



Finance Act 1986

1986 CHAPTER 41

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

Tax rates and main reliefs

16 Charge of income tax for 1986-87

- (1) Income tax for the year 1986-87 shall be charged at the basic rate of 29 per cent.; and in respect of so much of an individual's total income as exceeds the basic rate limit (£17,200) at such higher rates as are specified in the Table below:

TABLE

<i>Higher rate bands</i>		<i>Higher rate per cent.</i>
The first £3,000	40	
The next £5,200	45	
The next £7,900	50	
The next £7,900	55	
The remainder	60	

and paragraphs (a) and (b) of subsection (1) of section 32 of the Finance Act 1971 (charge of tax at the basic and higher rates) shall have effect accordingly.

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- (2) Section 24(4) of the Finance Act 1980 (indexation of thresholds) shall not, so far as it relates to the higher rate bands, apply for the year 1986—87.

17 Rate of advance corporation tax

- (1) For the financial year 1986 and any subsequent financial year, the rate of advance corporation tax shall be fixed by the fraction—

$$\frac{I}{100-I}$$

where I is the percentage at which income tax at the basic rate is charged for the year of assessment which begins on 6th April in that financial year; and in the following provisions of this section that percentage is referred to, in relation to a particular financial year, as "the basic rate percentage for the appropriate year of assessment".

- (2) If, at the beginning of any financial year, the basic rate percentage for the appropriate year of assessment has not been determined (whether under the Provisional Collection of Taxes Act 1968 or otherwise), then, subject to subsection (3) below, advance corporation tax in respect of distributions made in that financial year shall be payable under Schedule 14 to the Finance Act 1972 and may be assessed under that Schedule according to the rate of advance corporation tax fixed for the previous financial year.
- (3) Subsection (2) above does not apply with respect to any distribution made in a financial year after—
- (a) the date on which is determined the basic rate percentage for the appropriate year of assessment; or
 - (b) 5th August in that year,
- whichever is the earlier.
- (4) If a rate of advance corporation tax for any financial year is not fixed, under subsection (1) above or any other enactment, or if advance corporation tax for any financial year is charged otherwise than as it has been paid or assessed, the necessary adjustment shall be made by discharge or repayment of tax or by a further assessment.
- (5) In subsection (2) of section 84 of the Finance Act 1972 (the rate of advance corporation tax) for the words from "for the period" onwards there shall be substituted "for the financial year 1986 and subsequent financial years shall be determined in accordance with section 17 of the Finance Act 1986".
- (6) In section 103 of the Finance Act 1972 (charge of advance corporation tax at previous rate until new rate is fixed and change of rate) subsections (1) to (3) shall cease to have effect.
- (7) Section 37(2) of the Finance Act 1974 (tax on company in liquidation to be based on Resolution fixing the rate of advance corporation tax) shall cease to have effect.

18 Corporation tax: small companies

- (1) For the financial year 1986 the small companies rate shall be 29 per cent.
- (2) For the financial year 1986, the fraction mentioned in section 95(2) of the Finance Act 1972 (marginal relief for small companies) shall be three two-hundredths.

19 Personal reliefs: operative date for PAYE

For the year 1986-87, in subsection (7) of section 24 of the Finance Act 1980 (which specifies the date from which indexed changes in income tax thresholds and allowances are to be brought into account for the purposes of PAYE) for "5th May" there shall be substituted "18th May".

20 Relief for interest

For the year 1986-87 the qualifying maximum referred to in paragraphs 5(1) and 24(3) of Schedule 1 to the Finance Act 1974 (limit on relief for interest on certain loans for the purchase or improvement of land) shall be £30,000.

21 Deduction rate for sub-contractors in construction industry

Section 69(4) of the Finance (No. 2) Act 1975 (which requires deductions to be made from payments to certain subcontractors in the construction industry) shall have effect in relation to payments made on or after 6th November 1986 with the substitution for the words "30 per cent." of the words "29 per cent."

Employee shareholding

22 Employee share schemes: shares subject to restrictions

- (1) In Schedule 9 to the Finance Act 1978 (approved profit snaring schemes) in paragraph 7 (conditions as to the shares)—
 - (a) in paragraph (c) after the word "class" there shall be added the words "or a restriction authorised by subparagraph (2) below"; and
 - (b) at the end there shall be added the sub-paragraphs set out in subsection (4) below followed by the additional sub-paragraph set out in subsection (5) below.
- (2) In Schedule 10 to the Finance Act 1980 (savings-related share option schemes) in paragraph 17 (conditions as to the scheme shares)—
 - (a) in paragraph (c) after the word "class" there shall be added the words "or a restriction authorised by subparagraph (2) below"; and
 - (b) at the end there shall be added the sub-paragraphs set out in subsection (4) below.
- (3) In Schedule 10 to the Finance Act 1984 (approved share option schemes) in paragraph 9 (conditions as to scheme shares)
 - (a) in paragraph (c) after the word "class" there shall be added the words "or a restriction authorised by subparagraph (2) below"; and
 - (b) at the end there shall be added the sub-paragraphs set out in subsection (4) below.
- (4) The sub-paragraphs referred to in subsections (1)(b), (2)(b) and (3)(b) above are—
 - (2) Except as provided below, the shares may be subject to a restriction imposed by the company's articles of association

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- (a) requiring all shares held by directors or employees of the company or of any other company of which it has control to be disposed of on ceasing to be so held; and
 - (b) requiring all shares acquired, in pursuance of rights or interests obtained by such directors or employees, by persons who are not (or have ceased to be) such directors or employees to be disposed of when they are acquired.
- (3) A restriction is not authorised by sub-paragraph (2) above unless—
- (a) any disposal required by the restriction will be by way of sale for a consideration in money on terms specified in the articles of association; and
 - (b) the articles also contain general provisions by virtue of which any person disposing of shares of the same class (whether or not held or acquired as mentioned in sub-paragraph (2) above) may be required to sell them on terms which are the same as those mentioned in paragraph (a) above.”
- (5) The additional sub-paragraph referred to in subsection (1)(b) above is—
- “(4) Except in the case of redeemable shares in a workers' co-operative, nothing in sub-paragraph (2) above authorises a restriction which would require a person, before the release date, to dispose of his beneficial interest in shares the ownership of which has not been transferred to him.”

23 Employee share schemes: general amendments

- (1) In this section—
- "the 1978 Schedule" means Schedule 9 to the Finance Act 1978 (approved profit sharing schemes);
 - "the 1980 Schedule" means Schedule 10 to the Finance Act 1980 (savings-related share option schemes); and
 - "the 1984 Schedule" means Schedule 10 to the Finance Act 1984 (approved share option schemes).
- (2) In each of the following provisions (which govern the eligibility of shares)—
- (a) paragraph 8 of the 1978 Schedule,
 - (b) paragraph 19 of the 1980 Schedule,
 - (c) paragraph 11 of the 1984 Schedule,
- there shall be made the amendments in subsection (3) below.
- (3) After the words "of the same class" there shall be inserted "either must be employee-control shares or" and at the end there shall be added the following sub-paragraph—
- “(2) For the purposes of this paragraph, shares of a company are employee-control shares if—
- (a) the persons holding the shares are, by virtue of their holding, together able to control the company; and
 - (b) those persons are or have been employees or directors of the company or of another company which is under the control of the company.”

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- (4) In the following enactments (which exclude from provisions about restrictions attaching to shares provisions which are derived from a Model Code issued by The Stock Exchange in April 1981), namely—
- (a) section 41 of the Finance Act 1982 (which relates to the 1980 Schedule and also to Schedule 8 to the Finance Act 1973—share option and share incentive schemes), and
 - (b) paragraph 10(2) of the 1984 Schedule,
- for "April 1981" there shall be substituted "November 1984".
- (5) For the purpose of bringing the definition of a member of a consortium in the 1978 Schedule and the 1980 Schedule into line with that in the 1984 Schedule
- (a) in paragraph 17 of the 1978 Schedule, and
 - (b) in paragraph 26(5) of the 1980 Schedule,
- for the words "not more than five" there shall be substituted "a number of.
- (6) In each of the 1978 Schedule, the 1980 Schedule and the 1984 Schedule, "recognised stock exchange" has the same meaning as in the Corporation Tax Acts.

24 Approved profit sharing schemes: workers' co-operatives

- (1) In Schedule 9 to the Finance Act 1978 (profit sharing schemes) at the end of Part V (interpretation) there shall be added the following paragraph—
- “18 In this Schedule "workers' co-operative" means a registered industrial and provident society, within the meaning of section 340 of the Taxes Act, which is a co-operative society and the rules of which include provisions which secure—
- (a) that the only persons who may be members of it are those who are employed by, or by a subsidiary of, the society and those who are the trustees of its profit sharing scheme; and
 - (b) that, subject to any provision about qualifications for membership which is from time to time made by the members of the society by reference to age, length of service or other factors of any description, all such persons may be members of the society;
- and in this paragraph "co-operative society" has the same meaning as in section 1 of the Industrial and Provident Societies Act 1965 or, as the case may be, the Industrial and Provident Societies Act (Northern Ireland) 1969.”
- (2) In paragraph 7 of that Schedule (conditions as to shares) for paragraph (b) there shall be substituted the following paragraph—
- “(b) except in the case of shares in a workers' co-operative, not redeemable; and”.
- (3) In section 54 of the Finance Act 1978 (the period of retention etc.)—
- (a) at the end of subsection (1)(d) there shall be added "or, in the case of redeemable shares in a workers' co-operative, as denned in Schedule 9 to this Act, by redemption"; and
 - (b) at the end of subsection (4) there shall be added “or
- (d) in a case where the participant's shares are redeemable shares in a workers' co-operative, as denned in Schedule 9 to this

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Act, the date on which the participant ceases to be employed by, or by a subsidiary of, the co-operative.”

