



# Finance Act 1975

## 1975 CHAPTER 7

### PART II

#### INCOME TAX AND CORPORATION TAX

##### **5 Income tax: alteration of additional rates for 1974-75**

Section 7(1) of the Finance Act 1974 (charge of income tax for 1974-75) shall have effect with the substitution for paragraph (b) of the following provisions, that is to say—

- “(b) in respect of so much of the investment income included in an individual's total income as exceeds £1,000 at the additional rates of 10 per cent, for the first £1,000 of the excess and 15 per cent, for the remainder;

except that, in the case of an individual who shows that, at any time within that year, his age or that of his wife living with him was sixty-five years or more, income tax at the additional rate of 10 per cent, shall not be charged in respect of the first £500 of the excess mentioned in paragraph (b) above.”.

##### **6 Investment of pension funds in building societies**

- (1) Where sums payable to exempt pension funds are among the sums with respect to which arrangements have been entered into with a building society under section 343 of the Taxes Act, paragraph (b) of subsection (3) of that section shall not apply to the sums so payable; but the amounts paid or credited in respect of them shall be treated as paid or credited after deduction of income tax from a corresponding gross amount.
- (2) In this section " building society " has the same meaning as in section 343 of the Taxes Act and " exempt pension fund " means any fund or scheme in the case of which provision is made by the enactments mentioned in subsection (3) below for exempting the whole or part of its income from income tax.

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- (3) The enactments referred to in subsection (2) above are sections 208, 211, 212, 213, 214, 216, and 226 of the Taxes Act and section 21(2) of the Finance Act 1970.

## 7 Early surrender or conversion of life policies

- (1) Where a policy of life insurance to which this section applies has been issued and, within four years from the making of the insurance in respect of which it was issued, any of the following events happens, that is to say—

- (a) the surrender of the whole or part of the rights conferred by the policy;
- (b) the falling due (otherwise than on death) of a sum payable in pursuance of a right conferred by the policy to participate in profits ; and
- (c) the conversion of the policy into a paid-up or partly paid-up policy;

the body by whom the policy was issued shall pay to the Board, out of the sums payable by reason of the surrender or, as the case may be, out of the sum falling due or out of the fund available to pay the sums which will be due on death or on the maturity of the policy, a sum determined in accordance with the following provisions of this section, unless the body is wound up and the event is a surrender or conversion effected in connection with the winding-up.

- (2) The sum payable under subsection (1) above shall, subject to the following provisions of this section, be equal to the lower of the following, that is to say—

- (a) the appropriate percentage of the premiums payable under the policy up to the happening of the event; and
- (b) the surrender value of the policy at the time of the happening of the event less the complementary percentage of the premiums mentioned in paragraph (a) above.

- (3) If the event is one of those mentioned below, the sum payable to the Board shall not exceed the following limit, that is to say.—

- (a) if it is the surrender of part of the rights conferred by the policy, the value of the rights surrendered at the time of the surrender ;
- (b) if it is the conversion of the policy into a partly paid-up policy, the surrender value, at the time of the conversion, of so much of the policy as is paid up ; and
- (c) if it is the falling due of a sum, that sum.

- (4) If the event was preceded by the happening of such an event as is mentioned in subsection (1) above, subsection (2) above shall apply—

- (a) as if the lower of the amounts mentioned therein were reduced by the sum paid under this section in respect of the earlier event; and
- (b) if the earlier event was such an event as is mentioned in paragraph (a) or (c) of subsection (3) above, as if the surrender value of the policy were increased by the amount which, under that paragraph, limited or might have limited the sum payable under this section in respect of the earlier event.

- (5) For the purposes of this section, the appropriate percentage, in relation to any event, is the percentage equal to the following fraction of the basic rate of income tax in force for the year of assessment in which the event happens, that is to say.—

- (a) if the event happens in the first two of the four years mentioned in subsection (1) above, three-sixths ;
- (b) if it happens in the third of those years, two-sixths; and
- (c) if it happens in the last of those years, one-sixth;

and the complementary percentage, in relation to any event, is 100 per cent, less the appropriate percentage.

