



Income and Corporation Taxes Act 1970

1970 CHAPTER 10

PART XVII

TAX AVOIDANCE

CHAPTER I

CANCELLATION OF TAX ADVANTAGES FROM CERTAIN TRANSACTIONS IN SECURITIES

460 Cancellation of tax advantage

(1) Where—

- (a) in any such circumstances as are mentioned in section 461 below, and
- (b) in consequence of a transaction in securities or of the combined effect of two or more such transactions,

a person is in a position to obtain, or has obtained, a tax advantage, then unless he shows that the transaction or transactions were carried out either for bona fide commercial reasons or in the ordinary course of making or managing investments, and that none of them had as their main object, or one of their main objects, to enable tax advantages to be obtained, this section shall apply to him in respect of that transaction or those transactions:

Provided that this section shall not apply to him if—

- (i) the transaction or transactions in securities were carried out, and
- (ii) any change in the nature of any activities carried on by a person, being a change necessary in order that the tax advantage should be obtainable, was effected,

before 5th April 1960.

- (2) Subject to section 468(3) below, for the purposes of this Chapter a tax advantage obtained or obtainable by a person shall be deemed to be obtained or obtainable by him in consequence of a transaction in securities or of the combined effect of two or

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more such transactions, if it is obtained or obtainable in consequence of the combined effect of the transaction or transactions and of the liquidation of a company.

- (3) Where this section applies to a person in respect of any transaction or transactions, the tax advantage obtained or obtainable by him in consequence thereof shall be counteracted by such of the following adjustments, that is to say an assessment, the nullifying of a right to repayment or the requiring of the return of a repayment already made (the amount to be returned being chargeable under Case VI of Schedule D and recoverable accordingly), or the computation or recomputation of profits or gains, or liability to tax, on such basis as the Board may specify by notice in writing served on him as being requisite for counteracting the tax advantage so obtained or obtainable.
- (4) Subject to section 468(3) below, an assessment under subsection (3) above to counteract a tax advantage consisting of the avoidance or reduction of an assessment to income tax which would be payable by a company under section 232(2) of this Act (Schedule F) in respect of a distribution may be made under Case VI of Schedule D on a person other than the company, and may be so made in addition to any assessment to counteract a tax advantage in respect of surtax.

An assessment so made on a person other than the company may be of an amount arrived at without regard to any set-off to which the company would have been entitled under Schedule 9 to this Act.

- (5) Subject to section 468(3) below, in the case of a man and his wife living with him (whether or not she is separately assessed to tax), this Chapter shall be treated as applying to him in respect of any transaction or transactions as it would apply if any property, rights or liabilities of the wife were his property, rights or liabilities in relation to which she had acted only as nominee for him, and shall be treated as applying to the wife in respect of any transaction or transactions as it would apply if any property, rights or liabilities of the man were her property, rights or liabilities in relation to which he had acted only as nominee for her:

Provided that no adjustment made under subsection (3) above by reference to any transaction or transactions to counteract any tax advantage shall by virtue of this subsection be so made that a person bears more tax than if the transaction or transactions had not had as a consequence that any relief or increased relief from, or repayment or increased repayment of, income tax, or any deduction in computing profits or gains, was obtained or obtainable, or that the way in which receipts accrued was such that the recipient did not pay or bear tax on them.

- (6) The Board shall not give a notice under subsection (3) above until they have notified the person in question that they have reason to believe that this section may apply to him in respect of a transaction or transactions specified in the notification ; and if within thirty days of the issue of the notification the said person, being of opinion that this section does not apply to him as aforesaid, makes a statutory declaration to that effect stating the facts and circumstances upon which his opinion is based, and sends it to the Board, then subject to subsection (7) below this section shall not apply to him in respect of the transaction or transactions.
- (7) If, when a statutory declaration has been sent to the Board under subsection (6) above, they see reason to take further action in the matter—
- (a) the Board shall send to the tribunal a certificate to that effect, together with the statutory declaration, and may also send therewith a counter-statement with reference to the matter;

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- (b) the tribunal shall take into consideration the declaration and the certificate, and the counter-statement, if any, and shall determine whether there is or is not a prima facie case for proceeding in the matter, and if they determine that there is no such case this section shall not apply to the person in question in respect of the transaction or transactions:

Provided that such a determination shall not affect the operation of this section in respect of transactions which include that transaction or some or all of those transactions and also include another transaction or other transactions.

- (8) Subject to section 468(3) below, any notice or notification under subsection (3) or subsection (6) above, or under section 465 below, concerning the application of this section to a person who has died may be given or issued to his personal representatives, and the provisions of this Chapter relating to the making of a statutory declaration, to rights of appeal and to the giving of information shall be construed accordingly.
- (9) No other provision contained in the Tax Acts shall be construed as limiting the powers conferred by this section, but nothing in this section shall authorise the making of an assessment later than six years after the chargeable period to which the tax advantage relates.

461 The prescribed circumstances

The circumstances mentioned in section 460(1) above are—

- “A That in connection with the distribution of profits of a company, or in connection with the sale or purchase of securities being a sale or purchase followed by the purchase or sale of the same or other securities, the person in question, being entitled by reason of—

- (a) any exemption from tax, or
- (b) the setting-off of losses against profits or income, or
- (c) the giving of group relief,

to recover tax in respect of dividends received by him, receives an abnormal amount by way of dividend

OR

- (1) That in connection with the distribution of profits of a company, or in connection with the sale or purchase of securities being a sale or purchase followed by the purchase or sale of the same or other securities, the person in question becomes entitled—

- (a) in respect of securities held or sold by him, or
- (b) subject to section 468(3) below, in respect of securities formerly held by him (whether sold by him or not),

to a deduction in computing profits or gains by reason of a fall in the value of the securities resulting from the payment of a dividend thereon or from any other dealing with any assets of a company.

- (2) Where a company in the circumstances mentioned in sub-paragraph (1) above becomes entitled to a deduction as there mentioned, section 460 above shall apply in relation to any tax advantage obtained or obtainable in consequence of that deduction by another company by way of group relief as if obtained or obtainable by the other company in circumstances falling within sub-paragraph (1) above.

OR

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- (1) That the person in question receives, in consequence of a transaction whereby any other person—
- (a) subsequently receives, or has received, an abnormal amount by way of dividend ; or
 - (b) subsequently becomes entitled, or has become entitled, to a deduction as mentioned in paragraph B(1) above,
- a consideration which either—
- (i) is, or represents the value of, assets which are (or apart from anything done by the company in question would have been) available for distribution by way of dividend, or
 - (ii) is received in respect of future receipts of the company, or
 - (iii) is, or represents the value of, trading stock of the company,
- and the said person so receives the consideration that he does not pay or bear tax on it as income.
- (2) The assets mentioned in sub-paragraph (1) above do not include assets which (while of a description which under the law of the country in which the company is incorporated is available for distribution by way of dividend) are shown to represent a return of sums paid by subscribers on the issue of securities.

OR

- (1) That in connection with the distribution of profits of a company to which this paragraph applies, the person in question so receives as is mentioned in paragraph C(1) above such a consideration as is therein mentioned.
- (2) The companies to which this paragraph applies are—
- (a) any company under the control of not more than five persons, and
 - (b) any other company which does not satisfy the condition that its shares or stocks or some class thereof (disregarding debenture stock, preferred shares or preferred stock), are authorised to be dealt in on a stock exchange in the United Kingdom, and are so dealt in (regularly or from time to time),
- so, however, that this paragraph does not apply to a company under the control of one or more companies to which this paragraph does not apply.
- (3) Subsections (2) to (6) of section 302 of this Act (definition of control) shall apply for the purposes of this paragraph.

OR

- (1) That in connection with the transfer directly or indirectly of assets of a company to which paragraph D above applies to another such company, or in connection with any transaction in securities in which two or more companies to which paragraph D above applies are concerned, the person in question receives non-taxable consideration which is or represents the value of assets available for distribution by such a company, and which consists of any share capital or any security (as defined by section 237(5) of this Act) issued by such a company.
- (2) So far as sub-paragraph (1) above relates to share capital other than redeemable share capital, it shall not apply unless and except to the extent that the share capital is repaid (in a winding-up or otherwise), and where section 460 above applies to a person by virtue of sub-paragraph (1) above on the repayment of any share capital any

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assessment to tax under subsection (3) of the said section 460 shall be an assessment to tax for the year in which the share capital is repaid.

(3) In this paragraph—

" assets available for distribution " means assets which are, or apart from anything done by the company in question would have been, available for distribution by way of dividend, or trading stock of the company,

" non-taxable ", in relation to a person receiving consideration, means that the recipient does not pay or bear tax on it as income (apart from the provisions of this Chapter),

" share " includes stock and any other interest of a member in a company, and the references in sub-paragraph (2) above to the repayment of share capital include references to any distribution made in respect of any shares in a winding-up or dissolution of the company.

(4) This paragraph has effect subject to section 468(3) below.”

462 Appeal against Board's notice

(1) Any person to whom notice has been given under subsection (3) of section 460 above may within thirty days by notice to the Board appeal to the Special Commissioners on the grounds that that section does not apply to him in respect of the transaction or transactions in question, or that the adjustments directed to be made are inappropriate.

(2) If he or the Board are dissatisfied with the determination of the Special Commissioners they may, on giving notice to the clerk to the Special Commissioners within thirty days after the determination, require the appeal to be re-heard by the tribunal, and the Special Commissioners shall transmit to the tribunal any document in their possession which was delivered to them for the purposes of the appeal.

(3) Where notice is given under subsection (2) above, the tribunal shall re-hear and determine the appeal and shall have and exercise the same powers and authorities in relation to the appeal as the Special Commissioners might have and exercise, and the determination of the tribunal thereon shall be final and conclusive:

Provided that section 56 of the Taxes Management Act 1970 (statement of case for opinion of High Court) shall apply with the necessary modifications in the case of any such rehearing and determination as it applies in the case of appeals to the General or Special Commissioners.

(4) On an appeal under this section the Special Commissioners or the tribunal shall have power to cancel or vary a notice under subsection (3) of section 460 above or to vary or quash an assessment made in accordance with such a notice, but the bringing of an appeal or the statement of a case shall not affect the validity of a notice given or of any other thing done in pursuance of the said subsection (3) pending the determination of the proceedings.

463 The tribunal

For the purposes of this Chapter the tribunal shall consist of—

- (a) a chairman, being either the chairman of the Board of Referees appointed under section 26(7) of the Capital Allowances Act 1968 or a person appointed by the Lord Chancellor, for a specified period or in relation to a specified case,

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to act as chairman of the tribunal in the absence of the chairman of the Board of Referees on account of illness or for any other reason, and

- (b) two or more persons appointed by the Lord Chancellor as having special knowledge of and experience in financial or commercial matters.

464 Procedure for clearance in advance

- (1) The following provisions shall have effect where in pursuance of this section a person furnishes to the Board particulars of a transaction or transactions effected or to be effected by him, that is to say—

- (a) if the Board are of opinion that the particulars, or any further information furnished in pursuance of this paragraph, are not sufficient for the purposes of this section, they shall within thirty days of the receipt thereof notify to the said person what further information they require for those purposes, and unless that further information is furnished to the Board within thirty days from the notification, or such further time as the Board may allow, they shall not be required to proceed further under this section ;
- (b) subject to the preceding paragraph, the Board shall within thirty days of the receipt of the particulars, or, where that paragraph has effect, of all further information required, notify the said person whether or not they are satisfied that the transaction or transactions as described in the particulars were or will be such that no notice under section 460(3) above ought to be given in respect of it or them,

and, subject to the following provisions of this section, if the Board notify him that they are so satisfied section 460 above shall not apply to him in respect of that transaction or those transactions.

- (2) If the particulars, and any further information given under this section with respect to any transaction or transactions, are not such as to make full and accurate disclosure of all facts and considerations relating thereto which are material to be known to the Board, any notification given by the Board under this section shall be void.
- (3) In no event shall the giving of a notification under this section with respect to any transaction or transactions prevent section 460 above applying to a person in respect of transactions which include that transaction or all or some of those transactions and also include another transaction or other transactions.

465 Power to obtain information

Where it appears to the Board that by reason of any transaction or transactions a person may be a person to whom section 460 above applies, the Board may by notice in writing served on him require him, within such time not less than twenty-eight days as may be specified in the notice, to furnish information in his possession with respect to the transaction or any of the transactions, being information as to matters, specified in the notice, which are relevant to the question whether a notice under subsection (3) of that section should be given in respect of him.

466 Meaning of " tax advantage "

- (1) In this Chapter " tax advantage " means a relief or increased relief from, or repayment or increased repayment of, tax, or the avoidance or reduction of an assessment to tax or the avoidance of a possible assessment thereto, whether the avoidance or reduction

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is effected by receipts accruing in such a way that the recipient does not pay or bear tax on them, or by a deduction in computing profits or gains.

