituted a different definition of that expression, and regulations under this subsection or subsection (5)(b) above may contain such supplementary, incidental, consequential or transitional provision as the Treasury thinks fit.
- (13) This section shall have effect for the purposes of section 254 with the omission of subsections (4) to (6), (11) and (12).

Deep discount securities, the accrued income scheme etc.

118 Amount to be treated as consideration on disposal of deep discount securities etc

- (1) Subject to subsections (2) and (3) below, in the computation of the gain accruing on the disposal by any person of any deep discount securities (within the meaning of Schedule 4 to the Taxes Act)—
- (a) section 37 shall not apply but the consideration for the disposal shall be treated as reduced by the amount mentioned in paragraph 4(1)(a) of that Schedule (including any amount mentioned in paragraph 3 of that Schedule); and

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- (b) where that amount exceeds the consideration for the disposal, the amount of the excess shall be treated as expenditure within section 38(1)(b) incurred by that person on the security immediately before the disposal.
- (2) Subsection (3) below applies where—
 - (a) there is a conversion of securities to which section 132 applies and those securities include deep discount securities; or
 - (b) securities including deep discount securities are exchanged (or by virtue of section 136(1) are treated as exchanged) for other securities in circumstances in which section 135(3) applies.
- (3) Where this subsection applies—
 - (a) subsection (1) and section 37 shall not apply but any sum payable to the beneficial owner of the deep discount securities by way of consideration for their disposal (in addition to his new holding) shall be treated for the purpose of the computation of the gain as reduced by the amount of the accrued income on which he is chargeable to tax by virtue of paragraph 7(3) of Schedule 4 to the Taxes Act or, in a case where paragraph 3 of that Schedule applies, on which he would be so chargeable if that paragraph did not apply; and
 - (b) where that amount exceeds any such sum, the excess shall be treated as expenditure within section 38(1)(b) incurred by him on the security immediately before the time of the conversion or exchange.
- (4) Where a disposal of a deep discount security is to be treated for the purposes of this Act as one on which neither a gain nor a loss accrues to the person making the disposal, the consideration for which the person acquiring the security would, apart from this subsection, be treated for those purposes as having acquired the security shall be increased by the amount mentioned in paragraph 4(1)(a) of Schedule 4 to the Taxes Act (including any amount mentioned in paragraph 3 of that Schedule).
- (5) Where by virtue of paragraph 18(3) of Schedule 4 to the Taxes Act 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 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.

119 Transfers of securities subject to the accrued income scheme

- (1) Where there is a transfer of securities within the meaning of section 710 of the Taxes Act (accrued income scheme)—
 - (a) if section 713(2)(a) or (3)(a) of that Act applies, section 37 shall be disregarded in computing the gain accruing on the disposal concerned;

- (b) if section 713(2)(b) or (3)(b) of that Act applies, section 39 shall be disregarded in computing the gain accruing to the transferee if he disposes of the securities;

but subsections (2) and (3) below shall apply.
- (2) Where the securities are transferred with accrued interest (within the meaning of section 711 of the Taxes Act)—
 - (a) if section 713(2)(a) of that Act applies, an amount equal to the accrued amount (determined under that section) shall be excluded from the consideration mentioned in subsection (8) below;
 - (b) if section 713(2)(b) of that Act applies, an amount equal to that amount shall be excluded from the sums mentioned in subsection (9) below.
- (3) Where the securities are transferred without accrued interest (within the meaning of section 711 of the Taxes Act)—
 - (a) if section 713(3)(a) of that Act applies, an amount equal to the rebate amount (determined under that section) shall be added to the consideration mentioned in subsection (8) below;
 - (b) if section 713(3)(b) of that Act applies, an amount equal to that amount shall be added to the sums mentioned in subsection (9) below.
- (4) Where section 716 of the Taxes Act applies—
 - (a) if subsection (2) or (3) of that section applies, section 37 shall be disregarded in computing the gain accruing on the disposal concerned, but the relevant amount shall be excluded from the consideration mentioned in subsection (8) below; and
 - (b) if subsection (4) of that section applies, section 39 shall be disregarded in computing the gain accruing on the disposal concerned, but the relevant amount shall be excluded from the sums mentioned in subsection (9) below.
- (5) In subsection (4) above “the relevant amount” means an amount equal to—
 - (a) if paragraph (b) below does not apply, the amount of the unrealised interest in question (within the meaning of section 716 of the Taxes Act);
 - (b) if section 719 of the Taxes Act applies—
 - (i) in a case falling within subsection (4)(a) above, amount A (within the meaning of section 719);
 - (ii) in a case falling within subsection (4)(b) above, amount C (within the meaning of section 719).
- (6) In relation to any securities which by virtue of subsection (7) below are treated for the purposes of this subsection as having been transferred, subsections (2) and (3) above shall have effect as if for “applies” (in each place where it occurs) there were substituted “would apply if the disposal were a transfer”.
- (7) Where there is a disposal of securities for the purposes of this Act which is not a transfer for the purposes of section 710 of the Taxes Act but, if it were such a transfer, one or more of the following paragraphs would apply, namely, paragraphs (a) and (b) of section 713(2) and paragraphs (a) and (b) of section 713(3) of that Act, the securities shall be treated—
 - (a) for the purposes of subsection (6) above, as transferred on the day of the disposal, and

- (b) for the purposes of subsections (2) and (3) above, as transferred with accrued interest if, had the disposal been a transfer for the purposes of section 710, it would have been a transfer with accrued interest and as transferred without accrued interest if, had the disposal been such a transfer, it would have been a transfer without accrued interest.
- (8) The consideration is the consideration for the disposal of the securities transferred which is taken into account in the computation of the gain accruing on the disposal.
- (9) The sums are the sums allowable to the transferee as a deduction from the consideration in the computation of the gain accruing to him if he disposes of the securities.
- (10) Where on a conversion or exchange of securities a person is treated as entitled to a sum under subsection (2)(a) of section 713 of the Taxes Act an amount equal to the accrued amount (determined under that section) shall, for the purposes of this Act, be treated as follows—
 - (a) to the extent that it does not exceed the amount of any consideration which the person receives (or is deemed to receive) or becomes entitled to receive on the conversion or exchange (other than his new holding), it shall be treated as reducing that consideration; and
 - (b) to the extent that it does exceed that amount, it shall be treated as consideration which the person gives on the conversion or exchange;
 and where on a conversion or exchange of securities a person is treated as entitled to relief under subsection (3)(a) of that section an amount equal to the rebate amount (determined under that section) shall, for the purposes of the computation of the gain, be treated as consideration which the person receives on the conversion or exchange.
- (11) In subsection (10) above “conversion” means conversion within the meaning of section 132 and “exchange” means an exchange which by virtue of Chapter II of this Part does not involve a disposal.

120 Increase in expenditure by reference to tax charged in relation to shares etc

- (1) Where an amount is chargeable to tax under Chapter II of Part III of the Finance Act 1988 on a person who acquires shares or an interest in shares, then on the first disposal of the shares (whether by him or by another person) after his acquisition, section 38(1) (a) shall apply as if a sum equal to the amount chargeable had formed part of the consideration given by the person making the disposal for his acquisition of the shares; and this subsection shall apply with the appropriate modifications in a case to which section 83 of that Act applies.

This subsection shall be construed as if it were contained in Chapter II of Part III of the Finance Act 1988.

- (2) Section 38(1)(a) applies as if the relevant amount as defined in the following provisions of this section in the cases there specified had formed part of the consideration given by the person making the disposal for his acquisition of the assets in question.
- (3) Where an amount is chargeable to tax by virtue of section 162(5) of the Taxes Act in respect of shares or an interest in shares, then—
 - (a) on a disposal of the shares or interest, where that is the event giving rise to the charge; or

- (b) in any case, on the first disposal of the shares or interest after the event, the relevant amount is a sum equal to the amount so chargeable.
- (4) If a gain chargeable to tax under section 135(1) or (6) of the Taxes Act is realised by the exercise of a right to acquire shares, the relevant amount is a sum equal to the amount of the gain so chargeable to tax.
- (5) Where an amount is chargeable to tax under section 138 of the Taxes Act on a person acquiring any shares or interest in shares, then on the first disposal (whether by him or another person) of the shares after his acquisition, the relevant amount is an amount equal to the amount so chargeable.
- (6) Where an amount was chargeable to tax under section 185(6) of the Taxes Act in respect of shares acquired in exercise of any such right as is mentioned in section 185(1) of that Act, the relevant sum in relation to those shares is an amount equal to the amount so chargeable.
- (7) Subsections (3), (4), (5) and (6) above shall be construed as one with sections 162, 135, 138 and 185 of the Taxes Act respectively.

*Savings certificates etc.***121 Exemption for government non-marketable securities**

- (1) Savings certificates and non-marketable securities issued under the National Loans Act 1968 or the National Loans Act 1939, or any corresponding enactment forming part of the law of Northern Ireland, shall not be chargeable assets, and accordingly no chargeable gain shall accrue on their disposal.
- (2) In this section—
- “savings certificates” means savings certificates issued under section 12 of the National Loans Act 1968, or section 7 of the National Debt Act 1958, or section 59 of the Finance Act 1920, and any war savings certificates as defined in section 9(3) of the National Debt Act 1972, together with any savings certificates issued under any enactment forming part of the law of Northern Ireland and corresponding to the said enactments, and
 - “non-marketable securities” means securities which are not transferable, or which are transferable only with the consent of some Minister of the Crown, or the consent of a department of the Government of Northern Ireland, or only with the consent of the National Debt Commissioners.

*Capital distribution in respect of shares etc.***122 Distribution which is not a new holding within Chapter II**

- (1) Where a person receives or becomes entitled to receive in respect of shares in a company any capital distribution from the company (other than a new holding as defined in section 126) he shall be treated as if he had in consideration of that capital distribution disposed of an interest in the shares.
- (2) If the inspector is satisfied that the amount distributed is small, as compared with the value of the shares in respect of which it is distributed, and so directs—

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- (a) the occasion of the capital distribution shall not be treated for the purposes of this Act as a disposal of the asset, and
 - (b) the amount distributed shall be deducted from any expenditure allowable under this Act as a deduction in computing a gain or loss on the disposal of the shares by the person receiving or becoming entitled to receive the distribution of capital.
- (3) A person who is dissatisfied with the refusal of the inspector to give a direction under this section may appeal to the Commissioners having jurisdiction on an appeal against an assessment to tax in respect of a gain accruing on the disposal.
- (4) Where the allowable expenditure is less than the amount distributed (or is nil)—
- (a) subsections (2) and (3) above shall not apply, and
 - (b) if the recipient so elects (and there is any allowable expenditure)—
 - (i) the amount distributed shall be reduced by the amount of the allowable expenditure, and
 - (ii) none of that expenditure shall be allowable as a deduction in computing a gain accruing on the occasion of the capital distribution, or on any subsequent occasion.

In this subsection “allowable expenditure” means the expenditure which immediately before the occasion of the capital distribution was attributable to the shares under paragraphs (a) and (b) of section 38(1).

- (5) In this section—
- (a) the “amount distributed” means the amount or value of the capital distribution,
 - (b) “capital distribution” means any distribution from a company, including a distribution in the course of dissolving or winding up the company, in money or money’s worth except a distribution which in the hands of the recipient constitutes income for the purposes of income tax.

123 Disposal of right to acquire shares or debentures

- (1) Where a person receives or becomes entitled to receive in respect of any shares in a company a provisional allotment of shares in or debentures of the company and he disposes of his rights, section 122 shall apply as if the amount of the consideration for the disposal were a capital distribution received by him from the company in respect of the first-mentioned shares, and as if that person had, instead of disposing of the rights, disposed of an interest in those shares.
- (2) This section shall apply in relation to rights obtained in respect of debentures of a company as it applies in relation to rights obtained in respect of shares in a company.

Close companies

124 Disposal of shares: relief in respect of income tax consequent on shortfall in distributions

- (1) If in pursuance of section 426 of the Taxes Act (consequences for income tax of apportionment of income etc. of close company) a person is assessed to income tax, then, in the computation of the gain accruing on a disposal by him of any shares forming part of his interest in the company to which the relevant apportionment relates,

the amount of the income tax paid by him, so far as attributable to those shares, shall be allowable as a deduction.

- (2) Subsection (1) above shall not apply in relation to tax charged in respect of undistributed income which has, before the disposal, been subsequently distributed and is then exempt from tax by virtue of section 427(4) of the Taxes Act or in relation to tax treated as having been paid by virtue of section 426(2)(b) of that Act.
- (3) For the purposes of this section the income assessed to tax shall be the highest part of the individual's income for the year of assessment in question, but so that if the highest part of the said income is taken into account under this section in relation to an assessment to tax the next highest part shall be taken into account in relation to any other relevant assessment, and so on.
- (4) For the purpose of identifying shares forming part of an interest in a company with shares subsequently disposed of which are of the same class, shares bought at an earlier time shall be deemed to have been disposed of before shares bought at a later time.

125 Shares in close company transferring assets at an undervalue

- (1) If a company which is a close company transfers, or has after 31st March 1982 transferred, an asset to any person otherwise than by way of a bargain made at arm's length and for a consideration of an amount or value less than the market value of the asset, an amount equal to the difference shall be apportioned among the issued shares of the company, and the holders of those shares shall be treated in accordance with the following provisions of this section.
- (2) For the purposes of the computation of the gain accruing on the disposal of any of those shares by the person owning them on the date of transfer, an amount equal to the amount so apportioned to that share shall be excluded from the expenditure allowable as a deduction under section 38(1)(a) from the consideration for the disposal.
- (3) If the person owning any of the shares at the date of transfer is itself a close company an amount equal to the amount apportioned to the shares so owned under subsection (1) above to that close company shall be apportioned among the issued shares of that close company, and the holders of those shares shall be treated in accordance with subsection (2) above, and so on through any number of close companies.
- (4) This section shall not apply where the transfer of the asset is a disposal to which section 171(1) applies.
- (5) In relation to a disposal to which section 35(2) does not apply, subsection (1) above shall have effect with the substitution of "6th April 1965" for "31st March 1982".

CHAPTER II

REORGANISATION OF SHARE CAPITAL, CONVERSION OF SECURITIES ETC.

Reorganisation or reduction of share capital

126 Application of sections 127 to 131

- (1) For the purposes of this section and sections 127 to 131 “reorganisation” means a reorganisation or reduction of a company’s share capital, and in relation to the reorganisation—
 - (a) “original shares” means shares held before and concerned in the reorganisation,
 - (b) “new holding” means, in relation to any original shares, the shares in and debentures of the company which as a result of the reorganisation represent the original shares (including such, if any, of the original shares as remain).
- (2) The reference in subsection (1) above to the reorganisation of a company’s share capital includes—
 - (a) any case where persons are, whether for payment or not, allotted shares in or debentures of the company in respect of and in proportion to (or as nearly as may be in proportion to) their holdings of shares in the company or of any class of shares in the company, and
 - (b) any case where there are more than one class of share and the rights attached to shares of any class are altered.
- (3) The reference in subsection (1) above to a reduction of share capital does not include the paying off of redeemable share capital, and where shares in a company are redeemed by the company otherwise than by the issue of shares or debentures (with or without other consideration) and otherwise than in a liquidation, the shareholder shall be treated as disposing of the shares at the time of the redemption.

127 Equation of original shares and new holding

Subject to sections 128 to 130, a reorganisation shall not be treated as involving any disposal of the original shares or any acquisition of the new holding or any part of it, but the original shares (taken as a single asset) and the new holding (taken as a single asset) shall be treated as the same asset acquired as the original shares were acquired.

128 Consideration given or received by holder

- (1) Subject to subsection (2) below, where, on a reorganisation, a person gives or becomes liable to give any consideration for his new holding or any part of it, that consideration shall in relation to any disposal of the new holding or any part of it be treated as having been given for the original shares, and if the new holding or part of it is disposed of with a liability attaching to it in respect of that consideration, the consideration given for the disposal shall be adjusted accordingly.
- (2) There shall not be treated as consideration given for the new holding or any part of it—
 - (a) any surrender, cancellation or other alteration of the original shares or of the rights attached thereto, or

- (b) any consideration consisting of any application, in paying up the new holding or any part of it, of assets of the company or of any dividend or other distribution declared out of those assets but not made,

and, in the case of a reorganisation on or after 10th March 1981, any consideration given for the new holding or any part of it otherwise than by way of a bargain made at arm's length shall be disregarded to the extent that its amount or value exceeds the relevant increase in value; and for this purpose "the relevant increase in value" means the amount by which the market value of the new holding immediately after the reorganisation exceeds the market value of the original shares immediately before the reorganisation.

- (3) Where on a reorganisation a person receives (or is deemed to receive), or becomes entitled to receive, any consideration, other than the new holding, for the disposal of an interest in the original shares, and in particular—

- (a) where under section 122 he is to be treated as if he had in consideration of a capital distribution disposed of an interest in the original shares, or
- (b) where he receives (or is deemed to receive) consideration from other shareholders in respect of a surrender of rights derived from the original shares,

he shall be treated as if the new holding resulted from his having for that consideration disposed of an interest in the original shares (but without prejudice to the original shares and the new holding being treated in accordance with section 127 as the same asset).

- (4) Where for the purpose of subsection (3) above it is necessary in computing the gain or loss accruing on the disposal of the interest in the original shares mentioned in that subsection to apportion the cost of acquisition of the original shares between what is disposed of and what is retained, the apportionment shall be made in the like manner as under section 129.

129 Part disposal of new holding

Subject to section 130(2), where for the purpose of computing the gain or loss accruing to a person from the acquisition and disposal of any part of the new holding it is necessary to apportion the cost of acquisition of any of the original shares between what is disposed of and what is retained, the apportionment shall be made by reference to market value at the date of the disposal (with such adjustment of the market value of any part of the new holding as may be required to offset any liability attaching thereto but forming part of the cost to be apportioned).

130 Composite new holdings

- (1) This section shall apply to a new holding—

- (a) if it consists of more than one class of shares in or debentures of the company and one or more of those classes is of shares or debentures which, at any time not later than the end of the period of 3 months beginning with the date on which the reorganisation took effect, or of such longer period as the Board may by notice allow, had quoted market values on a recognised stock exchange in the United Kingdom or elsewhere, or
- (b) if it consists of more than one class of rights of unit holders and one or more of those classes is of rights the prices of which were published daily by the

managers of the scheme at any time not later than the end of that period of 3 months (or longer if so allowed).

- (2) Where for the purpose of computing the gain or loss accruing to a person from the acquisition and disposal of the whole or any part of any class of shares or debentures or rights of unit holders forming part of a new holding to which this section applies it is necessary to apportion costs of acquisition between what is disposed of and what is retained, the cost of acquisition of the new holding shall first be apportioned between the entire classes of shares or debentures or rights of which it consists by reference to market value on the first day (whether that day fell before the reorganisation took effect or later) on which market values or prices were quoted or published for the shares, debentures or rights as mentioned in subsection (1)(a) or (1)(b) above (with such adjustment of the market value of any class as may be required to offset any liability attaching thereto but forming part of the cost to be apportioned).
- (3) For the purposes of this section the day on which a reorganisation involving the allotment of shares or debentures or unit holders' rights takes effect is the day following the day on which the right to renounce any allotment expires.

131 Indexation allowance

- (1) This section applies where—
 - (a) by virtue of section 127, on a reorganisation the original shares (taken as a single asset) and the new holding (taken as a single asset) fall to be treated as the same asset acquired as the original shares were acquired; and
 - (b) on the reorganisation, a person gives or becomes liable to give any consideration for his new holding or any part of it.
- (2) Where this section applies, so much of the consideration referred to in subsection (1) (b) above as, on a disposal to which section 53 applies of the new holding, will, by virtue of section 128(1), be treated as having been given for the original shares, shall be treated for the purposes of section 54 as an item of relevant allowable expenditure incurred not at the time the original shares were acquired but at the time the person concerned gave or became liable to give the consideration (and, accordingly, section 54(4) shall not apply in relation to that item of expenditure).

Conversion of securities

132 Equation of converted securities and new holding

- (1) Sections 127 to 131 shall apply with any necessary adaptations in relation to the conversion of securities as they apply in relation to a reorganisation (that is to say, a reorganisation or reduction of a company's share capital).
- (2) This section has effect subject to sections 133 and 134.
- (3) For the purposes of this section and section 133—
 - (a) “conversion of securities” includes—
 - (i) a conversion of securities of a company into shares in the company, and
 - (ii) a conversion at the option of the holder of the securities converted as an alternative to the redemption of those securities for cash, and

- (iii) any exchange of securities effected in pursuance of any enactment (including an enactment passed after this Act) which provides for the compulsory acquisition of any shares or securities and the issue of securities or other securities instead,
- (b) “security” includes any loan stock or similar security whether of the Government of the United Kingdom or of any other government, or of any public or local authority in the United Kingdom or elsewhere, or of any company, and whether secured or unsecured.

133 Premiums on conversion of securities

- (1) This section applies where, on a conversion of securities, a person receives, or becomes entitled to receive, any sum of money (“the premium”) which is by way of consideration (in addition to his new holding) for the disposal of the converted securities.
- (2) If the inspector is satisfied that the premium is small, as compared with the value of the converted securities, and so directs—
 - (a) receipt of the premium shall not be treated for the purposes of this Act as a disposal of part of the converted securities, and
 - (b) the premium shall be deducted from any expenditure allowable under this Act as a deduction in computing a gain or loss on the disposal of the new holding by the person receiving or becoming entitled to receive the premium.
- (3) A person who is dissatisfied with the refusal of the inspector to give a direction under subsection (2) above may appeal to the Commissioners having jurisdiction on an appeal against an assessment to tax in respect of a gain accruing to him on a disposal of the securities.
- (4) Where the allowable expenditure is less than the premium (or is nil)—
 - (a) subsections (2) and (3) above shall not apply, and
 - (b) if the recipient so elects (and there is any allowable expenditure)—
 - (i) the amount of the premium shall be reduced by the amount of the allowable expenditure, and
 - (ii) none of that expenditure shall be allowable as a deduction in computing a gain accruing on the occasion of the conversion, or on any subsequent occasion.
- (5) In subsection (4) above “allowable expenditure” means expenditure which immediately before the conversion was attributable to the converted securities under paragraphs (a) and (b) of section 38(1).

134 Compensation stock

- (1) This section has effect where gilt-edged securities are exchanged for shares in pursuance of any enactment (including an enactment passed after this Act) which provides for the compulsory acquisition of any shares and the issue of gilt-edged securities instead.
- (2) The exchange shall not constitute a conversion of securities within section 132 and shall be treated as not involving any disposal of the shares by the person from whom they were compulsorily acquired but—

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

- (a) there shall be calculated the gain or loss that would have accrued to him if he had then disposed of the shares for a consideration equal to the value of the shares as determined for the purpose of the exchange, and
 - (b) on a subsequent disposal of the whole or part of the gilt-edged securities by the person to whom they were issued—
 - (i) there shall be deemed to accrue to him the whole or a corresponding part of the gain or loss mentioned in paragraph (a) above, and
 - (ii) section 115(1) shall not have effect in relation to any gain or loss that is deemed to accrue as aforesaid.
- (3) Where a person to whom gilt-edged securities of any kind were issued as mentioned in subsection (1) above disposes of securities of that kind, the securities of which he disposes—
 - (a) shall, so far as possible, be identified with securities which were issued to him as mentioned in subsection (1) above rather than with other securities of that kind, and
 - (b) subject to paragraph (a) above, shall be identified with securities issued at an earlier time rather than those issued at a later time.
- (4) Subsection (2)(b) above shall not apply to any disposal falling within the provisions of section 58(1), 62(4) or 171(1) but a person who has acquired the securities on a disposal falling within those provisions (and without there having been a previous disposal not falling within those provisions or a devolution on death) shall be treated for the purposes of subsections (2)(b) and (3) above as if the securities had been issued to him.
- (5) Where the gilt-edged securities to be exchanged for any shares are not issued until after the date on which the shares are compulsorily acquired but on that date a right to the securities is granted, this section shall have effect as if the exchange had taken place on that date, as if references to the issue of the securities and the person to whom they were issued were references to the grant of the right and the person to whom it was granted and references to the disposal of the securities included references to disposals of the rights.
- (6) In this section “shares” includes securities within the meaning of section 132.
- (7) This section does not apply where the compulsory acquisition took place before 7th April 1976.

Company reconstructions and amalgamations

135 Exchange of securities for those in another company

- (1) Subsection (3) below has effect where a company (“company A”) issues shares or debentures to a person in exchange for shares in or debentures of another company (“company B”) and—
 - (a) company A holds, or in consequence of the exchange will hold, more than one-quarter of the ordinary share capital (as defined in section 832(1) of the Taxes Act) of company B, or
 - (b) company A issues the shares or debentures in exchange for shares as the result of a general offer—

- (i) which is made to members of company B or any class of them (with or without exceptions for persons connected with company A), and
 - (ii) which is made in the first instance on a condition such that if it were satisfied company A would have control of company B.
- (2) Subsection (3) below also has effect where under section 136 persons are to be treated as exchanging shares or debentures held by them in consequence of the arrangement there mentioned.
- (3) Subject to sections 137 and 138, sections 127 to 131 shall apply with any necessary adaptations as if the 2 companies mentioned in subsection (1) above or, as the case may be, in section 136 were the same company and the exchange were a reorganisation of its share capital.

136 Reconstruction or amalgamation involving issue of securities

- (1) Where—
- (a) an arrangement between a company and the persons holding shares in or debentures of the company, or any class of such shares or debentures, is entered into for the purposes of or in connection with a scheme of reconstruction or amalgamation, and
 - (b) under the arrangement another company issues shares or debentures to those persons in respect of and in proportion to (or as nearly as may be in proportion to) their holdings of shares in or debentures of the first-mentioned company, but the shares in or debentures of the first-mentioned company are either retained by those persons or cancelled,
- then those persons shall be treated as exchanging the first-mentioned shares or debentures for those held by them in consequence of the arrangement (any shares or debentures retained being for this purpose regarded as if they had been cancelled and replaced by a new issue), and subsections (2) and (3) of section 135 shall apply accordingly.
- (2) In this section “scheme of reconstruction or amalgamation” means a scheme for the reconstruction of any company or companies or the amalgamation of any 2 or more companies, and references to shares or debentures being retained include their being retained with altered rights or in an altered form whether as the result of reduction, consolidation, division or otherwise.
- (3) This section, and section 135(2), shall apply in relation to a company which has no share capital as if references to shares in or debentures of a company included references to any interests in the company possessed by members of the company.

137 Restriction on application of sections 135 and 136

- (1) Subject to subsection (2) below, and section 138, neither section 135 nor section 136 shall apply to any issue by a company of shares in or debentures of that company in exchange for or in respect of shares in or debentures of another company unless the exchange, reconstruction or amalgamation in question 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 capital gains tax or corporation tax.

- (2) Subsection (1) above shall not affect the operation of section 135 or 136 in any case where the person to whom the shares or debentures are issued does not hold more than 5 per cent. of, or of any class of, the shares in or debentures of the second company mentioned in subsection (1) above.
- (3) For the purposes of subsection (2) above shares or debentures held by persons connected with the person there mentioned shall be treated as held by him.
- (4) If any tax assessed on a person (the chargeable person) by virtue of subsection (1) above is not paid within 6 months from the date when it is payable, any other person who—
- (a) holds all or any part of the shares or debentures that were issued to the chargeable person, and
 - (b) has acquired them without there having been, since their acquisition by the chargeable person, any disposal of them not falling within section 58(1) or 171,
- may, at any time within 2 years from the time when the tax became payable, be assessed and charged (in the name of the chargeable person) to all or, as the case may be, a corresponding part of the unpaid tax; and a person paying any amount of tax under this subsection shall be entitled to recover a sum of that amount from the chargeable person.
- (5) With respect to chargeable gains accruing in chargeable periods ending after such day as the Treasury may by order appoint, in subsection (4) above—
- (a) for the words “the date when it is payable” there shall be substituted “the date determined under subsection (4A) below”;
 - (b) for the words “the time when the tax became payable” there shall be substituted “that date”; and
 - (c) for the words “a sum” onwards there shall be substituted “from the chargeable person a sum equal to that amount together with any interest paid by him under section 87A of the Management Act on that amount”;
- and after that subsection there shall be inserted—
- “(4A) The date referred to in subsection (4) above is whichever is the later of—
- (a) the date when the tax becomes due and payable by the chargeable person; and
 - (b) the date when the assessment was made on the chargeable person.”
- (6) In this section references to shares or debentures include references to any interests or options to which this Chapter applies by virtue of section 136(3) or 147.

138 Procedure for clearance in advance

- (1) Section 137 shall not affect the operation of section 135 or 136 in any case where, before the issue is made, the Board have, on the application of either company mentioned in section 137(1), notified the company that the Board are satisfied that the exchange, reconstruction or amalgamation will be effected for bona fide commercial reasons and will not form part of any such scheme or arrangements as are mentioned in section 137(1).
- (2) Any application under subsection (1) above shall be in writing and shall contain particulars of the operations that are to be effected and the Board may, within 30 days

of the receipt of the application or of any further particulars previously required under this subsection, by notice require the applicant to furnish further particulars for the purpose of enabling the Board to make their decision; and if any such notice is not complied with within 30 days or such longer period as the Board may allow, the Board need not proceed further on the application.

- (3) The Board shall notify their decision to the applicant within 30 days of receiving the application or, if they give a notice under subsection (2) above, within 30 days of the notice being complied with.
- (4) If the Board notify the applicant that they are not satisfied as mentioned in subsection (1) above or do not notify their decision to the applicant within the time required by subsection (3) above, the applicant may within 30 days of the notification or of that time require the Board to transmit the application, together with any notice given and further particulars furnished under subsection (2) above, to the Special Commissioners; and in that event any notification by the Special Commissioners shall have effect for the purposes of subsection (1) above as if it were a notification by the Board.
- (5) If any particulars furnished under this section do not fully and accurately disclose all facts and considerations material for the decision of the Board or the Special Commissioners, any resulting notification that the Board or Commissioners are satisfied as mentioned in subsection (1) above shall be void.

139 Reconstruction or amalgamation involving transfer of business

- (1) Subject to the provisions of this section, where—
 - (a) any scheme of reconstruction or amalgamation involves the transfer of the whole or part of a company's business to another company, and
 - (b) at the time of the transfer both the companies are resident in the United Kingdom, and
 - (c) the first-mentioned company receives no part of the consideration for the transfer (otherwise than by the other company taking over the whole or part of the liabilities of the business),

then, so far as relates to corporation tax on chargeable gains, the 2 companies shall be treated as if any assets included in the transfer were acquired by the one company from the other company for a consideration of such amount as would secure that on the disposal by way of transfer neither a gain nor a loss would accrue to the company making the disposal, and for the purposes of Schedule 2 the acquiring company shall be treated as if the respective acquisitions of the assets by the other company had been the acquiring company's acquisition of them.

- (2) This section does not apply in relation to an asset which, until the transfer, formed part of trading stock of a trade carried on by the company making the disposal, or in relation to an asset which is acquired as trading stock for the purposes of a trade carried on by the company acquiring the asset.

Section 170(1) applies for the purposes of this subsection.

- (3) This section does not apply in relation to an asset if the company acquiring it, though resident in the United Kingdom—
 - (a) is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and

- (b) by virtue of the arrangements, would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after the acquisition.
 - (4) This section does not apply in the case of a transfer of the whole or part of a company's business to a unit trust scheme to which section 100(2) applies or which is an authorised unit trust or to an investment trust.
 - (5) This section does not apply unless the reconstruction or amalgamation 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, capital gains tax or income tax; but the foregoing provisions of this subsection shall not affect the operation of this section in any case where, before the transfer, the Board have, on the application of the acquiring company, notified the company that the Board are satisfied that the reconstruction or amalgamation will be effected for bona fide commercial reasons and will not form part of any such scheme or arrangements as aforesaid.
- Subsections (2) to (5) of section 138 shall have effect in relation to this subsection as they have effect in relation to subsection (1) of that section.
- (6) Where, if the company making the disposal had not been wound up, tax could have been assessed on it by virtue of subsection (5) above, that tax may be assessed and charged (in the name of the company making the disposal) on the company to which the disposal is made.
 - (7) If any tax assessed on a company ("the chargeable company") by virtue of subsection (5) or (6) above is not paid within 6 months from the date when it is payable, any other person who—
 - (a) holds all or any part of the assets in respect of which the tax is charged; and
 - (b) either is the company to which the disposal was made or has acquired the assets without there having been any subsequent disposal not falling within this section or section 171,
 may, within 2 years from the time when the tax became payable, be assessed and charged (in the name of the chargeable company) to all or, as the case may be, a corresponding part of the unpaid tax; and a person paying any amount of tax under this section shall be entitled to recover a sum of that amount from the chargeable company.
 - (8) With respect to chargeable gains accruing in chargeable periods ending after such day as the Treasury may by order appoint, in subsection (7) above—
 - (a) for the words "when it is payable" there shall be substituted "when it is due and payable or, if later, the date when the assessment is made on the company";
 - (b) for the words "the time when the tax became payable" there shall be substituted "the later of those dates"; and
 - (c) for the words "a sum" onwards there shall be substituted "from the chargeable company a sum equal to that amount together with any interest paid by him under section 87A of the Management Act on that amount".
 - (9) In this section "scheme of reconstruction or amalgamation" means a scheme for the reconstruction of any company or companies or the amalgamation of any 2 or more companies.

140 Postponement of charge on transfer of assets to non-resident company

(1) This section applies where a company resident in the United Kingdom carries on a trade outside the United Kingdom through a branch or agency and—

- (a) that trade, or part of it, together with the whole assets of the company used for the purposes of the trade or part (or together with the whole of those assets other than cash) is transferred to a company not resident in the United Kingdom;
- (b) the trade or part is so transferred wholly or partly in exchange for securities consisting of shares, or of shares and loan stock, issued by the transferee company to the transferor company;
- (c) the shares so issued, either alone or taken together with any other shares in the transferee company already held by the transferor company, amount in all to not less than one quarter of the ordinary share capital of the transferee company; and
- (d) either no allowable losses accrue to the transferor company on the transfer or the aggregate of the chargeable gains so accruing exceeds the aggregate of the allowable losses so accruing;

and also applies in any case where section 268A of the Income and Corporation Taxes Act 1970 applied unless the deferred gain had been wholly taken into account in accordance with that section before the coming into force of this section.

Section 170(1) shall apply for the purposes of this section.

- (2) In any case to which this section applies the transferor company may claim that this Act shall have effect in accordance with the following provisions.
- (3) Any allowable losses accruing to the transferor company on the transfer shall be set off against the chargeable gains so accruing and the transfer shall be treated as giving rise to a single chargeable gain equal to the aggregate of those gains after deducting the aggregate of those losses and—
 - (a) if the securities are the whole consideration for the transfer, the whole of that gain shall be treated as not accruing to the transferor company on the transfer but an equivalent amount (“the deferred gain”) shall be brought into account in accordance with subsections (4) and (5) below;
 - (b) if the securities are not the whole of that consideration—
 - (i) paragraph (a) above shall apply to the appropriate proportion of that gain; and
 - (ii) the remainder shall be treated as accruing to the transferor company on the transfer.

In paragraph (b)(i) above “the appropriate proportion” means the proportion that the market value of the securities at the time of the transfer bears to the market value of the whole of the consideration at that time.

- (4) If at any time after the transfer the transferor company disposes of the whole or part of the securities held by it immediately before that time, the consideration received by it on the disposal shall be treated as increased by the whole or the appropriate proportion of the deferred gain so far as not already taken into account under this subsection or subsection (5) below.

In this subsection “the appropriate proportion” means the proportion that the market value of the part of the securities disposed of bears to the market value of the securities held immediately before the disposal.

- (5) If at any time within 6 years after the transfer the transferee company disposes of the whole or part of the relevant assets held by it immediately before that time there shall be deemed to accrue to the transferor company as a chargeable gain on that occasion the whole or the appropriate proportion of the deferred gain so far as not already taken into account under this subsection or subsection (4) above.

In this subsection “relevant assets” means assets the chargeable gains on which were taken into account in arriving at the deferred gain and “the appropriate proportion” means the proportion which the chargeable gain so taken into account in respect of the part of the relevant assets disposed of bears to the aggregate of the chargeable gains so taken into account in respect of the relevant assets held immediately before the time of the disposal.

