



Finance Act 1977

1977 CHAPTER 36

PART III

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

17 Charge of income tax for 1977-78

Income tax for the year 1977-78 shall be charged at the basic rate of 34 per cent.; and—

- (a) in respect of so much of an individual's total income as exceeds £6,000 at such higher rates as are specified in the Table below ; and
- (b) in respect of so much of the investment income included in an individual's total income as exceeds £1,500 at the additional rates of 10 per cent. for the first £500 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, paragraph (b) above shall have effect with the substitution for the reference to £1,500 of a reference to £2,000.

TABLE

Part of excess over £6,000	Higher rate
The first £1,000	40 per cent.
The next £1,000	45 per cent.
The next £1,000	50 per cent.
The next £1,000	55 per cent.
The next £2,000	60 per cent.
The next £2,000	65 per cent.
The next £2,000	70 per cent.
The next £5,000	75 per cent.

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The remainder | 83 per cent. |

18 Charge of corporation tax for financial year 1976

Corporation tax shall be charged for the financial year 1976 at the rate of 52 per cent.

19 Rate of advance corporation tax for financial year 1977

The rate of advance corporation tax for the financial year 1977 shall be thirty-four sixty-sixths.

20 Corporation tax: small companies

- (1) The small companies rate for the financial year 1976 shall be 42 per cent., and for that year the fraction mentioned in subsection (2) of section 95 of the Finance Act 1972 (marginal relief for small companies) shall be four twenty-fifths.
- (2) For the financial year 1976 and subsequent financial years subsection (3) of the said section 95 shall have effect with the substitution for any reference to £30,000 of a reference to £40,000 and with the substitution for any reference to £50,000 of a reference to £65,000.
- (3) Where by virtue of subsection (2) above the said section 95 has effect with different relevant amounts in relation to different parts of the same accounting period, those parts shall be treated for the purposes of that section as if they were separate accounting periods, and the profits and income of the company for that period (as defined in that section) shall be apportioned between those parts.

21 Relief for interest: limit for 1977-78

In paragraph 5(1) of Schedule 1 to the Finance Act 1974 (limit on relief for interest on certain loans for purchase or improvement of land used as an only or main residence) the references to £25,000 shall have effect for the year 1977-78 as well as for previous years of assessment.

22 Alteration of personal reliefs

- (1) In section 8 of the Taxes Act (personal reliefs)—
 - (a) in subsection (1)(a) (married) for " £1,085 " there shall be substituted " £1,295 ";
 - (b) in subsection (1)(b) (single) and (2) (wife's earned income relief) for " £735 " there shall be substituted " £845 ";
 - (c) in subsection (1A) (age allowance) for " £1,555 " and "£1,010" there shall be substituted " £1,765 " and " £1,120 " respectively, and after the paragraphs in that subsection there shall be inserted the words " and for the purposes of this subsection a person who would have been of the age of sixty-five or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year. ";
 - (d) in subsection (1B) for "£3,250" there shall be substituted " £3,500 ";

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- (e) in subsection (2)(b) (Category A retirement pension eligible for wife's earned income relief) after the word " pension" there shall be inserted the words " or mobility allowance ".
- (2) In the year 1978-79 and subsequent years the personal reliefs allowed in this section shall be changed by not less than the same percentage as the increase in the retail price index for the previous calendar year :

Provided that the Treasury may by order, subject to approval before coming into effect by resolution of the House of Commons, prescribe a lesser relief in respect of any financial year, so long as those reliefs are not less than the levels provided for in subsection (1) above.

- (3) In section 14(2) and (3) of that Act (additional relief for widows and others in respect of children) for " £350 " there shall be substituted " £450 " ; and in the year 1978-79 and subsequent years the additional relief allowed in this section shall be increased by not less than the same percentage as the increase in the retail price index for the previous calendar year :

Provided that the Treasury may by order, subject to approval before coming into effect by resolution of the House of Commons, prescribe a lesser relief in respect of any financial year, so long as that lesser relief is not less than £420.

23 Child benefit and other benefits in respect of children

- (1) In section 219(2) of the Taxes Act (social security benefits exempt from tax) the word " and " shall be omitted and after " 1971 " there shall be inserted the words " and payments of child benefit ".
- (2) The amendments of the Income Tax Acts made by section 32(2), (3)(a) and (d), (4), (5) and (6) of the Finance Act 1976 shall not have effect.
- (3) Where for the year 1977-78 an individual is (or apart from this subsection would be) assessable to income tax in respect of payments in respect of a child, being payments to which this subsection applies, his income shall for the purposes of the Income Tax Acts be deemed to include only so much, if any, of the payments in respect of that child as exceeds £52 or, if the payments in question are payments for a part only of the year, a proportionate part of that amount.
- (4) Subsection (3) above applies to payments by way of—
- (a) child's special allowance or guardian's allowance under the Social Security Act 1975 or the Social Security (Northern Ireland) Act 1975 ; or
 - (b) an allowance under section 70 of either of those Acts; or
 - (c) an increase under Chapter III of Part II of either of those Acts of a widow's allowance, widowed mother's allowance, child's special allowance, retirement pension or invalid care allowance.
- (5) Subsections (1) and (2) above shall be deemed to have come into force on 4th April 1977.

24 Child tax allowances for 1977-78

- (1) Except in the case of a child to whom section 25 or 26 below applies, the appropriate amount to be deducted from the claimant's total income under subsection (1) of

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section 10 of the Taxes Act (children) for the year 1977-78 shall, instead of being determined in accordance with subsection (3) of that section, be determined in accordance with subsections (2) and (3) below; and in those subsections " first child " means a child shown by the claimant to be the only or eldest child in respect of whom he is entitled under that section to a deduction of an amount determined in accordance with those subsections.

- (2) The appropriate amount for the child shall vary according to the age of the child at the commencement of the year of assessment and according to whether or not he is a first child and, subject to subsection (5) of the said section 10—
- (a) for a child shown by the claimant to have been over the age of sixteen at the commencement of that year, shall be £261 in the case of a first child and £235 in the case of any other child;
 - (b) for a child not so shown but shown by the claimant to have been then over the age of eleven, shall be £231 in the case of a first child and £205 in the case of any other child ;
 - (c) for a child not falling within the foregoing paragraphs, shall be £196 in the case of a first child and £170 in the case of any other child.
- (3) Where the appropriate amount for a child is required to be apportioned under section 11 of the Taxes Act between two or more individuals and the child is the first child in relation to any but not each of them, that amount shall be determined as if he were the first child in relation to each of them.