- (2) Subject to section 468(3) below, for the purposes of subsection (1) above it shall be assumed that a person who might have received from a company any dividend or other distribution (as defined for the purposes of the Corporation Tax Acts) would have borne the income tax chargeable under Schedule F which the company would have had to account for under section 232(2) of this Act in respect of the distribution.

467 Further interpretation

- (1) In this Chapter—

" company " includes any body corporate, references to dividends include references to interest,

" securities "—

(a) includes shares and stock, and

(b) subject to section 468(3) below, in relation to a company not limited by shares (whether or not it has a share capital) includes also a reference to the interest of a member of the company as such, whatever the form of that interest,

" trading stock " has the same meaning as in section 137 of this Act,

" transaction in securities " includes transactions, of whatever description, relating to securities, and in particular—

(i) the purchase, sale or exchange of securities,

(ii) the issuing or securing the issue of, or applying or subscribing for, new securities,

(iii) the altering, or securing the alteration of, the rights attached to securities.

- (2) In section 461 above—

(a) references to profits include references to income, reserves or other assets,

(b) references to distribution include references to transfer or realisation (including application in discharge of liabilities), and

(c) references to the receipt of consideration include references to the receipt of any money or money's worth.

- (3) For the purposes of section 461 above an amount received by way of dividend shall be treated as abnormal if the Board, the Special Commissioners or the tribunal, as the case may be, are satisfied—

(a) in the case of a dividend at a fixed rate, that it substantially exceeds the amount which the recipient would have received if the dividend had accrued from day to day and he had been entitled only to so much of the dividend as accrued while he held the securities, so however that an amount shall not be treated as abnormal by virtue only of this paragraph if during the six months beginning with the purchase of the securities the recipient does not sell or otherwise dispose of, or acquire an option to sell, any of those securities or any securities similar to those securities, or

(b) in any case, that it substantially exceeds a normal return on the price paid for the securities:

Provided that there shall be disregarded any amount received by a company before 30th April 1969 by way of dividend from an associated company in so far as the dividend was paid out of income arising to the company paying it since the two

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companies became associated companies, and Schedule 17 to the Finance Act 1965 shall with the necessary modifications apply for determining the extent to which the dividend was so paid.

In this proviso references to an associated company or companies shall be construed in accordance with paragraphs (c) and (d) of section 486(4) of this Act.

- (4) For the purposes of subsection (3) (a) above securities shall be deemed to be similar if they entitle their holders to the same rights against the same persons as to capital and interest and the same remedies for the enforcement of those rights, notwithstanding any difference in the total nominal amounts of the respective securities or in the form in which they are held or the manner in which they can be transferred, and for those purposes rights guaranteed by the Treasury shall be treated as rights against the Treasury.

468 Commencement and other transitory provisions

- (1) No notification shall be issued after 5th April 1970 under section 28(4) of the Finance Act 1960 (which is re-enacted in section 460(6) above) and this Chapter, including the said section 460(6), shall have effect (for all purposes and by reference to all chargeable periods, times and occasions on or before the said date or later) to the exclusion of the enactments re-enacted in this Chapter except in relation to matters and proceedings consequent upon a notification issued (on or before the said date) under the said section 28(4).
- (2) Subject to subsection (1) above, in relation to tax advantages related to corporation tax this Chapter shall apply (without prejudice to any general provision of this Act or the Finance Act 1965 for the continuity of income tax and corporation tax) to transactions taking place before the charge to corporation tax became effective.
- (3) The provisions of this Chapter specified in subsection (4) below shall not apply to a person in respect of any transaction or transactions in securities if they were carried out before the relevant date, and if any change in the nature of any activities carried on by any person, being a change necessary in order that the tax advantage should be obtainable in consequence of the transaction or transactions, was also effected before that date, but nothing in those provisions shall be taken to prejudice the operation of this Chapter, without those provisions, in any such case.

In this subsection " the relevant date " is—

- (a) in relation to the provisions in column 1 in subsection (4) below, 10th April 1962, and
- (b) in relation to the provisions in column 2 of that subsection, 3rd May 1966.
- (4) The said provisions are—

Relevant date: 10th April 1962 Section 460(2)(5)	Relevant date: 3rd May 1966 Section 460(4)(8)
In section 461 paragraph B(1)(b)	In section 461 paragraph E
In section 467(1) paragraph (6) of the definition of " securities "	Section 466(2)
Subsection (5) below.	

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- (5) Subject to subsections (3) and (4) above, paragraphs A and B(2) of section 461 above shall have effect as if the references to group relief included references to relief under section 20 of the Finance Act 1953 (which related to subvention payments and was superseded by group relief).
- (6) As respects any period before the coming into force of paragraph 15 of Schedule 15 to the Finance Act 1965, paragraph D(3) of section 461 and the proviso to section 467(3) of this Act (which re-enact part of the said paragraph 15) shall not apply, and the relevant provisions of the Finance Act 1960 as originally enacted which were replaced by the said paragraph 15 shall be applied instead.

CHAPTER II

OTHER PROVISIONS ABOUT SECURITIES

469 Sale and repurchase of securities

- (1) Where the owner of any securities (in this subsection and subsection (3) below referred to as "the owner") agrees to sell or transfer those securities and by the same or any collateral agreement—
 - (a) agrees to buy back or re-acquire the securities, or
 - (b) acquires an option, which he subsequently exercises, to buy back or re-acquire the securities, then, if the result of the transaction is that any interest becoming payable in respect of the securities is receivable otherwise than by the owner, the following provisions shall have effect—
 - (i) the interest payable as aforesaid shall, whether it would or would not have been chargeable to tax apart from the provisions of this section, be deemed for all the purposes of the Tax Acts to be the income of the owner and not to be the income of any other person; and
 - (ii) if the securities are of such a character that the interest payable in respect thereof may be paid without deduction of tax, the owner shall be chargeable to tax at the standard rate under Case VI of Schedule D in respect of the interest which is deemed to be his income as aforesaid, unless he shows that it has borne tax at the standard rate.
- (2) In relation to corporation tax—
 - (a) subject to the provisions of the Tax Acts about distributions, interest deemed under subsection (1)(i) above to be the income of the owner shall be chargeable under Case VI of Schedule D, and
 - (b) subsection (1)(ii) above shall not apply.
- (3) The references in subsection (1) above to buying back or reacquiring the securities shall be deemed to include references to buying or acquiring similar securities, so, however, that where similar securities are bought or acquired, the owner shall be under no greater liability to tax than he would have been under if the original securities had been bought back or re-acquired.
- (4) Where any person carrying on a trade which consists wholly or partly in dealing in securities agrees to buy or acquire any securities, and by the same or any collateral agreement—
 - (a) agrees to sell back or re-transfer the securities, or

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- (b) acquires an option, which he subsequently exercises, to sell back or re-transfer the securities,
then, if the result of the transaction is that any interest becoming payable in respect of the securities is receivable by him, no account shall be taken of the transaction in computing for any of the purposes of the Tax Acts the profits arising from or loss sustained in the trade.
- (5) Subsection (4) above shall have effect, subject to any necessary modifications, as if references to selling back or re-transferring the securities included references to selling or transferring similar securities.
- (6) This section shall not apply to any income to which section 496(3) of this Act (transactions associated with loans or credit) applies.
- (7) For the purposes of this section—
- (a) " interest " includes a dividend,
 - (b) " securities " includes stocks and shares,
 - (c) securities shall be deemed to be similar if they entitle their holders to the same rights against the same persons as to capital and interest and the same remedies for the enforcement of those rights, notwithstanding any difference in the total nominal amounts of the respective securities or in the form in which they are held or the manner in which they can be transferred.
- (8) The Board may by notice in writing require any person to furnish them within such time as they may direct (not being less than twenty-eight days), in respect of all securities of which he was the owner at any time during the period specified in the notice, such particulars as they consider necessary for the purposes of this section and for the purpose of discovering whether tax has been borne in respect of the interest on all those securities.

470 Transfers of income arising from securities

- (1) Where in any chargeable period the owner of any securities (in this section referred to as " the owner ") sells or transfers the right to receive any interest payable (whether before or after the sale or transfer) in respect of the securities without selling or transferring the securities, then, for all the purposes of the Tax Acts, that interest, whether it would or would not be chargeable to tax apart from the provisions of this section—
- (a) shall be deemed to be the income of the owner or, in a case where the owner is not the beneficial owner of the securities and some other person (hereafter in this section referred to as " a beneficiary ") is beneficially entitled to the income arising from the securities, the income of the beneficiary, and
 - (b) shall be deemed to be the income of the owner or beneficiary for that chargeable period, and
 - (c) shall not be deemed to be the income of any other person:

Provided that, in the case of a sale or other realisation the proceeds whereof are chargeable to tax under Schedule C or under section 159(3) of this Act (foreign dividends, etc.), the interest so deemed to be the income of the owner or beneficiary shall be deemed to be equal in amount to the amount of those proceeds.

- (2) Nothing in subsection (1) of this section shall affect any provision of this Act authorising or requiring the deduction of income tax from any interest which is deemed

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to be the income of the owner or beneficiary as aforesaid or from the proceeds of any subsequent sale or other realisation of the right to receive that interest:

Provided that the proceeds of any such subsequent sale or other realisation shall not, for any of the purposes of the Tax Acts, be deemed to be the income of the seller or the person on whose behalf the right is otherwise realised.

- (3) Where the securities are of such a character that the interest payable in respect thereof may be paid without deduction of income tax, the owner or beneficiary shall be chargeable to tax at the standard rate under Case VI of Schedule D in respect of any interest which is deemed to be his income by virtue of this section, unless he shows that it has borne tax at the standard rate or that the proceeds of any sale or other realisation of the right to receive that interest have been charged to tax under Schedule C or under section 159(3) of this Act:

Provided that, in any case where if the interest had been chargeable under Case IV or Case V of Schedule D, the computation of tax would have been made by reference to the amount received in the United Kingdom, the tax under Case VI shall be computed on the full amount of the sums which have been or will be received in the United Kingdom in the year of assessment or any subsequent year in which the owner remains the owner of the securities.

- (4) In relation to corporation tax subsection (3) above shall not apply and the following provisions of this subsection shall have effect.

Subject to the provisions of the Tax Acts about distributions, the owner or beneficiary shall, in respect of any interest which is deemed to be his income by virtue of this section, be chargeable to corporation tax under Case VI of Schedule D unless he shows that the proceeds of any sale or other realisation of the right to receive that interest have been charged to tax under Schedule C or under section 159(3) of this Act.

- (5) In this section—

" interest " includes dividends, annuities and shares of annuities, and
" securities " includes stocks and shares.

- (6) The Board may by notice in writing require any person to furnish them within such time as they may direct (not being less than twenty-eight days), in respect of all securities of which he was the owner at any time during the period specified in the notice, with such particulars as they consider necessary for the purposes of this section and for the purpose of discovering whether—
- (a) tax has been borne in respect of the interest on all those securities; or
 - (b) the proceeds of any sale or other realisation of the right to receive the interest on the securities have been charged to tax under Schedule C or section 159(3) of this Act.

Purchase and sale of securities

471 Application of following sections

- (1) Subject as hereinafter provided sections 472, 473 and 474 below relate to cases of a purchase by a person (in those sections referred to as " the first buyer ") of any securities and their subsequent sale by him, the result of the transaction being that interest becoming payable in respect of the securities (in those sections referred to as " the interest ") is receivable by the first buyer.

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- (2) The said sections do not relate to cases where—
- (a) the time elapsing between the purchase by the first buyer and his taking steps to dispose of the securities exceeded six months, or
 - (b) that time exceeded one month and it is shown to the satisfaction of the Board that the purchase and sale were each effected at the current market price, and that the sale was not effected in pursuance of an agreement or arrangement made before or at the time of the purchase.

The jurisdiction of the General Commissioners or Special Commissioners on any appeal shall include jurisdiction to review any relevant decision taken by the Board in the exercise of then-functions under this subsection.

- (3) The reference in subsection (2) above to the first buyer taking steps to dispose of the securities shall be construed—
- (a) if he sold them in the exercise of an option he had acquired, as a reference to his acquisition of the option,
 - (b) in any other case, as a reference to his selling them.
- (4) For the purposes of this and the said three sections a sale of securities similar to, and of the like nominal amount as, securities previously bought (hereinafter referred to as " the original securities ") shall be equivalent to a sale of the original securities, and subsection (3) above shall apply accordingly; and where the first buyer bought parcels of similar securities at different times a subsequent sale of any of the securities shall so far as may be related to the last to be bought of the parcels, and then to the last but one, and so on:

Provided that a person shall be under no greater liability to tax by virtue of this subsection than he would have been under if instead of selling the similar securities he had sold the original securities.

