Finance (No. 2) Act 2005

CHAPTER 22

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CHAPTER 22

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2005 CHAPTER 22

An Act to grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with finance. [20th July 2005]

Most Gracious Sovereign

WE, Your Majesty's most dutiful and loyal subjects, the Commons of the United Kingdom in Parliament assembled, towards raising the necessary supplies to defray Your Majesty's public expenses, and making an addition to the public revenue, have freely and voluntarily resolved to give and to grant unto Your Majesty the several duties hereinafter mentioned; and do therefore most humbly beseech Your Majesty that it may be enacted, and be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

PART 1

VALUE ADDED TAX

1 Goods subject to warehousing regime: place of acquisition or supply

In section 18 of VATA 1994 (goods subject to warehousing regime: place and time of acquisition or supply), after subsection (1) insert—

"(1A) The Commissioners may by regulations prescribe circumstances in which subsection (1) above shall not apply."

2 Cars: determination of consideration for fuel supplied for private use

(1) Section 57 of VATA 1994 (determination of consideration for fuel supplied for private use) is amended as follows.

(2) After subsection (4) (power of Treasury by order to substitute a different Table for Table A) insert—

"(4A) The power conferred by subsection (4) above includes power to substitute for Table A a Table (whether or not of the same or a similar configuration) where any description of vehicle may be by reference to any one or more of the following—

(a) the CO_2 emissions figure for the vehicle;

(b) the type or types of fuel or power by which the vehicle is, or is capable of being, propelled;

(c) the cylinder capacity of the engine in cubic centimetres.

(4B) The provision that may be included in any such Table includes provision for the purpose of enabling the consideration to be determined by reference to the Table—

(a) by applying a percentage specified in the Table to a monetary amount specified in the Table, or

(b) by any other method.

(4C) Table A, as from time to time substituted by virtue of subsection (4A) above, may be implemented or supplemented by either or both of the following—

(a) provision in Rules inserted before the Table, prescribing how the consideration is to be determined by reference to the Table;

(b) provision in Notes inserted after the Table in accordance with the following provisions of this section.

(4D) The provision that may be made in Notes includes provision—

(a) with respect to the interpretation or application of the Table or any Rules or Notes;

(b) with respect to the figure that is to be regarded as the CO_2 emissions figure for any vehicle or any particular description of vehicle;

(c) for treating a vehicle as a vehicle with a particular CO_2 emissions figure;

(d) for treating a vehicle with a CO_2 emissions figure as a vehicle with a different CO_2 emissions figure;

(e) for or in connection with determining the consideration appropriate to vehicles of any particular description (in particular, vehicles falling within any one or more of the descriptions in subsection (4E) below).

(4E) The descriptions are—

(a) vehicles capable of being propelled by any particular type or types of fuel or power;

(b) vehicles first registered before 1st January 1998;

(c) vehicles first registered on or after that date which satisfy the condition in subsection (4F) below (registration without a CO_2 emissions figure).

(4F) The condition is that the vehicle is not one which, when it is first registered, is so registered on the basis of—

(a) an EC certificate of conformity that specifies a CO_2 emissions figure, or

(b) a UK approval certificate that specifies such a figure.

(4G) Any Rules or Notes do not form part of the Table, but the Treasury, by order taking effect from the beginning of any prescribed accounting period beginning after the order is made, may—

(a) insert Rules or Notes,

(b) vary or remove Rules or Notes, or

(c) substitute any or all Rules or Notes.".

(3) In subsection (5) (fuel supplied for 2 or more vehicles)—

(a) in paragraph (a), for "Table A above, that Table" substitute "Table A above or any Notes, that Table and those Notes";

(b) in paragraph (b), after "that Table", in both places, insert "or those Notes".

(4) In subsection (7) (cubic capacity of internal combustion engine with reciprocating pistons) after "for the purposes of Table A above" insert "and any Notes".

(5) In subsection (8) (cubic capacity in other cases) after "for the purposes of Table A above" insert "and any Notes".

(6) After subsection (8) insert—

"(9) In this section—

"CO_2 emissions figure" means a CO_2 emissions figure expressed in grams per kilometre driven;

"EC certificate of conformity" means a certificate of conformity issued by a manufacturer under any provision of the law of a Member State implementing Article 6 of Council Directive 70/156/EEC, as from time to time amended;

"Notes" means Notes inserted by virtue of subsection (4C)(b) above;

"Rules" means Rules inserted by virtue of subsection (4C)(a) above;

"UK approval certificate" means a certificate issued under—

(a) section 58(1) or (4) of the Road Traffic Act 1988, or

(b) Article 31A(4) or (5) of the Road Traffic (Northern Ireland) Order 1981.

(10) If the Treasury consider it necessary or expedient to do so in consequence of—

(a) the form or content of any Table substituted or to be substituted by virtue of subsection (4A) above, or

(b) any provision included or to be included in Rules or Notes,

they may by order amend, repeal or replace so much of this section as for the time being follows subsection (1) and precedes Table A and relates to the use of that Table.".

(7) The amendments made by this section come into force on such day or days as the Treasury may appoint by order made by statutory instrument; and different days may be so appointed for different purposes.

3 Credit for, or repayment of, overstated or overpaid VAT

(1) Section 80 of VATA 1994 (recovery of overpaid VAT) is amended as follows.

(2) For subsection (1) (liability of Commissioners to repay overpaid VAT) substitute—

"(1) Where a person—

(a) has accounted to the Commissioners for VAT for a prescribed accounting period (whenever ended), and

(b) in doing so, has brought into account as output tax an amount that was not output tax due,

the Commissioners shall be liable to credit the person with that amount.

(1A) Where the Commissioners—

(a) have assessed a person to VAT for a prescribed accounting period (whenever ended), and

(b) in doing so, have brought into account as output tax an amount that was not output tax due,

they shall be liable to credit the person with that amount.

(1B) Where a person has for a prescribed accounting period (whenever ended) paid to the Commissioners an amount by way of VAT that was not VAT due to them, otherwise than as a result of—

(a) an amount that was not output tax due being brought into account as output tax, or

(b) an amount of input tax allowable under section 26 not being brought into account,

the Commissioners shall be liable to repay to that person the amount so paid.".

(3) In subsection (2) (Commissioners only liable to repay an amount on a claim) before "repay" insert "credit or".

(4) After subsection (2) insert—

"(2A) Where—

(a) as a result of a claim under this section by virtue of subsection (1) or (1A) above an amount falls to be credited to a person, and

(b) after setting any sums against it under or by virtue of this Act, some or all of that amount remains to his credit,

the Commissioners shall be liable to pay (or repay) to him so much of that amount as so remains.".

(5) In subsection (3) (defence of unjust enrichment) for "under this section, that repayment" substitute "under this section by virtue of subsection (1) or (1A) above, that the crediting".

(6) For subsection (3A) (cost of payment borne for practical purposes by third

party) substitute—

"(3A) Subsection (3B) below applies for the purposes of subsection (3) above where—

(a) an amount would (apart from subsection (3) above) fall to be credited under subsection (1) or (1A) above to any person ("the taxpayer"), and

(b) the whole or a part of the amount brought into account as mentioned in paragraph (b) of that subsection has, for practical purposes, been borne by a person other than the taxpayer.".

(7) In subsection (3B) (loss or damage to be disregarded) in paragraph (a), for "repayment" substitute "crediting".

(8) For subsection (4) (time limit on claims) substitute—

"(4) The Commissioners shall not be liable on a claim under this section—

(a) to credit an amount to a person under subsection (1) or (1A) above, or

(b) to repay an amount to a person under subsection (1B) above,

if the claim is made more than 3 years after the relevant date.

(4ZA) The relevant date is—

(a) in the case of a claim by virtue of subsection (1) above, the end of the prescribed accounting period mentioned in that subsection, unless paragraph (b) below applies;

(b) in the case of a claim by virtue of subsection (1) above in respect of an erroneous voluntary disclosure, the end of the prescribed accounting period in which the disclosure was made;

(c) in the case of a claim by virtue of subsection (1A) above in respect of an assessment issued on the basis of an erroneous voluntary disclosure, the end of the prescribed accounting period in which the disclosure was made;

(d) in the case of a claim by virtue of subsection (1A) above in any other case, the end of the prescribed accounting period in which the assessment was made;

(e) in the case of a claim by virtue of subsection (1B) above, the date on which the payment was made.

In the case of a person who has ceased to be registered under this Act, any reference in paragraphs (b) to (d) above to a prescribed accounting period includes a reference to a period that would have been a prescribed accounting period had the person continued to be registered under this Act.

(4ZB) For the purposes of this section the cases where there is an erroneous voluntary disclosure are those cases where—

(a) a person discloses to the Commissioners that he has not brought into account for a prescribed accounting period (whenever ended) an amount of output tax due for the period;

(b) the disclosure is made in a later prescribed accounting period (whenever ended); and

(c) some or all of the amount is not output tax due.".

(9) For subsections (4A) and (4B) (recovery of excess repayments) substitute—

"(4A) Where—

(a) an amount has been credited under subsection (1) or (1A) above to any person at any time on or after 26th May 2005, and

(b) the amount so credited exceeded the amount which the Commissioners were liable at that time to credit to that person,

the Commissioners may, to the best of their judgement, assess the excess credited to that person and notify it to him.".

(10) For subsection (7) (no other liability of Commissioners to repay VAT not due) substitute—

"(7) Except as provided by this section, the Commissioners shall not be liable to credit or repay any amount accounted for or paid to them by way of VAT that was not VAT due to them.".

(11) The side-note to the section accordingly becomes "Credit for, or repayment of, overstated or overpaid VAT".

(12) Section 4 contains consequential and supplementary provision.

4 Section 3: consequential and supplementary provision

(1) In consequence of the amendments made by section 3, VATA 1994 is amended as follows.

(2) In section 78 (interest in certain cases of official error) in subsection (1)(a) (overstated output tax) for "and which they are in consequence liable to repay to him" substitute "and, as a result, they are liable under section 80(2A) to pay (or repay) an amount to him,".

(3) In section 80A (arrangements for reimbursing customers)—

(a) in subsection (2)(a), for "repayment" substitute "crediting";

(b) in subsection (2)(b), for "the cost of the original payment of that amount to the Commissioners" substitute "the amount brought into account as mentioned in paragraph (b) of subsection (1) or (1A) of that section";

(c) in subsection (3)(a), for "repayment" substitute "crediting of the amount";

(d) for subsection (3)(b) substitute—

"(b) provision for cases where an amount is credited but an equal amount is not reimbursed in accordance with the arrangements;";

(e) in subsection (3)(c), for "repaid" substitute "paid (or repaid)";

(f) in subsection (4)(a), for "to make the repayments to the Commissioners that they are required to make" substitute "to make the repayments, or give the notifications, to the Commissioners that they are required to make or give";

(g) in subsection (7)—

(i) for "repayment", in the first place, substitute "credit";

(ii) for "the making of any repayment" substitute "the crediting of any amount".

(4) In section 80B (assessment of amounts due under section 80A arrangements)

after subsection (1) (person liable to pay an amount) insert—

"(1A) Where—

(a) an amount ("the gross credit") has been credited to any person under subsection (1) or (1A) of section 80,

(b) any sums were set against that amount, in accordance with subsection (2A) of that section, and

(c) the amount reimbursed in accordance with the reimbursement arrangements was less than the gross credit,

subsection (1B) below applies.

(1B) In any such case—

(a) the person shall cease to be entitled to so much of the gross credit as exceeds the amount so reimbursed, and

(b) the Commissioners may, to the best of their judgement, assess the amount due from that person and notify it to him,

but an amount shall not be assessed under this subsection to the extent that the person is liable to pay it to the Commissioners as mentioned in subsection (1) above.

(1C) In determining the amount that a person is liable to pay as mentioned in subsection (1) above, any amount reimbursed in accordance with the reimbursement arrangements shall be regarded as first reducing so far as possible the amount that he would have been liable so to pay, but for the reimbursement of that amount.

(1D) For the purposes of this section, nil is an amount.

(1E) Any reference in any other provision of this Act to an assessment under subsection (1) above includes, if the context so admits, a reference to an assessment under subsection (1B) above.".

(5) In section 83 (appeals)—

(a) in paragraph (t) (repayment of amounts under section 80 etc) before "repayment" insert "crediting or";

(b) in paragraph (ta) (assessments under section 80B(1) etc) after "80B(1)" insert "or (1B)".

(6) The amendments made by section 3 and this section have effect in any case where a claim under section 80(2) of VATA 1994 is made on or after 26th May 2005, whenever the event occurred in respect of which the claim is made.

5 Reverse charge: gas and electricity valuation

(1) In paragraph 8 of Schedule 6 to VATA 1994 (valuation in case of reverse charge)—

(a) after "8" insert ", or any supply of goods is treated by virtue of section 9A,", and

(b) after "the services" insert "or goods".

(2) This section has effect in relation to supplies made on or after 17th March 2005.

6 Disclosure of value added tax avoidance schemes

(1) Schedule 1 (which contains amendments of Schedule 11A to VATA 1994) has effect.

(2) Subsection (1) and Schedule 1 shall come into force on such day as the Treasury may by order made by statutory instrument appoint.

(3) An order under subsection (2) may—
(a) appoint different days for different purposes, and
(b) contain transitional provisions and savings.

PART 2

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER 1

PERSONAL TAXATION

Social security pension lump sums

7 Charge to income tax on lump sum

(1) A charge to income tax arises where a person becomes entitled to a social security pension lump sum.

(2) For the purposes of the Tax Acts (including subsection (5)) a social security pension lump sum—
(a) is to be treated as income, but
(b) is not to be taken into account in determining the total income of any person.

(3) The person liable to a charge under this section is the person ("P") entitled to the lump sum, whether or not P is resident, ordinarily resident or domiciled in the United Kingdom.

(4) The charge is imposed on P for the applicable year of assessment (see subsection (6)).

(5) A charge under this section is a charge in respect of the amount of the lump sum at the following rate—
(a) if P's total income for the applicable year of assessment is nil, 0%;
(b) if P's total income for that year of assessment is greater than nil but does not exceed the starting rate limit for that year, the starting rate for that year;
(c) if P's total income for that year of assessment exceeds the starting rate limit but does not exceed the basic rate limit for that year, the basic rate for that year;
(d) if P's total income for that year of assessment exceeds the basic rate limit for that year, the higher rate for that year.

(6) Section 8 makes provision as to the meaning of "the applicable year of assessment" for the purposes of this section.

(7) Section 9 contains further definitions and makes provision as to commencement.

(8) Section 10 contains consequential amendments.

8 Meaning of "applicable year of assessment" in section 7

(1) For the purposes of section 7 "the applicable year of assessment" has the meaning given by this section.

(2) Subject to subsections (5) to (7), the applicable year of assessment is—

(a) the year of assessment in which the first benefit payment day falls, or

(b) if P dies before the beginning of that year of assessment, the year of assessment in which P dies.

(3) For the purposes of subsection (2) "the first benefit payment day" is, subject to subsection (4), the day as from which P's—

(a) Category A or Category B retirement pension,

(b) shared additional pension, or

(c) graduated retirement benefit,

becomes payable following the period of deferment by virtue of which P's entitlement to the lump sum arises.

(4) But where—

(a) the lump sum is a state pension lump sum to which P is entitled under paragraph 7A of Schedule 5 to SSCBA 1992 or paragraph 7A of Schedule 5 to SSCB(NI)A 1992 or a graduated retirement benefit lump sum to which P is entitled under a provision corresponding to either of those paragraphs, and

(b) at the time of S's death, P was entitled to a Category A or Category B retirement pension or (as the case may be) graduated retirement benefit,

the first benefit payment day is the day on which S died; and for this purpose "S" is the person by virtue of whose period of deferment P's entitlement to the lump sum arises.

(5) Subsections (6) and (7) apply where social security regulations make provision enabling the making of an election for a social security pension lump sum to be paid in the year of assessment ("the later year of assessment") next following that given by subsection (2).

(6) If such an election is made by P and is not revoked, the applicable year of assessment is—

(a) the later year of assessment, or

(b) if P dies before the beginning of that year of assessment, the year of assessment in which P dies.

(7) If—

(a) P dies after the beginning of the later year of assessment,

(b) by the time of P's death, P has not notified the Secretary of State as to whether or not P wishes to make such an election,

(c) social security regulations make provision enabling the making of such an election in such a case by the personal representatives of P, and

(d) P's personal representatives make such an election in accordance with the regulations,

the applicable year of assessment is the later year of assessment.

(8) For the purposes of determining the applicable year of assessment, it does not matter when the lump sum is actually paid.

(9) In this section—

"Category A or Category B retirement pension" means Category A or Category B retirement pension under Part 2 of SSCBA 1992 or Part 2 of SSCB(NI)A 1992;

"graduated retirement benefit" means graduated retirement benefit under section 36 or 37 of NIA 1965 or section 35 or 36 of NIA(NI) 1966;

"shared additional pension" means shared additional pension under Part 2 of SSCBA 1992 or Part 2 of SSCB(NI)A 1992;

"social security regulations" means any regulations under—

(a) the Social Security Administration Act 1992 (c. 5), or

(b) the Social Security Administration (Northern Ireland) Act 1992 (c. 8).

(10) This section is to be construed as one with section 7.

9 Interpretation and commencement

(1) In sections 7 and 8 "social security pension lump sum" means—

(a) a state pension lump sum,

(b) a shared additional pension lump sum, or

(c) a graduated retirement benefit lump sum.

(2) In section 8 and this section—

"graduated retirement benefit lump sum" means a lump sum payable under—

(a) section 36 or 37 of NIA 1965, or

(b) section 35 or 36 of NIA(NI) 1966;

"shared additional pension lump sum" means a lump sum payable under—

(a) section 55C of, and Schedule 5A to, SSCBA 1992, or

(b) section 55C of, and Schedule 5A to, SSCB(NI)A 1992;

"state pension lump sum" means a lump sum payable under—

(a) section 55 of, and Schedule 5 to, SSCBA 1992, or

(b) section 55 of, and Schedule 5 to, SSCB(NI)A 1992.

(3) In section 8 and this section—

"NIA 1965" means the National Insurance Act 1965 (c. 51);

"NIA(NI) 1966" means the National Insurance Act (Northern Ireland) 1966 (c. 6 (N.I.));

"SSCBA 1992" means the Social Security Contributions and Benefits Act 1992 (c. 4);

"SSCB(NI)A 1992" means the Social Security Contributions and Benefits (Northern Ireland) Act 1992 (c. 7).

(4) Sections 7 and 8 and this section have effect in relation to the year 2006-07 and subsequent years of assessment.

10 Consequential amendments

(1) ITEPA 2003 is amended as follows.

(2) In section 577 (UK social security pensions) after subsection (1) insert—

"(1A) But this section does not apply to any social security pension lump sum (within the meaning of section 7 of F(No.2)A 2005).".

(3) In section 683 (PAYE income) in subsection (3) (meaning, subject to subsection (4), of "PAYE pension income") in the opening words, for "subsection (4)" substitute "subsections (3A) and (4)".

(4) In that section, after subsection (3) insert—

"(3A) "PAYE pension income" for a tax year also includes any social security pension lump sum (within the meaning of section 7 of F(No.2)A 2005) in respect of which a charge to income tax arises under that section for that tax year.".

(5) In section 686 (meaning of "payment") in subsection (1) (rules as to when payment of, or on account of, PAYE income is to be treated as made for the purposes of PAYE regulations) at the end of the subsection insert—

"But this is subject to subsection (5) (PAYE pension income: social security pension lump sums).".

(6) In that section, after subsection (4) insert—

"(5) For the purposes of PAYE regulations, a payment of, or on account of, an amount which is PAYE pension income of a person by virtue of section 683(3A) (social security pension lump sums) is to be treated as made at the time when the payment is made.".

(7) In Schedule 1 (abbreviations and defined expressions) in Part 1 (abbreviations of Acts and instruments) insert at the end—

"F(No.2)A 2005	The Finance (No. 2) Act 2005 (c. 22)".

Gift aid

11 Donations to charity by individuals

(1) For section 25(5E) to (5G) of FA 1990 (donations to charity by individuals: benefits: disregard of certain rights of admission) substitute—

"(5E) In determining whether a gift to a charity is a qualifying donation the benefit of any right of admission received in consequence of the gift shall be disregarded if subsections (5F) to (5H) are satisfied in relation to the right.

(5F) This subsection is satisfied if the opportunity to make a gift and to receive the right of admission in consequence is available to the public.

(5G) This subsection is satisfied if the right of admission is a right granted by the charity for the purpose of viewing property preserved, maintained, kept or created by a charity in pursuance of its charitable purposes, including, in particular—

(a) buildings,

(b) grounds or other land,

(c) plants,
(d) animals,
(e) works of art (but not performances),
(f) artefacts, and
(g) property of a scientific nature.

(5H) This subsection is satisfied if—
(a) the right of admission applies, during a period of at least one year, at all times at which the public can obtain admission, or
(b) a member of the public could purchase the same right of admission and the amount of the gift is greater by at least 10% than the amount which he would have to pay.

(5I) In subsection (5E) "right of admission" means a right of admission—
(a) of the person who makes the gift or of that person and one or more members of his family (whether or not the right must be exercised by all those persons at the same time),
(b) to premises or property to which the public are admitted on payment of an admission fee, and
(c) without payment of the admission fee or on payment of a reduced fee;

and in the application of subsection (5H)(b) "the same right of admission" means a right relating to the same property, classes of person and periods of time as the right received in consequence of the gift.

(5J) For the purposes of subsection (5H)(a) a right of admission shall be treated as applying at all times at which the public can obtain admission despite the fact that the right does not apply on days specified by the charity, being days on each of which an event is to take place on the premises to which the right relates; provided that no more than 5 days are specified for that purpose in relation to—
(a) the period during which the right applies, in the case of a period of one year, or
(b) each calendar year during all or part of which the right applies, in the case of a right applying for a period of more than one year."

(2) This section shall have effect in relation to gifts made on or after 6th April 2006.

Employee securities

12 Employee securities: anti-avoidance

Schedule 2 contains amendments relating to employee securities.

CHAPTER 2

SCIENTIFIC RESEARCH ORGANISATIONS

13 Corporation tax exemption for organisations

(1) Section 508 of ICTA (tax exemption for scientific research organisations) is amended as follows.

(2) In subsection (1) (Associations undertaking scientific research and approved by Secretary of State), for paragraph (a) substitute—

"(a) an Association has as its object the undertaking of research and development which may lead to or facilitate an extension of any class or classes of trade; and".

(3) In that subsection, for ", be allowed in the case of the Association" substitute "in relation to any accounting period, be allowed in the case of the Association for that accounting period".

(4) After that subsection insert—

"(1A) The Treasury may by regulations prescribe circumstances in which the conditions in subsection (1) above shall be deemed not to be complied with.

(1B) The Treasury may by regulations make provision specifying for the purposes of paragraph (a) of that subsection—

(a) what shall be deemed to be, or not to be, an Association,

(b) circumstances in which an Association shall be deemed to have, or not to have, the undertaking of research and development as its object,

(c) circumstances in which the undertaking of research and development shall be deemed to be, or not to be, capable of leading to or facilitating an extension of a class of trade, or

(d) what shall be deemed to be, or not to be, a class of trade."

(5) For subsection (3) (meaning of "scientific research") substitute—

"(3) Section 837A (meaning of "research and development") applies for the purposes of subsection (1)(a) above.

(4) Regulations under subsection (3) of that section (power to prescribe activities which are, or are not, research and development) may make provision for the purposes of that section as it applies by virtue of subsection (3) of this section which is additional to, or different from, the provision made otherwise for the purposes of that section."

(6) This section has effect in relation to accounting periods beginning on or after such day as the Treasury may by order made by statutory instrument appoint.

14 Income tax deduction for payments to organisations

(1) Section 88 of ITTOIA 2005 (income tax deduction for payments to research associations etc.) is amended as follows.

(2) In subsection (1) (conditions for deduction), for the words from the beginning

of paragraph (a) to "research" in paragraph (b) substitute—

"(a) pays any sum to an Association in the case of which exemption may be claimed under section 508 of ICTA and which has as its object the undertaking of research and development which may lead to or facilitate an extension of the class of trade to which the trade carried on by the person belongs, or

(b) pays any sum to be used for scientific research related to that class of trade".

(3) In subsection (4), omit paragraph (a) (meaning of "approved" in relation to scientific research association).

(4) In subsection (5) (references to scientific research related to a class of trade), for "references in this section" substitute "reference in subsection (1)(b)".

(5) This section has effect in relation to sums paid to an Association during any accounting period of the Association beginning on or after the day appointed under section 13(6).

15 Corporation tax deduction for payments to organisations

(1) Section 82B of ICTA (corporation tax deduction for payments to research associations etc.) is amended as follows.

(2) In subsection (1) (conditions for deduction), for the words from the beginning of paragraph (a) to "above" in paragraph (b) substitute—

"(a) pays any sum to an Association in the case of which exemption may be claimed under section 508 and which has as its object the undertaking of research and development which may lead to or facilitate an extension of the class of trade to which the trade carried on by the company belongs, or

(b) pays any sum to be used for scientific research related to that class of trade".

(3) In subsection (3) (reference to scientific research related to a class of trade), for "this section" substitute "subsection (1)(b) above".

(4) This section has effect in relation to sums paid to an Association during any accounting period of the Association beginning on or after the day appointed under section 13(6).

CHAPTER 3

AUTHORISED INVESTMENT FUNDS ETC

16 Open-ended investment companies

After section 468 of ICTA (authorised unit trust schemes) insert—

"468A Open-ended investment companies

(1) In relation to an open-ended investment company the rate of corporation tax for the financial year 2005 and subsequent financial years shall be deemed to be the rate at which income tax at the lower rate is charged for the year of assessment which begins on 6th April in

the financial year concerned (and sections 13, 13AA and 13AB shall not apply).

(2) In this section "open-ended investment company" means a company incorporated in the United Kingdom to which section 236 of the Financial Services and Markets Act 2000 applies.

(3) Each of the parts of an umbrella company shall be regarded for the purposes of this section as an open-ended investment company and the umbrella company as a whole shall not be so regarded (and shall not, unless an enactment expressly provides otherwise, be regarded as a company for any other purpose of the Tax Acts).

(4) In subsection (3) "umbrella company" means an open-ended investment company—

(a) in respect of which the instrument of incorporation provides arrangements for separate pooling of the contributions of the shareholders and the profits or income out of which payments are to be made to them, and

(b) the shareholders of which are entitled to exchange rights in one pool for rights in another,

and a reference to part of an umbrella company is a reference to a separate pool."

17 Authorised unit trusts and open-ended investment companies

(1) The following provisions shall cease to have effect—

(a) sections 468H to 468Q of ICTA (authorised unit trusts),

(b) paragraphs 2A and 2B of Schedule 10 to FA 1996 (authorised unit trusts and open-ended investment companies: loan relationships),

(c) paragraphs 32 and 33 of Schedule 26 to FA 2002 (collective investment schemes: derivative contracts),

(d) section 373(4) and (6) of ITTOIA 2005 (open-ended investment company: interest distributions), and

(e) section 376(4) and (6) of ITTOIA 2005 (authorised unit trust: interest distributions).

(2) In this Chapter "authorised investment funds" means—

(a) authorised unit trust schemes, and

(b) open-ended investment companies.

(3) The Treasury may, by regulations—

(a) make provision about the treatment of authorised investment funds for the purposes of an enactment relating to taxation;

(b) provide for the modification of an enactment relating to taxation in its application in relation to—

(i) authorised investment funds,

(ii) shareholders or unit holders in authorised investment funds, or

(iii) transactions involving authorised investment funds;

(c) impose requirements on persons responsible for the management of an authorised investment fund in relation to the provision of information, the form of accounts, the keeping of records or other administrative matters.

(4) For the purposes of this Chapter—

(a) "unit trust scheme" has the meaning given by section 237 of the Financial Services and Markets Act 2000 (c. 8),

(b) a unit trust scheme is authorised in relation to an accounting period if an order under section 243 of the Financial Services and Markets Act 2000 is in force in relation to that scheme during the whole or part of that accounting period,

(c) "unit holder" means a person entitled to a share of the investments subject to the trusts of a unit trust scheme,

(d) a reference to a shareholder or unit holder includes a person beneficially entitled to shares or units (and a reference to owning units or shares shall be construed accordingly),

(e) "open-ended investment company" means a company incorporated in the United Kingdom to which section 236 of the Financial Services and Markets Act 2000 applies,

(f) "associate" has the meaning given by section 417 of ICTA,

(g) "net asset value" means the value of the assets of the authorised investment fund, after the deduction of specified liabilities,

(h) a reference to a distribution includes investing an amount on behalf of a unit holder or shareholder in respect of his accumulation units or accumulation shares,

(i) "distribution accounts" means accounts showing—

(i) the total amount available for distribution to unit holders or shareholders, and

(ii) how that amount is computed,

(j) the "distribution date" for a distribution period in relation to an authorised investment fund means—

(i) the date specified by or in accordance with the terms of the trust or the instrument of incorporation of the company for any distribution for that distribution period, or

(ii) if no date is specified, the last day of that distribution period,

(k) "distribution period" in relation to an authorised investment fund means a period by reference to which the total amount available for distribution to unit holders or shareholders is ascertained,

(l) "umbrella company" has the meaning given by section 468A of ICTA,

(m) "umbrella scheme" has the meaning given by section 468 of ICTA, and

(n) section 839 of ICTA (connected persons) applies.

18 Section 17(3): specific powers

(1) Regulations under section 17(3)(a) or (b) may make provision about distributions which may, in particular—

(a) require an authorised investment fund to comply with prescribed rules for determining (whether by reference to a formula or otherwise) what proportion of an amount shown in distribution accounts as available for distribution is to be distributed by way of dividends and what proportion is to be distributed by way of yearly interest;

(b) permit persons responsible for the management of an authorised investment fund to elect to distribute entirely by way of dividends;

(c) require distribution accounts to show the amount available for distribution—

(i) by way of dividends;
(ii) by way of yearly interest;

(d) allow a distribution of yearly interest for a distribution period to be deducted, in the prescribed manner, in computing the profits of the authorised investment fund for the accounting period in which the last day of that distribution period falls;

(e) make provision for determining the distribution date in relation to a distribution period of an authorised investment fund;

(f) permit distributions to be made, in prescribed circumstances, to or for the benefit of a person not ordinarily resident in the United Kingdom without deducting tax;

(g) permit distributions to be made without deducting tax, in prescribed circumstances, to a person ordinarily resident in the United Kingdom who is unlikely to be liable to pay an amount by way of income tax for the year of assessment in which the distribution is made;

(h) include provision, in respect of a unit holder or shareholder who is within the charge to corporation tax, about—
(i) the liability to corporation tax resulting from receipt of a distribution, and
(ii) the method of computing that liability.

(2) Regulations under section 17(3)(a) or (b) may, in particular—

(a) make special provision for loan relationships held by an authorised investment fund;

(b) make special provision for derivative contracts held by an authorised investment fund;

(c) modify the meaning of "relevant holding" for the purposes of—
(i) paragraph 4 of Schedule 10 to FA 1996 (loan relationships), and
(ii) paragraph 36 of Schedule 26 to FA 2002 (derivative contracts);

(d) make special provision in relation to the treatment of umbrella companies and umbrella schemes (or shareholders or unit holders in umbrella companies or umbrella schemes);

(e) prohibit action which favours a class of unit holders or shareholders.

(3) Regulations under section 17(3)(a) or (b) may, in particular—

(a) make special provision in relation to a person who, alone or together with associates or connected persons, owns (otherwise than as a nominee) units or shares, in a fund designated by the Financial Services Authority as a Qualified Investor Scheme, which represent 10% or more (or such other percentage as the regulations may specify) of the net asset value of the fund;

(b) include exceptions from provision made by virtue of paragraph (a) above including, in particular, an exception relating to units or shares held—
(i) by a charity (within the meaning of section 506(1) of ICTA),
(ii) by a registered pension scheme (within the meaning of section 150 of FA 2004),
(iii) by an insurance company (within the meaning of section 431(2) of ICTA) as assets of its long-term insurance fund (within the meaning of that section), or
(iv) by such other persons, in such circumstances, as the regulations may specify.

(4) Regulations under section 17(3)(c) may, in particular, require persons responsible for the management of an authorised investment fund to supply information to, and make available books, documents and other records for inspection by, the Commissioners for Her Majesty's Revenue and Customs.

(5) Regulations under section 17(3) may, in particular—

(a) amend a reference in an enactment to a provision repealed by section 17(1);

(b) make different provision for different circumstances;

(c) make incidental, consequential, supplemental or transitional provision.

19 Section 17: commencement and procedure

(1) Section 17(1) shall come into force on such day as the Treasury may appoint by order.

(2) An order under subsection (1) may—

(a) commence only a specified repeal;

(b) commence different repeals at different times;

(c) commence a repeal at different times for different purposes;

(d) include savings.

(3) Regulations under section 17(3) shall be subject to annulment by a resolution of the House of Commons.

(4) But the first set of regulations under section 17(3) may not be made unless a draft has been laid before and approved by resolution of the House of Commons.

20 Unauthorised unit trusts: chargeable gains

(1) Section 100 of TCGA 1992 (exemption for authorised unit trusts, etc) shall be amended as follows.

(2) After subsection (2) insert—

"(2A) In determining whether subsection (2) applies no account shall be taken of units in a scheme which—

(a) have been disposed of by a unit holder, and

(b) are held by the managers of the scheme (in that capacity) pending disposal.

(2B) In determining whether subsection (2) applies no account shall be taken of the possibility of a charge to corporation tax on income in respect of a gain accruing on a disposal by—

(a) an insurance company (within the meaning given by section 431 of the Taxes Act), or

(b) a friendly society (being an incorporated friendly society or registered friendly society within the meaning given by section 466(2) of the Taxes Act)."

(3) This section shall have effect for the year 2005-06 and subsequent years of assessment.

21 Unit trusts: treatment of accumulation units

(1) In Chapter 3 of Part 3 of TCGA 1992 (collective investment schemes, etc) after section 99A insert—

"99B Calculation of the disposal cost of accumulation units

(1) For the purposes of computing the gain accruing on a disposal by a unit holder of units in a unit trust scheme and for the purposes of all other provisions of this Act, an amount shall be treated as expenditure falling within section 38(1)(b) if—

(a) it represents income from the investments subject to the unit trust scheme,

(b) it has been reinvested in respect of the units on behalf of the unit holder (without an issue of new units), and

(c) it is either—

(i) charged to income tax as income of the unit holder (or would be charged to income tax as his income but for a relief which has effect in respect of it) for the purposes of the Income Tax Acts, or

(ii) taken into account as a receipt in calculating profits, gains or losses of the unit holder for the purposes of the Income Tax Acts.

(2) Where an amount is treated as expenditure by virtue of subsection (1), the expenditure shall be treated for the purposes of this Act as having been incurred—

(a) in relation to an authorised unit trust, on the distribution date for the distribution period in respect of which the amount is reinvested, and

(b) in relation to any other unit trust scheme, on the date on which the amount is reinvested.

(3) In subsection (2)(a) "distribution date" and "distribution period" shall have the meaning given by section 468H of the Taxes Act."

(2) This section shall have effect in relation to a disposal of units on or after 16th March 2005.

22 Section 349B ICTA: exemption for distributions to PEP/ISA managers

(1) Section 349B(4) of ICTA (requirement for individual to be entitled to income tax exemption) shall be amended as follows.

(2) In paragraph (a) after "of a plan" insert "of a kind to which regulations under Chapter 3 of Part 6 of ITTOIA 2005 (income from individual investment plans) apply".

(3) Paragraph (b) shall cease to have effect.

(4) This section shall have effect in relation to payments made on or after 6th April 2005.

23 Offshore funds

(1) In section 761 of ICTA (charge on offshore income gain)—

(a) in subsection (2)—
  (i) for "sections 2(1) and 10" substitute "sections 2(1), 10 and 10B", and
  (ii) for "section 11(2)(b)" substitute "section 11(2A)(c)", and
(b) in subsection (3)—
  (i) for "section 10" substitute "sections 10 and 10B",
  (ii) for "subsection (1) of that section" substitute "subsection (1) of section 10", and
  (iii) for "and subsection (3) of that section (which makes similar provision in relation to corporation tax) shall have effect with the omission of the words "situated in the United Kingdom"" substitute "and paragraphs (a) and (b) of subsection (1) of section 10B (which make similar provision in relation to corporation tax) shall have effect with the omission of the words "situated in the United Kingdom and"".

(2) For paragraph 1(1)(d) of Schedule 27 to ICTA (distributing funds) substitute—
"(d) the form of the distribution is such that—
  (i) if any sum forming part of it were received in the United Kingdom by an individual resident there and did not form part of the profits of a trade, profession or vocation, that sum would fall to be chargeable to tax under a provision specified in section 830(2) of ITTOIA 2005, or
  (ii) if any sum forming part of it were received in the United Kingdom by a company resident there and did not form part of the profits of a trade, profession or vocation, that sum would fall to be chargeable to tax in accordance with section 18 of ICTA (Schedule D)—
    (a) under Case III of Schedule D in respect of income arising from securities out of the United Kingdom or from possessions out of the United Kingdom, or
    (b) under Case V of Schedule D;".