25 Child tax allowances: children living abroad

- (1) If in the case of a child in respect of whom a claim is made under section 10 of the Taxes Act (children) the claimant proves that the conditions in subsection (2) below are fulfilled, the appropriate amount to be deducted from the claimant's income under subsection (1) of that section for the year 1977-78 shall be determined in accordance with subsection (3) of that section as amended for the year 1976-77 by section 29(2) of the Finance Act 1976.
- (2) The conditions referred to in subsection (1) above are—
- (a) that the child is outside the United Kingdom throughout the year of assessment (apart from any visit which does not exceed, or visits which together do not exceed, 30 days) and does not in that year normally live in a country or territory specified in subsection (3) below; and
 - (b) that he is under the age of nineteen years at the end of that year ; and
 - (c) that no child benefit is paid in respect of the child for any week (as defined in the child benefit legislation) beginning in that year; and
 - (d) that no child benefit for any such week is (or if a claim were made would be) payable in respect of the child by virtue of Part II of the Child Benefit (Residence and Persons Abroad) Regulations 1976 or Part II of the Child Benefit (Residence and Persons Abroad) Regulations (Northern Ireland) 1976.
- (3) The countries and territories referred to in subsection (2)(a) above are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany (Federal Republic), Gibraltar, the Irish Republic, the Isle of Man, Israel, Italy, Jersey, Luxembourg, the Netherlands, New Zealand, Norway, Spain and Sweden.

26 Child tax allowances: students

- (1) If in the case of a child in respect of whom a claim is made under section 10 of the Taxes Act (children) the claimant proves that the conditions in subsection (2) below are fulfilled, the appropriate amount to be deducted from the claimant's income under subsection (1) of that section for the year 1977-78 and the three following years of assessment shall be determined in accordance with subsection (3) of that section as amended for the year 1976-77 by section 29(2) of the Finance Act 1976.
- (2) The conditions referred to in subsection (1) above are—
 - (a) that on 31st December 1976 the child was following a full-time course at a university, college, school or other educational establishment; and
 - (b) that he was then over the age of nineteen years or that the course was an advanced course ; and
 - (c) that he is following such a course as is mentioned in paragraph (a) above in an academic year beginning in the year of assessment and either—
 - (i) is not in receipt of a grant from a government department or local authority or otherwise out of public funds in respect of that course for that academic year or any period determined by reference to it; or
 - (ii) is in receipt of such a grant as aforesaid, being a grant which is calculated in accordance with provisions for taking account of parental income but the amount of which does not fall to be reduced under those provisions.
- (3) In subsection (2)(b) above " advanced course " means—
 - (a) a course in preparation for a degree, a diploma of higher education, a higher national diploma or a teaching qualification;
 - (b) a course of post-graduate or post-diploma instruction; or
 - (c) any other course, being a course of a standard above ordinary national diploma, general certificate of education (advanced level) or Scottish certificate of education (higher level);and if any question arises whether a course falls within the above definition, the Board may consult the Secretary of State for Education and Science.
- (4) In the application of subsection (3) above to Scotland and Northern Ireland the Secretary of State and the Department of Education for Northern Ireland shall respectively be substituted for the Secretary of State for Education and Science.
- (5) In its application to the year 1977-78 subsection (1) above shall have effect as if in subsection (2) above there were inserted after paragraph (c)(ii) the words "or
 - (iii) is in receipt of such a grant as is mentioned in subparagraph (i) above, being a grant under section 2 of the Education Act 1962, section 49(1) or 51(1)(c) of the Education (Scotland) Act 1962 or regulation 7 of the Students Awards Regulations (Northern Ireland) 1975."

27 Retirement annuities

- (1) Sections 227 and 228 of the Taxes Act (which prescribe limits subject to which relief is available for premiums paid under approved retirement annuity contracts etc.) shall be amended as follows—

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- (a) in subsections (1A) and (1C) of section 227 and subsections (1) and (4) of section 228 for "£2,250", wherever it occurs, there shall be substituted " £3,000 ";
- (b) in subsections (1B) and (1C) of section 227 for " £750 ", wherever it occurs, there shall be substituted " £1,000 "; and
- (c) in the Table in subsection (4) of section 228 for the second and third columns there shall be substituted—

<i>“Sum</i>	<i>Percentage</i>
£3,600	18
£4,200	21
£4,800	24
£5,400	27
£6,000	30”.

- (2) This section does not affect relief for any year of assessment before the year 1977-78.

28 Maintenance payments

In section 15(1) of the Finance Act 1974 (maintenance payments up to £1,000 not to be investment income) for " £1,000 " there shall be substituted " £1,500 ".

29 Increase in relief for savings bank interest

Section 414(1) of the Taxes Act (relief from income tax on first £40 of certain savings bank interest) shall, for the year 1977-78 and subsequent years of assessment, have effect with the substitution of a reference to £70 for each reference to £40.

30 Job release schemes

- (1) A payment on account of any allowance to which this section applies shall not be treated as income for any purposes of the Income Tax Acts.
- (2) This section applies to any allowance paid since the beginning of 1977 by the Secretary of State or the Department of Manpower Services for Northern Ireland under any scheme of the kind described in the Job Release Act 1977, being a scheme which provides for the payment of allowances for periods beginning not earlier than one year before the date on which the recipient attains pensionable age as defined in that Act.

31 Earnings from work done abroad

- (1) Schedule 7 to this Act shall have effect for affording relief from tax under Case I of Schedule E where the duties of an office or employment are performed wholly or partly outside the United Kingdom.
- (2) A deduction shall not be allowed in respect of the same emoluments both under Schedule 7 to this Act and paragraph 3 of Schedule 2 to the Finance Act 1974 (foreign emoluments); and paragraph 4 of Schedule 7 to this Act shall, with the necessary modifications, have effect in relation to the amount of emoluments to be excepted under paragraph 4 of the said Schedule 2 as it has effect in relation to the amount of

emoluments in respect of which a deduction is allowed under paragraph 1 of the said Schedule 7.

