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SCHEDULES.

SCHEDULE 14

Section 63.

ADAPTATION OF SYSTEM OF CAPITAL ALLOWANCES.

PART I

GENERAL.

Vocabulary.

- 1 (1) The following provisions of this paragraph shall have effect for the construction of this Schedule and of the enactments thereby amended.
- (2) " Chargeable period " means an accounting period of a company or a year of assessment; and
- (a) a reference to a " chargeable period or its basis period " is a reference to the chargeable period if it is an accounting period and to the basis period for it if it is a year of assessment;
 - (b) a reference to a " chargeable period related to " expenditure, or a sale or other event, is a reference to the chargeable period in which, or to that in the basis period for which, the expenditure is incurred or the sale or other event takes place, and means the latter if, but only if, the chargeable period is a year of assessment.
- (3) " Tax ", where neither corporation tax nor income tax is specified, means either of those taxes, and references to tax for a chargeable period shall be construed, in relation to corporation tax, as referring to the tax for any financial year which is chargeable in respect of that period.
- (4) A reference to allowances or charges being made in taxing a trade is a reference to their being made in computing the trading income for corporation tax or in charging the profits or gains of the trade to income tax.
- (5) Where it is provided that writing-down allowances shall be made in respect of any expenditure during a writing-down period of a specified length, there shall for any chargeable period wholly or partly comprised in the writing-down period be made an allowance equal to the appropriate fraction of the expenditure ; and, subject to any provision to the contrary, the appropriate fraction is such fraction of the writing-down period as falls within the chargeable period:

Provided that the aggregate amount of the allowances made whether to the same or to different persons, together with the amount of any initial allowance (but not any investment allowance), shall not exceed the amount of the expenditure.

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- (6) " Writing-down allowance ", where the reference is partly to years of assessment before the year 1966-67, includes an annual allowance in the sense which in the context that phrase had immediately before the commencement of this Act.

General amendments.

- 2 (1) Except as otherwise provided by this Schedule, Parts X and XI of the Income Tax Act 1952 and any other provision of the Income Tax Acts which is to be treated as included in the said Part X or XI shall be amended in accordance with this paragraph.
- (2) For the expression " annual allowance " there shall be substituted the expression " writing-down allowance ".
- (3) For any reference to the year of assessment in the basis period for which anything happened there shall be substituted a reference to the chargeable period related to that happening.
- (4) For any other reference to the basis period for a year of assessment there shall be substituted a reference to a chargeable period or its basis period (any words particularising the year of assessment attaching to the chargeable period).
- (5) For any other reference to a year of assessment there shall be substituted a reference to a chargeable period.
- (6) For any reference to charging the profits or gains of a trade there shall be substituted a reference to taxing the trade.
- (7) For any reference to income tax there shall be substituted a reference to tax, and for any reference to the Income Tax Acts there shall be substituted a reference to the Corporation Tax Acts or the Income Tax Acts.
- (8) The foregoing sub-paragraphs shall not have effect to amend any reference to a named year of assessment, or to amend any expression where in the context it is used only of years of assessment before the year 1966-67 and cannot relate to corporation tax.
- (9) Except in so far as the context otherwise requires, in any provision of the Income Tax Acts which is not referred to in sub-paragraph (1) above any reference to an allowance or charge for a year of assessment under a provision which is referred to in sub-paragraph (1) shall include the like allowance or charge for an accounting period of a company, and any reference to the making of an allowance or charge in charging profits or gains of a trade shall be construed as a reference to making it in taxing a trade.
- 3 Where any enactment amended by this Schedule provides for the amount of a writing-down allowance to be determined by reference to a fraction or percentage, specified numerically, of any expenditure or other sum, or by reference to a percentage determined or deemed to be determined for a year of assessment, then (except as otherwise provided in Part IV of this Schedule) for a chargeable period of less than a year the fraction or percentage shall be proportionately reduced; and similarly with the amounts by reference to which writing-down allowances for certain vehicles are limited by section 41(3) and (where it applies) (6) of the Finance Act 1963.
- 4 Any provision of the Income Tax Acts whereby, for any purpose of the enactments amended by this Schedule, a trade is, or is not, to be treated as permanently

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discontinued or a new trade as set up and commenced on its being so treated by virtue of section 19 of the Finance Act 1953 shall apply in like manner in the case of a trade so treated by virtue of any provision of Part IV of this Act, other than the provision about companies ceasing to be overseas trade corporations.