- (6) There shall be disregarded—
- (a) for the purposes of subsection (4) above any disposal to which section 171 applies; and
 - (b) for the purposes of subsection (5) above any disposal to which that section would apply apart from section 170(2)(a) and (9);

and where a person acquires securities or an asset on a disposal disregarded for the purposes of subsection (4) or (5) above (and without there having been a previous disposal not so disregarded) a disposal of the securities or asset by that person shall be treated as a disposal by the transferor or, as the case may be, transferee company.

- (7) If in the case of any such transfer as was mentioned in section 268(1) of the Income and Corporation Taxes Act 1970 there were immediately before the coming into force of this section chargeable gains which by virtue of section 268(2) and 268A(8) of that Act were treated as not having accrued to the transferor company, subsection (4) above shall (without any claim in that behalf) apply to the aggregate of those gains as if references to the deferred gain were references to that aggregate and as if references to the transfer and the securities were references to the transfer and the shares, or shares and loan stock, mentioned in section 268(1).
- (8) If in the case of any such transfer as was mentioned in section 268A(1) of the Income and Corporation Taxes Act 1970 there were immediately before the coming into force of this section deferred gains which by virtue of section 268A(3) were treated as not having accrued to the transferor company, subsections (4) and (5) above shall (without any claim in that behalf) apply to those deferred gains as they apply to gains deferred by virtue of subsection (3) above (as if the references to the transfer and the securities were references to the transfer and securities mentioned in section 268A(1)).

CHAPTER III

MISCELLANEOUS PROVISIONS RELATING TO COMMODITIES, FUTURES, OPTIONS AND OTHER SECURITIES

141 Stock dividends: consideration for new holding

- (1) In applying section 128(1) in relation to the issue of any share capital to which section 249 of the Taxes Act (stock dividends) applies as involving a reorganisation of the company’s share capital, there shall be allowed, as consideration given for so much of the new holding as was issued as mentioned in subsection (4), (5) or (6) of section 249 (read in each case with subsection (3) of that section) an amount equal to

what is, for that much of the new holding, the appropriate amount in cash within the meaning of section 251(2) of the Taxes Act.

- (2) This section shall have effect notwithstanding section 128(2).

142 Capital gains on certain stock dividends

- (1) This section applies where a company issues any share capital to which section 249 of the Taxes Act applies in respect of shares in the company held by a person as trustee, and another person is at the time of the issue absolutely entitled thereto as against the trustee or would be so entitled but for being an infant or other person under disability (or 2 or more other persons are or would be jointly so entitled thereto).
- (2) Notwithstanding paragraph (a) of section 126(2) the case shall not constitute a reorganisation of the company's share capital for the purposes of sections 126 to 128.
- (3) Notwithstanding section 17(1), the person who is or would be so entitled to the share capital (or each of the persons who are or would be jointly so entitled thereto) shall be treated for the purposes of section 38(1)(a) as having acquired that share capital, or his interest in it, for a consideration equal to the appropriate amount in cash within the meaning of section 251(2) to (4) of the Taxes Act.

143 Commodity and financial futures and qualifying options

- (1) If, apart from section 128 of the Taxes Act, gains arising to any person in the course of dealing in commodity or financial futures or in qualifying options would constitute, for the purposes of the Tax Acts, profits or gains chargeable to tax under Schedule D otherwise than as the profits of a trade, then his outstanding obligations under any futures contract entered into in the course of that dealing and any qualifying option granted or acquired in the course of that dealing shall be regarded as assets to the disposal of which this Act applies.
- (2) In subsection (1) above—
- (a) “commodity or financial futures” means commodity futures or financial futures which are for the time being dealt in on a recognised futures exchange; and
- (b) “qualifying option” means a traded option or financial option as defined in section 144(8).
- (3) Notwithstanding the provisions of subsection (2)(a) above, where, otherwise than in the course of dealing on a recognised futures exchange—
- (a) an authorised person or listed institution enters into a commodity or financial futures contract with another person, or
- (b) the outstanding obligations under a commodity or financial futures contract to which an authorised person or listed institution is a party are brought to an end by a further contract between the parties to the futures contract,
- then, except in so far as any gain or loss arising to any person from that transaction arises in the course of a trade, that gain or loss shall be regarded for the purposes of subsection (1) above as arising to him in the course of dealing in commodity or financial futures.
- (4) In subsection (3) above—

“authorised person” has the same meaning as in the Financial Services Act 1986, and

“listed institution” has the same meaning as in section 43 of that Act.

(5) For the purposes of this Act, where, in the course of dealing in commodity or financial futures, a person who has entered into a futures contract closes out that contract by entering into another futures contract with obligations which are reciprocal to those of the first-mentioned contract, that transaction shall constitute the disposal of an asset (namely, his outstanding obligations under the first-mentioned contract) and, accordingly—

- (a) any money or money’s worth received by him on that transaction shall constitute consideration for the disposal; and
- (b) any money or money’s worth paid or given by him on that transaction shall be treated as incidental costs to him of making the disposal.

(6) In any case where—

- (a) a person who, in the course of dealing in financial futures, has entered into a futures contract does not close out that contract (as mentioned in subsection (5) above), and
- (b) the nature of the futures contract is such that, at its expiry date, the person concerned is entitled to receive or liable to make a payment in full settlement of all obligations under that contract,

then, for the purposes of this Act, he shall be treated as having disposed of an asset (namely, his outstanding obligations under the futures contract) and the payment received or made by him shall be treated as consideration for that disposal or, as the case may be, as incidental costs to him of making the disposal.

144 Options and forfeited deposits

(1) Without prejudice to section 21, the grant of an option, and in particular—

- (a) the grant of an option in a case where the grantor binds himself to sell what he does not own, and because the option is abandoned, never has occasion to own, and
- (b) the grant of an option in a case where the grantor binds himself to buy what, because the option is abandoned, he does not acquire,

is the disposal of an asset (namely of the option), but subject to the following provisions of this section as to treating the grant of an option as part of a larger transaction.

(2) If an option is exercised, the grant of the option and the transaction entered into by the grantor in fulfilment of his obligations under the option shall be treated as a single transaction and accordingly—

- (a) if the option binds the grantor to sell, the consideration for the option is part of the consideration for the sale, and
- (b) if the option binds the grantor to buy, the consideration for the option shall be deducted from the cost of acquisition incurred by the grantor in buying in pursuance of his obligations under the option.

(3) The exercise of an option by the person for the time being entitled to exercise it shall not constitute the disposal of an asset by that person, but, if an option is exercised then the acquisition of the option (whether directly from the grantor or not) and the

transaction entered into by the person exercising the option in exercise of his rights under the option shall be treated as a single transaction and accordingly—

- (a) if the option binds the grantor to sell, the cost of acquiring the option shall be part of the cost of acquiring what is sold, and
- (b) if the option binds the grantor to buy, the cost of the option shall be treated as a cost incidental to the disposal of what is bought by the grantor of the option.

(4) The abandonment of—

- (a) a quoted option to subscribe for shares in a company, or
- (b) a traded option or financial option, or
- (c) an option to acquire assets exercisable by a person intending to use them, if acquired, for the purpose of a trade carried on by him,

shall constitute the disposal of an asset (namely of the option); but the abandonment of any other option by the person for the time being entitled to exercise it shall not constitute the disposal of an asset by that person.

(5) This section shall apply in relation to an option binding the grantor both to sell and to buy as if it were 2 separate options with half the consideration attributed to each.

(6) In this section references to an option include references to an option binding the grantor to grant a lease for a premium, or enter into any other transaction which is not a sale, and references to buying and selling in pursuance of an option shall be construed accordingly.

(7) This section shall apply in relation to a forfeited deposit of purchase money or other consideration money for a prospective purchase or other transaction which is abandoned as it applies in relation to the consideration for an option which binds the grantor to sell and which is not exercised.

(8) In subsection (4) above and sections 146 and 147—

- (a) “quoted option” means an option which, at the time of the abandonment or other disposal, is quoted on a recognised stock exchange;
- (b) “traded option” means an option which, at the time of the abandonment or other disposal, is quoted on a recognised stock exchange or a recognised futures exchange; and
- (c) “financial option” means an option which is not a traded option, as defined in paragraph (b) above, but which, subject to subsection (9) below—

- (i) relates to currency, shares, securities or an interest rate and is granted (otherwise than as agent) by a member of a recognised stock exchange, by an authorised person within the meaning of the Financial Services Act 1986 or by a listed institution within the meaning of section 43 of that Act; or

- (ii) relates to shares or securities which are dealt in on a recognised stock exchange and is granted by a member of such an exchange, acting as agent; or

- (iii) relates to currency, shares, securities or an interest rate and is granted to such an authorised person or institution as is referred to in sub-paragraph (i) above and concurrently and in association with an option falling within that sub-paragraph which is granted by that authorised person or institution to the grantor of the first-mentioned option; or

- (iv) relates to shares or securities which are dealt in on a recognised stock exchange and is granted to a member of such an exchange, including such a member acting as agent.
- (9) If the Treasury by order so provide, an option of a description specified in the order shall be taken to be within the definition of “financial option” in subsection (8)(c) above.

145 Call options: indexation allowance

- (1) This section applies where, on a disposal to which section 53 applies, the relevant allowable expenditure includes both—
 - (a) the cost of acquiring an option binding the grantor to sell (“the option consideration”); and
 - (b) the cost of acquiring what was sold as a result of the exercise of the option (“the sale consideration”),
 but does not apply in any case where section 114 applies.
- (2) For the purpose of computing the indexation allowance (if any) on the disposal referred to in subsection (1) above—
 - (a) the option consideration and the sale consideration shall be regarded as separate items of expenditure; and
 - (b) subsection (4) of section 54 shall apply to neither of those items and, accordingly, they shall be regarded as incurred when the option was acquired and when the sale took place, respectively.
- (3) This section has effect notwithstanding section 144, but expressions used in this section have the same meaning as in that section and subsection (5) of that section applies for the purpose of determining the cost of acquiring an option binding the grantor to sell.

146 Options: application of rules as to wasting assets

- (1) Section 46 shall not apply—
 - (a) to a quoted option to subscribe for shares in a company, or
 - (b) to a traded option, or financial option, or
 - (c) to an option to acquire assets exercisable by a person intending to use them, if acquired, for the purpose of a trade carried on by him.
- (2) In relation to the disposal by way of transfer of an option (other than an option falling within subsection (1)(a) or (b) above) binding the grantor to sell or buy quoted shares or securities, the option shall be regarded as a wasting asset the life of which ends when the right to exercise the option ends, or when the option becomes valueless, whichever is the earlier.

Subsections (5) and (6) of section 144 shall apply in relation to this subsection as they apply in relation to that section.
- (3) The preceding provisions of this section are without prejudice to the application of sections 44 to 47 to options not within those provisions.
- (4) In this section—

- (a) “financial option”, “quoted option” and “traded option” have the meanings given by section 144(8), and
- (b) “quoted shares or securities” means shares or securities which have a quoted market value on a recognised stock exchange in the United Kingdom or elsewhere.

147 Quoted options treated as part of new holdings

- (1) If a quoted option to subscribe for shares in a company is dealt in (on the stock exchange where it is quoted) within 3 months after the taking effect, with respect to the company granting the option, of any reorganisation, reduction, conversion or amalgamation to which Chapter II of this Part applies, or within such longer period as the Board may by notice allow—
 - (a) the option shall, for the purposes of that Chapter be regarded as the shares which could be acquired by exercising the option, and
 - (b) section 272(3) shall apply for determining its market value.
- (2) In this section “quoted option” has the meaning given by section 144(8).

148 Traded options: closing purchases

- (1) This section applies where a person (“the grantor”) who has granted a traded option (“the original option”) closes it out by acquiring a traded option of the same description (“the second option”).
- (2) Any disposal by the grantor involved in closing out the original option shall be disregarded for the purposes of capital gains tax or, as the case may be, corporation tax on chargeable gains.
- (3) The incidental costs to the grantor of making the disposal constituted by the grant of the original option shall be treated for the purposes of the computation of the gain as increased by an amount equal to the aggregate of—
 - (a) the amount or value of the consideration, in money or money’s worth, given by him or on his behalf wholly and exclusively for the acquisition of the second option, and
 - (b) the incidental costs to him of that acquisition.
- (4) In this section “traded option” has the meaning given by section 144(8).

149 Rights to acquire qualifying shares

- (1) This section applies where on or after 25th July 1991 (the day on which the Finance Act 1991 was passed) a building society confers—
 - (a) on its members, or
 - (b) on any particular class or description of its members,any rights to acquire, in priority to other persons, shares in the society which are qualifying shares.
- (2) Any such right so conferred shall be regarded for the purposes of capital gains tax as an option granted to, and acquired by, the member concerned for no consideration and having no value at the time of that grant and acquisition.
- (3) In this section—

“member” includes a former member, and
 “qualifying share” has the same meaning as in section 117(4).

150 Business expansion schemes

- (1) In this section “relief” means relief under Chapter III of Part VII of the Taxes Act, Schedule 5 to the Finance Act 1983 (“the 1983 Act”) or Chapter II of Part IV of the Finance Act 1981 (“the 1981 Act”) and “eligible shares” has the meaning given by section 289(4) of the Taxes Act.
- (2) A gain or loss which accrues to an individual on the disposal of any shares issued after 18th March 1986 in respect of which relief has been given to him and not withdrawn shall not be a chargeable gain or allowable loss for the purposes of capital gains tax.
- (3) The sums allowable as deductions from the consideration in the computation for the purposes of capital gains tax of the gain or loss accruing to an individual on the disposal of shares issued before 19th March 1986 in respect of which relief has been given and not withdrawn shall be determined without regard to that relief, except that where those sums exceed the consideration they shall be reduced by an amount equal to—
 - (a) the amount of that relief; or
 - (b) the excess,
 whichever is the less, but the foregoing provisions of this subsection shall not apply to a disposal falling within section 58(1).
- (4) Any question—
 - (a) as to which of any shares issued to a person at different times, being shares in respect of which relief has been given and not withdrawn, a disposal relates, or
 - (b) whether a disposal relates to shares in respect of which relief has been given and not withdrawn or to other shares,
 shall for the purposes of capital gains tax be determined as for the purposes of section 299 of the Taxes Act, or section 57 of the Finance Act 1981 if the relief has only been given under that Act; and Chapter I of this Part shall have effect subject to the foregoing provisions of this subsection.
- (5) Notwithstanding anything in section 107(1) and (2), section 107 does not apply to shares in respect of which relief has been given and not withdrawn.
- (6) Where an individual holds shares which form part of the ordinary share capital of a company and the relief has been given (and not withdrawn) in respect of some but not others, then, if there is within the meaning of section 126 a reorganisation affecting those shares, section 127 shall apply separately to the shares in respect of which the relief has been given (and not withdrawn) and to the other shares (so that shares of each kind are treated as a separate holding of original shares and identified with a separate new holding).
- (7) Where section 58 has applied to any eligible shares disposed of by an individual to his or her spouse (“the transferee”), subsection (2) above shall apply in relation to the subsequent disposal of the shares by the transferee to a third party.
- (8) Where section 135 or 136 would, but for this subsection, apply in relation to eligible shares issued after 18th March 1986 in respect of which an individual has been given relief, that section shall apply only if the relief is withdrawn.

- (9) Sections 127 to 130 shall not apply in relation to any shares in respect of which relief (other than relief under the 1981 Act) has been given and which form part of a company's ordinary share capital if—
- (a) there is, by virtue of any such allotment for payment as is mentioned in section 126(2)(a), a reorganisation occurring after 18th March 1986 affecting those shares; and
 - (b) immediately following the reorganisation, the relief has not been withdrawn in respect of those shares or relief has been given in respect of the allotted shares and not withdrawn.
- (10) Where relief is reduced by virtue of subsection (2) of section 305 of the Taxes Act—
- (a) the sums allowable as deductions from the consideration in the computation, for the purposes of capital gains tax, of the gain or loss accruing to an individual on the disposal, after 18th March 1986, of any of the allotted shares or debentures shall be taken to include the amount of the reduction apportioned between the allotted shares or (as the case may be) debentures in such a way as appears to the inspector, or on appeal to the Commissioners concerned, to be just and reasonable; and
 - (b) the sums so allowable on the disposal (in circumstances in which subsections (2) to (8) above do not apply) of any of the shares referred to in section 305(2) (a) shall be taken to be reduced by the amount mentioned in paragraph (a) above, similarly apportioned between those shares.
- (11) There shall be made all such adjustments of capital gains tax, whether by way of assessment or by way of discharge or repayment of tax, as may be required in consequence of the relief being given or withdrawn.

151 Personal equity plans

- (1) The Treasury may make regulations providing that an individual who invests under a plan shall be entitled to relief from capital gains tax in respect of the investments.
- (2) Subsections (2) to (5) of section 333 of the Taxes Act (personal equity plans) shall apply in relation to regulations under subsection (1) above as they apply in relation to regulations under subsection (1) of that section but with the substitution for any reference to income tax of a reference to capital gains tax.
- (3) Regulations under this section may include provision securing that losses are disregarded for the purposes of capital gains tax where they accrue on the disposal of investments on or after 18th January 1988.

PART V

TRANSFER OF BUSINESS ASSETS

CHAPTER I

GENERAL PROVISIONS

Replacement of business assets

152 Roll-over relief

- (1) If the consideration which a person carrying on a trade obtains for the disposal of, or of his interest in, assets (“the old assets”) used, and used only, for the purposes of the trade throughout the period of ownership is applied by him in acquiring other assets, or an interest in other assets (“the new assets”) which on the acquisition are taken into use, and used only, for the purposes of the trade, and the old assets and new assets are within the classes of assets listed in section 155, then the person carrying on the trade shall, on making a claim as respects the consideration which has been so applied, be treated for the purposes of this Act—

- (a) as if the consideration for the disposal of, or of the interest in, the old assets were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him, and
- (b) as if the amount or value of the consideration for the acquisition of, or of the interest in, the new assets were reduced by the excess of the amount or value of the actual consideration for the disposal of, or of the interest in, the old assets over the amount of the consideration which he is treated as receiving under paragraph (a) above,

but neither paragraph (a) nor paragraph (b) above shall affect the treatment for the purposes of this Act of the other party to the transaction involving the old assets, or of the other party to the transaction involving the new assets.

- (2) Where subsection (1)(a) above applies to exclude a gain which, in consequence of Schedule 2, is not all chargeable gain, the amount of the reduction to be made under subsection (1)(b) above shall be the amount of the chargeable gain, and not the whole amount of the gain.
- (3) Subject to subsection (4) below, this section shall only apply if the acquisition of, or of the interest in, the new assets takes place, or an unconditional contract for the acquisition is entered into, in the period beginning 12 months before and ending 3 years after the disposal of, or of the interest in, the old assets, or at such earlier or later time as the Board may by notice allow.
- (4) Where an unconditional contract for the acquisition is so entered into, this section may be applied on a provisional basis without waiting to ascertain whether the new assets, or the interest in the new assets, is acquired in pursuance of the contract, and, when that fact is ascertained, all necessary adjustments shall be made by making assessments or by repayment or discharge of tax, and shall be so made notwithstanding any limitation on the time within which assessments may be made.

- (5) This section shall not apply unless the acquisition of, or of the interest in, the new assets was made for the purpose of their use in the trade, and not wholly or partly for the purpose of realising a gain from the disposal of, or of the interest in, the new assets.
- (6) If, over the period of ownership or any substantial part of the period of ownership, part of a building or structure is, and part is not, used for the purposes of a trade, this section shall apply as if the part so used, with any land occupied for purposes ancillary to the occupation and use of that part of the building or structure, were a separate asset, and subject to any necessary apportionments of consideration for an acquisition or disposal of, or of an interest in, the building or structure and other land.
- (7) If the old assets were not used for the purposes of the trade throughout the period of ownership this section shall apply as if a part of the asset representing its use for the purposes of the trade having regard to the time and extent to which it was, and was not, used for those purposes, were a separate asset which had been wholly used for the purposes of the trade, and this subsection shall apply in relation to that part subject to any necessary apportionment of consideration for an acquisition or disposal of, or of the interest in, the asset.
- (8) This section shall apply in relation to a person who, either successively or at the same time, carries on 2 or more trades as if both or all of them were a single trade.
- (9) In this section “period of ownership” does not include any period before 31st March 1982.
- (10) The provisions of this Act fixing the amount of the consideration deemed to be given for the acquisition or disposal of assets shall be applied before this section is applied.
- (11) Without prejudice to section 52(4), where consideration is given for the acquisition or disposal of assets some or part of which are assets in relation to which a claim under this section applies, and some or part of which are not, the consideration shall be apportioned in such manner as is just and reasonable.

153 Assets only partly replaced

- (1) Section 152(1) shall not apply if part only of the amount or value of the consideration for the disposal of, or of the interest in, the old assets is applied as described in that subsection, but if all of the amount or value of the consideration except for a part which is less than the amount of the gain (whether all chargeable gain or not) accruing on the disposal of, or of the interest in, the old assets is so applied, then the person carrying on the trade, on making a claim as respects the consideration which has been so applied, shall be treated for the purposes of this Act—
 - (a) as if the amount of the gain so accruing were reduced to the amount of the said part (and, if not all chargeable gain, with a proportionate reduction in the amount of the chargeable gain), and
 - (b) as if the amount or value of the consideration for the acquisition of, or of the interest in, the new assets were reduced by the amount by which the gain is reduced (or as the case may be the amount by which the chargeable gain is proportionately reduced) under paragraph (a) of this subsection,
 but neither paragraph (a) nor paragraph (b) above shall affect the treatment for the purposes of this Act of the other party to the transaction involving the old assets, or of the other party to the transaction involving the new assets.
- (2) Subsections (3) to (11) of 152 shall apply as if this section formed part of that section.

154 New assets which are depreciating assets

- (1) Sections 152, 153 and 229 shall have effect subject to the provisions of this section in which—
 - (a) the “held-over gain” means the amount by which, under those sections, and apart from the provisions of this section, any chargeable gain on one asset (“asset No.1”) is reduced, with a corresponding reduction of the expenditure allowable in respect of another asset (“asset No.2”), and
 - (b) any reference to a gain of any amount being carried forward to any asset is a reference to a reduction of that amount in a chargeable gain coupled with a reduction of the same amount in expenditure allowable in respect of that asset.
- (2) If asset No.2 is a depreciating asset, the held-over gain shall not be carried forward, but the claimant shall be treated as if so much of the chargeable gain on asset No.1 as is equal to the held-over gain did not accrue until—
 - (a) the claimant disposes of asset No.2, or
 - (b) he ceases to use asset No.2 for the purposes of a trade carried on by him, or
 - (c) the expiration of a period of 10 years beginning with the acquisition of asset No.2,
 whichever event comes first.
- (3) Where section 229 has effect subject to the provisions of this section, subsection (2) (b) above shall have effect as if it read—
 - “(b) section 232(3) applies as regards asset No.2 (whether or not by virtue of section 232(5)), or”.
- (4) If, in the circumstances specified in subsection (5) below, the claimant acquires an asset (“asset No.3”) which is not a depreciating asset, and claims under section 152 or 153—
 - (a) the gain held-over from asset No.1 shall be carried forward to asset No.3, and
 - (b) the claim which applies to asset No.2 shall be treated as withdrawn (so that subsection (2) above does not apply).
- (5) The circumstances are that asset No.3 is acquired not later than the time when the chargeable gain postponed under subsection (2) above would accrue and, assuming—
 - (a) that the consideration for asset No.1 was applied in acquiring asset No.3, and
 - (b) that the time between the disposal of asset No.1 and the acquisition of asset No.3 was within the time limited by section 152(3),
 the whole amount of the postponed gain could be carried forward from asset No.1 to asset No.3; and the claim under subsection (4) above shall be accepted as if those assumptions were true.
- (6) If part only of the postponed gain could be carried forward from asset No.1 to asset No.3, and the claimant so requires, that and the other part of the postponed gain shall be treated as derived from 2 separate assets, so that, on that claim—
 - (a) subsection (4) above applies to the first-mentioned part, and
 - (b) the other part remains subject to subsection (2) above.
- (7) For the purposes of this section, an asset is a depreciating asset at any time if—
 - (a) at that time it is a wasting asset, as defined in section 44, or
 - (b) within the period of 10 years beginning at that time it will become a wasting asset (so defined).

155 Relevant classes of assets

The classes of assets for the purposes of section 152(1) are as follows.

CLASS 1

Assets within heads A and B below

Head A

1. Any building or part of a building and any permanent or semi-permanent structure in the nature of a building, occupied (as well as used) only for the purposes of the trade
2. Any land occupied (as well as used) only for the purposes of the trade.

Head A has effect subject to section 156.

Head B

Fixed plant or machinery which does not form part of a building or of a permanent or semi-permanent structure in the nature of a building.

CLASS 2

Ships, aircraft and hovercraft (“hovercraft” having the same meaning as in the Hovercraft Act 1968).

CLASS 3

Satellites, space stations and spacecraft (including launch vehicles).

CLASS 4

Goodwill.

CLASS 5

Milk quotas (that is, rights to sell dairy produce without being liable to pay milk levy or to deliver dairy produce without being liable to pay a contribution to milk levy) and potato quotas (that is, rights to produce potatoes without being liable to pay more than the ordinary contribution to the Potato Marketing Board’s fund).

156 Assets of Class 1

- (1) This section has effect as respects head A of Class 1 in section 155.
- (2) Head A shall not apply where the trade is a trade—
 - (a) of dealing in or developing land, or
 - (b) of providing services for the occupier of land in which the person carrying on the trade has an estate or interest.
- (3) Where the trade is a trade of dealing in or developing land, but a profit on the sale of any land held for the purposes of the trade would not form part of the trading profits, then, as regards that land, the trade shall be treated for the purposes of subsection (2) (a) above as if it were not a trade of dealing in or developing land.
- (4) A person who is a lessor of tied premises shall be treated as if he occupied (as well as used) those tied premises only for the purposes of the relevant trade.

This subsection shall be construed in accordance with section 98(2) of the Taxes Act (income tax and corporation tax on tied premises).

157 Trade carried on by family company: business assets dealt with by individual

In relation to a case where—

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

- (a) the person disposing of, or of his interest in, the old assets and acquiring the new assets, or an interest in them, is an individual, and
- (b) the trade or trades in question are carried on not by that individual but by a company which, both at the time of the disposal and at the time of the acquisition referred to in paragraph (a) above, is his family company, within the meaning of Schedule 6,

any reference in sections 152 to 156 to the person carrying on the trade (or the 2 or more trades) includes a reference to that individual.

158 Activities other than trades, and interpretation

- (1) Sections 152 to 157 shall apply with the necessary modifications—
 - (a) in relation to the discharge of the functions of a public authority, and
 - (b) in relation to the occupation of woodlands where the woodlands are managed by the occupier on a commercial basis and with a view to the realisation of profits, and
 - (c) in relation to a profession, vocation, office or employment, and
 - (d) in relation to such of the activities of a body of persons whose activities are carried on otherwise than for profit and are wholly or mainly directed to the protection or promotion of the interests of its members in the carrying on of their trade or profession as are so directed, and
 - (e) in relation to the activities of an unincorporated association or other body chargeable to corporation tax, being a body not established for profit whose activities are wholly or mainly carried on otherwise than for profit, but in the case of assets within head A of class 1 only if they are both occupied and used by the body, and in the case of other assets only if they are used by the body, as they apply in relation to a trade.
- (2) In sections 152 to 157 and this section the expressions “trade”, “profession”, “vocation”, “office” and “employment” have the same meanings as in the Income Tax Acts, but not so as to apply the provisions of the Income Tax Acts as to the circumstances in which, on a change in the persons carrying on a trade, a trade is to be regarded as discontinued, or as set up and commenced.
- (3) Sections 152 to 157 and this section shall be construed as one.

159 Non-residents: roll-over relief

- (1) Section 152 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) 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 10(1), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 10(3).
- (5) 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; and
- “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.
- (6) In this section—
- (a) “the old assets” and “the new assets” have the same meanings as in section 152,
 - (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.
- (7) Where the acquisition of the new assets took place before 14th March 1989 and the disposal of the old assets took place, or takes place, on or after that date, this section shall not apply if the disposal of the old assets took place, or takes place, within 12 months of the acquisition of the new assets or such longer period as the Board may by notice allow.

160 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 152 shall not apply unless the new assets are not prescribed assets immediately after the time of acquisition.
- (2) 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; and
- “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.
- (3) In this section—

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- (a) “the old assets” and “the new assets” have the same meanings as in section 152,
 - (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.
- (4) Where the acquisition of the new assets took place before 14th March 1989 and the disposal of the old assets took place, or takes place, on or after that date, this section shall not apply if the disposal of the old assets took place, or takes place, within 12 months of the acquisition of the new assets or such longer period as the Board may by notice allow.

Stock in trade

161 Appropriations to and from stock

- (1) Subject to subsection (3) below, where an asset acquired by a person otherwise than as trading stock of a trade carried on by him is appropriated by him for the purposes of the trade as trading stock (whether on the commencement of the trade or otherwise) and, if he had then sold the asset for its market value, a chargeable gain or allowable loss would have accrued to him, he shall be treated as having thereby disposed of the asset by selling it for its then market value.
- (2) If at any time an asset forming part of the trading stock of a person’s trade is appropriated by him for any other purpose, or is retained by him on his ceasing to carry on the trade, he shall be treated as having acquired it at that time for a consideration equal to the amount brought into the accounts of the trade in respect of it for tax purposes on the appropriation or on his ceasing to carry on the trade, as the case may be.
- (3) Subject to subsection (4) below, subsection (1) above shall not apply in relation to a person’s appropriation of an asset for the purposes of a trade if he is chargeable to income tax in respect of the profits of the trade under Case I of Schedule D, and elects that instead the market value of the asset at the time of the appropriation shall, in computing the profits of the trade for purposes of tax, be treated as reduced by the amount of the chargeable gain or increased by the amount of the allowable loss referred to in subsection (1), and where that subsection does not apply by reason of such an election, the profits of the trade shall be computed accordingly.
- (4) If a person making an election under subsection (3) is at the time of the appropriation carrying on the trade in partnership with others, the election shall not have effect unless concurred in by the others.

Transfer of business to a company

162 Roll-over relief on transfer of business

- (1) This section shall apply for the purposes of this Act where a person who is not a company transfers to a company a business as a going concern, together with the whole assets of the business, or together with the whole of those assets other than cash, and

the business is so transferred wholly or partly in exchange for shares issued by the company to the person transferring the business.

Any shares so received by the transferor in exchange for the business are referred to below as “the new assets”.

- (2) The amount determined under subsection (4) below shall be deducted from the aggregate of the chargeable gains less allowable losses (“the amount of the gain on the old assets”).
- (3) For the purpose of computing any chargeable gain accruing on the disposal of any new asset—
 - (a) the amount determined under subsection (4) below shall be apportioned between the new assets as a whole, and
 - (b) the sums allowable as a deduction under section 38(1)(a) shall be reduced by the amount apportioned to the new asset under paragraph (a) above;and if the shares which comprise the new assets are not all of the same class, the apportionment between the shares under paragraph (a) above shall be in accordance with their market values at the time they were acquired by the transferor.
- (4) The amount referred to in subsections (2) and (3)(a) above shall not exceed the cost of the new assets but, subject to that, it shall be the fraction—

$$\frac{A}{B}$$

of the amount of the gain on the old assets where—

“A” is the cost of the new assets, and

“B” is the value of the whole of the consideration received by the transferor in exchange for the business;

and for the purposes of this subsection “the cost of the new assets” means any sums which would be allowable as a deduction under section 38(1)(a) if the new assets were disposed of as a whole in circumstances giving rise to a chargeable gain.

- (5) References in this section to the business, in relation to shares or consideration received in exchange for the business, include references to such assets of the business as are referred to in subsection (1) above.

Retirement relief

163 Relief for disposals by individuals on retirement from family business

- (1) Relief from capital gains tax shall be given, subject to and in accordance with Schedule 6, in any case where a material disposal of business assets is made by an individual who, at the time of the disposal—
 - (a) has attained the age of 55, or
 - (b) has retired on ill-health grounds below the age of 55.
- (2) For the purposes of this section and Schedule 6, a disposal of business assets is—
 - (a) a disposal of the whole or part of a business, or
 - (b) a disposal of one or more assets which, at the time at which a business ceased to be carried on, were in use for the purposes of that business, or

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- (c) a disposal of shares or securities of a company (including a disposal of an interest in shares which a person is treated as making by virtue of section 122), and the question whether such a disposal is a material disposal shall be determined in accordance with the following provisions of this section.
- (3) A disposal of the whole or part of a business is a material disposal if, throughout a period of at least one year ending with the date of the disposal, the relevant conditions are fulfilled and, in relation to such a disposal, those conditions are fulfilled at any time if at that time the business is owned by the individual making the disposal or—
- (a) the business is owned by a company—
 - (i) which is a trading company, and
 - (ii) which is either that individual's family company or a member of a trading group of which the holding company is that individual's family company; and
 - (b) that individual is a full-time working director of that company or, if that company is a member of a group or commercial association of companies, of one or more companies which are members of the group or association.
- (4) A disposal of assets such as is mentioned in subsection (2)(b) above is a material disposal if—
- (a) throughout a period of at least one year ending with the date on which the business ceased to be carried on the relevant conditions are fulfilled and, in relation to such a disposal, those conditions are fulfilled at any time if at that time either the business was owned by the individual making the disposal or paragraphs (a) and (b) of subsection (3) above apply; and
 - (b) on or before the date on which the business ceased to be carried on, the individual making the disposal had either attained the age of 55 or retired on ill-health grounds below that age; and
 - (c) the date on which the business ceased to be carried on falls within the permitted period before the date of the disposal.
- (5) A disposal of shares or securities of a company (including such a disposal of an interest in shares as is mentioned in subsection (2)(c) above) is a material disposal if, throughout a period of at least one year ending with the operative date, the relevant conditions are fulfilled and, in relation to such a disposal, those conditions are fulfilled at any time if at that time—
- (a) the individual making the disposal owns the business which, at the date of the disposal, is owned by the company or, if the company is the holding company of a trading group, by any member of the group; or
 - (b) the company is the individual's family company and is either a trading company or the holding company of a trading group and the individual is a full-time working director of the company or, if the company is a member of a group or commercial association of companies, of one or more companies which are members of the group or association;
- and, except where subsection (6) or subsection (7) below applies, the operative date for the purposes of this subsection is the date of the disposal.
- (6) In any case where—
- (a) within the permitted period before the date of the disposal referred to in subsection (5) above, the company concerned either ceased to be a trading company without continuing to be or becoming a member of a trading group

or ceased to be a member of a trading group without continuing to be or becoming a trading company, and

- (b) on or before the date of that cessation, the individual making the disposal attained the age of 55 or retired on ill-health grounds below that age,

then, subject to subsection (7) below, the operative date for the purposes of subsection (5) above is the date of the cessation referred to in paragraph (a) above; and, where this subsection applies, the reference in subsection (5)(a) above to the date of the disposal shall also be construed as a reference to the date of that cessation.

- (7) If, throughout a period which ends on the date of the disposal referred to in subsection (5) above or, if subsection (6) above applies, on the date of the cessation referred to in paragraph (a) of that subsection and which begins when the individual concerned ceased to be a full-time working director of the company or, if that company is a member of a group or commercial association of companies, of one or more companies which are members of the group or association—

- (a) the company concerned was his family company and either a trading company or the holding company of a trading group, and
- (b) he was a director of the company concerned or, as the case may be, of one or more members of the group or association and, in that capacity, devoted at least 10 hours per week (averaged over the period) to the service of the company or companies in a technical or managerial capacity,

the operative date for the purposes of subsection (5) above is the date on which the individual ceased to be a full-time working director as mentioned above.

- (8) For the purposes of this section—

- (a) any reference to the disposal of the whole or part of a business by an individual includes a reference to the disposal by him of his interest in the assets of a partnership carrying on the business; and
- (b) subject to paragraph (a) above, at any time when a business is carried on by a partnership, the business shall be treated as owned by each individual who is at that time a member of the partnership.

- (9) Part I of Schedule 6 shall have effect for the interpretation of this section as well as of that Schedule.

164 Other retirement relief

- (1) Relief from capital gains tax shall be given, subject to and in accordance with Schedule 6, in any case where an individual—

- (a) who has attained the age of 55, or
- (b) who has retired on ill-health grounds below the age of 55,

makes a relevant disposal of the whole or part of the assets provided or held for the purposes of an office or employment exercised by him; and, if he ceases to exercise that office or employment before the date of the relevant disposal, the date on which he ceased to exercise it is in subsection (2) below referred to as the “prior cessation date”.