- (6) Where the annual amount of the premiums payable under a policy of life insurance is at any time increased (whether under the policy or by any contract made after its issue) so as to exceed by more than 25 per cent, the first annual amount so payable, the additional rights attributable to the excess shall be treated for the purposes of this section as conferred by a new policy issued in respect of an insurance made at that time, and the excess shall be treated as premiums payable under the new policy.
- (7) Subject to subsection (8) below, this section applies to any policy of life insurance issued in respect of an insurance made after 26th March 1974; but where it applies by virtue of subsection (6) above to a policy treated as having been issued in respect of an insurance made after that date by reason of an increase in the annual amount of the premiums payable under an earlier policy, it shall apply with the modification that the excess referred to in that subsection shall be taken to be the excess over the annual amount of the premiums at 26th March 1974.
- (8) This section does not apply to a policy unless it is a qualifying policy within the meaning of Schedule 1 to the Taxes Act, and does not in any case apply to such a policy as is mentioned in paragraph (b) or (c) of the proviso to section 19(4) of that Act.

## **8 Surrender, etc. of policies after four years**

- (1) Where a policy of life insurance to which this section applies has been issued and, in the fifth or any later year from the making of the insurance in respect of which it was issued, either of the following events happens, that is to say—
  - (a) the surrender of the whole or part of the rights conferred by the policy ; and
  - (b) the falling due (otherwise than on death or maturity) of a sum payable in pursuance of a right conferred by the policy to participate in profits;then, if either of those events has happened before, the body by whom the policy was issued shall pay to the Board, out of the sums payable by reason of the surrender, or, as the case may be, out of the sum falling due, a sum determined in accordance with the following provisions of this section.
- (2) The sum payable under subsection (1) above shall, subject to the following provisions of this section, be equal to the applicable percentage of the lower of the following—
  - (a) the total of the premiums which are payable in that year under the policy; and
  - (b) the sums payable by reason of the surrender or, as the case may be, the sum falling due;and the percentage to be applied for this purpose shall be a percentage equal to one half of the basic rate of income tax in force in the year of assessment in which the event happens.
- (3) Where, after a sum has become payable under subsection (1) above, and within the same year from the making of the insurance, another such event happens as is mentioned therein, the sums payable under that subsection in respect of both or all of the events shall not exceed the applicable percentage of the total mentioned in subsection (2)(a) above.
- (4) Where, on the happening of an event in the fifth or any later year from the making of the insurance, any sum is payable under subsection (1) of section 7 of this Act as applied by subsection (6) of that section, as well as under subsection (1) above,

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subsection (2) above shall apply as if the sums or sum mentioned in paragraph (b) thereof were reduced by the sum payable under section 7 of this Act.

- (5) This section applies to any policy of life insurance issued in respect of an insurance made after 26th March 1974, but only if it is a qualifying policy within the meaning of Schedule 1 to the Taxes Act; but does not apply to a policy issued in the course of an industrial insurance business, as defined in section 1(2) of the Industrial Assurance Act 1923 or of the Industrial Assurance Act (Northern Ireland) 1924.

## **9 Provisions supplementary to sections 7 and 8**

- (1) Where on the happening of an event in relation to a policy of life insurance a sum is payable under section 7 or 8 of this Act, relief under section 19 of the Taxes Act in respect of the relevant premiums paid under the policy shall be reduced by the sum so payable or, as the case may be, by so much of that sum as does not exceed the amount of that relief (or does not exceed so much of that amount as remains after any previous reduction under this section).
- (2) For the purposes of this section the relevant premiums are—
- (a) in relation to a sum payable under section 7 of this Act, the premiums payable under the policy up to the happening of the event by reason of which the sum is payable; and
  - (b) in relation to a sum payable under section 8 of this Act, the premiums payable in the year (from the making of the insurance) in which the event happens by reason of which the sum is payable.
- (3) Where the relevant premiums are payable in more than one year of assessment the reduction in relief under this section shall, so far as possible, reduce relief for an earlier year of assessment before reducing relief for a later one.
- (4) Any sum paid under section 7 or 8 of this Act by reason of any event shall be treated—
- (a) as between the parties, as received by the person by whom the premiums under the policy were paid; and
  - (b) for the purposes of income tax, as income tax paid by that person in satisfaction of the increase in liability resulting from the reduction of relief under this section ;
- and where that sum exceeds that increase in liability he shall be entitled, on a claim made by him not later than six years after the end of the year of assessment in which the event happens, to repayment of the excess.
- (5) Schedule 1 to this Act shall have effect with respect to the payment of sums payable under section 7 or 8 of this Act and related matters.