PART II

INDUSTRIAL BUILDINGS : DREDGING.

Industrial buildings.

- 5 For section 266(2) of the Income Tax Act 1952 there shall be substituted—
- “(2) Where the interest in a building or structure which is the relevant interest in relation to any expenditure is sold while the building or structure is an industrial building or structure, then (subject to any further adjustment under this subsection on a later sale) the writing down allowance for any chargeable period, if that chargeable period or its basis period ends after the time of the sale, shall be the residue (as defined in section 268(1) of this Act) of that expenditure immediately after the sale, reduced in the proportion (if it is less than one) which the length of the chargeable period bears to the part unexpired at the date of the sale of the period of twenty-five years (or, where the expenditure was incurred before 6th November 1962, fifty years) beginning with the time when the building or structure was first used.”
- 6 (1) For section 267(1) proviso of the Income Tax Act 1952 there shall be substituted:—
- “Provided that no balancing allowance or balancing charge shall be made by reason of any event occurring more than twenty-five years (or, where the expenditure was incurred before 6th November 1962, fifty years) after the building or structure was first used.”
- (2) For section 267(4) of the Income Tax Act 1952 there shall be substituted:—
- “(4) Where a balancing charge falls to be made on a person, and any part of the relevant period (as denned for purposes of this subsection) is not comprised in a chargeable period for which a writing down allowance or scientific research allowance has been made to him or its basis period, the amount on which the balancing charge is to be made shall be reduced in the proportion which the part or parts that are so comprised bear to the whole of the relevant period.
- In this subsection ' the relevant period ' means the period beginning when the building or structure was first used for any purpose and ending—
- (a) if the event giving rise to the balancing charge occurs on the last day of a chargeable period or its basis period, with that day; or
- (b) if not, with the latest date before that event which is the last day of a chargeable period or its basis period :
- Provided that where, before the said event (but not before the appointed day), the building or structure has been sold while an industrial building or structure, the relevant period shall begin with the day following that sale or, if there has been more than one such sale, the last such sale.”

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- (3) In section 267(6) of the Income Tax Act 1952 (which restricts a balancing charge by reference to the total of the allowances made to the person chargeable, exclusive of any investment allowance) for the words " for years of assessment his basis periods for which end on or before the date of the event which gives rise to the charge " there shall be substituted the words " for chargeable periods which end on or before the date of the event giving rise to the charge or of which the basis periods end on or before that date. "
- (4) In section 323(3) of the Income Tax Act 1952 (under which a balancing allowance for the last year of assessment of a trade may in special cases be carried back to earlier years) for the words from " so, however," onwards there shall be substituted the words " so, however, that allowances shall not be given by virtue of this subsection for periods together amounting to more than five years (inclusive of any period for which an allowance might be made but cannot be given effect for want of profits or gains) otherwise than by giving a proportionately reduced allowance for a chargeable period of which part is required to make up the five years. "
- (5) In the case of a company no allowance shall be given by virtue of section 323(3) of the Income Tax Act 1952 so as to create or augment a loss in any accounting period; and where on a company ceasing to carry on a trade a claim is made both under the said section 323(3) and under section 59 of this Act the allowance for which the claim is made under section 323(3) shall be disregarded for purposes of the claim under section 59, but effect shall be given to the claim under section 59 in priority to the claim under section 323(3).
- (6) In Schedule 19 to the Income Tax Act 1952, in paragraph 6(1) (which adjusts the effect on certain other reliefs of a balancing allowance reduced by the fraction specified in section 267(4)) for the words " the same fraction, and the same fraction only, of the " there shall be substituted the words " only a proportionately reduced. "
- 7 (1) For section 268(5) of the Income Tax Act 1952 there shall be substituted the following subsection:—
- “(5) If, for any period or periods between the time when the building or structure was first used for any purpose and the time at which the residue of the expenditure falls to be ascertained, the building or structure has not been in use as an industrial building or structure, then, subject to the provisions of the next following subsection, there shall in ascertaining that residue be treated as having been previously written off in respect of the said period or periods amounts equal to writing-down allowances made for chargeable periods of a total length equal thereto at such rate or rates as would have been appropriate having regard to any sale on which section 266(2) of this Act operated”.
- (2) In section 268(10) of the Income Tax Act 1952 (which deals with Crown land and provides for writing off certain amounts as if the land were owned and used by a person other than the Crown) after the words " other than the Crown" in paragraph (a) there shall be inserted the words " and other than a company " ; and accordingly paragraph 2(4) and (5) of this Schedule shall not apply to amend section 268(10)(d).
- (3) A building or structure shall not, for purposes of section 268(5) of the Income Tax Act 1952, be treated by virtue of either of the provisions to which this sub-paragraph applies as having been an industrial building or structure before the year of assessment for which that provision first had effect.