- (3) In consequence of the foregoing provisions, the Income Tax Acts shall be amended as follows—
- (a) in Case I in paragraph 1 of Schedule E as set out in section 181(1) of the Taxes Act for the words from " subject, however, to the deduction or exception" onwards there shall be substituted the words " subject, however, to the deduction or exception provided for in Schedule 2 to the Finance Act 1974 if the emoluments are foreign emoluments and to the deduction provided for in Schedule 7 to the Finance Act 1977 if in the chargeable period he performs the duties of the office or employment wholly or partly outside the United Kingdom ";
 - (b) in section 184(3) of the Taxes Act after the words "For the purposes of Cases I and II of Schedule E " there shall be inserted the words " , but subject to paragraph 7 of Schedule 7 to the Finance Act 1977, ";
 - (c) in paragraph 16 of Schedule 8 to the Taxes Act after the words "the Finance Act 1974" there shall be inserted the words " or paragraph 1 of Schedule 7 to the Finance Act 1977 ";
 - (d) section 21(2) of the Finance Act 1974 and paragraphs 1 and 2 of Schedule 2 to that Act shall cease to have effect.
- (4) This section has effect for the year 1977-78 and subsequent years of assessment but without prejudice to any deduction—
- (a) under paragraph 1 of Schedule 7 to this Act for that or a subsequent year by virtue of a period falling partly in a year before the year 1977-78 ; or
 - (b) under paragraph 1 of Schedule 2 to the said Act of 1974 for a year before the year 1977-78 by virtue of a period falling partly in that or a subsequent year.

32 Expenses in connection with work done abroad

- (1) Subsections (2) and (3) below apply where a person (" the employee ") who is resident and ordinarily resident in the United Kingdom holds an office or employment (" the overseas employment") the duties of which are performed wholly outside the United Kingdom and the emoluments from which are not foreign emoluments within the meaning of paragraph 1 of Schedule E.
- (2) For the purposes of section 189(1) of the Taxes Act (deduction for certain expenses) there shall be treated as having been necessarily incurred in the performance of the duties of the overseas employment expenses of the employee in travelling from the United Kingdom to take up the overseas employment and in returning to the United Kingdom on its termination; and if travel is partly for a purpose mentioned in this subsection and partly for another purpose this subsection applies only to such part of the expenses as is properly attributable to the former purpose.
- (3) Where, for the purpose of enabling the employee to perform the duties of the overseas employment,—
- (a) board and lodging outside the United Kingdom is provided for him and the cost of it is borne by or on behalf of his employer ; or
 - (b) he incurs expenses out of the emoluments of the employment on such board and lodging for himself and those expenses are reimbursed by or on behalf of his employer,

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there shall be allowed, in charging tax under Case I of Schedule E on the emoluments from that employment, a deduction of an amount equal to so much of that cost or, as the case may be, those expenses as falls to be included in those emoluments.

Where board and lodging is partly for the purpose mentioned in this subsection and partly for another purpose, this subsection applies only to such part of the cost or expenses as is properly attributable to the former purpose.

(4) Subsection (5) below applies where a person resident and ordinarily resident in the United Kingdom—

- (a) holds two or more offices or employments the duties of one or more of which are performed wholly or partly outside the United Kingdom ; and
- (b) travels from one place having performed there duties of one office or employment to another place for the purpose of performing duties of another office or employment (the emoluments from which are not foreign emoluments within the meaning of paragraph 1 of Schedule E),

and either or both of those places is outside the United Kingdom.

(5) For the purposes of section 189(1) of the Taxes Act (deduction for certain expenses) expenses incurred by such a person on such travel shall be treated as having been necessarily incurred in the performance of the duties which he is to perform at his destination ; and if travel is partly for the purpose of performing those duties and partly for another purpose this subsection applies only to such part of the expenses as is properly attributable to the former purpose.

(6) Subsection (7) below applies where a person is absent from the United Kingdom for a continuous period of 60 days or more for the purpose of performing the duties of one or more offices or employments and applies to travel of the following descriptions between the United Kingdom and the place of performance of those duties, that is to say—

- (a) any journey by his spouse or any child of his—
 - (i) accompanying him at the beginning of the period of absence ; or
 - (ii) to visit him during that period ;
- (b) any journey by him at the end of that period to visit his spouse or any child of his ;
- (c) any return journey following a journey of a kind described in paragraph (a) or (b) above ;

but that subsection does not extend to more than two journeys in each direction by the same person in any year of assessment.

For the purposes of this subsection " child " includes a stepchild, an adopted child and an illegitimate child but does not include a person who is aged 18 or over at the beginning of the outward journey.

(7) Where—

- (a) travel facilities are provided for any such journey and the cost of them is borne by or on behalf of the employer; or
- (b) expenses are incurred out of the emoluments of any such office or employment on any such journey and those expenses are reimbursed by or on behalf of the employer,

there shall be allowed, in charging tax under Case I of Schedule E on the emoluments from that office or employment, a deduction of an amount equal to so much of that cost or, as the case may be, those expenses as falls to be included in those emoluments.

- (8) References in the Income Tax Acts to section 189 of the Taxes Act and to deductions allowable under Chapter I of Part VIII of that Act shall be construed as including a reference to subsections (3) and (7) above and to deductions allowable under those subsections.
- (9) This section has effect for the year 1977-78 and subsequent years of assessment.

33 Living accommodation provided for employee

- (1) Subject to the provisions of this section, where living accommodation is provided for a person in any period by reason of his employment, and is not otherwise made the subject of any charge to him by way of income tax, he is to be treated for Schedule E purposes as being in receipt of emoluments of an amount equal to the value to him of the accommodation for the period, less so much as is properly attributable to that provision of any sum made good by him to those at whose cost the accommodation is provided.
- (2) The value of the accommodation to the employee in any period is the rent which would have been payable for the period if the premises had been let to him at an annual rent equal to their annual value as ascertained under section 531 of the Taxes Act; but for a period in which those at whose cost the accommodation is provided pay rent at an annual rate greater than the annual value as so ascertained, the value of the accommodation to the employee is an amount equal to the rent payable by them for the period.
- (3) From any amount to be treated as emoluments under subsection (1) above there are deductible under section 189 or 194(3) of the Taxes Act (necessary expenses etc.) such amounts (if any) as would have been so deductible if the accommodation had been paid for by the employee out of his emoluments.
- (4) Subject to subsection (5), subsection (1) does not apply to accommodation provided for the employee in any of the following cases—
 - (a) where it is necessary for the proper performance of the employee's duties that he should reside in the accommodation;
 - (b) where the accommodation is provided for the better performance of the duties of his employment, and his is one of the kinds of employment in the case of which it is customary for employers to provide living accommodation for employees;
 - (c) where, there being a special threat to his security, special security arrangements are in force and he resides in the accommodation as part of those arrangements;

and in any such case there is no charge to tax under Schedule E (either by virtue of this section or under section 183 of the Taxes Act or otherwise) in respect of a liability for rates on the premises being discharged for or on behalf of the employee or the employee being reimbursed for the discharge of that liability.