- (4) Where, for the purpose of securing (and maintaining) approval of its profit sharing scheme in accordance with Part I of Schedule 9 to the Finance Act 1978, the rules of a society which is a workers' co-operative or which is seeking to be registered under the industrial and provident societies legislation as a workers' co-operative contain—
- (a) provision for membership of the society by the trustees of the scheme,
 - (b) provision denying voting rights to those trustees, or
 - (c) other provisions which appear to the registrar to be reasonably necessary for that purpose,
- those provisions shall be disregarded in determining whether the society should be or continue to be registered under the industrial and provident societies legislation as a bona fide co-operative society.
- (5) In subsection (4) above "the industrial and provident societies legislation" means—
- (a) the Industrial and Provident Societies Act 1965, or
 - (b) the Industrial and Provident Societies Act (Northern Ireland) 1969,
- and "registrar" has the same meaning as in each of those Acts and "co-operative society" has the same meaning as in section 1 of those Acts.

25 Savings-related share option schemes

- (1) Schedule 10 to the Finance Act 1980 (savings-related share option schemes) shall be amended in accordance with subsections (2) to (7) below.
- (2) Paragraph 2 (schemes may be approved conditionally upon satisfaction as to acquisition price of scheme shares) shall cease to have effect.
- (3) In paragraph 8 (provisions as to exercising rights where a person ceases to be eligible to participate in schemes) after the words "may not be exercised at all" there shall be inserted the words "except pursuant to such a provision of the scheme as is specified in paragraph 10(1)(e) below".
- (4) At the end of sub-paragraph (1) of paragraph 10 (cases where a scheme may allow options to be exercised after certain events) there shall be added the following paragraph
- “(e) if a person ceases to hold an office or employment by virtue of which he is eligible to participate in the scheme by reason only that—
 - (i) that office or employment is in a company of which the company concerned ceases to have control, or
 - (ii) that office or employment relates to a business or part of a business which is transferred to a person who is neither an associated company of the company concerned nor a company of which the company concerned has control,
 rights under the scheme held by that person may be exercised within six months of his so ceasing”.
- (5) In paragraph 12 (supplementary provision as to ceasing to be employed) after the words "paragraph 8" there shall be inserted "or paragraph 10(1)(e)".

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- (6) In paragraph 21 (eligibility to participate restricted to current directors and employees) after the words "paragraph 8 above" there shall be inserted "or pursuant to such a provision as is referred to in paragraph 10(1)(e) above".
- (7) Paragraph 22 (which restricts eligibility to participate in one scheme where, in the same year of assessment, rights have been obtained under another scheme) shall cease to have effect and, accordingly, in paragraph 20 for the words "paragraphs 22 and 23" there shall be substituted "paragraph 23".
- (8) Where an existing scheme is altered before 1st August 1988 so as to include such a provision as is specified in paragraph 10(1)(e) of Schedule 10 to the Finance Act 1980 (as amended by this section), the scheme as altered may by virtue of this section apply that provision to rights obtained under the scheme before the date on which the alteration takes effect, and where that provision is so applied in relation to such rights,
- (a) the scheme may permit a person having such rights to take advantage of the provision, notwithstanding that under the scheme he would otherwise be unable to exercise those rights after he has ceased to hold the office or employment in question; and
 - (b) if, before the date on which the alteration takes effect, a person who held such rights on 18th March 1986 ceases, in either of the circumstances set out in the said paragraph 10(1)(e), to hold an office or employment by virtue of which he was eligible to participate in the scheme, then, so far as concerns the rights so held, the scheme may permit him to take advantage of the provision in question as if the alteration had been made immediately before he ceased to hold that office or employment; and
 - (c) the application of the provision shall not itself be regarded as the acquisition of a right for the purposes of the said Schedule 10.
- (9) In subsection (8) above "an existing scheme" means a scheme approved under Schedule 10 to the Finance Act 1980 before 1st August 1986; and that subsection has effect subject to paragraph 3(2) of that Schedule (approval of Board required for alteration in scheme).

26 Shares and rights to acquire shares obtained by directors and employees

- (1) In section 186 of the Taxes Act (directors and employees granted rights to acquire shares), after subsection (5) there shall be inserted the following subsections—

“(5A) In any case where—

- (a) a person has obtained any such right to acquire shares as is mentioned in subsection (1) above (in this subsection referred to as "the first right"), and
- (b) as to any of the shares to which the first right relates, he omits or undertakes to omit to exercise the right or grants or undertakes to grant to another a right to acquire the shares or any interest therein, and
- (c) in consideration for or otherwise in connection with that omission, grant or undertaking, he receives any benefit in money or money's worth,

he shall be treated for the purposes of this section as realising a gain by the assignment or release of the first right, so far as it relates to the shares in question, for a consideration equal to the amount or value of the benefit referred to in paragraph (c) above.

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- (5B) Where subsection (5A) above has had effect on any occasion, nothing in that subsection affects the application of this section in relation to a gain realised on a subsequent occasion, except that on that subsequent occasion so much of the consideration given for the grant of the first right as was deducted on the first occasion shall not be deducted again.”
- (2) In subsection (11) of that section (notice of certain events relating to right to acquire shares) for the words from "gives any consideration" to "it shall" there shall be substituted
- “receives written notice of the assignment of such a right or provides any benefit in money or money's worth—
- (a) for the assignment or for the release in whole or in part of such a right, or
 - (b) for or in connection with an omission or undertaking to omit to exercise such a right, or
 - (c) for or in connection with the grant or undertaking to grant a right to acquire shares or an interest in shares to which such a right relates, it shall”.
- (3) In section 79 of the Finance Act 1972 (share incentive schemes) after subsection (5) there shall be inserted the following subsections—
- “(5A) Subsection (5B) below applies where—
- (a) a person has acquired shares or an interest in shares as mentioned in subsection (1) above (and the shares which he acquires or in which he acquires an interest are in the following provisions of this section, other than subsection (6A), referred to as "the original shares"); and
 - (b) the circumstances of his acquisition of the original shares are such that the application of subsection (4) above is not excluded; and
 - (c) by virtue of his holding of the original shares or the interest in them he acquires (whether or not for consideration) additional shares or an interest in additional shares (and the shares which he so acquires or in which he so acquires an interest are in subsection (5B) below referred to as "the additional shares").
- (5B) Where this subsection applies—
- (a) the additional shares or, as the case may be, the interest in them shall be treated as having been acquired as mentioned in subsection (1) above and in circumstances falling within subsection (5A)(b) above and, for the purpose of subsection (6)(a) below, as having been acquired at the same time as the original shares or the interest in them;
 - (b) for the purposes of subsections (4) and (5) above, the additional shares and the original shares shall be treated as one holding of shares and the market value of the shares comprised in that holding at any time shall be determined accordingly (the market value of the original shares at the time of acquisition being attributed proportionately to all the shares in the holding); and
 - (c) for the purposes of those subsections, any consideration given for the acquisition of the additional shares or the interest in them shall be taken to be an increase falling within subsection (5)(a) above in the consideration for the original shares or the interest in them.”

- (4) In subsection (6)(c) of the said section 79 (the period at the end of which a charge to tax arises)—
- (a) for the words "the shares cease" there shall be substituted "by reason of the shares ceasing"; and
 - (b) at the end there shall be added the words "either of the conditions in subsection (2)(c) above would be satisfied in relation to the shares if they had been acquired at that time".
- (5) After subsection (6) of the said section 79 there shall be inserted the following subsection—
- “(6A) If, on a person ceasing to have a beneficial interest in any shares, he acquires other shares or an interest in other shares and the circumstances are such that, for the purposes of sections 78 to 81 of the Capital Gains Tax Act 1979 (reorganisations etc.) the shares in which he ceases to have a beneficial interest constitute "original shares" and the other shares constitute a "new holding",—
- (a) section 78 of that Act (which equates the original shares and the new holding) shall apply for the purposes of this section; and
 - (b) if any such consideration is given for the new holding as is mentioned in section 79(1) of that Act, it shall be treated for the purposes of this section as an increase falling within subsection (5)(a) above in the consideration for the shares; and
 - (c) if any such consideration is received for the disposal of the original shares as is mentioned in section 79(2) of that Act, the consideration shall be apportioned among the shares comprised in the new holding and the amount which, apart from this paragraph, would at any subsequent time be the market value of any of those shares shall be taken to be increased by the amount of the consideration apportioned to them;
- and in paragraphs (a) to (c) above "the original shares" shall be construed in accordance with the said sections 78 to 81 (and not in accordance with subsection (5A) above).”
- (6) In this section—
- (a) subsections (1) and (2) above have effect where a benefit is received after 18th March 1986;
 - (b) subsection (3) above has effect where the acquisition of additional shares or the interest in shares is after that date;
 - (c) subsection (4) above has effect where the shares cease to be subject to restrictions after that date; and
 - (d) subsection (5) above has effect where the shares which constitute the new holding are acquired after that date.

Charities

27 Relief for donations under payroll deduction scheme

- (1) This section applies where an individual (the employee) is entitled to receive payments from which income tax falls to be deducted by virtue of section 204 of the Taxes Act and regulations under that section (PAYE), and the person liable to make the payments (the employer) withholds sums from them.