## **10 Life policies, life annuities and capital redemption policies**

Sections 19 and 21 and Chapter III of Part XIV of the Taxes Act and Schedule 1 to that Act shall have effect subject to the provisions of Schedule 2 to this Act; and in those provisions references to any section not otherwise identified are to sections of that Act and " Schedule 1 " means Schedule 1 to that Act.

## **11 Extension of tax exemption for certain savings certificates**

In section 95(1) of the Taxes Act (exemption from tax of accumulated interest payable in respect of certain United Kingdom savings certificates), and in section 96(1) of that Act (corresponding exemption for certain Ulster savings certificates), after the words "accumulated interest", wherever occurring, there shall be inserted the words "and any terminal bonus or other sum".

## **12 Statutory corporation borrowing in foreign currency**

Section 416 of the Taxes Act (local authority borrowing in foreign currency) shall have effect in relation to any securities issued by or loan made to a statutory corporation (as defined in section 26(1) of the Prevention of Fraud (Investments) Act 1958) as it has effect in relation to any securities issued by a local authority, the references to the beneficial owner or holder of the securities being for this purpose read, in the case of such a loan, as references to the person for the time being entitled to repayment or eventual repayment of the loan.

## **13 Initial allowances for industrial buildings and structures, etc.**

- (1) In relation to expenditure incurred after 12th November 1974 section 1(2) of the Capital Allowances Act 1968 (initial allowances for industrial buildings and structures, etc.) shall have effect as if for the words "three-twentieths" there were substituted the words "one-half"; and accordingly section 67(2)(d) of the Finance Act 1972 shall not apply to expenditure so incurred.
- (2) Expenditure shall not be treated for the purposes of this section as having been incurred after the date on which it was in fact incurred by reason only of section 1(6) of the Capital Allowances Act 1968 (expenditure incurred before trade began) or section 5(1) of that Act (purchase of unused buildings or structures).

## **14 Expenditure on thermal insulation**

- (1) If a person carrying on a trade has after 12th November 1974 incurred expenditure in adding any insulation against loss of heat to any industrial building or structure occupied by him for the purposes of that trade, Chapter I of Part III of the Finance Act 1971 shall apply as if the expenditure were capital expenditure incurred on the provision of machinery or plant for the purposes of the trade, and as if the machinery or plant had, in consequence of his incurring the expenditure, belonged to him and had been in use for the purposes of the trade, and as if the disposal value of the machinery or plant were nil.
- (2) If a person has after 12th November 1974 incurred expenditure in adding any insulation against loss of heat to any industrial building or structure let by him otherwise than in the course of a trade, Chapter I of Part III of the Finance Act 1971 shall apply as if the expenditure were capital expenditure incurred in providing machinery or plant first let by that person, otherwise than in the course of a trade, at the time when the expenditure was incurred, and as if the property comprised in the lease of the building or structure had as from that time included the machinery or plant, and as if the disposal value of the machinery or plant were nil.
- (3) Any allowance made by virtue of section 46(1) of the Finance Act 1971 in a case where it applies by virtue of subsection (2) above shall (notwithstanding section 48(2) of that Act) be available primarily against the following income, that is to say—

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- (a) income taxed under Schedule A in respect of any premises which at any time in the chargeable period for which the allowance falls to be made consist of or include an industrial building or structure; or
  - (b) income which is the subject of a balancing charge under Chapter I (industrial buildings and structures, etc.) of Part I of the Capital Allowances Act 1968.
- (4) This section shall be construed as if contained in Chapter I of Part III of the Finance Act 1971 ; and in this section " industrial building or structure " has the meaning given by section 7 of the Capital Allowances Act 1968.