- (2) For the purposes of subsection (1) above, a disposal of the whole or part of the assets provided or held as mentioned in that subsection is a relevant disposal if—

- (a) throughout a period of at least one year ending with the date of the disposal or, where applicable, the prior cessation date, the office or employment was the full-time occupation of the individual making the disposal; and

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- (b) that office or employment is other than that of director of a company which is either the family company of the individual concerned or is a member of a trading group of which the holding company is his family company; and
 - (c) where there is a prior cessation date, the individual either had attained the age of 55 on or before that date or on that date retired on ill-health grounds below that age; and
 - (d) where there is a prior cessation date, the disposal takes place within the permitted period after the cessation date.
- (3) Relief from capital gains tax shall be given, subject to and in accordance with Schedule 6, where—
 - (a) the trustees of a settlement dispose of—
 - (i) shares or securities of a company, or
 - (ii) an asset used or previously used for the purposes of a business, being, in either case, part of the settled property; and
 - (b) the conditions in subsection (4) or, as the case may be, subsection (5) below are fulfilled with respect to a beneficiary who, under the settlement, has an interest in possession in the whole of the settled property or, as the case may be, in a part of it which consists of or includes the shares or securities or the asset referred to in paragraph (a) above, but excluding, for this purpose, an interest for a fixed term; and in those subsections that beneficiary is referred to as “the qualifying beneficiary”.
- (4) In relation to a disposal of shares or securities of a company (including such a disposal of an interest in shares as is mentioned in section 163(2)(c)), the conditions referred to in subsection (3)(b) above are—
 - (a) that, throughout a period of at least one year ending not earlier than the permitted period before the disposal, the company was the qualifying beneficiary’s family company and either a trading company or the holding company of a trading group; and
 - (b) that, throughout a period of at least one year ending as mentioned in paragraph (a) above, the qualifying beneficiary was a full-time working director of the company or, if the company is a member of a group or commercial association of companies, of one or more companies which are members of the group or association; and
 - (c) that, on the date of the disposal or within the permitted period before that date, the qualifying beneficiary ceased to be a full-time working director as mentioned in paragraph (b) above, having attained the age of 55 or retired on ill-health grounds below that age.
- (5) In relation to a disposal of an asset, the conditions referred to in subsection (3)(b) above are—
 - (a) that, throughout a period of at least one year ending not earlier than the permitted period before the disposal, the asset was used for the purposes of a business carried on by the qualifying beneficiary; and
 - (b) that, on the date of the disposal or within the permitted period before that date, the qualifying beneficiary ceased to carry on the business referred to in paragraph (a) above; and
 - (c) that, on or before the date of the disposal or, if it was earlier, the date on which the qualifying beneficiary ceased to carry on that business, he attained the age of 55 or retired on ill-health grounds below that age.

- (6) In any case where—
- (a) by virtue of section 163, relief falls to be given, in accordance with Schedule 6, in respect of a material disposal of business assets which either consists of the disposal by an individual of his interest in the assets of a partnership or is of a description falling within subsection (5) of that section, and
 - (b) the individual making that material disposal makes an associated disposal of assets, as defined in subsection (7) below,
- relief from capital gains tax shall also be given, subject to and in accordance with that Schedule in respect of the associated disposal.
- (7) In relation to a material disposal of business assets, a disposal of an asset is an associated disposal if—
- (a) it takes place as part of a withdrawal of the individual concerned from participation in the business carried on by the partnership referred to in subsection (6)(a) above or, as the case may be, by the company which owns the business as mentioned in section 163(5)(a); and
 - (b) immediately before the material disposal or, if it was earlier, the cessation of the business mentioned in paragraph (a) above, the asset was in use for the purposes of that business; and
 - (c) during the whole or part of the period in which the asset has been in the ownership of the individual making the disposal the asset has been used—
 - (i) for the purposes of the business mentioned in paragraph (a) above (whether or not carried on by the partnership or company there referred to); or
 - (ii) for the purposes of another business carried on by the individual or by a partnership of which the individual concerned was a member; or
 - (iii) for the purposes of another business in respect of which the conditions in paragraphs (a) and (b) of subsection (3) of section 163 were fulfilled.
- (8) In subsections (6) and (7) above “material disposal of business assets” has the same meaning as in section 163 and Part I of Schedule 6 shall have effect for the interpretation of this section as well as of that Schedule.

CHAPTER II

GIFTS OF BUSINESS ASSETS

165 Relief for gifts of business assets

- (1) If—
- (a) an individual (“the transferor”) makes a disposal otherwise than under a bargain at arm’s length of an asset within subsection (2) below, and
 - (b) a claim for relief under this section is made by the transferor and the person who acquires the asset (“the transferee”) or, where the trustees of a settlement are the transferee, by the transferor alone,
- then, subject to subsection (3) and sections 166 and 167, subsection (4) below shall apply in relation to the disposal.
- (2) An asset is within this subsection if—

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- (a) it is, or is an interest in, an asset used for the purposes of a trade, profession or vocation carried on by—
 - (i) the transferor, or
 - (ii) his family company, or
 - (iii) a member of a trading group of which the holding company is his family company, or
 - (b) it consists of shares or securities of a trading company, or of the holding company of a trading group, where—
 - (i) the shares or securities are neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market, or
 - (ii) the trading company or holding company is the transferor's family company.
- (3) Subsection (4) below does not apply in relation to a disposal if—
 - (a) in the case of a disposal of an asset, any gain accruing to the transferor on the disposal is (apart from this section) wholly relieved under Schedule 6, or
 - (b) in the case of a disposal of shares or securities, the appropriate proportion determined under paragraph 7(2) or 8(2) of Schedule 6 of any gain accruing to the transferor on the disposal is (apart from this section) wholly relieved under that Schedule, or
 - (c) in the case of a disposal of qualifying corporate bonds, a gain is deemed to accrue by virtue of section 116(10)(b), or
 - (d) subsection (3) of section 260 applies in relation to the disposal (or would apply if a claim for relief were duly made under that section).
- (4) Where a claim for relief is made under this section in respect of a disposal—
 - (a) the amount of any chargeable gain which, apart from this section, would accrue to the transferor on the disposal, and
 - (b) the amount of the consideration for which, apart from this section, the transferee would be regarded for the purposes of capital gains tax as having acquired the asset or, as the case may be, the shares or securities,
 shall each be reduced by an amount equal to the held-over gain on the disposal.
- (5) Part I of Schedule 7 shall have effect for extending the relief provided for by virtue of subsections (1) to (4) above in the case of agricultural property and for applying it in relation to settled property.
- (6) Subject to Part II of Schedule 7 and subsection (7) below, the reference in subsection (4) above to the held-over gain on a disposal is a reference to the chargeable gain which would have accrued on that disposal apart from subsection (4) above and (in appropriate cases) Schedule 6, and in subsection (7) below that chargeable gain is referred to as the unrelieved gain on the disposal.
- (7) In any case where—
 - (a) there is actual consideration (as opposed to the consideration equal to the market value which is deemed to be given by virtue of section 17(1)) for a disposal in respect of which a claim for relief is made under this section, and
 - (b) that actual consideration exceeds the sums allowable as a deduction under section 38,
 the held-over gain on the disposal shall be the amount by which the unrelieved gain on the disposal exceeds the excess referred to in paragraph (b) above.

- (8) Subject to subsection (9) below, in this section and Schedule 7—
- (a) “family company”, “holding company”, “trading company” and “trading group” have the meanings given by paragraph 1 of Schedule 6, and
 - (b) “trade”, “profession” and “vocation” have the same meaning as in the Income Tax Acts.
- (9) In this section and Schedule 7 and in determining whether a company is a trading company for the purposes of this section and that Schedule, the expression “trade” shall be taken to include the occupation of woodlands where the woodlands are managed by the occupier on a commercial basis and with a view to the realisation of profits.
- (10) Where a disposal after 13th March 1989, in respect of which a claim is made under this section, is (or proves to be) a chargeable transfer for inheritance tax purposes, there shall be allowed as a deduction in computing (for capital gains tax purposes) the chargeable gain accruing to the transferee on the disposal of the asset in question an amount equal to whichever is the lesser of—
- (a) the inheritance tax attributable to the value of the asset, and
 - (b) the amount of the chargeable gain as computed apart from this subsection,
- and, in the case of a disposal which, being a potentially exempt transfer, proves to be a chargeable transfer, all necessary adjustments shall be made, whether by the discharge or repayment of capital gains tax or otherwise.
- (11) Where an amount of inheritance tax—
- (a) falls to be redetermined in consequence of the transferor’s death within 7 years of making the chargeable transfer in question, or
 - (b) is otherwise varied,
- after it has been taken into account under subsection (10) above, all necessary adjustments shall be made, whether by the making of an assessment to capital gains tax or by the discharge or repayment of such tax.

166 Gifts to non-residents

- (1) Section 165(4) shall not apply where the transferee is neither resident nor ordinarily resident in the United Kingdom.
- (2) Section 165(4) shall not apply where the transferee is an individual or a company if that individual or company—
- (a) though resident or ordinarily resident in the United Kingdom, is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (b) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition.

167 Gifts to foreign-controlled companies

- (1) Section 165(4) shall not apply where the transferee is a company which is within subsection (2) below.
- (2) A company is within this subsection if it is controlled by a person who, or by persons each of whom—

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- (a) is neither resident nor ordinarily resident in the United Kingdom, and
 - (b) is connected with the person making the disposal.
- (3) For the purposes of subsection (2) above, a person who (either alone or with others) controls a company by virtue of holding assets relating to that or any other company and who is resident or ordinarily resident in the United Kingdom shall be regarded as neither resident nor ordinarily resident there if—
- (a) he is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (b) by virtue of the arrangements he would not be liable in the United Kingdom to tax on a gain arising on a disposal of the assets.

168 Emigration of donee

- (1) If—
- (a) relief is given under section 165 in respect of a disposal to an individual or under section 260 in respect of a disposal to an individual (“the relevant disposal”); and
 - (b) at a time when he has not disposed of the asset in question, the transferee becomes neither resident nor ordinarily resident in the United Kingdom,
- then, subject to the following provisions of this section, a chargeable gain shall be deemed to have accrued to the transferee immediately before that time, and its amount shall be equal to the held-over gain (within the meaning of section 165 or 260) on the relevant disposal.
- (2) For the purposes of subsection (1) above the transferee shall be taken to have disposed of an asset before the time there referred to only if he has made a disposal or disposals in connection with which the whole of the held-over gain on the relevant disposal was represented by reductions made in accordance with section 165(4)(b) or 260(3) (b) and where he has made a disposal in connection with which part of that gain was so represented, the amount of the chargeable gain deemed by virtue of this section to accrue to him shall be correspondingly reduced.
- (3) The disposals by the transferee that are to be taken into account under subsection (2) above shall not include any disposal to which section 58 applies; but where any such disposal is made by the transferee, disposals by his spouse shall be taken into account under subsection (2) above as if they had been made by him.
- (4) Subsection (1) above shall not apply by reason of a person becoming neither resident nor ordinarily resident more than 6 years after the end of the year of assessment in which the relevant disposal was made.
- (5) Subsection (1) above shall not apply in relation to a disposal made to an individual if—
- (a) the reason for his becoming neither resident nor ordinarily resident in the United Kingdom is that he works in an employment or office all the duties of which are performed outside the United Kingdom, and
 - (b) he again becomes resident or ordinarily resident in the United Kingdom within the period of 3 years from the time when he ceases to be so, without having meanwhile disposed of the asset in question;
- and accordingly no assessment shall be made by virtue of subsection (1) above before the end of that period in any case where the condition in paragraph (a) above is, and the condition in paragraph (b) above may be, satisfied.

- (6) For the purposes of subsection (5) above a person shall be taken to have disposed of an asset if he has made a disposal in connection with which the whole or part of the held-over gain on the relevant disposal would, had he been resident in the United Kingdom, have been represented by a reduction made in accordance with section 165(4)(b) or 260(3)(b) and subsection (3) above shall have effect for the purposes of this subsection as it has effect for the purposes of subsection (2) above.
- (7) Where an amount of tax assessed on a transferee by virtue of subsection (1) above is not paid within the period of 12 months beginning with the date when the tax becomes payable then, subject to subsection (8) below, the transferor may be assessed and charged (in the name of the transferee) to all or any part of that tax.
- (8) No assessment shall be made under subsection (7) above more than 6 years after the end of the year of assessment in which the relevant disposal was made.
- (9) Where the transferor pays an amount of tax in pursuance of subsection (7) above, he shall be entitled to recover a corresponding sum from the transferee.
- (10) Gains on disposals made after a chargeable gain has under this section been deemed to accrue by reference to a held-over gain shall be computed without any reduction under section 165(4)(b) or 260(3)(b) in respect of that held-over gain.

169 Gifts into dual resident trusts

- (1) This section applies where there is or has been a disposal of an asset to the trustees of a settlement in such circumstances that, on a claim for relief, section 165 or 260 applies, or would but for this section apply, so as to reduce the amounts of the chargeable gain and the consideration referred to in section 165(4) or 260(3).
- (2) In this section “a relevant disposal” means such a disposal as is referred to in subsection (1) above.
- (3) Relief under section 165 or 260 shall not be available on a relevant disposal if—
 - (a) at the material time the trustees to whom the disposal is made fall to be treated, under section 69, as resident and ordinarily resident in the United Kingdom, although the general administration of the trust is ordinarily carried on outside the United Kingdom; and
 - (b) on a notional disposal of the asset concerned occurring immediately after the material time, the trustees would be regarded for the purposes of any double taxation relief arrangements—
 - (i) as resident in a territory outside the United Kingdom; and
 - (ii) as not liable in the United Kingdom to tax on a gain arising on that disposal.
- (4) In subsection (3) above—
 - (a) “the material time” means the time of the relevant disposal; and
 - (b) a “notional disposal” means a disposal by the trustees of the asset which was the subject of the relevant disposal.

PART VI

COMPANIES, OIL, INSURANCE ETC.

CHAPTER I

COMPANIES

Groups of companies

170 Interpretation of sections 171 to 181

- (1) This section has effect for the interpretation of sections 171 to 181 except in so far as the context otherwise requires, and in those sections—

- (a) “profits” means income and chargeable gains, and
- (b) “trade” includes “vocation”, and includes also an office or employment.

Until 6th April 1993 paragraph (b) shall have effect with the addition at the end of the words “or the occupation of woodlands in any context in which the expression is applied to that in the Income Tax Acts”.

- (2) Except as otherwise provided—

- (a) references to a company apply only to a company, as that expression is limited by subsection (9) below, which is resident in the United Kingdom;
- (b) subsections (3) to (6) below apply to determine whether companies form a group and, where they do, which is the principal company of the group;
- (c) in applying the definition of “75 per cent. subsidiary” in section 838 of the Taxes Act any share capital of a registered industrial and provident society shall be treated as ordinary share capital; and
- (d) “group” and “subsidiary” shall be construed with any necessary modifications where applied to a company incorporated under the law of a country outside the United Kingdom.

- (3) Subject to subsections (4) to (6) below—

- (a) a company (referred to below and in sections 171 to 181 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.

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

- (5) 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 (3)(b) above, the subsidiary may, where the requirements of subsection (3) above are satisfied, itself be the principal company of another group notwithstanding subsection (4) above unless this subsection enables a further company to be the principal company of a group of which the subsidiary would be a member.

- (6) A company cannot be a member of more than one group; but where, apart from this subsection, a company would be a member of 2 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 (3)(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 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).
- (7) For the purposes of this section and sections 171 to 181, 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.
- (8) Schedule 18 to the Taxes Act (group relief: equity holders and profits or assets available for distribution) shall apply for the purposes of subsections (6) and (7) above as if the references to subsection (7), or subsections (7) to (9), of section 413 of that Act were references to subsections (6) and (7) above and as if, in paragraph 1(4), the words from “but” to the end and paragraphs 5(3) and 7(1)(b) were omitted.
- (9) For the purposes of this section and sections 171 to 181, references to a company apply only to—
- (a) a company within the meaning of the Companies Act 1985 or the corresponding enactment in Northern Ireland, and
 - (b) a company which is constituted under any other Act or a Royal Charter or letters patent or (although resident in the United Kingdom) is formed under the law of a country or territory outside the United Kingdom, and
 - (c) a registered industrial and provident society within the meaning of section 486 of the Taxes Act; and
 - (d) a building society.

- (10) For the purposes of this section and sections 171 to 181, a group remains the same group so long as the same company remains the principal company of the group, and if at any time the principal company of a group becomes a member of another group, the first group and the other group shall be regarded as the same, and the question whether or not a company has ceased to be a member of a group shall be determined accordingly.
- (11) For the purposes of this section and sections 171 to 181, the passing of a resolution or the making of an order, or any other act, for the winding-up of a member of a group of companies shall not be regarded as the occasion of that or any other company ceasing to be a member of the group.
- (12) Sections 171 to 181, except in so far as they relate to recovery of tax, shall also have effect in relation to bodies from time to time established by or under any enactment for the carrying on of any industry or part of an industry, or of any undertaking, under national ownership or control as if they were companies within the meaning of those sections, and as if any such bodies charged with related functions (and in particular the Boards and Holding Company established under the Transport Act 1962 and the new authorities within the meaning of the Transport Act 1968 established under that Act of 1968) and subsidiaries of any of them formed a group, and as if also any 2 or more such bodies charged at different times with the same or related functions were members of a group.
- (13) Subsection (12) shall have effect subject to any enactment by virtue of which property, rights, liabilities or activities of one such body fall to be treated for corporation tax as those of another, including in particular any such enactment in Chapter VI of Part XII of the Taxes Act.
- (14) Sections 171 to 181, except in so far as they relate to recovery of tax, shall also have effect in relation to the Executive for a designated area within the meaning of section 9(1) of the Transport Act 1968 as if that Executive were a company within the meaning of those sections.

Transactions within groups

171 Transfers within a group: general provisions

- (1) Notwithstanding any provision in this Act fixing the amount of the consideration deemed to be received on a disposal or given on an acquisition, where a member of a group of companies disposes of an asset to another member of the group, both members shall, except as provided by subsections (2) and (3) below, be treated, so far as relates to corporation tax on chargeable gains, as if the asset acquired by the member to whom the disposal is made were acquired for a consideration of such amount as would secure that on the other's disposal neither a gain nor a loss would accrue to that other; but where it is assumed for any purpose that a member of a group of companies has sold or acquired an asset, it shall be assumed also that it was not a sale to or acquisition from another member of the group.
- (2) Subsection (1) above shall not apply where the disposal is—
 - (a) a disposal of a debt due from a member of a group of companies effected by satisfying the debt or part of it; or
 - (b) a disposal of redeemable shares in a company on the occasion of their redemption; or

- (c) a disposal by or to an investment trust; or
- (d) a disposal to a dual resident investing company; or
- (e) a disposal to a company which, though resident in the United Kingdom—
 - (i) is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (ii) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition;

and the reference in subsection (1) above to a member of a group of companies disposing of an asset shall not apply to anything which under section 122 is to be treated as a disposal of an interest in shares in a company in consideration for a capital distribution (as defined in that section) from that company, whether or not involving a reduction of capital.

- (3) Subsection (1) above shall not apply to a transaction treated by virtue of sections 127 and 135 as not involving a disposal by the company first mentioned in that subsection.
- (4) For the purposes of subsection (1) above, so far as the consideration for the disposal consists of money or money's worth by way of compensation for any kind of damage or injury to assets, or for the destruction or dissipation of assets or for anything which depreciates or might depreciate an asset, the disposal shall be treated as being to the person who, whether as an insurer or otherwise, ultimately bears the burden of furnishing that consideration.

172 Transfer of United Kingdom branch or agency

- (1) Subject to subsections (3) and (4) below, subsection (2) below applies for the purposes of corporation tax on chargeable gains where—
 - (a) there is a scheme for the transfer by a company (“company A”)—
 - (i) which is not resident in the United Kingdom, but
 - (ii) which carries on a trade in the United Kingdom through a branch or agency,
of the whole or part of the trade to a company resident in the United Kingdom (“company B”),
 - (b) company A disposes of an asset to company B in accordance with the scheme at a time when the 2 companies are members of the same group, and
 - (c) a claim in relation to the asset is made by the 2 companies within 2 years after the end of the accounting period of company B during which the disposal is made.
- (2) Where this subsection applies—
 - (a) company A and company B shall be treated as if the asset were acquired by company B for a consideration of such amount as would secure that neither a gain nor a loss would accrue to company A on the disposal, and
 - (b) section 25(3) shall not apply to the asset by reason of the transfer.
- (3) Subsection (2) above does not apply where—
 - (a) company B, though resident in the United Kingdom,—

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

- (i) is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (ii) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition, or
 - (b) company B is either a dual resident investing company or an investment trust.
- (4) Subsection (2) above shall not apply unless any gain accruing to company A—
- (a) on the disposal of the asset in accordance with the scheme, or
 - (b) where that disposal occurs after the transfer has taken place, on a disposal of the asset immediately before the transfer,
- would be a chargeable gain and would, by virtue of section 10(3), form part of its profits for corporation tax purposes.
- (5) In this section “company” and “group” have the meanings which would be given by section 170 if subsections (2)(a) and (9) of that section were omitted.

173 Transfers within a group: trading stock

- (1) Where a member of a group of companies acquires an asset as trading stock from another member of the group, and the asset did not form part of the trading stock of any trade carried on by the other member, the member acquiring it shall be treated for purposes of section 161 as having acquired the asset otherwise than as trading stock and immediately appropriated it for the purposes of the trade as trading stock.
- (2) Where a member of a group of companies disposes of an asset to another member of the group, and the asset formed part of the trading stock of a trade carried on by the member disposing of it but is acquired by the other member otherwise than as trading stock of a trade carried on by it, the member disposing of the asset shall be treated for purposes of section 161 as having immediately before the disposal appropriated the asset for some purpose other than the purpose of use as trading stock.

174 Disposal or acquisition outside a group

- (1) Where there is a disposal of an asset acquired in relevant circumstances, section 41 shall apply in relation to capital allowances made to the person from which it was acquired (so far as not taken into account in relation to a disposal of the asset by that person), and so on as respects previous transfers of the asset in relevant circumstances.
- (2) In subsection (1) above “relevant circumstances” means circumstances in which section 171 or 172 applied or in which section 171 would have applied but for subsection (2) of that section.
- (3) Subsection (1) above shall not be taken as affecting the consideration for which an asset is deemed under section 171 or 172 to be acquired.
- (4) Schedule 2 shall apply in relation to a disposal of an asset by a company which is or has been a member of a group of companies, and which acquired the asset from another member of the group at a time when both were members of the group, as if all members of the group for the time being were the same person, and as if the acquisition or provision of the asset by the group, so taken as a single person, had been the acquisition or provision of it by the member disposing of it.

- (5) Subsection (4) above does not apply where the asset was acquired on a disposal within section 171(2)(c).

175 Replacement of business assets by members of a group

- (1) Subject to subsection (2) below, for the purposes of sections 152 to 158 all the trades carried on by members of a group of companies shall, for the purposes of corporation tax on chargeable gains, be treated as a single trade (unless it is a case of one member of the group acquiring, or acquiring the interest in, the new assets from another or disposing of, or of the interest in, the old assets to another).
- (2) Subsection (1) above does not apply where so much of the consideration for the disposal of the old assets as is applied in acquiring the new assets or the interest in them is so applied by a member of the group which is a dual resident investing company or a company which, though resident in the United Kingdom—
- (a) is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (b) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of, or of the interest in, the new assets occurring immediately after the acquisition;
- and in this subsection “the old assets” and “the new assets” have the same meanings as in section 152.
- (3) Section 154(2) shall apply where the company making the claim is a member of a group of companies as if all members of the group for the time being were the same person (and, in accordance with subsection (1) above, as if all trades carried on by members were the same trade) and so that the gain shall accrue to the member of the group holding the asset concerned on the occurrence of the event mentioned in section 154(2).
- (4) Subsection (2) above shall apply where the acquisition took place before 20th March 1990 and the disposal takes place within the period of 12 months beginning with the date of the acquisition or such longer period as the Board may by notice allow with the omission of the words from “or a company” to “the acquisition”.

Losses attributable to depreciatory transactions

176 Depreciatory transactions within a group

- (1) This section has effect as respects a disposal of shares in, or securities of, a company (“the ultimate disposal”) if the value of the shares or securities has been materially reduced by a depreciatory transaction effected on or after 31st March 1982; and for this purpose “depreciatory transaction” means—
- (a) any disposal of assets at other than market value by one member of a group of companies to another, or
 - (b) any other transaction satisfying the conditions of subsection (2) below,
- except that a transaction shall not be treated as a depreciatory transaction to the extent that it consists of a payment which is required to be or has been brought into account, for the purposes of corporation tax on chargeable gains, in computing a chargeable gain or allowable loss accruing to the person making the ultimate disposal.

- (2) The conditions referred to in subsection (1)(b) above are—
- (a) that the company, the shares in which, or securities of which, are the subject of the ultimate disposal, or any 75 per cent. subsidiary of that company, was a party to the transaction, and
 - (b) that the parties to the transaction were or included 2 or more companies which at the time of the transaction were members of the same group of companies.
- (3) Without prejudice to the generality of subsection (1) above, the cancellation of any shares in or securities of one member of a group of companies under section 135 of the Companies Act 1985 shall, to the extent that immediately before the cancellation those shares or securities were the property of another member of the group, be taken to be a transaction fulfilling the conditions in subsection (2) above.
- (4) If the person making the ultimate disposal is, or has at any time been, a member of the group of companies referred to in subsection (1) or (2) above, any allowable loss accruing on the disposal shall be reduced to such extent as appears to the inspector, or, on appeal, the Commissioners concerned, to be just and reasonable having regard to the depreciatory transaction, but if the person making the ultimate disposal is not a member of that group when he disposes of the shares or securities, no reduction of the loss shall be made by reference to a depreciatory transaction which took place when that person was not a member of that group.
- (5) The inspector or the Commissioners shall make the decision under subsection (4) above on the footing that the allowable loss ought not to reflect any diminution in the value of the company's assets which was attributable to a depreciatory transaction, but allowance may be made for any other transaction on or after 31st March 1982 which has enhanced the value of the company's assets and depreciated the value of the assets of any other member of the group.
- (6) If, under subsection (4) above, a reduction is made in an allowable loss, any chargeable gain accruing on a disposal of the shares or securities of any other company which was a party to the depreciatory transaction by reference to which the reduction was made, being a disposal not later than 6 years after the depreciatory transaction, shall be reduced to such extent as appears to the inspector, or, on appeal, the Commissioners concerned, to be just and reasonable having regard to the effect of the depreciatory transaction on the value of those shares or securities at the time of their disposal, but the total amount of any one or more reductions in chargeable gains made by reference to a depreciatory transaction shall not exceed the amount of the reductions in allowable losses made by reference to that depreciatory transaction.

All such adjustments, whether by way of discharge or repayment of tax, or otherwise, as are required to give effect to the provisions of this subsection may be made at any time.

- (7) For the purposes of this section—
- (a) “securities” includes any loan stock or similar security whether secured or unsecured,
 - (b) references to the disposal of assets include references to any method by which one company which is a member of a group appropriates the goodwill of another member of the group, and
 - (c) a “group of companies” may consist of companies some or all of which are not resident in the United Kingdom.

- (8) References in this section to the disposal of shares or securities include references to the occasion of the making of a claim under section 24(2) that the value of shares or securities has become negligible, and references to a person making a disposal shall be construed accordingly.
- (9) In any case where the ultimate disposal is not one to which section 35(2) applies, the references above to 31st March 1982 shall be read as references to 6th April 1965.

177 Dividend stripping

- (1) The provisions of this section apply where one company (“the first company”) has a holding in another company (“the second company”) and the following conditions are fulfilled—
 - (a) that the holding amounts to, or is an ingredient in a holding amounting to, 10 per cent. of all holdings of the same class in the second company,
 - (b) that the first company is not a dealing company in relation to the holding,
 - (c) that a distribution is or has been made to the first company in respect of the holding, and
 - (d) that the effect of the distribution is that the value of the holding is or has been materially reduced.
- (2) Where this section applies in relation to a holding, section 176 shall apply, subject to subsection (3) below, in relation to any disposal of any shares or securities comprised in the holding, whether the disposal is by the first company or by any other company to which the holding is transferred by a transfer to which section 171 or 172 applies, as if the distribution were a depreciatory transaction and, if the companies concerned are not members of a group of companies, as if they were.
- (3) The distribution shall not be treated as a depreciatory transaction to the extent that it consists of a payment which is required to be or has been brought into account, for the purposes of corporation tax on chargeable gains, in computing a chargeable gain or allowable loss accruing to the person making the ultimate disposal.
- (4) This section shall be construed as one with section 176, and in any case where the ultimate disposal is not one to which section 35(2) applies, the reference in subsection (1)(c) above to a distribution does not include a distribution made before 30th April 1969.
- (5) For the purposes of this section a company is “a dealing company” in relation to a holding if a profit on the sale of the holding would be taken into account in computing the company’s trading profits.
- (6) References in this section to a holding in a company refer to a holding of shares or securities by virtue of which the holder may receive distributions made by the company, but so that—
 - (a) a company’s holdings of different classes in another company shall be treated as separate holdings, and
 - (b) holdings of securities which differ in the entitlements or obligations they confer or impose shall be regarded as holdings of different classes.
- (7) For the purposes of subsection (1) above—
 - (a) all a company’s holdings of the same class in another company are to be treated as ingredients constituting a single holding, and

- (b) a company's holding of a particular class shall be treated as an ingredient in a holding amounting to 10 per cent. of all holdings of that class if the aggregate of that holding and other holdings of that class held by connected persons amounts to 10 per cent. of all holdings of that class,

and section 286 shall have effect in relation to paragraph (b) above as if, in subsection (7) of that section, after the words “or exercise control of” in each place where they occur there were inserted the words “or to acquire a holding in”.

Companies leaving groups

178 Company ceasing to be member of group: pre-appointed day cases

- (1) If a company (“the chargeable company”) ceases to be a member of a group of companies, this section shall have effect as respects any asset which the chargeable company acquired from another company which was at the time of acquisition a member of that group of companies, but only if the time of acquisition fell within the period of 6 years ending with the time when the company ceases to be a member of the group; and references in this section to a company ceasing to be a member of a group of companies do not apply to cases where a company ceases to be a member of a group by being wound up or dissolved or in consequence of another member of the group being wound up or dissolved.
- (2) Where 2 or more associated companies cease to be members of the group at the same time, subsection (1) above shall not have effect as respects an acquisition by one from another of those associated companies.
- (3) If, when the chargeable company ceases to be a member of the group, the chargeable company, or an associated company also leaving the group, owns, otherwise than as trading stock—
 - (a) the asset, or
 - (b) property to which a chargeable gain has been carried forward from the asset on a replacement of business assets,
- the chargeable company shall be treated for all the purposes of this Act as if immediately after its acquisition of the asset it had sold, and immediately reacquired, the asset at market value at that time.
- (4) Where, apart from subsection (5) 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 (5) and (6) below shall apply.
- (5) The company in question shall not be treated as selling the asset at that time; but if—
 - (a) within 6 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 this Act 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.

(6) Those conditions are—

- (a) that the company is a 75 per cent. subsidiary of one or more members of the other group referred to in subsection (4) above, and
- (b) that the company is an effective 51 per cent. subsidiary of one or more of those members.

(7) 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 30, 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 (5) above shall have effect as if the market value at that time had been that amount greater.

(8) For the purposes of this section—

- (a) 2 or more companies are associated companies if, by themselves, they would form a group of companies,
- (b) a chargeable gain is carried forward from an asset to other property on a replacement of business assets if, by one or more claims under sections 152 to 158, the chargeable gain accruing on a disposal of the asset is reduced, and as a result an amount falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of the other property,
- (c) an asset acquired by the chargeable company shall be treated as the same as an asset owned at a later time by that company or an associated 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.

(9) If any of the corporation tax assessed on a company in consequence of this section is not paid within 6 months from the date when it becomes payable then—

- (a) a company which on that date, or immediately after the chargeable company ceased to be a member of the group, was the principal company of the group, and
- (b) a company which owned the asset on that date, or when the chargeable company ceased to be a member of the group,

may, at any time within 2 years from the time when the tax became payable, be assessed and charged (in the name of the chargeable company) to all or any part of that tax; and a company paying any amount of tax under this subsection shall be entitled to recover a sum of that amount from the chargeable company.

(10) Notwithstanding any limitation on the time for making assessments, an assessment to corporation tax chargeable in consequence of this section may be made at any time within 6 years from the time when the chargeable company ceased to be a member of the group, and where under this section the chargeable company is to be treated as having disposed of, and reacquired, an asset, all such recomputations of liability in respect of other disposals, and all such adjustments of tax, whether by way of assessment or by way of discharge or repayment of tax, as may be required in consequence of the provisions of this section shall be carried out.

179 Company ceasing to be member of group: post-appointed day cases

- (1) If a company (“the chargeable company”) ceases to be a member of a group of companies, this section shall have effect as respects any asset which the chargeable company acquired from another company which was at the time of acquisition a member of that group of companies, but only if the time of acquisition fell within the period of 6 years ending with the time when the company ceases to be a member of the group; and references in this section to a company ceasing to be a member of a group of companies do not apply to cases where a company ceases to be a member of a group by being wound up or dissolved or in consequence of another member of the group being wound up or dissolved.
- (2) Where 2 or more associated companies cease to be members of the group at the same time, subsection (1) above shall not have effect as respects an acquisition by one from another of those associated companies.
- (3) If, when the chargeable company ceases to be a member of the group, the chargeable company, or an associated company also leaving the group, owns, otherwise than as trading stock—
 - (a) the asset, or
 - (b) property to which a chargeable gain has been carried forward from the asset on a replacement of business assets,
 then, subject to subsection (4) below, the chargeable company shall be treated for all the purposes of this Act as if immediately after its acquisition of the asset it had sold, and immediately reacquired, the asset at market value at that time.
- (4) Any chargeable gain or allowable loss which, apart from this subsection, would accrue to the chargeable company on the sale referred to in subsection (3) above shall be treated as accruing to the chargeable company as follows—
 - (a) for the purposes for which the assumptions in section 409(2) of the Taxes Act (group relief) apply, it shall be assumed to accrue in the notional or actual accounting period which ends when the company ceases to be a member of the group; and
 - (b) subject to paragraph (a) above, it shall be treated as accruing immediately before the company ceases to be a member of the group.
- (5) Where, apart from subsection (6) 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 (6) to (8) below shall apply.
- (6) The company in question shall not be treated as selling the asset at that time; but if—
 - (a) within 6 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 this Act 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.
- (7) Those conditions are—

- (a) that the company is a 75 per cent. subsidiary of one or more members of the other group referred to in subsection (5) above, and
 - (b) that the company is an effective 51 per cent. subsidiary of one or more of those members.
- (8) Any chargeable gain or allowable loss accruing to the company on that sale shall be treated as accruing at the relevant time.
- (9) 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 30, 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 (6) above shall have effect as if the market value at that time had been that amount greater.
- (10) For the purposes of this section—
 - (a) 2 or more companies are associated companies if, by themselves, they would form a group of companies,
 - (b) a chargeable gain is carried forward from an asset to other property on a replacement of business assets if, by one or more claims under sections 152 to 158, the chargeable gain accruing on a disposal of the asset is reduced, and as a result an amount falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of the other property,
 - (c) an asset acquired by the chargeable company shall be treated as the same as an asset owned at a later time by that company or an associated 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.
- (11) If any corporation tax assessed on a company in consequence of this section is not paid within 6 months from the date determined under subsection (12) below, then—
 - (a) a company which on that date, or immediately after the chargeable company ceased to be a member of the group, was the principal company of the group, and
 - (b) a company which owned the asset on that date, or when the chargeable company ceased to be a member of the group,may, at any time within 2 years from the date so determined, be assessed and charged (in the name of the chargeable company) to all or any part of that tax; and a company paying any amount of tax under this subsection shall be entitled to recover from the chargeable company a sum of that amount together with any interest paid by the company concerned under section 87A of the Management Act on that amount.
- (12) The date referred to in subsection (11) above is whichever is the later of—
 - (a) the date when the tax becomes due and payable by the company; and
 - (b) the date when the assessment was made on the chargeable company.
- (13) Where under this section the chargeable company is to be treated as having disposed of, and reacquired, an asset, all such recomputations of liability in respect of other disposals, and all such adjustments of tax, whether by way of assessment or by way

of discharge or repayment of tax, as may be required in consequence of the provisions of this section shall be carried out.