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- (2) If the conditions mentioned in subsections (3) to (7) below are fulfilled the sums shall, in assessing tax under Schedule E, be allowed to be deducted as expenses incurred in the year of assessment in which they are withheld.
- (3) The sums must be withheld in accordance with a scheme which is (or is of a kind) approved by the Board at the time they are withheld and which either contains provisions falling within subsection (4)(a) below, or contains provisions falling within subsection (4)(a) below and provisions falling within subsection (4)(b) below.
- (4) The provisions are that—
 - (a) the employer is to pay sums withheld to a person (the agent) who is approved by the Board at the time they are withheld, and the agent is to pay them to a charity or charities; ,
 - (b) the employer is to pay sums withheld directly to a charity which (or charities each of which) is at the time the sums are withheld approved by the Board as an agent for the purpose of paying sums to other charities.
- (5) The sums must be withheld in accordance with a request by the employee that they be paid to a charity or charities in accordance with a scheme approved (or of a kind approved) by the Board.
- (6) The sums must constitute gifts by the employee to the charity or charities concerned, must not be paid by the employee under a covenant, and must fulfil any conditions set out in the terms of the scheme concerned.
- (7) The sums must not in any year of assessment exceed £100 in the case of any employee (however many offices or employments he holds or has held).
- (8) In this section "charity" has the same meaning as in section 360 of the Taxes Act.
- (9) This section has effect in relation to sums withheld in the year 1987-88 or any subsequent year of assessment.

28 Payroll deduction scheme: further provisions

- (1) The circumstances in which the Board may for the purposes of section 27 above grant or withdraw approval of schemes (or kinds of scheme) or of agents shall be such as are prescribed by the Treasury by regulations.
- (2) The circumstances so prescribed (whether relating to the terms of schemes or the qualifications of agents or otherwise) shall be such as the Treasury think fit.
- (3) The Treasury may by regulations make provision—
 - (a) that a participating employer or agent shall comply with any notice which is served on him by the Board and which requires him within a prescribed period to make available for the Board's inspection documents of a prescribed kind or records of a prescribed kind;
 - (b) that a participating employer or agent shall in prescribed circumstances furnish to the Board information of a prescribed kind;
 - (c) for, and with respect to, appeals to the Special Commissioners against the Board's refusal to grant, or their withdrawal of, approval of any scheme (or kind of scheme) or agent;
 - (d) generally for giving effect to section 27 above.

- (4) For the purposes of subsection (3) above a person is a participating employer or agent if he is an employer (within the meaning of section 27 above) or agent (within the meaning of that section) who participates, or has at any time participated, in a scheme under that section.
- (5) In subsection (3) above "prescribed" means prescribed by the regulations.
- (6) The words "Regulations under section 28 of the Finance Act 1986" shall be added at the end of each column in the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to furnish information etc.).
- (7) The power to make regulations under this section shall be exercisable by statutory instrument subject to annulment in pursuance of a resolution of the House of Commons.

29 Donations by companies to charities etc.

- (1) On a claim made by a company which is resident in the United Kingdom and is not a close company, a qualifying donation made by the company shall, subject to the provisions of this section, constitute a charge on the income of the company for the purposes of section 248 of the Taxes Act.
- (2) Subject to subsection (3) below, a qualifying donation is a payment made by the company to a charity, other than—
 - (a) a covenanted payment to charity, as defined in section 434(2) of the Taxes Act; and
 - (b) a payment which is deductible in computing profits or any description of profits for purposes of corporation tax.
- (3) A payment made by a company is not a qualifying donation unless, on the making of it, the company deducts out of it a sum representing the amount of income tax thereon; and in section 55(1) of the Taxes Act (certificates of deduction) after the words "Finance Act 1973" there shall be inserted "or section 29 of the Finance Act 1986".
- (4) Where, with a view to securing relief under this section, a company makes a payment subject to such a deduction as is mentioned in subsection (3) above, then, whether or not it proves to be a qualifying donation, the payment—
 - (a) shall be treated as a "relevant payment" for the purposes of Schedule 20 to the Finance Act 1972 (collection of income tax on company payments which are not distributions); and
 - (b) shall in the hands of the recipient (whether a charity or not) be treated for the purposes of the Taxes Act as if it were an annual payment.
- (5) In any accounting period of a company, the maximum amount allowable under section 248 of the Taxes Act in accordance with subsection (1) above in respect of qualifying donations made by the company shall be a sum equal to 3 per cent, of the dividends paid on the company's ordinary share capital in that accounting period.
- (6) In this section "charity" includes—
 - (a) the Trustees of the British Museum;
 - (b) the Trustees of the British Museum (Natural History);
 - (c) the Trustees of the National Heritage Memorial Fund;

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- (d) the Historic Buildings and Monuments Commission for England; and
- (e) any Association of a description specified in section 362 of the Taxes Act (scientific research associations);

and, subject to paragraphs (a) to (e) above, "charity" has the same meaning as in section 360 of the Taxes Act.

- (7) This section applies to payments made on or after 1st April 1986 and, in the case of a company whose accounting period begins before and ends on or after that date, the period beginning on that date and ending at the end of that accounting period shall be deemed to be an accounting period for the purpose of applying the limit in subsection (5) above.

30 Certain payments to charities

- (1) Any payment which—

- (a) on or after 12th June 1986 is received by a charity from another charity, and
- (b) is not made for full consideration in money or money's worth, and
- (c) is not chargeable to tax apart from this subsection, and
- (d) is not, apart from this subsection, of a description which (on a claim) would be eligible for relief from tax by virtue of any provision of section 360(1) of the Taxes Act,

shall be chargeable to tax under Case III of Schedule D but shall be eligible for relief from tax under section 360(1)(c) of the Taxes Act as if it were an annual payment.

- (2) In section 248 of the Taxes Act (allowance of charges on income) after subsection (8) there shall be inserted the following subsection—

“(8A) Notwithstanding anything in any other provision of the Tax Acts, a covenanted donation to charity made by a company after 18th March 1986 shall not be a charge on income for the purposes of this section unless the company—

- (a) deducts out of it a sum representing the amount of income tax thereon, and
- (b) accounts for that tax in accordance with Schedule 20 to the Finance Act 1972,

and any such payment from which a deduction is made as mentioned in paragraph (a) above shall be treated as a relevant payment for the purposes of the said Schedule 20, whether or not it would otherwise fall to be so treated.”

- (3) In this section "charity" has the same meaning as in section 360 of the Taxes Act.

31 Charities: restriction of tax exemptions

- (1) If in any chargeable period of a charity—

- (a) its relevant income and gains are not less than £10,000 and
- (b) its relevant income and gains exceed the amount of its qualifying expenditure, as denned in Part I of Schedule 7 to this Act, and
- (c) the charity incurs, or is treated by virtue of any of the following provisions of this section as incurring, nonqualifying expenditure, that is to say, expenditure which is not qualifying expenditure as denned in the said Part I,

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relief under the enactments conferring exemption from tax shall not be available for so much of the excess referred to in paragraph (b) above as does not exceed the non-qualifying expenditure incurred in that period.

- (2) In relation to a chargeable period of less than twelve months, subsection (1) above shall have effect as if the amount specified in paragraph (a) of that subsection were proportionately reduced.
- (3) In this section—
 - (a) "charity" has the same meaning as in section 360 of the Taxes Act;
 - (b) "covenanted payment to charity" shall be construed in accordance with section 434(2) of the Taxes Act;
 - (c) "the enactments conferring exemption from tax" means subsection (1) of the said section 360 (income) and section 145 of the Capital Gains Tax Act 1979 (gains); and
 - (d) "relevant income and gains" means—
 - (i) income which, apart from subsection (1) of the said section 360, would not be exempt from tax, together with any income which is taxable notwithstanding that subsection; and
 - (ii) gains which, apart from the said section 145, would be chargeable gains, together with any gains which are chargeable gains notwithstanding that section.
- (4) If in any chargeable period a charity—
 - (a) invests any of its funds in an investment which is not a qualifying investment, as denned in Part II of Schedule 7 to this Act, or
 - (b) makes a loan (not being an investment) which is not a qualifying loan, as denned in Part III of that Schedule,then, subject to subsection (5) below, the amount so invested or lent in that period shall be treated for the purposes of this section as being an amount of expenditure incurred by the charity and, accordingly, as being non-qualifying expenditure.
- (5) If, in any chargeable period, a charity which has in that period made an investment or loan falling within subsection (4) above—
 - (a) realises the whole or part of that investment, or
 - (b) is repaid the whole or part of that loan,any further investment or lending in that period of the sum realised or repaid shall, to the extent that it does not exceed the sum originally invested or lent, be left out of account in determining the amount which, by virtue of subsection (4) above, is treated as non-qualifying expenditure incurred in that period.
- (6) If the aggregate of the qualifying and non-qualifying expenditure incurred by a charity in any chargeable period exceeds the relevant income and gains of that period, Part IV of Schedule 7 to this Act shall have effect to treat, in certain cases, some or all of that excess as non-qualifying expenditure incurred in earlier periods.
- (7) Where, by virtue of this section, there is an amount of a charity's relevant income and gains for which relief under the enactments conferring exemption from tax is not available, the charity may, by notice in writing to the Board, specify which items of its relevant income and gains are, in whole or in part, to be attributed to that amount and, for this purpose, all covenanted payments to the charity shall be treated as a single item; and if, within thirty days of being required to do so by the Board, a charity does

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not give notice under this subsection, the items of its relevant income and gains which are to be attributed to the amount in question shall be such as the Board may determine.

- (8) Where it appears to the Board that two or more charities acting in concert are engaged in transactions of which the main purpose or one of the main purposes is the avoidance of tax (whether by the charities or any other person), the Board may by notice in writing given to the charities provide that, for such chargeable periods as may be specified in the notice, subsection (1) above shall have effect in relation to them with the omission of paragraph (a).
- (9) An appeal may be brought against a notice under subsection (8) above as if it were notice of the decision of the Board on a claim made by the charities concerned.
- (10) Subsections (1) to (9) above have effect for chargeable periods ending after 11th June 1986; but where a chargeable period of a charity begins before and ends after that date, the charity may by notice in writing given to the Board elect that, for the purposes of subsections (1) to (9) above, that chargeable period shall be treated as two separate chargeable periods, the second of which begins on 12th June 1986 and ends at the end of that chargeable period.
- (11) In Schedule 7 to this Act "the principal section" means this section and other expressions have the same meaning as in this section.