- (5) If the accommodation is provided by a company and the employee is a director of the company or of an associated company, then, except in a case where paragraph (c) of subsection (4) applies, no exemption is given by virtue of that subsection unless,

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for each employment of his which is employment as director of the company or an associated company, the following conditions are fulfilled, that is—

- (a) he has no material interest in the company, and
 - (b) either his employment is as a full-time working director or the company is non-profit-making (meaning that neither does it carry on a trade, nor do its functions consist wholly or mainly in the holding of investments or other property) or is established for charitable purposes only.
- (6) If by reason of a person's employment accommodation is provided for others being members of his family or household, he is to be treated under subsections (1) to (3) as if it were accommodation provided for him.
- (7) For the purposes of this section, living accommodation provided for an employee, or for members of his family or household, by his employer is deemed to be provided by reason of his employment unless—
- (a) the employer is an individual, and it can be shown that he makes the provision in the normal course of his domestic, family or personal relationships ; or
 - (b) the accommodation is provided by a local authority for an employee of theirs, and it can be shown that the terms on which it is provided are no more favourable than those on which similar accommodation is provided by the authority for persons who are not their employees but are otherwise similarly circumstanced.
- (8) For the purposes of this section—
- (a) a company is an associated company of another if one of them has control of the other or both are under the control of the same person ; and
 - (b) the following interpretative provisions of section 72 of the Finance Act 1976, that is to say, subsection (2) (" employment "), subsection (4) (" family or household "), subsections (8) to (10) (" director ", " full-time working director " and " material interest ") and subsection (11) (" control ", in relation to body corporate) apply as if this section were included in sections 60 to 71 of that Act.
- (9) This section has effect for the year 1977-78 and subsequent years of assessment.

34 Expense connected with living accommodation

- (1) After section 63 of the Finance Act 1976 (cash equivalent of benefits charged under section 61) there shall be inserted the following section:—

“63A Expense connected with living accommodation.

- (1) This section applies where, in the case of a person employed in director's or higher-paid employment, living accommodation is provided by reason of the employment and, accordingly, a charge to tax would arise in his case under section 33 of the Finance Act 1977 (living accommodation for employees) but for the case being one of those specified in subsection (4) of that section (representative occupation).
- (2) Where, by reason of expenditure incurred in one or more of the following, that is,—
 - (a) heating, lighting or cleaning the premises concerned;
 - (b) repairs to the premises, their maintenance or decoration;

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(c) the provision in the premises of furniture, or other appurtenances or effects which are normal for domestic occupation, or by reason of such expenditure being reimbursed to the employee, an amount falls to be included in the emoluments of his employment, that amount shall not exceed the limit specified in subsection (3).

(3) That limit is—

- (a) 10 per cent. of the net amount of the emoluments of the employment or, if the accommodation is provided for a period of less than a year, so much of that percentage of the net amount as is attributable to the period, less
- (b) where the expenditure is incurred by a person other than the employee, so much as is properly attributable to the expenditure of any sum made good by the employee to that other.

(4) The net amount of the emoluments of a person's employment for the purposes of subsection (3) is the amount of those emoluments (leaving out of account the expenditure in question) after—

- (a) any capital allowance, and
- (b) any deductions allowable under Chapter I of Part VIII of the Taxes Act (Schedule E), section 208(1) of that Act (superannuation) or section 227(1) of that Act (retirement annuities) or section 21(4) or 22(2) of the Finance Act 1970 (approved pension schemes);

and, for the purposes of this subsection, in the case of employment by a company there shall be taken into account, as emoluments of the employment, the emoluments of any employment by an associated company.

(5) For the purposes of subsection (4), a company is an associated company of another if one of them has control of the other or both are under the control of the same person.”.

(2) This section has effect for the year 1977-78 and subsequent years of assessment.

35 Other amendments relating to benefits of employment

(1) For section 69 of the Finance Act 1976 (employments to be treated as "director's or higher-paid ") the following section shall be substituted—

“69 Employments subject to ss. 60 to 67.

(1) In this Chapter "director's or higher-paid employment" means—

- (a) subject to subsection (5) below, employment as a director of a company ; or
- (b) employment with emoluments at the rate of £5,000 a year or more.

(2) For this purpose emoluments are to be calculated—

- (a) on the basis that they include all such amounts as come into charge under this Chapter or section 33 of the Finance Act 1977 in the case of those in director's or higher-paid employment or under section 68 of this Act or under section 36 or 37 of the Finance (No. 2) Act 1975 (cash or other vouchers); and

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- (b) without any deduction under section 189, 192 or 194(3) of the Taxes Act (necessary expenses of employment etc.).
- (3) But where a person is employed in two or more employments by the same employer and either—
 - (a) the total of the emoluments of those employments (applying this section) is at the rate of £5,000 a year or more ; or
 - (b) one or more of those employments is (apart from this subsection) director's or higher-paid,
 all the employments are to be treated as director's or higher-paid.
- (4) All employees of a partnership or body over which an individual or another partnership or body has control are to be treated for the purposes of this section (but not for any other purpose) as if the employment were an employment by the individual or by that other partnership or body as the case may be.
- (5) A person's employment is not director's or higher-paid by reason only of its being employment as a director of a company (without prejudice to its being so under subsection (1)(b) or (3)) if he has no material interest in the company and either—
 - (a) his employment is as a full-time working director; or
 - (b) the company is non-profit-making (meaning that neither does it carry on a trade, nor do its functions consist wholly or mainly in the holding of investments or other property) or is established for charitable purposes only.”.
- (2) In consequence of sections 33 and 34 above and of this section, the Tax Acts shall be amended as shown in Part I of Schedule 8 to this Act.
- (3) Subsections (1) and (2) above have effect for the year 1977-78 and subsequent years of assessment; and, for the year 1978-79 and subsequent years of assessment, " £7,500" shall be substituted for " £5,000 " in subsections (1)(b) and (3)(a) of section 69 of the Finance Act 1976.
- (4) In Schedule 9 to the Finance Act 1976 (consequential amendments of enactments in connection with revised provisions relating to taxation of directors' benefits etc.), paragraph 15 (substitution of new proviso to section 284(2) of the Taxes Act, about close company distributions) shall be deemed to have been so enacted that in paragraph (b) of the substituted proviso, after the word " annuity " there were inserted the words " lump sum, gratuity or other like benefit to be given ".