(3) For paragraph 3(1)(a) of that Schedule (distributing funds) substitute—
"(a) the holders of interests in the fund who are individuals domiciled and resident in the United Kingdom—
  (i) are chargeable to tax under a provision specified in section 830(2) of ITTOIA 2005 in respect of such of those sums as are referable to their interests; or
  (ii) if any of that income is derived from assets within the United Kingdom, would be so chargeable had the assets been outside the United Kingdom;
(aa) the holders of interests in the fund which are companies resident in the United Kingdom—
  (i) are chargeable to tax under Case III of Schedule D in respect of income arising from securities out of the United Kingdom or from possessions out of the United Kingdom;
  (ii) are chargeable to tax under Case V of Schedule D; or

(iii) if any of that income is derived from assets within the United Kingdom, would have been chargeable under sub-paragraph (i) or (ii) had the assets been outside the United Kingdom; and".

(4) In paragraph 3(1)(b) of that Schedule (distributing funds) for "sub-paragraph (i) or (ii)" substitute "paragraph (a) or (aa)".

CHAPTER 4

AVOIDANCE INVOLVING TAX ARBITRAGE

24 Deduction cases

(1) If the Commissioners for Her Majesty's Revenue and Customs consider, on reasonable grounds, that conditions A to D are or may be satisfied in relation to a transaction to which a company falling within subsection (2) is party, they may give the company a notice under this section.

(2) A company falls within this subsection if—
(a) it is resident in the United Kingdom, or
(b) it is resident outside the United Kingdom but is within the charge to corporation tax.

(3) Condition A is that the transaction to which the company is party forms part of a scheme that is a qualifying scheme.

(4) Condition B is that the scheme is such that for the purposes of corporation tax the company is in a position to claim or has claimed an amount by way of deduction in respect of the transaction or is in a position to set off or has set off against profits in an accounting period an amount relating to the transaction.

(5) Condition C is that the main purpose, or one of the main purposes, of the scheme is to achieve a UK tax advantage for the company.

(6) Condition D is that the amount of the UK tax advantage in question is more than a minimal amount.

(7) A notice under this section is a notice—
(a) specifying the transaction in relation to which the Commissioners consider that conditions A to D are or may be satisfied,
(b) specifying the accounting period in relation to which the Commissioners consider that condition B is or may be satisfied as regards the transaction, and
(c) informing the company that as a consequence section 25 (rules relating to deductions) has effect in relation to the transaction.

(8) Nothing in this section prevents the Commissioners from giving a company falling within subsection (2) a notice under this section as regards two or more transactions.

(9) Schedule 3 makes provision about what constitutes a qualifying scheme.

25 Rules relating to deductions

(1) The following provisions of this section apply in relation to a transaction if—

(a) a notice specifying the transaction is given to a company under section 24, and

(b) when the notice is given, conditions A to D of section 24 are satisfied in relation to the transaction.

(2) The company must compute (or recompute) for the purposes of corporation tax its income or chargeable gains, or its liability to corporation tax—

(a) for the accounting period specified in the notice under section 24, and

(b) for any subsequent accounting period,

in accordance with rules A and B.

(3) Rule A is that, in respect of the specified transaction, no amount is allowable as a deduction for the purposes of the Corporation Tax Acts to the extent that, in relation to the expense in question, an amount may be otherwise deducted or allowed in computing the income, profits or losses of any person for the purposes of any tax (including any foreign tax) other than—

(a) petroleum revenue tax, or

(b) the tax chargeable under section 501A(1) of ICTA (supplementary charge in respect of ring fence trades).

(4) The reference in subsection (3) to an amount otherwise deducted or allowed in computing the income, profits or losses of any person for the purposes there mentioned includes a reference to an amount that would be so deducted or allowed but for any rule that has the same effect as rule A.

(5) For the purposes of subsection (4) "rule" means—

(a) a provision of the Tax Acts, or

(b) a rule having effect under the tax law of any territory outside the United Kingdom.

(6) Rule B applies if—

(a) a transaction, or a series of transactions, forming part of the scheme by reference to which conditions A to D are satisfied makes or imposes provision as a result of which one person ("the payer") makes a payment and another person ("the payee") receives, or becomes entitled to receive, a payment or payments,

(b) in respect of the payment by the payer, an amount may be deducted or otherwise allowed to the payer, or to another person who is party to, or concerned in, the scheme, in computing any profits or losses for tax purposes, and

(c) in respect of the payment or payments that the payee receives or is entitled to receive as a result of the transaction or series of transactions, or part of such payment or payments, the payee is not liable to tax or, if liable, his liability to tax is reduced as a result of provision made or imposed by the scheme.

(7) Without prejudice to the generality of subsection (6)(c), the payee's liability to tax in respect of the payment or payments that he receives or is entitled to receive as a result of the transaction or series of transactions shall be treated for the purposes of subsection (6)(c) as reduced as a result of provision made or imposed by the scheme if—

(a) an amount arising from the transaction or series of transactions forming part of the scheme, or from another transaction or series of transactions forming part of the scheme, falls to be deducted or otherwise allowed to the payee in computing for tax purposes any

profits or losses arising from the payment or payments or the entitlement to receive the payment or payments, or

(b) an amount of relief arising from the transaction or series of transactions forming part of the scheme, or from another transaction or series of transactions forming part of the scheme, may be deducted from the amount of income or gains arising from the payment or payments or the entitlement to receive the payment or payments.

(8) The requirement in subsection (6)(c) is not satisfied if the payee is not liable to tax because he is not liable to tax on any income or gains received by him or for his benefit under the tax law of any territory.

(9) The requirement in subsection (6)(c) is not satisfied if, or to the extent that, the payee is not subject to tax because his liability to tax is subject to an exemption falling within subsection (10).

(10) An exemption falls within this subsection if—

(a) it exempts a person from being liable to tax in respect of income or gains, without providing for that income or those gains to be treated as the income or gains of one or more other persons, and

(b) it is conferred by a provision contained in or having the force of an Act or by a provision of the tax law of any territory outside the United Kingdom.

(11) Rule B is that the aggregate of the amounts allowable as a deduction for the purposes of the Corporation Tax Acts in computing any profits to the company arising from—

(a) the specified transaction, and

(b) any other transaction that forms part of the scheme and to which the company is party,

is to be reduced in accordance with subsections (12) and (13).

(12) If, in respect of the payment or payments that the payee receives or is entitled to receive, the payee is not liable to tax for the purposes of the requirement in subsection (6)(c), the aggregate is to be reduced to nil.

(13) If, in respect of the payment or payments, the payee is liable to tax as regards part or his liability to tax is reduced as described in subsection (6)(c), the aggregate is to be reduced to such proportion of the aggregate as is equal to the proportion of the payment or payments on which the payee is liable to tax; and for this purpose the amount by which the payee's liability is reduced is to be treated as an amount on which the payee is not liable to tax.

(14) The company may choose to incorporate in its company tax return for the specified accounting period such relevant adjustments as are necessary for counteracting those effects of the scheme that are referable to the purpose referred to in condition C.

(15) If, as a consequence of incorporating relevant adjustments in that company tax return, the company counteracts those effects of the scheme that are referable to the purpose referred to in condition C, the company is to be treated, so far as regards the scheme, as having complied with subsection (2).

(16) The following are relevant adjustments—

(a) treating all or part of a deduction allowable for corporation tax purposes as not being allowable;

(b) treating all or part of an amount that for corporation tax purposes may be set off against profits in an accounting period as not falling to be set off.

(17) In this section, references to tax purposes include a reference to the purposes of any foreign tax; and foreign tax has the meaning given by section 403D of ICTA.

(18) In this section, "company tax return" means the return required to be delivered pursuant to a notice under paragraph 3 of Schedule 18 to FA 1998, as read with paragraph 4 of that Schedule.

26 Receipts cases

(1) If the Commissioners for Her Majesty's Revenue and Customs consider, on reasonable grounds, that conditions A to E are or may be satisfied in relation to a company resident in the United Kingdom, they may give the company a notice under this section.

(2) Condition A is that a scheme makes or imposes provision ("the actual provision") as between the company and another person ("the paying party") by means of a transaction or series of transactions.

(3) Condition B is that the actual provision includes the making by the paying party, by means of a transaction or series of transactions, of a payment that is a qualifying payment in relation to the company.

(4) Condition C is that, as regards the qualifying payment made by the paying party, there is an amount that—

(a) is available as a deduction for the purposes of the Tax Acts, or

(b) may be deducted or otherwise allowed in respect of the payment under the tax law of any territory outside the United Kingdom,

and does not fall to be disregarded as described in subsection (5).

(5) An amount is to be disregarded if or to the extent that it is, for tax purposes, set against any income arising to the paying party from the transaction or transactions forming part of the scheme.

(6) Condition C is not to be treated as satisfied if—

(a) the paying party is a dealer,

(b) in the ordinary course of his business, he incurs losses in respect of the transaction or transactions forming part of the scheme to which he is party, and

(c) the amount by reference to which condition C would, but for this subsection, be satisfied is an amount in respect of those losses.

(7) In subsection (6), "dealer" means a person who is a dealer in relation to a distribution within the meaning of section 95(2) of ICTA or who would, if he were resident in the United Kingdom, be such a dealer.

(8) Condition D is that at least part of the qualifying payment is not an amount to which subsection (9) or (10) applies.

(9) This subsection applies to an amount that is, for the purposes of the Corporation Tax Acts—

(a) income or gains arising to the company in the accounting period in which the qualifying payment was made in relation to the company, or

(b) income arising to any other company resident in the United Kingdom in a corresponding accounting period.

(10) This subsection applies to an amount that is taken into account in determining the debits and credits to be brought into account by a company for the purposes of Chapter 2 of Part 4 of FA 1996 as respects a share in another company by virtue of section 91A or 91B of FA 1996 (shares treated as loan relationships).

(11) Condition E is that the company and the paying party expected on entering into the scheme that a benefit would arise as a result of condition D being satisfied (whether by reference to all or part of the qualifying payment).

(12) A notice under this section is a notice—

(a) informing the company of the Commissioners' view under subsection (1),

(b) specifying the qualifying payment by reference to which the Commissioners consider conditions B to E are or may be satisfied,

(c) specifying the accounting period of the company in which the payment is made, and

(d) informing the company that as a consequence section 27 has effect in relation to the payment.

(13) For the purposes of this section a payment is a qualifying payment in relation to a company if it constitutes a contribution to the capital of the company.

(14) For the purposes of this section the accounting period of a company ("company A") corresponds to the accounting period of another company ("company B") if at least one day of company A's accounting period falls within company B's accounting period.

27 Rule as to qualifying payment

(1) The following provisions of this section apply in relation to a payment that is a qualifying payment in relation to a company if—

(a) a notice specifying that payment is given to the company under section 26, and

(b) when the notice is given, conditions A to E of section 26 are satisfied in relation to the company.

(2) The company must compute (or recompute) for the purposes of corporation tax for the accounting period specified in the notice its income or chargeable gains, or its liability to corporation tax, as if the relevant part of the qualifying payment were an amount of income chargeable under Case VI of Schedule D arising to the company in that period.

(3) The relevant part of the qualifying payment is the part by reference to which conditions C and D are satisfied; and, where conditions C and D are satisfied in relation to the whole of the qualifying payment, the relevant part is the whole of the qualifying payment.

(4) In this section "qualifying payment" has the same meaning as in section 26.

28 Notices under sections 24 and 26

(1) Subsection (2) applies if the Commissioners for Her Majesty's Revenue and Customs give a notice to a company under section 24 or 26 before the company has made its company tax return for the accounting period specified in the notice.

(2) If the company makes its return for that period before the end of the period of 90 days beginning with the day on which the notice is given, it may—

(a) make a return that disregards the notice, and

(b) at any time after making the return and before the end of the period of 90 days, amend the return for the purpose of complying with the provision referred to in the notice.

(3) If a company has made a company tax return for an accounting period, the Commissioners may only give the company a notice under section 24 or 26 in relation to that period if a notice of enquiry has been given to the company in respect of its return for that period.

(4) After any enquiries into the return for that period have been completed, the Commissioners may only give the company a notice under section 24 or 26 if the requirements in subsections (5) and (7) are satisfied.

(5) The first requirement is that at the time the enquiries into the return were completed, the Commissioners could not have been reasonably expected, on the basis of information made available to them or to an officer of Revenue and Customs before that time, to have been aware that the circumstances were such that a notice under section 24 or 26 could have been given to the company in relation to that period.

(6) Paragraph 44(2) and (3) of Schedule 18 to FA 1998 (information made available) applies for the purposes of subsection (5) as it applies for the purposes of paragraph 44(1).

(7) The second requirement is that—

(a) the company was requested to produce or provide information during an enquiry into the return for that period, and

(b) if the company had duly complied with the request, the Commissioners could reasonably have been expected to give the company a notice under section 24 or 26 in relation to that period.

(8) If a company is given a notice under section 24 or 26 in relation to an accounting period after having made a company tax return for that period, the company may amend the return for the purpose of complying with the provision referred to in the notice at any time before the end of the period of 90 days beginning with the day on which the notice is given.

(9) If the notice under section 24 or 26 is given to the company after it has been given a notice of enquiry in respect of its return for the period, no closure notice may be given in relation to the company's tax return until—

(a) the end of the period of 90 days beginning with the day on which the notice under section 24 or 26 is given, or

(b) the earlier amendment of the company tax return for the purpose of complying with the provision referred to in the notice.

(10) If the notice under section 24 or 26 is given to the company after any enquiries into the return for the period are completed, no discovery assessment may be

made as regards the income or chargeable gain to which the notice relates until—

(a) the end of the period of 90 days beginning with the day on which the notice under section 24 or 26 is given, or

(b) the earlier amendment of the company tax return for the purpose of complying with the provision referred to in the notice.

(11) Subsections (2)(b) and (8) do not prevent a company tax return for a period becoming incorrect if—

(a) a notice under section 24 or 26 is given to the company in relation to that period,

(b) the return is not amended in accordance with subsection (2)(b) or (8) for the purpose of complying with the provision referred to in the notice, and

(c) the return ought to have been so amended.

(12) In this section—

"closure notice" means a notice under paragraph 32 of Schedule 18 to FA 1998;

"company tax return" means the return required to be delivered pursuant to a notice under paragraph 3 of Schedule 18 to FA 1998, as read with paragraph 4 of that Schedule;

"discovery assessment" means an assessment under paragraph 41 of Schedule 18 to FA 1998;

"notice of enquiry" means a notice under paragraph 24 of Schedule 18 to FA 1998.

29 Amendments relating to company tax returns

(1) In Schedule 18 to FA 1998 (company tax returns, assessments, etc), in paragraph 25(1) (scope of enquiry) after "relief)" insert "or a notice under section 24 or 26 of the Finance (No. 2) Act 2005 (avoidance involving tax arbitrage)".

(2) In paragraph 42 of that Schedule (restrictions on power to make discovery assessment etc), in sub-paragraph (2A), after "1988" insert "or section 24 or 26 of the Finance (No. 2) Act 2005".

30 Interpretation

(1) For the purposes of this Chapter—

(a) references to a scheme are references to any scheme, arrangements or understanding of any kind whatever, whether or not legally enforceable, involving a single transaction or two or more transactions;

(b) it shall be immaterial in determining whether any transactions have formed or will form part of a series of transactions or scheme that the parties to any of the transactions are different from the parties to another of the transactions; and

(c) the cases in which any two or more transactions are to be taken as forming part of a series of transactions or scheme shall include any case in which it would be reasonable to assume that one or more of them—

(i) would not have been entered into independently of the other or others, or

(ii) if entered into independently of the other or others, would not have taken the same form or been on the same terms.

(2) For the purposes of this Chapter, a scheme achieves a UK tax advantage for a person if in consequence of the scheme the person is in a position to obtain, or has obtained—

(a) a relief or increased relief from income tax or corporation tax,

(b) a repayment or increased repayment of income tax or corporation tax, or

(c) the avoidance or reduction of a charge to income tax or corporation tax.

(3) In subsection (2)(a) the reference to relief includes a reference to a tax credit.

(4) For the purposes of subsection (2)(c) avoidance or reduction may in particular be effected by—

(a) receipts accruing in such a way that the recipient does not pay or bear tax on them, or

(b) a deduction in computing profits or gains.

31 Commencement

(1) The deduction cases provisions have effect in relation to accounting periods of a company beginning on or after 16th March 2005.

(2) Where an accounting period of a company begins before, and ends on or after 16th March 2005, it shall be assumed for the purposes of the deduction cases provisions (and subsection (1) of this section) that that accounting period ("the straddling period") consists of two separate accounting periods—

(a) the first beginning with the straddling period and ending with 15th March 2005, and

(b) the second beginning with 16th March 2005 and ending with the straddling period,

and the company's profits and losses shall be computed accordingly for tax purposes.

(3) The deduction cases provisions do not have effect so far as regards a transaction to which a company is party on 16th March 2005 and which on that date forms part of a scheme, if—

(a) the company is not on 16th March 2005 connected with a person who is on that date also party to, or concerned in, the scheme, and

(b) the scheme ceases to exist before 31st August 2005.

Section 839 of ICTA applies for the purposes of this subsection.

(4) The receipts cases provisions have effect in relation to any contribution to the capital of a company resident in the United Kingdom that is made on or after 16th March 2005.

(5) In this section—

"the deduction cases provisions" means—

(a) sections 24 and 25 and Schedule 3, and

(b) sections 28 to 30 so far as relating to the provisions in paragraph (a);

"the receipts cases provisions" means—

(a) sections 26 and 27, and

(b) sections 28 to 30 so far as relating to the provisions in paragraph (a).

CHAPTER 5

CHARGEABLE GAINS

Residence, location of assets etc

32 Temporary non-residents

(1) Section 10A of TCGA 1992 is amended as follows.

(2) In subsection (3) (certain gains or losses to be excluded from being treated by virtue of subsection (2) as accruing to the taxpayer in year of return)—

(a) in paragraph (a), for "he was neither resident nor ordinarily resident in the United Kingdom" substitute—

"(i) he was neither resident nor ordinarily resident in the United Kingdom, or

(ii) he was resident or ordinarily resident in the United Kingdom but was Treaty non-resident;";

(b) in paragraph (d), after "152(1)(b)" insert ", 153(1)(b)".

(3) In subsection (8) (definitions) in the definition of "relevant disposal", after "United Kingdom" insert "and was not Treaty non-resident".

(4) For subsection (9) substitute—

"(9) For the purposes of this section an individual satisfies the residence requirements for a year of assessment—

(a) if, during any part of that year of assessment, he is resident in the United Kingdom and not Treaty non-resident, or

(b) if he is ordinarily resident in the United Kingdom during that year of assessment, unless he is Treaty non-resident during that year of assessment.

(9A) For the purposes of this section an individual is Treaty non-resident at any time if, at that time, he falls to be regarded as resident in a territory outside the United Kingdom for the purposes of double taxation relief arrangements having effect at that time.

(9B) Where this section applies in the case of any individual in circumstances in which one or more intervening years would, but for his being Treaty non-resident during some or all of that year or those years, not be an intervening year, this section shall have effect in the taxpayer's case—

(a) as if subsection (2)(a) above did not apply in the case of any amount treated by virtue of section 87 or 89(2) as an amount of chargeable gains accruing to the taxpayer in any such intervening year, and

(b) as if any such intervening year were not an intervening year for the purposes of subsections (2)(b) and (c) and (6) above.".

(5) After subsection (9B) (as inserted by subsection (4) above) insert—

"(9C) Nothing in any double taxation relief arrangements shall be read as preventing the taxpayer from being chargeable to capital gains tax in respect of any of the chargeable gains treated by virtue of subsection (2)(a) above as accruing to the taxpayer in the year of return (or as preventing a charge to that tax from arising as a result).".

(6) Omit subsection (10) (section to be without prejudice to right to claim relief under double taxation relief arrangements).

(7) The amendments in subsections (2)(a), (4), (5) and (6) have effect—

(a) in any case in which the year of departure is, or (on the assumption that the amendment in subsection (4) had always had effect) would be, the year 2005-06 or a subsequent year of assessment; and

(b) in any case in which—

(i) the year of departure is, or (on that assumption) would be, the year 2004-05, and

(ii) at a time in that year on or after 16th March 2005, the taxpayer was resident or ordinarily resident in the United Kingdom and was not Treaty non-resident (within the meaning given by section 10A(9A) of TCGA 1992, as inserted by subsection (4)).

(8) The amendment in subsection (2)(b) has effect in relation to relevant disposals made on or after 16th March 2005.

(9) The amendment in subsection (3) has effect for determining whether a disposal of an asset is a relevant disposal for the purposes of section 10A of TCGA 1992 in any case in which the person making the disposal acquired the asset on or after 16th March 2005.

33 Trustees both resident and non-resident in a year of assessment

(1) After section 83 of TCGA 1992 insert—

"83A Trustees both resident and non-resident in a year of assessment

(1) This section applies if a chargeable gain accrues to the trustees of a settlement on the disposal by them of an asset in a year of assessment and the trustees—

(a) are within the charge to capital gains tax in that year of assessment, but

(b) are non-UK resident at the time of the disposal.

(2) Where this section applies, nothing in any double taxation relief arrangements shall be read as preventing the trustees from being chargeable to capital gains tax (or as preventing a charge to tax arising, whether or not on the trustees) by virtue of the accrual of that gain.

(3) For the purposes of this section the trustees of a settlement are within the charge to capital gains tax in a year of assessment—

(a) if, during any part of that year of assessment, they are resident in the United Kingdom and not Treaty non-resident, or

(b) if they are ordinarily resident in the United Kingdom during that year of assessment, unless they are Treaty non-resident during that year of assessment.

(4) For the purposes of this section the trustees of a settlement are non-UK resident at a particular time if, at that time,—

(a) they are neither resident nor ordinarily resident in the United Kingdom, or

(b) they are resident or ordinarily resident in the United Kingdom but are Treaty non-resident.

(5) For the purposes of this section the trustees of a settlement are Treaty non-resident at any time if, at that time, they fall to be regarded as resident in a territory outside the United Kingdom for the purposes of double taxation relief arrangements having effect at that time.".

(2) The amendment made by this section has effect in relation to disposals made on or after 16th March 2005.

34 Location of assets etc

Schedule 4 (which makes provision in relation to the situation of assets for the purposes of TCGA 1992 and which makes minor amendments in that Act in relation to non-resident companies with United Kingdom permanent establishments) has effect.

Miscellaneous

35 Exercise of options etc

Schedule 5 (which makes provision, for the purposes of the taxation of chargeable gains, in relation to options) has effect.

36 Notional transfers within a group

(1) Section 171A of TCGA 1992 (notional transfers within a group) is amended as follows.

(2) After subsection (3) insert—

"(3ZA) In a case where B—

(a) is not resident in the United Kingdom, but

(b) is carrying on a trade in the United Kingdom through a permanent establishment there,

the asset or part deemed to be transferred to B by A is to be treated for the purposes of subsections (2)(c) and (3) above as having been acquired by B for use by or for the purposes of the permanent establishment; but that shall not be taken to affect the question whether or not the asset or part is situated in the United Kingdom at any time.".

(3) The amendment made by this section has effect in relation to disposals made on or after 16th March 2005.

CHAPTER 6

MISCELLANEOUS

Accounting practice and related matters

37 Accounting practice and related matters

Schedule 6 (accounting practice and related matters) has effect.

Financial avoidance etc

38 Charges on income for the purposes of corporation tax

(1) Section 338A of ICTA (meaning of "charges on income" for the purposes of corporation tax) is amended as follows.

(2) In subsection (2) (what are charges on income) paragraph (a) (annuities or other annual payments that meet the conditions in section 338B) shall cease to have effect.

(3) In section 125(1) of ICTA (annual payments for non-taxable consideration) for "income tax," substitute "income tax and".

(4) In section 434A(2)(a) of ICTA (loss resulting to insurance company from computation in accordance with Case I of Schedule D: reduction by specified amounts) omit sub-paragraph (i) (which relates to charges on income).

(5) The side-note to section 494 of ICTA (charges on income) becomes "Loan relationships etc.".

(6) The amendment made by subsection (4) has effect for accounting periods beginning on or after 1st April 2004.

(7) The other amendments made by this section have effect in relation to payments made on or after the commencement date in respect of annuities or other annual payments.

(8) Where—

(a) an accounting period of a company begins before, and ends on or after, the commencement date,

(b) a payment in respect of an annuity or other annual payment is made by the company in that period but before the commencement date, and

(c) the payment is deductible as a charge on income for the purposes of corporation tax,

subsection (9) applies.

(9) In any such case, so much of any amount as represents that payment—

(a) is not deductible under section 75 of ICTA (expenses of management), and

(b) is not to be brought into account under section 76 of that Act (expenses of insurance companies) as expenses payable,

for that or any subsequent accounting period.

(10) Subsection (12) applies in any case where—

(a) a payment in respect of an annuity or other annual payment is made by a company on or after the commencement date, and

(b) the condition in subsection (11) is satisfied.

(11) The condition is that the payment represents an amount which (apart from subsection (12))—

(a) would not be deductible under section 75 of ICTA, or

(b) would not fall to be brought into account under section 76 of that Act,

by reason only of section 337A(1)(b) of that Act (company's income from any source to be computed without any deduction in respect of charges on income) as it applies by virtue of section 338A(2)(a) of that Act.

(12) In any such case, the amount represented by the payment—

(a) is deductible under section 75 of ICTA, or

(b) falls to be brought into account under section 76 of that Act as expenses payable,

for the accounting period in which the payment is made.

(13) In this section "the commencement date" means 16th March 2005.

39 Avoidance involving financial arrangements

Schedule 7 (which makes provision in relation to tax avoidance involving financial arrangements) has effect.

Financing of companies etc

40 Transfer pricing and loan relationships

Schedule 8 (which amends Schedule 28AA to ICTA and Schedule 9 to FA 1996) has effect.

Intangible fixed assets

41 Intangible fixed assets

(1) Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets) is amended as set out in subsections (2) to (4).

(2) In paragraph 92 (transfer between company and related party treated as being at market value)—

(a) in sub-paragraph (1), for "the following two exceptions" substitute "the following four exceptions";

(b) after sub-paragraph (4) insert—

"(4A) The third exception is where—

(a) the asset is transferred from the company at less than its market value, or to the company at more than its market value,

(b) the related party—

(i) is not a company, or

(ii) is a company in relation to which the asset is not a chargeable intangible asset immediately

after the transfer to it or (as the case may be) immediately before the transfer from it,

and

(c) by virtue of any provision of—

(i) section 209 of the Taxes Act 1988 (meaning of "distribution"), or

(ii) Part 3 of the Income Tax (Earnings and Pensions) Act 2003 (employment income: earnings and benefits etc treated as earnings),

the transfer gives rise (or would give rise but for sub-paragraph (1)) to an amount to be taken into account in computing any person's income, profits or losses for tax purposes.

(4B) Where the third exception applies, sub-paragraph (1) does not apply, in relation to the computation mentioned in sub-paragraph (4A)(c), for the purposes of any such provision as is mentioned there.

(4C) The fourth exception is where—

(a) the asset is transferred to the company, and

(b) on a claim for relief under section 165 of the Taxation of Chargeable Gains Act 1992 (relief for gifts of business assets) in respect of the transfer, a reduction is made under subsection (4)(a) of that section.

(4D) Where the fourth exception applies—

(a) the transfer is treated for the purposes of this Schedule as being at market value less the amount of the reduction;

(b) all such adjustments as may be required, by way of assessment, amendment of returns or otherwise, may be made (notwithstanding any time limit on the making of an assessment or the amendment of a return).".

(3) In paragraph 95 (meaning of "related party") for Case Three substitute—

"Case Three

C is a close company and P is, or is an associate of—

(a) a participator in C, or

(b) a participator in a company that has control of, or holds a major interest in, C.".

(4) In paragraph 132 (roll-over relief: transitory interaction with relief on replacement of business asset), in sub-paragraph (5) (disapplication for certain corporation tax purposes of Classes 4 to 7 in section 155 of TCGA 1992)—

(a) for "4 to 7" substitute "4 to 7A";

(b) for "(goodwill and various types of quota)" substitute "(goodwill and certain other intangible assets)".

(5) In section 86(2) of FA 1993 (roll-over relief: power to amend section 155 of TCGA 1992 by order) for the words after "may make such consequential

amendments" substitute "of—

(a) Schedule 7AB to the Taxation of Chargeable Gains Act 1992, or

(b) paragraph 132 of Schedule 29 to the Finance Act 2002,

as appear to the Treasury to be appropriate.".

(6) The amendments made by subsection (2) have effect in relation to any transfer of an asset made on or after 16th March 2005.

(7) The amendment made by subsection (3) has effect, for the purposes of paragraph 92 of Schedule 29 to FA 2002 as it applies otherwise than for determining the debits or credits to be brought into account under that Schedule, in relation to any transfer of an asset made on or after 16th March 2005.

(8) That amendment has effect, for all other purposes of that Schedule, in relation to the debits or credits to be brought into account for accounting periods beginning on or after 16th March 2005 (and, in relation to the debits or credits to be brought into account for any such period, shall be deemed always to have had effect).

(9) An accounting period beginning before, and ending on or after, that date is treated for the purposes of subsection (8) as if so much of that period as falls before that date, and so much of that period as falls on or after that date, were separate accounting periods.

(10) The amendments made by subsection (4) have effect in relation to any such acquisition as is referred to in paragraph 132(5) of Schedule 29 to FA 2002 made on or after 22nd March 2005.

Insurance companies etc

42 Insurance companies etc

Schedule 9 (which makes provision about insurance companies etc) has effect.

International matters

43 Implementation of the amended Parent/Subsidiary Directive

(1) Section 801 of ICTA (dividends paid between related companies: relief for UK and third country taxes) is amended as follows.

(2) After subsection (5) (meaning of one company being related to another) insert—

"(5A) For the purposes of subsections (2) and (3) above (including any determination of the extent to which underlying tax paid by the third, fourth or subsequent company in question would be taken into account under this Part if the conditions specified for the purpose in subsection (2) above were satisfied) a company is also related to another company if that other company—

(a) controls directly or indirectly, or

(b) is a subsidiary of a company which controls directly or indirectly,

not less than 10% of the ordinary share capital of the first-mentioned company.".

(3) The amendment made by this section has effect where the dividend mentioned in section 799(1) of ICTA is paid on or after 1st January 2005.

44 Territories with a lower level of taxation: reduction of amount of local tax

(1) Section 750 of ICTA (controlled foreign companies: territories with a lower level of taxation) is amended as follows.

(2) In subsection (1), after "if" insert ", after giving effect to subsections (1A) and (1B) below,".

(3) After subsection (1) insert—

"(1A) If in the case of that accounting period there is any income, or any income and any expenditure, of the company—

(a) which is brought into account in determining the profits of the company in respect of which tax is paid under the law of that territory, but

(b) which does not also fall to be brought into account in determining the chargeable profits of the company,

the local tax shall be treated for the purposes of this Chapter as reduced to what it would have been had that income and any such expenditure not been so brought into account.

(1B) If—

(a) under the law of that territory any tax ("the company's tax") falls to be paid by the company in respect of profits of the company arising in that accounting period,

(b) under that law, any repayment of tax, or any payment in respect of a credit for tax, is made to a person other than the company, and

(c) that payment or repayment is directly or indirectly in respect of the company's tax,

the local tax shall be treated for the purposes of this Chapter as reduced (or further reduced) by the amount of that payment or repayment.".

(4) The amendments made by this section have effect in relation to accounting periods of companies resident outside the United Kingdom beginning on or after 2nd December 2004.

(5) Where an accounting period of a company resident outside the United Kingdom—

(a) would, without amendment, have ended on or after 2nd December 2004, but

(b) is amended on or after that date so as to end before that date,

an accounting period of the company shall be deemed for the purposes of Chapter 4 of Part 17 of ICTA to have ended with 1st December 2004.

(6) In this section "accounting period" has the same meaning as in Chapter 4 of Part 17 of ICTA (see section 751).

Miscellaneous

45 Lloyd's underwriters: assessment and collection of tax

(1) Omit section 173 of, and Schedule 19 to, FA 1993 (Lloyd's underwriters: assessment and collection of tax).

(2) In section 182 of that Act (regulations) in subsection (1)(a) (power of Commissioners for Her Majesty's Revenue and Customs to make regulations providing for assessment and collection of tax charged in accordance with section 171 of FA 1993, so far as not provided for by Schedule 19 to that Act) omit "(so far as not provided for by Schedule 19 to this Act)".

(3) In that section, at the end insert—

"(6) Any power to make regulations conferred by this section includes power to make—

(a) different provision for different cases or different purposes, and

(b) incidental, supplemental or transitional provision and savings.".

(4) Omit section 221 of FA 1994 (Lloyd's underwriters: corporations etc: assessment and collection of tax).

(5) Renumber section 229 of that Act (regulations) as subsection (1) of that section.

(6) In subsection (1) of that section (as amended by subsection (5) above), in paragraph (a) (power of Commissioners for Her Majesty's Revenue and Customs to make regulations providing for assessment and collection of tax charged in accordance with section 219 of FA 1994, so far as not provided for by Schedule 19 to FA 1993 as applied by section 221 of FA 1994) omit "(so far as not provided for by Schedule 19 to the 1993 Act as applied by section 221 above)".

(7) In that section, at the end insert—

"(2) Any power to make regulations conferred by this section includes power to make—

(a) different provision for different cases or different purposes, and

(b) incidental, supplemental or transitional provision and savings.".

(8) For the purpose of enabling the making of any regulations under—

(a) section 182(1)(a) of FA 1993 (as amended by subsection (2)), or

(b) section 229(1)(a) of FA 1994 (as amended by subsection (6)),

subsections (1) to (7) come into force on the day on which this Act is passed.

(9) Subject to that, those subsections come into force in accordance with provision made by the Treasury by order.

(10) Section 828(3) of ICTA shall not apply in relation to an order under subsection (9).

(11) The Commissioners for Her Majesty's Revenue and Customs may by regulations make such amendments, repeals or revocations in any enactment (including an enactment amended by this section) as appear to them to be appropriate in consequence of any one or more of the following—

(a) any amendment made by this section;

(b) the exercise by them of the power in section 182(1)(a) of FA 1993 (as amended by subsection (2));

(c) the exercise by them of the power in section 229(1)(a) of FA 1994 (as amended by subsection (6)).

(12) Any power conferred by this section to make an order or regulations includes power to make—

(a) different provision for different cases or different purposes, and

(b) incidental, supplemental or transitional provision and savings.

(13) In this section—

"enactment" includes an enactment comprised in subordinate legislation;

"subordinate legislation" has the same meaning as in the Interpretation Act 1978 (c. 30) (see section 21 of that Act).

46 Energy Act 2004 and Health Protection Agency Act 2004

(1) This section provides for certain enactments to cease to have effect which relate to—

(a) the United Kingdom Atomic Energy Authority ("UKAEA"),

(b) the National Radiological Protection Board ("NRPB"), or

(c) pension schemes run by UKAEA.

(2) In ICTA the following provisions shall cease to have effect—

(a) section 349B(3)(g) (no deduction of tax from certain payments to UKAEA);

(b) section 349B(3)(h) (no deduction of tax from certain payments to NRPB);

(c) section 512(1) and (3) (certain exemptions from income tax and corporation tax for UKAEA and NRPB);

(d) section 512(2) (treatment of certain income of pension schemes run by UKAEA).

(3) In section 271(7) of TCGA 1992 (miscellaneous exemptions from tax in respect of chargeable gains)—

(a) for "Memorial Fund, the" substitute "Memorial Fund and the";

(b) omit ", the United Kingdom Atomic Energy Authority";

(c) omit "and the National Radiological Protection Board";

(d) omit from "; and for the purposes" to the end of the subsection (treatment of gains accruing to pension schemes run by UKAEA).

(4) In subsection (2)—

(a) paragraph (a) has effect in relation to payments made on or after 1st April 2005;

(b) paragraph (b) has effect in relation to payments made after 1st April 2005;

(c) paragraph (c), so far as relating to UKAEA, has effect on and after 1st April 2005;

(d) paragraph (c), so far as relating to NRPB, has effect after 1st April 2005;

(e) paragraph (d) has effect in relation to income arising on or after 1st April 2005.

(5) In subsection (3)—

(a) paragraphs (a) and (c) have effect in relation to gains accruing after 1st April 2005;

(b) paragraphs (b) and (d) have effect in relation to gains accruing on or after 1st April 2005.

(6) The repeal of subsection (3)(g) of section 349B of ICTA does not affect the application of any other provision of that section in relation to UKAEA.

(7) Nothing in this section affects—

(a) any accounting period of UKAEA ending before 1st April 2005, or

(b) any accounting period of NRPB ending on or before 1st April 2005.

PART 3

STAMP TAXES

Stamp duty land tax

47 E-conveyancing

(1) In section 9(1) of the Public Finance and Accountability (Scotland) Act 2000 (asp 1) (Keeper of the Registers of Scotland: financial arrangements) after "Sums" insert "(other than payments of stamp duty land tax)".

(2) In section 79(1) of FA 2003 (registration of land transactions) after "in relation to the transaction" insert "or such information about compliance as the Commissioners for Her Majesty's Revenue and Customs may specify in regulations."

(3) In section 119(1) of FA 2003 (land transactions: effective date) for "the date of completion" substitute—

"(a) the date of completion, or

(b) such alternative date as the Commissioners for Her Majesty's Revenue and Customs may prescribe by regulations."