32 Higher rate relief for covenanted payments

- (1) In section 457 of the Taxes Act (settlements made on or after 7th April 1965) in subsection (1A) (which allows higher rate relief for covenanted payments to charities up to £10,000 in any year of assessment)—
 - (a) at the beginning there shall be inserted the words "Subject to subsection (1B) below"; and
 - (b) the words "and does not exceed £10,000 in any year of assessment" shall be omitted.
- (2) After subsection (1A) of that section there shall be inserted the following subsections—
 - “(1B) If at least £1,000 of an individual's income for any year of assessment consists of covenanted payments to charity which, in the hands of the charities receiving them, constitute income for which, by virtue of section 31 of the Finance Act 1986, relief under section 360(1) above is not available, so much of the individual's income as consists of those payments shall not be excluded from the operation of subsection (1) above by virtue of subsection (1A) above.
 - (1C) If, for any chargeable period of a charity,—
 - (a) the income of the charity includes two or more covenanted payments to charity, and
 - (b) only a part of the aggregate of those payments constitutes income for which, by virtue of section 31 of the Finance Act 1986, relief under section 360(1) above is not available,
 each of the payments which make up the aggregate shall be treated for the purposes of subsection (1B) above as apportioned rateably between the part of the aggregate referred to in paragraph (b) above and the remainder.”

- (3) In Schedule 16 to the Finance Act 1972 (apportionment of income of close companies to participators) in paragraph 5(5A) (effect of covenanted payments to charities) after the words "year of assessment" there shall be inserted "then, except in so far as any such sum is referable to a payment which, if made by the individual, would be treated by virtue of subsection (1) of section 457 of the Taxes Act as the income of the individual for the purposes of excess liability (within the meaning of that subsection)" and for the words from "by whichever is the lesser of to the end of paragraph (b) there shall be substituted "by the amount of that sum or those sums".
- (4) This section has effect for the year 1986-87 and subsequent years of assessment.

33 Disclosure of information to Charity Commissioners

At the end of section 9 of the Charities Act 1960 (exchange of information between the Commissioners of Inland Revenue and the Charity Commissioners etc.) there shall be added the following subsection—

“(3) Without prejudice to subsection (1) above, no obligation as to secrecy or other restriction upon the disclosure of information shall prevent the Commissioners of Inland Revenue from disclosing to the Commissioners information with respect to any institution which has for any purpose been treated as established for charitable purposes but which appears to the Commissioners of Inland Revenue to be or to have been carrying on activities which are not charitable or to be or to have been applying any of its funds for purposes which are not charitable.”

Foreign element: expenses

34 Expenses connected with work abroad

- (1) Section 32 of the Finance Act 1977 (expenses in connection with work done abroad) shall be amended in accordance with subsections (2) to (6) below.
- (2) In subsection (2) (travel from UK and back) after the words "travelling from" there shall be inserted "any place in" and for the words "returning to" there shall be substituted "travelling to any place in".
- (3) In subsection (6) (journeys to or by spouse or child)—
- (a) for the words "between the United Kingdom and the place of performance of those duties" there shall be substituted "between any place in the United Kingdom and the place of performance of any of those duties outside the United Kingdom",
 - (b) paragraph (b), and in paragraph (c) the words "or (b)", shall be omitted, and
 - (c) for the words "journeys in each direction" there shall be substituted "outward and two return journeys".
- (4) After subsection (6) there shall be inserted—
- “(6A) Where a person holds an office or employment the duties of which are performed partly outside the United Kingdom, subsection (7) below applies to any journey by him—
- (a) from any place in the United Kingdom to the place of performance of any of those duties outside the United Kingdom;

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- (b) from the place of performance of any of those duties outside the United Kingdom to any place in the United Kingdom.
- (6B) But subsection (7) below does not apply by virtue of subsection (6A) above unless the duties concerned can only be performed outside the United Kingdom and the journey is made wholly and exclusively for the purpose—
 - (a) where the journey falls within subsection (6A)(a), of performing the duties concerned; or
 - (b) where the journey falls within subsection (6A)(b), of returning after performing the duties concerned.
- (6C) Where a person is absent from the United Kingdom for the purpose of performing the duties of one or more offices or employments, subsection (7) below applies to—
 - (a) any journey by him from the place of performance of any of those duties outside the United Kingdom to any place in the United Kingdom;
 - (b) any return journey following a journey of a kind described in paragraph (a) above.
- (6D) But subsection (7) below does not apply by virtue of subsection (6C) above unless the duties concerned can only be performed outside the United Kingdom and the absence mentioned in subsection (6C) was occasioned wholly and exclusively for the purpose of performing the duties concerned.”
- (5) In subsection (7)(a) for the words "such journey" there shall be substituted "journey to which this subsection applies" and in subsection (7)(b) for the words "such office or employment" there shall be substituted "office or employment mentioned in subsection (6), (6A) or (6C) above".
- (6) After subsection (7) there shall be inserted—
 - “(7A) For the purposes of applying subsections (6) to (7) above in a case where the duties of the office or employment or (as the case may be) any of the offices or employments are performed on a vessel, in section 184(3)(b) of the Taxes Act the words from "or which" to the end (duties on voyage beginning or ending in UK treated as performed in UK) shall be ignored.
 - (7B) In such a case as is mentioned in subsection (7A) above, subsection (6B) above shall have effect as if "the duties concerned" in paragraphs (a) and (b) read "the duties concerned, or those duties and other duties of the office or employment".
 - (7C) Where, apart from this subsection, a deduction in respect of any cost or expenses is allowable under a provision of this section and a deduction in respect of the same cost or expenses is also allowable under another provision of this section or of any other enactment, a deduction in respect of the cost or expenses may be made under either, but not both, of those provisions.”
- (7) In section 184(3) of the Taxes Act after the words "subject to" there shall be inserted "section 32(7A) of and".
- (8) This section has effect for the year 1984-85 and subsequent years of assessment and all such adjustments (whether by repayment of tax or otherwise) shall be made as are appropriate to give effect to this section.

35 Expenses connected with foreign trades etc.

- (1) This section applies in the case of a trade, profession or vocation carried on wholly outside the United Kingdom by an individual (the taxpayer) who does not satisfy the Board as mentioned in section 122(2)(a) of the Taxes Act; and it is immaterial in the case of a trade or profession whether the taxpayer carries it on solely or in partnership.
- (2) Expenses of the taxpayer—
 - (a) in travelling from any place in the United Kingdom to any place where the trade, profession or vocation is carried on,
 - (b) in travelling to any place in the United Kingdom from any place where the trade, profession or vocation is carried on, or
 - (c) on board and lodging for the taxpayer at any place where the trade, profession or vocation is carried on,shall, subject to subsections (3) and (4) below, be treated for the purposes of section 130(a) of the Taxes Act (deductions) as having been wholly and exclusively expended for the purposes of the trade, profession or vocation.
- (3) Subsection (2) above does not apply unless the taxpayer's absence from the United Kingdom is occasioned wholly and exclusively for the purpose of performing the functions of the trade, profession or vocation or of performing those functions and the functions of any other trade, profession or vocation (whether or not one in the case of which this section applies).
- (4) Where subsection (2) above applies and more than one trade, profession or vocation in the case of which this section applies is carried on at the place in question, the expenses shall be apportioned on such basis as is reasonable between those trades, professions or vocations, and the expenses so apportioned to a particular trade, profession or vocation shall be treated for the purposes of section 130(a) of the Taxes Act as having been wholly and exclusively expended for the purposes of that trade, profession or vocation.
- (5) Where the taxpayer is absent from the United Kingdom for a continuous period of 60 days or more wholly and exclusively for the purpose of performing the functions of one or more trades, professions or vocations in the case of which this section applies, expenses to which subsection (6) below applies shall be treated in accordance with subsection (7) or (8) below (as the case may be).
- (6) This subsection applies to the expenses of any journey by the taxpayer's spouse, or any child of his, between any place in the United Kingdom and the place of performance of any of those functions outside the United Kingdom, if the journey—
 - (a) is made in order to accompany him at the beginning of the period of absence or to visit him during that period, or
 - (b) is a return journey following a journey falling within paragraph (a) above,but this subsection does not apply to more than two outward and two return journeys by the same person in any year of assessment.
- (7) The expenses shall be treated for the purposes of section 130(a) of the Taxes Act as having been wholly and exclusively expended for the purposes of the trade, profession or vocation concerned (if there is only one).
- (8) The expenses shall be apportioned on such basis as is reasonable between the trades, professions or vocations concerned (if there is more than one) and the expenses so apportioned to a particular trade, profession or vocation shall be treated for the

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purposes of section 130(a) of the Taxes Act as having been wholly and exclusively expended for the purposes of that trade, profession or vocation.

- (9) In subsection (6) above "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.
- (10) Nothing in this section shall permit the same sum to be deducted for more than one trade, profession or vocation in respect of expenses in computing profits or gains.
- (11) This section applies to expenses incurred after 5th April 1984 and all such adjustments (whether by repayment of tax or otherwise) shall be made as are appropriate to give effect to this section.