## **15 Expenditure on fire safety**

- (1) If a person carrying on a trade has on or after the relevant date incurred expenditure in taking, in respect of any premises used by him for the purposes of the trade—
- (a) steps specified, in a letter or other document sent or given to him by or on behalf of the fire authority on an application for a fire certificate under the Fire Precautions Act 1971 in respect of those premises, as steps that would have to be taken in order to satisfy the authority as mentioned in subsection (4) of section 5 of that Act, being steps that might have been, but were not, specified in a notice under that subsection; or
  - (b) steps which, in consequence of the making of an order under section 10 of that Act prohibiting or restricting the use of the premises, had to be taken to enable the premises to be used without contravention of the order,
- then, if an allowance or deduction in respect of the expenditure could not, apart from this section, be made in taxing the trade or computing the profits or gains arising from it, Chapter I of Part III of the Finance Act 1971 shall apply as regards the expenditure as it would apply by virtue of section 17 of the Finance Act 1974 if the expenditure fell within the said section 17.
- (2) For the purposes of this section the relevant date, in relation to expenditure incurred in taking steps falling within subsection (1)(a) above, is 1st June 1972 and, in relation to expenditure incurred in taking steps falling within subsection (1)(b) above, is 20th March 1972.
- (3) This section shall be construed as if contained in Chapter I of Part III of the Finance Act 1971.

## **16 Trade unions**

- (1) If a trade union entered in the list of trade unions maintained under the Trade Union and Labour Relations Act 1974 was formed after 30th September 1971, it shall be treated as having been a registered trade union within the meaning of section 338 of the Taxes Act (exemption for trade unions) at all times between its formation and its entry in that list.
- (2) If a trade union was a registered trade union on 30th September 1971, it shall be treated for the purposes of the said section 338 as having remained a registered trade union so long as it remained a trade union and was not entered in the said list.

## **17 Sales, etc. at undervalue or overvalue**

- (1) In section 485 of the Taxes Act (sales etc. at undervalue or overvalue), after subsection (5) there shall be inserted as subsection (5A)—

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“(5A) In determining for the purposes of this section whether any person (alone or with others) has control over a body of persons—

- (a) there shall be attributed to him any rights or powers of a nominee for him, that is to say, any rights or powers which another possesses on his behalf or may be required to exercise on his direction or behalf;
- (b) there may also be attributed to him any rights or powers of a person with whom he is connected (within the meaning of section 533 of this Act, but omitting subsections (5) to (7) and the exception in subsection (4)), including any rights or powers of a nominee for such a person, that is to say any rights or powers which another possesses on behalf of such a person or may be required to exercise on his direction or behalf.”.

The amendments made by this subsection shall not apply in relation to transactions carried out before 10th December 1974.

- (2) For the removal of doubt it is hereby declared that in subsections (1)(a) and (2)(a) of the said section 485 the references to both the seller and the buyer being bodies of persons and some other person having control over both of them include cases where both of them are bodies of persons and are under the control of the same persons.
- (3) The Board may, by notice in writing given to any body corporate, require it to give to the Board, within such time (not being less than thirty days) as may be specified in the notice, such particulars (which may include details of relevant documents) as may be so specified of any related transaction which appears to the Board—
  - (a) to be, or to be connected with, a transaction with respect to which the Board might give a direction under the said section 485 ; or
  - (b) to be relevant for determining whether such a direction could or should be given in any case ; or
  - (c) to be relevant for determining for the purposes of that section what price any property sold would have fetched had the sale been one between independent persons dealing at arm's length.
- (4) For the purposes of a notice under subsection (3) above a transaction is a related transaction if, but only if, it is one to which the body corporate to whom the notice is given, or a body corporate associated with that body, was a party; and for the purposes of this subsection two bodies corporate are associated with one another if one is under the control of the other or both are under the control of the same person or persons.
- (5) Where, in the case of a transaction with respect to which it appears to the Board that a direction under the said section 485 might be given—
  - (a) one of the parties is a body corporate resident outside the United Kingdom and a 51 per cent, subsidiary of a body corporate (in this subsection referred to as " the parent body ") resident in the United Kingdom; and
  - (b) the other party is, or is a 51 per cent, subsidiary of, the parent body,the Board may, by notice in writing given to the parent body, require it to make available for inspection any books, accounts or other documents or records whatsoever of the parent body or, subject to subsection (6) below, of any body of persons over which it has control which relate to that transaction, to any other transaction (of whatever nature) in the same assets, or to transactions (of whatever nature) in assets similar to those to which the first-mentioned transaction related.