This sub-paragraph applies—

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- (a) to section 25 of the Finance Act 1952 (buildings of tunnel undertakings); and
(b) section 17 of the Finance Act 1953 (fishing, and overseas farming and forestry).
- 8 In section 271 of the Income Tax Act 1952 (which defines an industrial building or structure) there shall be added at the end as a new subsection (6):—
- “(6) For purposes of this Chapter references to use as an industrial building or structure do not apply, in the case of a building or structure outside the United Kingdom, to use for the purposes of a trade at a time when the profits or gains of the trade are not assessable in accordance with the rules applicable to Case I of Schedule D.”
- 9 In section 276 of the Income Tax Act 1952, in the words " the same or any previous or subsequent year of assessment", the word " other" shall be substituted for the words " previous or subsequent " .

Dredging.

- 10 (1) In section 17(1) of the Finance Act 1956 (dredging) for the words from " there shall be made " onwards there shall be substituted the following paragraphs:—
- “(a) an initial allowance equal to one-twentieth of the expenditure shall be made for the first relevant chargeable period to the person incurring the expenditure; and
(b) writing-down allowances shall be made in respect of that expenditure to the person for the time being carrying on the trade during a writing-down period of twenty-five years (or, where the expenditure was incurred before 6th November 1962, fifty years) beginning with the first relevant chargeable period, but where a writing-down allowance falls to be made for a year of assessment to such a person, and he is within the charge to income tax in respect of the trade for part only of that year, that part shall be treated as a separate chargeable period for the purposes of computing allowances under this section.”

Accordingly in section 17(4) there shall be omitted the words from " and " onwards.

- (2) In section 17(3) of the Finance Act 1956 for the words " section 17 of the Finance Act 1954 " there shall be substituted the words " section 61(2) of the Finance Act 1965 " .
- (3) In section 17(11) of the Finance Act 1956, in the words "the same or any previous or subsequent year of assessment", the word " other" shall be substituted for the words " previous or subsequent " .

PART III

MACHINERY AND PLANT.

- 11 Paragraph 2(5) of this Schedule shall not apply to substitute references to a chargeable period for references to a year of assessment—
- (a) in section 281(2), 282(2) or 287 of the Income Tax Act 1952 (under which are determined the percentages to be used in calculating writing-down allowances by the normal and by the alternative method); or