36 Travel between trades etc.

- (1) Where a taxpayer, within the meaning of section 35 above, travels between a place where he carries on a trade, profession or vocation in the case of which that section applies and a place outside the United Kingdom where he carries on another trade, profession or vocation (whether or not one in the case of which that section applies) expenses of the taxpayer on such travel shall, subject to subsections (3) to (5) below, be treated for the purposes of section 130(a) of the Taxes Act as having been wholly and exclusively expended for the purposes of the trade, profession or vocation mentioned in subsection (2) below.
- (2) The trade, profession or vocation is
 - (a) the one carried on at the place of the taxpayer's destination, or
 - (b) if that trade, profession or vocation is not one in the case of which section 35 above applies, the one carried on at the place of his departure.
- (3) This section does not apply unless the journey was made
 - (a) after performing functions of the trade, profession or vocation carried on at the place of departure, and
 - (b) for the purpose of performing functions of the trade, profession or vocation carried on at the place of destination.
- (4) This section does not apply unless the taxpayer's absence from the United Kingdom is occasioned wholly and exclusively for the purpose of performing the functions of both the trades, professions or vocations concerned or of performing those functions and the functions of any other trade, profession or vocation.
- (5) Where this section applies and more than one trade, profession or vocation in the case of which section 35 above applies is carried on at the place of the taxpayer's destination or (in a case falling within subsection (2)(b) above) at the place of his departure, the expenses shall be apportioned on such basis as is reasonable between those trades, professions or vocations, and the expenses so apportioned to a particular trade, profession or vocation shall be treated for the purposes of section 130(a) of the Taxes Act as having been wholly and exclusively expended for the purposes of that trade, profession or vocation.
- (6) Nothing in this section shall permit the same sum to be deducted for more than one trade, profession or vocation in respect of expenses in computing profits or gains.

- (7) This section applies to expenses incurred after 5th April 1984 and all such adjustments (whether by repayment of tax or otherwise) shall be made as are appropriate to give effect to this section.

37 Travelling expenses of employees not domiciled in UK

- (1) Subject to subsection (2) below, this section applies in the case of an office or employment in respect of which a person (the employee) who is not domiciled in the United Kingdom is in receipt of emoluments for duties performed in the United Kingdom.
- (2) This section does not apply unless subsection (3) below is satisfied in respect of a date on which the employee arrives in the United Kingdom to perform duties of the office or employment; and where subsection (3) is so satisfied, this section applies only for a period of five years beginning with that date.
- (3) This subsection is satisfied in respect of a date if the employee—
- (a) was not resident in the United Kingdom in either of the two years of assessment immediately preceding the year of assessment in which the date falls, or
 - (b) was not in the United Kingdom for any purpose at any time during the period of two years ending with the day immediately preceding the date.
- (4) Where subsection (3) above is satisfied (by virtue of paragraph (a) of that subsection) in respect of more than one date in any year of assessment, only the first of those dates is relevant for the purposes of this section.
- (5) Subsection (7) below applies to any journey by the employee—
- (a) from his usual place of abode to any place in the United Kingdom in order to perform any duties of the office or employment there, or
 - (b) to his usual place of abode from any place in the United Kingdom after performing such duties there.
- (6) Where the employee is in 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 in the case of which this section applies, subsection (7) below applies to any journey by his spouse, or any child of his, between his usual place of abode and the place of performance of any of those duties in the United Kingdom, if the journey—
- (a) is made to accompany him at the beginning of that period or to visit him during it, or
 - (b) is a return journey following a journey falling within paragraph (a) above;
- but subsection (7) as it applies by virtue of this subsection does not extend to more than two journeys to the United Kingdom and two return journeys by the same person in any year of assessment.
- (7) Subject to subsection (8) below, where—
- (a) travel facilities are provided for any journey to which this subsection applies and the cost of them is borne by or on behalf of a person who is an employer in respect of any office or employment in the case of which this section applies, or

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- (b) expenses are incurred out of the emoluments of any office or employment in the case of which this section applies on such a journey and those expenses are reimbursed by or on behalf of the employer,
there shall be allowed, in charging tax under Case I or II of Schedule E on the emoluments from the office or employment concerned, 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) If a journey is partly for a purpose mentioned in subsection (5) or (6) above and partly for another purpose, only so much of the cost or expenses referred to in subsection (7) above as is properly attributable to the former purpose shall be taken into account in calculating any deduction made under subsection (7) as it applies by virtue of subsection (5) or (as the case may be) (6) .
- (9) For the purposes of this section a person's usual place of abode is the country (outside the United Kingdom) in which he normally lives.
- (10) In subsection (6) above "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 journey to the United Kingdom.
- (11) 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 subsection (7) above and to deductions allowable under it.
- (12) Where, apart from this subsection, a deduction in respect of any cost or expenses is allowable under a provision of this section and a deduction in respect of the same cost or expenses is also allowable under another provision of this section or of any other enactment, a deduction in respect of the cost or expenses may be made under either, but not both, of those provisions.

38 Section 37: commencement

- (1) Section 37 above shall have effect in accordance with subsections (2) to (4) below.
- (2) Where the office or employment is under or with any person, body of persons or partnership resident in the United Kingdom, section 37 shall have effect for the year 1984-85 and subsequent years of assessment.
- (3) In any other case, section 37 shall have effect for the year 1984-85 and subsequent years of assessment except that subsections (2) to (4) shall have effect only for the year 1986-87 and subsequent years of assessment.
- (4) Where by virtue of subsection (3) above any provision of section 37 applies in the case of an employee at any time during the year 1984-85 or 1985-86, that section shall apply in his case for the years 1986-87 to 1990-91 as if the following were substituted for subsections (2) to (4)—
- “(2) This section does not apply after 5th April 1991.”
- (5) All such adjustments (whether by repayment of tax or otherwise) shall be made as are appropriate to give effect to section 37 and this section.

Miscellaneous

39 Personal equity plans

Schedule 8 to this Act (which enables the Treasury to make regulations about personal equity plans) shall have effect.

40 Business expansion scheme

- (1) Schedule 5 to the Finance Act 1983 (relief for investment in corporate trades) shall have effect subject to the amendments made by Part I of Schedule 9 to this Act.
- (2) In section 26 of the Finance Act 1983 (which, amongst other things, provides for Schedule 5 to that Act to have effect only in relation to shares issued in the year of assessment 1983-84 or in any of the next three years of assessment), for the words "of the next three years" there shall be substituted the words "later year".
- (3) The consequential amendments in Part II of Schedule 9 to this Act shall have effect.

41 Enterprise allowance

- (1) This section applies to—
 - (a) payments known as enterprise allowance and made by the Manpower Services Commission in pursuance of arrangements under section 2(2)(d) of the Employment and Training Act 1973, and
 - (b) corresponding payments made in Northern Ireland by the Department of Economic Development.
- (2) Any such payment which would (apart from this section) be charged to tax under Case I or Case II of Schedule D shall be charged to tax under Case VI of that Schedule.
- (3) Nothing in subsection (2) above shall prevent such a payment—
 - (a) being treated for the purposes of section 226(9)(c) of the Taxes Act (retirement annuities) or section 530(1)(c) of that Act (earned income) as immediately derived from the carrying on or exercise of a trade, profession or vocation, or
 - (b) being treated for the purposes of paragraph 8 of Schedule 16 to the Finance Act 1972 (close companies) as trading income.
- (4) In consequence of subsection (2) above, the reference in section 9(1) of the Social Security Act 1975 and in section 9(1) of the Social Security (Northern Ireland) Act 1975 (Class 4 contributions) to profits or gains chargeable to income tax under Case I or Case II of Schedule D shall be taken to include a reference to profits or gains consisting of a payment of enterprise allowance chargeable to income tax under Case VI of Schedule D.
- (5) This section applies to—
 - (a) any payment made on or after 18th March 1986, and
 - (b) any payment made before that day as part of a distinct series of payments made to the same person, provided one or more of the payments is made on or after that day.
- (6) All such adjustments (whether by assessment to tax, repayment of tax or otherwise) shall be made as are appropriate to give effect to this section.

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42 Company reconstructions: restriction of relief

- (1) Schedule 10 to this Act (which amends sections 252 and 253 of the Taxes Act) shall have effect.
- (2) Subject to subsection (3) below, the amendments made by that Schedule have effect where a company ceases to carry on a trade, or part of a trade, after 18th March 1986.
- (3) Where section 252(6) applies (successive company reconstructions) and the later event within the meaning of that subsection falls after 18th March 1986 but the earlier event falls on or before that date, those amendments do not affect the operation of any provision of section 252 or 253 in relation to the earlier event.

43 Loans to participators

- (1) In section 286 of the Taxes Act (loans to participators etc.) in subsection (4) (date when assessed tax is due) after the word "Tax" there shall be inserted "shall be assessable by virtue of this section whether or not the whole or any part of the loan or advance in question has been repaid at the time of the assessment and tax".
- (2) In subsection (5) of that section (discharge or repayment of tax on repayment of loan or advance) for the words from the beginning to "loan", in the second place where it occurs, there shall be substituted "Where a close company makes a loan or advance which gives rise to a charge to tax on the company under subsection (1) above and the loan".
- (3) The amendments made by this section have effect in relation to any loan or advance made after 18th March 1986 and also in any case where there is a repayment after that date of the whole or any part of a loan or advance made on or before that date.
- (4) All such adjustments shall be made, whether by the making of assessments or otherwise, as are required in consequence of the preceding provisions of this section.
- (5) This section shall be construed as one with section 286 of the Taxes Act.

44 Entertainers and sportsmen

Schedule 11 to this Act (which relates to non-resident entertainers and sportsmen) shall have effect.

45 Payments on retirement or removal from office or employment etc.

- (1) Schedule 8 to the Taxes Act (relief as respects tax on payments on retirement etc.) shall have effect subject to the following provisions of this section, and in those provisions that Schedule is referred to as "Schedule 8".
- (2) On and after 4th June 1986, paragraph 10 of Schedule 8 (aggregation of two or more payments in respect of the same office etc.) shall have effect with the substitution for the words "paragraph 7" of the words "paragraphs 7 and 7A".
- (3) Paragraph 12 of Schedule 8 (which provides that any reference in the Schedule to a payment in respect of which tax is chargeable under section 187 of the Taxes Act is a reference to so much of that payment as is chargeable to tax after deduction of relief) shall not apply to any payment which, under subsection (4) of that section, is treated as income received on or after 4th June 1986 and, accordingly, paragraphs 7

and 7A of Schedule 8 shall apply to every such payment without making any deduction therefrom on account of relief under section 188(3) of that Act.