180 Transitional provisions

(1) Subject to the following provisions of this section—

- (a) section 178 has effect where the chargeable company referred to in section 178(4) ceases to be a member of the group in an accounting period beginning after 5th April 1992, but shall not apply where section 179 has effect, and
- (b) section 179 has effect where the accounting period in which the chargeable company referred to in section 179(5) ceases to be a member of the group ends after such day as the Treasury by order appoint,

and in any case where section 178 or section 179 has effect in respect of tax for any accounting period, that section shall also have effect in respect of tax for earlier accounting periods, to the exclusion of the corresponding enactments repealed by this Act.

(2) Subject to subsection (1) above—

- (a) section 178(5) to (7) apply where a company which apart from section 278(3C) of the Income and Corporation Taxes Act 1970 would by virtue of subsection (3) of that section have been treated as selling an asset (unless it has already been treated, by virtue of section 278(3C), as if it had sold the asset in question), and
- (b) section 179(6) to (9) apply where a company which, apart from section 278(3C) of the Income and Corporation Taxes Act 1970 or section 178(4) of this Act, would by virtue of section 278(3) or section 178(3) have been treated as selling an asset (unless it has already been treated, by virtue of section 278(3C) or section 178(4), as if it had sold the asset in question).

(3) Where by virtue of section 138(8) of the Finance Act 1989 a company which, by virtue of the substitution of the new definition for the old definition, ceased to be a member of a group at the beginning of 14th March 1989 was not treated as selling an asset at any time unless the conditions in section 138(9) became satisfied, then that company shall continue not to be treated as selling the asset at that time unless the conditions in subsection (4) below become satisfied, assuming for that purpose that the old definition applies.

(4) Those conditions are—

- (a) that for the purposes of section 178 or 179 the company in question ceases at any time (“the relevant time”) to be a member of the group referred to in subsection (3) above,
- (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 178(1) or 179(1) fell within the period of 6 years ending with the relevant time.

(5) 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 2 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 (6) below applies; and in that subsection those companies and any other members of the group are referred to as “relevant companies”.

- (6) In respect of the period beginning with the time of acquisition and ending with—

- (a) the expiry of the 6 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 (5)(a) above,

the old definition shall apply in relation to the relevant companies for the purposes of the group provisions and, in relation to those companies, the reference in subsection (3) above to 14th March 1989 shall be read as a reference to the day following the end of that period.

- (7) In subsections (3) to (6) above—

“arrangement” has the same meaning as in section 425 of the Companies Act 1985,

“effective 51 per cent. subsidiary” has the meaning given by section 170(7);

“group provisions” means sections 170 to 181 (excluding subsections (3) to (6) above);

“the new definition” means section 170; and

“the old definition” means section 272 of the Income and Corporation Taxes Act 1970 as it had effect on 13th March 1989,

and section 178(8) or 179(10) shall apply for the purposes of those subsections.

181 Exemption from charge under 178 or 179 in the case of certain mergers

- (1) Subject to the following provisions of this section, neither section 178 nor section 179 shall apply in a case where—

- (a) as part of a merger, a company (“company A”) ceases to be a member of a group of companies (“the A group”); and
- (b) it is shown that the merger was carried out for bona fide commercial reasons and that the avoidance of liability to tax was not the main or one of the main purposes of the merger.

- (2) In this section “merger” means an arrangement (which in this section includes a series of arrangements)—

- (a) whereby one or more companies (“the acquiring company” or, as the case may be, “the acquiring companies”) none of which is a member of the A group acquires or acquire, otherwise than with a view to their disposal, one or more interests in the whole or part of the business which, before the arrangement took effect, was carried on by company A; and
- (b) whereby one or more members of the A group acquires or acquire, otherwise than with a view to their disposal, one or more interests in the whole or part of the business or each of the businesses which, before the arrangement took effect, was carried on either by the acquiring company or acquiring companies

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or by a company at least 90 per cent. of the ordinary share capital of which was then beneficially owned by 2 or more of the acquiring companies; and

(c) in respect of which the conditions in subsection (4) below are fulfilled.

(3) For the purposes of subsection (2) above, a member of a group of companies shall be treated as carrying on as one business the activities of that group.

(4) The conditions referred to in subsection (2)(c) above are—

(a) that not less than 25 per cent. by value of each of the interests acquired as mentioned in paragraphs (a) and (b) of subsection (2) above consists of a holding of ordinary share capital, and the remainder of the interest, or as the case may be of each of the interests, acquired as mentioned in subsection (2) (b), consists of a holding of share capital (of any description) or debentures or both; and

(b) that the value or, as the case may be, the aggregate value of the interest or interests acquired as mentioned in subsection (2)(a) above is substantially the same as the value or, as the case may be, the aggregate value of the interest or interests acquired as mentioned in subsection (2)(b) above; and

(c) that the consideration for the acquisition of the interest or interests acquired by the acquiring company or acquiring companies as mentioned in subsection (2) (a) above, disregarding any part of that consideration which is small by comparison with the total, either consists of, or is applied in the acquisition of, or consists partly of and as to the balance is applied in the acquisition of, the interest or interests acquired by members of the A group as mentioned in subsection (2)(b) above;

and for the purposes of this subsection the value of an interest shall be determined as at the date of its acquisition.

(5) Notwithstanding the provisions of section 170(2)(a), references in this section to a company includes references to a company resident outside the United Kingdom.

Restriction on indexation allowance for groups and associated companies

182 Disposals of debts

(1) Subject to subsection (3) below, where—

(a) there is a disposal by a company of a linked company debt on a security owed by another company, and

(b) the 2 companies are linked companies immediately before the disposal, there shall be no indexation allowance on the disposal.

(2) Subject to subsection (3) below, where—

(a) there is a disposal by a company of a debt on a security owed by another company which is not a linked company debt on a security, and

(b) the 2 companies are linked companies immediately before the disposal, then, in ascertaining any indexation allowance due on the disposal, RD as defined in section 54(1) shall be taken as the retail price index for the first month after the acquisition of the debt in which the 2 companies were linked companies (or, if later, March 1982).

(3) Where—

- (a) there is a disposal by a company of a debt on a security owed by another company,
- (b) the debt constituted or formed part of the new holding received by the company making the disposal on a reorganisation, and
- (c) subsection (1) or (2) above would apply in relation to the disposal but for this subsection,

neither of those subsections shall apply in relation to the disposal, but any indexation allowance which, apart from this subsection, would be due on the disposal shall be reduced by such amount as appears to the inspector, or, on appeal, the Commissioners concerned, to be just and reasonable.

- (4) For the purposes of this section a debt on a security owed by a company is a linked company debt on a security where immediately after its acquisition by the company making the disposal the 2 companies were linked companies.

- (5) Where—

- (a) there is a disposal by a company of a debt on a security owed by any person,
- (b) the company and that person are not linked companies immediately before the disposal, and
- (c) the debt was incurred by that person as part of arrangements involving another company being put in funds,

subsections (1) to (4) above shall have effect if and to the extent that they would if the debt were owed by that other company.

183 Disposals of shares

- (1) This section applies—

- (a) where there is a disposal by a company of—
 - (i) a holding of redeemable preference shares of another company, or
 - (ii) a holding of shares, other than redeemable preference shares, of another company which has at all times consisted entirely of, or has at any time included, linked company shares, or
- (b) where—
 - (i) there is a disposal by a company of a holding of shares of another company which is not a holding falling within paragraph (a) above,
 - (ii) the holding constituted or formed part of the new holding received by the company making the disposal on a reorganisation, and
 - (iii) but for section 127 that reorganisation (or in a case where the holding disposed of derives, in whole or in part, from assets which were original shares in relation to an earlier reorganisation, that reorganisation or any such earlier reorganisation) would have involved a disposal in relation to which section 182(1) would have applied or this section would have applied by virtue of paragraph (a) above,

if the 2 companies are linked companies immediately before the disposal.

- (2) Where this section applies, any indexation allowance which, apart from this section, would be due on the disposal shall be reduced by such amount as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable.

- (3) For the purposes of this section, shares of a company are linked company shares where—
- (a) immediately after their acquisition by the company making the disposal the 2 companies were linked companies,
 - (b) their acquisition by the company making the disposal was wholly or substantially financed by one or more linked company loans or linked company funded subscriptions (or by a combination of such loans and subscriptions), and
 - (c) the sole or main benefit which might have been expected to accrue from that acquisition was the obtaining of an indexation allowance on a disposal of the shares.
- (4) In subsection (3) above—
- “linked company loan” means a loan made to the company making the disposal by another company where immediately after the acquisition of the shares by the company making the disposal the 2 companies were linked companies, and
- “linked company funded subscription” means a subscription for shares in the company making the disposal by another company where—
- (a) immediately after the acquisition of the shares by the company making the disposal those 2 companies were linked companies, and
 - (b) the subscription was wholly or substantially financed, either directly or indirectly, by one or more linked company subscription-financing loans.
- (5) In subsection (4) above “linked company subscription-financing loan” means a loan made by a company to the subscribing company or any other company where immediately after the acquisition of the shares by the company making the disposal—
- (a) the company making the loan, and
 - (b) the subscribing company, and
 - (c) where the company to which the loan was made was not the subscribing company, that company,
- were linked companies.

184 Definitions and other provisions supplemental to sections 182 and 183

- (1) For the purposes of this section and sections 182 and 183 companies are linked companies if they are members of the same group or are associated with each other; and for the purposes of this section—
- (a) “group” means a company which has one or more 51 per cent. subsidiaries together with that subsidiary or those subsidiaries (section 838 (meaning of 51 per cent. subsidiary) of the Taxes Act having effect for the purposes of this paragraph as for those of the Tax Acts), and
 - (b) 2 companies are associated with each other if one controls the other or both are under the control of the same person or persons (section 416(2) to (6) (meaning of control) of the Taxes Act having effect for the purposes of this paragraph as for those of Part XI of that Act).
- (2) Where a disposal of a holding of shares follows one or more disposals of the same holding to which section 171(1) or 172 applied, section 183(3) to (5) shall have effect as if the references to the company making the disposal were references to the

company which last acquired the asset otherwise than on a disposal to which either of those sections applied.

- (3) In section 183 “redeemable preference shares” means shares in a company which are described as such in the terms of their issue or which fulfil the condition in paragraph (a) below and either or both of the conditions in paragraphs (b) and (c) below—

- (a) that, as against other shares in the company, they carry a preferential entitlement to a dividend or to any assets in a winding up or both;
- (b) that, by virtue of the terms of their issue, the exercise of a right by any person or the existence of any arrangements, they are liable to be redeemed, cancelled or repaid, in whole or in part;
- (c) that, by virtue of any arrangements—

- (i) to which the company which issued the shares is a party, or
 - (ii) where that company and another company are linked companies at the time of the issue, to which that other company is a party,

the holder has a right to require another person to acquire the shares or is obliged in any circumstances to dispose of them or another person has a right or is in any circumstances obliged to acquire them;

and for the purposes of paragraph (a) above shares are to be treated as carrying a preferential entitlement to a dividend as against other shares if, by virtue of any arrangements, there are circumstances in which a minimum dividend will be payable on those shares but not on others.

- (4) In sections 182 and 183 the expressions “reorganisation”, “original shares” and “new holding” have the meanings given by section 126 except that, in a case where sections 127 and 128 apply in circumstances other than a reorganisation (within the meaning of section 126) by virtue of any other provision of Chapter II of Part IV those expressions shall be construed as they fall to be construed in sections 127 and 128 as they so apply.

- (5) In this section and sections 182 and 183—

“holding”, in relation to shares, means a number of shares which are to be regarded for the purposes of this Act as indistinguishable parts of a single asset,

“security” has the same meaning as in section 132.

Non-resident and dual resident companies

185 Deemed disposal of assets on company ceasing to be resident in U.K

- (1) This section and section 187 apply to a company if, at any time (“the relevant time”), the company ceases to be resident in the United Kingdom.
- (2) The company shall be deemed for all purposes of this Act—
- (a) to have disposed of all its assets, other than assets excepted from this subsection by subsection (4) below, immediately before the relevant time; and
 - (b) immediately to have reacquired them,
- at their market value at that time.
- (3) Section 152 shall not apply where the company—

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- (a) has disposed of the old assets, or of its interest in those assets, before the relevant time; and
 - (b) acquires the new assets, or its interest in those assets, after that time,
- unless the new assets are excepted from this subsection by subsection (4) below.
- (4) If at any time after the relevant time the company carries on a trade in the United Kingdom through a branch or agency—
- (a) any assets which, immediately after the relevant time, are situated in the United Kingdom and are used in or for the purposes of the trade, or are used or held for the purposes of the branch or agency, shall be excepted from subsection (2) above; and
 - (b) any new assets which, after that time, are so situated and are so used or so held shall be excepted from subsection (3) above;
- and references in this subsection to assets situated in the United Kingdom include references to exploration or exploitation assets and to exploration or exploitation rights.
- (5) In this section—
- (a) “designated area”, “exploration or exploitation activities” and “exploration or exploitation rights” have the same meanings as in section 276;
 - (b) “exploration or exploitation assets” means assets used or intended for use in connection with exploration or exploitation activities carried on in the United Kingdom or a designated area;
 - (c) “the old assets” and “the new assets” have the same meanings as in section 152;
- and a company shall not be regarded for the purposes of this section as ceasing to be resident in the United Kingdom by reason only that it ceases to exist.

186 Deemed disposal of assets on company ceasing to be liable to U.K. taxation

- (1) This section and section 187 apply to a company if, at any time (“the relevant time”), the company, while continuing to be resident in the United Kingdom, becomes a company which falls to be regarded for the purposes of any double taxation relief arrangements—
- (a) as resident in a territory outside the United Kingdom; and
 - (b) as not liable in the United Kingdom to tax on gains arising on disposals of assets of descriptions specified in the arrangements (“prescribed assets”).
- (2) The company shall be deemed for all purposes of this Act—
- (a) to have disposed of all its prescribed assets immediately before the relevant time; and
 - (b) immediately to have reacquired them,
- at their market value at that time.
- (3) Section 152 shall not apply where the new assets are prescribed assets and the company—
- (a) has disposed of the old assets, or of its interest in those assets, before the relevant time; and
 - (b) acquires the new assets, or its interest in those assets, after that time,
- and in this section “the old assets” and “the new assets” have the same meanings as in section 152.

187 Postponement of charge on deemed disposal under section 185 or 186

- (1) If—
- (a) immediately after the relevant time, a company to which this section applies by virtue of section 185 or 186 (“the company”) is a 75 per cent. subsidiary of another company (“the principal company”) which is resident in the United Kingdom; and
 - (b) the principal company and the company so elect, by notice given to the inspector within 2 years after that time,

this Act shall have effect in accordance with the following provisions.

- (2) Any allowable losses accruing to the company on a deemed disposal of foreign assets shall be set off against the chargeable gains so accruing and—
- (a) that disposal shall be treated as giving rise to a single chargeable gain equal to the aggregate of those gains after deducting the aggregate of those losses; and
 - (b) the whole of that gain shall be treated as not accruing to the company on that disposal but an equivalent amount (“the postponed gain”) shall be brought into account in accordance with subsections (3) and (4) below.
- (3) If at any time within 6 years after the relevant time the company disposes of any assets (“relevant assets”) the chargeable gains on which were taken into account in arriving at the postponed gain, there shall be deemed to accrue to the principal company as a chargeable gain on that occasion the whole or the appropriate proportion of the postponed gain so far as not already taken into account under this subsection or subsection (4) below.

In this subsection “the appropriate proportion” means the proportion which the chargeable gain taken into account in arriving at the postponed gain in respect of the part of the relevant assets disposed of bears to the aggregate of the chargeable gains so taken into account in respect of the relevant assets held immediately before the time of the disposal.

- (4) If at any time after the relevant time—
- (a) the company ceases to be a 75 per cent. subsidiary of the principal company on the disposal by the principal company of ordinary shares of the company;
 - (b) after the company has ceased to be such a subsidiary otherwise than on such a disposal, the principal company disposes of such shares; or
 - (c) the principal company ceases to be resident in the United Kingdom,
- there shall be deemed to accrue to the principal company as a chargeable gain on that occasion the whole of the postponed gain so far as not already taken into account under this subsection or subsection (3) above.
- (5) If at any time—
- (a) the company has allowable losses which have not been allowed as a deduction from chargeable gains; and
 - (b) a chargeable gain accrues to the principal company under subsection (3) or (4) above,
- then, if and to the extent that the principal company and the company so elect by notice given to the inspector within 2 years after that time, those losses shall be allowed as a deduction from that gain.

- (6) In this section—

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“deemed disposal” means a disposal which, by virtue of section 185(2) or, as the case may be, section 186(2), is deemed to have been made;

“foreign assets” means any assets of the company which, immediately after the relevant time, are situated outside the United Kingdom and are used in or for the purposes of a trade carried on outside the United Kingdom;

“ordinary share” means a share in the ordinary share capital of the company;

“the relevant time” has the meaning given by section 185(1) or, as the case may be, section 186(1).

- (7) For the purposes of this section a company is a 75 per cent. subsidiary of another company if and so long as not less than 75 per cent. of its ordinary share capital is owned directly by that other company.

188 Dual resident companies: deemed disposal of certain assets

- (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 this Act—
- (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.
- (4) In this section “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.

Recovery of tax otherwise than from tax-payer company

189 Capital distribution of chargeable gains: recovery of tax from shareholder

- (1) This section applies where a person who is connected with a company resident in the United Kingdom receives or becomes entitled to receive in respect of shares in the company any capital distribution from the company, other than a capital distribution representing a reduction of capital, and—
- (a) the capital so distributed derives from the disposal of assets in respect of which a chargeable gain accrued to the company; or
 - (b) the distribution constitutes such a disposal of assets;
- and that person is referred to below as “the shareholder”.
- (2) If the corporation tax assessed on the company for the accounting period in which the chargeable gain accrues included any amount in respect of chargeable gains, and

any of the tax assessed on the company for that period is not paid within 6 months from the date determined under subsection (3) below, the shareholder may by an assessment made within 2 years from that date be assessed and charged (in the name of the company) to an amount of that corporation tax—

- (a) not exceeding the amount or value of the capital distribution which the shareholder has received or become entitled to receive; and
 - (b) not exceeding a proportion equal to the shareholder's share of the capital distribution made by the company of corporation tax on the amount of that gain at the rate in force when the gain accrued.
- (3) The date referred to in subsection (2) above is whichever is the later of—
- (a) the date when the tax becomes due and payable by the company; and
 - (b) the date when the assessment was made on the company.
- (4) Where the shareholder pays any amount of tax under this section, he shall be entitled to recover from the company a sum equal to that amount together with any interest paid by him under section 87A of the Management Act on that amount.
- (5) The provisions of this section are without prejudice to any liability of the shareholder in respect of a chargeable gain accruing to him by reference to the capital distribution as constituting a disposal of an interest in shares in the company.
- (6) With respect to chargeable gains accruing in accounting periods ending on or before such day as the Treasury may by order appoint this section shall have effect—
- (a) with the substitution for the words in subsection (3) after “above” of the words “is the date when the tax becomes payable by the company”; and
 - (b) with the omission of the words in subsection (4) from “together” to the end of the subsection.
- (7) In this section “capital distribution” has the same meaning as in section 122.

190 Tax on one member of group recoverable from another member

- (1) If at any time a chargeable gain accrues to a company which at that time is a member of a group of companies and any of the corporation tax assessed on the company for the accounting period in which the chargeable gain accrues is not paid within 6 months from the date determined under subsection (2) below by the company, then, if the tax so assessed included any amount in respect of chargeable gains—
- (a) a company which was at the time when the gain accrued the principal company of the group, and
 - (b) any other company which in any part of the period of 2 years ending with that time was a member of that group of companies and owned the asset disposed of or any part of it, or where that asset is an interest or right in or over another asset, owned either asset or any part of either asset,
- may at any time within 2 years from the date determined under subsection (2) below be assessed and charged (in the name of the company to whom the chargeable gain accrued) to an amount of that corporation tax not exceeding corporation tax on the amount of that gain at the rate in force when the gain accrued.
- (2) The date referred to in subsection (1) above is whichever is the later of—
- (a) the date when the tax becomes due and payable by the company; and
 - (b) the date when the assessment is made on the company.

- (3) A company paying any amount of tax under subsection (1) above shall be entitled to recover a sum of that amount—
- (a) from the company to which the chargeable gain accrued, or
 - (b) if that company is not the company which was the principal company of the group at the time when the chargeable gain accrued, from that principal company,
- and a company paying any amount under paragraph (b) above shall be entitled to recover a sum of that amount from the company to which the chargeable gain accrued, and so far as it is not so recovered, to recover from any company which is for the time being a member of the group and which has while a member of the group owned the asset disposed of or any part of it (or where that asset is an interest or right in or over another asset, owned either asset or any part of it) such proportion of the amount unrecovered as is just having regard to the value of the asset at the time when the asset, or an interest or right in or over it, was disposed of by that company.
- (4) Any reference in subsection (3) above to an amount of tax includes a reference to any interest paid under section 87A of the Management Act on that amount.
- (5) Section 170 shall apply for the interpretation of this section as it applies for the interpretation of sections 171 to 181.
- (6) In relation to any chargeable gains accruing in accounting periods ending on or before such day as the Treasury may by order appoint this section shall have effect—
- (a) with the substitution for the words in subsection (2) after “above” of the words “is the date when the tax becomes payable by the company”; and
 - (b) with the omission of subsection (4).

191 Tax on non-resident company recoverable from another member of group or from controlling director

- (1) This section applies where—
- (a) a chargeable gain has accrued to a company not resident in the United Kingdom (the tax-payer 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 10(3), and
 - (c) any of the corporation tax assessed on the company for the accounting period in which the gain accrued is not paid within 6 months from the time when it becomes payable.
- (2) The Board may, at any time before the end of the period of 3 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 tax-payer 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 30 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 tax-payer 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 during the period of 12 months ending with the time when the gain accrued, was, a member of the same group as the tax-payer company, and
 - (b) any person who is, or during that period was, a controlling director of the tax-payer company or of a company which has, or within that period had, control over the tax-payer company.

This subsection shall have effect in any case where the gain accrued before 13th March 1990 with the substitution of “beginning with 14th March 1989 and” for “of 12 months”.

- (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 tax-payer 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 (8) of section 168 of the Taxes Act (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);
 - “group” has the meaning which would be given by section 170 if in that section references to residence in the United Kingdom were omitted and for references to 75 per cent. subsidiaries there were substituted references to 51 per cent. subsidiaries.

Demergers

192 Tax exempt distributions

- (1) This section has effect for facilitating certain transactions whereby trading activities carried on by a single company or group are divided so as to be carried on by 2 or more companies not belonging to the same group or by 2 or more independent groups.
- (2) Where a company makes an exempt distribution which falls within section 213(3)(a) of the Taxes Act—
 - (a) the distribution shall not be a capital distribution for the purposes of section 122; and
 - (b) sections 126 to 130 shall, with the necessary modifications, apply as if that company and the subsidiary whose shares are transferred were the same company and the distribution were a reorganisation of its share capital.

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

- (3) Subject to subsection (4) below, neither section 178 nor 179 shall apply in a case where a company ceases to be a member of a group by reason only of an exempt distribution.
- (4) Subsection (3) does not apply if within 5 years after the making of the exempt distribution there is chargeable payment; and the time for making an assessment under section 178 or 179 by virtue of this subsection shall not expire before the end of 3 years after the making of the chargeable payment.
- (5) In this section—
 - “chargeable payment” has the meaning given in section 214(2) of the Taxes Act;
 - “exempt distribution” means a distribution which is exempt by virtue of section 213(2) of that Act; and
 - “group” means a company which has one or more 75 per cent. subsidiaries together with that or those subsidiaries.
- (6) In determining for the purposes of this section whether one company is a 75 per cent. subsidiary of another, the other company shall be treated as not being the owner of—
 - (a) any share capital which it owns directly in a body corporate if a profit on a sale of the shares would be treated as a trading receipt of its trade; or
 - (b) any share capital which it owns indirectly and which is owned directly by a body corporate for which a profit on the sale of the shares would be a trading receipt.

CHAPTER II

OIL AND MINING INDUSTRIES

Oil exploration and exploitation

193 Roll-over relief not available for gains on oil licences

- (1) A licence under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964 is not and, subject to subsection (2) below, shall be assumed never to have been an asset falling within any of the classes in section 155.
- (2) Nothing in subsection (1) above affects the determination of any Commissioners or the judgment of any court made or given before 14th May 1987.

194 Disposals of oil licences relating to undeveloped areas

- (1) In this section any reference to a disposal (including a part disposal) is a reference to a disposal made by way of a bargain at arm's length.
- (2) If, at the time of the disposal, the licence relates to an undeveloped area, then, to the extent that the consideration for the disposal consists of—
 - (a) another licence which at that time relates to an undeveloped area or an interest in another such licence, or
 - (b) an obligation to undertake exploration work or appraisal work in an area which is or forms part of the licensed area in relation to the licence disposed of,
 the value of that consideration shall be treated as nil for the purposes of this Act.

- (3) If the disposal of a licence which, at the time of the disposal, relates to an undeveloped area is part of a larger transaction under which one party makes to another disposals of 2 or more licences, each of which at the time of the disposal relates to an undeveloped area, the reference in subsection (2)(b) above to the licensed area in relation to the licence disposed of shall be construed as a reference to the totality of the licensed areas in relation to those 2 or more licences.
- (4) In relation to a disposal of a licence which, at the time of the disposal, relates to an undeveloped area, being a disposal—
- (a) which is a part disposal of the licence in question, and
 - (b) part but not the whole of the consideration for which falls within paragraph (a) or paragraph (b) of subsection (2) above,
- section 42 shall not apply unless the amount or value of the part of the consideration which does not fall within one of those paragraphs is less than the aggregate of the amounts which, if the disposal were a disposal of the whole of the licence rather than a part disposal, would be—
- (i) the relevant allowable expenditure, as defined in section 53; and
 - (ii) the indexation allowance on the disposal.
- (5) Where section 42 has effect in relation to such a disposal as is referred to in subsection (4) above, it shall have effect as if, for subsection (2) thereof, there were substituted the following subsection—
- “(2) The apportionment shall be made by reference to—
- (a) the amount or value of the consideration for the disposal on the one hand (call that amount or value A), and
 - (b) the aggregate referred to in section 194(4) on the other hand (call that aggregate C),
- and the fraction of the said sums allowable as a deduction in computing the amount of the gain (if any) accruing on the disposal shall be—
- $$\frac{A}{C}$$
- and the remainder shall be attributed to the part of the property which remains undisposed of.”

195 Allowance of certain drilling expenditure etc

- (1) On the disposal of a licence, relevant qualifying expenditure incurred by the person making the disposal—
- (a) in searching for oil anywhere in the licensed area, or
 - (b) in ascertaining the extent or characteristics of any oil-bearing area the whole or part of which lies in the licensed area or what the reserves of oil of any such oil-bearing area are,
- shall be treated as expenditure falling within section 38(1)(b).
- (2) Expenditure incurred as mentioned in subsection (1) above is relevant expenditure if, and only if—
- (a) it is expenditure of a capital nature on scientific research; and

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- (b) either it was allowed or allowable under section 137 of the 1990 Act (capital expenditure on scientific research) for a relevant chargeable period which, or the basis year for which, began before the date of the disposal or it would have been so allowable if the trading condition had been fulfilled; and
 - (c) the disposal is an occasion by virtue of which section 138 of the 1990 Act (termination of user of assets representing scientific research expenditure of a capital nature) applies in relation to the expenditure or would apply if the trading condition had been fulfilled and the expenditure had been allowed accordingly.
- (3) In subsection (2) above and subsection (4) below, the expression “if the trading condition had been fulfilled” means, in relation to expenditure of a capital nature on scientific research, if, after the expenditure was incurred but before the disposal concerned was made, the person incurring the expenditure had set up and commenced a trade connected with that research; and in subsection (2)(b) above—
 - “relevant chargeable period” has the same meaning as in section 137 of the 1990 Act; and
 - “basis year” has the same meaning as in subsection (6)(c) of that section.
- (4) Relevant expenditure is qualifying expenditure only to the extent that it does not exceed the trading receipt which, by reason of the disposal—
 - (a) is treated as accruing under section 138(2) of the 1990 Act; or
 - (b) would be treated as so accruing if the trading condition had been fulfilled and the expenditure had been allowed accordingly.
- (5) On the disposal of a licence, sections 37 and 41 shall apply in relation to any such trading receipt as is mentioned in subsection (4)(a) above as if it were a balancing charge falling to be made by reference to the disposal.
- (6) Where, on the disposal of a licence, subsection (1) above has effect in relation to any relevant qualifying expenditure which had not in fact been allowed or become allowable as mentioned in subsection (2)(b) above—
 - (a) no allowance shall be made in respect of that expenditure under section 137 of the 1990 Act; and
 - (b) no deduction shall be allowed in respect of it under section 138(3) of that Act.
- (7) Where, on the disposal of a licence which is a part disposal, subsection (1) above has effect in relation to any relevant qualifying expenditure, then, for the purposes of section 42, that expenditure shall be treated as wholly attributable to what is disposed of (and, accordingly, shall not be apportioned as mentioned in that section).

196 Interpretation of sections 194 and 195

- (1) For the purposes of section 194, a licence relates to an undeveloped area at any time if—
 - (a) for no part of the licensed area has consent for development been granted to the licensee by the Secretary of State on or before that time; and
 - (b) for no part of the licensed area has a programme of development been served on the licensee or approved by the Secretary of State on or before that time.
- (2) Subsections (4) and (5) of section 36 of the Finance Act 1983 (meaning of “development”) shall have effect in relation to subsection (1) above as they have effect in relation to subsection (2) of that section.

- (3) In relation to a licence under the Petroleum (Production) Act (Northern Ireland) 1964 any reference in subsection (1) above to the Secretary of State shall be construed as a reference to the Department of Economic Development.
- (4) In relation to a disposal to which section 194 applies of a licence under which the buyer acquires an interest in the licence only so far as it relates to part of the licensed area, any reference in subsection (1) or subsection (3) of that section or subsection (1) above to the licensed area shall be construed as a reference only to that part of the licensed area to which the buyer's acquisition relates.
- (5) In sections 194 and 195 and the preceding provisions of this section "oil", "licence", "licensee" and, subject to subsection (4) above, "licensed area" have the meaning assigned by section 12(1) of the Oil Taxation Act 1975.
- (6) In section 194—
 - (a) "exploration work", in relation to any area, means work carried out for the purpose of searching for oil anywhere in that area;
 - (b) "appraisal work", in relation to any area, means work carried out for the purpose of ascertaining the extent or characteristics of any oil-bearing area the whole or part of which lies in the area concerned or what the reserves of oil of any such oil-bearing area are.

197 Disposals of interests in oil fields etc: ring fence provisions

- (1) This section applies where in pursuance of a transfer by a participator in an oil field of the whole or part of his interest in the field, there is—
 - (a) a disposal of an interest in oil to be won from the oil field; or
 - (b) a disposal of an asset used in connection with the field;and section 12 of the Oil Taxation Act 1975 (interpretation of Part I of that Act) applies for the interpretation of this subsection and the reference to the transfer by a participator in an oil field of the whole or part of his interest in the field shall be construed in accordance with paragraph 1 of Schedule 17 to the Finance Act 1980.
- (2) In this section "material disposal" means—
 - (a) a disposal falling within paragraph (a) or paragraph (b) of subsection (1) above; or
 - (b) the sale of an asset referred to in section 178(3) or 179(3) where the asset was acquired by the chargeable company (within the meaning of that section) on a disposal falling within one of those paragraphs.
- (3) For any chargeable period in which a chargeable gain or allowable loss accrues to any person ("the chargeable person") on a material disposal (whether taking place in that period or not), subject to subsection (6) below there shall be aggregated—
 - (a) the chargeable gains accruing to him in that period on such disposals, and
 - (b) the allowable losses accruing to him in that period on such disposals,and the lesser of the 2 aggregates shall be deducted from the other to give an aggregate gain or, as the case may be, an aggregate loss for that chargeable period.
- (4) For the purposes of tax in respect of chargeable gains—
 - (a) the several chargeable gains and allowable losses falling within paragraphs (a) and (b) of subsection (3) above shall be left out of account; and

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- (b) the aggregate gain or aggregate loss referred to in that subsection shall be treated as a single chargeable gain or allowable loss accruing to the chargeable person in the chargeable period concerned on the notional disposal of an asset; and
 - (c) if in any chargeable period there is an aggregate loss, then, except as provided by subsection (5) below, it shall not be allowable as a deduction against any chargeable gain arising in that or any later period, other than an aggregate gain treated as accruing in a later period by virtue of paragraph (b) above (so that the aggregate gain of that later period shall be reduced or extinguished accordingly); and
 - (d) if in any chargeable period there is an aggregate gain, no loss shall be deducted from it except in accordance with paragraph (c) above; and
 - (e) without prejudice to any indexation allowance which was taken into account in determining an aggregate gain or aggregate loss under subsection (3) above, no further indexation allowance shall be allowed on a notional disposal referred to in paragraph (b) above.
- (5) In any case where—
- (a) by virtue of subsection (4)(b) above, an aggregate loss is treated as accruing to the chargeable person in any chargeable period, and
 - (b) before the expiry of the period of 2 years beginning at the end of the chargeable period concerned, the chargeable person makes a claim under this subsection,
- the whole, or such portion as is specified in the claim, of the aggregate loss shall be treated for the purposes of this Act as an allowable loss arising in that chargeable period otherwise than on a material disposal.
- (6) In any case where a loss accrues to the chargeable person on a material disposal made to a person who is connected with him—
- (a) the loss shall be excluded from those referred to in paragraph (b) of subsection (3) above and, accordingly, shall not be aggregated under that subsection; and
 - (b) except as provided by subsection (7) below, section 18 shall apply in relation to the loss as if, in subsection (3) of that section, any reference to a disposal were a reference to a disposal which is a material disposal; and
 - (c) to the extent that the loss is set against a chargeable gain by virtue of paragraph (b) above, the gain shall be excluded from those referred to in paragraph (a) of subsection (3) above and, accordingly, shall not be aggregated under that subsection.
- (7) In any case where—
- (a) the losses accruing to the chargeable person in any chargeable period on material disposals to a connected person exceed the gains accruing to him in that chargeable period on material disposals made to that person at a time when they are connected persons, and
 - (b) before the expiry of the period of 2 years beginning at the end of the chargeable period concerned, the chargeable person makes a claim under this subsection,
- the whole, or such part as is specified in the claim, of the excess referred to in paragraph (a) above shall be treated for the purposes of section 18 as if it were a loss accruing on a disposal in that chargeable period, being a disposal which is not a material disposal and which is made by the chargeable person to the connected person referred to in paragraph (a) above.

- (8) Where a claim is made under subsection (5) or subsection (7) above, all such adjustments shall be made whether by way of discharge or repayment of tax or otherwise, as may be required in consequence of the operation of that subsection.

198 Replacement of business assets used in connection with oil fields

- (1) If the consideration which a person obtains on a material disposal is applied, in whole or in part, as mentioned in subsection (1) of section 152 or 153, that section shall not apply unless the new assets are taken into use, and used only, for the purposes of the ring fence trade.
- (2) Subsection (1) above has effect notwithstanding subsection (8) of section 152.
- (3) Where section 152 or 153 applies in relation to any of the consideration on a material disposal, the asset which constitutes the new assets for the purposes of that section shall be conclusively presumed to be a depreciating asset, and section 154 shall have effect accordingly, except that—
- (a) the reference in subsection (2)(b) of that section to a trade carried on by the claimant shall be construed as a reference solely to his ring fence trade; and
 - (b) subsections (4) to (7) of that section shall be omitted.
- (4) In any case where sections 152 to 154 have effect in accordance with subsections (1) to (3) above, the operation of section 175 shall be modified as follows—
- (a) only those members of a group which actually carry on a ring fence trade shall be treated for the purposes of those sections as carrying on a single trade which is a ring fence trade; and
 - (b) only those activities which, in relation to each individual member of the group, constitute its ring fence trade shall be treated as forming part of that single trade.
- (5) In this section—
- (a) “material disposal” has the meaning assigned to it by section 197; and
 - (b) “ring fence trade” means a trade consisting of either or both of the activities mentioned in paragraphs (a) and (b) of subsection (1) of section 492 of the Taxes Act.