(4) After paragraph 7(1) of Schedule 10 to FA 2003 (land transaction returns: correction of errors) insert—

"(1A) The power under sub-paragraph (1) may, in such circumstances as the Commissioners for Her Majesty's Revenue and Customs may specify in regulations, be exercised—

(a) in relation to England and Wales, by the Chief Land Registrar;

(b) in relation to Scotland, by the Keeper of the Registers of Scotland;

(c) in relation to Northern Ireland, by the Registrar of Titles or the registrar of deeds;

(d) in any case, by such other persons with functions relating to the registration of land as the regulations may specify."

(5) The Commissioners for Her Majesty's Revenue and Customs—

(a) may make regulations conferring administrative functions on a land registrar in connection with stamp duty land tax, and

(b) may make payments to land registrars in respect of the exercise of those functions.

(6) In subsection (5) "land registrar" means—

(a) in relation to England and Wales, the Chief Land Registrar,

(b) in relation to Scotland, the Keeper of the Registers of Scotland,

(c) in relation to Northern Ireland, the Registrar of Titles or the registrar of deeds, and

(d) in any case, such other persons with functions relating to the registration of land as regulations under subsection (5) may specify.

(7) Regulations under subsection (5)—

(a) shall be made by statutory instrument, and

(b) shall be subject to annulment in pursuance of a resolution of the House of Commons.

48 Disclosure of information contained in land transaction returns

(1) After section 78 of FA 2003 insert—

"78A Disclosure of information contained in land transaction returns

(1) Relevant information contained in land transaction returns delivered under section 76 (whether before or after the commencement of this section) is to be available for use—

(a) by listing officers appointed under section 20 of the Local Government Finance Act 1992, for the purpose of facilitating the compilation and maintenance by them of valuation lists in accordance with Chapter 2 of Part 1 of that Act,

(b) as evidence in an appeal by virtue of section 24(6) of that Act to a valuation tribunal established under Schedule 11 to the Local Government Finance Act 1988,

(c) by the Commissioner of Valuation for Northern Ireland, for the purpose of maintaining a valuation list prepared, and from time to time altered, by him in accordance with Part 3 of the Rates (Northern Ireland) Order 1977, and

(d) by such other persons or for such other purposes as the Treasury may by regulations prescribe.

(2) In this section, "relevant information" means any information of the kind mentioned in paragraph 1(4) of Schedule 10 (information corresponding to particulars required under previous legislation).

(3) The Treasury may by regulations amend the definition of relevant information in subsection (2)."

(2) In section 245 of FA 1994 (production of documents: supplementary) for subsection (2) substitute—

"(2) The information contained in any document produced to the Commissioners under section 244(2) above shall be available for use by the Commissioner of Valuation for Northern Ireland."

(3) For the heading to Part 6 of FA 1994 substitute "Stamp duty".

(4) Regulation 3 of the Stamp Duty Land Tax (Consequential Amendment of Enactments) Regulations 2005 (S. I. 2005/82) is hereby revoked.

(5) Subsections (1) to (4) come into force on such day as the Treasury may by order appoint.

(6) Section 114(3) of FA 2003 (negative resolution procedure) does not apply to an order made under subsection (5).

49 Miscellaneous amendments

Schedule 10 (which makes miscellaneous amendments of Part 4 of FA 2003) has effect.

Stamp duty and stamp duty reserve tax

50 Power to extend exceptions relating to recognised exchanges

(1) The Treasury may by regulations extend the application of the provisions mentioned in subsection (2) to any market (specified by name or by description) which—

(a) is not a recognised exchange, but

(b) is a multilateral trading facility (or, assuming compliance with the provisions of Title II of the Directive (authorisation and operating conditions), would be such a facility).

(2) The provisions referred to in subsection (1) are—

(a) sections 80A and 80C of FA 1986 (stamp duty: exceptions for sales to intermediaries and for repurchases and stock lending), and

(b) sections 88A and 89AA of that Act (stamp duty reserve tax: exceptions for intermediaries and for repurchases and stock lending).

(3) In this section—

"the Directive" means Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments;

"multilateral trading facility" has the same meaning as in the Directive (see Article 4(15));

"recognised exchange" means any of the following—

(a) an EEA exchange,

(b) a recognised foreign exchange,

(c) a recognised foreign options exchange,

within the meaning of the provisions mentioned in subsection (2).

(4) Regulations under this section may provide for the application of the provisions mentioned in subsection (2) subject to any adaptations appearing to the Treasury to be necessary or expedient.

(5) In subsection (1)(b) the words "(or, assuming compliance with the provisions of Title II of the Directive (authorisation and operating conditions), would be such a facility)" shall cease to have effect on such day as the Treasury may by order appoint.

(6) Section 117 of FA 2002 (power to extend the exceptions in subsection (2) to any market prescribed by order under section 118(3) of the Financial Services and Markets Act 2000) shall cease to have effect on such day as the Treasury may by order appoint.

(7) The power to make regulations or an order under this section is exercisable by statutory instrument.

(8) A statutory instrument containing—

(a) regulations under this section, or
(b) an order under subsection (5),

shall be subject to annulment in pursuance of a resolution of the House of Commons.

PART 4

EUROPEAN COMPANY STATUTE

51 Chargeable gains

(1) After section 140D of TCGA 1992 (transfer of non-UK trade) insert—

"Formation of SE by merger

140E Merger leaving assets within UK tax charge

(1) This section applies where—
(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),
(b) each merging company is resident in a member State,
(c) the merging companies are not all resident in the same State, and
(d) section 139 does not apply to any qualifying transferred assets.

(2) Where this section applies, qualifying transferred assets shall be treated for the purposes of corporation tax on chargeable gains as if acquired by the SE for a consideration resulting in neither gain nor loss for the transferor.

(3) For the purposes of subsections (1) and (2) an asset is a qualifying transferred asset if—
(a) it is transferred to the SE as part of the process of the merger forming it, and
(b) subsections (4) and (5) are satisfied in respect of it.

(4) This subsection is satisfied in respect of a transferred asset if—
(a) the transferor is resident in the United Kingdom at the time of the transfer, or
(b) any gain that would have accrued to the transferor, had it disposed of the asset immediately before the time of the transfer, would have been a chargeable gain forming part of the transferor's chargeable profits in accordance with section 10B.

(5) This subsection is satisfied in respect of a transferred asset if—
(a) the transferee SE is resident in the United Kingdom on formation, or
(b) any gain that would accrue to the transferee SE were it to dispose of the asset immediately after the transfer would be a chargeable gain forming part of the SE's chargeable profits in accordance with section 10B.

(6) For the purposes of this section a company is resident in a member State if—

(a) it is within a charge to tax under the law of the State as being resident for that purpose, and

(b) it is not regarded, for the purposes of any double taxation relief arrangements to which the State is a party, as resident in a territory not within a member State.

(7) This section does not apply to the formation of an SE by merger if—

(a) it is not effected for bona fide commercial reasons, or

(b) it forms part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoiding liability to corporation tax, capital gains tax or income tax;

and section 138 (clearance in advance) shall apply to this subsection as it applies to section 137 (with any necessary modifications).

140F Merger not leaving assets within UK tax charge

(1) This section applies where—

(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

(b) each merging company is resident in a member State,

(c) the merging companies are not all resident in the same State,

(d) in the course of the merger a company resident in the United Kingdom ("company A") transfers to a company resident in another member State ("company B") all assets and liabilities relating to a business which company A carried on in a member State other than the United Kingdom through a permanent establishment, and

(e) the aggregate of the chargeable gains accruing to company A on the transfer exceeds the aggregate of any allowable losses so accruing.

(2) Where this section applies, for the purposes of this Act—

(a) the allowable losses accruing to company A on the transfer shall be set off against the chargeable gains so accruing, and

(b) 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.

(3) Where this section applies, section 815A of the Taxes Act shall also apply.

(4) Subsections (6) and (7) of section 140E apply for the purposes of this section as they apply for the purposes of that section.

140G Treatment of securities issued on merger

(1) This section applies where—

(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

(b) each merging company is resident in a member State,
(c) the merging companies are not all resident in the same State, and
(d) the merger does not constitute or form part of a scheme of reconstruction within the meaning of section 136.

(2) Where this section applies, the merger shall be treated for the purposes of section 136 as if it were a scheme of reconstruction.

(3) Where section 136 applies by virtue of subsection (2) above section 136(6) (and section 137) shall not apply.

(4) Subsections (6) and (7) of section 140E apply for the purposes of this section as they apply for the purposes of that section."

(2) Subsection (1) shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

52 Intangible fixed assets

(1) After paragraph 85 of Schedule 29 to FA 2002 (intangible fixed assets: gains and losses: transfer of trade) insert—

"Formation of SE by merger

85A (1) This paragraph applies where—
(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),
(b) each merging company is resident in a member State,
(c) the merging companies are not all resident in the same State, and
(d) paragraph 84 above does not apply to any qualifying transferred assets.

(2) Where this paragraph applies a transfer of qualifying transferred assets is treated for the purposes of this Schedule as tax-neutral (see paragraph 140).

(3) For the purposes of sub-paragraphs (1) and (2) an asset is a qualifying transferred asset if—
(a) it is transferred as part of the process of the merger,
(b) it is a chargeable intangible asset in relation to the transferor immediately before the transfer, and
(c) it is a chargeable intangible asset in relation to the transferee immediately after the transfer.

(4) Sub-paragraph (2) shall apply in relation to the formation of an SE by merger only if—
(a) it is effected for bona fide commercial reasons, and
(b) it does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoiding liability to corporation tax, capital gains tax or income tax.

(5) Paragraph 84(6) (and therefore paragraph 88) shall apply, with any necessary modifications, in relation to sub-paragraph (4) above as in relation to paragraph 84(5).

(6) For the purposes of this paragraph a company is resident in a member State if—

(a) it is within a charge to tax under the law of the State as being resident for that purpose, and

(b) it is not regarded, for the purposes of any double taxation relief arrangements to which the State is a party, as resident in a territory not within a member State."

(2) Subsection (1) shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

53 Intangible fixed assets: permanent establishment in another member State

(1) After paragraph 87 of Schedule 29 to FA 2002 (intangible fixed assets: gains and losses: transfer of non-UK trade) insert—

"Formation of SE by merger: transfer of non-UK trade

87A (1) This paragraph applies where—

(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

(b) each merging company is resident in a member State,

(c) the merging companies are not all resident in the same State,

(d) in the course of the merger a company resident in the United Kingdom ("the transferor") transfers to a company resident in another member State ("the transferee") the whole or part of a trade that, immediately before the transfer, the transferor carried on in a member State other than the United Kingdom through a permanent establishment,

(e) the transfer includes the whole of the assets of the transferor used for the purposes of the trade or part,

(f) the transfer includes intangible fixed assets—

(i) that are chargeable intangible assets in relation to the transferor immediately before the transfer, and

(ii) in the case of one or more of which the proceeds of realisation exceed the cost recognised for tax purposes, and

(g) no claim is made under paragraph 86 above in relation to those assets.

(2) Where tax would, but for the Mergers Directive, have been chargeable in the member State in which the permanent establishment is located, Part 18 of the Taxes Act 1988 (double taxation relief), including any arrangements having effect by virtue of section 788 (double taxation agreements), shall have effect as if the amount of tax that would, but for the Mergers Directive, have been charged in respect of the transfer of the chargeable intangible assets, had actually been charged.

(3) In this paragraph "the Mergers Directive" has the same meaning as in paragraph 87.

(4) For the purposes of this paragraph a company is resident in a member State if—

(a) it is within a charge to tax under the law of the State as being resident for that purpose, and

(b) it is not regarded, for the purposes of any double taxation relief arrangements to which the State is a party, as resident in a territory not within a member State.

(5) This paragraph does not apply to the formation of an SE by merger if—

(a) it is not effected for bona fide commercial reasons, or

(b) it forms part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoiding liability to corporation tax, capital gains tax or income tax.

(6) Sub-paragraph (5) shall not affect the operation of this paragraph in any case where, before the transfer, Her Majesty's Revenue and Customs have, on the application of the transferor, notified the transferor that they are satisfied that the merger will be effected for bona fide commercial reasons and will not form part of any such scheme or arrangements as are mentioned in sub-paragraph (5)(b).

(7) An application under sub-paragraph (6) must be made in accordance with paragraph 88."

(2) Subsection (1) shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

54 Loan relationships

(1) After paragraph 12A of Schedule 9 to FA 1996 (loan relationships: gains and losses: continuity of treatment for groups) insert—

"Formation of SE by merger

12B (1) This paragraph applies where—

(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

(b) each merging company is resident in a member State,

(c) the merging companies are not all resident in the same State, and

(d) either—

(i) immediately after formation the SE is resident in the United Kingdom and within the charge to corporation tax in accordance with section 6 of the Taxes Act 1988, or

(ii) immediately after formation the SE is not resident in the United Kingdom but is within the charge to corporation tax in accordance with section 11 of the Taxes Act 1988.

(2) Where this paragraph applies, the transfer in the course of the merger of an asset or liability which represents a loan relationship shall be disregarded except—

(a) for the purpose of determining the debits or credits to be brought into account in respect of exchange gains or losses and identifying the company which is to bring them into account, and

(b) for the purpose of identifying the company in whose case a debit or credit which does not relate to the transfer is to be brought into account.

(3) Where this paragraph applies, the transferor and the transferee companies of an asset or liability which represents a loan relationship shall be deemed, except for the purposes specified in sub-paragraph (2)(a) and (b), to be the same company.

(4) Paragraph 12(2A) shall have effect (with any necessary modifications) in relation to this paragraph as in relation to paragraph 12.

(5) Sub-paragraphs (2) and (3) shall apply in relation to the formation of an SE by merger only if—

(a) it is effected for bona fide commercial reasons, and

(b) it does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoiding liability to corporation tax, capital gains tax or income tax.

(6) But sub-paragraph (5) shall not have the effect of preventing sub-paragraphs (2) and (3) from applying if before the merger Her Majesty's Revenue and Customs have on the application of the merging companies notified them that Her Majesty's Revenue and Customs are satisfied that sub-paragraph (5) will not have that effect.

(7) For the purposes of this paragraph a company is resident in a member State if—

(a) it is within a charge to tax under the law of the State as being resident for that purpose, and

(b) it is not regarded, for the purposes of any double taxation relief arrangements to which the State is a party, as resident in a territory not within a member State."

(2) Subsection (1) shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

55 Derivative contracts

(1) After paragraph 30A of Schedule 26 to FA 2002 (derivative contracts: profits: groups) insert—

"Formation of SE by merger

30B (1) This paragraph applies where—

(a) an SE is formed by the merger of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

(b) each merging company is resident in a member State,

(c) the merging companies are not all resident in the same State, and

(d) either—

(i) immediately after formation the SE is resident in the United Kingdom and within the charge to corporation tax in accordance with section 6 of the Taxes Act 1988, or

(ii) immediately after formation the SE is not resident in the United Kingdom but is within the charge to corporation tax in accordance with section 11 of the Taxes Act 1988.

(2) Where this paragraph applies, the transfer in the course of the merger of rights or liabilities under a derivative contract shall be disregarded except—

(a) for the purpose of determining the debits or credits to be brought into account in respect of exchange gains or losses and identifying the company which is to bring them into account, and

(b) for the purpose of identifying the company in whose case a debit or credit which does not relate to the transfer is to be brought into account.

(3) Where this paragraph applies, the transferor and the transferee companies of a right or liability under a derivative contract shall be deemed, except for the purposes specified in sub-paragraph (2)(a) and (b), to be the same company.

(4) Paragraph 30 shall apply, with any necessary modifications, in relation to this paragraph as in relation to paragraph 28.

(5) Sub-paragraphs (2) and (3) shall apply in relation to a merger only if—

(a) it is effected for bona fide commercial reasons, and

(b) it does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoiding liability to corporation tax, capital gains tax or income tax.

(6) But sub-paragraph (5) shall not have the effect of preventing sub-paragraphs (2) and (3) from applying if before the merger Her Majesty's Revenue and Customs have on the application of the merging companies notified them that Her Majesty's Revenue and Customs are satisfied that sub-paragraph (5) will not have that effect.

(7) For the purposes of this paragraph a company is resident in a member State if—

(a) it is within a charge to tax under the law of the State as being resident for that purpose, and

(b) it is not regarded, for the purposes of any double taxation relief arrangements to which the State is a party, as resident in a territory not within a member State."

(2) Subsection (1) shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

56 Capital allowances

(1) After section 561 of CAA 2001 (transfer of UK trade to company in another member State) insert—

"561A Transfer during formation of SE by merger

(1) This section applies to the transfer of a qualifying asset as part of the process of a merger to which section 140E of TCGA 1992 (formation of SE by merger) applies (or would apply but for section 140E(1)(d)).

(2) Where this section applies to a transfer—

(a) the transfer does not give rise to any allowance or charge under this Act,

(b) anything done to or by the transferor in relation to assets transferred is to be treated after the transfer as having been done to or by the transferee (with any necessary apportionment of expenditure being made in a reasonable manner), and

(c) section 343 of ICTA (company reconstruction without change of ownership) shall not apply.

(3) For the purposes of subsection (1) an asset is a "qualifying asset" if—

(a) it is transferred to the SE as part of the merger forming it, and

(b) subsections (4) and (5) are satisfied in respect of it.

(4) This subsection is satisfied in respect of an asset if—

(a) the transferor is resident in the United Kingdom at the time of the transfer, or

(b) the asset is an asset of a permanent establishment in the United Kingdom of the transferor.

(5) This subsection is satisfied in respect of an asset if—

(a) the transferee SE is resident in the United Kingdom on formation, or

(b) the asset is an asset of a permanent establishment in the United Kingdom of the transferee SE on its formation."

(2) Subsection (1) shall have effect in relation to a transfer made on or after 1st April 2005.

57 Stamp duty reserve tax

(1) At the end of section 99(4) of FA 1986 (stamp duty reserve tax: interpretation: chargeable securities) add—

", or

(d) they are issued or raised by an SE (whether or not in the course of its formation in accordance with Article 2 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)) and, at the time when it falls to be determined whether the securities are chargeable securities, the SE has its registered office in the United Kingdom.

(4A) "Chargeable securities" does not include securities falling within paragraph (a), (b) or (c) of subsection (3) above if—

(a) they are securities issued or raised by an SE (whether or not in the course of its formation in accordance with Article 2 of

Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)), and

(b) at the time when it falls to be determined whether the securities are chargeable securities, the SE has its registered office outside the United Kingdom."

(2) Subsection (1) shall have effect for the purposes of determining, in relation to anything occurring on or after 1st April 2005, whether securities (whenever issued or raised) are chargeable securities for the purposes of Part 4 of FA 1986.

58 Bearer instruments: stamp duty and stamp duty reserve tax

(1) In section 90(3C)(a) of FA 1986 (stamp duty reserve tax: bearer instruments) after "United Kingdom" insert "(other than an SE which has its registered office outside the United Kingdom following a transfer in accordance with Article 8 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea))".

(2) In section 90(3E)(a) of FA 1986 (stamp duty reserve tax: bearer instruments) after "United Kingdom" insert "(other than an SE which has its registered office outside the United Kingdom following a transfer in accordance with Article 8 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea))".

(3) In paragraph 11 of Schedule 15 to FA 1999 (bearer instruments) for the definition of "UK company" substitute—

""UK company" means—

(a) a company that is formed or established in the United Kingdom (other than an SE which has its registered office outside the United Kingdom following a transfer in accordance with Article 8 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)), or

(b) an SE which has its registered office in the United Kingdom following a transfer in accordance with Article 8 of that Regulation;".

(4) This section shall have effect for the purposes of determining whether or not stamp duty or stamp duty reserve tax is chargeable in respect of anything done on or after 1st April 2005.

59 Consequential amendments

(1) In section 815A(1) of ICTA (transfer of a non-UK trade) after "section 140C" insert "or 140F".

(2) In section 35(3)(d)(i) of TCGA 1992 (re-basing to 1982, etc) after "140A," insert "140E,".

(3) In section 140A of TCGA 1992 (transfer of UK trade)—

(a) in subsection (1)(b) for "securities" substitute "shares or debentures", and

(b) in subsection (7) omit the definition of "securities".

(4) In section 140C of TCGA 1992 (transfer of non-UK trade)—

(a) in subsection (1)(c) for "securities" substitute "shares or debentures", and

(b) in subsection (9) omit the definition of "securities".

(5) In paragraph 88(1) and (5) of Schedule 29 to FA 2002 (intangible fixed assets: gains and losses: transferred assets: application for clearance) after "85(5)," insert "85A(5), 87A(6),".

(6) In paragraph 127 of that Schedule (acquired assets to be treated as existing assets) after sub-paragraph (1)(b)(ii) insert—

", or

(iii) section 140E of that Act (transfer on formation of SE by merger),".

(7) Subsections (3) and (4) shall have effect in relation to an issue effected on or after 1st April 2005.

60 Residence

(1) After section 66 of FA 1988 (company residence) insert—

"66A Residence of SE

(1) This section applies to an SE which transfers its registered office to the United Kingdom (in accordance with Article 8 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)).

(2) Upon registration in the United Kingdom the SE shall be regarded for the purposes of the Taxes Acts as resident in the United Kingdom; and accordingly, if a different place of residence is given by any rule of law, that place shall not be taken into account for those purposes.

(3) The SE shall not cease to be regarded as resident in the United Kingdom by reason only of the subsequent transfer from the United Kingdom of its registered office.

(4) In this section "the Taxes Acts" has the same meaning as in the Taxes Management Act 1970."

(2) In section 249(3) of FA 1994 (certain companies to be treated as non-resident) after "resident there)" insert ", by virtue of section 66A of that Act (residence of SE)".

(3) Subsection (1) shall have effect in relation to the transfer of a registered office which occurs on or after 1st April 2005.

61 Continuity for transitional purposes

(1) If at any time a company ceases to be resident in the United Kingdom in the course of the formation of an SE by merger (whether or not the company continues to exist after the formation of the SE) the provision specified in subsection (3) shall apply after that time, but in relation to liabilities accruing and matters arising before that time—

(a) as if the company were still resident in the United Kingdom, and

(b) where the company has ceased to exist, as if the SE were the company.

(2) If at any time an SE transfers its registered office from the United Kingdom and ceases to be resident in the United Kingdom, the provision specified in subsection (3) shall apply after that time, but in relation to liabilities accruing and matters arising before that time, as if the SE were still resident in the United Kingdom.

(3) The provision mentioned in subsections (1) and (2) is Schedule 18 to FA 1998 (tax returns, assessments, etc).

62 Groups

(1) After section 170(10) of TCGA 1992 (groups: merger, etc) insert—

"(10A) Where the principal company of a group (Group 1)—

(a) becomes an SE by reason of being the acquiring company in the formation of an SE by merger by acquisition (in accordance with Articles 2(1), 17(2)(a) and 29(1) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)),

(b) becomes a subsidiary of a holding SE (formed in accordance with Article 2(2) of that Regulation), or

(c) is transformed into an SE (in accordance with Article 2(4) of that Regulation),

Group 1 and any group of which the SE is a member on formation 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."

(2) Subsection (1) shall have effect in relation to the formation of an SE (including its formation by transformation) which occurs on or after 1st April 2005.

63 Groups: intangible fixed assets

(1) After paragraph 51 of Schedule 29 to FA 2002 (groups: continuity) insert—

"51A For the purposes of this Schedule where the principal company of a group (Group 1)—

(a) becomes an SE by reason of being the acquiring company in the formation of an SE by merger by acquisition (in accordance with Articles 2(1), 17(2)(a) and 29(1) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea)),

(b) becomes a subsidiary of a holding SE (formed in accordance with Article 2(2) of that Regulation), or

(c) is transformed into an SE (in accordance with Article 2(4) of that Regulation),

Group 1 and any group of which the SE is a member on formation 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."

(2) Subsection (1) shall have effect in relation to the formation of an SE (including its formation by transformation) which occurs on or after 1st April 2005.

64 Held-over gains

(1) In section 116(11) of TCGA 1992 (shares: reorganisation, etc) after "140A," insert "140E,".

(2) After section 140(6A) of that Act (postponement of charge on transfer of assets to foreign company) insert—

"(6B) If, as part of the process of a merger forming an SE in circumstances in which section 140E applies, securities are transferred to the SE by a transferor company—

(a) the transfer to the SE shall be disregarded for the purposes of subsection (4), and

(b) the SE shall be treated as if it were the transferor company in relation to—

(i) any subsequent disposal of the securities, and

(ii) any subsequent disposal by the transferee company of assets to which subsection (5) applies."

(3) After section 154(2) of that Act (held over gains: depreciating assets) insert—

"(2A) If, as part of the process of a merger forming an SE in circumstances in which section 140E applies, asset No 2 or shares in a company which holds asset No 2 are transferred to the SE, the transfer to the SE shall be disregarded for the purposes of subsection (2), and—

(a) if the SE holds asset No 2, it shall be treated for the purposes of subsection (2), in relation to asset No 2, as if it were the claimant, or

(b) if the SE holds shares in the company which holds asset No 2, section 175 shall apply in relation to the group of which the SE is a member as if it were the same group as any group of which the claimant was a member before the formation of the SE.

(2B) If, as part of the process of a merger forming an SE in circumstances in which section 140E applies, the SE becomes a member (whether or not as the principal company) of a group of which the claimant is also a member, for the purposes of subsection (2) section 175 shall apply in relation to the trade carried on by the claimant as if the group of which the SE is a member were the same group as the group of which the claimant was a member before the formation of the SE."

(4) After section 179(1A) of that Act (company ceasing to be member of group) insert—

"(1B) Where, as part of the process of a merger to form an SE in circumstances in which section 140E applies, a company which is a member of a group ("Group 1") ceases to exist and in consequence of that cessation—

(a) assets are transferred to the SE, or

(b) shares in one or more companies which were also members of the group are transferred to the SE,

a company which has ceased to exist, or the shares in which have been transferred to the SE, shall not be treated for the purposes of this section as having left Group 1.

(1C) If subsection (1B) applies in relation to a company then for the purposes of this section—

(a) the SE and a company which has ceased to exist in consequence of the merger to form the SE shall be treated as the same entity, and

(b) if the SE is a member of a group ("Group 2") following its formation (whether or not as the principal company of the group) a company which was a member of Group 1 and became a member of Group 2 in consequence of the formation of the SE shall be treated, for the purposes of this section, as if Group 1 and Group 2 were the same."

(5) This section shall have effect in relation to the formation of an SE in accordance with Article 2 of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea) which occurs on or after 1st April 2005.

65 Restrictions on set-off of pre-entry losses

(1) Schedule 7A to TCGA 1992 (restrictions on set-off of pre-entry losses) shall be amended as follows.

(2) After paragraph 1(3A)(a) insert—

"(aa) in a case in which (whether or not paragraph (a)(i) also applies)—

(i) the company is an SE resident in the United Kingdom, and

(ii) the asset was transferred to the SE as part of the process of its formation by the merger by acquisition of two or more companies in accordance with Articles 2(1) and 17(2)(a) or (b) of Council Regulation (EC) 2157/2001 on the Statute for a European Company (Societas Europaea),

are references to the asset becoming a chargeable asset in relation to the SE or, if at the time of the formation of the SE the asset was a chargeable asset in relation to a company which ceased to exist as part of the process of the formation of the SE, to the asset becoming a chargeable asset in relation to that company;".

(3) In the definition of "chargeable asset" in paragraph 1(3A) after "section 10B" insert "(or, if the company is an SE, by reason of the asset having been transferred to the SE on its formation)".

(4) In paragraph 1(6)(a) after "subsection (10)" insert "or (10A)".

(5) In paragraph 9(6) after "subsection (10)" insert "or (10A)".

(6) This section shall have effect in relation to the formation of an SE which occurs on or after 1st April 2005.

PART 5

MISCELLANEOUS MATTERS

66 Vehicle excise duty: late renewal supplements

(1) VERA 1994 is amended as follows.

(2) Section 7A (supplement payable on late renewal of vehicle licence) is amended as follows.

(3) In subsection (1) (cases in which regulations may provide for supplement to be payable), for the words from "in prescribed cases" to the end substitute "where—

(a) a vehicle has ceased to be appropriately covered,

(b) the vehicle is not, before the end of the relevant prescribed period, appropriately covered as mentioned in paragraph (a) or (b) of subsection (1A) below with effect from the time immediately after it so ceased or appropriately covered as mentioned in paragraph (d) of that subsection, and

(c) the circumstances are not such as may be prescribed."

(4) After that subsection insert—

"(1A) For the purposes of this section and section 7B a vehicle is appropriately covered if (and only if)—

(a) a vehicle licence or trade licence is in force for or in respect of the vehicle,

(b) the vehicle is an exempt vehicle in respect of which regulations under this Act require a nil licence to be in force and a nil licence is in force in respect of it,

(c) the vehicle is an exempt vehicle that is not one in respect of which regulations under this Act require a nil licence to be in force, or

(d) the vehicle is neither kept nor used on a public road and the declarations and particulars required to be delivered by regulations under section 22(1D) have been delivered in relation to it in accordance with the regulations within the immediately preceding period of 12 months.

(1B) Where a vehicle for or in respect of which a vehicle licence is in force is transferred by the holder of the vehicle licence to another person, the vehicle licence is to be treated for the purposes of subsection (1A) as no longer in force unless it is delivered to the other person with the vehicle.

(1C) Where—

(a) an application is made for a vehicle licence for any period, and

(b) a temporary licence is issued pursuant to the application,

subsection (1B) does not apply to the licence applied for if, on a transfer of the vehicle during the currency of the temporary licence, the temporary licence is delivered with the vehicle to the transferee.

(1D) In subsection (1)(b) "the relevant prescribed period" means such period beginning with the date on which the vehicle ceased to be appropriately covered as is prescribed."

(5) In subsection (2)(c) (amount of supplement variable according to length of period between expiry of licence and payment of supplement or renewal of licence), for sub-paragraphs (i) and (ii) substitute—

"(i) the time of a notification (in accordance with regulations under section 7B(1)) to, or in relation to, a person by whom it is payable, and

(ii) the time at which it is paid."

(6) In subsection (3)(b) (supplement not to cease to be payable by reason of taking out of vehicle licence), for "a vehicle licence being taken out for the vehicle" substitute "the vehicle being again appropriately covered".

(7) Omit subsection (4)(a) (definition of "expiry of a vehicle licence").

(8) In the heading, for "late renewal of vehicle licence" substitute "vehicle ceasing to be appropriately covered".

(9) Section 7B (late-renewal supplements: further provisions) is amended as follows.

(10) In subsection (1) (notification of person in whose name vehicle is registered)—
(a) for "on non-renewal of a vehicle licence for" substitute "in relation to", and
(b) for "failure to renew a vehicle licence" substitute "the vehicle ceasing to be appropriately covered".

(11) In the heading, for "Late-renewal" substitute "Section 7A".

67 Reorganisation of water and sewerage services in Northern Ireland

(1) In this section "relevant transfer" means a transfer of property, rights or liabilities where—
(a) the transfer is of property, rights or liabilities which—
(i) are specified or described in or determined in accordance with a scheme, and
(ii) consist of or include relevant property, rights or liabilities,
(b) the transfer is from a Northern Ireland department or persons which include a Northern Ireland department to a company or companies specified in the scheme ("transferee company"), and
(c) the transfer is effected by or under an enactment which—
(i) is made after the coming into force of this section, and
(ii) relates to the provision of water or sewerage services in Northern Ireland.

(2) In this section "relevant property, rights or liabilities" means property, rights or liabilities connected with the provision of any water or sewerage services.

(3) The Treasury may by regulations make provision for or in connection with varying the way in which a relevant tax or duty would, apart from the regulations, have effect in relation to, or in connection with, any of the following—
(a) anything done for the purpose of, or under or in consequence of, a relevant transfer of relevant property, rights or liabilities from a Northern Ireland department to a transferee company;
(b) any relevant property, rights or liabilities which are the subject of a relevant transfer from a Northern Ireland department to a transferee company;
(c) any relevant property, rights or liabilities of a transferee company.

(4) The provision that may be made by the regulations includes provision for or in connection with any of the following—
(a) a tax provision not to apply or to apply with modifications in prescribed cases or circumstances;

(b) anything done to have or not to have a specified consequence for the purposes of a tax provision in prescribed cases or circumstances;

(c) any relevant property, rights or liabilities which are the subject of a relevant transfer from a Northern Ireland department to a transferee company to be treated in a specified way for the purposes of a tax provision in prescribed cases or circumstances;

(d) the withdrawal of relief (whether or not granted by virtue of the regulations), and the charging of tax, in prescribed cases or circumstances;

(e) requiring or enabling the Secretary of State, with the consent of the Treasury, to determine or to specify the method to be used for determining anything (including amounts or values, or times or periods of time) which needs to be determined for the purposes of any tax provision (whether or not modified by the regulations) as it applies in relation to, or in connection with,—

(i) anything done for the purpose of, or under or in consequence of, a relevant transfer of relevant property, rights or liabilities from a Northern Ireland department to a transferee company, or

(ii) any relevant property, rights or liabilities which are the subject of a relevant transfer from a Northern Ireland department to a transferee company.

(5) A provision of regulations made by virtue only of subsection (3)(c) ("a subsection (3)(c) provision") (whether or not also by virtue of subsection (4)) shall not have effect for an accounting period of a transferee company unless the company is wholly owned by the Crown during the whole of that accounting period.

(6) Regulations under this section may provide that, for the purposes of a subsection (3)(c) provision, an accounting period of a transferee company shall be taken to have ended on the company ceasing to be wholly owned by the Crown.

(7) For the purposes of this section, a company shall be regarded as wholly owned by the Crown at any time when each of the issued shares in the company is held by, or by a nominee of,—

(a) the Treasury,

(b) the Secretary of State,

(c) a Northern Ireland department, or

(d) another company which is wholly owned by the Crown.

(8) In this section—

"enactment" includes a provision comprised in—

(a) Northern Ireland legislation, or

(b) an instrument made under an enactment;

"prescribed" means prescribed by or determined in accordance with regulations under this section;

"relevant tax or duty" means income tax, corporation tax, capital gains tax, stamp duty or stamp duty reserve tax;

"tax provision" means a provision of an enactment about a relevant tax or duty.

(9) Any power to make regulations under this section is exercisable by statutory instrument.

(10) A statutory instrument containing regulations under this section shall be subject to annulment in pursuance of a resolution of the House of Commons.

(11) Any power to make regulations under this section includes power—

(a) to make different provision for different cases or circumstances;

(b) to make incidental, supplemental, consequential or transitional provision or savings.

68 EU Mutual Assistance Directive: notifications

(1) This section applies where, in accordance with Article 8a of the Mutual Assistance Directive, the competent authority of another member State ("the applicant authority") requests the Commissioners for Her Majesty's Revenue and Customs to notify an instrument to the person to whom the instrument is addressed.

(2) The Commissioners must take the necessary measures to notify the instrument to that person.

(3) The notification shall be given in accordance with the law applicable to notification of similar instruments in the part of the United Kingdom in which it is given.

(4) The Commissioners must—

(a) inform the applicant authority immediately of their response to the request, and

(b) confirm to the applicant authority, as soon as is reasonably practicable, the date on which the instrument was notified to the person concerned.

(5) The Commissioners may request additional information from the applicant authority for the purpose of giving the notification.

(6) In this section "the Mutual Assistance Directive" means Council Directive 77/799/EEC as amended (in particular by Council Directive 2004/56/EC).

(7) In this section references to the Commissioners for Her Majesty's Revenue and Customs include, in relation to any time before 18th April 2005,—

(a) the Commissioners of Customs and Excise;

(b) the Commissioners of Inland Revenue.

(8) In this section "instrument" means any instrument or decision which—

(a) emanates from the administrative authorities of the member State in which the applicant authority is situated, and

(b) concerns the application in that member State of legislation on taxes covered by the Mutual Assistance Directive.

(9) This section has effect in relation to requests received by the Commissioners for Her Majesty's Revenue and Customs on or after 1st January 2005.

69 Abolition of statutory adjudicator for National Savings and Investments

(1) After the coming into force of this section, no further disputes shall be referred to a person appointed under section 84 of the Friendly Societies Act 1992 (c. 40)

(adjudicator for disputes under the National Savings Bank Act 1971 and the National Debt Act 1972).

(2) This section comes into force on 1st September 2005.

PART 6

SUPPLEMENTARY PROVISIONS

70 Repeals

(1) The enactments mentioned in Schedule 11 (which include provisions that are spent or of no practical utility) are repealed to the extent specified.

(2) The repeals specified in that Schedule have effect subject to the commencement provisions and savings contained or referred to in the notes set out in that Schedule.

71 Interpretation

In this Act—

"CAA 2001" means the Capital Allowances Act 2001 (c. 2);

"FA", followed by a year, means the Finance Act of that year;

"ICTA" means the Income and Corporation Taxes Act 1988 (c. 1);

"ITEPA 2003" means the Income Tax (Earnings and Pensions) Act 2003 (c. 1);

"ITTOIA 2005" means the Income Tax (Trading and Other Income) Act 2005 (c. 5);

"TCGA 1992" means the Taxation of Chargeable Gains Act 1992 (c. 12);

"VATA 1994" means the Value Added Tax Act 1994 (c. 23);

"VERA 1994" means the Vehicle Excise and Registration Act 1994 (c. 22).

72 Short title

This Act may be cited as the Finance (No. 2) Act 2005.