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- (b) where the reference is to the period for which a percentage is determined or deemed to be determined, in section 35 of the Finance Act 1963 ;
 but in section 287(3) of the Income Tax Act 1952 for the words " income tax " there shall be substituted the word " tax " .
- 12 (1) In section 291(1) of the Income Tax Act 1952 (annual allowances where previous use has not attracted full annual allowances) for the words "during any previous year of assessment" there shall be substituted the words " before that chargeable period " , and section 291(2) shall be amended as follows:—
- (a) in paragraph (a) for the words " income tax " there shall be substituted the word " tax " ; and
- (b) at the end of the subsection there shall be added:—
- “In the case of a company paragraph (a) above shall not alter the periods which are to be taken as chargeable periods, but if during any time after the year 1965-66, and after the company acquired the machinery or plant, the company has not been within the charge to corporation tax, any year of assessment or part of a year of assessment falling within that time shall be taken as a chargeable period as if it had been an accounting period of the company.”
- (2) Section 295 of the Income Tax Act 1952 (which applies section 291 for purposes of balancing allowances and charges) shall have effect accordingly, and in section 295(2) for the words " income tax " there shall be substituted the word " tax " .
- 13 In section 297(6) of the Income Tax Act 1952 (meaning of " expenditure unallowed ") for the words " or for a year of assessment the basis period for which ended before the time in question " there shall be substituted the words " or for any other chargeable period if that chargeable period or its basis period ended before the time in question " .
- 14 In section 304 of the Income Tax Act 1952 in the words " the same or any previous or subsequent year of assessment " the word " other " shall be substituted for the words " previous or subsequent " .
- 15 (1) In section 72 of the Finance Act 1960 (business or estate management expenditure) the references to management expenses claims shall be amended in accordance with the following sub-paragraphs.
- (2) In subsection (3) for the words from " be made " , where secondly occurring, to " as the case may be " there shall be substituted the words " for purposes of Case VIII of Schedule D be made in computing his profits or gains " , and there shall be omitted in the proviso the words from " whether " onwards.
- (3) In subsection (7) for the words from " in a management expenses claim " to " may be made " there shall be substituted the words " by notice in writing to the inspector " , and for the words from " effect " to " business " there shall be substituted the words " an assessment in respect of the business for that or a subsequent chargeable period has been finally determined without such an election " .
- (4) In subsection (8) for the words " on a management expenses claim " , where first occurring, there shall be substituted " under section 56(8) of the Finance Act 1965 " and for the words " any management expenses claim or assessment under Case VIII of Schedule D " there shall be substituted the words " any assessment to tax " .

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- (5) In subsection (11) for the words " on a management expenses claim in respect of the business " there shall be substituted the words " within the meaning of section 57 of the Finance Act 1965 ".

PART IV

MINES, OIL-WELLS, ETC.

- 16 In section 307(3) of the Income Tax Act 1952 (which makes special provision about the amount of annual allowances for the last six years of working a mine etc., or of a foreign concession) for the reference to the year of assessment in which the event occurs and each of the five previous years of assessment there shall be substituted a reference to any chargeable period beginning within the six years which end with the date of the event.
- 17 (1) Section 22 of the Finance Act 1952 (contributions by mining concerns to public services etc., outside the United Kingdom) shall be amended in accordance with the following sub-paragraphs.
- (2) In subsection (1) for the words from " for each of the ten relevant years of assessment" onwards there shall be substituted the words " writing-down allowances shall be made to him in respect of that expenditure during a writing-down period of ten years beginning with the chargeable period related to the expenditure " ; and subsection (5) shall be omitted.
- (3) In subsection (3) (which provides in effect that on a sale of the relevant mine etc., any remaining allowances shall be transferred from the vendor to the purchaser) for paragraph (b) there shall be substituted—
- “(b) for the part of the writing-down period remaining at the beginning of the last chargeable period for which an allowance is made to the first-mentioned person, allowances shall be made to the second-mentioned person as if he had incurred the expenditure for the purposes of the said trade, but so that the allowance for a chargeable period not wholly comprised in that part of the writing-down period shall be proportionately reduced”.
- 18 (1) In section 37(1) of the Finance Act 1963 (which provides for the making of annual allowances for mineral depletion in the United Kingdom) for the words " any year of assessment the basis period for which ends after the incurring of the expenditure " there shall be substituted the words " the chargeable period related to the expenditure and subsequent chargeable periods ".
- (2) Paragraph 3 of this Schedule shall not apply to fractions mentioned in section 37(2) of the Finance Act 1963 so as to reduce writing-down allowances under that section.

PART V

AGRICULTURAL LAND AND BUILDINGS.

- 19 (1) Section 314 of the Income Tax Act 1952 (allowances for capital expenditure on farm buildings and works) shall be amended in accordance with the following sub-paragraphs.

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- (2) In subsection (1) the words " the year preceding any year of assessment" shall be omitted, and for the words from " he shall be entitled " onwards there shall be substituted the words " writing-down allowances shall be made to him in respect of that expenditure during a writing-down period of ten years beginning with the chargeable period related to that expenditure ".
- (3) In subsection (4) for paragraphs (a) and (b) there shall be substituted—
- “for the part of the writing-down period falling after the date of the transfer the person to whom the interest is transferred shall, to the exclusion of the person from whom it is transferred, be entitled to the allowances (any allowance to either of them for a chargeable period falling partly before and partly within that part of the writing-down period being reduced accordingly):
- Provided that, where the interest transferred is in part only of the land, this subsection shall apply to so much of the allowance as is properly referable to that part of the land as if it were a separate allowance”.
- (4) In subsection (7) for the words "In this section, references to the year preceding the year of assessment shall be construed as references to " there shall be substituted the words " For the purposes of this section the basis period of a chargeable period is " (the words " that chargeable period " being also substituted for the words " that year ").