- (4) In any case where—
- (a) tax is chargeable under section 187 of the Taxes Act in respect of two or more payments to or in respect of the same person (whether or not in respect of the same office or employment) and is so chargeable for the same chargeable period, and
 - (b) under subsection (4) of that section at least one of those payments is treated as income received before 4th June 1986 and at least one of them is treated as income received on or after that date,

then, in the application of paragraphs 7 and 7A of Schedule 8 (in accordance with paragraph 10 or paragraph 11 thereof) in relation to any of those payments which is so treated as income received on or after that date, subsection (3) above shall have effect as if any reference therein to 4th June 1986 were a reference to the first day of the chargeable period referred to in paragraph (a) above.

46 Pension scheme surpluses

Schedule 12 to this Act (which relates to surplus funds in certain pension schemes) shall have effect.

47 Building societies

- (1) In section 343 of the Taxes Act (building societies), subsection (1A) (which was inserted by the Finance Act 1985 and enables the Board to make regulations requiring societies to account for amounts representing income tax on certain sums) shall have effect and be deemed always to have had effect with the insertion after the words "in accordance with the regulations" of the words "(including sums paid or credited before the beginning of the year but not previously brought into account under subsection (1) above or this subsection)".
- (2) In subsection (2) of that section (treatment of building society payments for purposes of corporation tax)—
- (a) in paragraph (a) for the words "the amount" there shall be substituted "any amount"; and
 - (b) in paragraph (b) after the words "any such dividends or interest" there shall be inserted "in respect of which the society is required to account for and pay an amount in accordance with the regulations".
- (3) At the end of subsection (7) of that section (meaning of "dividend") there shall be added the words "but any sum which is paid by a building society by way of dividend and in respect of which the society is not required to account for and pay an amount in accordance with the regulations shall be treated for the purposes of Schedule D as paid by way of interest".
- (4) In consequence of the amendments of the said section 343 effected by section 40 of the Finance Act 1985 (regulations requiring societies to account for amounts representing income tax on certain sums).—
- (a) in subsection (5) of section 16 of the Finance Act 1973 (amounts paid or credited to trustees of certain trusts) for the word "amounts" there shall be substituted "sums" and for the words from "with which" to "that year" there shall be substituted "being sums in respect of which the society is required

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to account for and pay an amount in accordance with regulations under section 343(1 A) of the Taxes Act"; and

- (b) in subsection (1) of section 6 of the Finance Act 1975 (amounts paid or credited to exempt pension funds) for the words from "among the sums" to "the Taxes Act" there shall be substituted "sums in respect of which a building society is required to account for and pay an amount in accordance with regulations under subsection (1A) of section 343 of the Taxes Act".
- (5) Where a building society investment which is a source of income of any person (the "lender") is not a relevant investment but at any time after 6th April 1986 becomes such an investment, section 121 of the Taxes Act (special rules where source of income ceases) shall apply as if the investment were a source of income which the lender ceased to possess immediately before that time.
 - (6) Where a building society investment which is a source of income of any person ceases at any time after 6th April 1986 to be a relevant investment, section 120(3) of the Taxes Act shall apply as if the investment were a new source of income acquired by him immediately after that time.
 - (7) Where a building society investment which was a source of income of any person immediately before 6th April 1986 was not on that date a relevant investment, section 120(3) of the Taxes Act shall apply as if the investment were a new source of income acquired by him on that date.
 - (8) In subsections (5) to (7) above "building society investment" does not include a quoted Eurobond (as defined in section 35(1) of the Finance Act 1984) but, subject to that, means any shares in, deposit with or loan to a building society (within the meaning of section 343 of the Taxes Act); and for the purposes of those subsections a building society investment is a "relevant investment" if dividends or interest payable in respect of it are sums in respect of which the society is required to account for and pay an amount in accordance with regulations under subsection (1A) of that section.
 - (9) Subsections (2) to (4) above have effect for the year 1986-87 and subsequent years of assessment.

48 Foreign dividends in recognised clearing system

- (1) Paragraph 1 of Schedule C (public revenue dividends payable in UK) shall not apply, in the case of dividends payable out of any public revenue other than the public revenue of the United Kingdom, if the securities in respect of which the dividends are payable are held in a recognised clearing system.
- (2) Section 159(2) of the Taxes Act (tax under Schedule D on foreign dividends entrusted to person in UK for payment in UK) shall not apply if the stocks, funds, shares or securities out of or in respect of which the foreign dividends are payable are held in a recognised clearing system.
- (3) In this section "recognised clearing system" means any system for the time being designated as a recognised clearing system under section 35 of the Finance Act 1984 (Eurobonds).
- (4) In this section "foreign dividends" has the same meaning as in section 159 of the Taxes Act.

- (5) Subsection (1) above has effect in relation to dividends paid after the passing of this Act, and subsection (2) above has effect in relation to foreign dividends paid after the passing of this Act.

49 Double taxation relief: advance corporation tax

- (1) With respect to accounting periods beginning on or after 3rd June 1986, section 100 of the Finance Act 1972 (double taxation relief) shall be amended in accordance with this section.

- (2) In subsection (6) (set-off of advance corporation tax against liability to corporation tax on income subject to foreign tax) for paragraphs (b) and (c) there shall be substituted—

“(b) the amount of advance corporation tax which may be set against that liability, so far as it relates to the relevant income, shall not exceed whichever is the lower of the limits specified in subsection (6A) below”;

and in the words following paragraph (c), the words from "if the limit" to "the relevant income and" shall be omitted.

- (3) After subsection (6) there shall be inserted the following subsection—

“(6A) In relation to an amount of income in respect of which the company's liability to corporation tax is taken to be reduced as mentioned in paragraph (a) of subsection (6) above, the limits referred to in paragraph (b) of that subsection are—

- (a) the limit which would apply under section 85(2) above if that amount of income were the company's only income for the relevant accounting period; and
(b) the amount of corporation tax for which, after taking account of the said reduction, the company is liable in respect of that amount of income.”

50 Offshore funds: conditions for certification

- (1) Part II of Schedule 19 to the Finance Act 1984 (offshore funds: modifications of conditions for certification in certain cases) shall have effect subject to the provisions of this section.

- (2) In paragraph 11 (which relates to cases of offshore funds with certain wholly-owned subsidiaries) for paragraphs (a) and (b) of sub-paragraph (1) (which restrict the application of the paragraph to wholly-owned subsidiaries which deal in commodities) there shall be substituted the words "which is a company".

- (3) At the beginning of sub-paragraph (2) of paragraph 11 (definition of "wholly-owned subsidiary of an offshore fund") there shall be inserted the words "Subject to sub-paragraph (2A) below".

- (4) After sub-paragraph (2) of paragraph 11 there shall be inserted the following sub-paragraph—

“(2A) In the case of a company which has only one class of issued share capital, the reference in sub-paragraph (2) above to the whole of the issued share

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capital shall be construed as a reference to at least 95 per cent, of that share capital.”

- (5) In sub-paragraph (3) of paragraph 11 (the modifications applicable in relation to wholly-owned subsidiaries)—
- (a) at the beginning of paragraph (a) there shall be inserted the words "that percentage of; and
 - (b) in paragraph (a) after the word "subsidiary" there shall be inserted "which is equal to the percentage of the issued share capital of the company concerned which is owned as mentioned in sub-paragraph (2) above".
- (6) After paragraph 12 there shall be inserted the following paragraph—

“Disregard of certain investments forming less than 5 per cent, of a fund

12A (1) In any case where—

- (a) in any account period of an offshore fund, the assets of the fund include a holding of issued share capital (or any class of issued share capital) of a company, and
- (b) that holding is such that, by virtue of section 95(3)(c) of this Act, the fund could not (apart from this paragraph) be certified as a distributing fund in respect of that account period,

then, if the condition in sub-paragraph (3) below is fulfilled, that holding shall be disregarded for the purposes of the said section 95(3)(c).

- (2) In this paragraph any holding falling within subparagraph (1) above is referred to as an "excess holding".
- (3) The condition referred to in sub-paragraph (1) above is that at no time in the account period in question does that portion of the fund which consists of—
 - (a) excess holdings, and
 - (b) interests in other offshore funds which are not qualifying funds, exceed 5 per cent, by value of all the assets of the fund.”

- (7) This section has effect with respect to periods which—
- (a) for the purposes of Chapter VII of Part II of the Finance Act 1984 are account periods of offshore funds; and
 - (b) end after the passing of this Act.

51 Pensions paid to victims of National-Socialist persecution

- (1) For section 377 of the Taxes Act (under which certain annuities payable by way of compensation for National-Socialist persecution are not regarded as income for any income tax purpose) there shall be substituted the following section—

Annuities and pensions payable under any special provision for victims of National-Socialist persecution which is made by the law of the Federal Republic of Germany or any part of it or of Austria shall not be regarded as income for any income tax purpose.”

- (2) This section has effect for the year 1986-87 and subsequent years of assessment.

52 Temporary disregard of increases in certain pensions and allowances

- (1) So much of any relevant pension or allowance as is attributable to any general increase taking effect in the year 1986-87 shall be left out of account for all the purposes of income tax charged for that year but not for the purpose of furnishing information relating to any person's income for that year.
- (2) For the purposes of this section a pension or allowance is a relevant pension or allowance if it is payable under the Social Security Act 1975, or the Social Security (Northern Ireland) Act 1975, and (in either case) is one of the following—
 - (a) a retirement pension;
 - (b) a widow's allowance;
 - (c) a widowed mother's allowance;
 - (d) a widow's pension;
 - (e) an invalid care allowance;
 - (f) an industrial death benefit by way of widow's or widower's pension.