SCHEDULES

SCHEDULE 1

Section 6

DISCLOSURE OF VALUE ADDED TAX AVOIDANCE SCHEMES

Introduction

1 Schedule 11A to VATA 1994 (disclosure of avoidance schemes) is amended in accordance with this Schedule.

Interpretative provisions

2 In paragraph 1 (interpretation), after the definition of "designated scheme" insert—

" "non-deductible tax", in relation to a taxable person, has the meaning given by paragraph 2A;".

3 For paragraph 2 substitute—

"2 (1) For the purposes of this Schedule, a taxable person obtains a tax advantage if—

(a) in any prescribed accounting period, the amount by which the output tax accounted for by him exceeds the input tax deducted by him is less than it would otherwise be,

(b) he obtains a VAT credit when he would not otherwise do so, or obtains a larger VAT credit or obtains a VAT credit earlier than would otherwise be the case,

(c) in a case where he recovers input tax as a recipient of a supply before the supplier accounts for the output tax, the period between the time when the input tax is recovered and the time when the output tax is accounted for is greater than would otherwise be the case, or

(d) in any prescribed accounting period, the amount of his non-deductible tax is less than it would otherwise be.

(2) For the purposes of this Schedule, a person who is not a taxable person obtains a tax advantage if his non-refundable tax is less than it would otherwise be.

(3) In sub-paragraph (2), "non-refundable tax", in relation to a person who is not a taxable person, means—

(a) VAT on the supply to him of any goods or services,

(b) VAT on the acquisition by him from another member State of any goods, and

(c) VAT paid or payable by him on the importation of any goods from a place outside the member States,

but excluding (in each case) any VAT in respect of which he is entitled to a refund from the Commissioners by virtue of any provision of this Act."

4 After paragraph 2 insert—

"Meaning of "non-deductible tax"

2A (1) In this Schedule "non-deductible tax", in relation to a taxable person, means—

(a) input tax for which he is not entitled to credit under section 25, and

(b) any VAT incurred by him which is not input tax and in respect of which he is not entitled to a refund from the Commissioners by virtue of any provision of this Act.

(2) For the purposes of sub-paragraph (1)(b), the VAT "incurred" by a taxable person is—

(a) VAT on the supply to him of any goods or services,

(b) VAT on the acquisition by him from another member State of any goods, and

(c) VAT paid or payable by him on the importation of any goods from a place outside the member States."

Duty to notify Commissioners

5 (1) Paragraph 6 (duty to notify Commissioners) is amended as follows.

(2) In sub-paragraph (1)—

(a) omit the word "or" at the end of paragraph (a), and

(b) after paragraph (b) insert ", or

(c) the amount of his non-deductible tax in respect of any prescribed accounting period is less than it would be but for such a scheme."

(3) After sub-paragraph (2) insert—

"(2A) Sub-paragraph (2) does not apply to a taxable person in relation to any scheme if he has on a previous occasion—

(a) notified the Commissioners under that sub-paragraph in relation to the scheme, or

(b) provided the Commissioners with prescribed information under sub-paragraph (3) (as it applied before the scheme became a designated scheme) in relation to the scheme."

(4) For sub-paragraph (5) substitute—

"(5) Sub-paragraph (3) also does not apply where the scheme is one in respect of which the taxable person has on a previous occasion provided the Commissioners with prescribed information under that sub-paragraph."

6 In paragraph 7 (exemptions from duty to notify) in the definition of "relevant period" in sub-paragraph (9) for "6(1)(a) or (b)" substitute "6(1)(a), (b) or (c)".

Amount of penalty

7 (1) Paragraph 11 (amount of penalty) is amended as follows.

(2) In sub-paragraph (3)—

(a) omit the word "and" at the end of paragraph (a), and

(b) after paragraph (b) insert ", and

(c) to the extent that—

(i) the case falls within paragraph 6(1)(c), and

(ii) the excess of the notional non-deductible tax of the taxable person for the relevant periods over his non-deductible tax for those periods is not represented by a corresponding amount which by virtue of paragraph (a) or (b) is part of the VAT saving,

the amount of the excess."

(3) In sub-paragraph (4), after "(3)(a)" insert "and (c)".

(4) After sub-paragraph (4) insert—

"(5) In sub-paragraph (3)(c), "notional non-deductible tax", in relation to a taxable person, means the amount that would, but for the scheme, have been the amount of his non-deductible tax."

Penalty assessments

8 In paragraph 12 (penalty assessments) for sub-paragraph (3) substitute—

"(3) In a case where—

(a) the penalty falls to be calculated by reference to the VAT saving as determined under paragraph 11(3), and

(b) the notional tax cannot readily be attributed to any one or more prescribed accounting periods,

the notional tax shall be treated for the purposes of this Schedule as attributable to such period or periods as the Commissioners may determine to the best of their judgment and notify to the person liable for the penalty.

(3A) In sub-paragraph (3) "the notional tax" means—

(a) the VAT that would, but for the scheme, have been shown in returns as payable by or to the taxable person, or

(b) any amount that would, but for the scheme, have been the amount of the non-deductible tax of the taxable person."

SCHEDULE 2

Section 12

EMPLOYEE SECURITIES: ANTI-AVOIDANCE

Introductory

1 ITEPA 2003 is amended as follows.

Rights under certain insurance contracts to be securities

2 (1) Section 420 (income and exemptions relating to securities: meaning of "securities" etc.) is amended as follows.

(2) In subsection (1), after paragraph (a) insert—

"(aa) rights under contracts of insurance other than excluded contracts of insurance,".

(3) In paragraph (b) of that subsection, insert at the end "(other than contracts of insurance)".

(4) In paragraph (g) of that subsection, insert at the end "(other than contracts of insurance)".

(5) After that subsection insert—

"(1A) For the purposes of subsection (1)(aa) a contract of insurance is an excluded contract of insurance if it is—

(a) a contract for an annuity which is (or will be) pension income (see Part 9),

(b) a contract of long-term insurance, other than an annuity contract, which does not have a surrender value and is not capable of acquiring one (whether on conversion or in any other circumstances), or

(c) a contract of general insurance other than one which falls, in accordance with generally accepted accounting practice, to be accounted for as a financial asset or liability.

(1B) In this section—

"contract of insurance",

"contract of long-term insurance", and

"contract of general insurance",

have the same meaning as in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001."

(6) In subsection (5)—

(a) at the end of paragraph (c) insert "and", and

(b) omit paragraph (d) (exclusion of insurance contracts).

(7) In Part 2 of Schedule 1 (index of defined expressions), insert at the appropriate place—

"generally accepted accounting practice	Section 832(1) of ICTA"

(8) This paragraph has effect on and after 2nd December 2004 and applies in relation to rights under contracts of insurance acquired before that date, as well as those acquired on or after that date; and—

(a) for the purposes of the application of Chapter 3B of Part 7 of ITEPA 2003 (securities with artificially enhanced market value) by reason of this paragraph in relation to rights under contracts of insurance acquired before that date, section 446O of that Act (meaning of "relevant period") has effect as if they were acquired on that date, and

(b) for the purposes of section 420(1A)(c) of ITEPA 2003, section 50 of FA 2004 (meaning of "generally accepted accounting practice") has effect on and after that date, in spite of subsection (6) of that section.

Restricted securities

3 Chapter 2 of Part 7 (restricted securities) is amended as follows.

4 (1) Section 424 (employment-related securities which are not restricted securities or restricted interest in securities) is renumbered as subsection (1) of that section.

(2) In that subsection—

(a) at the end of paragraph (a) insert "or", and

(b) omit paragraph (c) (employment-related securities which are, or are an interest in, redeemable securities) and the word "or" before it.

(3) After that subsection insert—

"(2) Subsection (1) does not apply if the main purpose (or one of the main purposes) of the arrangements under which the right or opportunity to acquire the employment-related securities is made available is the avoidance of tax or national insurance contributions."

(4) This paragraph has effect on and after 2nd December 2004 and applies in relation to employment-related securities acquired before that date, as well as those acquired on or after that date; and section 422 of ITEPA 2003 (application of Chapter 2 of Part 7) applies to employment-related securities in relation to which this paragraph has effect and which were acquired before that date with the omission of the words "at the time of the acquisition".

5 (1) In section 428 (amount of charge under section 426), after subsection (9) insert—

"(10) But subsection (9) does not apply if something which affects the employment-related securities has been done (at or before the time of the chargeable event) as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 428(10) of ITEPA 2003 has been done on or after 2nd December 2004.

6 (1) In section 429 (exception from charge under section 426 for certain company shares), for subsection (1A) substitute—

"(1A) This subsection is satisfied unless something which affects the employment-related securities has been done (at or before the time when section 426 would apply) as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 429(1A) of ITEPA 2003 has been done on or after 2nd December 2004.

7 (1) After section 431A insert—

"431B Securities acquired for purpose of avoidance

Where employment-related securities are restricted securities or a restricted interest in securities, the employer and the employee are to be treated as making an election under section 431(1) in relation to the employment-related securities if the main purpose (or one of the main purposes) of the arrangements under which the right or opportunity to acquire the employment-related securities is made available is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect in relation to employment-related securities acquired on or after 2nd December 2004.

Convertible securities

8 Chapter 3 of Part 7 (convertible securities) is amended as follows.

9 (1) In section 436(a) (meaning of "convertible securities"), for "immediate or conditional entitlement" substitute "entitlement (whether immediate or deferred and whether conditional or unconditional)".

(2) Section 437 (adjustment of acquisition charge) is renumbered as subsection (1) of that section.

(3) After that subsection insert—

"(2) Subsection (1) does not apply if the main purpose (or one of the main purposes) of the arrangements under which the right or opportunity to acquire the employment-related securities is made available is the avoidance of tax or national insurance contributions unless the market value of the employment-related securities determined under subsection (1) would be greater than that determined under subsection (3).

(3) Where subsection (1) does not apply by virtue of subsection (2) the market value of the employment-related securities is to be determined—

(a) where the securities which are (or an interest in which is) the employment-related securities fall within paragraph (a) of section 436 and the entitlement to convert is not both immediate and unconditional, as if it were,

(b) where they fall within paragraph (b) of that section, as if the circumstances are such that an entitlement to convert arises immediately, and

(c) where they fall within paragraph (c) of that section, as if provision were made for their immediate conversion;

and in each case is to be determined as if they were immediately and fully convertible.

(4) In subsection (3) "immediately and fully convertible" means convertible immediately after the acquisition of the employment-related securities so as to obtain the maximum gain that would be possible on a conversion at that time (assuming, where the securities into which the securities may be converted were not in existence at that time and it is appropriate to do so, that they were) without

giving any consideration for the conversion or incurring any expenses in connection with it."

(4) This paragraph has effect in relation to acquisitions on or after 2nd December 2004.

10 (1) In section 440 (amount of charge under section 438), after subsection (3) insert—

"(3A) If (because of subsection (2) of section 437) subsection (1) of that section did not apply in relation to the employment-related securities, the taxable amount is to be reduced by the amount by which—

(a) the market value of the employment-related securities for the purposes specified in that subsection, exceeded

(b) what it would have been had that subsection applied,

(less the aggregate of any amount by which the taxable amount on any previous chargeable event relating to the employment-related securities has been reduced under this subsection)."

(2) This paragraph has effect on and after 2nd December 2004.

11 (1) In section 443 (exception from charge under section 438 for certain company shares), for subsection (1A) substitute—

"(1A) This subsection is satisfied unless something which affects the employment-related securities has been done (at or before the time when section 438 would apply) as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 443(1A) of ITEPA 2003 has been done on or after 2nd December 2004.

Securities acquired for less than market value

12 Chapter 3C of Part 7 (securities acquired for less than market value) is amended as follows.

13 (1) In section 446R (exception from Chapter for certain company shares), for subsection (1A) substitute—

"(1A) This subsection is satisfied unless something which affects the employment-related securities has been done (at or before the time of the acquisition) as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 446R(1A) of ITEPA 2003 has been done on or after 2nd December 2004.

14 (1) In section 446U(1) (discharge of notional loan), insert at the end "or

(c) something which affects the employment-related securities is done as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 443U(1)(c) of ITEPA 2003 has been done on or after 2nd December 2004.

15 (1) After section 446U insert—

"446UA Pre-acquisition avoidance cases

(1) Sections 446S to 446U do not apply if the main purpose (or one of the main purposes) of the arrangements under which the right or opportunity to acquire the employment-related securities is made available is the avoidance of tax or national insurance contributions.

(2) But instead an amount equal to what would (apart from this section) be the amount of the notional loan initially outstanding by virtue of sections 446S and 446T counts as employment income of the employee for the tax year in which the acquisition takes place."

(2) This paragraph has effect in relation to acquisitions on or after 2nd December 2004.

16 (1) Section 698 (PAYE: special charges on employment-related securities) is amended as follows.

(2) In subsection (1), after paragraph (e) insert—

"(ea) section 446UA (securities or interest acquired for less than market value: charge in avoidance cases),".

(3) In subsection (6), after paragraph (d) insert—

"(da) in relation to an amount counting as employment income under section 446UA, the date of the acquisition of the securities or interest in securities in question,".

(4) This paragraph has effect on and after the day on which this Act is passed.

Post-acquisition benefits from securities

17 Chapter 4 of Part 7 (post-acquisition benefits from securities) is amended as follows.

18 (1) Section 447 (charge on other chargeable benefits from securities) is amended as follows.

(2) In subsection (1), for "by virtue of the ownership of employment-related securities by that person or another associated person" substitute "in connection with employment-related securities".

(3) For subsection (4) substitute—

"(4) If the benefit is otherwise chargeable to income tax this section does not apply unless something has been done which affects the employment-related securities as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(4) Sub-paragraph (2) has effect on and after 2nd December 2004 and sub-paragraph (3) has effect where something such as is mentioned in section 447(4) of ITEPA 2003 has been done on or after that date.

19 (1) In section 449 (exception from charge under section 447 for certain company

shares), for subsection (1A) substitute—

"(1A) This subsection is satisfied unless something which affects the employment-related securities has been done as part of a scheme or arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions."

(2) This paragraph has effect where something such as is mentioned in section 449(1A) of ITEPA 2003 has been done on or after 2nd December 2004.

Corporation tax relief: minor and consequential amendments

20 (1) Schedule 23 to FA 2003 (corporation tax relief for employee shares) is amended as follows.

(2) In paragraph 7 (award of shares: income tax position of employee), after sub-paragraph (2) insert—

"(3) It must be the case that section 446UA of the Income Tax (Earnings and Pensions) Act 2003 does not operate in relation to the shares."

(3) In paragraph 21(8) (amount of relief in case of restricted shares: provision to be disregarded in determining amount of relief on a chargeable event under section 426), for "446E(3)" substitute "446E(6)".

(4) In paragraph 22C (amount of relief in case of convertible shares), after sub-paragraph (4) insert—

"(4A) Subsections (2) and (3) of section 437 of the Income Tax (Earnings and Pensions) Act 2003 are to be disregarded in determining the amounts mentioned in sub-paragraphs (3) and (4)."

(5) In paragraph 25(1) (exclusion of other deductions where relief available under Schedule 23), after "Schedule is" insert "(or, apart from paragraph 7(3), would be)".

(6) Sub-paragraphs (2), (4) and (5) have effect in relation to awards on or after the day on which this Act is passed.

(7) Sub-paragraph (3) is to be treated as having come into force on 7th May 2004.

SCHEDULE 3

Section 24

QUALIFYING SCHEME

PART 1

INTRODUCTORY

1 For the purposes of section 24 a scheme is a qualifying scheme if it falls within any of the following Parts of this Schedule.

PART 2

SCHEMES INVOLVING HYBRID ENTITIES

2 A scheme falls within this Part if a party to a transaction forming part of the scheme is a hybrid entity.

3 (1) An entity is a hybrid entity if—

(a) under the tax law of any territory, the entity is regarded as being a person, and

(b) the entity's profits or gains are, for the purposes of a relevant tax imposed under the law of any territory, treated as the profits or gains of a person or persons other than that person.

(2) The requirement in sub-paragraph (1)(b) is not to be regarded as satisfied in relation to an entity by reason only of its profits or gains being subject to a rule similar to that in section 747(3) of ICTA (imputation of chargeable profits of controlled foreign company) and having effect under the tax law of any territory outside the United Kingdom.

(3) For the purposes of this paragraph, the following are relevant taxes—

(a) income tax;

(b) corporation tax;

(c) any tax of a similar character to income tax or corporation tax that is imposed by the law of a territory other than the United Kingdom.

PART 3

SCHEMES INVOLVING HYBRID EFFECT

Schemes involving hybrid effect

4 A scheme falls within this Part if it satisfies the requirements of paragraph 5, 6, 7 or 8.

Instruments of alterable character

5 (1) A scheme satisfies the requirements of this paragraph if one of the parties to the scheme is party to an instrument falling within sub-paragraph (2).

(2) An instrument falls within this sub-paragraph if, under the law of a particular territory, a relevant characteristic of the instrument may be altered on the election of any party to the instrument.

(3) For the purposes of this paragraph a characteristic of an instrument is a relevant characteristic if, under the law of a particular territory, altering it has the effect of determining whether, for the tax purposes of that territory—

(a) the instrument is taken into account as giving rise to income,

(b) the instrument is taken into account as giving rise to capital, or

(c) the instrument does not fall to be taken into account as giving rise either to income or to capital.

(4) An instrument is taken into account as giving rise to capital if any gain on the disposal of the instrument would, or would if the person making the disposal were resident in the United Kingdom, be a chargeable gain.

Shares subject to conversion

6 (1) A scheme satisfies the requirements of this paragraph if it includes—

(a) the issuing by a company of shares subject to conversion, or

(b) the amendment of rights attaching to shares issued by a company such that the shares become shares subject to conversion.

(2) For the purposes of sub-paragraph (1) a company's shares are shares subject to conversion if—

(a) the rights attached to the shares include provision by virtue of which a holder of such shares is entitled, on the occurrence of an event, to acquire by conversion or exchange securities in the company or another company, and

(b) the occurrence of the event is within the reasonable expectation of the company at the relevant time.

(3) For the purposes of sub-paragraph (2) the relevant time is—

(a) the time when the shares are issued, or

(b) if at the time when the shares are issued the occurrence of the event is not within the company's reasonable expectation and the rights attaching to the shares are later amended as described in sub-paragraph (1)(b), the time when the rights attaching to the shares are so amended.

(4) In this paragraph "security" has the same meaning as in Part 6 of ICTA.

Securities subject to conversion

7 (1) A scheme satisfies the requirements of this paragraph if it includes—

(a) the issuing by a company of securities subject to conversion, or

(b) the amendment of rights attaching to securities issued by a company such that the securities become securities subject to conversion.

(2) For the purposes of sub-paragraph (1) a company's securities are securities subject to conversion if—

(a) the rights attached to the securities include provision by virtue of which a holder of such securities is entitled, on the occurrence of an event, to acquire by conversion or exchange shares in the company or another company, and

(b) the occurrence of the event is within the reasonable expectation of the company at the relevant time.

(3) For the purposes of sub-paragraph (2) the relevant time is—

(a) the time when the securities are issued, or

(b) if at the time when the securities are issued the occurrence of the event is not within the company's reasonable expectation and the rights attaching to the securities are later amended as described in sub-paragraph (1)(b), the time when the rights attaching to the securities are so amended.

(4) In this paragraph "security" has the same meaning as in Part 6 of ICTA.

Debt instruments treated as equity

8 (1) A scheme satisfies the requirements of this paragraph if it includes a debt instrument issued by a company that is treated as equity in the company under generally accepted accounting practice.

(2) For the purposes of this paragraph, a debt instrument is an instrument issued by a company that represents a loan relationship of the company or, if the company were a company resident in the United Kingdom, would represent a loan relationship of the company.

PART 4

SCHEMES INVOLVING HYBRID EFFECT AND CONNECTED PERSONS

Schemes involving hybrid effect and connected persons

9 A scheme falls within this Part if it satisfies the requirements of paragraph 10 or 11.

Scheme including issue of shares not conferring a qualifying beneficial entitlement

10 (1) A scheme satisfies the requirements of this paragraph if it includes the issue by a company to a person connected with the company of shares other than shares falling within sub-paragraph (2).

(2) Shares issued by a company fall within this sub-paragraph if—

(a) on their issue, they are ordinary shares that are fully paid-up,

(b) at all times in the accounting period of the company in which the issue takes place, the shares confer a qualifying beneficial entitlement, and

(c) when the issue takes place, there is no arrangement or understanding under which the rights attaching to the shares may be amended.

(3) A share in a company confers a qualifying beneficial entitlement if it confers a beneficial entitlement to the relevant proportion of—

(a) any profits available for distribution to equity holders of the company, and

(b) any assets of the company available for distribution to its equity holders on a winding-up.

(4) For the purposes of sub-paragraph (3) the relevant proportion, in relation to a share, is the same as the proportion of the issued share capital represented by that share.

(5) Schedule 18 to ICTA (equity holders and profits or assets available for distribution) applies for the purposes of sub-paragraph (3) as it applies for the purposes of section 403C of ICTA.

Scheme including transfer of rights under a security

11 (1) A scheme satisfies the requirements of this paragraph if it includes a transaction or a series of transactions under which a person ("the transferor")—

(a) transfers rights to receive a payment under a relevant security to one or more other persons, or

(b) otherwise secures that one or more other persons are similarly benefited,

and sub-paragraphs (3) and (4) are satisfied.

(2) A person is similarly benefited for these purposes if he receives a payment which would, but for the transaction or series of transactions, have arisen to the transferor.

(3) This sub-paragraph is satisfied if—

(a) the transferor, and

(b) at least one of the persons to whom a transfer of rights is made or a similar benefit is secured,

are connected with each other.

(4) This sub-paragraph is satisfied if following the transfer of rights or the securing of the similar benefit—

(a) two or more persons either hold rights to receive a payment under the security or enjoy a similar benefit, and

(b) the rights held and benefits enjoyed by such of those persons as are connected have, taken together, a value equal to or greater than the value of any other rights to receive a payment under the security and of any other similar benefits, taken together.

(5) In sub-paragraph (4)(b) references to the value of rights to receive a payment under a relevant security are references to the market value of those rights; and references to the value of similar benefits are to be construed accordingly.

(6) In this paragraph a relevant security is—

(a) a security (within the meaning of Part 6 of ICTA), or

(b) any agreement under which a person receives an annuity or other annual payment (whether it is payable annually or at shorter or longer intervals) for a term which is not contingent on the duration of a human life or lives.

Interpretation

12 Section 839 of ICTA has effect for the purposes of this Part.

SCHEDULE 4

Section 34

CHARGEABLE GAINS: LOCATION OF ASSETS ETC

PART 1

LOCATION OF ASSETS

Exceptions from sections 713 and 714 of ICTA

1 (1) Section 715 of ICTA is amended as follows.

(2) In subsection (8) (place where securities are situated to be determined under section 275 of TCGA 1992) for "section 275" substitute "sections 275(1) and (2)(b) and 275C".

Foreign securities: delayed remittances

2 (1) Section 723 of ICTA is amended as follows.

(2) In subsection (8) (place where securities are situated to be determined under section 275 of TCGA 1992) for "section 275" substitute "sections 275(1) and (2)(b) and 275C".

Designated international organisations

3 (1) Section 265 of TCGA 1992 is amended as follows.

(2) In subsection (3) (securities issued by designated international organisations to be taken to be situated outside UK for the purposes of capital gains tax) for "capital gains tax" substitute "this Act".

Location of assets: general

4 (1) Section 275 of TCGA 1992 is amended as follows.

(2) Re-number that section as subsection (1) of that section.

(3) In that subsection, in paragraph (d) (location of shares or securities issued by municipal or governmental authority etc) for "securities" substitute "debentures".

(4) In that subsection, after that paragraph insert—

"(da) subject to paragraph (d) above, shares in or debentures of a company incorporated in any part of the United Kingdom are situated in the United Kingdom,".

(5) In that subsection, in paragraph (e) (location of registered shares or securities)—

(a) for "subject to paragraph (d)" substitute "subject to paragraphs (d) and (da)";

(b) for "securities" substitute "debentures".

(6) In that subsection, for paragraph (h) (location of patents, trade marks and registered designs) substitute—

"(h) patents, trade marks, registered designs and corresponding rights are situated where they are registered, and if registered in more than one register, where each register is situated, and licences or other rights in respect of any such rights are situated in the United Kingdom if they or any right derived from them are exercisable in the United Kingdom,".

(7) In that subsection, for paragraph (j) (location of copyright, design right and franchises) substitute—

"(j) copyright, design right, franchises and corresponding rights, and licences or other rights in respect of any such rights, are situated in the United Kingdom if they or any right derived from them are exercisable in the United Kingdom,".

(8) After that subsection insert—

"(2) In subsection (1) above—

(a) in paragraphs (d), (da) and (e), the references to shares or debentures, in relation to a company that has no share capital, include any interests in the company possessed by members of the company, and

(b) in paragraphs (d) and (e), the references to debentures, in relation to a person other than a company, include securities.

(3) In subsection (1) above, in each of paragraphs (h) and (j), "corresponding rights" means any rights under the law of a country or territory outside the United Kingdom that correspond or are similar to those within that paragraph.

(4) Subsection (1) above is subject to—

section 265(3) (securities issued by designated international organisations to be taken to be situated outside UK),

section 266 (securities issued by Inter-American Development Bank to be taken to be situated outside UK), and

section 275C (location of assets: interests of co-owners).".

Location of certain intangible assets

5 After section 275 of TCGA 1992 insert—

"275A Location of certain intangible assets

(1) This section applies for the purpose of determining whether the situation of an intangible asset ("asset A") is in the United Kingdom if the situation of asset A is not otherwise determined (see section 275B(1)).

(2) In this section "intangible asset" means—

(a) intangible or incorporeal property and includes a thing in action, or

(b) anything that under the law of a country or territory outside the United Kingdom corresponds or is similar to intangible or incorporeal property or a thing in action.

(3) If asset A is subject to UK law (see section 275B(2)) at the time it is created, it shall be taken for the purposes of this Act to be situated in the United Kingdom at all times.

(4) Subsections (5) to (9) below have effect if asset A—

(a) is a future or option (see section 275B(3)), and

(b) is not subject to UK law at the time it is created.

(5) If, as a result of the application of the rule in subsection (6) below in relation to asset A or any other asset or assets, asset A falls to be treated as being subject to UK law at the time it is created, it shall be taken for the purposes of this Act to be situated in the United Kingdom at all times.

(6) That rule is that where, in the case of any intangible asset,—

(a) the asset is a future or option,

(b) the underlying subject matter (see section 275B(4)) of the asset consists of or includes an asset which is an intangible asset, and

(c) either—

(i) that intangible asset is subject to UK law at the time it is created and, on the assumption that there were no rights or interests in or over that asset, the situation of that asset would not be otherwise determined, or

(ii) that intangible asset is treated by this subsection as being so subject at that time,

the intangible asset mentioned in paragraph (a) above is to be treated for the purposes of subsection (5) above and this subsection as being so subject at the time it is created.

(7) If—

(a) asset A is not taken to be situated in the United Kingdom by virtue of subsection (5) above, and

(b) as a result of the application of the rule in subsection (8) below in relation to asset A or any other asset or assets, asset A falls to be treated as being situated in the United Kingdom at any time,

it shall be taken for the purposes of this Act to be situated in the United Kingdom at that time.

(8) That rule is that where, in the case of any intangible asset,—

(a) the asset is a future or option, and

(b) the underlying subject matter of the asset consists of or includes an asset—

(i) which is, by virtue of subsection (9) below or of any provision of this Act apart from this section, situated in the United Kingdom at any time, or

(ii) which is treated by this subsection as being so situated at any time,

the intangible asset mentioned in paragraph (a) above is to be treated for the purposes of subsection (7) above and this subsection as being so situated at that time.

(9) Where—

(a) the underlying subject matter of a future or option consists of or includes shares or debentures issued by a company incorporated in any part of the United Kingdom, but

(b) at the time the future or option is created, those shares or debentures have not been issued,

the underlying subject matter of the future or option, so far as consisting of or including those shares or debentures, is to be taken, for the purposes of subsection (8) above, to consist of or include an asset which is situated in the United Kingdom at all times.

275B Section 275A: supplementary provisions

(1) For the purposes of section 275A, the situation of an asset is not otherwise determined if, apart from that section, this Act does not make any provision for determining—

(a) the situation of the asset, or

(b) whether the situation of the asset is in the United Kingdom.

(2) For the purposes of section 275A, an intangible asset is subject to UK law at a particular time if any right or interest which comprises or forms part of the asset is, at that time,—

(a) governed by, or otherwise subject to, or

(b) enforceable under,

the law of any part of the United Kingdom.

(3) Sub-paragraphs (6) to (10) of paragraph 12 of Schedule 26 to the Finance Act 2002 (meaning of "future" and "option") apply for the purposes of section 275A as they apply for the purposes of Part 2 of that Schedule.

(4) For the purposes of section 275A—

(a) the underlying subject matter of a future is the property which, if the future were to run to delivery, would fall to be delivered at the date and price agreed when the contract is made, and

(b) the underlying subject matter of an option is the property which would fall to be delivered if the option were exercised.

(5) Section 275A is subject to section 275C (location of assets: interests of co-owners).

(6) This section is to be construed as one with section 275A.".

Location of assets: interests of co-owners

6 After section 275B of TCGA 1992 (as inserted by paragraph 5) insert—

"275C Location of assets: interests of co-owners

(1) This section applies for determining for the purposes of this Act—

(a) the situation of an interest (see subsection (4)) in an asset, or

(b) whether the situation of an interest in an asset is in the United Kingdom.

(2) The situation of the interest in the asset shall be taken to be the same as the situation of the asset, as determined in accordance with subsection (3) below.

(3) The situation of the asset for the purposes of subsection (2) above shall be determined on the assumption that the asset is wholly-owned by the person holding the interest in the asset.

(4) In this section "interest", in relation to an asset, means an interest as a co-owner of the asset (whether the asset is owned jointly or in common and whether or not the interests of the co-owners are equal).".

PART 2

MINOR AMENDMENTS: NON-RESIDENT COMPANY WITH UK PERMANENT ESTABLISHMENT

Computation of losses

7 (1) Section 16 of TCGA 1992 is amended as follows.

(2) In subsection (3) (loss accruing to person in year of assessment during which he is not resident or ordinarily resident in UK not to be allowable loss unless, under section 10, he would be chargeable to tax in respect of chargeable gain if the loss had been a gain) after "section 10" insert "or 10B".

Reallocation within group of gain or loss accruing under section 179

8 (1) Section 179A of TCGA 1992 is amended as follows.

(2) In subsection (12) (asset is "chargeable asset" if gain accruing to company on disposal of asset would be chargeable gain and would by virtue of section 10(3) form part of company's chargeable profits for corporation tax) for "section 10(3)" substitute "section 10B".

Exemptions for disposals by companies with substantial shareholding

9 (1) Schedule 7AC to TCGA 1992 is amended as follows.

(2) In paragraph 3(2)(c)(ii) (one of conditions for exemption that chargeable gain accruing to company on disposal would by virtue of section 10(3) form part of company's chargeable profits for corporation tax) for "section 10(3)" substitute "section 10B".

PART 3

COMMENCEMENT

Commencement

10 (1) The amendments made by Part 1 of this Schedule have effect for determining for the purposes of TCGA 1992—

(a) the situation of any asset, or

(b) whether the situation of any asset is in the United Kingdom,

at any time on or after 16th March 2005 (irrespective of when the asset was acquired by the person holding it).

(2) The amendment made by paragraph 7 has effect in relation to any loss accruing to a company in an accounting period ending on or after 16th March 2005.

(3) The amendment made by paragraph 8 has effect for determining for the purposes of section 179A of TCGA 1992 whether an asset is a "chargeable asset" in relation to a company at any time on or after 16th March 2005.

(4) The amendment made by paragraph 9 has effect in relation to disposals on or after 16th March 2005.

SCHEDULE 5

Section 35

CHARGEABLE GAINS: OPTIONS

PART 1

APPLICATION OF MARKET VALUE RULE IN CASE OF EXERCISE OF OPTION

Application of market value rule in case of exercise of option

1 (1) Section 144ZA of TCGA 1992 is amended as follows.

(2) In subsection (1) (cases in which the section applies) at the beginning insert "Subject to section 144ZB,".

(3) In subsection (4) (where market value rule is set aside by the section, amount or value to be taken into account is, subject to section 120, to be actual amount or value) for "(subject to section 120) the actual amount or value" substitute "(subject to section 119A) the exercise price".

(4) After that subsection insert—

"(4A) In subsection (4) above "exercise price", in relation to an option, means the amount or value of the consideration which, under the terms of the option, is—

(a) receivable (if the option binds the grantor to buy), or

(b) payable (if the option binds the grantor to sell),

as a result of the exercise of the option (and does not include the amount or value of any consideration for the acquisition of the option (whether directly from the grantor or not)).".

(5) For subsection (5) substitute—

"(5) Subsections (5) and (6) of section 144 shall apply for the purposes of this section and sections 144ZB to 144ZD as they apply for the purposes of that section.".

Application of market value rule in case of exercise of option: exception

2 After section 144ZA of TCGA 1992 insert—

"144ZB Exception to rule in section 144ZA

(1) This section applies where—

(a) section 144ZA would apply but for this section in relation to an option, and

(b) the exercise of the option is non-commercial (see section 144ZC).

(2) But this section does not apply if—

(a) the option is a securities option within the meaning of Chapter 5 of Part 7 of ITEPA 2003 (see section 420(8) of that Act) to which that Chapter applies or would, apart from section 474 of that Act, apply (see section 471 of that Act), or

(b) section 144ZD of this Act (value of underlying subject matter of option altered with a view to obtaining a tax advantage) applies in relation to the option.

(3) Where this section applies, neither section 144ZA nor the following provisions of section 144 shall apply in relation to the option—

(a) in subsection (2), the words from "and accordingly" to the end of that subsection, and

(b) in subsection (3), the words from "and accordingly" to the end of that subsection;

but subsection (4) or (5) below shall instead have effect (subject to subsection (6) below).

(4) If the option binds the grantor to buy—

(a) the cost of acquisition incurred by the grantor in buying in pursuance of his obligations under the option, and

(b) the consideration for the disposal of what is bought by the grantor,

shall be deemed for the purposes of tax in respect of chargeable gains to be the market value, at the time the option is exercised, of what is bought.

(5) If the option binds the grantor to sell—

(a) the consideration for the sale, and

(b) the cost to the person exercising the option of acquiring what is sold,

shall be deemed for the purposes of tax in respect of chargeable gains to be the market value, at the time the option is exercised, of what is sold.

(6) But if the whole or any part of the underlying subject matter of the option (see subsection (7)) is subject to any right or restriction which is enforceable by the person disposing of the underlying subject matter or a person connected with him—

(a) the market value of the underlying subject matter shall be determined for the purposes of subsection (4) or (5) above as if the right or restriction did not exist, and

(b) to the extent that subsection (6) or (7) of section 18 would apply apart from this paragraph, it shall be disregarded.

(7) In this section "underlying subject matter", in relation to an option, means—

(a) if the option binds the grantor to sell, what falls to be sold on exercise of the option;

(b) if the option binds the grantor to buy, what falls to be bought on exercise of the option.

144ZC Section 144ZB: non-commercial exercise of option

(1) For the purposes of section 144ZB, the exercise of an option which binds the grantor to buy is non-commercial if the exercise price for the option (see subsection (3)) is less than the open market price (see subsection (4)) of what is bought.

(2) For the purposes of section 144ZB, the exercise of an option which binds the grantor to sell is non-commercial if the exercise price for the option is greater than the open market price of what is sold.

(3) In this section "exercise price", in relation to an option, means the amount or value of the consideration which, under the terms of the option, is—

(a) receivable (if the option binds the grantor to buy), or

(b) payable (if the option binds the grantor to sell),

as a result of the exercise of the option (and does not include the amount or value of any consideration for the acquisition of the option (whether directly from the grantor or not)).

(4) In this section "open market price", in relation to the underlying subject matter of an option (see section 144ZB(7)), means the price which the underlying subject matter might reasonably be expected to fetch on a sale in the open market at the time the option is exercised; and subsections (5) to (7) below apply for the purposes of this subsection.

(5) If the whole or any part of the underlying subject matter of the option is subject to any right or restriction which is enforceable by—

(a) the person disposing of the underlying subject matter, or

(b) a person connected with him,

the open market price of the underlying subject matter shall be determined as if the right or restriction did not exist.

(6) Section 272(2) (no reduction in estimated market value on account of assumption that whole of assets are placed on market at one time) shall apply in estimating the open market price of the underlying subject matter of an option as it applies in estimating the market value of any assets.

(7) Where the underlying subject matter of an option comprises or includes assets to which section 273 applies (unquoted shares and securities), subsection (3) of that section (assumption that relevant information is available) shall apply in determining the open market price of those assets as it applies for the purposes of a determination falling within subsection (1) of that section.

(8) This section is to be construed as one with section 144ZB.

144ZD Section 144ZB: alteration of value to obtain tax advantage

(1) This section applies in relation to an option if each of the following conditions is satisfied (as to the effect of this section applying, see section 144ZB(2)(b)).

(2) Condition 1 is that section 144ZB would, apart from subsection (2)(b) of that section, apply in relation to the option.

(3) Condition 2 is that, at the time the option is exercised, the open market price (see section 144ZC(4)) of the underlying subject matter of the option (see section 144ZB(7)) differs from the open market price of the underlying subject matter of the option at the time the option was granted.