199 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, is or has been a participator, he shall be deemed for all purposes of this Act—
- (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 this Act—

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- (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 in the United Kingdom or a designated area, he shall be deemed for all purposes of this Act—
 - (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 10(1), or
 - (b) would form part of his chargeable profits for corporation tax purposes by virtue of section 10(3).
- (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 276; 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.

200 Limitation of losses on disposal of oil industry assets held on 31st March 1982

- (1) This section applies to a disposal of an oil industry asset where the following conditions are fulfilled—
 - (a) the person making the disposal held the asset on 31st March 1982 or, by virtue of paragraph 1 of Schedule 3, is treated as having held the asset on that date for the purposes of section 35;
 - (b) disregarding the following provisions of this section, for the purposes of this Act, a loss would accrue on the disposal; and

- (c) in the application of section 35 subsection (2) of that section does not apply because of the operation of subsection (3)(b) of that section.
- (2) For the purposes of this section, the following are “oil industry assets”—
 - (a) a licence under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964;
 - (b) shares falling within paragraph 7(2)(d) of Schedule 3;
 - (c) oil exploration or exploitation assets, which expression shall be construed, subject to subsection (3) below, in accordance with paragraph 7(5) and (6) of Schedule 3; and
 - (d) any interest in an asset falling within paragraphs (a) to (c) above.
- (3) In the application of paragraph 7(5)(b) of Schedule 3 for the purposes of subsection (2) (c) above, for the words from “the company whose shares” to “that company” there shall be substituted “the person making the disposal or a person connected with him”.
- (4) Where this section applies to a disposal, there shall be determined for the purposes of this section the loss or gain which would accrue on the disposal on the following assumptions—
 - (a) that section 35(2) continues not to apply on the disposal; and
 - (b) that, in calculating the indexation allowance on the disposal, section 55(1) does not apply;and in the following provisions of this section the loss or gain (if any) on the disposal, determined on those assumptions, is referred to as the non-rebased loss or, as the case may be, the non-rebased gain.
- (5) If there is a non-rebased loss on a disposal to which this section applies and that loss is less than the loss which accrues on the disposal as mentioned in subsection (1)(b) above, it shall be assumed for the purposes of this Act that the loss which accrues on the disposal is the non-rebased loss.
- (6) If there is a non-rebased gain on a disposal to which this section applies, it shall be assumed for the purposes of this Act that the oil industry asset concerned was acquired by the person making the disposal for a consideration such that, on the disposal, neither a gain nor a loss accrues to him.
- (7) If, on the determination referred to in subsection (4) above, there is neither a non-rebased loss nor a non-rebased gain on a disposal, subsection (6) above shall apply in relation to the disposal as if there were a non-rebased gain on the disposal.

Mineral leases

201 Royalties

- (1) A person resident or ordinarily resident in the United Kingdom who in any chargeable period is entitled to receive any mineral royalties under a mineral lease or agreement shall be treated for the purposes of this Act as if there accrued to him in that period a chargeable gain equal to one-half of the total of the mineral royalties receivable by him under that lease or agreement in that period.
- (2) This section shall have effect notwithstanding any provision of section 119(1) of the Taxes Act making the whole of certain kinds of mineral royalties chargeable to tax under Schedule D, but without prejudice to any provision of that section providing

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for any such royalties to be subject to deduction of income tax under section 348 or 349 of that Act.

- (3) The amount of the chargeable gain treated as accruing to any person by virtue of subsection (1) above shall, notwithstanding any other provision of this Act, be the whole amount calculated in accordance with that subsection, and, accordingly, no reduction shall be made on account of expenditure incurred by that person or of any other matter whatsoever.
- (4) In any case where, before the commencement of section 122 of the Taxes Act, for the purposes of the 1979 Act or corporation tax on chargeable gains a person was treated as if there had accrued to him in any chargeable period ending before 6th April 1988 a chargeable gain equal to the relevant fraction, determined in accordance with section 29(3)(b) of the Finance Act 1970, of the total of the mineral royalties receivable by him under that lease or agreement in that period, subsection (1) above shall have effect in relation to any mineral royalties receivable by him under that lease or agreement in any later chargeable period with the substitution for the reference to one-half of a reference to the relevant fraction as so determined.

202 Capital losses

- (1) This section has effect in relation to capital losses which accrue during the currency of a mineral lease or agreement, and applies in any case where, at the time of the occurrence of a relevant event in relation to a mineral lease or agreement, the person who immediately before that event occurred was entitled to receive mineral royalties under the lease or agreement (“the taxpayer”) has an interest in the land to which the mineral lease or agreement relates (“the relevant interest”).
- (2) For the purposes of this section, a relevant event occurs in relation to a mineral lease or agreement—
 - (a) on the expiry or termination of the mineral lease or agreement;
 - (b) if the relevant interest is disposed of, or is treated as having been disposed of by virtue of any provision of this Act.
- (3) On the expiry or termination of a mineral lease or agreement the taxpayer shall, if he makes a claim in that behalf, be treated for purposes of tax in respect of chargeable gains as if he had disposed of and immediately reacquired the relevant interest for a consideration equal to its market value, but a claim may not be made under this subsection—
 - (a) if the expiry or termination of the mineral lease or agreement is also a relevant event falling within subsection (2)(b) above; nor
 - (b) unless, on the notional disposal referred to above, an allowable loss would accrue to the taxpayer.
- (4) In this section “the terminal loss”, in relation to a relevant event in respect of which a claim is made under subsection (3) above, means the allowable loss which accrues to the taxpayer by virtue of the notional disposal occurring on that relevant event by virtue of that subsection.
- (5) On making a claim under subsection (3) above, the taxpayer shall specify whether he requires the terminal loss to be dealt with in accordance with subsection (6) or subsections (9) to (11) below.

- (6) Where the taxpayer requires the loss to be dealt with in accordance with this subsection it shall be treated as an allowable loss accruing to him in the chargeable period in which the mineral lease or agreement expires.
- (7) If on the occurrence of a relevant event falling within subsection (2)(b) above, an allowable loss accrues to the taxpayer on the disposal or notional disposal which constitutes that relevant event, the taxpayer may make a claim under this subsection requiring the loss to be dealt with in accordance with subsections (9) to (11) below and not in any other way.
- (8) In subsections (9) to (11) below “the terminal loss” in relation to a relevant event in respect of which a claim is made under subsection (7) above means the allowable loss which accrues to the taxpayer as mentioned in that subsection.
- (9) Where, as a result of a claim under subsection (3) or (7) above, the terminal loss is to be dealt with in accordance with this subsection, then, subject to subsection (10) below, it shall be deducted from or set off against the amount on which the taxpayer was chargeable to capital gains tax, or as the case may be corporation tax, for chargeable periods preceding that in which the relevant event giving rise to the terminal loss occurred and falling wholly or partly within the period of 15 years ending with the date of that event.
- (10) The amount of the terminal loss which, by virtue of subsection (9) above, is to be deducted from or set off against the amount on which the taxpayer was chargeable to capital gains tax, or as the case may be corporation tax, for any chargeable period shall not exceed the amount of the gain which in that period was treated, by virtue of section 201(1), as accruing to the taxpayer in respect of mineral royalties under the mineral lease or agreement in question; and subject to this limit any relief given to the taxpayer by virtue of subsection (9) above shall be given as far as possible for a later rather than an earlier chargeable period.
- (11) If in any case where relief has been given to the taxpayer in accordance with subsections (9) and (10) above there remains an unexpended balance of the terminal loss which cannot be applied in accordance with those subsections, there shall be treated as accruing to the taxpayer in the chargeable period in which the relevant event occurs an allowable loss equal to that unexpended balance.

203 Provisions supplementary to sections 201 and 202

- (1) Subsections (5) to (7) of section 122 of the Taxes Act (meaning of “minerals” etc.) shall apply for the interpretation of this section and sections 201 and 202 as they apply for the interpretation of that section.
- (2) No claim under section 202(3) or (7) shall be allowed unless it is made within 6 years from the date of the relevant event by virtue of which the taxpayer is entitled to make the claim.
- (3) All such repayments of tax shall be made as may be necessary to give effect to any such claim.

CHAPTER III

INSURANCE

204 Policies of insurance

- (1) The rights of the insurer under any policy of insurance shall not constitute an asset on the disposal of which a gain may accrue, whether the risks insured relate to property or not; and the rights of the insured under any policy of insurance of the risk of any kind of damage to, or the loss or depreciation of, assets shall constitute an asset on the disposal of which a gain may accrue only to the extent that those rights relate to assets on the disposal of which a gain may accrue or might have accrued.
- (2) Notwithstanding subsection (1) above, sums received under a policy of insurance of the risk of any kind of damage to, or the loss or depreciation of, assets are for the purposes of this Act, and in particular for the purposes of section 22, sums derived from the assets.
- (3) Where any investments or other assets are or have been, in accordance with a policy issued in the course of life assurance business carried on by an insurance company, transferred to the policy holder on or after 6th April 1967, the policy holder's acquisition of the assets and the disposal of them to him shall be deemed to be, for the purposes of this Act, for a consideration equal to the market value of the assets.
- (4) In subsections (1) and (2) above "policy of insurance" does not include a policy of assurance on human life and in subsection (3) "life assurance business" and "insurance company" have the same meaning as in Chapter I of Part XII of the Taxes Act.

205 Disallowance of insurance premiums as expenses

Without prejudice to the provisions of section 39, there shall be excluded from the sums allowable as a deduction in the computation of the gain accruing on the disposal of an asset any premiums or other payments made under a policy of insurance of the risk of any kind of damage or injury to, or loss or depreciation of, the asset.

206 Underwriters

- (1) An underwriting member of Lloyd's shall, subject to the following provisions of this section, be treated for the purposes of this Act as absolutely entitled as against the trustees to the investments of his premiums trust fund, his special reserve fund (if any) and any other trust fund required or authorised by the rules of Lloyd's or required by the underwriting agent through whom his business or any part of it is carried on, to be kept in connection with the business.
- (2) The trustees of any premiums trust fund shall, subject to subsections (3) and (4) below, be assessed and charged to capital gains tax as if subsection (1) above had not been passed.
- (3) Tax assessed by virtue of subsection (2) above for a year of assessment shall be assessed at a rate equivalent to the basic rate of income tax for the year; and if an assessment to tax at a higher rate is subsequently made on an underwriting member in respect of the same gains, an appropriate credit shall be given for the tax assessed on the trustees.

- (4) The assessment to be made on the trustees of a fund by virtue of subsection (2) above for any year of assessment shall not take account of losses accruing in any previous year of assessment, and if for that or any other reason the tax paid on behalf of an underwriting member for any year of assessment by virtue of assessments so made exceeds the capital gains tax for which he is liable, the excess shall, on a claim by him, be repaid.
- (5) For the purposes of subsections (2) to (4) above the underwriting agent may be treated as a trustee of the premiums trust fund.

207 Disposal of assets in premiums trust fund etc

- (1) Subject to subsection (6) below, the chargeable gains or allowable losses accruing on the disposal of assets forming part of a premiums trust fund shall be taken to be those allocated to the corresponding underwriting year.
- (2) The amount of the gains or losses so allocated at the end of any accounting period shall be such proportion of the difference mentioned in subsection (3) below as is allocated to the underwriting year under the rules or practice of Lloyd's.
- (3) That difference is the difference between the valuations at the beginning and at the end of the accounting period of the assets forming part of the fund, the value at the beginning of the period of assets acquired during the period being taken as the cost of acquisition and the value at the end of the period of assets disposed of during the period being taken as the consideration for the disposal.
- (4) Subsection (5) 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 after 18th August 1989 by the trustees of a premiums trust fund in pursuance of an arrangement mentioned in section 129(1) or (2) of the Taxes Act (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 271(9) is to be disregarded as there mentioned.
- (5) 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).
- (6) Subsections (1) to (3) above do not apply to gilt-edged securities and qualifying corporate bonds.

208 Premiums trust funds: indexation

Sections 53 to 57, 104, 108, 109, 110, 113, 114, 131 and 145 shall apply with any necessary modifications in relation to assets forming part of a premiums trust fund as they apply in relation to other assets, and for the purposes of the application of those sections in accordance with this section, it shall be assumed—

- (a) that assets forming part of a fund are disposed of and immediately reacquired on the last day of each accounting period; and

- (b) that the indexation allowance computed for that accounting period is allocated to the corresponding underwriting year in the same proportion as the gains or losses referred to in section 207(2).

209 Interpretation, regulations about underwriters etc

- (1) Expressions used in this section or sections 206 to 208 and in sections 450 to 456 of the Taxes Act (Lloyds underwriters) have the same meanings as they have for the purposes of sections 450 to 456.
- (2) The Board may by regulations provide—
 - (a) for the assessment and collection of tax charged in accordance with section 207;
 - (b) for modifying the provisions of that section in relation to syndicates continuing for more than 2 years after the end of an underwriting year;
 - (c) for giving credit for foreign tax.
- (3) Subsection (4) below applies in the case of any provision of the Tax Acts, the Management Act, this Act or any other enactment relating to capital gains tax, which imposes a time limit for making a claim or an election or an application.
- (4) 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.
- (5) Regulations under subsection (4) above may make different provision for different provisions or different purposes.
- (6) Regulations under subsection (2) or (4) 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 (including years earlier than 1992-93), but regulations under subsection (2) 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.

210 Life assurance and deferred annuities

- (1) This section has effect as respects any policy of assurance or contract for a deferred annuity on the life of any person.
- (2) No chargeable gain shall accrue on the disposal of, or of an interest in, the rights under any such policy of assurance or contract except where the person making the disposal is not the original beneficial owner and acquired the rights or interest for a consideration in money or money's worth.
- (3) Subject to subsection (2) above, the occasion of—
 - (a) the payment of the sum or sums assured by a policy of assurance, or
 - (b) the transfer of investments or other assets to the owner of a policy of assurance in accordance with the policy,
 and the occasion of the surrender of a policy of assurance, shall be the occasion of a disposal of the rights under the policy of assurance.

- (4) Subject to subsection (2) above, the occasion of the payment of the first instalment of a deferred annuity, and the occasion of the surrender of the rights under a contract for a deferred annuity, shall be the occasion of a disposal of the rights under the contract for a deferred annuity and the amount of the consideration for the disposal of a contract for a deferred annuity shall be the market value at that time of the right to that and further instalments of the annuity.

211 Transfers of business

- (1) This section applies where there is a transfer of the whole or part of the long term business of an insurance company (“the transferor”) to another company (“the transferee”) in accordance with a scheme sanctioned by a court under section 49 of the Insurance Companies Act 1982.
- (2) Subject to subsection (3) below, where this section applies section 139 shall not be prevented from having effect in relation to any asset included in the transfer by reason that—
- (a) the transfer is not part of a scheme of reconstruction or amalgamation,
 - (b) the condition in paragraph (c) of subsection (1) of that section is not satisfied, or
 - (c) the asset is within subsection (2) of that section;
- and where section 139 applies by virtue of paragraph (a) above the references in subsection (5) of that section to the reconstruction or amalgamation shall be construed as references to the transfer.
- (3) Section 139 shall not have effect in relation to an asset by virtue of subsection (2) above unless—
- (a) any gain accruing to the transferor—
 - (i) on the disposal of the asset in accordance with the scheme, or
 - (ii) where that disposal occurs after the transfer of business has taken place, on a disposal of the asset immediately before that transfer, and
 - (b) any gain accruing to the transferee on a disposal of the asset immediately after its acquisition in accordance with the scheme,
- would be a chargeable gain which would form part of its profits for corporation tax purposes (and would not be a gain on which, under any double taxation relief arrangements, it would not be liable to tax).

212 Annual deemed disposal of holdings of unit trusts etc

- (1) Where at the end of an accounting period the assets of an insurance company’s long term business fund include—
- (a) rights under an authorised unit trust, or
 - (b) relevant interests in an offshore fund,
- then, subject to the following provisions of this section and to section 213, the company shall be deemed for the purposes of corporation tax on capital gains to have disposed of and immediately reacquired each of the assets concerned at its market value at that time.
- (2) Subsection (1) above shall not apply to assets linked solely to pension business or to assets of the overseas life assurance fund, and in relation to other assets (apart from

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assets linked solely to basic life assurance and general annuity business) shall apply only to the relevant chargeable fraction of each class of asset.

- (3) For the purposes of subsection (2) above “the relevant chargeable fraction” in relation to linked assets is the fraction of which—
 - (a) the denominator is the mean of such of the opening and closing long term business liabilities as are liabilities in respect of benefits to be determined by reference to the value of linked assets, other than assets linked solely to basic life assurance and general annuity business or pension business and assets of the overseas life assurance fund; and
 - (b) the numerator is the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of business the profits of which are not charged to tax under Case I or Case VI of Schedule D (disregarding section 85 of the Finance Act 1989).
- (4) For the purposes of subsection (2) above “the relevant chargeable fraction” in relation to assets other than linked assets is the fraction of which—
 - (a) the denominator is the aggregate of—
 - (i) the mean of the opening and closing long term business liabilities, other than liabilities in respect of benefits to be determined by reference to the value of linked assets and liabilities of the overseas life assurance business, and
 - (ii) the mean of the opening and closing amounts of the investment reserve; and
 - (b) the numerator is the aggregate of—
 - (i) the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of business the profits of which are not charged to tax under Case I or Case VI of Schedule D (disregarding section 85 of the Finance Act 1989), and
 - (ii) the mean of the appropriate parts of the opening and closing amounts of the investment reserve.
- (5) For the purposes of this section an interest is a “relevant interest in an offshore fund” if—
 - (a) it is a material interest in an offshore fund for the purposes of Chapter V of Part XVII of the Taxes Act, or
 - (b) it would be such an interest if the shares and interests excluded by subsections (6) and (8) of section 759 of that Act were limited to shares or interests in trading companies.
- (6) For the purposes of this section the amount of an investment reserve and the “appropriate part” of it shall be determined in accordance with section 432A(8) and (9) of the Taxes Act.
- (7) In this section “trading company” means a company—
 - (a) whose business consists of the carrying on of insurance business, or the carrying on of any other trade which does not consist to any extent of dealing in commodities, currency, securities, debts or other assets of a financial nature, or
 - (b) whose business consists wholly or mainly of the holding of shares or securities of trading companies which are its 90 per cent. subsidiaries;

and in this section and sections 213 and 214 other expressions have the same meanings as in Chapter I of Part XII of the Taxes Act.

- (8) Subject to section 214, this section shall have effect in relation to accounting periods beginning on or after 1st January 1991 or, where the Treasury by order appoint a later day, in relation to accounting periods beginning on or after that day (and not in relation to any earlier accounting period, even if the order is made after 1st January 1991 and the period has ended before it is made).

213 Spreading of gains and losses under section 212

- (1) Any chargeable gains or allowable losses which would otherwise accrue on disposals deemed by virtue of section 212 to have been made at the end of a company's accounting period shall be treated as not accruing to it, but instead—
- (a) there shall be ascertained the difference (“the net amount”) between the aggregate of those gains and the aggregate of those losses, and
 - (b) one-seventh of the net amount shall be treated as a chargeable gain or, where it represents an excess of losses over gains, as an allowable loss accruing to the company at the end of the accounting period, and
 - (c) a further one-seventh shall be treated as a chargeable gain or, as the case may be, as an allowable loss accruing at the end of each succeeding accounting period until the whole amount has been accounted for.
- (2) For any accounting period of less than one year, the fraction of one-seventh referred to in subsection (1)(c) above shall be proportionately reduced; and where this subsection has had effect in relation to any accounting period before the last for which subsection (1)(c) above applies, the fraction treated as accruing at the end of that last accounting period shall also be adjusted appropriately.
- (3) Where—
- (a) the net amount for an accounting period of an insurance company represents an excess of gains over losses,
 - (b) the net amount for one of the next 6 accounting periods (after taking account of any reductions made by virtue of this subsection) represents an excess of losses over gains,
 - (c) there is (after taking account of any such reductions) no net amount for any intervening accounting period, and
 - (d) within 2 years after the end of the later accounting period the company makes a claim for the purpose in respect of the whole or part of the net amount for that period,
- the net amounts for both the earlier and the later period shall be reduced by the amount in respect of which the claim is made.
- (4) Subject to subsection (5) below, where a company ceases to carry on long term business before the end of the last of the accounting periods for which subsection (1) (c) above would apply in relation to a net amount, the fraction of that amount that is treated as accruing at the end of the accounting period ending with the cessation shall be such as to secure that the whole of the net amount has been accounted for.
- (5) Where there is a transfer of the whole or part of the long term business of an insurance company (“the transferor”) to another company (“the transferee”) in accordance with a scheme sanctioned by a court under section 49 of the Insurance Companies Act 1982, any chargeable gain or allowable loss which (assuming that the transferor had

continued to carry on the business transferred) would have accrued to the transferor by virtue of subsection (1) above after the transfer shall instead be deemed to accrue to the transferee.

- (6) Where subsection (5) above has effect, the amount of the gain or loss accruing at the end of the first accounting period of the transferee ending after the day when the transfer takes place shall be calculated as if that accounting period began with the day after the transfer.
- (7) Where the transfer is of part only of the transferor's long term business, subsection (5) above shall apply only to such part of any amount to which it would otherwise apply as is appropriate.
- (8) Any question arising as to the operation of subsection (7) above shall be determined by the Special Commissioners who shall determine the question in the same manner as they determine appeals; but both the transferor and transferee shall be entitled to appear and be heard or to make representations in writing.
- (9) It is hereby declared that amounts to which section 47(1)(b) and (c) of the Finance Act 1990 applied immediately before the commencement of this section shall continue to be subject to the provisions of this section (with any necessary modifications).

214 Transitional provisions

- (1) In this section—
 - (a) “section 212 assets” means rights under authorised unit trusts and relevant interests in offshore funds which are assets of a company's long term business fund;
 - (b) “linked section 212 assets” means section 212 assets which are linked assets;
 - (c) “relevant linked liabilities”, in relation to a company, means such of the liabilities of its basic life assurance and general annuity business as are liabilities in respect of benefits under pre-commencement policies or contracts, being benefits to be determined by reference to the value of linked assets;
 - (d) “pre-commencement policies or contracts” means—
 - (i) policies issued in respect of insurances made before 1st April 1990, and
 - (ii) annuity contracts made before that date, but excluding policies or annuity contracts varied on or after that date so as to increase the benefits secured or to extend the term of the insurance or annuity (any exercise of rights conferred by a policy or annuity contract being regarded for this purpose as a variation);
 - (e) “basic life assurance and general annuity business” means life assurance business, other than pension business and overseas life assurance business.
- (2) The assets which are to be regarded for the purposes of this section as linked solely to an insurance company's basic life assurance and general annuity business at any time before the first accounting period of the company which begins on or after 1st January 1992 are all the assets which at that time—
 - (a) are or were linked solely to the company's basic life assurance business or general annuity business, or
 - (b) although not falling within paragraph (a) above, would be, or would have been, regarded as linked solely to the company's basic life assurance business,

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were its general annuity business treated as forming, or having at all times formed, part of its basic life assurance business and as not being a separate category of business.

- (3) Where within 2 years after the end of an accounting period an insurance company makes a claim for the purpose in relation to the period, section 212(1) shall not apply at the end of the period to so much of any class of linked assets as it would otherwise apply to and as represents relevant linked liabilities.
- (4) For the purposes of subsection (3) above assets of any class shall be taken to represent relevant linked liabilities only to the extent that their value does not exceed the fraction set out in subsection (5) below of such of the company's relevant linked liabilities as are liabilities in respect of benefits to be determined by reference to the value of assets of that class.
- (5) The fraction referred to in subsection (4) above is—

$$\frac{A \times C \times 110}{B \times D \times 100}$$

where—

A is the amount at the end of 1989 of such of the company's relevant linked liabilities as are liabilities in respect of benefits to be determined by reference to the value of linked section 212 assets;

B is the amount of the company's relevant linked liabilities at that time;

C is the amount of the company's relevant linked liabilities at the end of the accounting period for which the claim is made;

D is the amount at the end of that period of such of the company's relevant linked liabilities as are liabilities in respect of benefits to be determined by reference to the value of linked section 212 assets.

- (6) Subject to subsection (7) below, subsection (9) below applies where—
- (a) after the end of 1989 an insurance company exchanges section 212 assets ("the old assets") for other assets ("the new assets") to be held as assets of the long term business fund,
 - (b) the new assets are not section 212 assets but are assets on the disposal of which any gains accruing would be chargeable gains,
 - (c) both the old assets and the new assets are linked solely to basic life assurance and general annuity business, or both are neither linked solely to basic life assurance and general annuity business or pension business nor assets of the overseas life assurance fund, and
 - (d) the company makes a claim for the purpose within 2 years after the end of the accounting period in which the exchange occurs.
- (7) Subsection (6) above shall have effect in relation to old assets only to the extent that their amount, when added to the amount of any assets to which subsection (9) below has already applied and which are assets of the same class, does not exceed the aggregate of—
- (a) the amount of the assets of the same class included in the long term business fund at the beginning of 1990, other than assets linked solely to pension business and assets of the overseas life assurance fund, and

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- (b) 110 per cent. of the amount of the assets of that class which represents any subsequent increases in the company's relevant linked liabilities in respect of benefits to be determined by reference to the value of assets of that class.
- (8) The reference in subsection (7)(b) above to a subsequent increase in liabilities is a reference to any amount by which the liabilities at the end of an accounting period ending after 31st December 1989 exceed those at the beginning of the period (or at the end of 1989 if that is later); and for the purposes of that provision the amount of assets which represents an increase in liabilities is the excess of—
 - (a) the amount of assets whose value at the later time is equivalent to the liabilities at that time, over
 - (b) the amount of assets whose value at the earlier time is equivalent to the liabilities at that time.
- (9) Where this subsection applies, the insurance company (but not any other party to the exchange) shall be treated for the purposes of corporation tax on capital gains as if the exchange had not involved a disposal of the old assets or an acquisition of the new, but as if the old and the new assets were the same assets acquired as the old assets were acquired.
- (10) References in subsections (6) to (9) above to the exchange of assets include references to the case where the consideration obtained for the disposal of assets (otherwise than by way of an exchange within subsection (6)) is applied in acquiring other assets within 6 months after the disposal; and for the purposes of those subsections the time when an exchange occurs shall be taken to be the time when the old assets are disposed of.
- (11) Where at any time after the end of 1989 there is a transfer of long term business of an insurance company ("the transferor") to another company ("the transferee") in accordance with a scheme sanctioned by a court under section 49 of the Insurance Companies Act 1982—
 - (a) if the transfer is of the whole of the long term business of the transferor, subsections (1) to (10) above shall have effect in relation to the assets of the transferee as if that business had at all material times been carried on by him;
 - (b) if the transfer is of part of the long term business of the transferor, those subsections shall have effect in relation to assets of the transferor and the transferee to such extent as is appropriate;

and any question arising as to the operation of paragraph (b) above shall be determined by the Special Commissioners who shall determine the question in the same manner as they determine appeals; but both the transferor and the transferee shall be entitled to appear and be heard or to make representations in writing.

CHAPTER IV

MISCELLANEOUS CASES

Building societies etc.

215 Disposal of assets on amalgamation of building societies etc

If, in the course of or as part of an amalgamation of 2 or more building societies or a transfer of engagements from one building society to another, there is a disposal of an

asset by one society to another, both shall be treated for the purposes of corporation tax on chargeable gains as if the asset were acquired from the one making the disposal for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.

216 Assets transferred from society to company

- (1) This section and section 217 apply where there is a transfer of the whole of a building society's business to a company ("the successor company") in accordance with section 97 and the other applicable provisions of the Building Societies Act 1986.
- (2) Where the society and the successor company are not members of the same group at the time of the transfer—
 - (a) they shall be treated for the purposes of corporation tax on capital gains as if any asset disposed of as part of the transfer were acquired by the successor company for a consideration of such amount as would secure that on the disposal neither a gain nor a loss would accrue to the society, and
 - (b) if because of the transfer any company ceases to be a member of the same group as the society, that event shall not cause section 178 or 179 to have effect as respects any asset acquired by the company from the society or any other member of the same group.
- (3) Where the society and the successor company are members of the same group at the time of the transfer but later cease to be so, that later event shall not cause section 178 or 179 to have effect as respects—
 - (a) any asset acquired by the successor company on or before the transfer from the society or any other member of the same group, or
 - (b) any asset acquired from the society or any other member of the same group by any company other than the successor company which is a member of the same group at the time of the transfer.
- (4) Subject to subsection (6) below, where a company which is a member of the same group as the society at the time of the transfer—
 - (a) ceases to be a member of that group and becomes a member of the same group as the successor company, and
 - (b) subsequently ceases to be a member of that group,section 178 or 179 shall have effect on that later event as respects any relevant asset acquired by the company otherwise than from the successor company as if it had been acquired from the successor company.
- (5) In subsection (4) above "relevant asset" means any asset acquired by the company—
 - (a) from the society, or
 - (b) from any other company which is a member of the same group at the time of the transfer,when the company and the society, or the company, the society and the other company, were members of the same group.
- (6) Subsection (4) above shall not apply if the company which acquired the asset and the company from which it was acquired (one being a 75 per cent. subsidiary of the other) cease simultaneously to be members of the same group as the successor company but continue to be members of the same group as one another.

- (7) For the purposes of this section “group” shall be construed in accordance with section 170.

217 Shares, and rights to shares, in successor company

- (1) Where, in connection with the transfer, there are conferred on members of the society—

- (a) any rights to acquire shares in the successor company in priority to other persons, or
- (b) any rights to acquire shares in that company for consideration of an amount or value lower than the market value of the shares, or
- (c) any rights to free shares in that company,

any such right so conferred on a member shall be regarded for the purposes of tax on chargeable gains as an option (within the meaning of section 144) granted to, and acquired by, him for no consideration and having no value at the time of that grant and acquisition.

- (2) Where, in connection with the transfer, shares in the successor company are issued by that company, or disposed of by the society, to a member of the society, those shares shall be regarded for the purposes of tax on chargeable gains—

- (a) as acquired by the member for a consideration of an amount or value equal to the amount or value of any new consideration given by him for the shares (or, if no new consideration is given, as acquired for no consideration); and
- (b) as having, at the time of their acquisition by the member, a value equal to the amount or value of the new consideration so given (or, if no new consideration is given, as having no value);

but this subsection is without prejudice to the operation of subsection (1) above, where applicable.

- (3) Subsection (4) below applies in any case where—

- (a) in connection with the transfer, shares in the successor company are issued by that company, or disposed of by the society, to trustees on terms which provide for the transfer of those shares to members of the society for no new consideration; and
- (b) the circumstances are such that in the hands of the trustees the shares constitute settled property.

- (4) Where this subsection applies, then, for the purposes of tax on chargeable gains—

- (a) the shares shall be regarded as acquired by the trustees for no consideration;
- (b) the interest of any member in the settled property constituted by the shares shall be regarded as acquired by him for no consideration and as having no value at the time of its acquisition;
- (c) where a member becomes absolutely entitled as against the trustees to any of the settled property, both the trustees and the member shall be treated as if, on his becoming so entitled, the shares in question had been disposed of and immediately reacquired by the trustees, in their capacity as trustees within section 60(1), for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss would accrue to the trustees (and accordingly section 71 shall not apply in relation to that occasion); and
- (d) on the disposal by a member of an interest in the settled property, other than the disposal treated as occurring for the purposes of paragraph (c) above, any

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gain accruing shall be a chargeable gain (and accordingly section 76(1) shall not apply in relation to the disposal).

- (5) Where, in connection with the transfer, the society disposes of any shares in the successor company, then, for the purposes of this Act, any gains arising on the disposal shall not be chargeable gains.

- (6) In this section—

“free shares”, in relation to a member of the society, means any shares issued by the successor company, or disposed of by the society, to that member in connection with the transfer but for no new consideration;

“member”, in relation to the society, means a person who is or has been a member of it, in that capacity, and any reference to a member includes a reference to a member of any particular class or description;

“new consideration” means consideration other than—

- (a) consideration provided directly or indirectly out of the assets of the society; or
- (b) consideration derived from a member’s shares or other rights in the society.

- (7) References in this section to the case where a member becomes absolutely entitled to settled property as against the trustees shall be taken to include references to the case where he would become so entitled but for being an infant or otherwise under disability.

The Housing Corporation, Housing for Wales and housing associations

218 Disposals of land between the Housing Corporation, Housing for Wales or Scottish Homes and housing associations

- (1) Where—

- (a) in accordance with a scheme approved under section 5 of the Housing Act 1964 or paragraph 5 of Schedule 7 to the Housing Associations Act 1985, the Housing Corporation acquires from a housing association the association’s interest in all the land held by the association for carrying out its objects, or
- (b) after the Housing Corporation has so acquired from a housing association all the land so held by it the Corporation disposes to a single housing association of the whole of that land (except any part previously disposed of or agreed to be disposed of otherwise than to a housing association), together with all related assets,

then both parties to the disposal of the land to or, as the case may be, by the Housing Corporation shall be treated for the purposes of corporation tax in respect of chargeable gains as if the land and any related assets disposed of therewith (and each part of that land and those assets) were acquired from the party making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss accrued to that party.

- (2) In subsection (1) above, “housing association” has the same meaning as in the Housing Associations Act 1985, and “related assets” means, in relation to an acquisition of land by the Housing Corporation, assets acquired by the Corporation in accordance with the same scheme as that land, and in relation to a disposal of land by the Housing

Corporation, assets held by the Corporation for the purposes of the same scheme as that land.

- (3) This section shall also have effect with the substitution of the words “Housing for Wales” for the words “the Housing Corporation” and “the Corporation” in each place where they occur.
- (4) This section shall also have effect with the substitution of the words “Scottish Homes” for the words “the Housing Corporation” and “the Corporation” in each place where they occur.

219 Disposals by Housing Corporation, Housing for Wales, Scottish Homes and certain housing associations

- (1) In any case where—
 - (a) the Housing Corporation dispose of any land to a registered housing association, or
 - (b) a registered housing association disposes of any land to another registered housing association, or
 - (c) in pursuance of a direction of the Housing Corporation given under Part I of the Housing Associations Act 1985 requiring it to do so, a registered housing association disposes of any of its property, other than land, to another registered housing association, or
 - (d) a registered housing association or an unregistered self-build society disposes of any land to the Housing Corporation,

both parties to the disposal shall be treated for the purposes of tax on chargeable gains as if the land or property disposed of were acquired from the Housing Corporation, registered housing association or unregistered self-build society making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss accrued to the Corporation or, as the case may be, that association or society.

- (2) Subsection (1) above shall also have effect with the substitution of the words “Housing for Wales” for the words “the Housing Corporation” and “the Corporation” in each place where they occur.
- (3) Subsection (1) above shall also have effect with the substitution of the words “Scottish Homes” for the words “the Housing Corporation” and “the Corporation” in each place where they occur.
- (4) In this section “registered housing association” and “unregistered self-build society” have the same meanings as in the Housing Associations Act 1985.

220 Disposals by Northern Ireland housing associations

- (1) In any case where—
 - (a) a registered Northern Ireland housing association disposes of any land to another such association, or
 - (b) in pursuance of a direction of the Department of the Environment for Northern Ireland given under Chapter II of Part VII of the Housing (Northern Ireland) Order 1981 requiring it to do so, a registered Northern Ireland housing association disposes of any of its property, other than land, to another such association,

both parties to the disposal shall be treated for the purposes of tax on chargeable gains as if the land or property disposed of were acquired from the association making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss accrued to that association.

- (2) In subsection (1) above “registered Northern Ireland housing association” means a registered housing association within the meaning of Part VII of the Order referred to in paragraph (b) of that subsection.

Other bodies

221 Harbour authorities

- (1) For the purposes of this Act any asset transferred on the transfer of the trade shall be deemed to be for a consideration such that no gain or loss accrues to the transferor on its transfer; and for the purposes of Schedule 2 the transferee shall be treated as if the acquisition by the transferor of any asset so transferred had been the transferee’s acquisition thereof.
- (2) This section applies only where the trade transferred is transferred from any body corporate other than a limited liability company to a harbour authority by or under a certified harbour reorganisation scheme (within the meaning of section 518 of the Taxes Act) which provides also for the dissolution of the transferor.