53 Tax treatment of VAT penalties etc. and repayment supplement

- (1) Where, under Chapter II of Part I of the Finance Act 1985 (value added tax), a person is liable to make a payment by way of—
 - (a) penalty under any of sections 13 to 17, or
 - (b) interest under section 18, or
 - (c) surcharge under section 19,the payment shall not be allowed as a deduction in computing any income, profits or losses for any tax purposes.
- (2) A sum paid to any person by way of supplement under section 20 of the Finance Act 1985 (repayment supplement in respect of certain delayed value added tax payments) shall be disregarded for all purposes of corporation tax and income tax.

54 Associated companies: oil and gas industry

- (1) At the end of section 19 of the Oil Taxation Act 1975 (definitions relating to the corporation tax provisions of that Act) there shall be added the following subsection—

“(4) Without prejudice to subsection (3) above, for the purposes of this Part of this Act, two companies are also associated with one another if one has control of the other or both are under the control of the same person or persons; and in this subsection "control" shall be construed in accordance with section 302 of the Taxes Act.”
- (2) This section has effect in relation to any allowance or distribution made, interest paid or other thing done after 18th March 1986.

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CHAPTER II

CAPITAL ALLOWANCES

55 **New code of allowances for capital expenditure on mineral extraction**

- (1) The provisions of Chapter III of Part I of the Capital Allowances Act 1968 (which relate to allowances for certain capital expenditure incurred in connection with mineral extraction activities and which are in this section referred to as "the old code of allowances") shall cease to have effect on 31st March 1986 except as provided by Schedule 14 to this Act.
- (2) The provisions of Parts I to IV of Schedule 13 to this Act have effect to provide for relief in respect of certain new expenditure incurred by persons carrying on a trade of mineral extraction; and the provisions of Schedule 14 to this Act have effect with respect to certain expenditure incurred before 1st April 1987 by persons carrying on such a trade.
- (3) Subject to paragraph 2 of Schedule 14 to this Act, for the purposes of the old code of allowances, the following provisions of this section and Schedules 13 and 14 to this Act, as respects any company which on 31st March 1986 was carrying on a trade of mineral extraction, it shall be assumed that, unless the latest accounting period of the company which begins on or before 31st March 1986 in fact ends on that date.—
 - (a) that accounting period ends on that date; and
 - (b) a new one begins on 1st April 1986, the new accounting period to end with the end of the true accounting period.
- (4) Subject to paragraph 2 of Schedule 14 to this Act, for the purposes of the provisions referred to in subsection (3) above as they apply to a person who on 31st March 1986 was within the charge to income tax in respect of the profits or gains of a trade of mineral extraction carried on by him, it shall be assumed that, unless the latest basis period of his (determined in accordance with section 72 of the Capital Allowances Act 1968) which begins on or before 31st March 1986 in fact ends on that date.—
 - (a) that basis period ends on that date; and
 - (b) a new basis period begins on 1st April 1986, the new basis period to end with the end of the true basis period.
- (5) In any case where—
 - (a) new expenditure is incurred by any person on the provision of machinery or plant for the purposes of mineral exploration and access, as defined in paragraph 1 of Schedule 13 to this Act, and
 - (b) that expenditure is so incurred before the first day on which that person begins to carry on a trade of mineral extraction, and
 - (c) on that first day the machinery or plant belongs to him, and does not fall within paragraph 5(1)(d) of Schedule 13 to this Act,

that person shall be treated for the purposes of Chapter I of Part III of the Finance Act 1971 (the normal code applicable to machinery or plant) and section 57 of the Finance Act 1985 (short-life assets) as if he had sold the machinery or plant immediately before that first day and had on that first day incurred capital expenditure on the provision of the machinery or plant wholly and exclusively for the purposes of the trade, being expenditure equal to the expenditure incurred (or, where there has been an actual previous sale and re-acquisition, last incurred) as mentioned in paragraph (a) above.

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- (6) For the purpose of the application of Chapter I of Part III of the Finance Act 1971—
- (a) in relation to expenditure treated by virtue of subsection (5) above as incurred on the first day on which a person begins to carry on a trade of mineral extraction, and
 - (b) in relation to expenditure actually incurred on or after that day on the provision of machinery or plant for the purposes of mineral exploration and access,
- that Chapter shall have effect subject to the amendments in subsection (7) below.
- (7) The amendments referred to in subsection (6) above are—
- (a) in section 50 of the Finance Act 1971 (the interpretation provisions applicable to allowances relating to machinery or plant) in subsection (1), after the definition of "income" there shall be inserted—
“mineral exploration and access' and 'trade of mineral extraction' have the same meaning as in Schedule 13 to the Finance Act 1986”;
 - (b) after subsection (7) of that section there shall be inserted the following subsection—
“(7A) For the purposes of this Chapter, where a person is carrying on a trade of mineral extraction, expenditure incurred by him in connection with that trade on the provision of machinery or plant for mineral exploration and access shall be taken to be incurred on the provision of the machinery or plant wholly and exclusively for the purposes of that trade”;
 - (c) in section 44(5) of that Act (disposal values) at the end of sub-paragraph (ii) of paragraph (c) there shall be added the words "or, in the case of machinery or plant which was in use for mineral exploration and access, he abandons the machinery or plant at the site where it was in use for that purpose"; and
 - (d) in paragraph 7 of Schedule 8 to that Act (use after user not attracting capital allowances etc.) sub-paragraph (2) (which relates to machinery or plant used for mineral exploration etc.) shall be omitted.
- (8) In this section—
- "new expenditure" means, subject to Schedule 14 to this Act, expenditure incurred on or after 1st April 1986;
- "old expenditure" means expenditure which is not new expenditure; and
- "trade of mineral extraction" has the meaning assigned to it by paragraph 1 of Schedule 13 to this Act.
- (9) In consequence of and in connection with the provisions of this section and Parts I to IV of Schedule 13, the amendments in Part V of that Schedule shall have effect.

56 Agricultural land and buildings

- (1) With respect to capital expenditure incurred on or after 1st April 1986, other than expenditure under existing contracts, the provisions of Schedule 15 to this Act shall have effect in place of section 68 of the Capital Allowances Act 1968 (allowances for capital expenditure on construction of agricultural buildings and works etc.).
- (2) In subsection (1) above "expenditure under existing contracts" means expenditure which—
- (a) consists of the payment of sums under a contract entered into on or before 13th March 1984 by the person incurring the expenditure; and

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- (b) is incurred before 1st April 1987.
- (3) The preceding provisions of this section and Schedule 15 to this Act shall be construed as if they were included in Part I of the Capital Allowances Act 1968.
- (4) In section 69 of the Capital Allowances Act 1968—
- (a) after the words "section 68 above" there shall be inserted "and Schedule 15 to the Finance Act 1986"; and
 - (b) at the end of the definition of "agricultural land" after the word "husbandry" there shall be inserted "(as defined below)"; and
 - (c) at the end of the section there shall be added—
"husbandry' includes any method of intensive rearing of livestock or fish on a commercial basis for the production of food for human consumption."
- (5) Where an allowance is or has been made under Schedule 15 to this Act in respect of any capital expenditure, none of that expenditure shall be taken into account in determining qualifying expenditure for the purpose of any allowance or charge under section 44 of the Finance Act 1971 (machinery and plant); and where such an allowance or charge is or has been made by reference to an amount of qualifying expenditure which took account of a particular amount of capital expenditure, that capital expenditure shall be left out of account for the purposes of Schedule 15 to this Act.
- (6) Any reference to Chapter V of Part I of the Capital Allowances Act 1968 in—
- (a) section 14 of that Act (exclusion of double allowances), and
 - (b) section 85 of that Act (allowances in respect of contributions to capital expenditure), and
 - (c) paragraph 11 of Schedule 12 to the Finance Act 1982 (capital allowances for dwelling-houses let on assured tenancies),
- includes a reference to Schedule 15 to this Act; and the reference to section 68 of the said Act of 1968 in section 75 thereof (writing-down allowances during a period of specified length) includes a reference to that Schedule.
- (7) In the following provisions—
- (a) sections 155(8), 180(7), 227(4), 252(2) and 352(4) of the Taxes Act,
 - (b) the definition of "capital allowance" in section 526(5) of the Taxes Act,
 - (c) section 31(2) of the Capital Gains Tax Act 1979, and
 - (d) the definition of "capital allowance" in subsection (4) of section 34 of the said Act of 1979,
- any reference to the Capital Allowances Act 1968 or to Part I thereof includes a reference to Schedule 15 to this Act.

57 New expenditure on leased assets etc.

- (1) The provisions of subsections (4) to (8) below and Schedule 16 to this Act (which relate to allowances in respect of expenditure on the provision of machinery or plant for leasing and on the provision of certain vehicles) shall have effect with respect to new expenditure, as defined in subsections (2) and (3) below.
- (2) In this section and Schedule 16 to this Act, new expenditure means expenditure incurred on or after 1st April 1986, other than—

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- (a) expenditure to which, by virtue of sub-paragraph (2) of paragraph 2 of Schedule 12 to the Finance Act 1984 (expenditure incurred under contracts entered into on or before 13th March 1984), sub-paragraph (1) of that paragraph (progressive withdrawal of first-year allowances) does not apply; and
- (b) expenditure to which, by virtue of paragraph 4 of that Schedule (transitional relief for regional projects) Part I of that Schedule does not apply; and
- (c) expenditure falling within paragraph 7 of Schedule 12 to the Finance Act 1980 (television sets, etc); and
- (d) expenditure excluded by subsection (3) below;

and any expenditure which, by virtue of paragraph 6 of Schedule 12 to the Finance Act 1984 (spreading of expenditure under certain contracts) is deemed for the purposes of Chapter I of Part III of the Finance Act 1971 to be incurred on 1st April 1986 shall also be deemed to be incurred on that date for the purposes of this section and Schedule 16 to this Act.

