



Finance Act 1965

1965 CHAPTER 25

PART IV

TAXATION OF COMPANIES AND OF COMPANY DISTRIBUTIONS.

General system of taxation.

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

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

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

47 Taxation of company distributions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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