PART VII

OTHER PROPERTY, BUSINESSES, INVESTMENTS ETC.

Private residences

222 Relief on disposal of private residence

- (1) This section applies to a gain accruing to an individual so far as attributable to the disposal of, or of an interest in—
- (a) a dwelling-house or part of a dwelling-house which is, or has at any time in his period of ownership been, his only or main residence, or
 - (b) land which he has for his own occupation and enjoyment with that residence as its garden or grounds up to the permitted area.
- (2) In this section “the permitted area” means, subject to subsections (3) and (4) below, an area (inclusive of the site of the dwelling-house) of 0.5 of a hectare.
- (3) In any particular case the permitted area shall be such area, larger than 0.5 of a hectare, as the Commissioners concerned may determine if satisfied that, regard being had to the size and character of the dwelling-house, that larger area is required for the reasonable enjoyment of it (or of the part in question) as a residence.
- (4) Where part of the land occupied with a residence is and part is not within subsection (1) above, then (up to the permitted area) that part shall be taken to be within subsection (1) above which, if the remainder were separately occupied, would be the most suitable for occupation and enjoyment with the residence.

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- (5) So far as it is necessary for the purposes of this section to determine which of 2 or more residences is an individual's main residence for any period—
- (a) the individual may conclude that question by notice to the inspector given within 2 years from the beginning of that period but subject to a right to vary that notice by a further notice to the inspector as respects any period beginning not earlier than 2 years before the giving of the further notice,
 - (b) subject to paragraph (a) above, the question shall be concluded by the determination of the inspector, which may be as respects the whole or specified parts of the period of ownership in question,
- and notice of any determination of the inspector under paragraph (b) above shall be given to the individual who may appeal to the General Commissioners or the Special Commissioners against that determination within 30 days of service of the notice.
- (6) In the case of a man and his wife living with him—
- (a) there can only be one residence or main residence for both, so long as living together and, where a notice under subsection (5)(a) above affects both the husband and the wife, it must be given by both, and
 - (b) any notice under subsection (5)(b) above which affects a residence owned by the husband and a residence owned by the wife shall be given to each and either may appeal under that subsection.
- (7) In this section and sections 223 to 226, “the period of ownership” where the individual has had different interests at different times shall be taken to begin from the first acquisition taken into account in arriving at the expenditure which under Chapter III of Part II is allowable as a deduction in the computation of the gain to which this section applies, and in the case of a man and his wife living with him—
- (a) if the one disposes of, or of his or her interest in, the dwelling-house or part of a dwelling-house which is their only or main residence to the other, and in particular if it passes on death to the other as legatee, the other's period of ownership shall begin with the beginning of the period of ownership of the one making the disposal, and
 - (b) if paragraph (a) above applies, but the dwelling-house or part of a dwelling-house was not the only or main residence of both throughout the period of ownership of the one making the disposal, account shall be taken of any part of that period during which it was his only or main residence as if it was also that of the other.
- (8) If at any time during an individual's period of ownership of a dwelling-house or part of a dwelling-house he—
- (a) resides in living accommodation which is for him job-related within the meaning of section 356 of the Taxes Act, and
 - (b) intends in due course to occupy the dwelling-house or part of a dwelling-house as his only or main residence,
- this section and sections 223 to 226 shall apply as if the dwelling-house or part of a dwelling-house were at that time occupied by him as a residence.
- (9) Section 356(3)(b) and (5) of the Taxes Act shall apply for the purposes of subsection (8) above only in relation to residence on or after 6th April 1983 in living accommodation which is job-related within the meaning of that section.

- (10) Apportionments of consideration shall be made wherever required by this section or sections 223 to 226 and, in particular, where a person disposes of a dwelling-house only part of which is his only or main residence.

223 Amount of relief

- (1) No part of a gain to which section 222 applies shall be a chargeable gain if the dwelling-house or part of a dwelling-house has been the individual's only or main residence throughout the period of ownership, or throughout the period of ownership except for all or any part of the last 36 months of that period.
- (2) Where subsection (1) above does not apply, a fraction of the gain shall not be a chargeable gain, and that fraction shall be—
- (a) the length of the part or parts of the period of ownership during which the dwelling-house or the part of the dwelling-house was the individual's only or main residence, but inclusive of the last 36 months of the period of ownership in any event, divided by
 - (b) the length of the period of ownership.
- (3) For the purposes of subsections (1) and (2) above—
- (a) a period of absence not exceeding 3 years (or periods of absence which together did not exceed 3 years), and in addition
 - (b) any period of absence throughout which the individual worked in an employment or office all the duties of which were performed outside the United Kingdom, and in addition
 - (c) any period of absence not exceeding 4 years (or periods of absence which together did not exceed 4 years) throughout which the individual was prevented from residing in the dwelling-house or part of the dwelling-house in consequence of the situation of his place of work or in consequence of any condition imposed by his employer requiring him to reside elsewhere, being a condition reasonably imposed to secure the effective performance by the employee of his duties,
- shall be treated as if in that period of absence the dwelling-house or the part of the dwelling-house was the individual's only or main residence if both before and after the period there was a time when the dwelling-house was the individual's only or main residence.
- (4) Where a gain to which section 222 applies accrues to any individual and the dwelling-house in question or any part of it is or has at any time in his period of ownership been wholly or partly let by him as residential accommodation, the part of the gain, if any, which (apart from this subsection) would be a chargeable gain by reason of the letting, shall be such a gain only to the extent, if any, to which it exceeds whichever is the lesser of—
- (a) the part of the gain which is not a chargeable gain by virtue of the provisions of subsection (1) to (3) above or those provisions as applied by section 225; and
 - (b) £40,000.
- (5) Where at any time the number of months specified in subsections (1) and (2)(a) above is 36, the Treasury may by order amend those subsections by substituting references to 24 for the references to 36 in relation to disposals on or after such date as is specified in the order.

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(6) Subsection (5) above shall also have effect as if 36 (in both places) read 24 and as if 24 read 36.

(7) In this section—

“period of absence” means a period during which the dwelling-house or the part of the dwelling-house was not the individual’s only or main residence and throughout which he had no residence or main residence eligible for relief under this section; and

“period of ownership” does not include any period before 31st March 1982.

224 Amount of relief: further provisions

- (1) If the gain accrues from the disposal of a dwelling-house or part of a dwelling-house part of which is used exclusively for the purpose of a trade or business, or of a profession or vocation, the gain shall be apportioned and section 223 shall apply in relation to the part of the gain apportioned to the part which is not exclusively used for those purposes.
- (2) If at any time in the period of ownership there is a change in what is occupied as the individual’s residence, whether on account of a reconstruction or conversion of a building or for any other reason, or there have been changes as regards the use of part of the dwelling-house for the purpose of a trade or business, or of a profession or vocation, or for any other purpose, the relief given by section 223 may be adjusted in such manner as the Commissioners concerned may consider to be just and reasonable.
- (3) Section 223 shall not apply in relation to a gain if the acquisition of, or of the interest in, the dwelling-house or the part of a dwelling-house was made wholly or partly for the purpose of realising a gain from the disposal of it, and shall not apply in relation to a gain so far as attributable to any expenditure which was incurred after the beginning of the period of ownership and was incurred wholly or partly for the purpose of realising a gain from the disposal.

225 Private residence occupied under terms of settlement

Sections 222 to 224 shall also apply in relation to a gain accruing to a trustee on a disposal of settled property being an asset within section 222(1) where, during the period of ownership of the trustee, the dwelling-house or part of the dwelling-house mentioned in that subsection has been the only or main residence of a person entitled to occupy it under the terms of the settlement, and in those sections as so applied—

- (a) references to the individual shall be taken as references to the trustee except in relation to the occupation of the dwelling-house or part of the dwelling-house, and
- (b) the notice which may be given to the inspector under section 222(5)(a) shall be a joint notice by the trustee and the person entitled to occupy the dwelling-house or part of the dwelling-house.

226 Private residence occupied by dependent relative before 6th April 1988

- (1) Subject to subsection (3) below, this section applies to a gain accruing to an individual so far as attributable to the disposal of, or of an interest in, a dwelling-house or part of a dwelling-house which, on 5th April 1988 or at any earlier time in his period of

ownership, was the sole residence of a dependent relative of the individual, provided rent-free and without any other consideration.

- (2) If the individual so claims, such relief shall be given in respect of it and its garden or grounds as would be given under sections 222 to 224 if the dwelling-house (or part of the dwelling-house) had been the individual's only or main residence in the period of residence by the dependent relative, and shall be so given in addition to any relief available under those sections apart from this section.
- (3) If in a case within subsection (1) above the dwelling-house or part ceases, whether before 6th April 1988 or later, to be the sole residence (provided as mentioned above) of the dependent relative, any subsequent period of residence beginning on or after that date by that or any other dependent relative shall be disregarded for the purposes of subsection (2) above.
- (4) Not more than one dwelling-house (or part of a dwelling-house) may qualify for relief as being the residence of a dependent relative of the claimant at any one time nor, in the case of a man and his wife living with him, as being the residence of a dependent relative of the claimant or of the claimant's husband or wife at any one time.
- (5) The inspector, before allowing a claim, may require the claimant to show that the giving of the relief claimed will not under subsection (4) above preclude the giving of relief to the claimant's wife or husband or that a claim to any such relief has been relinquished.
- (6) In this section "dependent relative" means, in relation to an individual—
 - (a) any relative of his or of his wife who is incapacitated by old age or infirmity from maintaining himself, or
 - (b) his or his wife's mother who, whether or not incapacitated, is either widowed, or living apart from her husband, or a single woman in consequence of dissolution or annulment of marriage.
- (7) If the individual mentioned in subsection (6) above is a woman the references in that subsection to the individual's wife shall be construed as references to the individual's husband.

Employee share ownership trusts

227 Conditions for roll-over relief

- (1) Relief is available under section 229(1) where each of the 6 conditions set out in subsections (2) to (7) below is fulfilled.
- (2) The first condition is that a person ("the claimant") makes a disposal of shares, or his interest in shares, to the trustees of a trust which—
 - (a) is a qualifying employee share ownership trust at the time of the disposal, and
 - (b) was established by a company ("the founding company") which immediately after the disposal is a trading company or the holding company of a trading group.
- (3) The second condition is that the shares—
 - (a) are shares in the founding company,
 - (b) form part of the ordinary share capital of the company,
 - (c) are fully paid up,

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- (d) are not redeemable, and
 - (e) are not subject to any restrictions other than restrictions which attach to all shares of the same class or a restriction authorised by paragraph 7(2) of Schedule 5 to the Finance Act 1989.
- (4) The third condition is that, at any time in the entitlement period, the trustees—
 - (a) are beneficially entitled to not less than 10 per cent. of the ordinary share capital of the founding company,
 - (b) are beneficially entitled to not less than 10 per cent. of any profits available for distribution to equity holders of the founding company, and
 - (c) would be beneficially entitled to not less than 10 per cent. of any assets of the founding company available for distribution to its equity holders on a winding-up.
- (5) The fourth condition is that the claimant obtains consideration for the disposal and, at any time in the acquisition period, all the amount or value of the consideration is applied by him in making an acquisition of assets or an interest in assets (“replacement assets”) which—
 - (a) are, immediately after the time of the acquisition, chargeable assets in relation to the claimant, and
 - (b) are not shares in, or debentures issued by, the founding company or a company which is (at the time of the acquisition) in the same group as the founding company;

but the preceding provisions of this subsection shall have effect without the words “, at any time in the acquisition period,” if the acquisition is made pursuant to an unconditional contract entered into in the acquisition period.
- (6) The fifth condition is that, at all times in the proscribed period, there are no unauthorised arrangements under which the claimant or a person connected with him may be entitled to acquire any of the shares, or an interest in or right deriving from any of the shares, which are the subject of the disposal by the claimant.
- (7) The sixth condition is that no chargeable event occurs in relation to the trustees in—
 - (a) the chargeable period in which the claimant makes the disposal,
 - (b) the chargeable period in which the claimant makes the acquisition, or
 - (c) any chargeable period falling after that mentioned in paragraph (a) above and before that mentioned in paragraph (b) above.

228 Conditions for relief: supplementary

- (1) This section applies for the purposes of section 227.
- (2) The entitlement period is the period beginning with the disposal and ending on the expiry of 12 months beginning with the date of the disposal.
- (3) The acquisition period is the period beginning with the disposal and ending on the expiry of 6 months beginning with—
 - (a) the date of the disposal, or
 - (b) if later, the date on which the third condition (set out in section 227(4)) first becomes fulfilled.
- (4) The proscribed period is the period beginning with the disposal, and ending on—
 - (a) the date of the acquisition, or

- (b) if later, the date on which the third condition (set out in section 227(4)) first becomes fulfilled.
- (5) All arrangements are unauthorised unless—
 - (a) they arise wholly from a restriction authorised by paragraph 7(2) of Schedule 5 to the Finance Act 1989, or
 - (b) they only allow one or both of the following as regards shares, interests or rights, namely, acquisition by a beneficiary under the trust and appropriation under an approved profit sharing scheme.
- (6) An asset is a chargeable asset in relation to the claimant at a particular time if, were the asset to be disposed of at that time, any gain accruing to him on the disposal would be a chargeable gain, and either—
 - (a) at that time he is resident or ordinarily resident in the United Kingdom, or
 - (b) he would be chargeable to capital gains tax under section 10(1) in respect of the gain, or it would form part of his chargeable profits for corporation tax purposes by virtue of section 10(3),unless (were he to dispose of the asset at that time) the claimant would fall to be regarded for the purposes of any double taxation relief arrangements as not liable in the United Kingdom to tax on any gains accruing to him on the disposal.
- (7) The question whether a trust is at a particular time a qualifying employee share ownership trust shall be determined in accordance with Schedule 5 to the Finance Act 1989; and “chargeable event” in relation to trustees has the meaning given by section 69 of that Act.
- (8) The expressions “holding company”, “trading company” and “trading group” have the meanings given by paragraph 1 of Schedule 6; and “group” (except in the expression “trading group”) shall be construed in accordance with section 170.
- (9) “Ordinary share capital” in relation to the founding company means all the issued share capital (by whatever name called) of the company, other than capital the holders of which have a right to a dividend at a fixed rate but have no other right to share in the profits of the company.
- (10) Schedule 18 to the Taxes Act (group relief: equity holders and profits or assets available for distribution) shall apply for the purposes of section 227(4) as if—
 - (a) the trustees were a company,
 - (b) the references to section 413(7) to (9) of that Act were references to section 227(4),
 - (c) the reference in paragraph 7(1)(a) to section 413(7) of that Act were a reference to section 227(4), and
 - (d) paragraph 7(1)(b) were omitted.

229 The relief

- (1) In a case where relief is available under this subsection the claimant shall, on making a claim in the period of 2 years beginning with the acquisition, be treated for the purposes of this Act—
 - (a) as if the consideration for the disposal were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him, and

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- (b) as if the amount or value of the consideration for the acquisition were reduced by the excess of the amount or value of the actual consideration for the disposal over the amount of the consideration which the claimant is treated as receiving under paragraph (a) above.
- (2) Relief is available under subsection (3) below where—
 - (a) relief would be available under subsection (1) above but for the fact that part only of the amount or value mentioned in section 227(5) is applied as there mentioned, and
 - (b) all the amount or value so mentioned except for a part which is less than the amount of the gain (whether all chargeable gain or not) accruing on the disposal is so applied.
- (3) In a case where relief is available under this subsection the claimant shall, on making a claim in the period of 2 years beginning with the acquisition, be treated for the purposes of this Act—
 - (a) as if the amount of the gain accruing on the disposal were reduced to the amount of the part mentioned in subsection (2)(b) above, and
 - (b) as if the amount or value of the consideration for the acquisition were reduced by the amount by which the gain is reduced under paragraph (a) above.
- (4) Nothing in subsection (1) or (3) above shall affect the treatment for the purposes of this Act of the other party to the disposal or of the other party to the acquisition.
- (5) The provisions of this Act fixing the amount of the consideration deemed to be given for a disposal or acquisition shall be applied before the preceding provisions of this section are applied.

230 Dwelling-houses: special provision

- (1) Subsection (2) below applies where—
 - (a) a claim is made under section 229,
 - (b) immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,
 - (c) the asset is a dwelling-house or part of a dwelling-house or land, and
 - (d) there was a time in the period beginning with the acquisition and ending with the time when section 229(1) or (3) falls to be applied such that, if the asset (or an interest in it) were disposed of at that time, it would be within section 222(1) and the individual there mentioned would be the claimant or the claimant's spouse.
- (2) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant.
- (3) Subsection (4) below applies where—
 - (a) the provisions of section 229(1) or (3) have been applied,
 - (b) any replacement asset which, immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, was a chargeable asset in relation to the claimant consists of a dwelling-house or part of a dwelling-house or land, and

- (c) there is a time after section 229(1) or (3) has been applied such that, if the asset (or an interest in it) were disposed of at that time, it would be within section 222(1) and the individual there mentioned would be the claimant or the claimant's spouse.
- (4) In such a case—
 - (a) the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly, but
 - (b) any gain treated as accruing in consequence of the application of paragraph (a) above shall be treated as accruing at the time mentioned in subsection (3)(c) above or, if there is more than one such time, at the earliest of them.
- (5) Subsection (6) below applies where—
 - (a) a claim is made under section 229,
 - (b) immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,
 - (c) the asset was an option to acquire (or to acquire an interest in) a dwelling-house or part of a dwelling-house or land,
 - (d) the option has been exercised, and
 - (e) there was a time in the period beginning with the exercise of the option and ending with the time when section 229(1) or (3) falls to be applied such that, if the asset acquired on exercise of the option were disposed of at that time, it would be within section 222(1) and the individual there mentioned would be the claimant or the claimant's spouse.
- (6) In such a case the option shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant.
- (7) Subsection (8) below applies where—
 - (a) the provisions of section 229(1) or (3) have been applied,
 - (b) any replacement asset which, immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, was a chargeable asset in relation to the claimant consisted of an option to acquire (or to acquire an interest in) a dwelling-house or part of a dwelling-house or land,
 - (c) the option has been exercised, and
 - (d) there is a time after section 229(1) or (3) has been applied such that, if the asset acquired on exercise of the option were disposed of at that time, it would be within section 222(1) and the individual there mentioned would be the claimant or the claimant's spouse.
- (8) In such a case—
 - (a) the option shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly, but
 - (b) any gain treated as accruing in consequence of the application of paragraph (a) above shall be treated as accruing at the time mentioned in subsection (7)(d) above or, if there is more than one such time, at the earliest of them.

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- (9) References in this section to an individual include references to a person entitled to occupy under the terms of a settlement.

231 Shares: special provision

- (1) Subsection (2) below applies where—
- (a) a claim is made under section 229,
 - (b) immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,
 - (c) the asset consists of shares, and
 - (d) in the period beginning with the acquisition and ending when section 229(1) or (3) falls to be applied relief is claimed under Chapter III of Part VII of the Taxes Act (business expansion scheme) in respect of the asset.
- (2) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant.
- (3) Subsection (4) below applies where—
- (a) the provisions of section 229(1) or (3) have been applied,
 - (b) any replacement asset which, immediately after the time of the acquisition mentioned in section 227(5) and apart from this section, was a chargeable asset in relation to the claimant consists of shares, and
 - (c) after section 229(1) or (3) has been applied relief is claimed under Chapter III of Part VII of the Taxes Act in respect of the asset.
- (4) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 227(5), it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly.
- (5) Subsection (4) above shall also apply where section 33(1) or (3) of the Finance Act 1990 has applied and the claimant acquired the replacement asset in a chargeable period beginning before 6th April 1992.

232 Chargeable event when replacement assets owned

- (1) Subsection (3) below applies where—
- (a) the provisions of section 229(1) or (3) are applied,
 - (b) a chargeable event occurs in relation to the trustees on or after the date on which the disposal is made (and whether the event occurs before or after the provisions are applied),
 - (c) the claimant was neither an individual who died before the chargeable event occurs nor trustees of a settlement which ceased to exist before the chargeable event occurs, and
 - (d) the condition set out below is fulfilled.
- (2) The condition is that, at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the replacement assets.
- (3) In a case where this subsection applies, the claimant or connected person (as the case may be) shall be deemed for all purposes of this Act—

- (a) to have disposed of all the replacement assets immediately before the time when the chargeable event occurs, and
 - (b) immediately to have reacquired them,at the relevant value.
- (4) The relevant value is such value as secures on the deemed disposal a chargeable gain equal to—
 - (a) the amount by which the amount or value of the consideration mentioned in section 229(1)(b) was treated as reduced by virtue of that provision (where it applied), or
 - (b) the amount by which the amount or value of the consideration mentioned in section 229(3)(b) was treated as reduced by virtue of that provision (where it applied).
- (5) In a case where subsection (3) above would apply if “all” read “any of” in subsection (2) above, subsection (3) shall nevertheless apply, but as if—
 - (a) in subsection (3)(a) “all the replacement assets” read “the replacement assets concerned”, and
 - (b) the relevant value were reduced to whatever value is just and reasonable.
- (6) Subsection (7) below applies where—
 - (a) subsection (3) above applies (whether or not by virtue of subsection (5) above), and
 - (b) before the time when the chargeable event occurs anything has happened as regards any of the replacement assets such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 229(1) or (3).
- (7) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—
 - (a) the relevant value were reduced (or further reduced) to whatever value is just and reasonable, or
 - (b) the relevant value were such value as secures that on the deemed disposal neither a gain nor a loss accrues (if that is just and reasonable);but paragraph (a) above shall not apply so as to reduce the relevant value below that mentioned in paragraph (b) above.
- (8) For the purposes of subsection (6)(b) above the gain carried forward by virtue of section 229(1) or (3) is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (4)(a) or (b) above, as the case may be).
- (9) In this section “chargeable event” in relation to trustees has the meaning given by section 69 of the Finance Act 1989.

233 Chargeable event when replacement property owned

- (1) Subsection (3) below applies where—
 - (a) paragraphs (a) to (c) of section 232(1) are fulfilled, and
 - (b) the condition set out below is fulfilled.

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- (2) The condition is that—
- (a) before the time when the chargeable event occurs, all the gain carried forward by virtue of section 229(1) or (3) was in turn carried forward from all the replacement assets to other property on a replacement of business assets, and
 - (b) at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the property.
- (3) In a case where this subsection applies, the claimant or connected person (as the case may be) shall be deemed for all purposes of this Act—
- (a) to have disposed of all the property immediately before the time when the chargeable event occurs, and
 - (b) immediately to have reacquired it,
- at the relevant value.
- (4) The relevant value is such value as secures on the deemed disposal a chargeable gain equal to—
- (a) the amount by which the amount or value of the consideration mentioned in section 229(1)(b) was treated as reduced by virtue of that provision (where it applied), or
 - (b) the amount by which the amount or value of the consideration mentioned in section 229(3)(b) was treated as reduced by virtue of that provision (where it applied).
- (5) In a case where subsection (3) above would apply if “all the” in subsection (2) above (in one or more places) read “any of the”, subsection (3) shall nevertheless apply, but as if—
- (a) in subsection (3)(a) “all the property” read “the property concerned”, and
 - (b) the relevant value were reduced to whatever value is just and reasonable.
- (6) Subsection (7) below applies where—
- (a) subsection (3) above applies (whether or not by virtue of subsection (5) above), and
 - (b) before the time when the chargeable event occurs anything has happened as regards any of the replacement assets, or any other property, such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 229(1) or (3).
- (7) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—
- (a) the relevant value were reduced (or further reduced) to whatever value is just and reasonable, or
 - (b) the relevant value were such value as secures that on the deemed disposal neither a gain nor a loss accrues (if that is just and reasonable);
- but paragraph (a) above shall not apply so as to reduce the relevant value below that mentioned in paragraph (b) above.
- (8) For the purposes of subsections (2) and (6)(b) above the gain carried forward by virtue of section 229(1) or (3) is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (4)(a) or (b) above, as the case may be).

- (9) For the purposes of subsection (2) above a gain is carried forward from assets to other property on a replacement of business assets if, by one or more claims under sections 152 to 158, the chargeable gain accruing on a disposal of the assets is reduced, and as a result an amount falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of the other property.

234 Chargeable events when bonds owned

- (1) Subsection (3) below applies where—
- (a) paragraphs (a) to (c) of section 232(1) are fulfilled, and
 - (b) the condition set out below is fulfilled.
- (2) The condition is that—
- (a) all the replacement assets were shares (new shares) in a company or companies,
 - (b) there has been a transaction to which section 116(10) applies and as regards which all the new shares constitute the old asset and qualifying corporate bonds constitute the new asset, and
 - (c) at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the bonds.
- (3) In a case where this subsection applies, a chargeable gain shall be deemed to have accrued to the claimant or connected person (as the case may be); and the gain shall be deemed to have accrued immediately before the time when the chargeable event occurs and to be of an amount equal to the relevant amount.
- (4) The relevant amount is an amount equal to the lesser of—
- (a) the first amount, and
 - (b) the second amount.
- (5) The first amount is—
- (a) the amount of the chargeable gain that would be deemed to accrue under 116(10)(b) if there were a disposal of all the bonds at the time the chargeable event occurs, or
 - (b) nil, if an allowable loss would be so deemed to accrue if there were such a disposal.
- (6) The second amount is an amount equal to—
- (a) the amount by which the amount or value of the consideration mentioned in section 229(1)(b) was treated as reduced by virtue of that provision (where it applied), or
 - (b) the amount by which the amount or value of the consideration mentioned in section 229(3)(b) was treated as reduced by virtue of that provision (where it applied).
- (7) In a case where subsection (3) above would apply if “all the” in subsection (2) above (in one or more places) read “any of the”, subsection (3) shall nevertheless apply, but as if—
- (a) in subsection (5) above “all the bonds” read “the bonds concerned”,
 - (b) the second amount were reduced to whatever amount is just and reasonable, and
 - (c) the relevant amount were reduced accordingly.

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- (8) Subsection (9) below applies where—
- (a) subsection (3) above applies (whether or not by virtue of subsection (7) above), and
 - (b) before the time when the chargeable event occurs anything has happened as regards any of the new shares, or any of the bonds, such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 229(1) or (3).
- (9) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—
- (a) the second amount were reduced (or further reduced) to whatever amount is just and reasonable, and
 - (b) the relevant amount were reduced (or further reduced) accordingly (if the second amount is less than the first amount),
- but nothing in this subsection shall have the effect of reducing the second amount below nil.
- (10) For the purposes of subsection (8)(b) above the gain carried forward by virtue of section 229(1) or (3) is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (6)(a) or (b) above, as the case may be).

235 Information

- (1) An inspector may by notice require a return to be made by the trustees of an employee share ownership trust in a case where—
 - (a) a disposal of shares, or an interest in shares, has at any time been made to them, and
 - (b) a claim is made under section 229(1) or (3).
- (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 232 to 234 and may include information about—
 - (a) expenditure incurred by the trustees;
 - (b) assets acquired by them;
 - (c) transfers of assets made by them.
- (4) The information which may be required under subsection (3)(a) above may include the purpose of the expenditure and the persons receiving any sums.
- (5) The information which may be required under subsection (3)(b) above may include the persons from whom the assets were acquired and the consideration furnished by the trustees.
- (6) The information which may be required under subsection (3)(c) above may include the persons to whom assets were transferred and the consideration furnished by them.
- (7) In a case where section 229(1) or (3) has been applied, the inspector shall send to the trustees of the employee share ownership trust concerned a certificate stating—
 - (a) that the provision concerned has been applied, and

- (b) the effect of the provision on the consideration for the disposal or on the amount of the gain accruing on the disposal (as the case may be).
- (8) For the purposes of this section, the question whether a trust is an employee share ownership trust shall be determined in accordance with Schedule 5 to the Finance Act 1989.

236 Prevention of double charge

- (1) Where a charge can be said to accrue by virtue of section 232 or 233 in respect of any of the gain carried forward by virtue of section 229(1) or (3), so much of the gain charged shall not be capable of being carried forward (from assets to other property or from property to other property) under sections 152 to 158 on a replacement of business assets.
- (2) For the purpose of construing subsection (1) above—
 - (a) what of the gain has been charged shall be found in accordance with what is just and reasonable;
 - (b) section 233(8) and (9) shall apply.
- (3) In a case where—
 - (a) section 234 applies in the case of bonds,
 - (b) subsequently a disposal of the bonds occurs as mentioned in section 116(10)(b), and
 - (c) a chargeable gain is deemed to accrue under section 116(10)(b),the chargeable gain shall be reduced by the relevant amount found under section 234 or (if the amount exceeds the gain) shall be reduced to nil.
- (4) The relevant amount shall be apportioned where the subsequent disposal is of some of the bonds mentioned in subsection (3)(a) above; and subsection (3) shall apply accordingly.

Superannuation funds, profit sharing schemes, employee trusts etc.

237 Superannuation funds, annuities and annual payments

No chargeable gain shall accrue to any person on the disposal of a right to, or to any part of—

- (a) any allowance, annuity or capital sum payable out of any superannuation fund, or under any superannuation scheme, established solely or mainly for persons employed in a profession, trade, undertaking or employment, and their dependants,
- (b) an annuity granted otherwise than under a contract for a deferred annuity by a company as part of its business of granting annuities on human life, whether or not including instalments of capital, or an annuity granted or deemed to be granted under the Government Annuities Act 1929, or
- (c) annual payments which are due under a covenant made by any person and which are not secured on any property.

238 Approved profit sharing and share option schemes

- (1) Notwithstanding anything in a profit sharing scheme approved under Schedule 9 of the Taxes Act or in paragraph 2(2) of that Schedule or in the trust instrument relating to that scheme, for the purposes of capital gains tax a person who is a participant in relation to that scheme shall be treated as absolutely entitled to his shares as against the trustees of the scheme.
- (2) For the purposes of capital gains tax—
 - (a) no deduction shall be made from the consideration for the disposal of any shares by reason only that an amount determined under section 186 or 187 of or Schedule 9 or 10 to the Taxes Act is chargeable to income tax under section 186(3) or (4) of that Act;
 - (b) any charge to income tax by virtue of section 186(3) of that Act shall be disregarded in determining whether a distribution is a capital distribution within the meaning of section 122(5)(b);
 - (c) nothing in any provision of section 186 or 187 of or Schedule 9 or 10 to that Act with respect to—
 - (i) the order in which any of a participant's shares are to be treated as disposed of for the purposes of those provisions as they have effect in relation to profit sharing schemes, or
 - (ii) the shares in relation to which an event is to be treated as occurring for any such purpose,shall affect the rules applicable to the computation of a gain accruing on a part disposal of a holding of shares or other securities which were acquired at different times; and
 - (d) a gain accruing on an appropriation of shares to which section 186(11) of that Act applies shall not be a chargeable gain.
- (3) In this section “participant” and “the trust instrument” have the meanings given by section 187 of the Taxes Act.
- (4) Where a right to acquire shares in a body corporate is released in consideration of the grant of a right to acquire shares in another body corporate in accordance with a provision included in a scheme pursuant to paragraph 15 of Schedule 9 to the Taxes Act, the transaction shall not be treated for the purposes of this Act as involving any disposal of the first-mentioned right but for those purposes the other right shall be treated as the same asset acquired as the first-mentioned right was acquired.

This subsection does not apply in relation to a savings-related share option scheme, within the meaning of section 187 of that Act, unless the first-mentioned right was acquired as mentioned in section 185(1) of that Act.

239 Employee trusts

- (1) Where—
 - (a) a close company disposes of an asset to trustees in circumstances such that the disposal is a disposition which by virtue of section 13 of the Inheritance Tax Act 1984 (employee trusts) is not a transfer of value for the purposes of inheritance tax, or
 - (b) an individual disposes of an asset to trustees in circumstances such that the disposal is an exempt transfer by virtue of section 28 of that Act (employee trusts: inheritance tax),

this Act shall have effect in relation to the disposal in accordance with subsections (2) and (3) below.

(2) Section 17(1) shall not apply to the disposal; and if the disposal is by way of gift or is for a consideration not exceeding the sums allowable as a deduction under section 38—

- (a) the disposal, and the acquisition by the trustees, 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 the trustees dispose of the asset, its acquisition by the company or individual shall be treated as its acquisition by the trustees.

Paragraph (b) above also applies where section 149(1) of the 1979 Act applied on the disposal of an asset to trustees who have not disposed of it before the coming into force of this section.

(3) Where the disposal is by a close company, section 125(1) shall apply to the disposal as if for the reference to market value there were substituted a reference to market value or the sums allowable as a deduction under section 38, whichever is the less.

(4) Subject to subsection (5) below, this Act shall also have effect in accordance with subsection (2) above in relation to any disposal made by a company other than a close company if—

- (a) the disposal is made to trustees otherwise than under a bargain made at arm's length, and
- (b) the property disposed of is to be held by them on trusts of the description specified in section 86(1) of the Inheritance Tax Act 1984 (that is to say, those in relation to which the said section 13 of that Act has effect) and the persons for whose benefit the trusts permit the property to be applied include all or most of either—
 - (i) the persons employed by or holding office with the company, or
 - (ii) the persons employed by or holding office with the company or any one or more subsidiaries of the company.

(5) Subsection (4) above does not apply if the trusts permit any of the property to be applied at any time (whether during any such period as is referred to in the said section 86(1) or later) for the benefit of—

- (a) a person who is a participator in the company (“the donor company”), or
- (b) any other person who is a participator in any other company that has made a disposal of property to be held on the same trusts as the property disposed of by the donor company, being a disposal in relation to which this Act has had effect in accordance with subsection (2) above, or
- (c) any other person who has been a participator in the donor company or any such company as is mentioned in paragraph (b) above at any time after, or during the 10 years before, the disposal made by that company, or
- (d) any person who is connected with a person within paragraph (a), (b) or (c) above.

(6) The participators in a company who are referred to in subsection (5) above do not include any participator who—

- (a) is not beneficially entitled to, or to rights entitling him to acquire, 5 per cent. or more of, or of any class of the shares comprised in, its issued share capital, and

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- (b) on a winding-up of the company would not be entitled to 5 per cent. or more of its assets;
- and in determining whether the trusts permit property to be applied as mentioned in that subsection, no account shall be taken—
- (i) of any power to make a payment which is the income of any person for any of the purposes of income tax, or would be the income for any of those purposes of a person not resident in the United Kingdom if he were so resident, or
 - (ii) if the trusts are those of a profit sharing scheme approved under Schedule 9 to the Taxes Act of any power to appropriate shares in pursuance of the scheme.
- (7) In subsection (4) above “subsidiary” has the meaning given by section 736 of the Companies Act 1985 and in subsections (5) and (6) above “participator” has the meaning given in section 417(1) of the Taxes Act, except that it does not include a loan creditor.
- (8) In this section “close company” includes a company which, if resident in the United Kingdom, would be a close company as defined in section 288.

Leases

240 Leases of land and other assets

Schedule 8 shall have effect as respects leases of land and, to the extent specified in paragraph 9 of that Schedule, as respects leases of property other than land.

241 Furnished holiday lettings

- (1) The following provisions of this section shall have effect with respect to the treatment for the purposes of tax on chargeable gains of the commercial letting of furnished holiday accommodation in the United Kingdom.
- (2) Section 504 of the Taxes Act (definitions relating to furnished holiday lettings) shall have effect for the purposes of this section as it has effect for the purposes of section 503 of that Act.
- (3) Subject to subsections (4) to (9) below, for the purposes of sections 152 to 157, 165 and 253 and Schedule 6—
 - (a) the commercial letting of furnished holiday accommodation in respect of which the profits or gains are chargeable under Case VI of Schedule D shall be treated as a trade; and
 - (b) all such lettings made by a particular person or partnership or body of persons shall be treated as one trade.
- (4) Subject to subsection (5) below, for the purposes of the sections mentioned in subsection (3) above as they apply by virtue of this section, where in any chargeable period a person makes a commercial letting of furnished holiday accommodation—
 - (a) the accommodation shall be taken to be used in that period only for the purposes of the trade of making such lettings; and
 - (b) that trade shall be taken to be carried on throughout that period.
- (5) Subsection (4) above does not apply to any part of a chargeable period during which the accommodation is neither let commercially nor available to be so let unless it is prevented from being so let or available by any works of construction or repair.