(3) In any case where—

- (a) before 1st April 1986 a person (in this subsection referred to as "the original lessor") incurred expenditure on the provision of machinery or plant for leasing, and
- (b) on or after that date the machinery or plant ceases to belong to the original lessor on being acquired by an associate or successor of his, and
- (c) by virtue of subsection (9) of section 64 of the Finance Act 1980 (connected persons etc.), the machinery or plant is treated for the purposes of subsection (8) of that section (the requisite period) as continuing to belong to the original lessor so long as it belongs to his associate or successor,

expenditure incurred by his associate or successor on the acquisition of the machinery or plant is excluded from new expenditure; and in this subsection "associate or successor" means a person who, in relation to the original lessor, is of a description specified in paragraph (a) or paragraph (b) of the said subsection (9).

(4) Subject to subsection (7) below, the separate pooling provisions which are contained in sections 64 to 68 of the Finance Act 1980 and which are applicable to expenditure on machinery or plant which is not used for a qualifying purpose shall not apply to new expenditure but, for the purpose of maintaining a separate pool for expenditure falling within section 70 of the Finance Act 1982 (assets leased outside the United Kingdom) and for excluding from that section certain ships, aircraft and transport containers.—

- (a) sections 64 to 68 of the Finance Act 1980 shall have effect as amended by Part I of Schedule 16 to this Act;
- (b) section 70 of, and Schedule 11 to, the Finance Act 1982 shall have effect as amended by Part II of that Schedule; and
- (c) Part III of that Schedule shall have effect for supplementing the enactments amended by Parts I and II of that Schedule.

(5) In consequence of the preceding provisions of this section, in paragraph 8A of Schedule 8 to the Finance Act 1971 (writing-down allowances for ships) sub-paragraph (9) shall be omitted.

(6) In consequence of the preceding provisions of this section, but subject to subsection (7) below, in subsection (6)(b) of section 57 of the Finance Act 1985 (short-life assets: transfer of expenditure on asset beginning to be used otherwise than for a qualifying purpose)—

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- (a) the words "(as it has effect in accordance with section 65 of the Finance Act 1980)" shall be omitted; and
 - (b) for the words from "the separate trade" onwards there shall be substituted "his actual trade".
- (7) Notwithstanding anything in the preceding provisions of this section, section 44 of the Finance Act 1971 shall continue to apply separately with respect to expenditure on the provision of any vehicle falling within section 69 of the Finance Act 1980 (writing-down allowances for cars) and, accordingly.—
- (a) except where such a vehicle is used for the purpose of being leased to such a person as is referred to in paragraphs (a) and (b) of subsection (1) of section 70 of the Finance Act 1982 and the leasing is not short-term leasing, within the meaning of that section, nothing in Parts I to III of Schedule 16 to this Act applies with respect to any such expenditure; and
 - (b) the amendments made by subsection (6) above do not apply where the asset in question is a vehicle falling within section 69 of the Finance Act 1980.
- (8) In consequence of the withdrawal of first-year allowances by section 58 of, and Schedule 12 to, the Finance Act 1984, section 69 of the Finance Act 1980 shall be amended, with respect to new expenditure, in accordance with Part IV of Schedule 16 to this Act.
- (9) In section 64 of the Finance Act 1980, as it has effect where—
- (a) the expenditure on the provision of machinery or plant referred to in subsection (1) of that section is not new expenditure, but
 - (b) the notional purchase of the machinery or plant by the lessee which is referred to in subsection (2)(a) of that section would at any time mean the incurring of new expenditure,
- after the words "could have been made to the lessee" there shall be inserted "(disregarding for this purpose paragraph 2 of Schedule 12 to the Finance Act 1984)".
- (10) In section 56 of the Finance Act 1985 (time when capital expenditure is incurred) at the end of subsection (1) there shall be added "and
- (e) section 57 of the Finance Act 1986".

CHAPTER III

CAPITAL GAINS

58 Gifts into dual resident trusts

- (1) This section applies where there is or has been a disposal of an asset to the trustees of a settlement in such circumstances that, on a claim for relief, section 79 of the Finance Act 1980 (general relief for gifts) applies, or would but for this section apply, so as to reduce the amounts of the chargeable gain and the consideration referred to in subsection (1) of that section.
- (2) In this section—
- (a) "a relevant disposal" means such a disposal as is referred to in subsection (1) above; and
 - (b) "the 1980 provision" means section 79 of the Finance Act 1980.

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- (3) Relief under the 1980 provision shall not be available on a relevant disposal occurring on or after 18th March 1986 if—
- (a) at the material time the trustees to whom the disposal is made fall to be treated, under section 52 of the Capital Gains Tax Act 1979, as resident and ordinarily resident in the United Kingdom, although the general administration of the trust is ordinarily carried on outside the United Kingdom; and
 - (b) on a notional disposal of the asset concerned occurring immediately after the material time, the trustees would be regarded for the purposes of any double taxation relief arrangements—
 - (i) as resident in a territory outside the United Kingdom; and
 - (ii) as not liable in the United Kingdom to tax on a gain arising on that disposal.
- (4) In subsection (3) above—
- (a) "the material time" means the time of the relevant disposal;
 - (b) a "notional disposal" means a disposal by the trustees of the asset which was the subject of the relevant disposal; and
 - (c) "double taxation relief arrangements" means arrangements having effect by virtue of section 497 of the Taxes Act (as extended to capital gains tax by section 10 of the Capital Gains Tax Act 1979).
- (5) In any case where—
- (a) relief under the 1980 provision has been allowed on a claim relating to a relevant disposal, (whether occurring before, on or after 18th March 1986), and
 - (b) at a time subsequent to that relevant disposal, but not earlier than 18th March 1986, the circumstances become such that paragraphs (a) and (b) of subsection (3) above would apply if that time were the material time referred to in that subsection, and
 - (c) section 79 of the Finance Act 1981 (which provides for the recovery of relief under the 1980 provision in the event of the emigration of the donee) has not had effect in relation to the relevant disposal before that time and would not (apart from this subsection) have effect at that time,
- section 79 of the Finance Act 1981 shall have effect as if, at that time, the trustees had become neither resident nor ordinarily resident in the United Kingdom.

59 Disposals of options and contracts for gilt-edged securities etc.

With respect to disposals occurring on or after 2nd July 1986, for section 67 of the Capital Gains Tax Act 1979 there shall be substituted the following section—

“67 Exemptions for gilt-edged securities and qualifying corporate bonds etc.

- (1) A gain which accrues on the disposal by any person of—
- (a) gilt-edged securities or qualifying corporate bonds, or
 - (b) any option or contract to acquire or dispose of gilt-edged securities or qualifying corporate bonds,
- shall not be a chargeable gain.

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- (2) In subsection (1) above the reference to the disposal of a contract to acquire or dispose of gilt-edged securities or qualifying corporate bonds is a reference to the disposal of the outstanding obligations under such a contract.
- (3) Without prejudice to section 72(3) of the Finance Act 1985 (closing out of certain futures contracts dealt in on a recognised futures exchange), where a person who has entered into any such contract as is referred to in subsection (1) (b) above closes out that contract by entering into another contract with obligations which are reciprocal to those of the first-mentioned contract, that transaction shall for the purposes of this section constitute the disposal of an asset, namely, his outstanding obligations under the first-mentioned contract.”

60 Small part disposals

- (1) In section 107 of the Capital Gains Tax Act 1979 (small part disposals) in subsection (1) for the words "is small, as compared with" there shall be substituted "does not exceed one-fifth of.
- (2) This section applies to disposals on or after 6th April 1986.

CHAPTER IV

SECURITIES

61 Stock lending

- (1) Subject to subsection (5) below, this section applies where a person (A) has contracted to sell securities and, to enable him to fulfil the contract, he enters into an arrangement under which—
 - (a) another person (B) is to transfer securities to A or his nominee, and
 - (b) in return securities of the same kind and amount are to be transferred (whether or not by A or his nominee) to B or his nominee.
- (2) Subject to subsection (5) below, this section also applies where, to enable B to make the transfer to A or his nominee, B enters into an arrangement under which—
 - (a) another person (C) is to transfer securities to B or his nominee, and
 - (b) in return securities of the same kind and amount are to be transferred (whether or not by B or his nominee) to C or his nominee.
- (3) Any transfer made in pursuance of an arrangement mentioned in subsection (1) or (2) above shall not be taken into account for the purposes of the Tax Acts in computing the profits or losses of any trade carried on by the transferor or transferee.
- (4) Any disposal and acquisition made in pursuance of an arrangement mentioned in subsection (1) or (2) above shall be disregarded for the purposes of capital gains tax.
- (5) The Treasury may provide by regulations that this section, or any provision of it, does not apply unless such conditions as are specified in the regulations are fulfilled; and the conditions may relate to the capacity in which any person involved in any arrangement is acting, the Board's approval of any such person or of the arrangement, the nature of the securities, or otherwise.

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- (6) This section applies to transfers made after such date as is specified for this purpose by regulations under this section.
- (7) In this section "securities" includes stocks and shares.
- (8) The power to make regulations under this section shall be exercisable by statutory instrument subject to annulment in pursuance of a resolution of the House of Commons.

62 Amendments of Finance Act 1985

Schedule 17 to this Act (which contains amendments of provisions of the Finance Act 1985 about securities) shall have effect.

63 Other provisions

Schedule 18 to this Act (which contains other provisions about securities) shall have effect.