(4) Condition 3 is that some or all of that change in the open market price of the underlying subject matter of the option results to any extent, directly or indirectly, from arrangements (see subsection (8)) ("the relevant arrangements")—

(a) to which a relevant person is or has been a party, or
(b) which include one or more transactions to which a relevant person is or has been a party.

(5) In subsection (4) above "relevant person" means any of the following—
(a) the grantor of the option;
(b) any person who at any time holds the option;
(c) a person connected with one or more of the persons mentioned in paragraph (a) or (b) above.

(6) Condition 4 is that, if there were to be disregarded so much of that change in the open market price of the underlying subject matter of the option as results to any extent, directly or indirectly, from the relevant arrangements, the exercise of the option would not be non-commercial (see section 144ZC).

(7) Condition 5 is that (apart from this section) as a result, directly or indirectly, of the relevant arrangements—
(a) the grantor of the option, or
(b) the person exercising the option,
would obtain or might be expected to obtain an advantage (see subsection (9)) in relation to capital gains tax or corporation tax in respect of chargeable gains directly or indirectly in consequence of, or otherwise in connection with, the exercise of the option.

(8) In this section "arrangements" includes any agreement, understanding, scheme, transaction or series of transactions (whether or not legally enforceable).

(9) In this section "advantage", in relation to capital gains tax or corporation tax in respect of chargeable gains, means—
(a) relief or increased relief from, or repayment or increased repayment of, that tax, or the avoidance or reduction of a charge to that tax or an assessment to that tax or the avoidance of a possible assessment to that tax, or
(b) the deferral of any payment of that tax or the advancement of any repayment of that tax.

(10) This section is to be construed as one with sections 144ZB and 144ZC.".

PART 2

MISCELLANEOUS AMENDMENTS RELATING TO SHARE OPTIONS ETC

Shares acquired on same day: election for alternative treatment

3 (1) Section 105A of TCGA 1992 is amended as follows.

(2) In subsection (1) (cases in which subsection (2) applies) in paragraph (b) (some of the acquired shares to be approved-scheme shares) for sub-paragraphs (i) and (ii) substitute—
"(i) the exercise of a qualifying option within the meaning given by section 527(4) of ITEPA 2003 (enterprise management incentives) in circumstances where

section 530 or 531 of that Act (exercise of option to acquire shares) applies, or

(ii) the exercise of an option to which Chapter 7 or 8 of Part 7 of that Act (approved share option schemes) applies in circumstances where section 519(1) or 524(1) of that Act applies.".

Employment-related securities options

4 (1) Section 149A of TCGA 1992 is amended as follows.

(2) In subsection (1) (cases in which the section applies) for paragraph (b) (option to consist of right to acquire shares in body corporate and to be obtained by individual by reason of his office or employment) substitute—

"(b) the option is a securities option within the meaning of Chapter 5 of Part 7 of ITEPA 2003 (see section 420(8) of that Act) to which that Chapter applies or would, apart from section 474 of that Act, apply (see section 471 of that Act), and".

(3) In that subsection, in paragraph (c) (section 17(1) to apply for calculating consideration for grant of option) after "section 17(1)" insert "of this Act".

(4) The heading of the section accordingly becomes "Employment-related securities options".

Interpretation of TCGA 1992

5 (1) Section 288 of TCGA 1992 is amended as follows.

(2) In subsection (1A) (employment-related securities options) for the second sentence substitute—

"In this subsection "employment-related securities option" means a securities option within the meaning of Chapter 5 of Part 7 of ITEPA 2003 (see section 420(8) of that Act) to which that Chapter applies or would, apart from section 474 of that Act, apply (see section 471 of that Act); and other expressions used in this subsection and that Chapter have the same meaning in this subsection as in that Chapter.".

PART 3

COMMENCEMENT

Commencement

6 (1) The amendments made by paragraphs 1 to 3 have effect in relation to cases where the option in question is exercised on or after 2nd December 2004 (whenever the option was acquired).

(2) The amendments made by paragraphs 4 and 5 have effect in relation to options granted on or after 2nd December 2004.

SCHEDULE 6

Section 37

ACCOUNTING PRACTICE AND RELATED MATTERS

Adjustment on change of accounting basis

1 (1) In Schedule 22 to FA 2002 (adjustment on change of accounting basis: corporation tax), in paragraph 4 (adjustment treated as arising on last day of first period for which new basis adopted), for "last day" substitute "first day".

(2) This amendment has effect for accounting periods ending after 5th April 2005 in relation to periods of account beginning on or after 1st January 2005.

2 (1) In section 227 of ITTOIA 2005 (adjustment on change of accounting basis: income tax), for subsection (4) (meaning of "relevant change of accounting approach") substitute—

"(4) A "relevant change of accounting approach" means—

(a) a change of accounting principle or practice that, in accordance with generally accepted accounting practice, gives rise to a prior period adjustment, or

(b) a change from using UK generally accepted accounting practice to using generally accepted accounting practice with respect to accounts drawn up in accordance with international accounting standards.".

(2) This amendment has effect for the tax year 2005-06 and subsequent tax years in relation to periods of account beginning on or after 1st January 2005.

Meaning of "statutory insolvency arrangement"

3 (1) For section 259 of ITTOIA 2005 (trading income: meaning of "statutory insolvency arrangement") substitute—

"259 Meaning of "statutory insolvency arrangement"

In this Part "statutory insolvency arrangement" means—

(a) a voluntary arrangement that has taken effect under or as a result of the Insolvency Act 1986, Schedule 4 or 5 to the Bankruptcy (Scotland) Act 1985 or the Insolvency (Northern Ireland) Order 1989,

(b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985 or Article 418 of the Companies (Northern Ireland) Order 1986, or

(c) any arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) that has taken effect under or by virtue of the law of a country or territory outside the United Kingdom.".

(2) This amendment has effect for the tax year 2005-06 and subsequent tax years in relation to periods of account beginning on or after 1st January 2005.

Minor corrections

4 (1) In Schedule 4 to FA 2005, omit paragraph 6 (which amended section 109A of ICTA for corporation tax purposes when that section has no such application).

(2) In paragraph 19A of Schedule 9 to FA 1996, in sub-paragraph (4B)(g) after "2," insert "4A,".

(3) In paragraph 25A of Schedule 26 to FA 2002, for "section 85B(1)" substitute "paragraph 17B(1)".

(4) In section 103(1) of FA 1996, in the definition of "exchange gain" and "exchange loss", after "(1A)" insert ", (1AA)".

(5) In paragraph 54(1) of Schedule 26 to FA 2002, in the definition of "exchange gain" and "exchange loss", after "(2)" insert ", (2A)".

(6) These amendments shall be deemed always to have had effect.

Deemed release of liability on impaired debt becoming held by connected company

5 (1) In Schedule 9 to FA 1996 (loan relationships: special computational provisions), for paragraph 4A substitute—

"Deemed release of liability on impaired debt becoming held by connected company

4A (1) This paragraph applies—

(a) in the case specified in sub-paragraph (2), subject to the exception in sub-paragraph (3), and

(b) in the case specified in sub-paragraph (4).

(2) The first case is where—

(a) a company ("the debtor company") is party as debtor to a loan relationship,

(b) another company ("the creditor company") becomes party as creditor to the loan relationship,

(c) the debtor company and the creditor company are connected immediately after the latter becomes party to the loan relationship,

(d) there is no connection between the creditor company and the person from whom it acquires its rights under the loan relationship in the period of account in which it does so, and

(e) the carrying value of the liability under the loan relationship in the accounts of the debtor company exceeds the amount or value of any consideration given by the creditor company for its rights under the loan relationship.

The carrying value referred to in paragraph (e) is the amount that would have been the carrying value of the liability under the loan relationship in the accounts of the debtor company if a period of account had ended immediately before the creditor company became party to the loan relationship.

(3) The exception to the first case is where—

(a) the creditor company acquires its rights under the loan relationship under an arm's length transaction, and

(b) there has been no connection between the creditor company and the debtor company at any time in the period—

(i) beginning four years before the date on which the creditor company acquired those rights, and

(ii) ending twelve months before that date.

(4) The second case is where—

(a) a company ("the debtor company") is party as debtor to a loan relationship,

(b) another company ("the creditor company") that—

(i) is party to the loan relationship as creditor, and

(ii) is not connected with the debtor company,

becomes connected with the debtor company, and

(c) the amount that would have been the carrying value of the asset representing the loan relationship in the accounts of the creditor company if a period of account had ended immediately before the companies became connected would have been adjusted for impairment.

(5) Where this paragraph applies there is deemed to be a release by the creditor company of its rights under the loan relationship.

(6) In the first case the release is deemed to be of the amount of the excess referred to in sub-paragraph (2)(e) and to take place when the creditor company acquires its rights under the loan relationship.

(7) In the second case the release is deemed to be of the amount of the impairment adjustment referred to in sub-paragraph (4)(c) and to take place when the creditor company becomes connected with the debtor company.

(8) For the purposes of this paragraph there is a connection between a company and another person at any time (subject to sub-paragraph (9)) if at that time—

(a) the other person is a company and one of the companies has control of the other, or

(b) the other person is a company and both companies are under the control of the same person,

and there is a connection between a company and another person in a period of account if there is a connection (within paragraph (a) or (b) above) between the company and the person at any time in that period.

"Control" here has the meaning given for the purposes of section 87 of this Act by section 87A.

(9) The provisions of—

(a) section 87(4) (companies not regarded as connected by virtue of control by government etc), and

(b) section 88 (connection between companies to be disregarded in certain circumstances),

apply for the purposes of this paragraph as they apply for the purposes of section 87.

(10) In determining for the purposes of this paragraph the carrying value of the liability under a loan relationship, or of an asset representing a loan relationship, no account shall be taken of—

(a) accrued amounts,

(b) amounts paid or received in advance, or

(c) impairment losses.".

(2) The amendment in sub-paragraph (1) has effect where the deemed release occurs on or after 16th March 2005.

Adjustment on change to international accounting standards: bad debt debits formerly disallowed

6 (1) In paragraph 19A of Schedule 9 to FA 1996 (loan relationships: adjustment on change of accounting policy), after sub-paragraph (4B) insert—

"(4BA) In determining the accounting value of an asset of the company at the end of the earlier period, no account shall be taken of a debit that in a period of account beginning before 1st January 2005 was disallowed for tax purposes—

(a) because of the assumption required by paragraph 5(1) above, or

(b) because the exceptions in section 74(1)(j) of the Taxes Act 1988 did not apply.".

(2) This amendment has effect for periods of account beginning on or after 1st January 2005.

Loan relationships with embedded derivatives

7 (1) Where—

(a) a company is subject to old UK GAAP for a period of account beginning on or after 1st January 2005, and

(b) it holds assets ("relevant assets") that—

(i) it is not permitted, under old UK GAAP, to treat as mentioned in subsection (1) of section 94A of FA 1996 (loan relationship with embedded derivative treated as two assets), with the result that that section does not apply, and

(ii) it would have been permitted to treat as mentioned in that provision if it had been subject to international accounting standards or new UK GAAP,

the company may elect that Chapter 2 of Part 4 of FA 1996 (loan relationships) and Schedule 26 to FA 2002 (derivative contracts) shall have effect as if section 94A did apply.

(2) Any such election—

(a) must be made in writing to an officer of Revenue and Customs,

(b) must be made—

(i) on or before 31st December 2005, or

(ii) after that date in accordance with sub-paragraph (3)(a) or (b),

and

(c) is irrevocable.

(3) An election may be made after 31st December 2005—

(a) if the company does not hold any relevant assets at the beginning of its first period of account beginning on or after 1st January 2005 but subsequently acquires one (or more) and the election is made no later than 90 days after the acquisition (or, if there is more than one, the first of them), or

(b) if the company does not have a period of account beginning in the calendar year 2005 and holds one or more relevant assets at the beginning of its first period of account beginning after the end of that year and the election is made no later than 90 days after the beginning of that period of account.

(4) An election under this paragraph has effect in relation to all relevant assets held by the company (including those subsequently acquired).

(5) An election under this paragraph—

(a) if made on or before 31st December 2005, has effect from the beginning of the company's first period of account beginning on or after 1st January 2005;

(b) if made after 31st December 2005 in accordance with sub-paragraph (3)(a), has effect from the beginning of the period of account in which the first relevant asset is acquired;

(c) if made after 31st December 2005 in accordance with sub-paragraph (3)(b), has effect from the beginning of the company's first period of account beginning on or after 1st January 2005.

(6) Where an election is made under this paragraph the provisions of paragraph 19A of Schedule 9 to FA 1996 and paragraph 50A of Schedule 26 to FA 2002 (adjustments on change of accounting policy) apply as if there were a change of accounting policy (consisting in the company treating its relevant assets as mentioned in section 94A(1) as from the date the election has effect).

(7) In this paragraph "old UK GAAP" means UK generally accepted accounting practice as it applied for periods of account beginning before 1st January 2005 and "new UK GAAP" means UK generally accepted accounting practice as it applies for periods of account beginning on or after that date.

(8) Any election made under paragraph 28(3) of Schedule 4 to FA 2005 before the passing of this Act shall have effect as if made under this paragraph.

8 (1) In section 116(8A) of TCGA 1992 (reorganisations, conversions and reconstructions: application of loan relationships regime in certain cases)—

(a) after "shall have effect" insert ", subject to subsection (8B) below,", and

(b) for "that subsection" substitute "subsection (6) above".

(2) After that subsection insert—

"(8B) Subsection (8A) above does not apply where the relevant transaction is a conversion of securities occurring in consequence of the operation of the terms of any security or of any debenture which is not a security.

Expressions used in this subsection have the same meaning as they have for the purposes of section 132.".

(3) These amendments have effect in relation to transactions occurring after 26th May 2005.

Exchange gains and losses

9 (1) The following provisions shall cease to have effect—

(a) section 84A of FA 1996 (exchange gains and losses from loan relationships);

(b) paragraph 16 of Schedule 26 to FA 2002 (exchange gains and losses arising from derivative contracts).

(2) These amendments come into force on a day to be appointed by the Treasury by order made by statutory instrument.

(3) The order may contain such transitional provision and savings as appear to the Treasury to be appropriate.

10 In section 103 of FA 1996 (loan relationships: general interpretation), for subsection (1AA) substitute—

"(1AA) The Treasury may make provision by regulations as to the manner in which—

(a) exchange gains or losses, and

(b) any other profits or gains or losses,

are to be calculated for the purposes of subsection (1A) in a case where fair value accounting is used by the company.

Any such regulations may be made so as to apply to periods of account beginning before the regulations are made, but not earlier than the beginning of the calendar year in which they are made.".

11 In paragraph 54 of Schedule 26 to FA 2002 (derivative contracts: general interpretation), for sub-paragraph (2A) substitute—

"(2A) The Treasury may make provision by regulations as to the manner in which—

(a) exchange gains or losses, and

(b) any other profits or gains or losses,

are to be calculated for the purposes of sub-paragraph (2) in a case where fair value accounting is used by the company.

Any such regulations may be made so as to apply to periods of account beginning before the regulations are made, but not earlier than the beginning of the calendar year in which they are made.".

SCHEDULE 7

Section 39

AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

Rent factoring

1 (1) Part 2 of ICTA (which, at sections 43A to 43G, includes provisions about rent factoring) is amended as follows.

(2) Section 43C(1) (section 43B not to apply where term over which financial obligation is to be reduced exceeds 15 years) shall cease to have effect.

(3) In section 43E (interposed lease: exceptions etc) in subsection (1), omit paragraphs (a) and (b) (which relate to certain periods exceeding 15 years).

(4) The amendments made by this paragraph have effect in relation to finance agreements entered into on or after 16th March 2005.

(5) But where—

(a) a finance agreement was entered into on or after 20th March 2000 and before 16th March 2005, and

(b) section 43D of ICTA (interposed lease) would apply in relation to the agreement but for section 43E(1)(a) or (b) of that Act,

sub-paragraph (6) has effect.

(6) In any such case, any amount of principal in rent paid on or after 16th March 2005 which, apart from this sub-paragraph, would—

(a) be deductible as an expense in computing profits charged under Case I of Schedule D, or

(b) be deductible under section 75 of ICTA (expenses of management), or

(c) fall to be brought into account under section 76 of that Act (expenses of insurance companies) at Step 1 in subsection (7) of that section,

shall not be so deductible or brought into account for any accounting period ending on or after 16th March 2005.

(7) If payment of an amount of principal in rent is made on or after 16th March 2005 in respect of a rental period that falls—

(a) partly before that date, and

(b) partly on or after it,

sub-paragraph (6) has effect in relation to only so much of the payment as relates to the part of the period falling on or after 16th March 2005.

(8) In this paragraph—

"amount of principal in rent" means so much of any amount of rent payable under a lease as, in the case of the finance agreement in question, reduces the amount of the financial obligation mentioned in section 43A(1) of ICTA;

"rental period" means a period in respect of which rent is paid.

Section 730: restriction to income consisting of distributions in respect of company shares etc

2 (1) Section 730 of ICTA (transfers of income arising from securities) is amended as follows.

(2) In each place where it occurs—

(a) for "interest" substitute "distribution";

(b) for "securities" substitute "shares".

(3) In subsection (1) (interest deemed to be income of owner etc)—

(a) in paragraph (a), for "deemed to be" substitute "treated as",

(b) in paragraph (b), for "deemed to be" substitute "treated as", and

(c) omit paragraph (c).

(4) For subsection (2) (sale etc where proceeds chargeable to tax by virtue of

section 18(3B) of ICTA) substitute—

"(2) This section does not have effect in relation to a sale or transfer if the proceeds of the sale or transfer are chargeable to tax.".

(5) Omit subsection (2A) (loan relationships).

(6) For subsection (3) substitute—

"(3) The proceeds of any subsequent sale or other realisation of the right to receive the distribution shall not, for any of the purposes of the Tax Acts, be regarded as the income of the seller or the person on whose behalf the right is otherwise realised.".

(7) In subsection (4), in the words following paragraph (b) after their substitution by paragraph 300(3)(b) of Schedule 1 to ITTOIA 2005, for "interest" substitute "distribution".

(8) In subsection (4A), for "interest arising" substitute "distribution".

(9) In subsection (4B), for "interest" substitute "distribution".

(10) For subsection (7) (definitions) substitute—

"(7) In this section—

"distribution", in relation to shares in a company,—

(a) has the same meaning as it has in the Corporation Tax Acts (see section 209), but

(b) also includes any amount that would be a distribution if the company paying it were resident in the United Kingdom;

"shares" means shares in a company.".

(11) In subsection (8) (information powers) omit from "and for the purpose" to the end of the subsection.

(12) The heading to the section becomes "Transfers of rights to receive distributions in respect of shares".

(13) The amendments made by this paragraph have effect in relation to sales or transfers on or after 2nd December 2004.

Change in ownership of company with investment business

3 (1) In section 768B(10) of ICTA (Part 4 of Schedule 28A to have effect for restricting the debits to be brought into account in respect of loan relationships) after "debits", where first occurring, insert "and non-trading deficits".

(2) In section 768C(9) of ICTA (Part 4 of Schedule 28A to have effect for restricting the debits to be brought into account in respect of loan relationships) after "debits", where first occurring, insert "and non-trading deficits".

(3) Schedule 28A to ICTA (change in ownership of investment company: deductions) is amended as follows.

(4) In paragraph 7(1)(b) (apportionment of excess in paragraph 6(c), or of non-trading deficit, to first part of accounting period) after "the whole amount of the excess" insert "or, as the case may be, of the deficit".

(5) After paragraph 9 insert—

"9A (1) This paragraph has effect in any case to which section 768B applies where the non-trading deficit mentioned in paragraph 6(dc) above is apportioned by paragraph 7(b) above to the first part of the accounting period being divided.

(2) In any such case, none of that non-trading deficit shall be carried forward to—

(a) the accounting period beginning immediately after the change in the ownership of the company, or

(b) any subsequent accounting period.".

(6) After paragraph 10 insert—

"10A(1) This paragraph has effect in any case to which section 768C applies where the non-trading deficit mentioned in paragraph 13(1)(ec) below is apportioned by paragraph 16(1)(b) below to the first part of the accounting period being divided.

(2) In any such case, none of that non-trading deficit shall be carried forward to—

(a) the accounting period beginning immediately after the change in the ownership of the company, or

(b) any subsequent accounting period.".

(7) In paragraph 16(1)(b) (apportionment of excess in paragraph 13(1)(ec), or of non-trading deficit, to first part of accounting period) after "the whole amount of the excess" insert "or, as the case may be, of the deficit".

(8) The title of Part 4 of the Schedule becomes "Disallowed debits and non-trading deficits".

(9) The amendments made by this paragraph have effect in any case where the change in ownership is on or after 10th February 2005.

Transfers of rights to receive annual payments

4 (1) After section 775 of ICTA (sale by individual of income derived from his personal activities) insert—

"775A Transfers of rights to receive annual payments

(1) This section applies in any case where—

(a) a person sells or transfers the right to receive an annual payment to which this section applies (see subsection (4)), and

(b) the consideration (if any) for the sale or transfer would not, apart from this section, be chargeable to tax.

(2) In any such case, tax is charged—

(a) in the case of income tax, under this section; or

(b) in the case of corporation tax, under Case III of Schedule D.

(3) Where this section applies—

(a) the tax is charged on an amount equal to the market value of the right to receive the annual payment;

(b) the tax is charged for the chargeable period in which the sale or transfer takes place;

(c) the person liable for the tax is the person who sells or transfers the right to the annual payment.

(4) This section applies to any annual payment other than—

(a) an annual payment under a life annuity;

(b) an annual payment under a pension annuity;

(c) an annual payment to which section 347A applies (annual payments that are not charges on income);

(d) an annual payment in respect of which, by virtue of section 727 of ITTOIA 2005 (payments by individuals arising in UK), no liability to income tax arises under Part 5 of that Act.

(5) This section applies in relation to part of an annual payment as it applies in relation to the whole of an annual payment.

(6) For the purposes of this section, a sale or transfer of all rights under an agreement for annual payments, or under an annuity, is a sale or transfer of the rights to each individual payment under the agreement or annuity.

(7) In this section—

"life annuity" means—

(a) a life annuity, as defined in section 657(1); or

(b) a life annuity, as defined in section 473(2) of ITTOIA 2005;

"pension annuity" means an annuity which is pension income within the meaning of Part 9 of ITEPA 2003 (see section 566(2) of that Act).".

(2) The amendment made by this paragraph has effect in relation to sales or transfers on or after 16th March 2005.

Disposals and acquisitions of company loan relationships with or without interest

5 (1) Section 807A of ICTA is amended as follows.

(2) After subsection (2A) (exclusion of certain tax) insert—

"(2B) Where, in the case of any share, section 91A or 91B of the Finance Act 1996 (shares treated as loan relationships) applies in relation to a company for an accounting period, this section has effect—

(a) in relation to a distribution in respect of the share as it has effect in relation to interest under a loan relationship, and

(b) in relation to a distribution accruing in respect of the share at a time when the company does not (within the meaning of the section in question) hold the share as it applies in relation to interest accruing under a loan relationship at a time when the company is not a party to the loan relationship.".

(3) The amendment made by this paragraph has effect in relation to shares held by a company on or after 16th March 2005.

Manufactured interest and the accrued income scheme

6 (1) In Schedule 23A to ICTA (manufactured dividends and interest) paragraph 3 (manufactured interest on UK securities) is amended as follows.

(2) In sub-paragraph (2A) (restriction on relief under sub-paragraph (2)(c)) —

(a) in paragraph (a) (receipt of interest or payment representative of it) after "is chargeable to income tax" insert "(and see section 714(5) for the amount so chargeable in a case where section 714(4) applies)", and

(b) for paragraph (b) (accrued income scheme) substitute —

"(b) is, by virtue of section 714(2), chargeable to income tax on annual profits or gains in respect of transfers of securities which are subject to the arrangement giving rise to the payment of manufactured interest; or".

(3) In sub-paragraph (2A), in the paragraph (b) so substituted, for "annual profits or gains" substitute "income".

(4) The amendment made by sub-paragraph (3) has effect in relation to payments of manufactured interest made on or after 6th April 2005.

(5) The other amendments made by this paragraph have effect in relation to payments of manufactured interest made on or after 16th March 2005.

Consideration due after time of disposal: creditor relationships etc

7 (1) Section 48 of TCGA 1992 (consideration due after time of disposal) is amended as follows.

(2) At the beginning insert "(1)".

(3) At the end add —

"(2) Subsection (1) above does not apply in relation to so much of any consideration as consists of rights under a creditor relationship to which a company becomes a party as a result of the disposal.

(3) In the computation of the gain in a case where subsection (2) above has effect in relation to any consideration, the amount to be brought into account in respect of that consideration is the fair value of the creditor relationship.

(4) In this section —

(a) "creditor relationship", and

(b) "fair value", in relation to a creditor relationship,

each have the same meaning as in Chapter 2 of Part 4 of the Finance Act 1996 (see section 103(1) of that Act).".

Corporate strips: manipulation of price: associated payment giving rise to loss

8 In TCGA 1992, after section 151C (strips: manipulation of price: associated

payment giving rise to loss) insert—

"151D Corporate strips: manipulation of price: associated payment giving rise to loss

(1) This section applies if—

(a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of section 452G(2) of ITTOIA 2005,

(b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and

(c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person.

(2) The loss shall not be an allowable loss.

(3) For the purposes of this section a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from section 452G of ITTOIA 2005 and this section) is—

(a) the obtaining of a tax advantage by any person, or

(b) the accrual to any person of an allowable loss.

(4) The reference in subsection (1)(b) above to the acquisition or disposal of a corporate strip shall be construed as if it were in Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities) (see, in particular, sections 437 and 452F of that Act for the meaning of "disposal" and section 452E of that Act for the meaning of "corporate strip").

(5) In subsection (3)(a) above "tax advantage" has the meaning given by section 709(1) of the Taxes Act.

(6) This section applies to losses accruing on or after 6th April 2005.".

Transactions within a group: shares subject to third party obligations

9 (1) Section 171 of TCGA 1992 (transfers within a group: general provisions) is amended as follows.

(2) After subsection (3) insert—

"(3A) Subsection (1) above does not apply—

(a) if section 91A of the Finance Act 1996 (shares subject to third party obligations)—

(i) does not apply in the case of the asset in relation to company A immediately before the disposal, but

(ii) does apply in the case of the asset in relation to company B immediately after its acquisition, or

(b) if that section—

(i) applies in the case of the asset in relation to company A immediately before the disposal, but

(ii) does not apply in the case of the asset in relation to company B immediately after its acquisition.".

(3) The amendment made by this paragraph has effect in any case where the disposal is on or after 16th March 2005.

Shares treated as loan relationships

10 (1) After section 91 of FA 1996 insert the following heading—

"Shares treated as loan relationships"

(2) After that heading insert the following section—

"91A Shares subject to outstanding third party obligations

(1) This section applies for the purposes of corporation tax in relation to a company if at any time in an accounting period—

(a) that company ("the investing company") holds a share in another company ("the issuing company"),

(b) the share is subject to outstanding third party obligations (see subsection (5)), and

(c) the share is an interest-like investment (see subsections (7) and (8)).

(2) This Chapter shall have effect for the accounting period of the investing company in accordance with subsection (3) below as if—

(a) the share were rights under a creditor relationship of that company, and

(b) any distribution in respect of the share were not a distribution falling within section 209(2)(a) or (b) of the Taxes Act 1988.

(3) The debits and credits to be brought into account by the investing company for the purposes of this Chapter as respects the share must be determined on the basis of fair value accounting.

(4) No debits are to be brought into account in respect of any transaction (or series of transactions) which (apart from the assumption in subsection (8)(b) below) would have the effect of causing the condition in paragraph (a) or (b) of subsection (7) below not to be satisfied.

(5) For the purposes of this section, the cases where a share is subject to outstanding third party obligations are those cases where—

(a) the share is subject to obligations of any description in subsection (6) below,

(b) the obligations are obligations of a person other than the investing company, and

(c) the obligations are yet to be discharged,

and where a share is subject to any such obligations, they are for the purposes of this section the "third party obligations" in the case of that share.

(6) The descriptions of obligation are—

(a) an obligation to meet unpaid calls on the share;

(b) an obligation (not falling within paragraph (a) above) to make a contribution to the capital of the issuing company that could affect the value of the share.

(7) In this section "interest-like investment" means a share whose nature is such that the fair value of the share—

(a) is likely to increase at a rate which represents a return on an investment of money at a commercial rate of interest (see section 103(3A)), and

(b) is unlikely to deviate to a substantial extent from that rate of increase.

Fluctuations in value resulting from changes in exchange rates are to be left out of account for the purposes of paragraph (b) above.

(8) For the purposes of subsection (7) above, it shall be assumed—

(a) that any third party obligations will be met in the amounts, and at the time, at which they are due, and

(b) that no transaction (or series of transactions) intended to cause the condition in paragraph (a) or (b) of that subsection not to be satisfied will be entered into.

(9) For the purposes of this section, the fair value of a share that is subject to outstanding third party obligations must include the fair value of the obligations.

(10) For the purposes of this section a company shall be treated as continuing to hold a share notwithstanding that the share has been transferred to another person—

(a) under a repo or stock lending arrangement, or

(b) under a transaction which is treated by section 26 of the Taxation of Chargeable Gains Act 1992 as not involving any disposal.".

(3) After section 91A insert—

"91B Non-qualifying shares

(1) This section applies for the purposes of corporation tax in relation to a company if at any time in an accounting period—

(a) the company ("the investing company") holds a share in another company ("the issuing company"),

(b) the share is not one which, by virtue of paragraph 4 of Schedule 10 to this Act (holdings in unit trusts and offshore funds), falls to be treated for that accounting period as if it were rights under a creditor relationship of the investing company, and

(c) the share is a non-qualifying share (see subsection (6)),

and at no time in the accounting period does section 91A above apply in relation to the investing company in the case of that share.

(2) This Chapter shall have effect for that accounting period in accordance with subsection (3) below as if—

(a) the share were rights under a creditor relationship of the investing company, and

(b) any distribution in respect of the share were not a distribution falling within section 209(2)(a) or (b) of the Taxes Act 1988.

(3) The debits and credits to be brought into account by the investing company for the purposes of this Chapter as respects the share must be determined on the basis of fair value accounting.

(4) In any case where Condition 1 in section 91C below is satisfied, no debits are to be brought into account in respect of any transaction (or series of transactions) which (apart from the assumption in subsection (6) of section 91C below) would have the effect of causing the condition in paragraph (a) or (b) of subsection (1) of that section not to be satisfied.

(5) In any case where Condition 3 in section 91E below is satisfied—

(a) debits and credits shall be brought into account for the purposes of Schedule 26 to the Finance Act 2002 (derivative contracts) by the investing company in respect of any associated transaction falling within section 91E below as if it were, or were a transaction in respect of, a derivative contract (if that is not in fact the case), and

(b) those debits and credits shall be determined on the basis of fair value accounting.

(6) A share is a non-qualifying share for the purposes of this section if—

(a) it is not one where section 95 of the Taxes Act 1988 (dealers etc) applies in relation to distributions in respect of the share, and

(b) one or more of the Conditions in sections 91C to 91E below is satisfied.

(7) Subsection (10) of section 91A above (company treated as holding a share) also applies for the purposes of this section.".

(4) After section 91B insert—

"91C Condition 1 for section 91B(6)(b)

(1) Condition 1 is that the assets of the issuing company are of such a nature that the fair value of the share—

(a) is likely to increase at a rate which represents a return on an investment of money at a commercial rate of interest, and

(b) is unlikely to deviate to a substantial extent from that rate of increase.

Fluctuations in value resulting from changes in exchange rates are to be left out of account for the purposes of paragraph (b) above.

(2) But Condition 1 is not satisfied if the whole or substantially the whole by fair value of the assets of the issuing company are income producing.

(3) The assets which, for the purposes of this section, are "income producing" are—

(a) any share as respects which the conditions in section 91A(1) above are satisfied;

(b) any share as respects which Condition 1 above is satisfied or would, apart from subsection (2) above, be satisfied;

(c) any share as respects which Condition 2 in section 91D below is satisfied or would, apart from subsection (1)(c) of that section (excepted shares), be satisfied;

(d) any share as respects which Condition 3 in section 91E below is satisfied;

(e) any asset of a description specified in any paragraph of paragraph 8(2) of Schedule 10 to this Act (qualifying investments in relation to a unit trust scheme or an offshore fund);

(f) rights under a repo in relation to which section 730A of the Taxes Act 1988 applies;

(g) any share in a company the whole or substantially the whole by fair value of whose assets are assets within paragraphs (a) to (f) above.

(4) The Treasury may by regulations amend this section for the purpose of adding to the assets which are income producing.

(5) The provision that may be made by regulations under this section includes provision for the regulations to have effect in relation to accounting periods (whenever beginning) which end on or after the day on which the regulations come into force.

(6) For the purposes of subsection (1) above, it shall be assumed that no transaction (or series of transactions) intended to cause the condition in paragraph (a) or (b) of that subsection not to be satisfied will be entered into by the investing company.

(7) This section shall be construed as one with section 91B above.

91D Condition 2 for section 91B(6)(b)

(1) Condition 2 is that the share—

(a) is redeemable (see subsection (2)),

(b) is designed to produce a return which equates, in substance, to the return on an investment of money at a commercial rate of interest, and

(c) is not an excepted share (see subsection (3)).

(2) For the purposes of this section, a share is to be regarded as redeemable only if it is redeemable as a result of its terms of issue (or any collateral agreements, arrangements or understandings)—

(a) requiring redemption,

(b) entitling the holder to require redemption, or

(c) entitling the issuer to redeem.

(3) A share is an "excepted share" for the purposes of this section if—

(a) it is a qualifying publicly issued share (see subsections (4) and (5)),

(b) it is a share that mirrors a public issue (see subsections (6) to (8)), or

(c) the investing company's purpose in acquiring the share is not an unallowable purpose (see subsection (9)).

(4) A share is a "qualifying publicly issued share" for the purposes of this section if—

(a) it was issued by a company as part of an issue of shares to independent persons, and

(b) less than 10% of the shares in that issue are held by the investing company or persons connected with it.

(5) But a share is not a qualifying publicly issued share for those purposes if the investing company's purpose in acquiring the share is an unallowable purpose by virtue of subsection (9)(a) below.

(6) The cases where a share mirrors a public issue are those set out in subsections (7) and (8) below.

(7) Case 1 is where—

(a) a company (company A) issues shares (the public issue) to independent persons,

(b) within 24 hours of that issue, one or more other companies (companies BB) issue shares (the mirroring shares) to company A on the same, or substantially the same, terms as the public issue,

(c) company A and companies BB are associated companies (see subsection (11)), and

(d) the total nominal value of the mirroring shares does not exceed the nominal value of the public issue,

and in any such case the mirroring shares are shares that mirror a public issue.

(8) Case 2 is where, in the circumstances of Case 1,—

(a) within 24 hours of the public issue, one or more other companies (companies CC) issue shares (the second-level mirroring shares) to one or more of companies BB on the same, or substantially the same, terms as the public issue,

(b) company A, companies BB and companies CC are associated companies, and

(c) the total nominal value of the second-level mirroring shares does not exceed the nominal value of the public issue,

and in any such case the second-level mirroring shares are also shares that mirror a public issue.

(9) For the purposes of this section, a share is acquired by the investing company for an unallowable purpose if the purpose, or one of the main purposes, for which the company holds the share is—

(a) the purpose of circumventing section 95 of the Taxes Act 1988 (see subsection (10)), or

(b) any other purpose which is a tax avoidance purpose (see subsection (11)).

(10) The purpose, or one of the main purposes, for which the investing company holds a share shall, in particular, be taken to be the purpose of circumventing section 95 of the Taxes Act 1988 (taxation of dealers in respect of distributions etc) if the investing company was an associated company of a bank (see subsection (11)) at the time when the investing company acquired the share, unless the investing company shows that—

(a) immediately before that time, some or all of its business consisted in making and holding investments, and

(b) it acquired the share in the ordinary course of that business.

(11) In this section—

"associated company", in relation to any other company, means a company which, within the meaning given by section 413(3)(a) of the Taxes Act 1988, is a member of the same group of companies as that other company;

"bank" has the meaning given by section 840A of the Taxes Act 1988;

"independent person", in relation to a company, means a person who is not connected with the company;

"tax advantage" has the meaning given by section 709(1) of the Taxes Act 1988;

"tax avoidance purpose", in the case of any company, means any purpose that consists in securing a tax advantage (whether for the company or any other person).

(12) Section 839 of the Taxes Act 1988 (connected persons) applies for the purposes of this section.

(13) This section is to be construed as one with section 91B above.

91E Condition 3 for section 91B(6)(b)

(1) Condition 3 is that there is a scheme or arrangement under which the share and one or more associated transactions are together designed to produce a return which equates, in substance, to the return on an investment of money at a commercial rate of interest.

(2) But Condition 3 is not satisfied if—

(a) Condition 1 in section 91C above is satisfied as respects the share or would, apart from subsection (2) of that section (income producing assets), be so satisfied, or

(b) Condition 2 in section 91D above is satisfied as respects the share or would, apart from subsection (1)(c) of that section (excepted shares), be so satisfied.