- (6) Where—
- (a) a gain to which section 222 applies accrues to any individual on the disposal of an asset; and
 - (b) by virtue of subsection (3) above the amount or value of the consideration for the acquisition of the asset is treated as reduced under section 152 or 153,
- the gain to which section 222 applies shall be reduced by the amount of the reduction mentioned in paragraph (b) above.
- (7) Where there is a letting of accommodation only part of which is holiday accommodation such apportionments shall be made for the purposes of this section as appear to the inspector, or on appeal the Commissioners, to be just and reasonable.
- (8) Where a person has been charged to tax in respect of chargeable gains otherwise than in accordance with the provisions of this section, such assessment, reduction or discharge of an assessment or, where a claim for repayment is made, such repayment, shall be made as may be necessary to give effect to those provisions.

Part disposals

242 Small part disposals

- (1) This section applies to a transfer of land forming part only of a holding of land, where—
- (a) the amount or value of the consideration for the transfer does not exceed one-fifth of the market value of the holding as it subsisted immediately before the transfer, and
 - (b) the transfer is not one which, by virtue of section 58 or 171(1), is treated as giving rise to neither a gain nor a loss.
- (2) Subject to subsection (3) below, if the transferor so claims, the transfer shall not be treated for the purposes of this Act as a disposal, but all sums which, if it had been so treated, would have been brought into account as consideration for that disposal in the computation of the gain shall be deducted from any expenditure allowable under Chapter III of Part II as a deduction in computing a gain on any subsequent disposal of the holding.
- (3) This section shall not apply—
- (a) if the amount or value of the consideration for the transfer exceeds £20,000, or
 - (b) where in the year of assessment in which the transfer is made, the transferor made any other disposal of land, if the total amount or value of the consideration for all disposals of land made by the transferor in that year exceeds £20,000.
- (4) No account shall be taken under subsection (3) above of any transfer of land to which section 243 applies.
- (5) In relation to a transfer which is not for full consideration in money or money's worth “the amount or value of the consideration” in this section shall mean the market value of the land transferred.
- (6) For the purposes of this section the holding of land shall comprise only the land in respect of which the expenditure allowable under paragraphs (a) and (b) of

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section 38(1) would be apportioned under section 42 if the transfer had been treated as a disposal (that is, as a part disposal of the holding).

- (7) In this section references to a holding of land include references to any estate or interest in a holding of land, not being an estate or interest which is a wasting asset, and references to part of a holding shall be construed accordingly.

243 Part disposal to authority with compulsory powers

- (1) This section applies to a transfer of land forming part only of a holding of land to an authority exercising or having compulsory powers where—
- (a) the amount or value of the consideration for the transfer, or if the transfer is not for full consideration in money or money's worth, the market value of the land transferred, is small, as compared with the market value of the holding as it subsisted immediately before the transfer, and
 - (b) the transferor had not taken any steps by advertising or otherwise to dispose of any part of the holding or to make his willingness to dispose of it known to the authority or others.
- (2) If the transferor so claims, the transfer shall not be treated for the purposes of this Act as a disposal, but all sums which, if it had been so treated, would have been brought into account as consideration for that disposal in the computation of the gain shall be deducted from any expenditure allowable under Chapter III of Part II as a deduction in computing a gain on any subsequent disposal of the holding.
- (3) For the purposes of this section the holding of land shall comprise only the land in respect of which the expenditure allowable under paragraphs (a) and (b) of section 38(1) would be apportioned under section 42 if the transfer had been treated as a disposal (that is, as a part disposal of the holding).
- (4) In this section references to a holding of land include references to an estate or interest in a holding of land, not being an estate or interest which is a wasting asset, and references to part of a holding shall be construed accordingly.
- (5) In this section “authority exercising or having compulsory powers” means, in relation to the land transferred, a person or body of persons acquiring it compulsorily or who has or have been, or could be, authorised to acquire it compulsorily for the purposes for which it is acquired, or for whom another person or body of persons has or have been, or could be, authorised so to acquire it.

244 Part disposal: consideration exceeding allowable expenditure

- (1) The provisions of sections 242(2) and 243(2) shall have effect subject to this section.
- (2) Where the allowable expenditure is less than the consideration for the part disposal (or is nil)—
- (a) the said provisions shall not apply, and
 - (b) if the recipient so elects (and there is any allowable expenditure)—
 - (i) the consideration for the part disposal shall be reduced by the amount of the allowable expenditure, and,
 - (ii) none of that expenditure shall be allowable as a deduction in computing a gain accruing on the occasion of the part disposal or on any subsequent occasion.

In this subsection “allowable expenditure” means expenditure which, immediately before the part disposal, was attributable to the holding of land under paragraphs (a) and (b) of section 38(1).

Compulsory acquisition

245 Compensation paid on compulsory acquisition

- (1) Where land or an interest in or right over land is acquired and the acquisition is, or could have been, made under compulsory powers, then in considering whether, under section 52(4), the purchase price or compensation or other consideration for the acquisition should be apportioned and treated in part as a capital sum within section 22(1)(a), whether as compensation for loss of goodwill or for disturbance or otherwise, or should be apportioned in any other way, the fact that the acquisition is or could have been made compulsorily, and any statutory provision treating the purchase price or compensation or other consideration as exclusively paid in respect of the land itself, shall be disregarded.
- (2) In any case where land or an interest in land is acquired as mentioned in subsection (1) above from any person and the compensation or purchase price includes an amount in respect of severance of the land comprised in the acquisition or sale from other land in which that person is entitled in the same capacity to an interest, or in respect of that other land as being injuriously affected, there shall be deemed for the purposes of this Act to be a part disposal of that other land.

246 Time of disposal and acquisition

Where an interest in land is acquired, otherwise than under a contract, by an authority possessing compulsory purchase powers, the time at which the disposal and acquisition is made is the time at which the compensation for the acquisition is agreed or otherwise determined (variations on appeal being disregarded for this purpose) or, if earlier (but after 20th April 1971), the time when the authority enter on the land in pursuance of their powers.

247 Roll-over relief on compulsory acquisition

- (1) This section applies where—
 - (a) land (“the old land”) is disposed of by any person (“the landowner”) to an authority exercising or having compulsory powers; and
 - (b) the landowner did not take any steps, by advertising or otherwise, to dispose of the old land or to make his willingness to dispose of it known to the authority or others; and
 - (c) the consideration for the disposal is applied by the landowner in acquiring other land (“the new land”) not being land excluded from this paragraph by section 248.
- (2) Subject to section 248, in a case where the whole of the consideration for the disposal was applied as mentioned in subsection (1)(c) above, the landowner, on making a claim as respects the consideration so applied, shall be treated for the purposes of this Act—

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- (a) as if the consideration for the disposal of the old land were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him; and
 - (b) as if the amount or value of the consideration for the acquisition of the new land were reduced by the excess of the amount or value of the actual consideration for the disposal of the old land over the amount of the consideration which he is treated as receiving under paragraph (a) above.
- (3) If part only of the consideration for the disposal of the old land was applied as mentioned in subsection (1)(c) above, then, subject to section 248, if the part of the consideration which was not so applied (“the unexpended consideration”) is less than the amount of the gain (whether all chargeable gain or not) accruing on the disposal of the old land, the landowner, on making a claim as respects the consideration which was so applied, shall be treated for the purposes of this Act—
 - (a) as if the amount of the gain so accruing were reduced to the amount of the unexpended consideration (and, if not all chargeable gain, with a proportionate reduction in the amount of the chargeable gain); and
 - (b) as if the amount or value of the consideration for the acquisition of the new land were reduced by the amount by which the gain is reduced (or, as the case may be, the amount by which the chargeable gain is proportionately reduced) under paragraph (a) above.
- (4) Nothing in subsection (2) or subsection (3) above affects the treatment for the purposes of this Act of the authority by whom the old land was acquired or of the other party to the transaction involving the acquisition of the new land.
- (5) For the purposes of this section—
 - (a) subsection (2) of section 152 shall apply in relation to subsection (2)(a) and subsection (2)(b) above as it applies in relation to subsection (1)(a) and subsection (1)(b) of that section; and
 - (b) subsection (3) of that section shall apply as if any reference to the new assets were a reference to the new land, any reference to the old assets were a reference to the old land and any reference to that section were a reference to this.
- (6) Where this section applies, any such amount as is referred to in subsection (2) of section 245 shall be treated as forming part of the consideration for the disposal of the old land and, accordingly, so much of that subsection as provides for a deemed disposal of other land shall not apply.
- (7) The provisions of this Act fixing the amount of the consideration deemed to be given for the acquisition or disposal of assets shall be applied before this section is applied.
- (8) In this section—
 - “land” includes any interest in or right over land; and
 - “authority exercising or having compulsory powers” shall be construed in accordance with section 243(5).

248 Provisions supplementary to section 247

- (1) Land is excluded from paragraph (c) of subsection (1) of section 247 if—
 - (a) it is a dwelling-house or part of a dwelling-house (or an interest in or right over a dwelling-house), and

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- (b) by virtue of, or of any claim under, any provision of sections 222 to 226 the whole or any part of a gain accruing on a disposal of it by the landowner at a material time would not be a chargeable gain;

and for the purposes of this subsection “a material time” means any time during the period of 6 years beginning on the date of the acquisition referred to in the said paragraph (c).

- (2) If, at any time during the period of 6 years referred to in subsection (1) above, land which at the beginning of that period was not excluded from section 247(1)(c) by virtue of that subsection becomes so excluded, the amount of any chargeable gain accruing on the disposal of the old land shall be redetermined without regard to any relief previously given under section 247 by reference to the amount or value of the consideration for the acquisition of that land; and all such adjustments of capital gains tax, whether by way of assessment or otherwise, may be made at any time, notwithstanding anything in section 34 of the Management Act (time limit for assessments).

This subsection also applies where the period of 6 years referred to above began before the commencement of this section (and accordingly the references to section 247 include references to section 111A of the 1979 Act).

- (3) Where the new land is a depreciating asset, within the meaning of section 154, that section has effect as if—
 - (a) any reference in subsection (1) or subsection (4) to section 152 or 153 were a reference to subsection (2) or subsection (3) respectively of section 247; and
 - (b) paragraph (b) of subsection (2) were omitted; and
 - (c) the reference in subsection (5) to section 152(3) were a reference to that provision as applied by section 247(5).
- (4) No claim may be made under section 243 in relation to a transfer which constitutes a disposal in respect of which a claim is made under section 247.
- (5) Expressions used in this section have the same meaning as in section 247.

Agricultural land and woodlands

249 Grants for giving up agricultural land

For the purposes of capital gains tax, a sum payable to an individual by virtue of a scheme under section 27 of the Agriculture Act 1967 (grants for relinquishing occupation of uncommercial agricultural units) shall not be treated as part of the consideration obtained by him for, or otherwise as accruing to him on, the disposal of any asset.

250 Woodlands

- (1) Consideration for the disposal of trees standing or felled or cut on woodlands managed by the occupier on a commercial basis and with a view to the realisation of profits shall be excluded from the computation of the gain if the person making the disposal is the occupier.

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- (2) Capital sums received under a policy of insurance in respect of the destruction of or damage or injury to trees by fire or other hazard on such woodlands shall be excluded from the computation of the gain if the person making the disposal is the occupier.
- (3) Subsection (2) above has effect notwithstanding section 22(1).
- (4) In the computation of the gain so much of the cost of woodland in the United Kingdom shall be disregarded as is attributable to trees growing on the land.
- (5) In the computation of the gain accruing on a disposal of woodland in the United Kingdom so much of the consideration for the disposal as is attributable to trees growing on the land shall be excluded.
- (6) References in this section to trees include references to saleable underwood.

Debts

251 General provisions

- (1) Where a person incurs a debt to another, whether in sterling or in some other currency, no chargeable gain shall accrue to that (that is the original) creditor or his personal representative or legatee on a disposal of the debt, except in the case of the debt on a security (as defined in section 132).
- (2) Subject to the provisions of sections 132 and 135 and subject to subsection (1) above, the satisfaction of a debt or part of it (including a debt on a security as defined in section 132) shall be treated as a disposal of the debt or of that part by the creditor made at the time when the debt or that part is satisfied.
- (3) Where property is acquired by a creditor in satisfaction of his debt or part of it, then subject to the provisions of sections 132 and 135 the property shall not be treated as disposed of by the debtor or acquired by the creditor for a consideration greater than its market value at the time of the creditor's acquisition of it; but if under subsection (1) above (and in a case not falling within either section 132 or 135) no chargeable gain is to accrue on a disposal of the debt by the creditor (that is the original creditor), and a chargeable gain accrues to him on a disposal by him of the property, the amount of the chargeable gain shall (where necessary) be reduced so as not to exceed the chargeable gain which would have accrued if he had acquired the property for a consideration equal to the amount of the debt or that part of it.
- (4) A loss accruing on the disposal of a debt acquired by the person making the disposal from the original creditor or his personal representative or legatee at a time when the creditor or his personal representative or legatee is a person connected with the person making the disposal, and so acquired either directly or by one or more purchases through persons all of whom are connected with the person making the disposal, shall not be an allowable loss.
- (5) Where the original creditor is a trustee and the debt, when created, is settled property, subsections (1) and (4) above shall apply as if for the references to the original creditor's personal representative or legatee there were substituted references to any person becoming absolutely entitled, as against the trustee, to the debt on its ceasing to be settled property, and to that person's personal representative or legatee.

252 Foreign currency bank accounts

- (1) Subject to subsection (2) below, section 251(1) shall not apply to a debt owed by a bank which is not in sterling and which is represented by a sum standing to the credit of a person in an account in the bank.
- (2) Subsection (1) above shall not apply to a sum in an individual's bank account representing currency acquired by the holder for the personal expenditure outside the United Kingdom of himself or his family or dependants (including expenditure on the provision or maintenance of any residence outside the United Kingdom).

253 Relief for loans to traders

- (1) In this section “a qualifying loan” means a loan in the case of which—
 - (a) the money lent is used by the borrower wholly for the purposes of a trade carried on by him, not being a trade which consists of or includes the lending of money, and
 - (b) the borrower is resident in the United Kingdom, and
 - (c) the borrower's debt is not a debt on a security as defined in section 132;and for the purposes of paragraph (a) above money used by the borrower for setting up a trade which is subsequently carried on by him shall be treated as used for the purposes of that trade.
- (2) In subsection (1) above references to a trade include references to a profession or vocation; and where money lent to a company is lent by it to another company in the same group, being a trading company, that subsection shall apply to the money lent to the first-mentioned company as if it had used it for any purpose for which it is used by the other company while a member of the group.
- (3) If, on a claim by a person who has made a qualifying loan, the inspector is satisfied that—
 - (a) any outstanding amount of the principal of the loan has become irrecoverable, and
 - (b) the claimant has not assigned his right to recover that amount, and
 - (c) the claimant and the borrower were not each other's spouses, or companies in the same group, when the loan was made or at any subsequent time,this Act shall have effect as if an allowable loss equal to that amount had accrued to the claimant when the claim was made.
- (4) If, on a claim by a person who has guaranteed the repayment of a loan which is, or but for subsection (1)(c) above would be, a qualifying loan, the inspector is satisfied that—
 - (a) any outstanding amount of, or of interest in respect of, the principal of the loan has become irrecoverable from the borrower, and
 - (b) the claimant has made a payment under the guarantee (whether to the lender or a co-guarantor) in respect of that amount, and
 - (c) the claimant has not assigned any right to recover that amount which has accrued to him (whether by operation of law or otherwise) in consequence of his having made the payment, and
 - (d) the lender and the borrower were not each other's spouses, or companies in the same group, when the loan was made or at any subsequent time and the claimant and the borrower were not each other's spouses, and the claimant

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and the lender were not companies in the same group, when the guarantee was given or at any subsequent time,

this Act shall have effect as if an allowable loss had accrued to the claimant when the payment was made; and the loss shall be equal to the payment made by him in respect of the amount mentioned in paragraph (a) above less any contribution payable to him by any co-guarantor in respect of the payment so made.

- (5) Where an allowable loss has been treated under subsection (3) or (4) above as accruing to any person and the whole or any part of the outstanding amount mentioned in subsection (3)(a) or, as the case may be, subsection (4)(a) is at any time recovered by him, this Act shall have effect as if there had accrued to him at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

- (6) Where—

- (a) an allowable loss has been treated under subsection (4) above as accruing to any person, and
- (b) the whole or any part of the amount of the payment mentioned in subsection (4)(b) is at any time recovered by him,

this Act shall have effect as if there had accrued to him at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

- (7) Where—

- (a) an allowable loss has been treated under subsection (3) above as accruing to a company (“the first company”), and
- (b) the whole or any part of the outstanding amount mentioned in subsection (3) (a) is at any time recovered by a company (“the second company”) in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

- (8) Where—

- (a) an allowable loss has been treated under subsection (4) above as accruing to a company (“the first company”), and
- (b) the whole or any part of the outstanding amount mentioned in subsection (4) (a), or the whole or any part of the amount of the payment mentioned in subsection (4)(b), is at any time recovered by a company (“the second company”) in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

- (9) For the purposes of subsections (5) to (8) above, a person shall be treated as recovering an amount if he (or any other person by his direction) receives any money or money’s worth in satisfaction of his right to recover that amount or in consideration of his assignment of the right to recover it; and where a person assigns such a right otherwise than by way of a bargain made at arm’s length he shall be treated as receiving money or money’s worth equal to the market value of the right at the time of the assignment.
- (10) No amount shall be treated under this section as giving rise to an allowable loss or chargeable gain in the case of any person if it falls to be taken into account in computing his income for the purposes of income tax or corporation tax.

- (11) Where an allowable loss has been treated as accruing to a person under subsection (4) above by virtue of a payment made by him at any time under a guarantee—
 - (a) no chargeable gain shall accrue to him otherwise than under subsection (5) above, and
 - (b) no allowable loss shall accrue to him under this Act, on his disposal of any rights that have accrued to him (whether by operation of law or otherwise) in consequence of his having made any payment under the guarantee at or after that time.
- (12) References in this section to an amount having become irrecoverable do not include references to cases where the amount has become irrecoverable in consequence of the terms of the loan, of any arrangements of which the loan forms part, or of any act or omission by the lender or, in a case within subsection (4) above, the guarantor.
- (13) For the purposes of subsections (7) and (8) above, 2 companies are in the same group if they were in the same group when the loan was made or have been in the same group at any subsequent time.
- (14) In this section—
 - (a) “spouses” means spouses who are living together (construed in accordance with section 288(3)),
 - (b) “trading company” has the meaning given by paragraph 1 of Schedule 6, and
 - (c) “group” shall be construed in accordance with section 170.
- (15) Subsection (3) above does not apply where the loan was made before 12th April 1978 and subsection (4) above does not apply where the guarantee was given before that date.

254 Relief for debts on qualifying corporate bonds

- (1) In this section “a qualifying loan” means a loan in the case of which—
 - (a) the borrower’s debt is a debt on a security as defined in section 132,
 - (b) but for that fact, the loan would be a qualifying loan within the meaning of section 253, and
 - (c) the security is a qualifying corporate bond.
- (2) If, on a claim by a person who has made a qualifying loan, the inspector is satisfied that one of the following 3 conditions is fulfilled, this Act shall have effect as if an allowable loss equal to the allowable amount had accrued to the claimant when the claim was made.
- (3) The first condition is that—
 - (a) the value of the security has become negligible,
 - (b) the claimant has not assigned his right to recover any outstanding amount of the principal of the loan, and
 - (c) the claimant and the borrower are not companies which have been in the same group at any time after the loan was made.
- (4) The second condition is that—
 - (a) the security’s redemption date has passed,

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- (b) all the outstanding amount of the principal of the loan was irrecoverable (taking the facts existing on that date) or proved to be irrecoverable (taking the facts existing on a later date), and
 - (c) subsection (3)(b) and (c) above are fulfilled.
- (5) The third condition is that—
 - (a) the security's redemption date has passed,
 - (b) part of the outstanding amount of the principal of the loan was irrecoverable (taking the facts existing on that date) or proved to be irrecoverable (taking the facts existing on a later date), and
 - (c) subsection (3)(b) and (c) above are fulfilled.
- (6) In a case where the inspector is satisfied that the first or second condition is fulfilled, the allowable amount is the lesser of—
 - (a) the outstanding amount of the principal of the loan;
 - (b) the amount of the security's acquisition cost;

and if any amount of the principal of the loan has been recovered the amount of the security's acquisition cost shall for this purpose be treated as reduced (but not beyond nil) by the amount recovered.
- (7) In a case where the inspector is satisfied that the third condition is fulfilled, then—
 - (a) if the security's acquisition cost exceeds the relevant amount, the allowable amount is an amount equal to the excess;
 - (b) if the security's acquisition cost is equal to or less than the relevant amount, the allowable amount is nil.
- (8) For the purposes of subsection (7) above the relevant amount is the aggregate of—
 - (a) the amount (if any) of the principal of the loan which has been recovered, and
 - (b) the amount (if any) of the principal of the loan which has not been recovered but which in the inspector's opinion is recoverable.
- (9) Where an allowable loss has been treated under subsection (2) above as accruing to any person and the whole or any part of the relevant outstanding amount is at any time recovered by him, this Act shall have effect as if there had accrued to him at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.
- (10) Where—
 - (a) an allowable loss has been treated under subsection (2) above as accruing to a company ("the first company"), and
 - (b) the whole or any part of the relevant outstanding amount is at any time recovered by a company ("the second company") in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.
- (11) In subsections (9) and (10) above "the relevant outstanding amount" means—
 - (a) the amount of the principal of the loan outstanding when the claim was allowed, in a case where the inspector was satisfied that the first or second condition was fulfilled;

- (b) the amount of the part (or the greater or greatest part) arrived at by the inspector under subsection (5)(b) above, in a case where he was satisfied that the third condition was fulfilled.

- (12) This section does not apply if the security was issued before 15th March 1989 and was not held on 15th March 1989 by the person who made the loan.

255 Provisions supplementary to section 254

- (1) For the purposes of section 254 a security's redemption date is the latest date on which, under the terms on which the security was issued, the company or body which issued it can be required to redeem it.
- (2) For the purposes of section 254 a security's acquisition cost is the amount or value of the consideration in money or money's worth given, by or on behalf of the person who made the loan, wholly and exclusively for the acquisition of the security, together with the incidental costs to him of the acquisition.
- (3) For the purposes of section 254(10) 2 companies are in the same group if they have been in the same group at any time after the loan was made.
- (4) Section 253(9) shall apply for the purposes of section 254(6) and (8) to (10) as it applies for the purposes of section 253(5).
- (5) Section 253(10), (12) and (14)(c) shall apply for the purposes of section 254 and of this section as they apply for the purposes of section 253, ignoring for this purpose the words following "lender" in section 253(12).

Charities and gifts of non-business assets etc.

256 Charities

- (1) Subject to section 505(3) of the Taxes Act and subsection (2) below, a gain shall not be a chargeable gain if it accrues to a charity and is applicable and applied for charitable purposes.
- (2) If property held on charitable trusts ceases to be subject to charitable trusts—
 - (a) the trustees shall be treated as if they had disposed of, and immediately reacquired, the property for a consideration equal to its market value, any gain on the disposal being treated as not accruing to a charity, and
 - (b) if and so far as any of that property represents, directly or indirectly, the consideration for the disposal of assets by the trustees, any gain accruing on that disposal shall be treated as not having accrued to a charity,and an assessment to capital gains tax chargeable by virtue of paragraph (b) above may be made at any time not more than 3 years after the end of the year of assessment in which the property ceases to be subject to charitable trusts.

257 Gifts to charities etc

- (1) Subsection (2) below shall apply where a disposal of an asset is made otherwise than under a bargain at arm's length—
 - (a) to a charity, or

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- (b) to any bodies mentioned in Schedule 3 to the Inheritance Tax Act 1984 (gifts for national purposes, etc).
- (2) Sections 17(1) and 258(3) shall not apply; but if the disposal is by way of gift (including a gift in settlement) or for a consideration not exceeding the sums allowable as a deduction under section 38, 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 asset is disposed of by the person who acquired it under the disposal, its acquisition by the person making the earlier disposal shall be treated for the purposes of this Act as the acquisition of the person making the later disposal.
- (3) Where—
 - (a) otherwise than on the termination of a life interest (within the meaning of section 72) by the death of the person entitled thereto, any assets or parts of any assets forming part of settled property are, under section 71, deemed to be disposed of and reacquired by the trustee, and
 - (b) the person becoming entitled as mentioned in section 71(1) is a charity, or a body mentioned in Schedule 3 to the Inheritance Tax Act 1984 (gifts for national purposes, etc),
 then, if no consideration is received by any person for or in connection with any transaction by virtue of which the charity or other body becomes so entitled, the disposal and reacquisition of the assets to which the charity or other body becomes so entitled shall, notwithstanding section 71, be treated for the purposes of this Act as made for such consideration as to secure that neither a gain nor a loss accrues on the disposal.
- (4) In subsection (2)(b) above the first reference to a disposal includes a disposal to which section 146(2) of the 1979 Act applied where the person who acquired the asset on that disposal disposes of the asset after the coming into force of this section.

258 Works of art etc

- (1) A gain accruing on the disposal of an asset by way of gift shall not be a chargeable gain if the asset is property falling within subsection (2) of section 26 of the Inheritance Tax Act 1984 (“the 1984 Act”) (gifts for public benefit) and the Board give a direction in relation to it under subsection (1) of that section.
- (2) A gain shall not be a chargeable gain if it accrues on the disposal of an asset with respect to which an inheritance tax undertaking or an undertaking under the following provisions of this section has been given and—
 - (a) the disposal is by way of sale by private treaty to a body mentioned in Schedule 3 to the 1984 Act (museums, etc.), or is to such a body otherwise than by sale, or
 - (b) the disposal is to the Board in pursuance of section 230 of the 1984 Act or in accordance with directions given by the Treasury under section 50 or 51 of the Finance Act 1946 (acceptance of property in satisfaction of tax).
- (3) Subsection (4) below shall have effect in respect of the disposal of any asset which is property which has been or could be designated under section 31 of the 1984 Act, being—

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- (a) a disposal by way of gift, including a gift in settlement, or
- (b) a disposal of settled property by the trustee on an occasion when, under section 71(1), the trustee is deemed to dispose of and immediately reacquire settled property (other than any disposal on which by virtue of section 73 no chargeable gain or allowable loss accrues to the trustee),

if the requisite undertaking described in section 31 of the 1984 Act (maintenance, preservation and access) is given by such person as the Board think appropriate in the circumstances of the case.

- (4) The person making a disposal to which subsection (3) above applies and the person acquiring the asset on the disposal shall be treated for all the purposes of this Act as if the asset was acquired from the one making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss would accrue to the one making the disposal.

- (5) If—

- (a) there is a sale of the asset and inheritance tax is chargeable under section 32 of the 1984 Act (or would be chargeable if an inheritance tax undertaking as well as an undertaking under this section had been given), or
- (b) the Board are satisfied that at any time during the period for which any such undertaking was given it has not been observed in a material respect,

the person selling that asset or, as the case may be, the owner of the asset shall be treated for the purposes of this Act as having sold the asset for a consideration equal to its market value, and, in the case of a failure to comply with the undertaking, having immediately reacquired it for a consideration equal to its market value.

- (6) The period for which an undertaking under this section is given shall be until the person beneficially entitled to the asset dies or it is disposed of, whether by sale or gift or otherwise; and if the asset subject to the undertaking is disposed of—

- (a) otherwise than on sale, and
- (b) without a further undertaking being given under this section,

subsection (5) above shall apply as if the asset had been sold to an individual.

References in this subsection to a disposal shall be construed without regard to any provision of this Act under which an asset is deemed to be disposed of.

- (7) Where under subsection (5) above a person is treated as having sold for a consideration equal to its market value any asset within section 31(1)(c), (d) or (e) of the 1984 Act, he shall also be treated as having sold and immediately reacquired for a consideration equal to its market value any asset associated with it; but the Board may direct that the preceding provisions of this subsection shall not have effect in any case in which it appears to them that the entity consisting of the asset and any assets associated with it has not been materially affected.

For the purposes of this subsection 2 or more assets are associated with each other if one of them is a building falling within section 31(1)(c) of the 1984 Act and the other or others such land or objects as, in relation to that building, fall within section 31(1) (d) or (e) of the 1984 Act.

- (8) If in pursuance of subsection (5) above a person is treated as having on any occasion sold an asset and inheritance tax becomes chargeable on the same occasion, then, in determining the value of the asset for the purposes of that tax, an allowance shall be

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made for the capital gains tax chargeable on any chargeable gain accruing on that occasion.

- (9) In this section “inheritance tax undertaking” means an undertaking under Chapter II of Part II or section 78 of, or Schedule 5 to, the 1984 Act.

259 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 17(1) 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 38, 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.
- (4) In subsection (2)(b) above the first reference to a disposal includes a disposal to which section 146A(2) of the 1979 Act applied where the association which acquired the estate or interest in land on that disposal disposes of it after the coming into force of this section.

260 Gifts on which inheritance tax is chargeable etc

- (1) If—
- (a) an individual or the trustees of a settlement (“the transferor”) make a disposal within subsection (2) below of an asset,
 - (b) the asset is acquired by an individual or the trustees of a settlement (“the transferee”), and
 - (c) a claim for relief under this section is made by the transferor and the transferee or, where the trustees of a settlement are the transferee, by the transferor alone,
- then, subject to subsection (6) below and section 261, subsection (3) below shall apply in relation to the disposal.
- (2) A disposal is within this subsection if it is made otherwise than under a bargain at arm’s length and—
- (a) is a chargeable transfer within the meaning of the Inheritance Tax Act 1984 (or would be but for section 19 of that Act) and is not a potentially exempt transfer (within the meaning of that Act),
 - (b) is an exempt transfer by virtue of—
 - (i) section 24 of that Act (transfers to political parties),

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- (ii) section 26 of that Act (transfers for public benefit),
 - (iii) section 27 of that Act (transfers to maintenance funds for historic buildings etc.), or
 - (iv) section 30 of that Act (transfers of designated property),
 - (c) is a disposition to which section 57A of that Act applies and by which the property disposed of becomes held on trusts of the kind referred to in subsection (1)(b) of that section (maintenance funds for historic buildings etc.),
 - (d) by virtue of subsection (4) of section 71 of that Act (accumulation and maintenance trusts) does not constitute an occasion on which inheritance tax is chargeable under that section,
 - (e) by virtue of section 78(1) of that Act (transfers of works of art etc.) does not constitute an occasion on which tax is chargeable under Chapter III of Part III of that Act, or
 - (f) is a disposal of an asset comprised in a settlement where, as a result of the asset or part of it becoming comprised in another settlement, there is no charge, or a reduced charge, to inheritance tax by virtue of paragraph 9, 16 or 17 of Schedule 4 to that Act (transfers to maintenance funds for historic buildings etc.).
- (3) Where this subsection applies in relation to a disposal—
- (a) the amount of any chargeable gain which, apart from this section, would accrue to the transferor on the disposal, and
 - (b) the amount of the consideration for which, apart from this section, the transferee would be regarded for the purposes of capital gains tax as having acquired the asset in question,
- shall each be reduced by an amount equal to the held-over gain on the disposal.
- (4) Subject to subsection (5) below, the reference in subsection (3) above to the held-over gain on a disposal is a reference to the chargeable gain which would have accrued on that disposal apart from this section.
- (5) In any case where—
- (a) there is actual consideration (as opposed to the consideration equal to the market value which is deemed to be given by virtue of any provision of this Act) for a disposal in respect of which a claim for relief is made under this section, and
 - (b) that actual consideration exceeds the sums allowable as a deduction under section 38,
- the held-over gain on the disposal shall be reduced by the excess referred to in paragraph (b) above or, if part of the gain on the disposal is relieved under Schedule 6, by so much, if any, of that excess as exceeds the part so relieved.
- (6) Subsection (3) above does not apply in relation to a disposal of assets within section 115(1) on which a gain is deemed to accrue by virtue of section 116(10)(b).
- (7) In the case of a disposal within subsection (2)(a) above there shall be allowed as a deduction in computing the chargeable gain accruing to the transferee on the disposal of the asset in question an amount equal to whichever is the lesser of—
- (a) the inheritance tax attributable to the value of the asset; and
 - (b) the amount of the chargeable gain as computed apart from this subsection.

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- (8) Where an amount of inheritance tax is varied after it has been taken into account under subsection (7) above, all necessary adjustments shall be made, whether by the making of an assessment to capital gains tax or by the discharge or repayment of such tax.
- (9) Where subsection (3) above applies in relation to a disposal which is deemed to occur by virtue of section 71(1) or 72(1), subsection (5) above shall not apply.
- (10) Where a disposal is partly within subsection (2) above, or is a disposal within paragraph (f) of that subsection on which there is a reduced charge such as is mentioned in that paragraph, the preceding provisions of this section shall have effect in relation to an appropriate part of the disposal.

261 Section 260 relief: gifts to non-residents

- (1) Section 260(3) shall not apply where the transferee is neither resident nor ordinarily resident in the United Kingdom.
- (2) Section 260(3) shall not apply where the transferee is an individual who—
 - (a) though resident or ordinarily resident in the United Kingdom, is regarded for the purposes of any double taxation relief arrangements as resident in a territory outside the United Kingdom, and
 - (b) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition.

Miscellaneous reliefs and exemptions

262 Chattel exemption

- (1) Subject to this section a gain accruing on a disposal of an asset which is tangible movable property shall not be a chargeable gain if the amount or value of the consideration for the disposal does not exceed £6,000.
- (2) Where the amount or value of the consideration for the disposal of an asset which is tangible movable property exceeds £6,000, there shall be excluded from any chargeable gain accruing on the disposal so much of it as exceeds five-thirds of the difference between—
 - (a) the amount or value of the consideration, and
 - (b) £6,000.
- (3) Subsections (1) and (2) above shall not affect the amount of an allowable loss accruing on the disposal of an asset, but for the purposes of computing under this Act the amount of a loss accruing on the disposal of tangible movable property the consideration for the disposal shall, if less than £6,000, be deemed to be £6,000 and the losses which are allowable losses shall be restricted accordingly.
- (4) If 2 or more assets which have formed part of a set of articles of any description all owned at one time by one person are disposed of by that person, and—
 - (a) to the same person, or
 - (b) to persons who are acting in concert or who are connected persons,
 whether on the same or different occasions, the 2 or more transactions shall be treated as a single transaction disposing of a single asset, but with any necessary

apportionments of the reductions in chargeable gains, and in allowable losses, under subsections (2) and (3) above.

- (5) If the disposal is of a right or interest in or over tangible movable property—
- (a) in the first instance subsections (1), (2) and (3) above shall be applied in relation to the asset as a whole, taking the consideration as including the market value of what remains undisposed of, in addition to the actual consideration,
 - (b) where the sum of the actual consideration and that market value exceeds £6,000, the part of any chargeable gain that is excluded from it under subsection (2) above shall be so much of the gain as exceeds five-thirds of the difference between that sum and £6,000 multiplied by the fraction equal to the actual consideration divided by the said sum, and
 - (c) where that sum is less than £6,000 any loss shall be restricted under subsection (3) above by deeming the consideration to be the actual consideration plus the said fraction of the difference between the said sum and £6,000.
- (6) This section shall not apply—
- (a) in relation to a disposal of commodities of any description by a person dealing on a terminal market or dealing with or through a person ordinarily engaged in dealing on a terminal market, or
 - (b) in relation to a disposal of currency of any description.

263 Passenger vehicles

A mechanically propelled road vehicle constructed or adapted for the carriage of passengers, except for a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used, shall not be a chargeable asset; and accordingly no chargeable gain or allowable loss shall accrue on its disposal.