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- (6) If, in a case in which under subsection (5) above the parent body is by notice required to make available for inspection any books, accounts, documents or records of a body of persons resident outside the United Kingdom over which the parent body has control, it appears to the Board, on the application of the parent body, that the circumstances are such that the requirement ought not to have effect, the Board shall direct that the parent body need not comply with the requirement.

If, on such an application, the Board refuse to give a direction under this subsection, the parent body may, by notice in writing given to the Board within thirty days after the refusal, appeal to the Special Commissioners who, if satisfied that the requirement in question ought in the circumstances not to have effect, may determine accordingly.

- (7) Where it appears to the Board that a body of persons may be a party to a transaction or transactions with respect to which a direction under the said section 485 might be given, then, for the purpose of assisting the Board to determine whether such a direction should be given, an inspector specifically authorised in that behalf by the Board may, at any reasonable time, on production if so required of his authority, enter any premises used in connection with the relevant trade carried on by that body of persons (that is to say, the trade in the course of which the transaction or transactions were effected) and inspect there any books, accounts or other documents or records whatsoever relating to that trade which he considers it necessary for him to inspect for that purpose, and may require any such books, accounts or other documents or records to be produced to him there for inspection.

An inspector's authority for entering any premises under this subsection shall state the name of the inspector and the name of the body of persons carrying on the trade in connection with which the premises are used.

- (8) If and so far as the question in dispute on an appeal to the General Commissioners or, in Northern Ireland, to a county court against an assessment to tax arises from a direction of the Board under the said section 485 and the assessment is for a chargeable period beginning after the passing of this Act, the question shall be referred to and determined by the Special Commissioners.
- (9) In section 98 of the Taxes Management Act 1970 (penalty for failure to furnish information) there shall be added in the first column of the Table the words " section 17(3) and (5) of the Finance Act 1975 ", and in the second column of the Table the words " section 17(7) of the Finance Act 1975 ".
- (10) Subsection (3) to (7) above shall be construed as one with the said section 485.

## **18 Relief for increase in stock values in financial year 1973**

- (1) Subject to the following provisions of this section, if—
- (a) a company carries on a trade in respect of which it is, for its 1973 accounting period, within the charge to corporation tax under Case I of Schedule D, and
  - (b) the value of the company's trading stock at the end of its 1973 accounting period (in this section referred to as its " closing stock value") exceeds the value of its trading stock at the beginning of that accounting period (in this section referred to as its " opening stock value " ),

the company shall be entitled to relief under this section by reference to the amount of that excess; and in the following provisions of this section the amount of that excess is referred to as the company's " 1973 increase in stock value ".