PART VI

PATENTS.

- 20 (1) Section 316 of the Income Tax Act 1952 (annual allowances for capital expenditure on purchase of patent rights) shall be amended as follows:—
- (a) in subsection (1) for the words from "for each of the relevant years of assessment" down to (but excluding) the proviso there shall be substituted the words " writing-down allowances in respect of that expenditure during the writing-down period as hereinafter defined ", and for the words " income tax " in proviso (b) there shall be substituted the word " tax ";
 - (b) in subsection (2) for the words preceding the proviso there shall be substituted the words " The writing-down period shall be the seventeen years beginning with the chargeable period related to the expenditure ";
 - (c) subsection (3) shall be omitted.
- (2) In section 317 of that Act for any reference to the relevant years of assessment there shall be substituted a reference to the writing-down period under section 316, but so that in subsection (4)(b) for " the number of the relevant years of assessment " there shall be substituted " the number of complete years of the writing-down period ".
- 21 (1) In section 318 of the Income Tax Act 1952 (charges on capital sums received for sale of patent rights) for the words in subsection (1) from " for the year of assessment" down to (but excluding) the proviso there shall be substituted the words " for the chargeable period in which the sum is received by him and successive chargeable periods, being charged in each period on the same fraction of the sum as the period is of six years (or such less fraction as has not already been charged). "

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- (2) In section 318(2) of that Act the word "tax" shall mean income tax, unless the seller of the patent rights, being a company, would be within the charge to corporation tax in respect of any proceeds of the sale not consisting of a capital sum; and where the subsection applies to charge a company to corporation tax in respect of a sum paid to it, the proviso shall not apply, but the company may, by notice in writing given to the Board not later than two years after the end of the accounting period in which the sum is paid, elect that the sum shall be treated as arising rateably in the accounting periods ending not later than six years from the beginning of that in which the sum is paid (being accounting periods during which the company remains within the charge to corporation tax as aforesaid), and there shall be made all such layments of tax and assessments to tax as are necessary to give effect to any such election.

PART VII

SCIENTIFIC RESEARCH.

- 22 In section 335 of the Income Tax Act 1952 for the words " income tax " there shall be substituted the word " tax ".
- 23 (1) In section 336 of the Income Tax Act 1952 there shall (except as regards expenditure incurred before 6th November 1962) be added at the end as subsection (6):—
- “(6) Subsections (2) to (5) of this section shall apply only for purposes of income tax, and the relevant chargeable period for purposes of corporation tax shall be that in which the expenditure is incurred or, if it is incurred before the setting up and commencement of the trade, the chargeable period beginning when the trade is set up and commenced.”
- (2) If, in the case of expenditure incurred by a company before 6th November 1962, the five years of assessment referred to in section 336(1) of the Income Tax Act 1952, have not expired at or before the end of the year 1965-66, allowances under that section shall be made for successive accounting periods without restriction of number, but so that—
- (a) the allowance for an accounting period of less than a year shall be proportionately reduced; and
- (b) the aggregate of the allowances in respect of any expenditure (whether for years of assessment or for accounting periods) shall not exceed the amount of the expenditure.
- (3) Accordingly in section 268(4) of the Income Tax Act 1952, after the words " section 336 of this Act" there shall be inserted the words " as at the end of the chargeable period or, if it is a year of assessment ".

PART VIII

MISCELLANEOUS.