- (5) Where at the time when a trade is, or is deemed to be, set up and commenced any securities form part of the trading stock belonging to the trade, those securities shall be treated for the purposes of this section as having been sold at that time in the open market by the person to whom they belonged immediately before that time and as having been purchased at that time in the open market by the person thereafter engaged in carrying on the trade ; and, subject to the preceding provisions of this subsection, where there is a change in the persons engaged in carrying on a trade which is not a change on which the trade is deemed to be discontinued the provisions of this section shall apply in relation to the person so engaged after the change as if anything done to or by his predecessor had been done to or by him.
- (6) For the purposes of this and the said three sections—
- (a) " interest" includes a dividend ;
 - (b) " person " includes any body of persons, and references to a person entitled to any exemption from tax include, in a case of an exemption expressed to apply to income of a trust or fund, references to the persons entitled to make claims for the granting of that exemption ;
 - (c) " securities " includes stocks and shares ;
 - (d) securities shall be deemed to be similar if they entitle their holders to the same rights against the same persons as to capital and interest and the same remedies for the enforcement of those rights, notwithstanding any difference in the total nominal amounts of the respective securities or in the form in which they are held or the manner in which they can be transferred, and for the purposes

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of this paragraph rights guaranteed by the Treasury shall be treated as rights against the Treasury.

472 Dealers in securities

- (1) Subject to the provisions of this section, if the first buyer is engaged in carrying on a trade which consists of or comprises dealings in securities, then in computing for any of the purposes of the Tax Acts the profits arising from or loss sustained in the trade the price paid by him for the securities shall be reduced by the appropriate amount in respect of the interest, as determined in accordance with section 475 below.
- (2) Subsection (1) of this section shall not apply if the first buyer—
 - (a) is in the opinion of the Board bona fide carrying on the business of a discount house in the United Kingdom, or
 - (b) is a member of the London Stock Exchange who is recognised by the committee thereof as carrying on the business of a jobber, or
 - (c) is a member of any other stock exchange in the United Kingdom who is recognised by the committee thereof as carrying on the business of a dealer, and the securities were bought in the ordinary course of his said business and, in the case of a dealer such as is mentioned in paragraph (c) of this subsection, were securities in which he was authorised by the said committee to deal.
- (3) Subsection (1) of this section shall not apply if the purchase of the securities by the first buyer and their resale, or as the case may be the subsequent sale of similar securities, constitute a transaction which is to be left out of account in computing profits or losses by virtue of section 469(4) above.
- (4) Subsection (1) of this section shall not apply if the securities are overseas securities bought by the first buyer on a stock exchange outside the United Kingdom in the ordinary course of his trade as a dealer in securities and the following conditions are satisfied, namely—
 - (a) the interest is brought into account in computing for the purposes of the Tax Acts the profits arising from or loss sustained in the trade, and
 - (b) where credit against tax would fall to be allowed in respect of the interest under section 497 or section 498 of this Act (double taxation relief), the first buyer elects that credit shall not be so allowed.

In this subsection " overseas securities " means securities of the government of, or of a body of persons resident in, any country or territory outside the United Kingdom and the Republic of Iceland.

473 Persons entitled to exemptions

- (1) If the first buyer is entitled under any enactment to an exemption from tax which, apart from this subsection, would extend to the interest, then the exemption shall not extend to an amount equal to the appropriate amount in respect of the interest, as determined in accordance with section 475 below:

Provided that if the first buyer is entitled as aforesaid and any annual payment is payable by him out of the interest, the annual payment shall be deemed as to the whole thereof to be paid out of profits or gains not brought into charge to income tax, and section 53 of this Act shall apply accordingly.

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- (2) This section shall not apply where the exemption arises from the residence of the first buyer in the Republic of Ireland.

474 Persons other than dealers in securities

- (1) If the first buyer carries on a trade not falling within section 472 above, then in ascertaining whether any or what repayment of income tax is to be made to him under section 168 of this Act by reference to any loss sustained in the trade and the amount of his income for the year of assessment his income for which includes the interest, there shall be left out of account—
- (a) the appropriate amount in respect of the interest, as determined in accordance with section 475 below, and
 - (b) any tax paid on that amount.
- (2) Where the first buyer is a company which does not carry on a trade falling within section 472 above, the appropriate amount in respect of the interest, as determined in accordance with section 475 below, and any tax paid in respect of or deducted from that amount shall be disregarded except that, for the purposes of corporation tax on chargeable gains—
- (a) where that appropriate amount is determined in accordance with section 475(2) below, the appropriate proportion of the net interest receivable by the first buyer as mentioned in that subsection, and
 - (b) where that appropriate amount is determined in accordance with section 475(6) below, the net amount of interest corresponding to the gross interest referred to in that subsection,
- shall be treated as if it were a capital distribution within the meaning of Part III of the Finance Act 1965 received in respect of the holding of the securities concerned. This subsection applies to any interest received after 29th April 1969.

475 Meaning of " appropriate amount in respect of" interest

- (1) For the purposes of section 472 above the appropriate amount in respect of the interest is the appropriate proportion of the net interest receivable by the first buyer.
- (2) For the purposes of sections 473 and 474 above the appropriate amount in respect of the interest is the gross amount corresponding with the appropriate proportion of the net interest receivable by the first buyer.
- (3) For the purposes of this section the appropriate proportion is the proportion which—
- (a) the period beginning with the date on which the securities were first quoted in the official list of the London Stock Exchange at a price excluding the value of the interest payment last payable before the interest receivable by the first buyer, and ending with the day before the day on which the first buyer bought the securities,
- bears to—
- (b) the period beginning with the said date and ending with the day before the first date after the purchase by the first buyer on which the securities are quoted in the said list at a price excluding the value of the interest receivable by the first buyer.
- (4) Where the interest receivable by the first buyer was the first interest payment payable in respect of the securities, paragraphs (a) and (b) of subsection (3) above shall have

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effect with the substitution, for references to the date on which the securities were first quoted as mentioned in the said paragraph (a), of the beginning of the period for which the interest was payable:

Provided that where the capital amount of the securities was not fully paid at the beginning of the said period and one or more instalments of capital were paid during that period—

- (a) the interest shall be treated as divided into parts, calculated by reference to the amount of the interest attributable to the capital paid at or before the beginning of the said period and the amount thereof attributable to each such instalment, and
 - (b) treating each of the said parts as interest payable for the said period or, where the part was calculated by reference to any such instalment, as interest payable for the part of the said period beginning with the payment of the instalment, there shall be calculated, in accordance with the preceding provisions of this section, the amount constituting the appropriate proportion of each part, and
 - (c) the appropriate proportion of the interest for the purposes of this section shall be the proportion thereof constituted by the sum of the said amounts.
- (5) In relation to securities not quoted in the official list of the London Stock Exchange, subsection (3) above shall have effect with the substitution for the periods therein mentioned of such periods as in the opinion of the Commissioners having jurisdiction in the matter, correspond therewith in the case of the securities in question.
- (6) Where the securities are of a description such that under the rules of the London Stock Exchange the bargain price is increased, where interest is receivable by the buyer, by reference to gross interest accruing before the bargain date, the preceding subsections shall not apply but for the purposes of sections 472, 473 and 474 above the appropriate amount in respect of the interest shall be the amount of the increase in the bargain price.

Miscellaneous

476 Company dealing in securities: distribution materially reducing value of holding

- (1) Subsection (2) below applies where a company has, as a dealing company, a holding in another company resident in the United Kingdom (being a body corporate), and—
- (a) the holding amounts to, or is an ingredient in a holding amounting to, 10 per cent. of all holdings of the same class in that company, and
 - (b) after 29th April 1969 a distribution is, or two or more distributions are, made in respect of the holding, and
 - (c) the value (at any accounting date or immediately before realisation or appropriation) of any security comprised in the holding is materially reduced below the value of the security at the time when it was acquired, and the whole or any part of this reduction is attributable to any distribution falling within paragraph (b) above,

and in relation to any security comprised in the holding, the company having the holding is in subsection (2) below referred to as "the dealing company" and so much of any reduction in title value of the security as is attributable to any distribution falling within paragraph (b) above is in that subsection referred to as "the relevant reduction".

- (2) Where this subsection applies, an amount equal to the relevant reduction in the value of a security comprised in the holding—

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- (a) shall, if and so long as the security is not realised or appropriated as mentioned below, be added to the value of the security for the purposes of any valuation,
 - (b) shall be treated, on any realisation of the security in the course of trade, as a trading receipt of the dealing company or, in the event of a partial realisation, shall be so treated to an appropriate extent, and
 - (c) shall be treated as a trading receipt of the dealing company if the security is appropriated in such circumstances that a profit on the sale of the security would no longer form part of the dealing company's trading profits.
- (3) References in this section to a holding in a company refer to a holding of securities by virtue of which the holder may receive distributions made by the company, but so that—
- (a) a company's holdings of different classes in another company shall be treated as separate holdings, and
 - (b) holdings of securities which differ in the entitlements or obligations they confer or impose shall be regarded as holdings of different classes.
- (4) For the purposes of subsection (2) above—
- (a) all a company's holdings of the same class in another company are to be treated as ingredients constituting a single holding, and
 - (b) a company's holding of a particular class shall be treated as an ingredient in a holding amounting to 10 per cent. of all holdings of that class if the aggregate of that holding and other holdings of that class held by connected persons amounts to 10 per cent. of all holdings of that class,
- and section 533 of this Act (definition of connected persons) shall have effect in relation to paragraph (b) above as if, in subsection (7) of that section, after the words " or exercise control of " in each place where they occur there were inserted the words " or to acquire a holding in
- (5) Where this section applies in relation to a distribution which consists of or includes interest to which section 472 above applies, any reduction under that section in the price paid for the securities in respect of which the distribution is made shall be adjusted in such manner as seems appropriate to the Board to take account of subsection (2) above.
- (6) For the purposes of this section " security " includes a share or other right and a company is a " dealing company " in relation to a holding if a profit on a sale of the holding would be taken into account in computing the company's trading profits.

477 Manufactured dividends: treatment of tax deducted

- (1) Subject to the provisions of this section, where—
- (a) under a contract for the sale of securities the seller is required to pay to the purchaser the amount of a periodical payment of interest on the securities, and
 - (b) the seller does not satisfy the following condition, that is to say that he is entitled to that payment of interest either as the registered holder of the securities or from a person from whom the seller purchased them,
- section 53(2) of this Act and Schedule 9 to this Act (which both impose a liability to account for income tax deducted) shall apply as if the payment by the seller were an annual payment made, after due deduction of tax, wholly out of a source other than profits or gains brought into charge to income tax.

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- (2) Subsection (1) of this section shall not apply where the interest in question is payable without deduction of tax or where, under the rules of the stock exchange governing the transaction, the payment required to be made in respect of the interest is of the amount of the interest before deduction of tax.
- (3) If for any chargeable period the liability to tax of a jobber or dealing broker is determined on the footing that any excess of his payments in respect of interest on securities over his receipts in respect thereof, being payments made or receipts accrued in pursuance of a contract for the sale or purchase of the securities, is to be treated for all the purposes of the Tax Acts as an annual payment made by him, then as respects that chargeable period subsection (1) of this section shall not apply to him if he sold the securities in the ordinary course of his business as a jobber or dealing broker.
- (4) Where the seller is resident in the United Kingdom and purchased the securities (otherwise than through a broker) from a person not so resident, then paragraph (b) of subsection (1) of this section shall have effect as if after the word " say " there were inserted the word " either " and as if for the words from " either as " to the end of the paragraph there were inserted the words " as the registered holder of the securities or that he shows that he acquired the securities, directly or indirectly, from a person who was so entitled to the payment ".
- (5) Where the seller under such a contract as is mentioned in paragraph (a) of subsection (1) of this section is not resident in the United Kingdom, and the sale is effected through a broker, that subsection shall not apply but unless the broker shows either that the seller was entitled to the payment of interest as the registered holder of the securities or that the seller acquired the securities, directly or indirectly, from a person who was so entitled to the payment, the said section 53(2) of this Act shall apply as if the payment through the broker of the amount of the payment of interest were an annual payment by the broker made, after due deduction of tax, wholly out of such a source as is mentioned in subsection (1) of this section.
- (6) In this section—
 - " broker " means a member of a stock exchange in the United Kingdom other than a jobber,
 - " dealing broker ", in relation to any sale of securities, means a member of a stock exchange in the United Kingdom, other than the London Stock Exchange, who is recognised by the committee of his exchange as carrying on the business of a dealer and authorised by them to deal in those securities,
 - " jobber " means a member of the London Stock Exchange who is recognised by the committee thereof as carrying on the business of a jobber,
 - " securities " includes shares and stock,and references to a periodical payment of interest include references to a dividend.
- (7) Where it appears to the Board that by reason of any transaction or transactions a person may by virtue of this section have incurred any liability to tax, the Board may by notice in writing served on him require him, within such time not less than twenty-eight days as may be specified in the notice, to furnish information in his possession with respect to the transaction or any of the transactions, being information as to matters, specified in the notice, which are relevant to the question whether he has incurred such a liability as aforesaid.