36 Interest relief for those in job-related living accommodation

- (1) In Part II of Schedule 1 to the Finance Act 1974 (conditions of allowance of interest relief on loans for purchase or improvement of land), after paragraph 4 there shall be inserted—
 - “4A (1) Part I of Schedule 9 to the Finance Act 1972 shall nevertheless apply where the property concerned (that is, the land, caravan or house boat referred to in that Part)—
 - (a) is, at the time the interest is paid, used by the borrower as a residence or, if it is paid less than twelve months after the date on which the loan is made, is so used by him within twelve months after that date ; or

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- (b) is intended at that time to be used in due course as his only or main residence ;
and at that time he resides in living accommodation which is for him job-related.
 - (2) In the case of a borrower for whom there are two or more properties falling within sub-paragraph (1) above, he may not by virtue of this paragraph claim relief for any period under section 75 of the Finance Act 1972 in respect of more than one of them.
 - (3) Subject to sub-paragraph (4) below, living accommodation is job-related for a person if it is provided for him by reason of his employment, or for his spouse by reason of hers, in any of the following cases—
 - (a) where it is necessary for the proper performance of the duties of the employment that the employee should reside in that accommodation ;
 - (b) where the accommodation is provided for the better performance of the duties of the employment, and it is one of the kinds of employment in the case of which it is customary for employers to provide living accommodation for employees ;
 - (c) where, there being a special threat to the employee's security, special security arrangements are in force and the employee resides in the accommodation as part of those arrangements.
 - (4) The living accommodation is not job-related, except in a case where sub-paragraph (3)(c) above applies, if it is provided by a company and the employee is a director of the company or an associated company, unless the conditions of sub-paragraph (5) below are satisfied.
 - (5) Those conditions are that—
 - (a) the company of which the employee is a director is one in which he or she has no material interest; and
 - (b) either the employment is as a full-time working director or the company is non-profit-making (meaning that neither does it carry on a trade, nor do its functions consist wholly or mainly in the holding of investments or other property) or is established for charitable purposes only.
 - (6) For the purposes of this paragraph—
 - (a) a company is an associated company of another if one of them has control of the other or both are under the control of the same person; and
 - (b) the following interpretative provisions of section 72 of the Finance Act 1976, that is to say, subsection (2) ("employment"), subsections (8) to (10) "director ", " full-time working director" and "material interest") and subsection (11) ("control ", in relation to body corporate) apply as if this paragraph were included in sections 60 to 71 of that Act.
 - (7) Only interest paid on or after 6th April 1977 is eligible for relief by virtue of this paragraph.”.
- (2) In consequence of subsection (1) above, other provisions of Part II of Schedule 1 to the Finance Act 1974 shall be amended as shown in Part II of Schedule 8 to this Act.

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37 Leave travel facilities for armed forces

- (1) No charge to Schedule E tax shall arise in respect of travel facilities provided for members of the naval, military or air forces of the Crown going on, or returning from, leave.
- (2) This applies whether the charge would otherwise have arisen under—
 - (a) section 36 of the Finance (No. 2) Act 1975 (certain vouchers treated as benefits in kind);
 - (b) section 61 of the Finance Act 1976 (benefits in kind for the higher-paid); or
 - (c) Chapter I of Part VIII of the Taxes Act (charge to Schedule E tax);
 and applies not only to travel vouchers and warrants for particular journeys but also to allowances and other payments for and in respect of leave travel, whether or not a warrant was available.
- (3) This section has effect for the year 1976-77 and subsequent years of assessment.

38 Maintenance funds for historic buildings

- (1) This section applies to any settlement in relation to which the Treasury have given a direction under section 84 of the Finance Act 1976 (maintenance funds for historic buildings).
- (2) The trustees of the settlement may elect that this subsection shall have effect in relation to any year of assessment, and if they do so—
 - (a) any income arising in that year from the property comprised in the settlement which, apart from this subsection, would be treated by virtue of Part XVI of the Taxes Act (settlements) as income of the settlor shall not be so treated; and
 - (b) no sum applied in that year out of the property for the purposes mentioned in subsection (3)(a)(i) of the said section 84 (maintenance etc. of a building or land) shall be treated for any purposes of the Income Tax Acts as the income of any person—
 - (i) by virtue of any interest of that person in, or his occupation of, the building or land in question; or
 - (ii) by virtue of section 451 of the Taxes Act (sums paid to settlor otherwise than as income).
- (3) Where income arising from the property comprised in the settlement in a year of assessment for which no election is made under subsection (2) above is treated by virtue of the said Part XVI as income of the settlor, paragraph (b) of that subsection shall have effect in relation to any sums in excess of that income which are applied in that year as mentioned in that paragraph.
- (4) Any election under subsection (2) above shall be by notice in writing to the Board in such form as the Board may require and shall be made within two years of the end of the year of assessment to which it relates.
- (5) Where—
 - (a) circumstances obtain for part of a year of assessment by virtue of which income arising from property comprised in the settlement is treated as income of a settlor under the said Part XVI; and
 - (b) no such circumstances obtain for the remainder of that year,

the foregoing provisions of this section shall apply as if each of those parts were a separate year of assessment and separate elections may be made accordingly.

39 Deduction rate for sub-contractors in the construction industry

Subsection (4) of section 69 of the Finance (No. 2) Act 1975 (which requires deductions to be made from payments to certain sub-contractors in the construction industry) shall have effect in relation to payments made on or after 6th November 1977 with the substitution for " 35 per cent. " of " 34 per cent. "

40 Capital gains: company reconstructions and amalgamations involving exchange of shares etc.

- (1) In sub-paragraph (2) of paragraph 6 of Schedule 7 to the Finance Act 1965 (roll-over relief on exchange of shares) for the words " where the company issuing the shares or debentures has or in consequence of the exchange will have control of the other company " there shall be substituted the words " where the company issuing the shares or debentures holds or in consequence of the exchange will hold more than one quarter of the ordinary share capital of the other company " ; and after that sub-paragraph there shall be inserted—

“(3) In this paragraph ' ordinary share capital' has the meaning given in section 526(5) of the Income and Corporation Taxes Act 1970.”