(3) In this section "associated transaction" includes entering into, or acquiring rights or liabilities under, any of the following—

(a) a derivative contract;

(b) a contract that would be a derivative contract, apart from paragraph 4(2B) of Schedule 26 to the Finance Act 2002 (trades etc: hedging relationships with shares);

(c) a contract having a similar effect to—

(i) a derivative contract, or

(ii) a contract falling within paragraph (b) above;

(d) a contract of insurance or indemnity.

(4) This section is to be construed as one with section 91B above.".

(5) After section 91E insert—

"91F Power to add, vary or remove Conditions for section 91B(6)(b)

(1) The Treasury may by regulations amend this Chapter so as to add, vary or remove Conditions for the purposes of section 91B(6)(b) above.

(2) Where the Treasury so add, vary or remove a Condition, they may also by regulations amend any of the following enactments—

(a) this Chapter,

(b) Chapters 1 to 3 of Part 6 of the Taxes Act 1988 (company distributions),

(c) Part 18 of the Taxes Act 1988 (double taxation relief),

(d) the Taxation of Chargeable Gains Act 1992,

(e) Schedule 26 to the Finance Act 2002 (derivative contracts),

so as to make provision for or in connection with taxation in the case of any asset or transaction that is or was mentioned in the Condition.

(3) The power to make regulations under this section includes power—

(a) to make different provision for different cases, and

(b) to make such consequential, supplementary, incidental or transitional provisions, or savings, as appear to the Treasury to be necessary or expedient (including provision amending any enactment or any instrument made under an enactment).".

(6) After section 91F insert—

"91G Shares beginning or ceasing to be subject to section 91A or 91B

(1) Where at any time on or after 16th March 2005 the conditions in section 91A(1) or 91B(1) above become satisfied in the case of any share, otherwise than in the circumstances described in subsection (3) below, the investing company shall be deemed for the purposes of the Taxation of Chargeable Gains Act 1992—

(a) to have disposed of the share immediately before that time for a consideration of an amount equal to its fair value at that time, and

(b) to have immediately reacquired it for a consideration of the same amount.

(2) Where at any time the conditions in section 91A(1) or 91B(1) above cease to be satisfied in the case of any share, the investing company shall be deemed for the purposes of the Taxation of Chargeable Gains Act 1992 and of this Chapter—

(a) to have disposed of the share immediately before that time for a consideration of an amount equal to its fair value at that time, and

(b) to have immediately reacquired it for a consideration of the same amount.

(3) In any case where—

(a) a share is held by a company both—

(i) at the end of 15th March 2005, and

(ii) at the beginning of 16th March 2005, and

(b) the conditions in section 91A(1) or 91B(1) above are satisfied in relation to that share at the beginning of 16th March 2005,

subsection (4) below applies.

(4) In any such case, section 116 of the Taxation of Chargeable Gains Act 1992 (reorganisations etc involving qualifying corporate bonds) shall have effect in accordance with—

(a) the assumptions in subsections (5) and (6) below, and

(b) the provisions of subsections (7) and (8) below.

(5) The first of the assumptions is that the share became an asset representing a creditor relationship of the company (and, accordingly, a qualifying corporate bond) in consequence of the occurrence on 16th March 2005 of a transaction such as is mentioned in section 116(1) of the Taxation of Chargeable Gains Act 1992.

(6) The remaining assumptions are that, in relation to the transaction deemed to have occurred as mentioned in subsection (5) above,—

(a) the share immediately before 16th March 2005 shall be assumed to be the old asset for the purposes of section 116 of the Taxation of Chargeable Gains Act 1992, and

(b) the asset representing a creditor relationship immediately after the beginning of 16th March 2005 shall be assumed for those purposes to be the new asset.

(7) Where—

(a) subsection (3) above has effect in the case of any share, but

(b) the conditions in section 91A(1) or 91B(1) above cease to be satisfied in the case of the share at any time on or before 31st December 2005,

subsection (8) below applies.

(8) In any such case—

(a) the deemed disposal of the share at that time by virtue of subsection (2)(a) above shall not be regarded as a disposal for the purposes of subsection (10)(b) or (c) of section 116 of the Taxation of Chargeable Gains Act 1992, but

(b) the share shall continue to be the new asset for the purposes of that section.".

(7) The amendments made by this paragraph have effect in relation to shares held by a company on or after 16th March 2005.

Related transactions in relation to right to receive manufactured interest

11 (1) Section 97 of FA 1996 (manufactured interest) is amended as follows.

(2) In subsection (2) (consequences of company having relationship to which the section applies)—

(a) paragraph (b) (which restricts the debits and credits to be brought into account to those relating to the manufactured interest) shall cease to have effect, and

(b) in the closing words, for "paragraphs (a)(ii) and (b)" substitute "paragraph (a)(ii)".

(3) After subsection (2) insert—

"(2A) Where a company—

(a) has a relationship to which this section applies, but

(b) enters into a related transaction in respect of the right to receive manufactured interest,

then, for the purpose of bringing credits into account by virtue of subsection (2) above in respect of that or any other related transaction, the company shall continue to be treated as having a relationship to which this section applies even though the manufactured interest is not payable to the company.".

(4) Omit subsections (3) and (3A) (which relate to whether debits or credits are trading or non-trading etc and which are unnecessary, in view of the application of sections 82(2) and 103(2) of FA 1996 by virtue of section 97(2) of that Act).

(5) The amendments made by this paragraph have effect in relation to related transactions on or after 16th March 2005.

Money debts etc not arising from lending of money: discounts and profits from transactions

12 (1) Section 100 of FA 1996 (money debts etc not arising from the lending of money) is amended as follows.

(2) In subsection (1)(c) (money debts to which the section applies) after sub-paragraph (iii) insert "or

(iv) as respects which the conditions in subsection (1A) below (discount etc) are satisfied;".

(3) After subsection (1) insert—

"(1A) The conditions mentioned in subsection (1)(c)(iv) above are that—

(a) the company stands in the position of creditor in relation to the money debt;

(b) the money debt is one from which a discount (whether of an income or capital nature) arises to the company;

(c) the discount does not fall to be brought into account under section 50 of the Finance Act 2005 by virtue of section 47 of that Act (alternative finance return);

(d) if the money debt is some or all of the consideration payable for a disposal of property, the money debt (on the assumption that it will be paid in full) does not fall to be brought into account for the purposes of corporation tax as a trading receipt of the company;

(e) if the money debt is some or all of the consideration payable for a disposal of property, the property in question is not any of the following—

(i) an asset representing a loan relationship;

(ii) a derivative contract.".

(4) In subsection (2), as it has effect for periods of account beginning on or after 1st January 2005, in paragraph (a), for "matters mentioned in subsection (1)(c) above" substitute "matters mentioned in subsection (1)(c)(i) to (iii) above or subsection (2ZA) below".

(5) After subsection (2) insert—

"(2ZA) The matters are—

(a) in the case of a money debt falling within subsection (1)(c)(i) above, profits (but not losses) arising to the company from any related transaction in respect of the right to receive interest;

(b) in the case of a money debt falling within subsection (1)(c)(iv) above, each of the following—

(i) the discount arising to the company from the money debt;

(ii) profits (but not losses) arising to the company from any related transaction;

(iii) any impairment arising to the company in respect of the discount;

(iv) any reversal of any such impairment.

(2ZB) Where a company—

(a) has a relationship to which this section applies by virtue of subsection (1)(c)(i) above, but

(b) enters into a related transaction in respect of the right to receive interest,

then, for the purpose of bringing credits into account by virtue of subsection (2ZA)(a) above in respect of that or any other related transaction, the company shall continue to be treated as having a relationship to which this section so applies even though the interest is not payable to the company.".

(6) After subsection (3) (amounts treated as interest under Schedule 28AA to ICTA) insert—

"(3A) For the purposes of this section, a discount shall, in particular, be taken to arise from a money debt in any case where—

(a) there is a disposal of property for a consideration some or all of which is money that falls to be paid after the sale;

(b) the amount or value of the whole consideration exceeds what the purchaser would have paid for the property if he had been required to pay in full at the time of the disposal; and

(c) some or all of the excess can reasonably be regarded as representing a return on an investment of money at interest (and, accordingly, as being a discount arising from the money debt).

(3B) The credits to be brought into account for the purposes of this Chapter in respect of a discount arising from a money debt must be determined using an amortised cost basis of accounting (see section 103).".

(7) Omit subsections (4) to (6) and (8) (which relate to whether debits or credits are trading or non-trading etc and which are unnecessary, in view of the application of sections 82(2) and 103(2) of FA 1996 by virtue of section 100(2) of that Act).

(8) Omit subsection (13) (express subjection to Schedules 9 and 11 to FA 1996, which is unnecessary in view of the closing words of subsection (2) of the section).

(9) In consequence of the amendments made by this paragraph, paragraph (c) of the Case III of Schedule D substituted for the purposes of corporation tax by section 18(3A) of ICTA (tax in respect of discount arising otherwise than in respect of a loan relationship) shall not have effect in relation to any discount arising in an accounting period beginning on or after the commencement date.

(10) Subject to sub-paragraph (9), the amendments made by this paragraph have effect in relation to any money debt to which a company is party as a creditor on or after the commencement date.

(11) Where, on or after the commencement date but in a period of account beginning before 1st January 2005, a company is party to a relationship to which section 100 of FA 1996 applies, then, in the application of that section for that period of account, subsection (2) of it shall have effect as follows—

(a) paragraph (a) shall have effect in relation to—

(i) any discount arising to the company from the money debt, and

(ii) any profits, impairment of discount, or reversal of impairment of discount, arising to the company as mentioned in subsection (2ZA) of that section,

as it has effect (or would have effect) in relation to interest payable to the company under the relationship,

(b) paragraph (b) shall have effect as if the reference to interest included a reference to the matters mentioned in paragraph (a)(i) and (ii) above, and

(c) the closing words shall have effect accordingly.

(12) None of the following shall be brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 by virtue of this paragraph—

(a) credits in respect of discount arising from a money debt, to the extent that the discount accrued before the commencement date;

(b) credits in respect of profits arising as mentioned in section 100(2ZA)(a) or (b)(ii) of that Act where the related transaction took place before the commencement date;

(c) debits in respect of any impairment arising in respect of discount arising from a money debt, to the extent that the discount accrued before the commencement date;

(d) credits in respect of any reversal of any such impairment, to the extent that the discount accrued before the commencement date.

(13) In this paragraph "the commencement date" means 16th March 2005.

Meaning of "commercial rate of interest"

13 (1) In section 103 of FA 1996 (interpretation) after subsection (3) insert—

"(3A) For the purposes of this Chapter, a commercial rate of interest, in the case of a company and any asset, is—

(a) a rate ("the simple commercial rate") that is reasonably comparable to the rate that the company could obtain by placing on deposit the money it invested in the asset, or

(b) in any case where—

(i) the likely rate of increase in the value of the asset is in question, and

(ii) that likely rate is a lower rate than the simple commercial rate, and

(iii) the difference is a result of an expectation that the company would also obtain a tax advantage as a result of investing in the asset,

that lower rate.

(3B) In subsection (3A) above, "tax advantage" has the meaning given by section 709(1) of the Taxes Act 1988.".

(2) The amendment made by this paragraph has effect in relation to assets held on or after 16th March 2005 (whenever acquired).

Capital redemption policies: removal of exclusion from loan relationships computations

14 (1) Schedule 9 to FA 1996 (loan relationships: special computational provisions) is amended as follows.

(2) In paragraph 1A(1) (credits and debits relating to life policies and capital redemption policies not to be brought into account) paragraph (b) (capital redemption policies) shall cease to have effect.

(3) This paragraph has effect in relation to a capital redemption policy on and after 10th February 2005 (whenever the capital redemption policy was effected).

(4) Where a capital redemption policy—

(a) is held by a company immediately before 10th February 2005, and

(b) on or after that date, is, for the purposes of Chapter 2 of Part 4 of FA 1996, a creditor relationship of the company,

sub-paragraphs (5) and (6) apply.

(5) In any such case, Chapter 2 of Part 13 of ICTA (life policies etc: chargeable events) shall have effect as if—

(a) immediately before 10th February 2005, the company had assigned the whole of the rights conferred by the policy for money or money's worth, and

(b) the value of the consideration for the assignment had been equal to what the carrying value of the creditor relationship would have been had an accounting period of the company ended on that date;

and Chapter 2 of Part 4 of FA 1996 shall have effect as if, immediately after 9th February 2005, the company had acquired the creditor relationship at a cost equal to that carrying value.

(6) But if—

(a) the accounting period in which the assignment is deemed to have happened ("the assignment period"), and

(b) the accounting period in which the company ceases to be party to the creditor relationship ("the cessation period"),

are not the same accounting period, any gain which, by virtue of the deemed assignment, would have fallen to be brought into account in accordance with section 547(1)(b) of ICTA for the assignment period shall instead be brought into account for the cessation period.

(7) In this paragraph—

"assignment", in relation to Scotland, means an assignation;

"carrying value" has the same meaning as it has for the purposes of paragraph 19A of Schedule 9 to FA 1996, as it has effect for periods of account beginning on or after 1st January 2005.

Deemed disposal of assets and liabilities on company ceasing to be resident in UK etc

15 (1) In Schedule 9 to FA 1996 (loan relationships) paragraph 10A is amended as follows.

(2) After sub-paragraph (1) (cases where the paragraph applies) insert—

"(1A) But this paragraph does not apply if—

(a) paragraph 12A below (transferee company leaving group) applies in relation to the company, and

(b) the cessation in sub-paragraph (1)(a) or (b) above occurs at the same time as the cessation in sub-paragraph (1)(b) of that paragraph.".

(3) In sub-paragraph (2) (Schedule to have effect as if there had been an assignment and reacquisition) for "Schedule" substitute "Chapter".

(4) The amendments made by this paragraph have effect on and after 16th March 2005.

Transactions not at arm's length: exceptions relating to groups of companies

16 (1) In Schedule 9 to FA 1996 (loan relationships) paragraph 11 (transactions not at arm's length) is amended as follows.

(2) For sub-paragraph (3) (exceptions relating to groups of companies) substitute—

"(3) Sub-paragraph (1) above does not apply if the related transaction—

(a) is a transaction as a result of which paragraph 12 below (groups)—

(i) applies by virtue of sub-paragraph (1)(a) of it, or

(ii) would so apply, apart from sub-paragraph (2A) of it (transferor using fair value accounting), or

(b) is part of a series of transactions as a result of which that paragraph—

(i) applies by virtue of sub-paragraph (1)(b) of it, or

(ii) would so apply, apart from sub-paragraph (2A) of it.".

(3) In consequence, omit sub-paragraph (5) (construction of references to a member of a group).

(4) The amendments made by this paragraph have effect where the related transaction is on or after 16th March 2005.

Continuity of treatment of groups etc: treatment of transferee company

17 (1) In Schedule 9 to FA 1996 (loan relationships) paragraph 12 (continuity of treatment of groups etc) is amended as follows.

(2) For sub-paragraph (2) (the credits and debits to be brought into account) substitute—

"(2) For the purpose of determining the credits and debits to be brought into account for the purposes of this Chapter in respect of the loan relationship—

(a) for the accounting period in which the transaction or, as the case may be, the first of the series of transactions takes place, the transferor company shall be treated as having entered into that transaction for a consideration equal to the notional carrying value of the asset or liability representing the relationship; and

(b) for any accounting period in which it is a party to the relationship, the transferee company shall be treated as if it had acquired the asset or liability representing the relationship for a consideration equal to the notional carrying value of the asset or liability.

For the purposes of this sub-paragraph, the notional carrying value is the amount that would have been the carrying value of the asset or liability in the accounts of the transferor company if a period of account had ended immediately before the date when the company ceased to be party to the loan relationship.".

(3) In sub-paragraph (2A) (paragraph 12 not to apply where transferor uses fair value accounting) for paragraph (aa) (treatment of transferee in respect of the transaction) substitute—

"(aa) paragraph (b) of sub-paragraph (2) above shall have effect in relation to the transferee company.".

(4) For sub-paragraph (8) (which applies paragraph 11(5) for construction of references to a member of a group) substitute—

"(8) In this paragraph references to a company which is a member of a group of companies shall be construed in accordance with section 170 of the Taxation of Chargeable Gains Act 1992.".

(5) In sub-paragraph (9) (interpretation) insert the following definition at the appropriate place—

""carrying value" has the same meaning as it has for the purposes of paragraph 19A below;".

(6) Where the period of account mentioned in the second sentence of the sub-paragraph (2) substituted by sub-paragraph (2) begins before 1st January 2005, "carrying value" shall be construed as if the period had begun on or after that date.

(7) The amendments made by this paragraph have effect in any case where the relevant transaction is on or after 16th March 2005.

(8) In this paragraph "the relevant transaction" means—

(a) the related transaction mentioned in sub-paragraph (1)(a) of paragraph 12 of Schedule 9 to FA 1996,

(b) the first of the series of transactions mentioned in sub-paragraph (1)(b) of that paragraph, or

(c) the transfer mentioned in sub-paragraph (1)(c) or (1)(d) of that paragraph,

by virtue of which that paragraph applies or would apply apart from sub-paragraph (2A) of it.

Transferee leaving group after replacing transferor as party to loan relationship

18 (1) In Schedule 9 to FA 1996 (loan relationships) after paragraph 12 insert—

"Transferee leaving group after replacing transferor as party to loan relationship

12A (1) This paragraph applies in any case where—

(a) paragraph 12 above applies—

(i) by virtue of sub-paragraph (1)(a) of that paragraph ("case A"), or

(ii) by virtue of sub-paragraph (1)(b) of that paragraph ("case B"), but

(b) before the end of the relevant 6 year period, the transferee company ceases to be a member of the relevant group.

(2) In any such case, this Chapter shall have effect as if the transferee company had—

(a) immediately before that cessation, assigned the asset or liability representing the relevant loan relationship for a consideration of an amount equal to its fair value at that time, and

(b) immediately reacquired it for a consideration of the same amount,

but only if Condition 1 or 2 below is satisfied and sub-paragraph (5) below does not apply.

(3) Condition 1 is that if sub-paragraph (2) above has effect, a credit would in consequence of paragraph (a) of that sub-paragraph fall to be brought into account for the purposes of this Chapter by the transferee company.

(4) Condition 2 is that—

(a) Condition 1 is not satisfied,

(b) the loan relationship is a creditor relationship,

(c) the company has a hedging relationship between a derivative contract and the creditor relationship, and

(d) in consequence of paragraph 30A(2)(a) of Schedule 26 to the Finance Act 2002, a credit falls to be brought into account by the transferee company for the purposes of that Schedule in respect of the derivative contract.

(5) Where the transferee company ceases to be a member of the relevant group by reason only of an exempt distribution (see sub-paragraph (8))—

(a) sub-paragraph (2) above does not have effect, but

(b) if there is chargeable payment within 5 years after the making of the exempt distribution, sub-paragraph (6) below applies.

(6) Where this sub-paragraph applies, this Chapter shall have effect as if—

(a) the transferee company had, immediately before the making of the chargeable payment, assigned the asset or liability representing the relevant loan relationship,

(b) the assignment had been for a consideration of an amount equal to the fair value of the asset or liability immediately before the transferee company ceased to be a member of the relevant group, and

(c) the transferee company had immediately reacquired the asset or liability for a consideration of the same amount,

but only if Condition 1 or 2 above, as modified by sub-paragraph (7) below, is satisfied.

(7) The modifications are that—

(a) in Condition 1, the references to sub-paragraph (2) above, and paragraph (a) of that sub-paragraph, are to be taken respectively as references to sub-paragraph (6) above and paragraphs (a) and (b) of that sub-paragraph, and

(b) in Condition 2, the reference to paragraph 30A(2)(a) of Schedule 26 to the Finance Act 2002 is to be taken as a reference to paragraph 30A(6)(a) and (b) of that Schedule.

(8) In this paragraph—

"assignment", in relation to Scotland, means an assignation;

"chargeable payment" has the meaning given by section 214(2) of the Taxes Act 1988;

"exempt distribution" means a distribution which is exempt by virtue of section 213(2) of the Taxes Act 1988;

"the relevant 6 year period" means the period of 6 years following—

(a) in case A, the transaction mentioned in paragraph 12(1)(a) above, or

(b) in case B, the last of the series of transactions mentioned in paragraph 12(1)(b) above;

"the relevant group" means—

(a) in case A, the group mentioned in paragraph 12(1)(a) above, or

(b) in case B, the group mentioned in paragraph 12(1)(b) above;

"the relevant loan relationship" means the loan relationship mentioned in paragraph 12(1) above;

"the transferee company" means the company referred to as such in paragraph 12(1) above.

(9) Paragraph 12(14) of Schedule 26 to the Finance Act 2002 (hedging relationships) has effect for the purposes of this paragraph.".

(2) The amendment made by this paragraph has effect where a company ceases to be a member of a group on or after 16th March 2005.

Avoidance involving repos or stock lending

19 (1) In Schedule 9 to FA 1996 (loan relationships) paragraph 15 is amended as follows.

(2) At the end of sub-paragraph (2) (disposals and acquisitions to which the paragraph applies) add "and as is, in the case of those arrangements, the disposal or acquisition effected by—

(a) the transfer by A to B mentioned in sub-paragraph (3)(a) below, or

(b) any transfer to A that gives effect to the entitlement or requirement described in sub-paragraph (3)(b) below.".

(3) In sub-paragraph (3) (meaning of "repo or stock-lending arrangements")—

(a) in paragraph (a), after "one person" insert "("A")" and after "another" insert "("B")";

(b) in paragraph (b), for "the transferor" substitute "A".

(4) In sub-paragraph (4A) (which states certain consequences of sub-paragraph (1) for each party), omit paragraph (b) (transferee not to be regarded as a party to the loan relationship) and the word "and" before it, and for the words following that paragraph substitute—

"but nothing in sub-paragraph (1) above prevents the person to whom those rights are transferred from being regarded for the purposes of this Chapter as being party to the loan relationship as a result of the transfer.".

(5) The amendments made by this paragraph have effect in any case where the transfer mentioned in paragraph 15(3)(a) of Schedule 9 to FA 1996 is on or after 2nd December 2004, whenever the repo or stock-lending arrangements in question were entered into.

(6) In any case involving an arrangement for the sale and repurchase of securities where the arrangement—

(a) falls within section 737E(1)(b) of ICTA, and

(b) involves securities ("substituted securities") being substituted for other securities,

the substitution of any securities on or after 2nd December 2004 shall be treated for the purposes of sub-paragraph (5) as if it were a transfer falling within paragraph 15(3)(a) of Schedule 9 to FA 1996.

Capital redemption policies: computations on the I minus E basis

20 (1) In Schedule 11 to FA 1996 (loan relationships: special provision for insurers) paragraph 1 (I minus E basis) is amended as follows.

(2) After sub-paragraph (1B) insert—

"(1C) In applying the I minus E basis for any accounting period in respect of any life assurance business carried on by an insurance company, no credits or debits shall be brought into account in respect of any debtor relationship that represents a capital

redemption policy, within the meaning of Chapter 2 of Part 13 of the Taxes Act 1988.".

(3) The amendment made by this paragraph has effect in relation to a debtor relationship on and after 10th February 2005 (whenever the capital redemption policy was effected).

Relevant discounted securities: corporate strips

21 (1) Schedule 13 to FA 1996 (discounted securities: income tax) is amended as follows.

(2) In paragraph 3 (meaning of "relevant discounted security") in sub-paragraph (1), for "paragraph 14(1)" substitute "paragraphs 13B(1) and 14(1)".

(3) In paragraph 4 (meaning of "transfer")—
(a) in sub-paragraph (1), after "Subject to sub-paragraph (2)" insert "and paragraph 13B(4)";
(b) in sub-paragraph (5), after "without prejudice to paragraph" insert "13B(2) to (5) or".

(4) In paragraph 5 (redemption to include conversion), in sub-paragraph (3), after "This paragraph does not apply to" insert "—
(a) the conversion of an interest-bearing corporate security into corporate strips (see paragraph 13A(2) to (7) below), or
(b) ".

(5) After paragraph 13 (excluded indexed securities) insert—

"Meaning of corporate strip and conversion into corporate strips

13A (1) In this Schedule "corporate strip" means any asset—
(a) which is, or has at any time been, one of the separate assets mentioned in sub-paragraph (2) below, and
(b) which is not prevented from being a corporate strip by sub-paragraph (9) below.

(2) For the purposes of this Schedule a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security ("the converted corporate security") but—
(a) as a result of any scheme or arrangements, he comes to have two or more separate assets in place of the converted corporate security,
(b) each of those separate assets satisfies condition A,
(c) those separate assets, taken together, satisfy condition B, and
(d) at least one of those separate assets is not prevented from being a corporate strip by sub-paragraph (9) below,
and related expressions shall be construed accordingly.

(3) Condition A is that the asset—
(a) represents the right to, or

(b) secures,

one or more stripped payments.

(4) For the purposes of this paragraph, a "stripped payment" is—

(a) the payment of, or

(b) a payment corresponding to,

the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.

(5) Condition B is that the assets, taken together,—

(a) represent the right to, or

(b) secure,

every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).

(6) Where a person—

(a) has an interest-bearing corporate security, but

(b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),

this Schedule has effect as if, as a result of a scheme or arrangements, the person had come to have the separate assets in place of the security immediately before the sale or transfer.

(7) For the purposes of this Schedule, sub-paragraphs (2) to (6) above also have effect in relation to each of the separate assets mentioned in sub-paragraph (2) above as if it were itself an interest-bearing corporate security (if that is not in fact the case).

(8) Where sub-paragraphs (2) to (6) above have effect by virtue of sub-paragraph (7) above—

(a) any reference in this Schedule to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and

(b) sub-paragraph (1) above (meaning of "corporate strip") has effect accordingly.

(9) An asset is not a corporate strip if it—

(a) represents the right to, or

(b) secures,

payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.

(10) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.

References to payments the right to which a separate asset represents or secures shall be construed accordingly.

Corporate strips deemed to be relevant discounted securities

13B (1) Every corporate strip is a relevant discounted security.

(2) Where a person converts an interest-bearing corporate security into corporate strips of the security, he shall be deemed to have paid, in respect of his acquisition of each corporate strip, an amount determined in accordance with sub-paragraph (3) below.

(3) The amount is that which bears to the acquisition cost of the converted corporate security the proportion that SMV bears to TMV, where—

SMV is the market value of the corporate strip, and

TMV is the total of the market values of all the separate assets resulting from the conversion.

(4) If the converted corporate security is a relevant discounted security—

(a) its conversion into corporate strips is deemed to be a transfer of the security, and

(b) the amount payable on the transfer is deemed to be an amount equal to the acquisition cost of the converted corporate security.

(5) Where corporate strips are consolidated into a single security—

(a) by being exchanged by any person for that security, or

(b) by being otherwise converted by any person into that security under any arrangements,

each of the corporate strips shall be deemed to have been redeemed, at the time of the exchange or other conversion, by the payment to that person of an amount equal to its market value.

(6) Sub-paragraphs (2) to (5) above have effect for the purposes of this Schedule.

(7) For the purposes of this paragraph, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).

(8) References in this paragraph to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

Corporate strips: manipulation of acquisition, sale or redemption price

13C (1) This paragraph applies in any case where, as a result of any scheme or arrangement,—

(a) the amount paid by a person in respect of his acquisition of a corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,

(b) the amount payable to a person on a transfer of a corporate strip by him is less than the market value of the corporate strip at the time of the transfer, or

(c) on redemption of a corporate strip, the amount payable to a person, as the person holding the corporate strip, is less than the market value of the corporate strip on the day before redemption,

and the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.

(2) In a case falling within sub-paragraph (1)(a) above, the person shall be treated for the purposes of paragraph 1(2)(b) above on a transfer of the corporate strip by him as if he had paid in respect of his acquisition of the corporate strip an amount equal to the market value of the corporate strip at the time of that acquisition.

(3) In a case falling within sub-paragraph (1)(b) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.

(4) In a case falling within sub-paragraph (1)(c) above, the person shall be treated for the purposes of paragraph 1(2)(b) above as if the amount payable to him on redemption were an amount equal to the market value of the corporate strip on the day before redemption.

(5) The market value of a corporate strip at any time shall be determined for the purposes of this paragraph without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in sub-paragraph (1) above.

(6) For the purposes of this paragraph, no account shall be taken of any costs incurred in connection with any transfer or redemption of a corporate strip or its acquisition.

(7) In this paragraph "tax advantage" has the meaning given by section 709(1) of the Taxes Act 1988.

Corporate strips: manipulation of price: associated payment giving rise to CGT loss

13D (1) Where—

(a) as a result of any scheme or arrangement which has an unallowable purpose, the circumstances are, or might have been, as mentioned in paragraph (a), (b) or (c) of paragraph 13C(1) above,

(b) under the scheme or arrangement, a payment falls to be made otherwise than in respect of the acquisition or disposal of a corporate strip, and

(c) as a result of that payment or the circumstances in which it is made, a loss accrues to any person for the purposes of capital gains tax,

the loss shall not be an allowable loss for the purposes of capital gains tax.

(2) For the purposes of this paragraph, a scheme or arrangement has an unallowable purpose if the main benefit, or one of the main benefits, that might have been expected to result from, or from any provision of, the scheme or arrangement (apart from paragraph 13C above and this paragraph) is—

(a) the obtaining of a tax advantage by any person, or

(b) the accrual to any person of an allowable loss for the purposes of capital gains tax.

(3) In this paragraph "tax advantage" has the meaning given by section 709(1) of the Taxes Act 1988.".

(6) In paragraph 15(1) (general interpretation) insert each of the following definitions at the appropriate place—

""corporate strip" has the meaning given by paragraph 13A above;";

""interest-bearing corporate security" means any interest-bearing security other than—

(a) a security issued by the government of a territory;

(b) a share in a company;";

""interest-bearing security" includes any loan stock or similar security;".

(7) In paragraph 15(1)—

(a) in the definition of "relevant discounted security", after "paragraphs 3" insert ", 13B(1)";

(b) in the definition of "strip", after ""strip"" insert ", except in the expression "corporate strip",".

(8) The amendments made by this paragraph have effect in any case where a person acquires a corporate strip on or after 2nd December 2004 otherwise than in pursuance of an agreement entered into before that date.

Transactions within groups: treatment of transferee company

22 (1) In Schedule 26 to FA 2002 (derivative contracts) paragraph 28 (transactions within groups) is amended as follows.

(2) For sub-paragraph (3) (the credits and debits to be brought into account) substitute—

"(3) For the purpose of determining the credits and debits to be brought into account for the purposes of this Schedule in respect of the derivative contract—

(a) for the accounting period in which the transaction or, as the case may be, the first of the series of transactions takes place, the transferor company shall be treated as having entered into that transaction for a consideration equal to the notional carrying value of the contract; and

(b) for any accounting period in which it is a party to the contract, the transferee company shall be treated as if it had acquired the contract for a consideration equal to its notional carrying value.

For the purposes of this sub-paragraph the notional carrying value is the amount that would have been the carrying value of the

derivative contract in the accounts of the transferor company if a period of account had ended immediately before the date when the company ceased to be party to the contract.".

(3) In sub-paragraph (5), after "In this paragraph" insert the following definition—

""carrying value" has the same meaning as it has for the purposes of paragraph 50A;".

(4) Where the period of account mentioned in the second sentence of the sub-paragraph (3) substituted by sub-paragraph (2) begins before 1st January 2005, "carrying value" shall be construed as if the period had begun on or after that date.

(5) The amendments made by this paragraph have effect in any case where the relevant transaction is on or after 16th March 2005.

(6) In this paragraph "the relevant transaction" means—

(a) the related transaction mentioned in sub-paragraph (2)(a) of paragraph 28 of Schedule 26 to FA 2002,

(b) the first of the series of transactions mentioned in sub-paragraph (2)(b) of that paragraph, or

(c) the transfer mentioned in sub-paragraph (2)(c) or (2)(d) of that paragraph,

by virtue of which that paragraph applies or would apply apart from paragraph 30 of that Schedule.

Transactions within groups: fair value accounting

23 (1) In Schedule 26 to FA 2002 (derivative contracts) paragraph 30 (transactions within groups: fair value accounting) is amended as follows.

(2) In sub-paragraph (1), for paragraph (b) (treatment of transferee in respect of the transaction) substitute—

"(b) paragraph 28(3)(b) shall have effect in relation to the transferee company.".

(3) The amendment made by this paragraph has effect in any case where the relevant transaction is on or after 16th March 2005.

(4) In this paragraph "the relevant transaction" has the same meaning as in paragraph 22.

Transferee leaving group after replacing transferor as party to derivative contract

24 (1) In Schedule 26 to FA 2002 (derivative contracts) after paragraph 30 insert—

"Transferee leaving group after replacing transferor as party to derivative contract

30A (1) This paragraph applies in any case where—

(a) paragraph 28 applies—

(i) by virtue of sub-paragraph (2)(a) of that paragraph ("case A"), or

(ii) by virtue of sub-paragraph (2)(b) of that paragraph ("case B"), but

(b) before the end of the relevant 6 year period, the transferee company ceases to be a member of the relevant group.

(2) In any such case, this Schedule shall have effect as if the transferee company had—

(a) immediately before that cessation, assigned its rights and liabilities under the relevant derivative contract for a consideration of an amount equal to their fair value at that time, and

(b) immediately reacquired them for a consideration of the same amount,

but only if Condition 1 or 2 is satisfied and sub-paragraph (5) does not apply.

(3) Condition 1 is that if sub-paragraph (2) has effect, a credit would in consequence of paragraph (a) of that sub-paragraph fall to be brought into account for the purposes of this Schedule by the transferee company.

(4) Condition 2 is that—

(a) Condition 1 is not satisfied,

(b) the company has a hedging relationship between the relevant derivative contract and a creditor relationship, and

(c) in consequence of paragraph 12A(2)(a) of Schedule 9 to the Finance Act 1996, a credit falls to be brought into account by the transferee company for the purposes of Chapter 2 of Part 4 of the Finance Act 1996 in respect of the creditor relationship.

(5) Where the transferee company ceases to be a member of the relevant group by reason only of an exempt distribution (see sub-paragraph (8))—

(a) sub-paragraph (2) does not have effect, but

(b) if there is chargeable payment within 5 years after the making of the exempt distribution, sub-paragraph (6) applies.

(6) Where this sub-paragraph applies, this Chapter shall have effect as if—

(a) the transferee company had, immediately before the making of the chargeable payment, assigned its rights and liabilities under the relevant derivative contract,

(b) the assignment had been for a consideration of an amount equal to the fair value of those rights and liabilities immediately before the transferee company ceased to be a member of the relevant group, and

(c) the transferee company had immediately reacquired those rights and liabilities for a consideration of the same amount,

but only if Condition 1 or 2, as modified by sub-paragraph (7), is satisfied.

(7) The modifications are that—

(a) in Condition 1, the references to sub-paragraph (2), and paragraph (a) of that sub-paragraph, are to be taken respectively as references to sub-paragraph (6) and paragraphs (a) and (b) of that sub-paragraph, and

(b) in Condition 2, the reference to paragraph 12A(2)(a) of Schedule 9 to the Finance Act 1996 is to be taken as a reference to paragraph 12A(6)(a) and (b) of that Schedule.

(8) In this paragraph—

"assignment", in relation to Scotland, means an assignation;

"chargeable payment" has the meaning given by section 214(2) of the Taxes Act 1988;

"exempt distribution" means a distribution which is exempt by virtue of section 213(2) of the Taxes Act 1988;

"creditor relationship" has the same meaning as in Chapter 2 of Part 4 of the Finance Act 1996 (see section 103(1) of that Act);

"the relevant 6 year period" means the period of 6 years following—

(a) in case A, the transaction mentioned in paragraph 28(2)(a), or

(b) in case B, the last of the series of transactions mentioned in paragraph 28(2)(b);

"the relevant derivative contract" means the derivative contract mentioned in paragraph 28(1);

"the relevant group" means—

(a) in case A, the group mentioned in paragraph 28(2)(a), or

(b) in case B, the group mentioned in paragraph 28(2)(b);

"the transferee company" means the company referred to as such in paragraph 28(1).".

(2) The amendment made by this paragraph has effect where a company ceases to be a member of a group on or after 16th March 2005.

Deeply discounted securities: corporate strips

25 (1) Chapter 8 of Part 4 of ITTOIA 2005 (profits from deeply discounted securities) is amended as follows.

(2) In section 430 (meaning of "deeply discounted security") in subsection (6) (subjections) omit "and" before the entry relating to section 443(1) and at the end of that entry add ", and

section 452A(1) (corporate strips).".

(3) In section 437 (transactions which are disposals) after subsection (4) insert—

"(5) In the case of interest-bearing corporate securities, further provision about occasions counting as disposals is made by section 452F(2)(a).

(6) In the case of corporate strips, further provision about occasions counting as disposals is made by section 452F(2)(a) and (3)(a).".

(4) In section 438 (timing of transfers and acquisitions) for subsection (4)

substitute—

"(4) This section is subject to—
section 445(7) (exchanges for and consolidations of strips);
section 452F(4) (conversion into and consolidations of corporate strips).".

(5) In section 440 (market value disposals) for subsection (5) substitute—

"(5) Subsection (4) is subject to—
section 445(8) (exchanges for and consolidations of strips);
section 452F(5) (conversion into and consolidations of corporate strips).".

