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SCHEDULES.

SCHEDULE 7

AMENDMENTS OF S. 85 OF FINANCE ACT 1965.

PART I

THREE YEAR SURPLUS OF MEMBERS OF GROUPS OF COMPANIES

Increase in certain circumstances of three year surplus of company receiving dividends from fellow member of a group.

- 2 (1) Where—
- (a) the distributable profits of a company which is a member of a group include dividends paid by one or more other members of the group, and
 - (b) one or more of those other members of the group has a notional surplus which is a three year surplus which is reduced under paragraph 1 of this Schedule, and part of the reduction is attributable to the company,
- the company's three year surplus shall be increased by (or, if otherwise of a nil amount, shall consist of) the amount, if any, produced by sub-paragraphs (2) and (3) of this paragraph.
- (2) The said amount shall not exceed the aggregate of the parts of the reductions within sub-paragraph (1)(b) above which are attributable to the company.
- (3) Subject to sub-paragraph (2) above, the said amount shall be the excess of—
- (a) what the company's excess of dividends over distributable profits would be if the dividends paid to the company by each member of the group within sub-paragraph (1)(b) above were reduced by an amount equal to the company's part of that member's excess of dividends over distributable profits, over
 - (b) what the company's excess of dividends over distributable profits actually is,
- (and so that if there is no actual excess at (b) the said amount is, subject to sub-paragraph (2) above, the amount at (a)).
- (4) In this paragraph—
- (a) "excess of dividends over distributable profits" in relation to any company, means the excess of the company's dividends at paragraph (a) of the said section 85(6) over its distributable profits at paragraph (b) of that subsection without any adjustment under paragraph (c) of that subsection (relief in respect of overseas trading income),
 - (b) "the company's part", in relation to another member, means the proportion of that other member's dividends at paragraph (a) of the said section 85(6) which the part paid to the company bears to the whole,
 - (c) references to the part of a reduction in another member's three year surplus which is attributable to the company are references to a part of the reduction

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which bears to the whole the same proportion as the amount of that other member's dividends at paragraph (a) of the said section 85(6) paid to the company bears to all those dividends except for any paid to persons who are not members of the group of companies.

- (5) An addition to a three year surplus under this paragraph shall be made before any reduction to be made in it under paragraph 1 of this Schedule.