- (2) Subject to subsection (3) below, neither the said paragraph 6 nor paragraph 7 of the said Schedule 7 (reconstructions and amalgamations) shall apply to any issue by a company of shares in or debentures of that company in exchange for or in respect of shares in or debentures of another company unless the exchange, reconstruction or amalgamation in question is effected for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to capital gains tax or corporation tax.
- (3) Subsection (2) above shall not affect the operation of paragraph 6 or 7—
- (a) in any case where the person to whom the shares or debentures are issued does not hold more than 5 per cent. of, or of any class of, the shares in or debentures of the second company mentioned in that subsection; or
- (b) in any case where, before the issue is made, the Board have, on the application of either company mentioned in that subsection, notified the company that the Board are satisfied that the exchange, reconstruction or amalgamation will be effected for bona fide commercial reasons and will not form part of any such scheme or arrangements as are there mentioned.
- (4) Any application under subsection (3)(b) above shall be in writing and shall contain particulars of the operations that are to be effected and the Board may, within thirty days of the receipt of the application or of any further particulars previously required under this subsection, by notice require the applicant to furnish further particulars for the purpose of enabling the Board to make their decision; and if any such notice is not complied with within thirty days or such longer period as the Board may allow, the Board need not proceed further on the application.
- (5) The Board shall notify their decision to the applicant within thirty days of receiving the application or, if they give a notice under subsection (4) above, within thirty days of the notice being complied with.

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- (6) If the Board notify the applicant that they are not satisfied as mentioned in subsection (3)(b) above or do not notify their decision to the applicant within the time required by subsection (5) above, the applicant may within thirty days of the notification or of that time require the Board to transmit the application, together with any notice given and further particulars furnished under subsection (4) above, to the Special Commissioners ; and in that event any notification by the Special Commissioners shall have effect for the purposes of subsection (3)(b) above as if it were a notification by the Board.
- (7) If any particulars furnished under this section do not fully and accurately disclose all facts and considerations material for the decision of the Board or the Special Commissioners, any resulting notification that the Board or Commissioners are satisfied as mentioned in subsection (3)(b) above shall be void.
- (8) If any tax assessed on a person (the chargeable person) by virtue of subsection (2) above is not paid within six months from the date when it is payable, any other person who—
- (a) holds all or any part of the shares or debentures that were issued to the chargeable person; and
 - (b) has acquired them without there having been, since their acquisition by the chargeable person, any disposal of them not falling within paragraph 20 of Schedule 7 to the Finance Act 1965 or section 273 of the Taxes Act (disposals between spouses or members of a group of companies),
- may, at any time within two years from the time when the tax became payable, be assessed and charged (in the name of the chargeable person) to all or, as the case may be, a corresponding part of the unpaid tax ; and a person paying any amount of tax under this subsection shall be entitled to recover a sum of that amount from the chargeable person.
- (9) In this section references to shares or debentures include references to any interests or options to which the provisions mentioned in subsection (2) above apply by virtue of paragraph 15 of Schedule 12 to the Finance Act 1968 or section 58(4) of the Finance Act 1971; and for the purposes of subsection (3)(a) above shares or debentures held by persons connected with the person there mentioned shall be treated as held by him.
- (10) This section applies where the shares or debentures are issued after 19th April 1977 and section 279 of the Taxes Act shall apply only if the earlier occasion mentioned in that section fell on or before that date.

41 Capital gains: company reconstructions and amalgamations involving transfer of business assets

- (1) In section 267 of the Taxes Act (relief where reconstruction or amalgamation involves transfer of business assets) after subsection (3) there shall be inserted—
- “(3A) This section does not apply unless the reconstruction or amalgamation is effected for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of liability to corporation tax, capital gains tax or income tax; but the foregoing provisions of this subsection shall not affect the operation of this section in any case where, before the transfer, the Board have, on the application of the acquiring company, notified the company that the Board are satisfied that the reconstruction or amalgamation will be effected for

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bona fide commercial reasons and will not form part of any such scheme or arrangements as aforesaid.

Subsections (4) to (7) of section 40 of the Finance Act 1977 shall have effect in relation to this subsection as they have effect in relation to subsection (3) (b) of that section.

(3B) Where, if the company making the disposal had not been wound up, tax could have been assessed on it by virtue of subsection (3A) above, that tax may be assessed and charged (in the name of the company making the disposal) on the company to which the disposal is made.

(3C) If any tax assessed on a company (the chargeable company) by virtue of subsection (3A) or (3B) above is not paid within six months from the date when it is payable, any other person who—

- (a) holds all or any part of the assets in respect of which the tax is charged; and
- (b) either is the company to which the disposal was made or has acquired the assets without there having been any subsequent disposal not falling within this section or section 273 below,

may, within two years from the time when the tax became payable, be assessed and charged (in the name of the chargeable company) to all or, as the case may be, a corresponding part of the unpaid tax ; and a person paying any amount of tax under this section shall be entitled to recover a sum of that amount from the chargeable company.”.

(2) This section applies where the transfer takes effect after 19th April 1977.

42 Capital gains: transfers of assets to non-resident companies

(1) For section 268 of the Taxes Act (postponement of charge on transfer of assets to non-resident company) there shall be substituted—

“268A Postponement of charge on transfer of assets to non-resident company.

(1) This section applies where a company resident in the United Kingdom carries on a trade outside the United Kingdom through a branch or agency and—

- (a) that trade, or part of it, together with the whole assets of the company used for the purposes of the trade or part (or together with the whole of those assets other than cash) is transferred to a company not resident in the United Kingdom;
- (b) the trade or part is so transferred wholly or partly in exchange for securities consisting of snares, or of shares and loan stock, issued by the transferee company to the transferor company;
- (c) the shares so issued, either alone or taken together with any other shares in the transferee company already held by the transferor company, amount in all to not less than one quarter of the ordinary share capital of the transferee company; and
- (d) either no allowable losses accrue to the transferor company on the transfer or the aggregate of the chargeable gains so accruing exceeds the aggregate of the allowable losses so accruing.

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- (2) In any case to which this section applies the transferor company may claim that Part III of the Finance Act 1965 shall have effect in accordance with the following provisions.
- (3) Any allowable losses accruing to the transferor company on the transfer shall be set off against the chargeable gains so accruing and the transfer shall be treated as giving rise to a single chargeable gain equal to the aggregate of those gains after deducting the aggregate of those losses and—
- (a) if the securities are the whole consideration for the transfer, the whole of that gain shall be treated as not accruing to the transferor company on the transfer but an equivalent amount (" the deferred gain ") shall be brought into account in accordance with subsections (4) and (5) below ;
 - (b) if the securities are not the whole of that consideration—
 - (i) paragraph (a) above shall apply to the appropriate proportion of that gain; and
 - (ii) the remainder shall be treated as accruing to the transferor company on the transfer.