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CHAPTER III

TRANSFER OF ASSETS ABROAD

478 Provisions for preventing avoidance of income tax by transactions resulting in the transfer of income to persons abroad

For the purpose of preventing the avoiding by individuals ordinarily resident in the United Kingdom of liability to income tax by means of transfers of assets by virtue or in consequence whereof, either alone or in conjunction with associated operations, income becomes payable to persons resident or domiciled out of the United Kingdom, it is hereby enacted as follows:—

- (1) Where by virtue or in consequence of any such transfer, either alone or in conjunction with associated operations, such an individual has, within the meaning of this section, power to enjoy, whether forthwith or in the future, any income of a person resident or domiciled out of the United Kingdom which, if it were income of that individual received by him in the United Kingdom, would be chargeable to income tax by deduction or otherwise, that income shall, whether it would or would not have been chargeable to income tax apart from the provisions of this section, be deemed to be income of that individual for all the purposes of the Income Tax Acts .
- (2) Where, whether before or after any such transfer, such an individual receives or is entitled to receive any capital sum the payment whereof is in any way connected with the transfer or any associated operation, any income which, by virtue or in consequence of the transfer, either alone or in conjunction with associated operations, has become the income of a person resident or domiciled out of the United Kingdom shall, whether it would or would not have been chargeable to income tax apart from the provisions of this section, be deemed to be the income of that individual for all the purposes of the Income Tax Acts.

In this subsection, " capital sum " means—

- (a) any sum paid or payable by way of loan or repayment of a loan, and
 - (b) any other sum paid or payable otherwise than as income, being a sum which is not paid or payable for full consideration in money or money's worth.
- (3) Subsections (1) and (2) of this section shall not apply if the individual shows in writing or otherwise to the satisfaction of the Board either—
 - (a) that the purpose of avoiding liability to taxation was not the purpose or one of the purposes for which the transfer or associated operations or any of them were effected; or
 - (b) that the transfer and any associated operations were bona fide commercial transactions and were not designed for the purpose of avoiding liability to taxation.

The jurisdiction of the Special Commissioners on any appeal shall include jurisdiction to review any relevant decision taken by the Board in exercise of their functions under this subsection.

- (4) For the purposes of this section, " an associated operation " means, in relation to any transfer, an operation of any kind effected by any person in relation to any of the assets transferred or any assets representing, whether directly or indirectly, any of the assets transferred, or to the income arising from any such assets, or to any assets

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representing, whether directly or indirectly, the accumulations of income arising from any such assets.

- (5) An individual shall, for the purposes of this section, be deemed to have power to enjoy income of a person resident or domiciled out of the United Kingdom if—
- (a) the income is in fact so dealt with by any person as to be calculated, at some point of time, and whether in the form of income or not, to enure for the benefit of the individual, or
 - (b) the receipt or accrual of the income operates to increase the value to the individual of any assets held by him or for his benefit, or
 - (c) the individual receives or is entitled to receive, at any time, any benefit provided or to be provided out of that income or out of moneys which are or will be available for the purpose by reason of the effect or successive effects of the associated operations on that income and on any assets which directly or indirectly represent that income, or
 - (d) the individual has power, by means of the exercise of any power of appointment or power of revocation or otherwise, to obtain for himself, whether with or without the consent of any other person, the beneficial enjoyment of the income, or may, in the event of the exercise of any power vested in any other person, become entitled to the beneficial enjoyment of the income, or
 - (e) the individual is able in any manner whatsoever, and whether directly or indirectly, to control the application of the income.
- (6) In determining whether an individual has power to enjoy income within the meaning of this section, regard shall be had to the substantial result and effect of the transfer and any associated operations, and all benefits which may at any time accrue to the individual (whether or not he has rights at law or in equity in or to those benefits) as a result of the transfer and any associated operations shall be taken into account irrespective of the nature or form of the benefits.
- (7) For the purposes of this section, any body corporate incorporated outside the United Kingdom shall be treated as if it were resident out of the United Kingdom whether it is so resident or not.
- (8) For the purposes of this section—
- (a) a reference to an individual shall be deemed to include the wife or husband of the individual,
 - (b) " assets" includes property or rights of any kind and " transfer", in relation to rights, includes the creation of those rights,
 - (c) " benefit " includes a payment of any kind,
 - (d) references to income of a person resident or domiciled out of the United Kingdom shall, where the amount of the income of a company for any year or period has been apportioned under section 296 of this Act, include references to so much of the income of the company for that year or period as is equal to the amount so apportioned to that person,
 - (e) references to assets representing any assets, income or accumulations of income include references to shares in or obligations of any company to which, or obligations of any other person to whom, those assets, that income or those accumulations are or have been transferred,

and for the purpose of applying this Chapter in relation to Case VII of Schedule D references to income in this Chapter shall apply in the case of gains accruing from the

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acquisition and disposal of chargeable assets as they would apply if the gains were profits from a trade of dealing in the assets, and any such gains shall be treated as payable in the first instance to the person to whom they accrue.

479 Persons resident in Republic of Ireland: application of Chapter III to premiums on leases, etc.

In relation to amounts which by virtue of any provision of section 80, 81 or 82 of this Act (taxation as income of premiums on leases, etc.) would, in the case of a person resident in the Republic of Ireland and not resident in the United Kingdom, be included in his income if he were not resident in the Republic of Ireland, this Chapter shall apply—

- (a) as if his income included those amounts, and
- (b) as if references to an individual included references to any person (and so that in accordance with section 250 of this Act this Chapter then applies for corporation tax as well as for income tax),

but shall so apply as if subsection (3) of section 478 above were omitted.

480 Supplemental provisions

- (1) Income tax at the standard rate shall not be charged by virtue of the preceding provisions of this Chapter in respect of income which has borne tax at the standard rate by deduction or otherwise but, save as aforesaid, income tax chargeable at the standard rate by virtue of those provisions shall be charged under Case VI of Schedule D.
- (2) In computing the liability to income tax of an individual chargeable by virtue of the said provisions of this Chapter, the same deductions and reliefs shall be allowed as would have been allowed if the income deemed to be his by virtue of those provisions had actually been received by him.
- (3) Where an individual has been charged to income tax on any income deemed to be his by virtue of the said provisions of this Chapter and that income is subsequently received by him, it shall be deemed not to form part of his income again for the purposes of the Income Tax Acts.
- (4) In any case where an individual has for the purposes of the said provisions of this Chapter power to enjoy income of a person abroad by reason of his receiving any such benefit as is referred to in section 478(5)(c) above, then notwithstanding anything in subsection (1) of this section, the individual shall be chargeable to income tax by virtue of the said provisions of this Chapter for the year of assessment in which the benefit is received on the whole of the amount or value of that benefit except in so far as it is shown that the benefit derives directly or indirectly from income on which he has already been charged to tax for that or a previous year of assessment.

481 Power to obtain information

- (1) The Board or, for the purpose of charging tax at the standard rate, an inspector may by notice in writing require any person to furnish them within such time as they may direct (not being less than twenty-eight days) with such particulars as they think necessary for the purposes of this Chapter.
- (2) The particulars which a person must furnish under this section, if he is required by such a notice so to do, include particulars—

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- (a) as to transactions with respect to which he is or was acting on behalf of others, and
 - (b) as to transactions which in the opinion of the Board or, for the purpose of charging tax at the standard rate, an inspector it is proper that they should investigate for the purposes of this Chapter notwithstanding that, in the opinion of the person to whom the notice is given, no liability to tax arises under this Chapter, and
 - (c) as to whether the person to whom the notice is given has taken or is taking any, and if so what, part in any, and if so what, transactions of a description specified in the notice.
- (3) Notwithstanding anything in subsection (2) of this section, a solicitor shall not be deemed for the purposes of paragraph (c) thereof to have taken part in a transaction by reason only that he has given professional advice to a client in connection with that transaction, and shall not, in relation to anything done by him on behalf of a client, be compellable under this section, except with the consent of his client, to do more than state that he is or was acting on behalf of a client, and give the name and address of his client and also—
- (a) in the case of anything done by the solicitor in connection with the transfer of any asset by or to an individual ordinarily resident in the United Kingdom to or by any such body corporate as is hereinafter mentioned, or in connection with any associated operation in relation to any such transfer, the names and addresses of the transferor and the transferee or of the persons concerned in the associated operations, as the case may be;
 - (b) in the case of anything done by the solicitor in connection with the formation or management of any such body corporate as is hereinafter mentioned, the name and address of the body corporate ;
 - (c) in the case of anything done by the solicitor in connection with the creation, or with the execution of the trusts, of any settlement by virtue or in consequence whereof income becomes payable to a person resident or domiciled out of the United Kingdom, the names and addresses of the settlor and of that person.
- The bodies corporate mentioned in the preceding provisions of this section are bodies corporate resident or incorporated outside the United Kingdom which are, or if resident in the United Kingdom would be, close companies, but not trading companies (as defined in section 292(1) of this Act).
- (4) Nothing in this section shall impose on any bank the obligation to furnish any particulars of any ordinary banking transactions between the bank and a customer carried out in the ordinary course of banking business, unless the bank has acted or is acting on behalf of the customer in connection with the formation or management of any such body corporate as is mentioned in paragraph (b) of subsection (3) of this section or in connection with the creation, or with the execution of the trusts, of any such settlement as is mentioned in paragraph (c) thereof.
- (5) In this section " settlement" and " settlor" have the meanings assigned thereto by section 454(3) of this Act.

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CHAPTER IV

MISCELLANEOUS

Companies

482 Migration, etc., of companies

- (1) Subject to the provisions of this section, all transactions of the following classes shall be unlawful unless carried out with the consent of the Treasury, that is to say—
 - (a) for a body corporate resident in the United Kingdom to cease to be so resident; or
 - (b) for the trade or business or any part of the trade or business of a body corporate so resident to be transferred from that body corporate to a person not so resident; or
 - (c) for a body corporate so resident to cause or permit a body corporate not so resident over which it has control to create or issue any shares or debentures; or
 - (d) except for the purpose of enabling a person to be qualified to act as a director, for a body corporate so resident to transfer to any person, or cause or permit to be transferred to any person, any shares or debentures of a body corporate not so resident over which it has control, being shares or debentures which it owns or in which it has an interest.
- (2) Nothing in paragraph (c) of subsection (1) of this section shall apply to the giving to the bankers of the body corporate not resident in the United Kingdom of any security for the payment of any sum due or to become due from it to them by reason of any transaction entered into with it by them in the ordinary course of their business as bankers.
- (3) Nothing in the said paragraph (c) shall apply to the giving by the body corporate not resident in the United Kingdom of an insurance company of any security for the payment of any sum due or to become due from that body corporate to that company by reason of any transaction entered into with that body corporate by that company in the ordinary course of that company's business by way of investment of its funds.
- (4) Any consent granted by the Treasury under this section—
 - (a) may be given either specially (that is to say, so as to apply only to specified transactions of or relating to a specified body corporate) or generally (that is to say, so as not only to apply as aforesaid); and
 - (b) may, if given generally, be revoked by the Treasury; and
 - (c) may in any case be absolute or conditional; and
 - (d) shall be published in such a way as to give any person entitled to the benefit of it an adequate opportunity of getting to know of it, unless in the opinion of the Treasury publication is not necessary for that purpose.
- (5) Any person who, whether within or outside the United Kingdom, does or is a party to the doing of any act which to his knowledge amounts to or results in, or forms part of a series of acts which together amount to or result in, or will amount to or result in, something which is unlawful under subsection (1) of this section shall be guilty of an offence under this section, and in any proceedings in respect of such an offence against a director of the body corporate in question (that is to say, the body corporate which

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is or was resident in the United Kingdom) or against any person who was purporting to act in that capacity—

- (a) it shall be presumed that he was a party to every act of that body corporate unless he proves that it was done without his consent or connivance; and
 - (b) it shall, unless the contrary is proved, be presumed that any act which in fact amounted to or resulted in, or formed part of a series of acts which together amounted to or resulted in or would amount to or result in, something which is unlawful under subsection (1) of this section was to his knowledge such an act.
- (6) Any person who is guilty of an offence under this section shall be liable on conviction on indictment to imprisonment for not more than two years or to a fine not exceeding £10,000 or to both, and proceedings in respect of such an offence alleged to have been committed by a person may be taken before the appropriate court in the United Kingdom having jurisdiction in the place where that person is for the time being:

Provided that where the person in question is a body corporate which is or was resident in the United Kingdom, the maximum amount of the fine shall be three times the corporation tax, profits tax, capital gains tax and income tax paid or payable which is attributable to the income, profits or gains (including chargeable gains) arising in the thirty-six months immediately preceding the commission of the offence, or £10,000, whichever is the greater.