264 Relief for local constituency associations of political parties on reorganisation of constituencies

- (1) In this section “relevant date” means the date of coming into operation of an Order in Council under the Parliamentary Constituencies Act 1986 (orders specifying new parliamentary constituencies) and, in relation to any relevant date—
- (a) “former parliamentary constituency” means an area which, for the purposes of parliamentary elections, was a constituency immediately before that date but is no longer such a constituency after that date; and
 - (b) “new parliamentary constituency” means an area which, for the purposes of parliamentary elections, is a constituency immediately after that date but was not such a constituency before that date.
- (2) In this section “local constituency association” means an unincorporated association (whether described as an association, a branch or otherwise) whose primary purpose is to further the aims of a political party in an area which at any time is or was the same or substantially the same as the area of a parliamentary constituency or 2 or more parliamentary constituencies and, in relation to any relevant date—
- (a) “existing association” means a local constituency association whose area was the same, or substantially the same, as the area of a former parliamentary constituency or 2 or more such constituencies; and

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- (b) “new association” means a local constituency association whose area is the same, or substantially the same, as the area of a new parliamentary constituency or 2 or more such constituencies.
- (3) For the purposes of this section, a new association is a successor to an existing association if any part of the existing association’s area is comprised in the new association’s area.
- (4) In any case where, before, on or after a relevant date—
 - (a) an existing association disposes of land to a new association which is a successor to the existing association, or
 - (b) an existing association disposes of land to a body (whether corporate or unincorporated) which is an organ of the political party concerned and, as soon as practicable thereafter, that body disposes of the land to a new association which is a successor to the existing association,

the parties to the disposal or, where paragraph (b) above applies, to each of the disposals, shall be treated for the purposes of tax on chargeable gains as if the land disposed of were acquired from the existing association or the body making the disposal for a consideration of such an amount as would secure that on the disposal neither a gain nor a loss accrued to that association or body.
- (5) In a case falling within subsection (4) above, the new association shall be treated for the purposes of Schedule 2 as if the acquisition by the existing association of the land disposed of as mentioned in that subsection had been the new association’s acquisition of it.
- (6) In any case where—
 - (a) before, on or after a relevant date, an existing association disposes of any land which was used and occupied by it for the purposes of its functions, and
 - (b) the existing association transfers the whole or part of the proceeds of the disposal to a new association which is a successor to the existing association,

then, subject to subsection (7) below, this Act (and, in particular, the provisions of sections 152 to 158) shall have effect as if, since the time it was acquired by the existing association, the land disposed of had been the property of the new association and, accordingly, as if the disposal of it had been by the new association.
- (7) If, in a case falling within subsection (6) above, only part of the proceeds of the disposal is transferred to the new association, that subsection shall apply—
 - (a) as if there existed in the land disposed of as mentioned in paragraph (a) of that subsection a separate asset in the form of a corresponding undivided share in that land, and subject to any necessary apportionments of consideration for an acquisition or disposal of, or of an interest in, that land; and
 - (b) as if the references in that subsection (other than paragraph (a) thereof) to the land disposed of and the disposal of it were references respectively to the corresponding undivided share referred to in paragraph (a) above and the disposal of that share;

and for this purpose a corresponding undivided share in the land disposed of is a share which bears to the whole of that land the same proportion as the part of the proceeds transferred bears to the whole of those proceeds.
- (8) In this section “political party” means a political party which qualifies for exemption under section 24 of the Inheritance Tax Act 1984 (gifts to political parties).

265 Designated international organisations

- (1) Where—
- (a) the United Kingdom or any of the Communities is a member of an international organisation; and
 - (b) the agreement under which it became a member provides for exemption from tax, in relation to the organisation, of the kind for which provision is made by this section;
- the Treasury may by order designate that organisation for the purposes of this section.
- (2) The Treasury may by order designate any of the Communities or the European Investment Bank for the purposes of this section.
- (3) Where an organisation has been designated for the purposes of this section, then any security issued by the organisation shall be taken, for the purposes of capital gains tax, to be situated outside the United Kingdom.

266 Inter-American Development Bank

A security issued by the Inter-American Development Bank shall be taken for the purposes of this Act to be situated outside the United Kingdom.

267 Sharing of transmission facilities

- (1) This section applies to any agreement relating to the sharing of transmission facilities—
- (a) to which the parties are national broadcasting companies,
 - (b) which is entered into on or after 25th July 1991 (the day on which the Finance Act 1991 was passed) and before 1st January 1992 or such later date as may be specified for the purposes of this paragraph by the Secretary of State, and
 - (c) in relation to which the Secretary of State has certified that it is expedient that this section should apply.
- (2) Where under an agreement to which this section applies one party to the agreement disposes of an asset to another party to the agreement, both parties shall be treated for the purposes of corporation tax on chargeable gains as if the asset acquired by the party to whom the disposal is made were acquired for a consideration of such amount as would secure that on the other's disposal neither a gain nor a loss would accrue to that other.
- (3) Where under an agreement to which this section applies one party to the agreement disposes of an asset to another party to the agreement and the asset is one which the party making the disposal acquired on a part disposal by the party to whom the disposal under the agreement is made, then in applying subsection (2) above—
- (a) section 42 shall be deemed to have had effect in relation to the part disposal with the omission of subsection (4),
 - (b) the amount or value of the consideration for the part disposal shall be taken to have been nil, and
 - (c) if the disposal under the agreement is one to which section 35(2) applies, the market value of the asset on 31st March 1982 shall be taken to have been nil.

- (4) In this section “national broadcasting company” means a body corporate engaged in the broadcasting for general reception by means of wireless telegraphy of radio or television services or both on a national basis.

268 Decorations for valour or gallant conduct

A gain shall not be a chargeable gain if accruing on the disposal by any person of a decoration awarded for valour or gallant conduct which he acquired otherwise than for consideration in money or money's worth.

269 Foreign currency for personal expenditure

A gain shall not be a chargeable gain if accruing on the disposal by an individual of currency of any description acquired by him for the personal expenditure outside the United Kingdom of himself or his family or dependants (including expenditure on the provision or maintenance of any residence outside the United Kingdom).

270 Chevening Estate

The enactments relating to capital gains tax (apart from this section) shall not apply in respect of property held on the trusts of the trust instrument set out in the Schedule to the Chevening Estate Act 1959.

271 Other miscellaneous exemptions

- (1) The following gains shall not be chargeable gains—
- (a) gains accruing on the disposal of stock—
 - (i) transferred to accounts in the books of the Bank of England in the name of the Treasury or the National Debt Commissioners in pursuance of any Act of Parliament; or
 - (ii) belonging to the Crown, in whatever name it may stand in the books of the Bank of England;
 - (b) any gain accruing to a person from his acquisition and disposal of assets held by him as part of a fund mentioned in section 613(4) of the Taxes Act (Parliamentary pension funds) or of which income is exempt from income tax under section 614(1) of that Act (social security supplementary schemes);
 - (c) any gain accruing to a person from his acquisition and disposal of assets held by him as part of a fund mentioned in section 614(2) or paragraph (b), (c), (d), (f) or (g) of section 615(2) of the Taxes Act (India etc. pension funds) or as part of a fund to which subsection (3) of that section applies (pension funds for overseas employees);
 - (d) any gain accruing to a person from his acquisition and disposal of assets held by him as part of any fund maintained for the purpose mentioned in subsection (5)(b) of section 620 or subsection (5) of section 621 of the Taxes Act under a scheme for the time being approved under that subsection;
 - (e) any gain accruing on the disposal by the trustees of any settled property held on trusts in accordance with directions which are valid and effective under section 9 of the Superannuation and Trust Funds (Validation) Act 1927 (trust funds for the reduction of the National Debt);

- (f) any gain accruing to a consular officer or employee, within the meaning of section 322 of the Taxes Act, of any foreign state to which that section applies on the disposal of assets which at the time of the disposal were situated outside the United Kingdom;
- (g) any gain accruing to a person from his disposal of investments if, or to such extent as the Board are satisfied that, those investments were held by him or on his behalf for the purposes of a scheme which at the time of the disposal is an exempt approved scheme;
- (h) any gain accruing to a person on his disposal of investments held by him for the purposes of an approved personal pension scheme;
- (j) any gain accruing to a unit holder on his disposal of units in an authorised unit trust which is also an approved personal pension scheme or is one to which section 592(10) of the Taxes Act applies.

In this subsection “exempt approved scheme” and “approved personal pension scheme” have the same meanings as in Part XIV of the Taxes Act.

- (2) Where a claim is made in that behalf, a gain which accrues to a person on the disposal of investments shall not be a chargeable gain for the purposes of capital gains tax if, or to such extent as the Board are satisfied that, those investments were held by him or on his behalf for the purposes of a fund to which section 608 of the Taxes Act applies.

A claim under this subsection shall not be allowed unless the Board are satisfied that the terms on which benefits are payable from the fund have not been altered since 5th April 1980.

- (3) A local authority, a local authority association and a health service body shall be exempt from capital gains tax.

In this subsection “local authority association” and “health service body” have the meanings given by sections 519 and 519A of the Taxes Act respectively.

- (4) Any bonus to which section 326 or 326A of the Taxes Act (certified contractual savings schemes and tax-exempt special savings accounts) applies shall be disregarded for all purposes of the enactments relating to capital gains tax.

In any case where there is a transfer to which section 216 applies, this subsection shall have effect in relation to any bonus payable after the transfer under a savings scheme which immediately before the transfer was a certified contractual savings scheme notwithstanding that it ceased to be such a scheme by reason of the transfer.

- (5) A signatory to the Operating Agreement made pursuant to the Convention on the International Maritime Satellite Organisation which came into force on 16th July 1979, other than a signatory designated for the purposes of the Agreement by the United Kingdom in accordance with the Convention, shall be exempt from capital gains tax in respect of any payment received by that signatory from the Organisation in accordance with the Agreement.
- (6) The following shall, on a claim made in that behalf to the Board, be exempt from tax in respect of all chargeable gains—
 - (a) the Trustees of the British Museum and the Trustees of the British Museum (Natural History); and
 - (b) an Association within the meaning of section 508 of the Taxes Act (scientific research organisations).

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- (7) The Historic Buildings and Monuments Commission for England, the Trustees of the National Heritage Memorial Fund, the United Kingdom Atomic Energy Authority and the National Radiological Protection Board shall be exempt from tax in respect of chargeable gains; and for the purposes of this subsection gains accruing from investments or deposits held for the purposes of any pension scheme provided and maintained by the United Kingdom Atomic Energy Authority shall be treated as if those gains and investments and deposits belonged to the Authority.
- (8) There shall be exempt from tax any chargeable gains accruing to the issue department of the Reserve Bank of India constituted under an Act of the Indian legislature called the Reserve Bank of India Act 1934, or to the issue department of the State Bank of Pakistan constituted under certain orders made under section 9 of the Indian Independence Act 1947.
- (9) Any disposal and acquisition made in pursuance of an arrangement mentioned in subsection (1), (2) or (2A) of section 129 of the Taxes Act (stock lending) shall, subject to regulations under subsection (4) of that section, be disregarded for the purposes of capital gains tax.
- (10) In subsections (1)(g) and (h) and (2) above “investments” includes futures contracts and options contracts; and paragraph 7(3)(d) of Schedule 22 to the Taxes Act shall be construed accordingly.
- (11) For the purposes of subsection (10) above a contract is not prevented from being a futures contract or an options contract by the fact that any party is or may be entitled to receive or liable to make, or entitled to receive and liable to make, only a payment of a sum (as opposed to a transfer of assets other than money) in full settlement of all obligations.

PART VIII

SUPPLEMENTAL

272 Valuation: general

- (1) In this Act “market value” in relation to any assets means the price which those assets might reasonably be expected to fetch on a sale in the open market.
- (2) In estimating the market value of any assets no reduction shall be made in the estimate on account of the estimate being made on the assumption that the whole of the assets is to be placed on the market at one and the same time.
- (3) Subject to subsection (4) below, the market value of shares or securities listed in The Stock Exchange Daily Official List shall, except where in consequence of special circumstances prices quoted in that List are by themselves not a proper measure of market value, be as follows—
 - (a) the lower of the 2 prices shown in the quotations for the shares or securities in The Stock Exchange Daily Official List on the relevant date plus one-quarter of the difference between those 2 figures, or
 - (b) halfway between the highest and lowest prices at which bargains, other than bargains done at special prices, were recorded in the shares or securities for the relevant date,

choosing the amount under paragraph (a), if less than that under paragraph (b), or if no such bargains were recorded for the relevant date, and choosing the amount under paragraph (b) if less than that under paragraph (a).

- (4) Subsection (3) shall not apply to shares or securities for which The Stock Exchange provides a more active market elsewhere than on the London trading floor; and, if the London trading floor is closed on the relevant date, the market value shall be ascertained by reference to the latest previous date or earliest subsequent date on which it is open, whichever affords the lower market value.
- (5) In this Act “market value” in relation to any rights of unit holders in any unit trust scheme the buying and selling prices of which are published regularly by the managers of the scheme shall mean an amount equal to the buying price (that is the lower price) so published on the relevant date, or if none were published on that date, on the latest date before.
- (6) The provisions of this section, with sections 273 and 274, have effect subject to Part I of Schedule 11.

273 Unquoted shares and securities

- (1) The provisions of subsection (3) below shall have effect in any case where, in relation to an asset to which this section applies, there falls to be determined by virtue of section 272(1) the price which the asset might reasonably be expected to fetch on a sale in the open market.
- (2) The assets to which this section applies are shares and securities which are not quoted on a recognised stock exchange at the time as at which their market value for the purposes of tax on chargeable gains falls to be determined.
- (3) For the purposes of a determination falling within subsection (1) above, it shall be assumed that, in the open market which is postulated for the purposes of that determination, there is available to any prospective purchaser of the asset in question all the information which a prudent prospective purchaser of the asset might reasonably require if he were proposing to purchase it from a willing vendor by private treaty and at arm’s length.

274 Value determined for inheritance tax

Where on the death of any person inheritance tax is chargeable on the value of his estate immediately before his death and the value of an asset forming part of that estate has been ascertained (whether in any proceedings or otherwise) for the purposes of that tax, the value so ascertained shall be taken for the purposes of this Act to be the market value of that asset at the date of the death.

275 Location of assets

For the purposes of this Act—

- (a) the situation of rights or interests (otherwise than by way of security) in or over immovable property is that of the immovable property,
- (b) subject to the following provisions of this subsection, the situation of rights or interests (otherwise than by way of security) in or over tangible movable property is that of the tangible movable property,

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- (c) subject to the following provisions of this subsection, a debt, secured or unsecured, is situated in the United Kingdom if and only if the creditor is resident in the United Kingdom,
- (d) shares or securities issued by any municipal or governmental authority, or by any body created by such an authority, are situated in the country of that authority,
- (e) subject to paragraph (d) above, registered shares or securities are situated where they are registered and, if registered in more than one register, where the principal register is situated,
- (f) a ship or aircraft is situated in the United Kingdom if and only if the owner is then resident in the United Kingdom, and an interest or right in or over a ship or aircraft is situated in the United Kingdom if and only if the person entitled to the interest or right is resident in the United Kingdom,
- (g) the situation of good-will as a trade, business or professional asset is at the place where the trade, business or profession is carried on,
- (h) patents, trade marks, service marks and registered designs are situated where they are registered, and if registered in more than one register, where each register is situated, and rights or licences to use a patent, trade mark, service mark or registered design are situated in the United Kingdom if they or any right derived from them are exercisable in the United Kingdom,
- (j) copyright, design right and franchises, and rights or licences to use any copyright work or design in which design rights subsists, are situated in the United Kingdom if they or any right derived from them are exercisable in the United Kingdom,
- (k) a judgment debt is situated where the judgment is recorded,
- (l) a debt which—
 - (i) is owed by a bank, and
 - (ii) is not in sterling, and
 - (iii) is represented by a sum standing to the credit of an account in the bank of an individual who is not domiciled in the United Kingdom,
 is situated in the United Kingdom if and only if that individual is resident in the United Kingdom and the branch or other place of business of the bank at which the account is maintained is itself situated in the United Kingdom.

276 The territorial sea and the continental shelf

- (1) The territorial sea of the United Kingdom shall for all purposes of the taxation of chargeable gains (including the following provisions of this section) be deemed to be part of the United Kingdom.
- (2) In this section—
 - (a) “exploration or exploitation activities” means activities carried on in connection with the exploration or exploitation of so much of the seabed and subsoil and their natural resources as is situated in the United Kingdom or a designated area; and
 - (b) “exploration or exploitation rights” means rights to assets to be produced by exploration or exploitation activities or to interests in or to the benefit of such assets; and
 - (c) references to the disposal of exploration or exploitation rights include references to the disposal of shares deriving their value or the greater part of

- their value directly or indirectly from such rights, other than shares quoted on a recognised stock exchange; and
- (d) “shares” includes stock and any security as defined in section 254(1) of the Taxes Act; and
 - (e) “designated area” means an area designated by Order in Council under section 1(7) of the Continental Shelf Act 1964.
- (3) Any gains accruing on the disposal of exploration or exploitation rights shall be treated for the purposes of this Act as gains accruing on the disposal of assets situated in the United Kingdom.
- (4) Gains accruing on the disposal of—
- (a) exploration or exploitation assets which are situated in a designated area, or
 - (b) unquoted shares deriving their value or the greater part of their value directly or indirectly from exploration or exploitation assets situated in the United Kingdom or a designated area or from such assets and exploration or exploitation rights taken together,
- shall be treated for the purposes of this Act as gains accruing on the disposal of assets situated in the United Kingdom.
- (5) For the purposes of this section, an asset disposed of is an exploration or exploitation asset if either—
- (a) it is not a mobile asset and it is being or has at some time been used in connection with exploration or exploitation activities carried on in the United Kingdom or a designated area; or
 - (b) it is a mobile asset which has at some time been used in connection with exploration or exploitation activities so carried on and is dedicated to an oil field in which the person making the disposal, or a person connected with him, is or has been a participator;
- and expressions used in paragraphs (a) and (b) above have the same meaning as if those paragraphs were included in Part I of the Oil Taxation Act 1975.
- (6) In subsection (4)(b) above “unquoted shares” means shares other than those which are quoted on a recognised stock exchange; and references in subsections (7) and (8) below to exploration or exploitation assets include references to unquoted shares falling within subsection (4)(b).
- (7) Gains accruing to a person not resident in the United Kingdom on the disposal of exploration or exploitation rights or of exploration or exploitation assets shall, for the purposes of capital gains tax or corporation tax on chargeable gains, be treated as gains accruing on the disposal of assets used for the purposes of a trade carried on by that person in the United Kingdom through a branch or agency.
- (8) In relation to exploration or exploitation rights or exploration or exploitation assets disposed of by a company resident in a territory outside the United Kingdom to a company resident in the same territory or in the United Kingdom, sections 171 to 174 and 178 to 181 shall apply as if in section 170 subsections (2)(a) and (9) were omitted.

277 Double taxation relief

- (1) For the purpose of giving relief from double taxation in relation to capital gains tax and tax on chargeable gains charged under the law of any country outside the United Kingdom, in Chapters I and II of Parts XVIII of the Taxes Act, as they apply for the

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purposes of income tax, for references to income there shall be substituted references to capital gains and for references to income tax there shall be substituted references to capital gains tax meaning, as the context may require, tax charged under the law of the United Kingdom or tax charged under the law of a country outside the United Kingdom.

- (2) Any arrangements set out in an order made under section 347 of the Income Tax Act 1952 before 5th August 1965 (the date of the passing of the Finance Act 1965) shall so far as they provide (in whatever terms) for relief from tax chargeable in the United Kingdom on capital gains have effect in relation to capital gains tax.
- (3) So far as by virtue of this section capital gains tax charged under the law of a country outside the United Kingdom may be brought into account under the said Chapters I and II as applied by this section, that tax, whether relief is given by virtue of this section in respect of it or not, shall not be taken into account for the purposes of those Chapters as they apply apart from this section.
- (4) Section 816 of the Taxes Act (disclosure of information for purposes of double taxation) shall apply in relation to capital gains tax as it applies in relation to income tax.

278 Allowance for foreign tax

Subject to section 277, the tax chargeable under the law of any country outside the United Kingdom on the disposal of an asset which is borne by the person making the disposal shall be allowable as a deduction in the computation of the gain.

279 Foreign assets: delayed remittances

- (1) Subsection (2) below applies where—
 - (a) chargeable gains accrue from the disposal of assets situated outside the United Kingdom, and
 - (b) the person charged or chargeable makes a claim and shows that the conditions set out in subsection (3) below are, so far as applicable, satisfied as respects those gains (“the qualifying gains”);

and subsection (2)(b) also applies where a claim has been made under section 13 of the 1979 Act.
- (2) For the purposes of capital gains tax—
 - (a) the amount of the qualifying gains shall be deducted from the amounts on which the claimant is assessed to capital gains tax for the year in which the qualifying gains accrued to the claimant, but
 - (b) the amount so deducted shall be assessed to capital gains tax on the claimant (or his personal representatives) as if it were an amount of chargeable gains accruing in the year of assessment in which the conditions set out in subsection (3) below cease to be satisfied.
- (3) The conditions are—
 - (a) that the claimant was unable to transfer the qualifying gains to the United Kingdom, and
 - (b) that that inability was due to the laws of the territory where the assets were situated at the time of the disposal, or to the executive action of its government, or to the impossibility of obtaining foreign currency in that territory, and

- (c) that the inability was not due to any want of reasonable endeavours on the part of the claimant.
- (4) Where under an agreement entered into under arrangements made by the Secretary of State in pursuance of section 1 of the Overseas Investment and Export Guarantees Act 1972 or section 11 of the Export Guarantees and Overseas Investment Act 1978 any payment is made by the Exports Credits Guarantee Department in respect of any gains which cannot be transferred to the United Kingdom, then, to the extent of the payment, the gains shall be treated as gains with respect to which the conditions mentioned in subsection (3) above are not satisfied (and accordingly cannot cease to be satisfied).
- (5) No claim under this section shall be made in respect of any chargeable gain more than 6 years after the end of the year of assessment in which that gain accrues.
- (6) The personal representatives of a deceased person may make any claim which he might have made under this section if he had not died.
- (7) Where—
 - (a) a claim under this section is made (or has been made under section 13 of the 1979 Act) by a man in respect of chargeable gains accruing to his wife before 6th April 1990, and
 - (b) by virtue of this section the amount of the gains falls to be assessed to capital gains tax as if it were an amount of gains accruing in the year 1992-93 or a subsequent year of assessment,it shall be assessed not on the claimant (or his personal representatives) but on the person to whom the gains accrued (or her personal representatives).
- (8) In relation to disposals before 19th March 1991 subsection (3)(b) above shall have effect with the substitution of the words “income arose” for the words “assets were situated at the time of the disposal”.

280 Consideration payable by instalments

If the consideration, or part of the consideration, taken into account in the computation of the gain is payable by instalments over a period beginning not earlier than the time when the disposal is made, being a period exceeding 18 months, then, if the person making the disposal satisfies the Board that he would otherwise suffer undue hardship, the tax on a chargeable gain accruing on the disposal may, at his option, be paid by such instalments as the Board may allow over a period not exceeding 8 years and ending not later than the time at which the last of the first-mentioned instalments is payable.

281 Payment by instalments of tax on gifts

- (1) Subsection (2) below applies where—
 - (a) the whole or any part of any assets to which this section applies is disposed of by way of gift or is deemed to be disposed of under section 71(1) or 72(1), and
 - (b) the disposal is one—
 - (i) to which neither section 165(4) nor section 260(3) applies (or would apply if a claim were duly made), or
 - (ii) to which either of those sections does apply but on which the held-over gain (within the meaning of the section applying) is less than the chargeable gain which would have accrued on that disposal apart from that section.

- (2) Where this subsection applies, the capital gains tax chargeable on a gain accruing on the disposal may, if the person paying it by notice to the inspector so elects, be paid by 10 equal yearly instalments.
- (3) The assets to which this section applies are—
 - (a) land or an estate or interest in land,
 - (b) any shares or securities of a company which, immediately before the disposal, gave control of the company to the person by whom the disposal was made or deemed to be made, and
 - (c) any shares or securities of a company not falling under paragraph (b) above and not quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market.
- (4) Where tax is payable by instalments by virtue of this section, the first instalment shall be due on the day on which the tax would be payable apart from this section.
- (5) Subject to the following provisions of this section—
 - (a) tax payable by instalments by virtue of this section shall carry interest in accordance with Part IX (except section 88) of the Management Act, and
 - (b) the interest on the unpaid portion of the tax shall be added to each instalment and paid accordingly.
- (6) Tax payable by instalments by virtue of this section which is for the time being unpaid, with interest to the date of payment, may be paid at any time.
- (7) Tax which apart from this subsection would be payable by instalments by virtue of this section and which is for the time being unpaid, with interest to the date of payment, shall become due and payable immediately if—
 - (a) the disposal was by way of gift to a person connected with the donor or was deemed to be made under section 71(1) or 72(1), and
 - (b) the assets are disposed of for valuable consideration under a subsequent disposal (whether or not the subsequent disposal is made by the person who acquired them under the first disposal).

282 Recovery of tax from donee

- (1) If in any year of assessment a chargeable gain accrues to any person on the disposal of an asset by way of gift and any amount of capital gains tax assessed on that person for that year of assessment is not paid within 12 months from the date when the tax becomes payable, the donee may, by an assessment made not later than 2 years from the date when the tax became payable, be assessed and charged (in the name of the donor) to capital gains tax on an amount not exceeding the amount of the chargeable gain so accruing, and not exceeding the grossed up amount of that capital gains tax unpaid at the time when he is so assessed, grossing up at the marginal rate of tax, that is to say, taking capital gains tax on a chargeable gain at the amount which would not have been chargeable but for that chargeable gain.
- (2) A person paying any amount of tax in pursuance of this section shall be entitled to recover a sum of that amount from the donor.
- (3) References in this section to a donor include, in the case of an individual who has died, references to his personal representatives.

- (4) In this section references to a gift include references to any transaction otherwise than by way of a bargain made at arm's length so far as money or money's worth passes under the transaction without full consideration in money or money's worth, and "donor" and "donee" shall be construed accordingly; and this section shall apply in relation to a gift made by 2 or more donors with the necessary modifications and subject to any necessary apportionments.

283 Repayment supplements

- (1) Subject to the provisions of this section, where in the case of capital gains tax paid by or on behalf of an individual for a year of assessment for which he was resident in the United Kingdom, a repayment of that tax of not less than £25 is made by the Board or an inspector after the end of the 12 months following that year of assessment, the repayment shall be increased under this section by an amount ("a repayment supplement") equal to interest on the amount repaid at the rate applicable under section 178 of the Finance Act 1989 for the period (if any) between the relevant time and the end of the tax month in which the order for the repayment is issued.
- (2) For the purposes of subsection (1) above—
- (a) if the repayment is of tax that was paid after the end of the 12 months following the year of assessment for which it was payable, the relevant time is the end of the year of assessment in which that tax was paid;
 - (b) in any other case, the relevant time is the end of the 12 months mentioned in that subsection;
- and where a repayment to which subsection (1) above applies is of tax paid in 2 or more years of assessment, the repayment shall as far as possible be treated for the purposes of this subsection as a repayment of tax paid in a later rather than an earlier year among those years.
- (3) A repayment supplement shall not be payable under this section in respect of a repayment or payment made in consequence of an order or judgment of a court having power to allow interest on the repayment or payment.
- (4) Subsections (1) to (3) above shall apply in relation to a partnership or a United Kingdom trust (as defined in section 231(5) of the Taxes Act) or, in the case of a United Kingdom estate (as defined by section 701(9) of that Act), the personal representatives of a deceased person as such (within the meaning of section 701(4) of that Act) as they apply in relation to an individual.
- (5) In this section "tax month" means the period beginning with the 6th day of any calendar month and ending with the 5th day of the following calendar month.

284 Income tax decisions

Any assessment to income tax or decision on a claim under the Income Tax Acts, and any decision on an appeal under the Income Tax Acts against such an assessment or decision, shall be conclusive so far as, under any provision of this Act, liability to tax depends on the provisions of the Income Tax Acts.

285 Recognised investment exchanges

The Board may by regulations make provision securing that enactments relating to tax on chargeable gains and referring to The Stock Exchange have effect, for such purposes and subject to such modifications as may be prescribed by the regulations, in relation to all other recognised investment exchanges (within the meaning of the Financial Services Act 1986), or in relation to such of those exchanges as may be so prescribed.

286 Connected persons: interpretation

- (1) Any question whether a person is connected with another shall for the purposes of this Act be determined in accordance with the following subsections of this section (any provision that one person is connected with another being taken to mean that they are connected with one another).
- (2) A person is connected with an individual if that person is the individual's husband or wife, or is a relative, or the husband or wife of a relative, of the individual or of the individual's husband or wife.
- (3) A person, in his capacity as trustee of a settlement, is connected with any individual who in relation to the settlement is a settlor, with any person who is connected with such an individual and with a body corporate which, under section 681 of the Taxes Act, is deemed to be connected with that settlement ("settlement" and "settlor" having for the purposes of this subsection the meanings assigned to them by subsection (4) of the said section 681).
- (4) Except in relation to acquisitions or disposals of partnership assets pursuant to bona fide commercial arrangements, a person is connected with any person with whom he is in partnership, and with the husband or wife or a relative of any individual with whom he is in partnership.
- (5) A company is connected with another company—
 - (a) if the same person has control of both, or a person has control of one and persons connected with him, or he and persons connected with him, have control of the other, or
 - (b) if a group of 2 or more persons has control of each company, and the groups either consist of the same persons or could be regarded as consisting of the same persons by treating (in one or more cases) a member of either group as replaced by a person with whom he is connected.
- (6) A company is connected with another person, if that person has control of it or if that person and persons connected with him together have control of it.
- (7) Any 2 or more persons acting together to secure or exercise control of a company shall be treated in relation to that company as connected with one another and with any person acting on the directions of any of them to secure or exercise control of the company.
- (8) In this section "relative" means brother, sister, ancestor or lineal descendant.

287 Orders and regulations made by the Treasury or the Board

- (1) Subject to subsection (2) below, any power of the Treasury or the Board to make any order or regulations under this Act or any other enactment relating to the taxation of chargeable gains passed after this Act shall be exercisable by statutory instrument.
- (2) Subsection (1) above shall not apply in relation to any power conferred by section 288(6).
- (3) Subject to subsection (4) below and to any other provision to the contrary, any statutory instrument to which subsection (1) above applies shall be subject to annulment in pursuance of a resolution of the House of Commons.
- (4) Subsection (3) above shall not apply in relation to an order or regulations made under section 3(4) or 265 or paragraph 1 of Schedule 9, or—
 - (a) if any other Parliamentary procedure is expressly provided; or
 - (b) if the order in question is an order appointing a day for the purposes of any provision, being a day as from which the provision will have effect, with or without amendments, or will cease to have effect.

288 Interpretation

- (1) In this Act, unless the context otherwise requires—
 - “the 1979 Act” means the Capital Gains Tax Act 1979;
 - “the 1990 Act” means the Capital Allowances Act 1990;
 - “allowable loss” shall be construed in accordance with sections 8(2) and 16;
 - “the Board” means the Commissioners of Inland Revenue;
 - “building society” has the same meaning as in the Building Societies Act 1986;
 - “chargeable period” means a year of assessment or an accounting period of a company for purposes of corporation tax;
 - “class”, in relation to shares or securities, means a class of shares or securities of any one company;
 - “close company” has the meaning given by sections 414 and 415 of the Taxes Act;
 - “collective investment scheme” has the same meaning as in the Financial Services Act 1986;
 - “company” includes any body corporate or unincorporated association but does not include a partnership, and shall be construed in accordance with section 99;
 - “control” shall be construed in accordance with section 416 of the Taxes Act;
 - “double taxation relief arrangements” means, in relation to a company, arrangements having effect by virtue of section 788 of the Taxes Act and, in relation to any other person, means arrangements having effect by virtue of that section as extended to capital gains tax by section 277;
 - “dual resident investing company” has the meaning given by section 404 of the Taxes Act;
 - “inspector” means any inspector of taxes;
 - “investment trust” has the meaning given by section 842 of the Taxes Act;

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

“land” includes messuages, tenements, and hereditaments, houses and buildings of any tenure;

“local authority” has the meaning given by section 842A of the Taxes Act;

“the Management Act” means the Taxes Management Act 1970;

“notice” means notice in writing;

“personal representatives” has the meaning given by section 701(4) of the Taxes Act;

“recognised stock exchange” has the meaning given by section 841 of the Taxes Act;

“shares” includes stock;

“the Taxes Act” means the Income and Corporation Taxes Act 1988;

“trade” has the same meaning as in the Income Tax Acts;

“trading stock” has the meaning given by section 100(2) of the Taxes Act;

“wasting asset” has the meaning given by section 44 and paragraph 1 of Schedule 8;

“year of assessment” means, in relation to capital gains tax, a year beginning on 6th April and ending on 5th April in the following calendar year, and “1992-93” and so on indicate years of assessment as in the Income Tax Acts;

and any reference to a particular section, Part or Schedule is a reference to that section or Part of, or that Schedule to, this Act.

- (2) In this Act “retail prices index” has the same meaning as in the Income Tax Acts and, accordingly, any reference in this Act to the retail prices index shall be construed in accordance with section 833(2) of the Taxes Act.
- (3) References in this Act to a married woman living with her husband shall be construed in accordance with section 282 of the Taxes Act.
- (4) References in this Act to quotation on a stock exchange in the United Kingdom or a recognised stock exchange in the United Kingdom shall be construed as references to listing in the Official List of The Stock Exchange.
- (5) For the purposes of this Act, shares or debentures comprised in any letter of allotment or similar instrument shall be treated as issued unless the right to the shares or debentures thereby conferred remains provisional until accepted and there has been no acceptance.
- (6) In this Act “recognised futures exchange” means the London International Financial Futures Exchange and any other futures exchange which is for the time being designated for the purposes of this Act by order made by the Board.
- (7) An order made by the Board under subsection (6) above—
 - (a) may designate a futures exchange by name or by reference to any class or description of futures exchanges, including, in the case of futures exchanges in a country outside the United Kingdom, a class or description framed by reference to any authority or approval given in that country; and
 - (b) may contain such transitional and other supplemental provisions as appear to the Board to be necessary or expedient.
- (8) The Table below indexes other general definitions in this Act.

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

| <i>Expression defined</i> | <i>Reference</i> |
|--|-------------------------|
| “Absolutely entitled as against the trustee” | S.60(2) |
| “Authorised unit trust” | S.99 |
| “Branch or agency” | S.10(6) |
| “Chargeable gain” | S.15(2) |
| “Connected”, in references to persons being connected with one another | S.286 |
| “Court investment fund” | S.100 |
| “Gilt-edged securities” | Sch.9 |
| “Indexation allowance” | S.53 |
| “Lease” and cognate expressions | Sch.8 para.10(1) |
| “Legatee” | S.64(2),(3) |
| “Market value” | S.272 to 274 and Sch.11 |
| “Part disposal” | S.21(2) |
| “Qualifying corporate bond” | S.117 |
| “Relevant allowable expenditure” | S.53 |
| “Resident” and “ordinarily resident” | S.9(1) |
| “Settled property” | S.68 |
| “Unit trust scheme” | S.99 |

289 Commencement

- (1) Except where the context otherwise requires, this Act has effect in relation to tax for the year 1992-93 and subsequent years of assessment, and tax for other chargeable periods beginning on or after 6th April 1992, and references to the coming into force of this Act or any provision in this Act shall be construed accordingly.
- (2) The following provisions of this Act, that is—
 - (a) so much of any provision of this Act as authorises the making of any order or other instrument, and
 - (b) except where the tax concerned is all tax for chargeable periods to which this Act does not apply, so much of any provision of this Act as confers any power or imposes any duty the exercise or performance of which operates or may operate in relation to tax for more than one chargeable period,
shall come into force for all purposes on 6th April 1992 to the exclusion of the corresponding enactments repealed by this Act.

290 Savings, transitionals, consequential amendments and repeals

- (1) Schedules 10 (consequential amendments) and 11 (transitory provisions and savings) shall have effect.

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

- (2) No letters patent granted or to be granted by the Crown to any person, city, borough or town corporate of any liberty, privilege, or exemption from subsidies, tolls, taxes, assessments or aids, and no statute which grants any salary, annuity or pension to any person free of any taxes, deductions or assessments, shall be construed or taken to exempt any person, city, borough or town corporate, or any inhabitant of the same, from tax chargeable in pursuance of this Act.
- (3) Subject to Schedule 11, the enactments and instruments mentioned in Schedule 12 to this Act are hereby repealed to the extent specified in the third column of that Schedule (but Schedule 12 shall not have effect in relation to any enactment in so far as it has previously been repealed subject to a saving which still has effect on the coming into force of this section).
- (4) The provisions of this Part of this Act are without prejudice to the provisions of the Interpretation Act 1978 as respects the effect of repeals.

291 Short title

This Act may be cited as the Taxation of Chargeable Gains Act 1992.