(6) In section 441 (market value acquisitions) for subsection (3) substitute—

"(3) Subsection (2) is subject to—
section 445(8) (exchanges for and consolidations of strips);
section 452F(5) (conversion into and consolidations of corporate strips).".

(7) In section 444 (meaning of "strip" in Chapter 8) after subsection (5) insert—

"(6) Nothing in this section affects the meaning of the expression "corporate strip" in this Chapter (see section 452E).".

(8) After section 452 insert—

"Special rules for corporate strips

452A Application of this Chapter to corporate strips

(1) All corporate strips are treated as deeply discounted securities for the purposes of this Chapter, whether or not they would otherwise be so.

(2) This Chapter applies to corporate strips subject to the rules in—
(a) section 452F (corporate strips: acquisitions and disposals), and
(b) section 452G (corporate strips: manipulation of acquisition, transfer or redemption payments).

452B Meaning of "interest-bearing corporate security" in Chapter 8

(1) In this Chapter "interest-bearing corporate security" means any interest-bearing security other than—
(a) a security issued by the government of a territory, or
(b) a share in a company.

(2) In this section "interest-bearing security" includes any loan stock or similar security.

(3) Section 452D(4)(a) gives an extended meaning to references to converting an interest-bearing corporate security into corporate strips (and related expressions).

452C Conversion of interest-bearing corporate securities into corporate strips

(1) For the purposes of this Chapter a person converts an interest-bearing corporate security into corporate strips of the security if he has an interest-bearing corporate security ("the converted corporate security") but—

(a) as a result of any scheme or arrangements, he acquires two or more separate assets in place of the converted corporate security,

(b) each of those separate assets satisfies condition A,

(c) those separate assets, taken together, satisfy condition B, and

(d) at least one of those separate assets is not prevented from being a corporate strip by section 452E(2) or (3),

and related expressions shall be construed accordingly.

(2) Condition A is that the asset—

(a) represents the right to, or

(b) secures,

one or more stripped payments.

(3) For the purposes of this section, a "stripped payment" is—

(a) the payment of, or

(b) a payment corresponding to,

the whole or a part of one or more payments (whether of interest or principal) remaining to be made under the converted corporate security.

(4) Condition B is that the assets, taken together,—

(a) represent the right to, or

(b) secure,

every payment (whether of interest or principal) remaining to be made under the converted corporate security (or payments corresponding to every such payment).

(5) Where a person—

(a) has an interest-bearing corporate security, but

(b) sells or transfers the right to one or more payments remaining to be made under it (so that, as a result, there are two or more separate assets which, taken together, satisfy condition B),

this Chapter has effect as if, as a result of a scheme or arrangements, the person had acquired the separate assets in place of the security immediately before the sale or transfer.

(6) After a balance has been struck for a dividend on an interest-bearing corporate security, any payment to be made in respect of that dividend shall, at times falling after that balance has been struck, be treated for the purposes of this paragraph as not being a payment remaining to be made under the security.

452D Conversion into corporate strips: lower level conversions

(1) For the purposes of this Chapter, section 452C also has effect in relation to each of the separate assets mentioned in subsection (1) of

that section as if that separate asset were itself an interest-bearing corporate security (if that is not in fact the case).

(2) In subsection (1), the reference to section 452C includes a reference to that section as it has effect by virtue of this section.

(3) In the application of section 452C by virtue of this section, references to payments the right to which a separate asset represents or secures shall be construed in accordance with subsection (6) of that section.

(4) Where section 452C has effect by virtue of subsection (1)—

(a) any reference in this Chapter to converting an interest-bearing corporate security into corporate strips of the security shall be construed accordingly, and

(b) section 452E (meaning of "corporate strip") has effect accordingly.

452E Meaning of "corporate strip" in Chapter 8

(1) In this Chapter "corporate strip" means any asset—

(a) which is, or has at any time been, one of the separate assets mentioned in section 452C(1), and

(b) which is not prevented from being a corporate strip by subsection (2) or (3).

(2) An asset is not a corporate strip if it—

(a) represents the right to, or

(b) secures,

payments of, or corresponding to, a part of every payment remaining to be made under an interest-bearing corporate security or a corporate strip.

(3) An asset is a corporate strip in the case of any person only if he acquired it—

(a) on or after 2nd December 2004, and

(b) otherwise than in pursuance of an agreement entered into before that date.

452F Corporate strips: acquisitions and disposals

(1) A person who converts an interest-bearing corporate security into corporate strips of the security is treated as having acquired each corporate strip by the payment of an amount equal to—

$$A \times \frac{B}{C}$$

where—

A is the acquisition cost of the converted corporate security;

B is the market value of the corporate strip;

C is the total of the market values of all the separate assets resulting from the conversion.

(2) If the converted corporate security is a deeply discounted security—

(a) its conversion into corporate strips is to be treated for the purposes of this Chapter as a transfer of the security, but

(b) the amount payable on the transfer is taken to be an amount equal to the acquisition cost of the converted corporate security.

(3) For the purposes of this Chapter—

(a) the consolidation of a corporate strip with other corporate strips into a single security is a disposal of the corporate strip by the person consolidating it (whether or not it would be apart from this subsection), and

(b) an amount equal to the market value of the corporate strip at the consolidation is treated as payable on the disposal.

(4) Section 438 (timing of transfers and acquisitions) does not apply to a conversion within subsection (1) or a consolidation within subsection (3).

(5) Subsections (1) to (3) apply instead of sections 440(4) (market value on general conversions of deeply discounted securities) and 441 (market value acquisitions).

(6) For the purposes of this section, the acquisition cost of the converted corporate security is the amount paid in respect of his acquisition of the security by the person who has it immediately before the conversion (no account being taken of any costs incurred in connection with that acquisition).

(7) References in this section to the market value of a security given or received in exchange for, or otherwise converted into, another are references to its market value at the time of the exchange or conversion.

452G Corporate strips: manipulation of acquisition, transfer or redemption payments

(1) This section applies if—

(a) as a result of any scheme or arrangement, an amount referred to in subsection (2)(a), (b) or (c) differs from the market value of the corporate strip in a way specified in that subsection, and

(b) the obtaining of a tax advantage by any person is the main benefit, or one of the main benefits, that might have been expected to accrue from, or from any provision of, the scheme or arrangement.

(2) The ways are that—

(a) the amount paid by a person in respect of the acquisition of the corporate strip is or was more than the market value of the corporate strip at the time of that acquisition,

(b) the amount payable to a person on transferring the corporate strip is less than the market value at the time of the transfer, or

(c) on redemption of the corporate strip the amount payable to a person, as the person holding the corporate strip, is less than the market value on the day before redemption.

(3) In a case within subsection (2)(a), for the purposes of section 439(1) on transferring the corporate strip the person is treated as if the

person had paid to acquire the corporate strip an amount equal to the market value of the corporate strip at the time of the acquisition.

(4) In a case falling within subsection (2)(b), for those purposes the person is treated as if the amount payable to the person on the transfer were an amount equal to the market value of the corporate strip at the time of the transfer.

(5) In a case falling within subsection (2)(c), for those purposes the person is treated as if the amount payable to the person on redemption were an amount equal to the market value of the corporate strip on the day before redemption.

(6) The market value of a corporate strip at any time is to be determined for the purposes of this section without regard to any increase or diminution in the value of the corporate strip as a result of the scheme or arrangement mentioned in subsection (1).

(7) For the purposes of this section, no account is to be taken of any incidental expenses incurred in connection with any disposal or acquisition of a corporate strip.".

(9) In Schedule 4 (abbreviations and defined expressions) in Part 2 (expressions defined in the Act or in ICTA) insert each of the following entries at the appropriate place—

"conversion of an interest-bearing corporate security into corporate strips of the security (for the purposes of Chapter 8 of Part 4)	sections 452C and 452D";
"corporate strip (for the purposes of Chapter 8 of Part 4)	section 452E";
"interest-bearing corporate security (for the purposes of Chapter 8 of Part 4)	section 452B".

(10) ITTOIA 2005 shall have effect as if it had been originally enacted with the amendments made by this paragraph.

SCHEDULE 8

Section 40

FINANCING OF COMPANIES ETC: TRANSFER PRICING AND LOAN RELATIONSHIPS

Amendments of Schedule 28AA to ICTA

1 (1) Schedule 28AA to ICTA (provision not at arm's length) is amended as follows.

(2) In paragraph 4 (participation in the management, control or capital of a person), in sub-paragraph (2) (meaning of indirect participation) for "and only if" substitute "and (subject to paragraphs 4A and 6(4C) below) only if".

(3) After that paragraph insert—

"Persons acting together in relation to financing arrangements

4A (1) A person ("P") shall be treated for the purposes of paragraph 1(1)(b)(i) above (but subject to sub-paragraph (7) below) as indirectly participating in the management, control or capital of another ("A") at the time of the making or imposition of the actual provision if—

(a) the actual provision relates, to any extent, to financing arrangements for A;

(b) A is a body corporate or partnership;

(c) P and other persons acted together in relation to the financing arrangements; and

(d) P would be taken to have control of A if, at any relevant time, there were attributed to P the rights and powers of each of the other persons mentioned in paragraph (c) above.

(2) A person ("Q") shall be treated for the purposes of paragraph 1(1)(b)(ii) above (but subject to sub-paragraph (7) below) as indirectly participating in the management, control or capital of each of the affected persons at the time of the making or imposition of the actual provision if—

(a) the actual provision relates, to any extent, to financing arrangements for one of the affected persons ("B");

(b) B is a body corporate or partnership;

(c) Q and other persons acted together in relation to the financing arrangements; and

(d) Q would be taken to have control of both B and the other affected person if, at any relevant time, there were attributed to Q the rights and powers of each of the other persons mentioned in paragraph (c) above.

(3) It is immaterial for the purposes of sub-paragraph (1)(c) or (2)(c) above whether P or Q and the other persons acting together in relation to the financing arrangements did so at the time of the making or imposition of the actual provision or at some earlier time.

(4) In sub-paragraph (1)(d) or (2)(d) "relevant time" means—

(a) a time when P or Q and the other persons were acting together in relation to the financing arrangements; or

(b) a time in the period of six months beginning with the day on which they ceased so to act.

(5) In determining for the purposes of sub-paragraph (1)(d) or (2)(d) whether P or Q would be taken to have control of another person, the rights and powers of any person (and not just P or Q) shall be taken to include those that would be attributed to that person in determining under paragraph 4 above whether he is indirectly participating in the management, control or capital of the other person.

(6) In this paragraph "financing arrangements" means arrangements made for providing or guaranteeing, or otherwise in connection with, any debt, capital or other form of finance.

(7) Where the condition in paragraph 1(1)(b) above would not be satisfied but for this paragraph, paragraph 1(2) above applies only to the extent that the actual provision relates to the financing arrangements in question.".

(4) After the paragraph inserted by sub-paragraph (3) above insert—

"Financing arrangements: anticipatory provision

4B (1) To the extent that it applies to provision relating to financing arrangements, this Schedule has effect as if in paragraph 1(1)(b) above the words "or within the period of six months beginning with the day on which the actual provision was made or imposed" were inserted immediately before sub-paragraph (i).

(2) In this paragraph "financing arrangements" has the same meaning as in paragraph 4A above.".

(5) In paragraph 6 (elimination of double counting), after sub-paragraph (4) insert—

"(4A) A claim by the disadvantaged person for the purposes of this paragraph shall not be made where—

(a) the condition in paragraph 1(1)(b) above would not be satisfied but for paragraph 4A above;

(b) the actual provision is provision in relation to a security issued by one of the affected persons ("the issuer");

(c) a guarantee is provided in relation to the security by a person with whom the issuer has a participatory relationship.

In this sub-paragraph "security" and "guarantee" have the same meaning as in paragraph 1A above.

(4B) For the purposes of sub-paragraph (4A) above, the cases where one person has a "participatory relationship" with another are those where—

(a) one of them is directly or indirectly participating in the management, control or capital of the other; or

(b) the same person or persons is or are directly or indirectly participating in the management, control or capital of each of them.

(4C) Paragraph 4A above applies for the purposes of sub-paragraph (4B) above as it applies for the purposes of paragraph 1(1)(b) above.".

Amendments of Schedule 9 to FA 1996

2 (1) In Schedule 9 to FA 1996 (loan relationships: computational provisions), paragraph 2 (late interest) is amended as follows.

(2) In sub-paragraph (1B)—

(a) omit ", but not a CIS-based close company," and the words after paragraph (c);

(b) in paragraph (a), at the end insert "or a person who controls a company which is such a participator";

(c) in paragraph (b), after "who is" insert ", or who controls a company which is,";

(d) for paragraph (c) substitute—

"(c) a company controlled by such a participator or by a person who controls a company which is such a participator, or

(d) a company in which such a participator has a major interest.";

(e) at the end insert—

"This is subject to sub-paragraph (1E).".

(3) After sub-paragraph (1D) insert—

"(1E) A case does not fall within sub-paragraph (1B) above if either of the following exceptions applies.

(1F) The first exception applies where—

(a) the debtor company is a CIS-based close company at all such times as are mentioned in sub-paragraph (1B) above;

(b) the person standing in the position of a creditor as respects the loan relationship is not resident in a non-qualifying territory at any such time; and

(c) the debtor company is a small or medium-sized enterprise for the relevant accounting period.

(1G) The second exception applies where—

(a) the debt is one that is owed to, or to persons acting for, a CIS limited partnership;

(b) no member of that partnership is resident in a non-qualifying territory at any time in the relevant accounting period;

(c) the debtor company has received written notice from the partnership containing information from which it appears that the condition in paragraph (b) above is satisfied; and

(d) the debtor company is a small or medium-sized enterprise for the relevant accounting period.".

(4) In sub-paragraph (6), at the appropriate places insert—

""non-qualifying territory" has the meaning given by paragraph 5E of Schedule 28AA to the Taxes Act 1988;";

""resident" has the meaning given by paragraph 5B(6) of Schedule 28AA to the Taxes Act 1988;";

""small or medium-sized enterprise" has the meaning given by paragraph 5D of that Schedule.".

3 (1) Paragraph 18 of that Schedule (discounted securities of close companies) is amended as follows.

(2) In sub-paragraph (1), omit paragraphs (aa) and (c).

(3) In sub-paragraph (1)(b)—

(a) in sub-paragraph (i), at the end insert "or a person who controls a company which is such a participator";

(b) in sub-paragraph (ii), after "an associate of" insert "a person who is, or who controls a company which is,";

(c) for sub-paragraph (iii) substitute—

"(iii) a company controlled by such a participator or by a person who controls a company which is such a participator.".

(4) After sub-paragraph (1) insert—

"(1ZA) But for any such accounting period this paragraph shall not apply in relation to that debtor relationship if any of the following exceptions applies.".

(5) In sub-paragraph (1A), for the words before paragraph (a) substitute "The first exception applies where—".

(6) After that sub-paragraph insert—

"(1B) The second exception applies where—

(a) the issuing company is a CIS-based close company;

(b) at all times in the period when there is such a person as is described in sub-paragraph (1)(b) above, that person is not resident in a non-qualifying territory; and

(c) the issuing company is a small or medium-sized enterprise for the period.

(1C) The third exception applies where—

(a) the debt is one that is owed to, or to persons acting for, a CIS limited partnership;

(b) no member of that partnership is resident in a non-qualifying territory at any time in the period when there is such a person as is described in sub-paragraph (1)(b) above;

(c) the debtor company has received written notice from the partnership containing information from which it appears that the condition in paragraph (b) above is satisfied; and

(d) the issuing company is a small or medium-sized enterprise for the period.".

(7) In sub-paragraph (4), at the appropriate places insert—

""CIS-based close company" and "CIS limited partnership" have the meaning given by paragraph 2(6) above;";

""non-qualifying territory" has the meaning given by paragraph 5E of Schedule 28AA to the Taxes Act 1988;";

""resident" has the meaning given by paragraph 5B(6) of Schedule 28AA to that Act;";

""small or medium-sized enterprise" has the meaning given by paragraph 5D of that Schedule.".

Commencement and transitional provisions

4 (1) Except where sub-paragraph (2) or (3) applies, the amendments made by this Schedule have effect in relation to accounting periods beginning on or after 4th March 2005.

(2) As regards any actual provision that constitutes, or gives rise to, a debtor relationship entered into in pursuance of a contract—

(a) made before 4th March 2005, and

(b) not varied after that date, or not varied until after that date,

the amendments made by paragraph 1(2), (3) and (5) apply only in relation to accounting periods beginning on or after 1st April 2007 or, in a case where the contract is varied before 1st April 2007, in relation to accounting periods beginning on or after the date of the variation.

(3) As regards a debtor relationship entered into in pursuance of a contract—

(a) made before 4th March 2005, and

(b) not varied after that date, or not varied until after that date,

the amendments made by paragraph 2(2)(a) and (e), (3) and (4) and paragraph 3(2) and (4) to (7) apply only in relation to accounting periods beginning on or after 1st April 2007 or, in a case where the contract is varied before 1st April 2007, in relation to accounting periods beginning on or after the date of the variation.

(4) In the case of a company's accounting period ("the straddling period") that begins before and ends on or after a relevant date, for the purposes of sub-paragraph (1) or (where it applies) sub-paragraph (2) or (3) the amendments made by this Schedule have effect as if the straddling period consisted of—

(a) one accounting period beginning with the straddling period and ending with the day before the relevant date, and

(b) a second accounting period beginning with the relevant date and ending with the straddling period,

and the company's profits and losses are to be computed accordingly for tax purposes.

(5) A reference in sub-paragraph (2) or (3) to a variation of a contract does not include a reference to a variation that does not affect the terms of the debtor relationship in question.

(6) Sub-paragraph (3) is not to be read as allowing or requiring a debit to be brought into account under Chapter 2 of Part 4 of FA 1996 for an accounting period beginning on or after 1st April 2007, or the date of the variation, in respect of any amount of interest or discount in respect of which a debit is so brought into account for any earlier accounting period.

(7) In the application of this paragraph to a person within the charge to income tax—

(a) a reference to an accounting period is to be read as a reference to a period of account;

(b) a reference in sub-paragraph (4) to a company is to be read as a reference to such a person.

(8) In this paragraph—

"actual provision" has the same meaning as in Schedule 28AA to ICTA;

"debtor relationship"—

(a) in relation to a company, has the meaning given by section 103(1) of FA 1996;

(b) in relation to a person other than a company, has a corresponding meaning;

"relevant date" means—

(a) 4th March 2005 for the purposes of sub-paragraph (1);

(b) 1st April 2007, or (as the case may be) the date of the variation, for the purposes of sub-paragraph (2) or (3).

SCHEDULE 9

Section 42

INSURANCE COMPANIES ETC

Expenses of insurance companies

1 (1) Section 76 of ICTA is amended as follows.

(2) In subsection (8) (expenses attributable to basic life assurance and general annuity business for the purposes of Step 1 are to be those so attributable under proper internal accounting practice) in the second sentence (meaning of "proper internal accounting practice") at the end of paragraph (b) insert ", or

(c) the Integrated Prudential Sourcebook.".

(3) The amendment made by this paragraph has effect in relation to periods of account ending on or after 31st December 2004.

Interpretative provisions relating to insurance companies

2 (1) Section 431(2) of ICTA is amended as follows.

(2) Insert the following definition at the appropriate place—

""the Integrated Prudential Sourcebook" means the Integrated Prudential Sourcebook made by the Financial Services Authority under the Financial Services and Markets Act 2000;".

(3) For the definition of "liabilities" substitute—

""liabilities", in relation to an insurance company, means—

(a) the mathematical reserves of the company as determined in accordance with chapter 7.3 of the Integrated Prudential Sourcebook, and

(b) liabilities of the company (whose value falls to be determined in accordance with chapter 1.3 of that Sourcebook) which arise from deposit back arrangements;

and for this purpose "deposit back arrangements" has the same meaning as in that Sourcebook;".

(4) Omit the definition of "long-term liabilities".

(5) For the definition of "value" substitute—

""value", in relation to an asset of an insurance company, means the value of the asset as determined in accordance with chapter 1.3, as read with chapter 3.2, of the Integrated Prudential Sourcebook;".

(6) The amendments made by this paragraph have effect in relation to periods of account ending on or after 31st December 2004.

Amendment of Chapter 1 of Part 12 of ICTA etc

3 For section 431A of ICTA substitute—

"431A Amendment of Chapter etc

(1) The Treasury may by order amend any insurance company taxation provision where it is expedient to do so in consequence of the exercise of any power under the Financial Services and Markets Act 2000, in so far as that Act relates to insurance companies.

(2) Where any exercise of a power under that Act has effect for a period ending on or before, or beginning before and ending after, the day on which an order containing an amendment in consequence of that exercise is made under subsection (1) above, the power conferred by that subsection includes power to provide for the amendment to have effect in relation to that period.

(3) The Treasury may by order amend any of the following provisions—

(a) sections 432ZA, 432A, 432B to 432G and 755A and Schedule 19AA;

(b) sections 83A, 85, 88 and 89 of the Finance Act 1989;

(c) section 210A of the Taxation of Chargeable Gains Act 1992.

(4) An order under subsection (3) above may only be made so as to have effect in relation to periods of account—

(a) beginning on or after 1st January 2005, and

(b) ending before 1st October 2006.

(5) The Treasury may by order amend subsection (4)(b) above by substituting for "1st October 2006" a date no later than 1st October 2007.

(6) Any power conferred by this section to make an order includes power to make—

(a) different provision for different cases or different purposes, and

(b) incidental, supplemental, consequential or transitional provision and savings.

(7) In this section "insurance company taxation provision" means any of the following—

(a) a provision of this Chapter;

(b) any other provision of the Tax Acts so far as relating to insurance companies.".

Apportionment of income and gains

4 (1) Section 432A of ICTA is amended as follows.

(2) In subsection (9A) (meaning of "net value") for "long-term liabilities" substitute "liabilities".

(3) The amendment made by this paragraph has effect in relation to periods of account ending on or after 31st December 2004.

Section 432B apportionment: participating funds

5 (1) Section 432E of ICTA is amended as follows.

(2) In subsection (2A) (increase in amount determined under subsection (2) where amount is taken into account under subsection (2) of section 83 of FA 1989 by virtue of subsection (2B) of that section) in the opening words—

(a) for "an amount is" substitute "an amount or amounts are";

(b) after "subsection (2B) of that section" insert "or by virtue of section 444ACA(2) of this Act".

(3) In that subsection, for the definition of "RP" substitute—

"RP is the amount or the aggregate of the amounts taken into account under subsection (2) of section 83 of the Finance Act 1989 by virtue of any of the following provisions—

(a) subsection (2B) of that section;

(b) section 444ACA(2) of this Act.".

(4) The amendments made by this paragraph have effect in relation to insurance business transfer schemes (within the meaning given by section 444AC(11) of ICTA) taking place on or after 2nd December 2004.

Transfers of business: deemed periodical return

6 (1) Section 444AA of ICTA is amended as follows.

(2) At the end insert—

"(7) Where this section applies in relation to a transfer in a case in which the transferor continues, after the transfer, to carry on insurance business which is not long-term business—

(a) references in this section to the last period covered by a periodical return (or deemed periodical return) of the transferor shall be taken to be references to the last period covered by a periodical return (or deemed periodical return) of the transferor containing entries relating to long-term business;

(b) subsection (4) above is to be read as if after "other than" there were inserted "the purposes of sections 444BA to 444BD and".".

(3) The amendment made by this paragraph has effect in relation to insurance business transfer schemes (within the meaning given by section 444AA(6) of ICTA) taking place on or after 30th June 2005.

Transfers of business: modification of section 444AC of ICTA

7 (1) Section 444AC of ICTA is amended as follows.

(2) In subsection (2) (excess of element of the transferee's line 15 (or 31) figure representing the transferor's long-term insurance fund over amount specified in paragraph (b) not to be regarded as other income of transferee) in paragraph (b) (amount of liabilities to policy holders and annuitants transferred to transferee)—

(a) for "the amount" substitute "the aggregate amount";

(b) at the end insert "and of any relevant debts".

(3) After that subsection insert—

"(2A) Subject to subsections (2C) and (2D) below, subsection (2B) below applies if—

(a) the aggregate amount of the liabilities to policy holders and annuitants transferred to the transferee and of any relevant debts, exceeds

(b) the element of the transferee's line 31 figure representing the transferor's long-term insurance fund.

(2B) Where this subsection applies—

(a) the excess is to be taken into account as a receipt of the transferee in computing in accordance with the provisions of this Act applicable to Case I of Schedule D the profits of its life assurance business for the period of account of the transferee in which the transfer takes place ("the relevant period of account"); and

(b) the relevant proportion of the excess is to be taken into account as a receipt of the transferee in so computing the profits of each category of its life assurance business for the relevant period of account;

and, for this purpose, "the relevant proportion", in relation to a category of the transferee's life assurance business, is the proportion that the liabilities of that category that are transferred bear to the total liabilities transferred.

(2C) Subsection (2B) above does not require the excess to be taken into account as a receipt of the transferee in so computing the profits of its life assurance business for the relevant period of account if—

(a) transferred liabilities of an aggregate amount equal to the excess are not taken into account in so computing those profits for that period of account, and

(b) the amount of the closing liabilities of that period of account is taken into account as opening liabilities in so computing those profits for the next period of account.

(2D) Subsection (2B) above does not require the relevant proportion of the excess to be taken into account as a receipt of the transferee in so computing the profits of a category of its life assurance business for the relevant period of account if—

(a) transferred liabilities of an aggregate amount equal to the relevant proportion of the excess are not taken into account in so computing those profits for that period of account, and

(b) the amount of the closing liabilities of that period of account is taken into account as opening liabilities in so computing those profits for the next period of account.

(2E) In subsections (2C)(a) and (2D)(a) above "transferred liabilities" means—

(a) liabilities to policy holders or annuitants at the end of the relevant period of account that were transferred to the transferee, and

(b) payments made to discharge, during that period of account, liabilities to policy holders or annuitants that were transferred to the transferee.".

(4) After subsection (3) insert—

"(4) In this section "relevant debts" means debts which become debts of the transferee's long-term insurance fund as a result of the transfer.

(5) But if—

(a) the fair value, as at the date of the transfer, of the assets which become assets of the transferee's long-term insurance fund as a result of the transfer, exceeds

(b) the element of the transferee's line 31 figure representing the transferor's long-term insurance fund,

the amount of any relevant debts for the purposes of this section is to be reduced (but not below nil) by the excess.

(6) In determining the amount of the liabilities transferred for the purposes of this section, there is to be disregarded any reduction in the transferee's liabilities resulting from reinsurance under a contract of reinsurance which is a relevant financial reinsurance contract (within the meaning of section 82C of the Finance Act 1989).

(7) But where—

(a) such a reduction results from reinsurance under a contract which was entered into by the transferor as cedant before the day on which the transfer takes place, and

(b) the transferor's rights and obligations under the contract are transferred to the transferee under the transfer,

the amount of the reduction that would (apart from this subsection) be disregarded under subsection (6) above shall be reduced (but not below nil) by the amount given by subsection (8) below or, if less, the amount given by subsection (9) below.

(8) The amount given by this subsection is the amount by which the liabilities at the end of the closing period which fell to be taken into account in computing in accordance with the provisions of this Act applicable to Case I of Schedule D the profits of the transferor's business for that period were reduced as a result of reinsurance under the contract.

(9) The amount given by this subsection is the amount given by paragraph (a) below reduced (but not below nil) by the amount given by paragraph (b) below—

(a) the amount given by this paragraph is the aggregate of the relevant amounts for any accounting period, and for this

purpose the relevant amount for an accounting period is the amount in sub-paragraph (i) or (ii) below or, where applicable, the aggregate of those amounts—

(i) the amount by which the profits of the transferor's business, computed in accordance with the provisions of this Act applicable to Case I of Schedule D, were increased for that accounting period as a result of reinsurance under the contract;

(ii) the amount by which the losses of the transferor's business, so computed, were reduced for that accounting period as a result of reinsurance under the contract; and

(b) the amount given by this paragraph is the aggregate of the relevant amounts for any accounting period, and for this purpose the relevant amount for an accounting period is the amount in sub-paragraph (i) or (ii) below or, where applicable, the aggregate of those amounts—

(i) the amount by which the profits of the transferor's business, so computed, were reduced for that accounting period as a result of a reduction in reinsurance under the contract;

(ii) the amount by which the losses of the transferor's business, so computed, were increased for that accounting period as a result of a reduction in reinsurance under the contract.

(10) In subsections (8) and (9) above—

"the closing period" means the accounting period of the transferor ending with the day on which the transfer takes place;

"the transferor's business" means—

(a) the transferor's life assurance business, and

(b) any category of its life assurance business to which the liabilities relate.

(11) For the purposes of this section and section 444ACA—

"fair value" has the meaning given by section 444AB(6);

"insurance business transfer scheme" includes a scheme which would be such a scheme but for section 105(1)(b) of the Financial Services and Markets Act 2000 (which requires the business transferred to be carried on in an EEA State).".

(5) The heading of the section accordingly becomes "Transfers of business: excess of assets or liabilities".

(6) The amendments made by this paragraph have effect in relation to insurance business transfer schemes (within the meaning given by section 444AC(11) of ICTA) taking place on or after 2nd December 2004.

(7) But in relation to a period of account beginning before 1st January 2005, section 444AC(2A)(b) and (5)(b) of ICTA shall have effect as if for "line 31 figure" there were substituted "line 15 figure".

Transfers of business: transferor shares are assets of transferee's long-term insurance fund etc

8 (1) After section 444AC of ICTA insert—

"444ACA Transfers of business: transferor shares are assets of transferee's long-term insurance fund etc

(1) This section applies where an insurance business transfer scheme (see section 444AC(11)) has effect to transfer long-term business from one company ("the transferor") to another ("the transferee").

(2) If—

(a) immediately before the transfer, the assets of the long-term insurance fund of the transferee comprise or include relevant shares or an interest in such shares, and

(b) the fair value (see section 444AC(11)) of the relevant shares, or of that interest, is reduced (whether or not to nil) as a result of the transfer,

an amount equal to that reduction in fair value is to be taken into account under section 83(2) of the Finance Act 1989 as a receipt of the transferee of the period of account of the transferee in which the transfer takes place.

(3) But if—

(a) the assets transferred to the transferee under the transfer comprise or include assets ("the relevant assets") which, immediately before the transfer,—

(i) were assets of the transferor, but

(ii) were not assets of the transferor's long-term insurance fund, and

(b) in respect of the transfer of the relevant assets, an amount is—

(i) brought into account by the transferee as other income of the transferee of the period of account of the transferee in which the transfer takes place, and

(ii) taken into account in computing in accordance with the provisions of this Act applicable to Case I of Schedule D the profits of the transferee's life assurance business and any category of its life assurance business to which the amount is referable,

the amount taken into account under section 83(2) of the Finance Act 1989 by virtue of subsection (2) above shall be reduced (but not below nil) by an amount equal to the amount referred to in paragraph (b) above.

(4) In subsection (2) above "relevant shares" means—

(a) some or all of the shares in the transferor, or

(b) some or all of the shares in a company (whether or not an insurance company) which owns, directly or indirectly,—

(i) some or all of the shares in the transferor, or

(ii) an interest in some or all of those shares.

(5) In subsection (4) above "shares", in relation to a company, includes any interests in the company possessed by members of the company.".

(2) The amendment made by this paragraph has effect in relation to insurance business transfer schemes (within the meaning given by section 444AC(11) of ICTA) taking place on or after 2nd December 2004.

Equalisation reserves for general business

9 (1) Section 444BA of ICTA is amended as follows.

(2) In subsection (11) (meaning of "equalisation reserves rules") for "Chapter 6 of the Prudential Sourcebook (Insurers)" substitute "chapter 7.5 of the Integrated Prudential Sourcebook".

(3) The amendment made by this paragraph has effect in relation to periods of account ending on or after 31st December 2004.

Unappropriated surplus on valuation

10 (1) Section 82B of FA 1989 is amended as follows.

(2) In subsection (1) (section to apply where insurance company has unappropriated surplus on valuation and has not made an election in accordance with Rule 4.1(6) of the Prudential Sourcebook (Insurers) for the period of account in question) in paragraph (b), for "Rule 4.1(6)" substitute "Rule 9.10(c)".

(3) The amendment made by this paragraph has effect in relation to periods of account ending on or after 31st December 2004.

Relevant financial reinsurance contracts

11 (1) Section 82C of FA 1989 is amended as follows.

(2) In subsection (1) (cases where section applies) in paragraph (b), for "either condition A or condition B" substitute "condition A".

(3) Omit subsections (4), (5), (8) and (9) (provisions relating to condition B).

(4) The amendments made by this paragraph have effect in relation to insurance business transfer schemes (within the meaning given by section 82C(9) of FA 1989) taking place on or after 2nd December 2004.

Receipts to be taken into account

12 (1) Section 83 of FA 1989 is amended as follows.

(2) In subsection (2A) (amounts not required to be taken into account by subsection (2)) for paragraph (a) (amounts which are entirely notional) substitute—

"(a) comprises notional income for the period of account (see subsections (2AA) and (2AB)),

(aa) represents an inter-fund transfer (see subsections (2AC) and (2AD)),".

(3) After that subsection insert—

"(2AA) For the purposes of subsection (2A)(a) above, an amount brought into account as mentioned in paragraphs (a) to (d) of subsection (2)

above for a period of account is to be regarded as notional income for the period of account if—

(a) it represents income which has not been received, and is not receivable, from another person, and

(b) a corresponding notional expense of the same amount is brought into account in the period of account;

and where particular income falls to be regarded as notional income under this subsection, the notional expense by virtue of which that income falls to be so regarded may not be taken into account for determining whether any other income is to be so regarded.

(2AB) In subsection (2AA) above "notional expense" means an expense which has not been paid, and is not payable, to another person and which—

(a) is not deductible in computing the profits of the company in respect of its life assurance business in accordance with the provisions of the Taxes Act 1988 applicable to Case I of Schedule D, but

(b) had it represented an amount paid or payable to another person, would have been so deductible.

(2AC) For the purposes of subsection (2A)(aa) above, where—

(a) one or more inter-fund transfers ("transfers-in") are made into a fund and one or more inter-fund transfers ("transfers-out") are made out of the fund, and

(b) the amount brought into account for the period of account as other income in respect of the transfers-in represents the amount by which—

(i) the amount or aggregate amount of the transfers-in, exceeds

(ii) the amount or aggregate amount of the transfers-out,

only the amount of that excess shall be taken to represent the transfers-in.

(2AD) In this section "inter-fund transfer" means a transfer between two funds which in the company's periodical return is shown in, or included in amounts shown in, line 14 or 33 of the Forms 58 for the funds.".

(4) In subsection (2B) (assets of long-term insurance fund transferred out of fund but transfer not brought into account as part of total expenditure) after paragraph (b) insert—

"For the purposes of this subsection "total expenditure", in relation to a period of account of an insurance company, includes any expenses brought into account in line 12 of Form 40 (the revenue account) in the periodical return of the company for the period of account.".

(5) The amendments made by sub-paragraphs (2) and (3) have effect in relation to periods of account ending on or after 2nd December 2004.

(6) The amendment made by sub-paragraph (4) has effect in relation to periods of account beginning on or after 1st January 2005.

Meaning of "brought into account"

13 (1) Section 83A of FA 1989 is amended as follows.

(2) In subsection (2) (accounts which are recognised for the purposes of sections 82A to 83AB)—

(a) in paragraph (b) (separate revenue account prepared under Chapter 9 of the Prudential Sourcebook (Insurers) in respect of a part of the company's long-term business to be a recognised account) for "part of that business" substitute "with-profits fund (see subsection (6))";

(b) omit the words from "Paragraph (b) above" to the end of the subsection.

(3) After subsection (3) insert—

"(3A) Where, in the case of any with-profits fund in respect of which there is prepared such a separate account ("the sub-fund"),—

(a) the sub-fund forms part of another with-profits fund ("the wider fund") in respect of which such a separate account is also prepared,

(b) in the case of a company whose life assurance business is mutual business, the sub-fund and each other with-profits fund which forms part of the wider fund are 100:0 funds, and

(c) the wider fund—

(i) does not form part of another with-profits fund in respect of which such a separate account is also prepared, or

(ii) forms part of another with-profits fund in respect of which such a separate account is also prepared and that separate account is treated by this subsection as not being a recognised account for the purposes of those sections,

the account in respect of the wider fund shall not be a recognised account for the purposes of those sections.

(3B) Where, in the case of such a separate account prepared in respect of a with-profits fund,—

(a) the account is not prevented from being a recognised account for the purposes of those sections by virtue of subsection (3A) above, but

(b) if paragraph (b) of that subsection were to be omitted, the account would be prevented from being such a recognised account by virtue of that subsection,

no such separate account prepared in respect of a with-profits fund forming part of that fund shall be such a recognised account.

(3C) In subsection (3A) above "100:0 fund" means a fund in the case of which—

(a) the policy holders of the fund are entitled to participate in all the profits of the fund, and

(b) no other persons are entitled to participate in any of the profits of the fund.

(3D) Subsection (3E) below applies where there is prepared such a separate account ("the with-profits account") in respect of a with-profits fund—

(a) of which no other with-profits fund forms part, but

(b) of which a non-profit fund (see subsection (6)) forms part.

(3E) Where this subsection applies—

(a) the with-profits account shall not be a recognised account for the purposes of those sections, but

(b) there shall be treated as having been required and prepared a further separate revenue account covering so much of the items brought into account in the with-profits account as remains after excluding the items brought into account in that account in respect of the non-profit fund.".