- (7) A body corporate shall be deemed for the purposes of this section to be resident or not to be resident in the United Kingdom according as the central management and control of its trade or business is or is not exercised in the United Kingdom:

Provided that if it is shown that it has been established as between the Crown and a body corporate for any income tax, corporation tax or profits tax purpose that the body corporate was resident or ordinarily resident in the United Kingdom for any year of assessment or other period, it shall be presumed, except so far as the contrary is proved, that that body corporate was resident in the United Kingdom for the purposes of this section at the beginning of that year of assessment or other period and that it continued to be so resident at all times thereafter.

- (8) Where the functions of a body corporate consist wholly or mainly in the holding of investments or other property, the holding of the investments or property shall be deemed for the purposes of this section to be a business carried on by the body corporate.
- (9) Notwithstanding anything in the preceding provisions of this section, in no event shall a mere transfer of assets by a body corporate not resulting in a substantial change in the character or extent of the trade or business of that body corporate be treated for the purpose of this section as a transfer of part of the trade or business thereof.

- (10) In this section—

" share ", " debenture " and " director " have, in relation to any body corporate, the meanings respectively assigned to them by section 455 of the Companies Act 1948 in relation to a company ;

" control " (except in the expression " central management and control") has, in relation to a body corporate, the meaning given by section 534 of this Act;

" transfer ", in relation to shares or debentures, includes a transfer of any beneficial interest therein;

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" insurance company " means a body corporate lawfully carrying on business as an insurer, whether in the United Kingdom or elsewhere, and " funds " in relation to an insurance company means the funds held by it in connection with that business,

and a body corporate shall not be deemed for the purposes of this section to cease to be resident in the United Kingdom by reason only that it ceases to exist.

- (11) No proceedings for an offence under this section shall be instituted, in England or Wales, except by or with the consent of the Attorney General or, in Northern Ireland, except by or with the consent of the Attorney General for Northern Ireland:

Provided that this subsection shall not prevent the issue or execution of a warrant for the arrest of any person in respect of such an offence, or the remanding in custody or on bail of any person charged with such an offence.

- (12) This section shall come into force for all purposes on 6th April 1970 to the exclusion of the provisions thereby-re-enacted :

Provided that any offence committed before 6th April 1970 shall not be punishable under this section, and neither this subsection nor any other provision of this Act shall prevent any such offence from being punishable as if this Act had not been passed.

483 Change in ownership of company: disallowance of trading losses

- (1) If—

- (a) within any period of three years there is both a change in the ownership of a company and (either earlier or later in that period, or at the same time) a major change in the nature or conduct of a trade carried on by the company, or
- (b) at any time after the scale of the activities in a trade carried on by a company has become small or negligible, and before any considerable revival of the trade, there is a change in the ownership of the company,

no relief shall be given under section 177 of this Act (relief for trading losses against future trading profits or total profits) by setting a loss incurred by the company in an accounting period beginning before the change of ownership against any income or other profits of an accounting period ending after the change of ownership.

- (2) In applying this section to the accounting period in which the change of ownership occurs, the part ending with the change of ownership, and the part after, shall be treated as two separate accounting periods, and the profits or losses of the accounting period shall be apportioned to the two parts.

The apportionment shall be on a time basis according to the respective lengths of those parts except that if it appears that that method would work unreasonably or unjustly such other method shall be used as appears just and reasonable.

- (3) In subsection (1) above " major change in the nature or conduct of a trade " includes—

- (a) a major change in the type of property dealt in, or services or facilities provided, in the trade, or
- (b) a major change in customers, outlets or markets of the trade,

and this section applies even if the change is the result of a gradual process which began outside the period of three years mentioned in subsection (1)(a) above.

- (4) In relation to any relief available under section 252 of this Act (company reconstructions) to a successor company, subsection (1) above shall apply as if any

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loss sustained by a predecessor company had been sustained by a successor company and as if the references to a trade included references to the trade as carried on by a predecessor company.

- (5) Where relief in respect of a company's losses has been restricted under this section then, notwithstanding section 87(3) of the Capital Allowances Act 1968, in applying the provisions of that Act about balancing charges to the company by reference to any event after the change of ownership of the company, any allowance or deduction falling to be made in taxing the company's trade for any chargeable period before the change of ownership shall be disregarded unless the profits or gains of that chargeable period or of any subsequent chargeable period before the change of ownership were sufficient to give effect to the allowance or deduction.

In applying this subsection it shall be assumed that any profits or gains are applied in giving effect to any such allowance or deduction in preference to being set off against any loss which is not attributable to such an allowance or deduction.

- (6) Where the operation of this section depends on circumstances or events at a time after the change of ownership (but not more than three years after), an assessment to give effect to the provisions of this section shall not be out of time if made within six years from that time, or the latest of those times.
- (7) Any person in whose name any shares, stock or securities of a company are registered shall, if required by notice in writing by an inspector given for the purposes of this section, state whether or not he is the beneficial owner of those shares or securities and, if not the beneficial owner of those shares or securities or any of them, shall furnish the name and address of the person or persons on whose behalf those shares, stock or securities are registered in his name.
- (8) This section shall not apply if the change of ownership took place before 15th April 1969, and subsection (1)(a) above shall not apply if the major change in the nature or conduct of the trade was completed before that date.

In other respects this section has effect by reference to circumstances and events before that date, as well as by reference to later circumstances and events.

484 Rules for ascertaining change in ownership of company

- (1) For the purposes of section 483 above (in this section called " the principal section ") there is a change in the ownership of a company—
- (a) if a single person acquires more than half the ordinary share capital of the company, or
 - (b) if two or more persons each acquire a holding of 5 per cent, or more of the ordinary share capital of the company, and those holdings together amount to more than half the ordinary share capital of the company, or
 - (c) if two or more persons each acquire a holding of the ordinary share capital of the company, and the holdings together amount to more than half the ordinary share capital of the company, but disregarding a holding of less than 5 per cent. unless it is an addition to an existing holding and the two holdings together amount to 5 per cent. or more of the ordinary share capital of the company.
- (2) In applying subsection (1) above—
- (a) the circumstances at any two points of time with not more than three years between may be compared, and a holder at the later time may be regarded as

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- having acquired whatever he did not hold at the earlier time, irrespective of what he has acquired or disposed of in between,
- (b) to allow for any issue of shares or other reorganisation of capital, the comparison may be made in terms of percentage holdings of the total ordinary share capital at the respective times, so that a person whose percentage holding is greater at the later time may be regarded as having acquired a percentage holding equal to the increase,
 - (c) to decide for the purposes of subsection (1)(b) or (c) above if any person has acquired a holding of at least 5 per cent., or a holding which makes at least 5 per cent. when added to an existing holding, acquisitions by, and holdings of, two or more persons who are connected persons within the meaning of section 533 of this Act shall be aggregated as if they were acquisitions by, and holdings of, one and the same person,
 - (d) any acquisition of shares under the will or on the intestacy of a deceased person and, if it is shown that the gift is unsolicited and made without regard to the provisions of the principal section, any gift of shares, shall be left out of account.
- (3) Where, because persons, whether company members or not, possess extraordinary rights or powers under the articles of association or under any other document regulating the company, ownership of ordinary share capital may not be an appropriate test of whether there has been a major change in the persons for whose benefit the losses may ultimately enure, then in considering whether there has been a change of ownership of the company for the purposes of the principal section, holdings of all kinds of share capital, including preference shares, or of any particular category of share capital, or voting power or any other special kind of power, may be taken into account instead of ordinary share capital.
- (4) Where the principal section has operated to restrict relief by reference to a change of ownership taking place at any time, no transaction or circumstances before that time shall be taken into account in determining whether there is any subsequent change of ownership.
- (5) A change in the ownership of a company shall be disregarded for the purposes of the principal section if—
- (a) immediately before the change the company is the 75 per cent. subsidiary of another company, and
 - (b) (although there is a change in the direct ownership of the company) that other company continues after the change to own the first-mentioned company as a 75 per cent. subsidiary.
- (6) If there is a change in the ownership of a company which has a 75 per cent. subsidiary (whether owned directly or indirectly) then, unless under subsection (5) above that change in ownership is to be disregarded, the principal section shall apply as if there had also been a change in the ownership of that 75 per cent. subsidiary.
- (7) For the purposes of this section—
- (a) references to ownership shall be construed as references to beneficial ownership, and references to acquisition shall be construed accordingly,
 - (b) a company shall be deemed to be a 75 per cent. subsidiary of another company if and so long as not less than three quarters of its ordinary share capital is owned by that other company, whether directly or through another company

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- or other companies, or partly directly and partly through another company or other companies,
- (c) the amount of ordinary share capital of one company owned by a second company through another company or other companies, or partly directly and partly through another company or other companies, shall be determined in accordance with subsections (5) to (10) of section 532 of this Act,
- (d) " share " includes stock.
- (8) If any acquisition of ordinary share capital or other property or rights taken into account in determining that there has been a change of ownership of a company was made in pursuance of a contract of sale or option or other contract, or the acquisition was made by a person holding such a contract, and the contract was made on or after 15th April 1969, the time when the change in the ownership of the company took place shall be determined as if the acquisition had been made when the contract was made with the holder or when the benefit of it was assigned to him so that, in the case of a person exercising an option to purchase shares, he shall be regarded as having purchased the shares when he acquired the option.

Transactions between associated persons

485 Sales, etc., at undervalue or overvalue

- (1) Subject to the provisions of this section, where any property is sold and—
- (a) the buyer is a body of persons over whom the seller has control or the seller is a body of persons over whom the buyer has control or both the seller and the buyer are bodies of persons and some other person has control over both of them ; and
- (b) the property is sold at a price less than the price which it might have been expected to fetch if the parties to the transaction had been independent persons dealing at arm's length,

then, in computing the income, profits or losses of the seller for tax purposes, the like consequences shall ensue as would have ensued if the property had been sold for the price which it would have fetched if the transaction had been a transaction between independent persons dealing as aforesaid:

Provided that this subsection shall not apply where the buyer is resident in the United Kingdom and is carrying on a trade therein, and the price of the property falls to be taken into account as a deduction in computing the profits or gains or losses of that trade for tax purposes.

- (2) Subject to the provisions of this section, where any property is sold and—
- (a) the buyer is a body of persons over whom the seller has control or the seller is a body of persons over whom the buyer has control or both the seller and the buyer are bodies of persons and some other person has control over both of them ; and
- (b) the property is sold at a price greater than the price which it might have been expected to fetch if the parties to the transaction had been independent persons dealing at arm's length,

then, in computing the income, profits or losses of the buyer for tax purposes, the like consequences shall ensue as would have ensued if the property had been sold for the price which it would have fetched if the transaction had been a transaction between independent persons dealing as aforesaid:

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Provided that this subsection shall not apply where the seller is resident in the United Kingdom and is carrying on a trade therein, and the price of the property falls to be taken into account as a trading receipt in computing the profits or gains or losses of that trade for tax purposes.

- (3) The preceding provisions of this section shall not apply in relation to any sale unless the Board so direct, and where such a direction is given all such adjustments shall be made, whether by assessment, repayment of tax or otherwise, as are necessary to give effect to the direction.
- (4) Nothing in this section shall be construed as affecting the operation of any of the provisions of the Capital Allowances Act 1968.
- (5) In this section, "body of persons" includes a partnership and "control" has the meaning ascribed to it by section 534 of this Act, and, for the purposes of this section, a sale shall be deemed to take place at the time of completion or at the time when possession is given, whichever is the earlier.
- (6) The preceding provisions of this section shall, with the necessary adaptations, have effect in relation to lettings and hirings of property, grants and transfers of rights, interests or licences and the giving of business facilities of whatever kind as they have effect in relation to sales, and the references in the said preceding provisions to sales, sellers, buyers and prices shall be deemed to be extended accordingly.

486 Transactions between dealing company and associated company

- (1) Subject to the provisions of this section, where—
 - (a) a dealing company becomes entitled to a deduction, in computing the profits or gains of the company for tax purposes for any period, in respect of the depreciation in the value of any right subsisting against an associated company, not being a dealing company, or
 - (b) a dealing company makes any payment to such an associated company, being a payment in respect of which the dealing company is entitled to a deduction in computing its profits or gains for tax purposes for any period,
 and the depreciation or payment is not brought into account in computing the profits or gains of the company not being a dealing company, that company shall be deemed to have received on the last day of the period income of an amount equal to the amount of the deduction and shall be chargeable in respect thereof under Case VI of Schedule D.
- (2) Where the company not being a dealing company is carrying on a trade, the said income shall, if the company so elects, not be so chargeable but shall be deemed to have been a receipt of the trade, or, if the company is carrying on more than one trade, to have been a receipt of such one of the trades as the company may choose.
- (3) Where the said company is carrying on, or was formed to carry on, a trade, then if the said right subsisting against the company was a right to the repayment of moneys lent for meeting expenditure which has proved (in whole or in part) abortive, or the payment to the company was made for meeting such expenditure, and the expenditure is such that the company is not entitled in respect thereof to any allowance or deduction in computing losses or gains, subsection (1) above shall not apply in so far as the expenditure proved abortive.
- (4) For the purposes of this section—
 - (a) "company" includes any body corporate,

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- (b) "dealing company" means a company dealing in securities, land or buildings and includes any company whose profits on the sale of securities, land or buildings are part of its trading profits,
 - (c) two or more companies shall be treated as associated companies if one has control of the other or others, or any person has control of both or all of them,
 - (d) references to a company having control of another company shall be construed as references to its having control thereof either by itself or in conjunction with any person having control over the first-mentioned company, and "control" has the meaning given by section 534 of this Act,
 - (e) "securities" includes shares and stock.
- (5) Where it appears to the Board that by reason of any transaction or transactions a person may by virtue of this section have incurred any liability to tax, the Board may by notice in writing served on him require him, within such time not less than twenty-eight days as may be specified in the notice, to furnish information in his possession with respect to the transaction or any of the transactions, being information as to matters, specified in the notice, which are relevant to the question whether he has incurred such a liability as aforesaid.