- 24 (1) In Chapter VI (miscellaneous and general) of Part X of the Income Tax Act 1952—
- (a) sections 323, 324 and 325 (making of allowances and charges, and meaning of " basis period "), except section 323(3), shall not have effect in relation to corporation tax, and accordingly shall not be amended in accordance with paragraph 2 of this Schedule;

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- (b) in section 329(1) (procedure on apportionments etc. affecting the liability to income tax of different persons) for the words " liability to income tax (for whatever year of assessment) " there shall be substituted the words " liability to tax (for whatever period) ";
 - (c) in section 330(1)(a) (under which a person incurring expenditure may not treat it as capital expenditure if it is deductible in computing trading income for purposes of income tax) for the words " income tax " there shall be substituted the word " tax ".
- (2) Section 339(2) of the Income Tax Act 1952 shall not have effect in relation to corporation tax in so far as it applies section 323(2) for purposes of Part XI of that Act.
- (3) Schedule 15 to the Income Tax Act 1952 (allowances for contributions to another's capital expenditure) shall be amended as follows:—
- (a) in paragraph 2(a) for the words from " the annual allowance " onwards there shall be substituted the words " writing-down allowances for chargeable periods ending after the date of transfer shall be made " to the transferee, and shall not be made to the transferor " ; and
 - (b) in paragraph 3(1) for the words from " the annual allowance " to " interest in the land" there shall be substituted the words " a writing-down allowance shall be made to a person for a chargeable period if at the end of that period he is entitled to the contributor's interest in the land. "
- 25 In relation to the following enactments, that is to say.—
- (a) section 25 of the Finance Act 1953 (postponement of capital allowances to secure double taxation relief);
 - (b) section 16 of the Finance Act 1954 and Schedule 2 to that Act (investment allowances);
 - (c) section 16 of the Finance Act 1956 (expenditure on cutting, tunnelling etc.);
 - (d) section 42(2) of the Transport Act 1962 (adjustment of Railways Board's capital allowances in connection with the Board's suspended debt);
- paragraph 2 of this Schedule shall apply as if those enactments were included in Part X of the Income Tax Act 1952 ; and in section 25(1) of the Finance Act 1953 for the words " income tax " there shall be substituted the word " tax ".

PART IX

TRANSITIONAL.

- 26 The amendments made by this Schedule shall not have effect in relation to income tax for the year 1965-66 or any earlier year of assessment, except in so far as it is affected by their operation in relation to corporation tax; but any computation falling to be made for the purposes of income tax for any such year of assessment shall, where necessary, proceed from a computation made in accordance with those amendments (and in particular a computation of the residue of expenditure under section 268(5) of the Income Tax Act 1952).
- 27 (1) In connection with the transition for companies from income tax to corporation tax the enactments amended by this Schedule and any other provision of the Income Tax Acts relevant thereto shall have effect with such modifications as are necessary to

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preserve the continuity of the system of allowances and charges thereunder, so that in particular—

- (a) references to a previous chargeable period or to a subsequent chargeable period, or to a time before, or a time after, a chargeable period, shall have effect in relation to a company as if the year 1965-66 or any earlier year of assessment preceded that company's first accounting period for corporation tax;
 - (b) in a case where an event gives rise to any allowance or charge as taking place in a chargeable period, an event taking place in the year 1964-65 or 1965-66 at a time falling also in a company's accounting period for corporation tax shall be taken into account as happening in that year and shall not be again taken into account, so as to duplicate the allowance or charge, as happening in the accounting period.
- (2) Where it is provided that writing-down allowances are to be made for a specified period, allowances may be made for accounting periods of a company falling wholly or partly within the year 1964-65 or 1965-66, notwithstanding that allowances are also made for that year and, in reckoning the period for which allowances are to be made, the periods for which allowances are so made shall be added together, notwithstanding that the same time is (according to the calendar) counted twice; and similarly with section 323(3) of the Income Tax Act 1952 (allowances on cessation of working of a source of mineral deposits).
- (3) Subject to sub-paragraph (2) above, this paragraph shall not be taken to require any time to be counted twice in reckoning duration.

28 Without prejudice to the generality of paragraph 27 above, such part of any allowances falling to be made to a company in taxing a trade as but for this Act might have been carried forward to the year 1966-67 under section 323(2) of the Income Tax Act 1952 may be dealt with under section 56(1) of this Act as if it were an allowance for the first accounting period for which the company is within the charge to corporation tax in respect of the trade (but shall be disregarded for purposes of section 58(2)); and allowances which might have been carried forward to that year under section 324(1) of that Act may be dealt with under section 56 of this Act as if carried forward under section 56(5).