- (2) In this section " 1973 accounting period " means—
- (a) in the case of a company which has not more than one accounting period ending in the financial year 1973, that accounting period ; and
  - (b) in the case of any other company, a notional accounting period beginning on the first day of the first of the company's accounting periods which ends in the financial year 1973 and ending on the last day of the last of the company's accounting periods which ends in that year;
- and for the purposes of this section an accounting period which ends on the last day of a financial year shall be treated as ending in that year.
- (3) Schedule 3 to this Act shall have effect—
- (a) in any case where a company's 1973 accounting period does not coincide with a period of account or with two or more consecutive periods of account or is longer than twelve months ; and
  - (b) in certain cases where trading stock is transferred between companies which are members of the same group of companies ; and
  - (c) in certain cases of companies beginning or ceasing to carry on a trade or ceasing to be within the charge to corporation tax or to be resident in the United Kingdom.
- (4) For the purposes of the Corporation Tax Acts, other than this section and Schedule 3 to this Act, in any case where a company is entitled to relief under this section—
- (a) the company's closing stock value shall be treated as reduced by an amount equal to its 1973 increase in stock value, less 10 per cent, of its trading income for its 1973 accounting period, and
  - (b) the value of the company's trading stock at the beginning of the period of account which begins on the day following that as at which the closing stock value is determined shall be treated as reduced by the like amount,
- and all such adjustments shall be made in any assessment to corporation tax for any relevant accounting period as are necessary to give effect to any relief under this section.
- (5) A company shall not be entitled to relief under this section unless—
- (a) its closing stock value is not less than £25,000 ; and
  - (b) its 1973 increase in stock value is greater than 10 per cent, of its trading income for its 1973 accounting period; and
  - (c) a claim for the relief is made within the time allowed under subsection (6) below ;
- and, notwithstanding anything in section 155 of the Taxes Act (partnership profits and losses computed in certain cases as if the partnership were a company), nothing in this section shall affect the computation of the profits of, or any loss incurred in, a partnership unless each of the partners is a company.
- (6) A claim for relief under this section in respect of an accounting period may be made at any time before—
- (a) the date on which the assessment to corporation tax for that period becomes final, that is to say, when the assessment can no longer be varied by any Commissioners on appeal or by the order of any court, or
  - (b) the expiry of the period of six months beginning with the date on which this Act is passed,

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whichever is the later.

(7) In any case where—

- (a) by virtue of subsection (2)(b) above, a company's 1973 accounting period consists of two or more accounting periods and the last of those periods (in this subsection referred to as "the relevant accounting period") coincides with a period of account, and
- (b) the company makes a claim for relief under this section, and
- (c) in the relevant accounting period the company incurs a loss in the trade referred to in subsection (1)(a) above,

then, notwithstanding that the relevant accounting period is less than 12 months, in relation to so much of the loss referred to in paragraph (a) above as would not have been incurred if the claim for relief under this section had not been made, subsections (2) and (3) of section 177 of the Taxes Act (carry back of losses against profits of preceding accounting periods ending within a specified time) shall have effect as if the time specified in the said subsection (3) comprised—

- (i) so much of the 1973 accounting period as does not consist of the relevant accounting period ; and
- (ii) the period which ends immediately before the 1973 accounting period and is either equal in length to that period or 12 months, whichever is the shorter.

(8) Where any adjustment is made in the computation of the profits arising or losses incurred in an accounting period in giving effect to a claim for relief under this section, a claim for relief or (as the case may be) for additional relief under any other provision of the Tax Acts which is made in consequence of that adjustment (whether by the company to which the relief under this section is granted or by any other company) shall not be out of time if it is made before the end of the period of six months beginning with the date on which this Act is passed, notwithstanding that the time limit otherwise applicable to a claim under that provision has expired.

(9) In this section " trading stock" has the same meaning as in section 137 of the Taxes Act except that it does not include—

- (a) securities, which for this purpose includes shares and stock, or
- (b) any services, article or material which, if the trade concerned were a profession, would be treated as work in progress for the purposes of section 138 of that Act, or
- (c) in the case of a company which carries on a trade in partnership with other persons at least one of whom is an individual, any interest in the trading stock of the partnership,

and in determining the value of a company's trading stock at any time for the purposes of this section, to the extent that, at or before that time, any payments on account have been received by the company in respect of any trading stock, the value of that stock shall be reduced accordingly.

(10) In this section " trading income " means, in relation to any trade, the income from the trade computed, in accordance with the rules applicable to Case I of Schedule D, except that—

- (a) no deduction or addition shall be made by virtue of section 73, section 74 or section 91 of the Capital Allowances Act 1968 (corporation tax allowances and charges and allowances for capital expenditure on scientific research); and

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- (b) no account shall be taken of any set-off or reduction of income to which the company is entitled by virtue of section 177 or section 178 of the Taxes Act (trade etc. losses); and
  - (c) in a case falling within subsection (9)(c) above, any income in relation to the trade carried on by the partnership shall be excluded.
- (11) For the purposes of this section, in any case where, by virtue of subsection (2)(b) above, a company's 1973 accounting period consists of more than one accounting period, its trading income for its 1973 accounting period shall be the aggregate of its trading income for each of the accounting periods of which that period consists.