Other provisions

487 Sale by individual of income derived from his personal activities

- (1) Subject to subsection (5) below, this section has effect where—
- (a) transactions or arrangements are effected or made to exploit the earning capacity of an individual in any occupation by putting some other person in a position to enjoy all or any part of the profits or gains or other income, or of the receipts, derived from the individual's activities in that occupation, or anything derived directly or indirectly from any such income or receipts, and
 - (b) as part of, or in connection with, or in consequence of, the transactions or arrangements any capital amount is obtained by the individual for himself or for any other person, and
 - (c) the main object, or one of the main objects, of the transactions or arrangements was the avoidance or reduction of liability to income tax.
- (2) Any such capital amount shall for all the purposes of the Income Tax Acts be treated as being earned income of the individual which arises when the capital amount is receivable, and which is chargeable to tax under Case VI of Schedule D.
- (3) In this section—
- (a) references to any occupation are references to any activities of any of the kinds pursued in any profession or vocation, irrespective of whether the individual is engaged in a profession or vocation, or is employed by or holds office under some other person, and
 - (b) references in subsection (1) above to income or receipts include references to payments for any description of copyright or licence or franchise or other right deriving its value from the activities, including past activities, of the individual.
- (4) This section shall not apply to a capital amount obtained from the disposal—
- (a) of assets (including any goodwill) of a profession or vocation, or of a share in a partnership which is carrying on a profession or vocation, or

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(b) of shares in a company,

so far as the value of what is disposed of, at the time of disposal, is attributable to the value of the profession or vocation as a going concern, or as the case may be to the value of the company's business, as a going concern:

Provided that if the value of the profession, vocation or business as a going concern is derived to a material extent from prospective income or receipts derived directly or indirectly from the individual's activities in the occupation, and for which, when all capital amounts are disregarded, the individual will not have received full consideration, whether as a partner in a partnership or as an employee or otherwise, this subsection shall not exempt the part of the capital amount so derived.

In this subsection references to the company's business include references to the business of any other company in which it holds shares directly or indirectly.

- (5) This subsection has effect where on any occasion an individual obtains a capital amount consisting of any property or right which derives substantially the whole of its value from the activities of the individual, or (as in the case where the individual acquires a stock option and subsequently exercises the stock option) there are two or more occasions on which an individual obtains a capital amount consisting of any such property or right.

Tax under this section shall not be charged on any such occasion, but, without prejudice to the generality of the provisions of this section or section 489 below, tax under this section shall be charged on the occasion when the capital amount, or any such capital amount, is sold or otherwise realised, and shall be so charged by reference to the proceeds of sale or the realised value.

- (6) For the purposes of subsection (1)(b) above the cases where an individual obtains any capital amount for some other person include cases where the individual has put some other person in a position to receive the capital amount by providing that other person with something of value derived, directly or indirectly, from the individual's activities in the occupation.
- (7) This section shall apply to all persons, whether resident in the United Kingdom or not, if the occupation of the individual is carried on wholly or partly in the United Kingdom.
- (8) This section shall not apply as respects a capital amount receivable before 15th April 1969.

488 Artificial transactions in land

- (1) This section is enacted to prevent the avoidance of tax by persons concerned with land or the development of land.
- (2) This section applies wherever—
- (a) land, or any property deriving its value from land, is acquired with the sole or main object of realising a gain from disposing of the land, or
 - (b) land is held as trading stock, or
 - (c) land is developed with the sole or main object of realising a gain from disposing of the land when developed,
- and any gain of a capital nature is obtained from the disposal of the land—

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- (i) by the person acquiring, holding or developing the land, or by any connected person, or
 - (ii) where any arrangement or scheme is effected as respects the land which enables a gain to be realised by any indirect method, or by any series of transactions, by any person who is a party to, or concerned in, the arrangement or scheme;
- and this subsection applies whether any such person obtains the gain for himself or for any other person.
- (3) Where this section applies, the whole of any such gain shall for all the purposes of the Tax Acts be treated—
 - (a) as being income which arises when the gain is realised, and which constitutes profits or gains chargeable to tax under Case VI of Schedule D for the chargeable period in which the gain is realised, and
 - (b) subject to the following provisions of this section, as being income of the person by whom the gain is realised.
 - (4) For the purposes of this section land is disposed of if, by any one or more transactions, or by any arrangement or scheme, whether concerning the land or property deriving its value from the land, the property in the land, or control over the land, is effectually disposed of, and references in subsection (2) above to the acquisition or development of property with the sole or main object of realising the gain from disposing of the land shall be construed accordingly.
 - (5) For the said purposes—
 - (a) where, whether by a premature sale or otherwise, a person directly or indirectly transmits the opportunity of making a gain to another person, that other person's gain is obtained for him by the first-mentioned person, and
 - (b) any number of transactions may be regarded as constituting a single arrangement or scheme if a common purpose can be discerned in them, or if there is other sufficient evidence of a common purpose.
 - (6) For the purposes of this section such method of computing a gain shall be adopted as is just and reasonable in the circumstances, taking into account the value of what is obtained for disposing of the land, and allowing only such expenses as are attributable to the land disposed of, and in applying this subsection—
 - (a) where a freehold is acquired and the reversion is retained on disposal, account may be taken of the way in which the profits or gains under Case I of Schedule D of a person dealing in land are computed in such a case, and
 - (b) account may be taken of the adjustments to be made in computing such profits or gains under subsections (2), (3) and (4) of section 142 of this Act (allowance for tax on premiums on leases).

In the application of this subsection to Scotland, " freehold " means the estate or interest of the proprietor of the *dominium utile* or, in the case of property other than feudal property, of the owner, and " reversion " means the interest of the landlord in property subject to a lease.

- (7) Subsection (2)(c) of this section shall not apply to so much of any gain as is fairly attributable to the period, if any, before the intention to develop the land was formed, and which would not fall under paragraph (a) or paragraph (b) of that subsection; and in applying this subsection account shall be taken of the treatment under Case I of Schedule D of a person who appropriates land as trading stock.

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- (8) If all or any part of the gain accruing to any person is derived from value, or an opportunity of realising a gain, provided directly or indirectly by some other person, whether or not put at the disposal of the first-mentioned person, subsection (3)(b) of this section shall apply to the gain, or that part of it, with the substitution of that other person for the person by whom the gain was realised.
- (9) This section shall not apply to a gain accruing to an individual which by virtue of section 29 of the Finance Act 1965 (private residences) is exempt from capital gains tax, or which would be so exempt but for the provisions of paragraph 2 of Schedule 12 to the Finance Act 1968 (residence acquired partly with a view to making a gain).
- (10) Where there is a disposal of shares in—
- (a) a company which holds land as trading stock, or
 - (b) a company which owns directly or indirectly 90 per cent. or more of the ordinary share capital of another company which holds land as trading stock,
- and all the land so held is disposed of in the normal course of its trade by the company which held it, and so as to procure that all opportunity of profit in respect of the land arises to that company, then this section shall not by virtue of subsection (2)(i) apply to any gain to the holder of shares as being a gain on property deriving value from that land (but without prejudice to any liability under paragraph (ii) of the said subsection (2)).
- (11) Where a person who considers that paragraph (a) or paragraph (c) of subsection (2) of this section may apply as respects a gain of a capital nature which that person has obtained from the disposal of land, or which he would obtain from a proposed disposal of land, supplies to the inspector to whom he makes his return of income written particulars showing how the gain has arisen or would arise—
- (a) the inspector shall, within thirty days from his receipt of the particulars, notify that person whether or not he is satisfied that, in the circumstances as described in the particulars, the gain will not, or would not, be chargeable to tax on that person under this section, and
 - (b) if the inspector notifies that person that he is so satisfied the gain shall not be chargeable on that person under this section:

Provided that if the particulars given under this section with respect to the gain are not such as to make full and accurate disclosure of all facts and considerations relating thereto which are material to be known to the inspector, any notification given by the inspector under this subsection shall be void.

- (12) In this section—
- (a) references to the land include references to all or any part of the land, and "land" includes buildings, and any estate or interest in land or buildings;
 - (b) references to property deriving its value from land include—
 - (i) any shareholding in a company, or any partnership interest, or any interest in settled property, deriving its value directly or indirectly from land, and
 - (ii) any option, consent or embargo affecting the disposition of land,
 and for the purposes of this section any question whether a person is connected with another shall be determined in accordance with section 533 of this Act.
- (13) This section shall apply to all persons, whether resident in the United Kingdom or not, if all or any part of the land in question is situated in the United Kingdom.

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(14) This section shall not apply to any gain realised before 15th April 1969.

489 Sale of income and land transactions (sections 487 and 488): supplemental

- (1) This section has effect to supplement sections 487 and 488 above (in this section called " the principal sections ").
- (2) In applying the principal sections and this section account shall be taken of any method, however indirect, by which—
 - (a) any property or right is transferred or transmitted, or
 - (b) the value of any property or right is enhanced or diminished,and accordingly the occasion of the transfer or transmission of any property or right, however indirect, and the occasion when the value of any property or right is enhanced, may be an occasion when, under the principal sections, tax becomes chargeable.
- (3) Subsection (2) above applies in particular—
 - (a) to sales, contracts and other transactions made otherwise than for full consideration or for more than full consideration, and
 - (b) to any method by which any property or right, or the control of any property or right, is transferred or transmitted by assigning share capital or other rights in a company or any partnership or interest in settled property, and
 - (c) to the creation of any option or consent or embargo affecting the disposition of any property or right, and to the consideration given for the option, or for the giving of the consent or the release of the embargo, and
 - (d) to the disposal of any property or right on the winding up, dissolution or termination of any company, partnership or trust.
- (4) In ascertaining for the said purposes the intentions of any person, the objects and powers of any company, partners or trustees, as set out in any memorandum, articles of association or other document, shall not be conclusive.
- (5) In order to ascertain whether and to what extent the value of any property or right is derived from any other property or right, value may be traced through any number of companies, partnerships and trusts, and the property held by any company, partnership or trust shall be attributed to the shareholders, partners or beneficiaries at each stage in such manner as is appropriate in the circumstances.
- (6) In applying the principal sections and this section—
 - (a) any expenditure or receipt or consideration or other amount may be apportioned by such method as is just and reasonable in the circumstances,
 - (b) all such valuations shall be made as are appropriate to give effect to the principal sections.
- (7) For the purposes of the principal sections and this section (and in particular for the purpose of the reference in section 487 above to an individual putting some other person in a position to enjoy income or receipts) partners, or the trustees of settled property, or personal representatives, may be regarded as persons distinct from the individuals or other persons who are for the time being partners or trustees or personal representatives
- (8) Where a person is assessed to tax under either of the principal sections, with this section, in respect of consideration receivable by another person—

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- (a) he shall be entitled to recover from that other person any part of that tax which he has paid, and
- (b) if any part of that tax remains unpaid at the expiration of six months from the date when it became due and payable, it shall be recoverable from that other person as though he were the person assessed, but without prejudice to the right to recover it from the person actually assessed,

and for the purposes of paragraph (a) above the Board or an inspector shall on request furnish a certificate specifying the amount of income in respect of which tax has been paid, and the amount of tax so paid; and the certificate shall be conclusive evidence of any facts stated therein.

For the purposes of this subsection any income which a person is treated as having by virtue of the principal sections shall, subject to section 529 of this Act, be treated as the highest part of his income.