In paragraph (b)(i) above " the appropriate proportion " means the proportion that the market value of the securities at the time of the transfer bears to the market value of the whole of the consideration at that time.

- (4) If at any time after the transfer the transferor company disposes of the whole or part of the securities held by it immediately before that time, the consideration received by it on the disposal shall be treated as increased by the whole or the appropriate proportion of the deferred gain so far as not already taken into account under this subsection or subsection (5) below.

In this subsection " the appropriate proportion " means the proportion that the market value of the part of the securities disposed of bears to the market value of the securities held immediately before the disposal.

- (5) If at any time within six years after the transfer the transferee company disposes of the whole or part of the relevant assets held by it immediately before that time there shall be deemed to accrue to the transferor company as a chargeable gain on that occasion the whole or the appropriate proportion of the deferred gain so far as not already taken into account under this subsection or subsection (4) above.

In this subsection " relevant assets " means assets the chargeable gains on which were taken into account in arriving at the deferred gain and " the appropriate proportion " means the proportion which the chargeable gain so taken into account in respect of the part of the relevant assets disposed of bears to the aggregate of the chargeable gains so taken into account in respect of the relevant assets held immediately before the time of the disposal.

- (6) There shall be disregarded—
- (a) for the purposes of subsection (4) above any disposal to which section 273 of this Act applies; and
 - (b) for the purposes of subsection (5) above any disposal to which that section would apply apart from section 272(1)(a) or (2) of this Act;

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and where a person acquires securities or an asset on a disposal disregarded for the purposes of subsection (4) or (5) above (and without there having been a previous disposal not so disregarded) a disposal of the securities or asset by that person shall be treated as a disposal by the transferor or, as the case may be, transferee company.

(7) This section applies where the transfer mentioned in subsection (1)(a) above is on or after 29th March 1977.

(8) If in the case of any such transfer as was mentioned in subsection (1) of section 268 of this Act there were on the said 29th March chargeable gains which by virtue of subsection (2) of that section were treated as not yet having accrued to the transferor company, subsections (4) and (5) above shall (without any claim in that behalf) apply to the aggregate of those gains as if references to the deferred gain were references to that aggregate and as if references to the transfer and the securities were references to the transfer and the shares, or shares and loan stock, mentioned in subsection (1) of that section.”

(2) This section shall be deemed to have come into force on 29th March 1977.

43 Capital gains: value-shifting

(1) This section has effect as respects the disposal of an asset if a scheme has been effected or arrangements have been made (whether before or after the disposal) whereby—

(a) the value of the asset has been materially reduced ; and

(b) a tax-free benefit has been or will be conferred—

(i) on the person making the disposal or a person with whom he is connected; or

(ii) subject to subsection (3) below, on any other person.

(2) For the purposes of subsection (1)(b) above a benefit is conferred on a person if he becomes entitled to any money or money's worth or the value of any asset in which he has an interest is increased or he is wholly or partly relieved from any liability to which he is subject; and a benefit is tax-free unless it is required, on the occasion on which it is conferred on the person in question, to be brought into account in computing his income, profits or gains for the purposes of income tax, capital gains tax or corporation tax.

(3) This section shall not apply by virtue of subsection (1)(b)(ii) above if it is shown that avoidance of tax was not the main purpose or one of the main purposes of the scheme or arrangements in question.

(4) Where this section has effect in relation to any disposal, any allowable loss or chargeable gain accruing on the disposal shall be calculated as if the consideration for the disposal were increased by such amount as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable having regard to the scheme or arrangements and the tax-free benefit in question.

(5) Where—

(a) by virtue of subsection (4) above the consideration for the disposal of an asset has been treated as increased ; and

(b) the benefit taken into account under subsection (1)(b) above was an increase in the value of another asset,

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any allowable loss or chargeable gain accruing on the first disposal of the other asset after the increase in its value shall be calculated as if the consideration for that disposal were reduced by such amount as appears to the inspector, or on appeal the Commissioners concerned, to be just and reasonable having regard to the scheme or arrangements in question and the increase made in relation to the disposal mentioned in paragraph (a) above.

- (6) References in this section to a disposal do not include references to any disposal falling within—
- (a) section 24(7) of the Finance Act 1965 (disposals by personal representatives to legatees); or
 - (b) paragraph 20(1) of Schedule 7 to that Act (disposals between husband and wife); or
 - (c) section 273(1) of the Taxes Act (disposals within a group of companies).
- (7) In relation to the disposal by a company of an asset consisting of shares in another company the reference in subsection (1)(a) above to a reduction in the value of the asset does not include a reference to any reduction attributable to—
- (a) the payment of a dividend by the second company at a time when it and the first company are members of the same group of companies within the meaning of section 272 of the Taxes Act; or
 - (b) the disposal of any asset by the second company at such a time, being a disposal falling within section 273(1) of that Act.
- (8) In relation to a case in which the disposal of an asset precedes its acquisition the reference in subsection (1)(a) above to a reduction shall be read as including a reference to an increase.
- (9) This section applies where the disposal and reduction in value mentioned in subsection (1) above (or, in a case within subsection (8) above, the disposal and reduction or increase in value) are after 29th March 1977.

44 Capital gains: unit trusts etc.

- (1) In relation to gains accruing on disposals after 5th April 1977 section 112 of the Finance Act 1972 (reduction of tax liability on certain disposals of shares in unit trusts, investment trusts and funds in court) shall have effect as if for the references in paragraphs (b) and (c) of subsection (3) to 17 ½ per cent. there were substituted references to 17 per cent.
- (2) Section 113 of that Act (reduced rate of capital gains tax for certain unit trusts and funds in court) shall have effect for the year 1977-78 and subsequent years of assessment as if the rate specified in it were 17 per cent. instead of 17 ½ per cent.