(4) For subsection (4) substitute—

"(4) If—

(a) a company prepares a revenue account in respect of the whole of its long-term business ("the main account"),

(b) it prepares one or more such separate accounts as are mentioned in subsection (2)(b) above, and

(c) the total of the items brought into account in the separate accounts—

(i) excluding any such accounts which by virtue of subsection (3A), (3B) or (3E)(a) above are not recognised accounts for the purposes of those sections, but

(ii) including any such accounts which by virtue of subsection (3E)(b) above are treated as having been required and prepared,

is not equal to the total amount brought into account in the main account,

there shall be treated as having been required and prepared a further separate revenue account covering the balance.".

(5) At the end of the section insert—

"(6) In this section "with-profits fund" and "non-profit fund" have the same meaning as in the Integrated Prudential Sourcebook.".

(6) The amendments made by this paragraph have effect in relation to periods of account beginning on or after 1st January 2005.

Changes in recognised accounts: attribution of amounts carried forward under s.432F of ICTA

14 (1) After section 83A of FA 1989 insert—

"83B Changes in recognised accounts: attribution of amounts carried forward under s.432F of Taxes Act 1988

(1) This section applies to a company where any revenue account that is recognised for a period of account (the "new period of account") relates to funds or business which is different from the funds or business to which a revenue account that was recognised for the preceding period of account relates.

(2) Any subsection (2) excess (within the meaning of section 432F(2) of the Taxes Act 1988) which would have been available under section 432F(3) or (4) of that Act to reduce a subsection (3) figure (within the meaning of section 432F(1) of that Act) of the company in the new period of account shall be attributed between the revenue accounts that are recognised for that period of account in such manner as is appropriate.

(3) In this section "recognised" means recognised, by virtue of section 83A, for the purposes of sections 82A to 83AB.".

(2) The amendment made by this paragraph has effect in relation to new periods of account (within the meaning given by section 83B(1) of FA 1989) beginning on or after 1st January 2005.

Charge of certain receipts of basic life assurance business

15 (1) Section 85 of FA 1989 is amended as follows.

(2) In subsection (2) (receipts excluded from charge under Case VI of Schedule D in respect of receipts referable to company's basic life assurance and general annuity business) after paragraph (e) insert "; or

(f) any payment received under the Financial Services Compensation Scheme to enable the company to meet its obligations to policy holders.".

(3) In subsection (2C) (rules as to whether receipt is referable to company's basic life assurance and general annuity business for the purposes of subsection (1)) after paragraph (a) insert—

"(aa) in the case of a repayment or refund of expenses other than acquisition expenses, the expenses—

(i) were attributable to basic life assurance and general annuity business for the purposes of Step 1 in subsection (7) of the new section 76 (see subsection (8) of that section), or

(ii) fell to be deducted by virtue of subsection (1) of the old section 76;

and for this purpose, "the new section 76" and "the old section 76" have the same meaning as in section 44 of the Finance Act 2004 (see subsection (8) of that section),".

(4) The amendments made by this paragraph have effect in relation to accounting periods ending on or after 16th March 2005.

Corporation tax: policy holders' fraction of profits

16 (1) Section 88 of FA 1989 is amended as follows.

(2) In subsection (3A) (meaning of "income and gains of the company's life assurance business" in subsection (3)) after paragraph (a) insert—

"(aa) receipts of the company chargeable under Case VI of Schedule D by virtue of section 85(1) above,

(ab) income of the company treated as referable to basic life assurance and general annuity business by section 441B(2) of the Taxes Act 1988 (treatment of UK land),

(ac) amounts treated as accruing to the company and charged to tax under Case VI of Schedule D by virtue of section 442A of that Act (taxation of investment return where risk reinsured), and".

(3) The amendment made by this paragraph has effect in relation to periods of account beginning on or after 1st January 2005.

Overseas life insurance companies

17 (1) Section 156 of FA 2003 is amended as follows.

(2) For subsection (4) (regulations amending certain provisions relating to overseas life insurance companies may be made with effect from 1st January 2003) substitute—

"(4) Regulations under this section may be made so as to have effect in relation to accounting periods or periods of account (whenever beginning) which end on or after the day on which the regulations come into force.".

Meaning of "pension business"

18 (1) Schedule 35 to FA 2004 is amended as follows.

(2) Paragraph 20 (life assurance: meaning of "pension business") is amended as follows.

(3) In the section 431B of ICTA substituted by that paragraph, in subsection (2)—

(a) after "registered pension scheme" (where first occurring) insert "by virtue of the withdrawal of registration of the pension scheme under section 157 of the Finance Act 2004";

(b) after "in which the pension scheme" insert "so".

(4) In that section, insert at the end—

"(3) Where—

(a) immediately before 6th April 2006 an annuity contract falls within any of the descriptions of contracts specified in subsection (2) of this section as it had effect immediately before that date, but

(b) on or after that date the contract does not fall to be regarded for the purposes of this section as having been entered into for the purposes of a registered pension scheme,

the contract is to be treated for the purposes of this section as having been entered into for such purposes.".

(5) Paragraph 22 (friendly societies: meaning of "pension business") is amended as follows.

(6) In sub-paragraph (3), in the subsection (2B) of section 466 of ICTA inserted by that sub-paragraph—

(a) after "registered pension scheme" (where first occurring) insert "by virtue of the withdrawal of registration of the pension scheme under section 157 of the Finance Act 2004";

(b) after "in which the pension scheme" insert "so".

(7) The preceding provisions of this paragraph come into force on 6th April 2006.

Miscellaneous references to "class" of business

19 (1) In section 432B of ICTA (apportionment of receipts brought into account) in subsection (1), for "class" substitute "category".

(2) In section 444A of ICTA (transfers of business) in subsection (3), for "class" substitute "category".

(3) In Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans) in paragraph 19 (companies carrying on life assurance business) in sub-paragraph (2), for "class" substitute "category".

(4) In Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets) in paragraph 138 (interpretation provisions relating to insurance companies) in sub-paragraph (3), for "class" substitute "category".

(5) The amendments made by this paragraph have effect in relation to periods of account beginning on or after 1st January 2005.

Transfers of business: references to accounting period ending with day of transfer

20 (1) Section 12 of ICTA (corporation tax: basis of, and periods for, assessment) is amended as follows.

(2) In subsection (7A), after "(7ZA) above" insert "and subject to subsection (7C) below".

(3) After subsection (7B) insert—

"(7C) Where subsection (1) of section 444AA applies in the case of an insurance business transfer scheme—

(a) an accounting period of the transferor shall end for purposes of corporation tax—

(i) with the end of the period covered by the periodical return deemed by virtue of subsection (2) of that section, or

(ii) where the last period covered by an actual periodical return of the transferor ends immediately before the transfer, with the end of that period,

(so that an accounting period will end immediately before the transfer), and

(b) an accounting period of the transferor shall end for purposes of corporation tax with the end of the period covered by the periodical return deemed by virtue of subsection (3) of that section (so that the time of the transfer shall be an accounting period of the transferor);

and for this purpose, expressions used in this subsection and in that section have the same meaning in this subsection as in that section.".

(4) In section 444AB of ICTA (transfers of business: charge on transferor retaining assets) in subsection (3), for "ending with the day of the transfer" substitute "ending immediately before the transfer".

(5) In section 444ABA of ICTA (subsequent charge in certain cases within section 444AB of ICTA) in subsection (3), for "ending with the day of the transfer" substitute "ending immediately before the transfer".

(6) In section 213 of TCGA 1992 (spreading of gains and losses under section 212 of TCGA 1992) at the end insert—

"(10) If the transfer is one to which section 444AA(1) of the Taxes Act applies, the references in this section to the accounting period of the transferor ending with the day of the transfer are references to the accounting period ending immediately before the transfer.".

(7) The amendments made by sub-paragraphs (2) to (5) have effect in relation to insurance business transfer schemes taking place on or after 16th March 2005.

(8) The amendment made by sub-paragraph (6) has effect where the accounting period for which the net amount represents an excess of losses over gains is an accounting period beginning on or after 1st January 2003.

SCHEDULE 10

Section 49

STAMP DUTY LAND TAX: MISCELLANEOUS AMENDMENTS

PART 1

AMENDMENTS COMING INTO FORCE IN ACCORDANCE WITH PARAGRAPH 16

Introduction

1 Part 4 of FA 2003 (stamp duty land tax) is amended in accordance with this Part of this Schedule.

Transfer of rights: exclusion of transaction to which alternative finance provisions apply

2 In section 45 (contract and conveyance: effect of transfer of rights) at the end of subsection (3) insert "except in a case where the secondary contract gives rise to a transaction that is exempt from charge by virtue of subsection (3) of section 73 (alternative property finance: land sold to financial institution and re-sold to individual)".

Group relief

3 In paragraph 1 of Schedule 7 (group relief), in sub-paragraph (7) for "paragraph 3" substitute "paragraphs 3 and 4A".

4 In paragraph 3 of Schedule 7 (withdrawal of group relief)—

(a) for sub-paragraph (2) substitute—

"(2) The amount chargeable is the tax that would have been chargeable in respect of the relevant transaction but for group relief if the chargeable consideration for that transaction had been an amount equal to—

(a) the market value of the subject-matter of the transaction, and

(b) if the acquisition was the grant of a lease at a rent, that rent,

or, as the case may be, an appropriate proportion of the tax that would have been so chargeable.", and

(b) at the end of sub-paragraph (5) insert "and paragraph 4A (withdrawal of group relief in certain cases involving successive transactions)".

5 In paragraph 4 of Schedule 7 (cases in which group relief is not withdrawn)—

(a) in sub-paragraph (3), for paragraph (b) substitute—

"(b) another company that—

(i) is above the vendor in the group structure, and

(ii) as a result of the transaction ceases to be a member of the same group as the purchaser.", and

(b) in sub-paragraph (5), for "this purpose" substitute "the purposes of sub-paragraphs (3) and (4)".

6 After paragraph 4 of Schedule 7 insert—

"Withdrawal of group relief in certain cases involving successive transactions

4A (1) Where, in the case of a transaction ("the relevant transaction") that is exempt from charge by virtue of paragraph 1 (group relief)—

(a) there is a change in the control of the purchaser,

(b) that change occurs—

(i) before the end of the period of three years beginning with the effective date of the relevant transaction, or

(ii) in pursuance of, or in connection with, arrangements made before the end of that period,

(c) apart from this paragraph, group relief in relation to the relevant transaction would not be withdrawn under paragraph 3, and

(d) any previous transaction falls within sub-paragraph (2),

paragraphs 3 and 4 have effect in relation to the relevant transaction as if the vendor in relation to the earliest previous transaction falling within sub-paragraph (2) were the vendor in relation to the relevant transaction.

(2) A previous transaction falls within this sub-paragraph if—

(a) the previous transaction is exempt from charge by virtue of paragraph 1, 7 or 8,

(b) the effective date of the previous transaction is less than three years before the date of the event falling within sub-paragraph (1)(a),

(c) the chargeable interest acquired under the relevant transaction by the purchaser in relation to that transaction is the same as, comprises, forms part of, or is derived from, the chargeable interest acquired under the previous

transaction by the purchaser in relation to the previous transaction, and

(d) since the previous transaction, the chargeable interest acquired under that transaction has not been acquired by any person under a transaction that is not exempt from charge by virtue of paragraph 1, 7 or 8.

(3) For the purposes of sub-paragraph (1)(a) there is a change in the control of a company if—

(a) any person who controls the company (alone or with others) ceases to do so,

(b) a person obtains control of the company (alone or with others), or

(c) the company is wound up.

References to "control" in this sub-paragraph shall be construed in accordance with section 416 of the Taxes Act 1988.

(4) If two or more transactions effected at the same time are the earliest previous transactions falling within sub-paragraph (2), the reference in sub-paragraph (1) to the vendor in relation to the earliest previous transaction is a reference to the persons who are the vendors in relation to the earliest previous transactions.

(5) In this paragraph "arrangements" includes any scheme, agreement or understanding, whether or not legally enforceable."

7 In Schedule 17A (further provisions relating to leases) in paragraph 11(5)(a) for the words from "the purchaser" to the end substitute "the event falling within paragraph 3(1)(a) of Schedule 7 (purchaser ceasing to be a member of the same group as the vendor), as read with paragraph 4A of that Schedule".

Reconstruction and acquisition reliefs

8 In paragraph 8 of Schedule 7 (acquisition relief)—

(a) in sub-paragraph (1)(b) for "the first and second conditions" substitute "all the conditions", and

(b) after sub-paragraph (5) insert—

"(5A) The third condition is that the undertaking or part acquired by the acquiring company has as its main activity the carrying on of a trade that does not consist wholly or mainly of dealing in chargeable interests.

In this sub-paragraph "trade" has the same meaning as in the Taxes Act 1988."

9 In paragraph 9 of Schedule 7 (withdrawal of reconstruction or acquisition relief) for sub-paragraph (2) substitute—

"(2) The amount chargeable is the tax that would have been chargeable in respect of the relevant transaction but for reconstruction or acquisition relief if the chargeable consideration for that transaction had been an amount equal to—

(a) the market value of the subject-matter of the transaction, and

(b) if the acquisition was the grant of a lease at a rent, that rent,

or, as the case may be, an appropriate proportion of the tax that would have been so chargeable."

Withdrawal of money etc from partnership after transfer of chargeable interest

10 In Schedule 15 (partnerships) after paragraph 17 insert—

"Withdrawal of money etc from partnership after transfer of chargeable interest

17A (1) This paragraph applies where—

(a) there is a transfer of a chargeable interest to a partnership ("the land transfer");

(b) the land transfer falls within paragraph (a), (b) or (c) of paragraph 10(1);

(c) during the period of three years beginning with the date of the land transfer, a qualifying event occurs.

(2) A qualifying event is—

(a) a withdrawal from the partnership of money or money's worth which does not represent income profit by the relevant person—

(i) withdrawing capital from his capital account,

(ii) reducing his interest, or

(iii) ceasing to be a partner, or

(b) in a case where the relevant person has made a loan to the partnership—

(i) the repayment (to any extent) by the partnership of the loan, or

(ii) a withdrawal by the relevant person from the partnership of money or money's worth which does not represent income profit.

(3) For this purpose the relevant person is—

(a) where the land transfer falls within paragraph 10(1)(a) or (b), the person who makes the land transfer, and

(b) where the land transfer falls within paragraph 10(1)(c), the partner concerned or a person connected with him.

(4) The qualifying event—

(a) shall be taken to be a land transaction, and

(b) is a chargeable transaction.

(5) The partners shall be taken to be the purchasers under the transaction.

(6) Paragraphs 6 to 8 (responsibility of partners) have effect in relation to the transaction.

(7) The chargeable consideration for the transaction shall be taken to be—

(a) in a case falling within sub-paragraph (2)(a), equal to the value of the money or money's worth withdrawn from the partnership,

(b) in a case falling within sub-paragraph (2)(b)(i), equal to the amount repaid, and

(c) in a case falling within sub-paragraph (2)(b)(ii), equal to so much of the value of the money or money's worth withdrawn from the partnership as does not exceed the amount of the loan,

but (in any case) shall not exceed the market value, as at the effective date of the land transfer, of the chargeable interest transferred by the land transfer, reduced by any amount previously chargeable to tax."

Grant of lease to bare trustee

11 For paragraph 3 of Schedule 16 substitute—

"Bare trustee

3 (1) Subject to sub-paragraph (2), where a person acquires a chargeable interest as bare trustee, this Part applies as if the interest were vested in, and the acts of the trustee in relation to it were the acts of, the person or persons for whom he is trustee.

(2) Sub-paragraph (1) does not apply in relation to the grant of a lease.

(3) Where a lease is granted to a person as bare trustee, he is treated for the purposes of this Part, as it applies in relation to the grant of the lease, as purchaser of the whole of the interest acquired.

(4) Where a lease is granted by a person as bare trustee, he is to be treated for the purposes of this Part, as it applies in relation to the grant of the lease, as vendor of the whole of the interest disposed of."

12 In paragraph 11 of Schedule 17A (cases where assignment of lease treated as grant of lease), for sub-paragraph (1) substitute—

"(1) This paragraph applies where the grant of a lease is exempt from charge by virtue of any of the provisions specified in sub-paragraph (3)."

Variation of lease

13 In paragraph 15A of Schedule 17A (leases: reduction of rent or term)—

(a) after sub-paragraph (1) insert—

"(1A) Where any consideration in money or money's worth (other than an increase in rent) is given by the lessee for any variation of a lease, other than a variation of the amount of the rent or of the term of the lease, the variation is treated for the purposes of this Part as an acquisition of a chargeable interest by the lessee.", and

(b) for the heading preceding that paragraph substitute "Reduction of rent or term or other variation of lease".

Loan or deposit in connection with grant or assignment of lease

14 After paragraph 18 of Schedule 17A insert—

"Loan or deposit in connection with grant or assignment of lease

18A (1) Where, under arrangements made in connection with the grant of a lease—

(a) the lessee, or any person connected with him or acting on his behalf, pays a deposit, or makes a loan, to any person, and

(b) the repayment of all or part of the deposit or loan is contingent on anything done or omitted to be done by the lessee or on the death of the lessee,

the amount of the deposit or loan (disregarding any repayment) is to be taken for the purposes of this Part to be consideration other than rent given for the grant of the lease.

(2) Where, under arrangements made in connection with the assignment of a lease—

(a) the assignee, or any person connected with him or acting on his behalf, pays a deposit, or makes a loan, to any person, and

(b) the repayment of all or part of the deposit or loan is contingent on anything done or omitted to be done by the assignee or on the death of the assignee,

the amount of the deposit or loan (disregarding any repayment) is to be taken for the purposes of this Part to be consideration other than rent given for the assignment of the lease.

(3) Sub-paragraph (1) or (2) does not apply in relation to a deposit if the amount that would otherwise fall within the sub-paragraph in question in relation to the grant or (as the case requires) assignment of the lease is not more than twice the relevant maximum rent.

(4) The relevant maximum rent is—

(a) in relation to the grant of a lease, the highest amount of rent payable in respect of any consecutive twelve month period in the first five years of the term;

(b) in relation to the assignment of a lease, the highest amount of rent payable in respect of any consecutive twelve month period in the first five years of the term remaining outstanding as at the date of the assignment,

the highest amount of rent being determined (in either case) in the same way as the highest amount of rent mentioned in paragraph 7(3).

(5) Tax is not chargeable by virtue of this paragraph—

(a) merely because of paragraph 9(2) of Schedule 5 (which excludes the 0% band in the Tables in section 55(2) in cases where the relevant rental figure exceeds £600 a year), or

(b) merely because of paragraph 5(4)(b), 6(6)(b), 9(4)(b) or 10(6)(b) of Schedule 6 (which make similar provision in relation to land which is wholly or partly residential

property and is wholly or partly situated in a disadvantaged area).

(6) Section 839 of the Taxes Act 1988 (connected persons) has effect for the purposes of this paragraph."

15 In section 80 (adjustment where contingency ceases or consideration is ascertained) after subsection (4) insert—

"(4A) Where the transaction ("the relevant transaction") is the grant or assignment of a lease, no claim may be made under subsection (4)—

(a) in respect of the repayment (in whole or part) of any loan or deposit that is treated by paragraph 18A of Schedule 17A as being consideration given for the relevant transaction, or

(b) in respect of the refund of any of the consideration given for the relevant transaction, in a case where the refund—

(i) is made under arrangements that were made in connection with the relevant transaction, and

(ii) is contingent on the determination or assignment of the lease or on the grant of a chargeable interest out of the lease."

Commencement

16 (1) Subject to sub-paragraph (7), paragraphs 3 to 7 have effect where the effective date of the relevant transaction (within the meaning of paragraph 3 or 4A of Schedule 7 to FA 2003) is after 19th May 2005.

(2) Subject to sub-paragraph (7), paragraph 9 has effect where the effective date of the relevant transaction (within the meaning of paragraph 9 of Schedule 7 to FA 2003) is after 19th May 2005.

(3) Subject to sub-paragraph (7), paragraph 10 has effect where the effective date of the transaction transferring the chargeable interest to the partnership is after 19th May 2005.

(4) Subject to sub-paragraph (7), paragraphs 11 and 12 have effect where the effective date of the land transaction consisting of the grant of the lease is after 19th May 2005.

(5) Subject to sub-paragraph (7), the amendments made by the other provisions of this Part of this Schedule have effect in relation to any transaction of which the effective date is after 19th May 2005.

(6) In sub-paragraphs (7) and (8) "the specified date" means—

(a) in relation to the amendments made by paragraphs 4(a) and 9, 19th May 2005, and

(b) in relation to the amendments made by the other provisions of this Part of this Schedule, 16th March 2005.

(7) The amendments made by this Part of this Schedule do not have effect—

(a) in relation to any transaction which is effected in pursuance of a contract entered into and substantially performed on or before the specified date, or

(b) subject to sub-paragraph (8), in relation to any other transaction which is effected in pursuance of a contract entered into on or before the specified date.

(8) The exclusion by sub-paragraph (7)(b) of transactions effected in pursuance of contracts entered into on or before the specified date does not apply—

(a) if there is any variation of the contract or assignment of rights under the contract after that date,

(b) if the transaction is effected in consequence of the exercise after that date of any option, right of pre-emption or similar right, or

(c) if after that date there is an assignment, subsale or other transaction (relating to the whole or part of the subject-matter of the contract) as a result of which a person other than the purchaser under the contract becomes entitled to call for a conveyance to him.

(9) In this paragraph "assignment", "effective date" and "substantially performed" have the same meaning as in Part 4 of FA 2003.

PART 2

AMENDMENTS COMING INTO FORCE IN ACCORDANCE WITH PARAGRAPH 22

Introduction

17 Part 4 of FA 2003 (stamp duty land tax) is amended in accordance with this Part of this Schedule.

Transfers involving public bodies

18 In section 66 of FA 2003 (transfers involving public bodies) after subsection (5) insert—

"(6) In this section "company" means a company as defined by section 735(1) of the Companies Act 1985 or Article 3(1) of the Companies (Northern Ireland) Order 1986."

Group relief: avoidance arrangements

19 In paragraph 2 of Schedule 7 (restrictions on availability of group relief) after sub-paragraph (4) insert—

"(4A) Group relief is not available if the transaction—

(a) is not effected for bona fide commercial reasons, or

(b) forms part of arrangements of which the main purpose, or one of the main purposes, is the avoidance of liability to tax.

"Tax" here means stamp duty, income tax, corporation tax, capital gains tax or tax under this Part."

Acquisition relief: avoidance arrangements

20 In paragraph 8 of Schedule 7 (acquisition relief)—

(a) for sub-paragraph (5) substitute—

"(5) For this purpose companies are associated if one has control of the other or both are controlled by the same person or persons.

The reference to control shall be construed in accordance with section 416 of the Taxes Act 1988.", and

(b) after sub-paragraph (5A) (inserted by paragraph 8 of this Schedule) insert—

"(5B) The fourth condition is that the acquisition is effected for bona fide commercial reasons and does not form part of arrangements of which the main purpose, or one of the main purposes, is the avoidance of liability to tax.

"Tax" here means stamp duty, income tax, corporation tax, capital gains tax or tax under this Part.

(5C) In this paragraph "arrangements" include any scheme, agreement or understanding, whether or not legally enforceable."

Stamp duty on transfers of partnership interests

21 (1) In Schedule 15 (stamp duty land tax: partnerships), paragraph 33 (which relates to stamp duty on transfers of partnership interests) is amended as follows.

(2) For sub-paragraphs (1) and (2) substitute—

"(1) This paragraph applies where stamp duty under Part 1 of Schedule 13 to the Finance Act 1999 (transfer on sale) is, apart from this paragraph, chargeable on an instrument effecting a transfer of an interest in a partnership.

(1A) If the relevant partnership property does not include any stock or marketable securities, no stamp duty shall (subject to sub-paragraph (8)) be chargeable on the instrument."

(3) In sub-paragraph (3)—

(a) at the beginning insert "If the relevant partnership property includes stock or marketable securities,",

(b) in paragraph (a), for the words from "the stock" to "property" substitute "that stock and those securities", and

(c) for paragraph (b) substitute—

"(b) the consideration for the transfer were equal to the appropriate proportion of the net market value of that stock and those securities immediately after the transfer."

(4) After sub-paragraph (3) insert—

"(3A) The "relevant partnership property", in relation to a transfer of an interest in a partnership, is the partnership property immediately after the transfer, other than any partnership property that was transferred to the partnership in connection with the transfer."

(5) Omit sub-paragraph (4).

(6) In sub-paragraph (5), for "That" substitute "The appropriate".

Commencement

22 (1) Subject to sub-paragraph (2), paragraphs 18 to 20 have effect in relation to any transaction of which the effective date is on or after the day on which this Act is passed.

(2) Paragraphs 19 and 20 do not have effect—

(a) in relation to any transaction which is effected in pursuance of a contract entered into and substantially performed on or before 16th March 2005, or

(b) (subject to sub-paragraph (3)) in relation to any other transaction which is effected in pursuance of a contract entered into on or before that date.

(3) The exclusion by sub-paragraph (2)(b) of transactions effected in pursuance of contracts entered into on or before 16th March 2005 does not apply—

(a) if there is any variation of the contract or assignment of rights under the contract after that date,

(b) if the transaction is effected in consequence of the exercise after that date of any option, right of pre-emption or similar right, or

(c) if after that date there is an assignment, subsale or other transaction (relating to the whole or part of the subject-matter of the contract) as a result of which a person other than the purchaser under the contract becomes entitled to call for a conveyance to him.

(4) Paragraph 21 has effect in relation to any instrument executed on or after the day on which this Act is passed.

(5) In this paragraph "assignment", "effective date" and "substantially performed" have the same meaning as in Part 4 of FA 2003.

SCHEDULE 11

Section 70

REPEALS

PART 1

VALUE ADDED TAX

DISCLOSURE OF AVOIDANCE SCHEMES

Short title and chapter	*Extent of repeal*
Value Added Tax Act 1994 (c. 23)	In Schedule 11A— (a) in paragraph 6(1), the word "or" at the end of paragraph (a), and (b) in paragraph 11(3), the word "and" at the end of paragraph (a).

These repeals come into force in accordance with an order under section 6(2) of this Act.

PART 2

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

(1) EMPLOYEE SECURITIES: ANTI-AVOIDANCE

Short title and chapter	*Extent of repeal*
Income Tax (Earnings and Pensions) Act 2003 (c. 1)	Section 420(5)(d). In section 424(1), paragraph (c) and the word "or" before it.
Finance Act 2004 (c. 12)	Section 86(4).

These repeals have effect in accordance with Schedule 2 to this Act.

(2) SCIENTIFIC RESEARCH ORGANISATIONS

Short title and chapter	*Extent of repeal*
Income Tax (Trading and Other Income) Act 2005 (c. 5)	Section 88(4)(a). In Schedule 1, paragraph 55(b).

1 The repeal of section 88(4)(a) of ITTOIA 2005 has effect in accordance with section 14 of this Act.

2 The repeal of paragraph 55(b) of Schedule 1 to that Act has effect in accordance with section 15 of this Act.

(3) UNIT TRUSTS AND OPEN-ENDED INVESTMENT COMPANIES

Short title and chapter	*Extent of repeal*
Income and Corporation Taxes Act 1988 (c. 1)	Section 349B(4)(b). Sections 468H to 468Q.
Finance Act 1996 (c. 8)	Paragraphs 2A and 2B of Schedule 10.
Finance Act 2002 (c. 23)	Paragraphs 32 and 33 of Schedule 26.
Income Tax (Trading and Other Income) Act 2005 (c. 5)	Section 373(4) and (6). Section 376(4) and (6). Paragraph 151(2) of Schedule 1. Paragraph 350(2) and (3) of Schedule 1.

1 The repeal of paragraph 350(2) and (3) of Schedule 1 to ITTOIA 2005 comes into force on the day on which this Act is passed.

2 The other repeals have effect in accordance with section 19(1) of this Act.

(4) CHARGEABLE GAINS: TEMPORARY NON-RESIDENTS

Short title and chapter	*Extent of repeal*
Taxation of Chargeable Gains Act 1992 (c. 12)	Section 10A(10).

This repeal has effect in accordance with section 32(7) of this Act.

(5) CHARGEABLE GAINS: OPTIONS

Short title and chapter	*Extent of repeal*
Finance Act 1996 (c. 8)	Section 111(2) and (5).

These repeals have effect in accordance with paragraph 6(2) of Schedule 5 to this Act.

(6) ACCOUNTING PRACTICE

Short title and chapter	*Extent of repeal*
Finance Act 1996 (c. 8)	Section 84A. Section 85B(6). In Schedule 9— (a) in paragraph 11A(4)(c), the words ", or would apart from section 84A(2) to (10) of this Act,"; (b) paragraph 19(12).
Finance Act 2002 (c. 23)	In Schedule 23, paragraphs 3 and 26(5). In Schedule 26— (a) paragraph 16; (b) in paragraph 23(9), the words from "which by virtue" to the end.
Finance Act 2004 (c. 12)	In Schedule 10, paragraphs 2 and 48.
Finance Act 2005 (c. 7)	In Schedule 4, paragraphs 6, 10, 28(3) and (4) and 29.

1 The repeal of paragraph 6 of Schedule 4 to FA 2005 has effect in accordance with paragraph 4(6) of Schedule 6 to this Act.

2 The repeal of paragraph 10 of Schedule 4 to FA 2005 has effect in accordance with paragraph 5(2) of Schedule 6 to this Act.

3 The repeals in FA 1996, FA 2002 and FA 2004 have effect in accordance with paragraph 9(2) and (3) of Schedule 6 to this Act.

(7) CHARGES ON INCOME FOR CORPORATION TAX

Short title and chapter	*Extent of repeal*
Income and Corporation Taxes Act 1988 (c. 1)	In section 125(1), the words "and shall not be a charge on income for the purposes of corporation tax". Section 338A(2)(a) and (4). Section 338B. In section 402(6)(b), the words "or a charge on income". Section 434A(2)(a)(i). In section 487(3), the words "or be treated for those purposes as a charge on income". In section 494— (a) in subsection (1), the words "Section 338 of this Act and"; (b) subsection (3). In section 494A— (a) in subsection (2), paragraph (b) and the word "or" before it; (b) in subsection (3), paragraph (b) and the word "and" before it. In Schedule 28AA— (a) in paragraph 7A(2)(b), the words "or charges on income"; (b) in paragraph 7C(2)(b), the words "or charges on income".
Finance Act 1989 (c. 26)	In section 102(7)(b), the words "or a charge on income".
Taxation of Chargeable Gains Act 1992 (c. 12)	In section 171A(5)(b), the words "or a charge on income". In section 179A(11)(b), the words "or a charge on income".
Finance Act 2002 (c. 23)	In Schedule 29, in paragraph 71(4)(b), the words "or a charge on income".

These repeals have effect in accordance with section 38 of this Act.

(8) AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

Short title and chapter	*Extent of repeal*
Income and Corporation Taxes Act 1988 (c. 1)	In section 18, paragraph (c) of the Case III of Schedule D substituted by subsection (3A). Section 43C(1). Section 43E(1)(a) and (b). In section 730— (a) subsection (1)(c); (b) subsection (2A); (c) in subsection (8), the words from "and for the purpose" onwards.

Short title and chapter	*Extent of repeal*
Finance Act 1996 (c. 8)	In section 97— (a) in subsection (2), paragraph (b) and the word "but" before it, and (b) subsections (3) and (3A). Section 100(4) to (6), (8) and (13). In Schedule 9— (a) in paragraph 1A(1), paragraph (b) and the word "or" before it; (b) paragraph 11(5); (c) in paragraph 15(4A), paragraph (b) and the word "and" before it.
Finance Act 2000 (c. 17)	In Schedule 29, paragraph 44(3).
Finance Act 2002 (c. 23)	In Schedule 25, paragraphs 13(4) and 51.
Income Tax (Trading and Other Income) Act 2005 (c. 5)	In section 430(6), the word "and" before the entry relating to section 443(1). In Schedule 1, paragraph 300(5).

These repeals have effect in accordance with Schedule 7 to this Act.

(9) LOAN RELATIONSHIPS

Short title and chapter	*Extent of repeal*
Finance Act 1996 (c. 8)	In Schedule 9— (a) in paragraph 2(1B), the words ", but not a CIS-based close company,", the word "or" preceding paragraph (c) and the words after paragraph (c); (b) in paragraph 18(1), paragraph (aa), and paragraph (c) and the word "and" preceding it; (c) in paragraph 18(4), the word "and" preceding the definition of "participator".
Finance Act 2002 (c. 23)	In Schedule 25, paragraph 34(4).
Finance Act 2004 (c. 12)	In Schedule 8, paragraphs 2(2) and 6(2) and (3).

These repeals have effect in accordance with paragraph 4 of Schedule 8 to this Act.

(10) INSURANCE COMPANIES ETC

Short title and chapter	*Extent of repeal*
Income and Corporation Taxes Act 1988 (c. 1)	In section 76(8), in the second sentence, the word "or" at the end of paragraph (a). In section 431(2), the definition of "long-term liabilities".

Short title and chapter	*Extent of repeal*
Finance Act 1989 (c. 26)	Section 82C(4), (5), (8) and (9). In section 83A(2), the words from "Paragraph (b) above" to the end of the subsection. In section 88(3A), the word "and" at the end of paragraph (a).
Finance Act 1990 (c. 29)	In Schedule 6— (a) in paragraph 1(2)(b), the definitions of "liabilities" and "value"; (b) paragraph 2.

1 The repeals in ICTA have effect in relation to periods of account ending on or after 31st December 2004.

2 The repeals in section 82C of FA 1989 have effect in accordance with paragraph 11(4) of Schedule 9 to this Act.

3 The repeal in section 83A of FA 1989 has effect in accordance with paragraph 13(6) of Schedule 9 to this Act.

4 The repeal in section 88 of FA 1989 has effect in accordance with paragraph 16(3) of Schedule 9 to this Act.

5 The repeals in paragraph 1(2)(b) of Schedule 6 to FA 1990 have effect in accordance with paragraph 2(6) of Schedule 9 to this Act.

6 The repeal of paragraph 2 of Schedule 6 to FA 1990 comes into force on the day on which this Act is passed.

(11) LLOYD'S NAMES

Short title and chapter	*Extent of repeal*
Finance Act 1993 (c. 34)	Section 173. In section 182(1)(a), "(so far as not provided for by Schedule 19 to this Act)". Schedule 19.
Finance Act 1994 (c. 9)	Section 221. In section 229(1)(a), "(so far as not provided for by Schedule 19 to the 1993 Act as applied by section 221 above)". In Schedule 21, paragraphs 9 and 10.
Finance Act 2001 (c. 9)	In Schedule 29, paragraph 36.

These repeals have effect in accordance with section 45(8) and (9) of this Act.

(12) ENERGY ACT 2004 AND HEALTH PROTECTION AGENCY ACT 2004

Short title and chapter	*Extent of repeal*
Income and Corporation Taxes Act 1988 (c. 1)	Section 349B(3)(g) and (h). Section 512.

Short title and chapter	*Extent of repeal*
Taxation of Chargeable Gains Act 1992 (c. 12)	In section 271(7)— (a) the words ", the United Kingdom Atomic Energy Authority"; (b) the words "and the National Radiological Protection Board"; (c) the words from "; and for the purposes" to the end of the subsection.
Income Tax (Trading and Other Income) Act 2005 (c. 5)	In Schedule 1, paragraph 199.

These repeals have effect in accordance with section 46 of this Act.

PART 3

STAMP TAXES

(1) STAMP DUTY LAND TAX: MISCELLANEOUS

Short title and chapter	*Extent of repeal*
Finance Act 2003 (c. 14)	In Schedule 15, paragraph 33(4).

This repeal has effect in relation to any instrument executed on or after the day on which this Act is passed.

(2) STAMP DUTY AND STAMP DUTY RESERVE TAX: EXTENSION OF EXCEPTIONS

Short title and chapter	*Extent of repeal*
Finance Act 2002 (c. 23)	Section 117.

This repeal has effect in accordance with section 50 of this Act.

PART 4

EUROPEAN COMPANY STATUTE

Short title and chapter	*Extent of repeal*
Taxation of Chargeable Gains Act 1992 (c. 12)	In section 140A(7) the definition of "securities". In section 140C(9) the definition of "securities".

These repeals have effect in accordance with section 59(7) of this Act.

PART 5

MISCELLANEOUS MATTERS

(1) VEHICLE EXCISE DUTY

Short title and chapter	*Extent of repeal*
Vehicle Excise and Registration Act 1994 (c. 22)	Section 7A(4)(a).

This repeal comes into force on the day on which this Act is passed.

(2) ABOLITION OF ADJUDICATOR FOR NATIONAL SAVINGS AND INVESTMENTS

Short title and chapter	*Extent of repeal*
National Savings Bank Act 1971 (c. 29)	Sections 10 and 11. In section 27, the definition of "the adjudicator".
National Debt Act 1972 (c. 65)	Section 5.
Friendly Societies Act 1992 (c. 40)	Section 84. In Schedule 21, paragraphs 2 to 4.
Tribunals and Inquiries Act 1992 (c. 53)	In Schedule 1, in the first column, the entry relating to National Savings Bank and National Savings Stock Register, and, in the second column, paragraph 33B.

These repeals have effect in accordance with section 69 of this Act.

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