- (9) If it appears to the Board that any person entitled to any consideration or other amount taxable under the principal sections is not resident in the United Kingdom, the Board may direct that section 53 of this Act (payments not out of profits or gains brought into charge to income tax) shall apply to any payment forming part of that amount as if it were an annual payment charged with tax under Case III of Schedule D, but without prejudice to the final determination of the liability of that person, including any liability under subsection (8)(b) above.
- (10) The principal sections have effect subject to Part XVI of this Act and to any other provision of the Tax Acts deeming income to belong to a particular person.
- (11) Where under section 488(2)(c) above any person is charged to tax on the realisation of a gain, and the computation of the gain proceeded on the footing that the land or some other property was appropriated at any time as trading stock, that land or other property shall be treated on that footing also for the purposes of paragraph 1 of Schedule 7 to the Finance Act 1965 and paragraph 12 of Schedule 14 to the Finance Act 1967 (capital gains: property becoming or ceasing to be stock in trade.)
- (12) Where under section 487(1)(b) or 488(8) above the person charged to tax is a person other than the person for whom the capital amount was obtained or the person by whom the gain was realised, and the tax has been paid, then, for the purposes of paragraphs 2 and 5 of Schedule 6 to the Finance Act 1965 (profits taxable as income to be excluded from tax on capital gains), the person for whom the capital amount was obtained or the person by whom the gain was realised shall be regarded as having been charged to that tax.
- (13) For the purposes of the principal sections and this section—
 - " capital amount " means any amount, in money or money's worth, which, apart from the principal sections, does not fall to be included in any computation of income for purposes of the Tax Acts, and other expressions including the word " capital " shall be construed accordingly,
 - " company " includes any body corporate,
 - " share " includes stock,
 and for the said purposes any amount in money or money's worth shall not be regarded as having become receivable by some person until that person can effectively enjoy or dispose of it.

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490 Sale of income and land transactions (sections 487 and 488): power to obtain information

- (1) The Board or an inspector may by notice in writing require any person to furnish them within such time as the Board or the inspector may direct (not being less than thirty days) with such particulars as the Board or the inspector think necessary for the purposes of sections 487 and 488 above.
- (2) The particulars which a person must furnish under this section, if he is required by a notice from the Board or the inspector so to do, include particulars—
 - (a) as to transactions or arrangements with respect to which he is or was acting on behalf of others, and
 - (b) as to transactions or arrangements which in the opinion of the Board or the inspector should properly be investigated for the purposes of the said sections notwithstanding that, in the opinion of the person to whom the notice is given, no liability to tax arises under those sections, and
 - (c) as to whether the person to whom the notice is given has taken or is taking any, and if so what, part in any, and if so what, transactions or arrangements of a description specified in the notice.
- (3) Notwithstanding anything in subsection (2) above, a solicitor shall not be deemed for the purposes of subsection (2)(c) above to have taken part in any transaction or arrangements by reason only that he has given professional advice to a client in connection with the transaction or arrangements, and shall not, in relation to anything done by him on behalf of a client, be compellable under this section, except with the consent of his client, to do more than state that he is or was acting on behalf of a client, and give the name and address of his client.

491 Land sold and leased back: limitation on tax reliefs

- (1) If land or any estate or interest in land is transferred from one person to another and—
 - (a) as a result of a lease of the land or any part of the land granted at that time or subsequently by the transferee to the transferor, or
 - (b) as a result of any other transaction or series of transactions affecting the land or any estate or interest in the land,the transferor, or any person who is associated with the transferor, becomes liable at the time of the transfer or subsequently to pay any rent under a lease of the land or any part of the land, this section shall apply to all rent due under the lease from the transferor, or from any person who is associated with the transferor.
- (2) If land or any estate or interest in land is transferred from one person to another, and, as a result of any transaction or series of transactions affecting the land or any estate or interest in the land, the transferor, or any person who is associated with the transferor, becomes liable at the time of the transfer or subsequently to make any payment (other than rent under a lease) for which tax relief of any of the kinds listed in subsection (13) below is available, being a payment by way of rentcharge on the land or any part of the land or a payment in any other way connected with the land, this section shall apply to all such payments under the rentcharge or other transaction due from the transferor, or from any person who is associated with the transferor.
- (3) The references in subsections (1) and (2) of this section to the transfer of an estate or interest in land include references to—

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- (a) the granting of a lease or any other transaction involving the creation of a new estate or interest in the land,
 - (b) the transfer of the lessee's interest under a lease by surrender or forfeiture of the lease, and
 - (c) any transaction or series of transactions affecting land, or an estate or interest in land, such that some person is the owner, or one of the owners, before and after the carrying out of the transaction or transactions, but another person becomes or ceases to become one of the owners,
- and in relation to any such transaction or series of transactions any person who is an owner before the carrying out of the transaction or transactions, and is not the sole owner thereafter, shall be regarded for the purposes of this section as a transferor.
- (4) A deduction by way of tax relief which is one of the kinds to which this section applies, being a deduction in respect of rent or of any other payment to which this section applies, shall not exceed the commercial rent for the period for which the rent or other payment is made of the land in respect of which that payment is made.
- (5) If under subsection (4) of this section part of a payment which would otherwise be allowable as a deduction by way of tax relief of one of the kinds to which this section applies is not so allowable, and one or more subsequent payments are made by the transferor, or a person who is associated with the transferor, under the lease or other transaction, that part of the first-mentioned payment may be carried forward and treated for the purposes of any such deduction by way of tax relief as if it were made at the time when the next of those subsequent payments was made, and so made for the period for which that subsequent payment was made.
- (6) For the purposes of subsection (4) of this section—
- (a) if more than one payment is made for the same period the payments shall be taken together,
 - (b) if payments are made for periods which overlap, the payments shall be apportioned, and the apportioned payments which belong to the common part of the overlapping periods shall be taken together,
 - (c) the preceding references to payments include references to parts of payments which under subsection (5) of this section are treated as if made at a time subsequent to that at which they were made, and to the extent that a part of a payment so carried forward under subsection (5) of this section is not so allowable as a deduction by way of tax relief, it may again be carried forward under subsection (5) of this section,
 - (d) so much of any payment as is in respect of services or the use of assets or rates usually borne by the tenant shall be excluded, and in determining the amount to be so excluded provisions in any lease or agreement fixing the payments or parts of payments which are in respect of services or the use of assets may be overridden.
- (7) A payment made for a period all of which falls more than one year after the payment is made shall be treated for the purposes of this section as made for that period of one year beginning with the date on which the payment was made, and a payment for a period part of which falls after the end of that year shall be treated for those purposes as if a corresponding part of the payment was made for that year (and no part for any later period).
- (8) For the purpose of making a comparison under subsection (4) of this section between a payment consisting of rent under a lease (in this subsection referred to as " the

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- actual lease"), or such payments taken together, and the commercial rent of the land, "commercial rent" shall mean the rent which might be expected to be paid under a lease of the land negotiated in the open market at the time when the actual lease was created, being a lease which is of the same duration as the actual lease, which is, as respects liability for maintenance and repairs, subject to the terms and conditions of the actual lease and which provides for rent payable at uniform intervals and—
- (a) at a uniform rate, or
 - (b) if the rent payable under the actual lease is rent at a progressive rate (and such that the amount of rent payable for any year is never less than the amount payable for any previous year), a rent which progresses by gradations proportionate to those provided by the actual lease. ,
- (9) For the purpose of making a comparison under subsection (4) of this section between a payment which does not consist of rent under a lease (or such a payment taken together with other payments) and the commercial rent of the land, "commercial rent" shall mean the rent which might be expected to be paid under a tenant's repairing lease negotiated in the open market at the time when the transaction was effected under which the payment or payments became due, being—
- (a) where the period over which payments are to be made under that transaction is not less than 200 years, or the obligation to make such payments is perpetual, a lease for 200 years, and
 - (b) where that period is less than 200 years, a lease which is of the same duration as that period.
- (10) In this section references to rent under a lease include references to rent which the person entitled to the lease is under subsection (2) or (3) of section 83, or under section 134, of this Act (allowance to person paying a premium taxed as income) treated, for any purpose, as paying in respect of land comprised in the lease, and such rent shall be (treated for the purposes of this section as having been paid from day to day as it has become due.
- (11) For the purposes of this section the following persons shall be deemed to be associated with one another, that is—
- (a) the transferor in any such transaction as is described in subsection (1) or subsection (2) of this section, and the transferor in another such transaction, if those two persons are acting in concert, or if the two transactions are in any way reciprocal, and any person who is an associate of either of those associated transferors ;
 - (b) any two or more bodies corporate participating in, or incorporated for the purposes of, a scheme for the reconstruction of any body or bodies corporate or for the amalgamation of any two or more bodies corporate;
 - (c) any persons who are associates as defined in section 494(10) below.
- (12) In this section—
- (a) "asset" means any description of property or rights other than land or an interest in land,
 - (b) "lease" includes an underlease, sublease or any tenancy or licence, and any agreement for a lease, underlease, sublease or tenancy or licence and, in the case of land outside the United Kingdom, any interest corresponding to a lease as so defined ; and, in relation to such land, expressions in this section relating to interests in land and their disposition shall be construed accordingly,
 - (c) "rent" includes any payment made under a lease as so defined,

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- (d) " tenant's repairing lease " means a lease where the lessee is under an obligation to maintain and repair the whole, or substantially the whole, of the premises comprised in the lease.
- (13) The kinds of deductions by way of tax relief to which this section applies are as follows—
- (a) a deduction in computing profits or gains chargeable under Schedule A allowable by virtue of sections 71 to 77 of, and Schedule 2 to, this Act,
 - (b) a deduction in computing profits or gains or losses of a trade, profession or vocation for the purposes of tax,
 - (c) a deduction in computing profits or gains chargeable under Case VI of Schedule D, or in computing any loss for which relief is allowable under section 176 or section 179 of this Act (Case VI losses),
 - (d) allowance of a payment under section 304 or 305 of this Act (management expenses),
 - (e) a deduction from emoluments to be assessed under Schedule E made in pursuance of section 189(1) of this Act (necessary expenses), or allowable in computing losses in an employment for tax purposes,
 - (f) a deduction allowable for tax purposes in computing profits or gains or losses arising from woodlands.
- (14) This section shall not apply if the transfer described in subsection (1) or subsection (2) above was on or before 14th April 1964.

492 Assets leased to traders and others

- (1) Subject to section 493 below, where—
- (a) a deduction by way of tax relief which is of one of the kinds listed in subsection (3) below is allowable in respect of a payment made under a lease of an asset of any description, and
 - (b) before, at or after the time when the payment is made, either—
 - (i) the person who made the payment has obtained or obtains a capital sum in respect of the lessee's interest in the lease, or
 - (ii) the lessor's interest in the lease, or any other interest in the asset, has belonged to an associate of the person who made the payment, and that associate has obtained a capital sum in respect of that interest,

the person obtaining that sum shall be charged under Case VI of Schedule D for the chargeable period in which the sum is obtained with tax on an amount equal to the amount of the payment in respect of which tax relief is so allowed:

Provided that the total amount on which he is assessed by reference to the capital sum shall not exceed the amount of the capital sum.
- (2) Subsection (1) above shall not apply to payments under a lease created on or before 14th April 1964.
- (3) The kinds of deductions by way of tax relief to which subsection (1) above applies are as follows—
- (a) a deduction in computing profits or gains or losses of a trade, profession or vocation for the purposes of tax,

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- (b) a deduction in computing profits of gains chargeable under Case VI of Schedule D, or in computing any loss for which relief is allowable under section 176 or section 179 of this Act (Case VI losses),
 - (c) allowance of a payment under section 304 or 305 of this Act (management expenses),
 - (d) a deduction from emoluments to be assessed under Schedule E made in pursuance of section 189(1) of this Act (necessary expenses), or allowable in computing losses in an employment for tax purposes,
 - (e) a deduction allowable for tax purposes in computing profits or gains or losses arising from woodlands.
- (4) Where the deduction by way of tax relief mentioned in subsection (1)(a) of this section is a deduction in computing, for income tax purposes, profits or gains or losses of a trade, profession or vocation, or arising from woodlands, and any part of the payments made under the lease by the person obtaining the capital sum is a payment in respect of which a deduction is not allowed for the reason that the whole or any part of the period in which the payment would fall to be allowed is not a period on the profits or gains of which income tax falls to be computed in respect of the trade, profession or vocation, for the reference in the proviso to the said subsection (1) to the amount of the capital sum there shall be substituted a reference to that amount after deducting the amount of the payment in respect of which a deduction is not allowed for that reason.
- (5) So far as in respect of a capital sum any part of a payment allowed as a deduction by way of tax relief of a kind to which this section applies is taken into account in making an assessment under subsection (1) of this section, that part of the payment shall be left out of account in determining whether any and if so what amount should be assessed by reference to any other capital sum ; and the order in which this subsection is applied shall be the order in which the capital sums are obtained.
- (6) In this section and sections 493, 494 and 495 below—
- " asset " means any description of property or rights other than land or an interest in land,
 - " capital sum " means any sum of money, or any money's worth, except so far as it or any part of it is to be treated for the purposes of tax as a receipt to be taken into account in computing the profits or gains or losses of a trade, profession or vocation, or profits or gains or losses arising from woodlands, or is, apart from this section, chargeable under Case VI of Schedule D, and
 - " lease ", in relation to an asset, means any kind of agreement or arrangement under which payments are made for the use of, or otherwise in respect of, an asset, and includes, in particular, any agreement or arrangement all or any of the payments under which represent instalments of, or payments towards, a purchase price.
- (7) There shall be made all such adjustments of tax, whether by way of making assessments or by repayment of tax, as are required after the making of any such payment as is described in subsection (1) of this section to give effect to the charge under that subsection in respect of a sum obtained before the making of the payment.
- (8) Notwithstanding anything in the Tax Acts limiting the time within which an assessment may be made or a claim for relief may be admitted any such adjustment may be made, by making an assessment or otherwise, at any time not more than six years from the end of the chargeable period in which the payment was made.