45 Insurance companies: overseas business

- (1) Subsections (2) and (3) below apply where a company resident in the United Kingdom carries on insurance business outside the United Kingdom through a branch or agency and—
- (a) that business, or part of it, together with the whole assets of the company used for the purposes of that business or part (or together with the whole of those assets other than cash), is transferred to a company not resident in the United Kingdom ;

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- (b) the business or part is so transferred wholly or partly in exchange for shares, or for shares and loan stock, issued by the transferee company to the transferor company; and
 - (c) the shares so issued, either alone or taken together with any other shares in the transferee company already held by the transferor company, amount in all to not less than one quarter of the ordinary share capital of the transferee company.
- (2) In making any computation in accordance with the provisions of the Taxes Act applicable to Case I of Schedule D of the profits or losses of the transferor company for the accounting period in which the transfer occurs there shall be disregarded any profit or loss in respect of any asset transferred which, apart from this subsection, would fall to be taken into account in making that computation.
- (3) Where by virtue of subsection (2) above any profit or loss is disregarded in making any computation otherwise than for the purposes of section 305(2) of the Taxes Act (restriction on relief for expenses of management) the profit or loss shall be treated for the purposes of Part III of the Finance Act 1965 as a chargeable gain or allowable loss accruing to the transferor company on the transfer.
- (4) Where at any time a company resident in the United Kingdom—
- (a) which carries on insurance business wholly outside the United Kingdom; and
 - (b) the whole or part of whose ordinary share capital is beneficially owned by one or more companies resident in the United Kingdom,
- ceases to be resident in the United Kingdom, the profits or losses of the company in respect of that business for the accounting period ending at that time shall be computed for tax purposes without regard to the whole or, as the case may be, a corresponding part of any profit or loss in respect of any asset which, apart from this subsection, would fall to be calculated in accordance with section 137(1)(b) of the Taxes Act (valuation of trading stock on discontinuance of trade) and taken into account in making that computation.
- (5) Subsections (1) to (3) above apply where the transfer is on or after 29th March 1977 and subsection (4) above applies where the company ceases to be resident in the United Kingdom on or after that date.

46 Conversion etc. of securities held as circulating capital

- (1) Subsections (3) and (4) below shall have effect where a transaction to which this section applies occurs in relation to any securities (" the original holding ")—
- (a) to which a person carrying on a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is beneficially entitled; and
 - (b) which are such that a profit on their sale would form part of the trading profits of that business.
- (2) This section applies to any transaction which, if the securities were not such as is mentioned in subsection (1)(b) above—
- (a) would result in the original holding being equated with a new holding by virtue of paragraph 4, 5, 6 or 7 of Schedule 7 to the Finance Act 1965 (capital gains tax roll-over relief in cases of conversions etc.); or

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- (b) would be treated by virtue of section 53 of the Finance Act 1976 (compensation stock) as an exchange for a new holding which does not involve a disposal of the original holding,
- but does not apply to any transaction in relation to which section 326 (exchange of securities in connection with conversion operations, nationalisation etc.) of the Taxes Act applies or would apply if the person concerned had not given a notice under that section.
- (3) Subject to subsection (4) below, in making any computation in accordance with the provisions of the Taxes Act applicable to Case I of Schedule D of the profits or losses of the business—
- (a) the transaction shall be treated as not involving any disposal of the original holding ; and
- (b) the new holding shall be treated as the same asset as the original holding.
- (4) Where under the transaction the person concerned receives or becomes entitled to receive any consideration in addition to the new holding, subsection (3) above shall have effect as if references to the original holding were references to the proportion of it which the market value of the new holding at the time of the transaction bears to the aggregate of that value and the market value at that time (or, if it is cash, the amount) of the consideration.
- (5) Subsections (3) and (4) above shall have effect with the necessary modifications in relation to any computation made for the purposes of section 305(2) of the Taxes Act (restriction on relief for expenses of management) in a case where securities held by the company concerned are equated with a new holding by virtue of any of the provisions mentioned in paragraph (a) of subsection (2) above or are treated as not disposed of by virtue of the provision mentioned in paragraph (b) of that subsection.
- (6) In this section " securities " includes shares, any security within the meaning of paragraph 5 of Schedule 7 to the said Act of 1965 and any rights, interests or options which by virtue of section 45(8) of that Act, paragraph 15 of Schedule 12 to the Finance Act 1968 or section 58(4) of the Finance Act 1971 are treated as shares for the purposes of the provisions mentioned in subsection (2) above.
- (7) In determining for the purposes of subsection (2)(a) above whether a transaction would result in the original holding being equated with a new holding by virtue of paragraph 6 or 7 of Schedule 7 to the said Act of 1965 the reference in section 40(2) above to capital gains tax shall be construed as a reference to income tax.
- (8) This section applies where the securities comprised in the new holding are issued after 19th April 1977.

47 Police provident benefits

- (1) In section 338 of the Taxes Act (exemption of income and gains of certain trade unions if applicable and applied for purpose of provident benefits) references to a registered trade union shall be construed as including references to the Police Federation for England and Wales, the Police Federation for Scotland, the Police Federation for Northern Ireland and any other organisation of persons in police service which has similar functions.

- (2) This section shall have effect in relation to income or gains which are applicable and applied as mentioned in subsection (1) of the said section 338 after 30th September 1971.

48 Annual payments for non-taxable consideration

- (1) Any payment to which this subsection applies shall be made without deduction of income tax, shall not be allowed as a deduction in computing the income or total income of the person by whom it is made and shall not be a charge on income for the purposes of corporation tax.
- (2) Subject to the following provisions of this section, subsection (1) above applies to any payment which—
- (a) is an annuity or other annual payment charged with tax under Case III of Schedule D, not being interest; and
 - (b) is made under a liability incurred for consideration in money or money's worth all or any of which is not required to be brought into account in computing for the purposes of income tax or corporation tax the income of the person making the payment.
- (3) Subsection (1) above does not apply to—
- (a) any payment which in the hands of the recipient is income falling within section 457(1)(a) or (c) or (2) of the Taxes Act (partnership agreements, transfers of businesses and maintenance agreements);
 - (b) any payment made to an individual under a liability incurred in consideration of his surrendering, assigning or releasing an interest in settled property to or in favour of a person having a subsequent interest;
 - (c) any annuity granted in the ordinary course of a business of granting annuities ;
or
 - (d) any annuity charged on an interest in settled property and granted at any time before 30th March 1977 by an individual to a company whose business at that time consisted wholly or mainly in the acquisition of interests in settled property or which was at that time carrying on life assurance business in the United Kingdom.
- (4) In the application of this section to Scotland the references in subsection (3) above to settled property shall be construed as references to property held in trust.
- (5) Subsection (1) above does not apply to any payment made on or before 29th March 1977 but applies to a payment made after that date irrespective of when the liability to make it was incurred.