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493 Leased assets: special cases

- (1) This section shall apply, and section 492 above shall not apply, to payments—
 - (a) which are allowable by way of deductions in computing the profits or gains or losses of a trade, and
 - (b) which are made under a lease of an asset which at any time before the creation of the lease was used for the purposes—
 - (i) of that trade, or
 - (ii) of another trade carried on by the person who at that time or later was carrying on the first mentioned trade,and when so used, was owned by the person carrying on the trade in which it was being used.
- (2) Subject to this section, the deduction allowable in computing the profits or gains or losses of the trade for the purposes of tax as respects any such payment shall not exceed the commercial rent of the asset for the period for which the payment was made.
- (3) If under subsection (2) of this section part of a payment which would otherwise be allowable as a deduction is not so allowable, and one or more subsequent payments are made by the same person under the same lease, that part of the first-mentioned payment may be carried forward and treated for the purposes of computing the profits or gains or losses of the trade for the purposes of tax as if it were made at the time when the next of those subsequent payments was made, and so made for the period for which that subsequent payment was made.
- (4) For the purposes of subsection (2) of this section—
 - (a) if more than one payment is made for the same period the payments shall be taken together,
 - (b) if payments are made for periods which overlap, the payments shall be apportioned, and the apportioned payments which belong to the common part of the overlapping periods shall be taken together,
 - (c) the preceding references to payments include references to parts of payments which under subsection (3) of this section are treated as if made at a time subsequent to that at which they were made,and to the extent that a part of a payment carried forward under subsection (3) of this section is not allowable as a deduction it may again be carried forward under the said subsection (3).
- (5) A payment made for a period all of which falls more than one year after the payment is made shall be treated for the purposes of this section as made for that period of one year beginning with the date on which the payment is made, and a payment for a period part of which falls after the end of that year shall be treated for those purposes as if a corresponding part of the payment was made for that year (and no part for any later period).
- (6) For the purpose of making a comparison under subsection (2) of this section between a payment, or payments taken together, and the commercial rent of the asset, "commercial rent" shall mean the rent which might at the relevant time be expected to be paid under a lease of the asset for the remainder of the anticipated normal working life of the asset, being a rent payable at uniform intervals and at a uniform rate which would afford a reasonable return for its market value at the relevant time, having regard to the terms and conditions of the lease, and in this subsection—

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" anticipated normal working life " has, for any asset, the meaning given, for machinery and plant, by section 20(7) of the Capital Allowances Act 1968, and

" the relevant time " means the time when the lease was created under which the payment was made with which the commercial rent is to be compared:

Provided that if the asset is used at the same time partly for the purposes of the trade and partly for other purposes the commercial rent as denned in this subsection shall be determined by reference to what would be paid for such a partial use of the asset.

- (7) This section shall not apply in relation to payments made under a lease created on or before 14th April 1964.
- (8) In this section references to the person carrying on a trade are references to the person carrying on the trade for the time being, and where at any time a person succeeds to a trade which until that time was carried on by another person, and by virtue of section 154 or section 251(1) of this Act the trade is to be treated as discontinued, the trade shall, nonetheless, be treated as the same trade for the purposes of this section.
- (9) In this section references to a trade include references, to a profession or vocation.

494 Leased assets: supplemental

- (1) References in section 492 above (in this section called " the principal section ") to a sum obtained in respect of the lessee's interest in a lease of an asset, or in respect of any other interest in an asset include—
 - (a) in the case of a lessee's interest, references to sums representing the consideration in money or money's worth obtained on a surrender of the rights to the lessor, or on an assignment of the lease, or on creating a sublease or any other interest out of the lease, and
 - (b) references to any insurance moneys payable in respect of the asset, so far as payable to the owner of the interest in the asset.
- (2) Such references also include references to sums representing money or money's worth obtained by the person entitled to the interest by a transaction or series of transactions disposing of the asset, or of an interest in the asset, and in particular transactions which comprise arrangements under which the rights of the lessee under a lease of the asset are merged in any way with the rights of the lessor, or with any other rights as respects the asset, so far as the money or money's worth so obtained is attributable to the rights of the lessee under the lease.
- (3) References in the principal section to sums obtained in respect of any interest in an asset include references to money or money's worth so obtained in any transaction (including a transaction of the kind described in the preceding provisions of this section) by way of consideration received by a person who is an associate of the person entitled to the interest in the asset.
- (4) If an interest in the asset is disposed of by any person to a person who is his associate, the person disposing of the interest shall (unless in fact he obtains a greater sum) be treated for the purposes of the principal section as having obtained in respect of the interest—
 - (a) the value of the interest in the open market, or
 - (b) the value of the interest to the person to whom it is, in effect, transferred, whichever is the greater.

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- (5) For the purposes of subsections (3) and (4) above a disposition may be direct or indirect and may be effected by any such transaction as is described in subsection (2) above.
- (6) For the purposes of the principal section, this section and section 495 below, any sum obtained by persons carrying on a trade, profession or vocation in partnership in respect of an interest in an asset which is and continues to be used for the purposes of the trade, profession or vocation shall be regarded as apportionable between them in the shares in which they are then entitled to the profits of the trade, profession or vocation.
- (7) Subject to subsection (6) above, for those purposes a sum obtained by persons jointly entitled to an interest in an asset shall be apportionable according to their respective interests in the rights.
- (8) For the said purposes, any payment in respect of which a deduction is allowable by way of tax relief which is made by persons carrying on a trade, profession or vocation in partnership shall be apportioned in such manner as may be just.
- (9) Where under this section any sum or payment falls to be apportioned and, at the time of the apportionment, it appears that it is material as respects the liability to tax (for whatever period) of two or more persons, any question which arises as to the manner in which the sum or payment is to be apportioned shall be determined, for the purposes of the tax of all those persons—
- (a) in a case where the same body of General Commissioners have jurisdiction with respect to all those persons, by those Commissioners, unless all those persons agree that it shall be determined by the Special Commissioners,
 - (b) in a case where different bodies of Commissioners have jurisdiction with respect to those persons, by such of those bodies as the Board may direct, unless all those persons agree that it shall be determined by the Special Commissioners, and
 - (c) in any other case, by the Special Commissioners,
- and any such Commissioners shall determine the question in like manner as if it were an appeal :
- Provided that all the said persons shall be entitled to appear and be heard by the Commissioners who are to make the determination or to make representations to them in writing.
- (10) For the purposes of this section and in construing the expressions " associate " and " associated " in the principal section and this section, the following persons shall be deemed to be associated with each other, that is to say.—
- (a) any individual and that individual's husband or wife, and any relative, or husband or wife of a relative, of that individual or of that individual's husband or wife ("relative" meaning for this purpose brother, sister, ancestor or lineal descendant);
 - (b) any person in his capacity of trustee of a settlement and any individual who in relation to the settlement is a settlor, and any person associated with that individual ("settlement" and "settlor" having for this purpose the meanings assigned to them by section 444(2) of this Act);
 - (c) any person and a body of persons of which that person, or persons associated with him, or that person and persons associated with him, has or have control;
 - (d) any two or more bodies of persons associated with the same person by virtue of paragraph (c) above;

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- (e) in relation to a disposal by joint owners, the joint owners and any person associated with any of them.

In this subsection " body of persons " includes a partnership and "control" has the meaning assigned to it by section 534 of this Act.

495 Leased assets subject to hire-purchase agreements

- (1) In the application of section 492 above (in this section called "the principal section") to a lease which constitutes a hire purchase agreement, for the reference in the proviso to subsection (1) of that section to the amount of the capital sum there shall, where that capital sum was obtained in respect of the lessee's interest in the lease constituting the hire-purchase agreement, be substituted references to the amount of the capital sum (adjusted, if necessary, under subsection (4) of the principal section) after deducting any capital expenditure which was incurred by the person obtaining the capital sum in providing the lessee's interest and which is, for capital allowance purposes, still unallowed at the time when the assignment or other transaction takes place in respect of which the capital sum is obtained.
- (2) In subsection (1) above " capital expenditure incurred by the person obtaining the capital sum in providing the lessee's interest" means—
 - (a) so much of any payment made under the lease by the person obtaining the capital sum (or, where the capital sum was obtained by the personal representatives of a deceased person, so made by that deceased person) as is not a payment in respect of which a deduction is allowable by way of tax relief which is one of the kinds listed in subsection (3) of the principal section, plus
 - (b) where the lessee's interest was assigned to the person obtaining the capital sum, any capital payment made by that person as consideration for the assignment.
- (3) In subsection (1) above the reference to the amount of capital expenditure which is, for capital allowance purposes, still unallowed at the said time shall be construed as a reference to the amount of the capital expenditure after deducting any amount which, under section 41 of the Capital Allowances Act 1968 (definition of "expenditure unallowed " for purposes of capital allowances for machinery and plant), would be deductible in ascertaining as at that time the amount still unallowed of expenditure incurred by the said person in providing the leased asset.
- (4) If the amount to be deducted in pursuance of subsection (1) above exceeds the amount of the capital sum from which it is to be deducted, no charge shall arise under subsection (1) of the principal section in respect of the capital sum.
- (5) If the capital sum represents the consideration for part only of the lessee's interest in the lease which constitutes a hire-purchase agreement, the amount to be deducted under subsection (1) above shall be such proportion of the capital expenditure which is still unallowed as is reasonable having regard to the degree to which the capital expenditure has contributed to the value of what is disposed of in return for the capital sum.
- (6) If more than one capital sum is, or is to be regarded as, obtained by the same person in respect of the lessee's interest in the lease which constitutes a hire-purchase agreement, then, so far as in respect of one of those capital sums any deduction is made in respect of capital expenditure in pursuance of subsection (1) above that capital expenditure shall be left out of account in applying subsections (1) and (4) above to any other such

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capital sum; and the order in which this subsection is applied shall be the order in which the capital sums are obtained.

- (7) In this section "hire-purchase agreement" has the meaning given by section 1 of the Hire-Purchase Act 1965.

In Scotland for the preceding definition there shall be substituted the following definition—

“"hire-purchase agreement" means any contract, in whatsoever terms it may be expressed, whereby goods are taken on hire by one person from another person in consideration of periodical payments to be made by the first mentioned person to the other person, with an option to the first mentioned person to become the buyer of the goods.”

496 Transactions associated with loans or credit

- (1) This section applies as respects any transaction effected with reference to the lending of money or the giving of credit, or the varying of the terms on which money is lent or credit is given, or which is effected with a view to enabling or facilitating any such arrangement concerning the lending of money or the giving of credit.

This subsection has effect whether the transaction is effected between the lender or creditor and the borrower or debtor, or between either of them and a person connected with the other or between a person connected with one and a person connected with the other.

- (2) If the transaction provides for the payment of any annuity or other annual payment, not being interest, being a payment chargeable to tax under Case III of Schedule D, the payment shall be treated for all the purposes of the Tax Acts as if it were a payment of annual interest.
- (3) If the transaction is one by which the owner of any securities or other property carrying a right to income agrees to sell or transfer the property, and by the same or any collateral agreement—
- (a) the purchaser or transferee, or a person connected with him, agrees that at a later date he will sell or transfer the same or any other property to the first-mentioned person, or a person connected with him, or
 - (b) the first-mentioned person, or a person connected with him, acquires an option which he subsequently exercises, to buy or acquire the same or any other property from the said purchaser or transferee or a person connected with him,
- then, without prejudice to the liability of any other person, the first-mentioned person shall be chargeable to tax under Case VI of Schedule D on an amount equal to any income which arises from the first-mentioned property at any time before the repayment of the loan or the termination of the credit.
- (4) If under the transaction a person assigns, surrenders or otherwise agrees to waive or forgo income arising from any property (without a sale or transfer of the property) then, without prejudice to the liability of any other person, he shall be chargeable to tax under Case VI of Schedule D on a sum equal to the amount of income assigned, surrendered, waived or forgone.
- (5) If credit is given for the purchase price of any property, and the rights attaching to the property are such that, during the subsistence of the debt, the purchaser's rights to income from the property are suspended or restricted, he shall be treated for the

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purposes of subsection (4) above as if he had surrendered a right to income of an amount equivalent to the income which he has in effect forgone by obtaining the credit.

- (6) The amount of any income payable subject to deduction of income tax at the standard rate shall be taken for the purposes of subsection (4) above as the amount before deduction of that tax.
- (7) References in this section to connected persons shall be construed in accordance with section 533 of this Act.