

Status: Point in time view as at 31/07/1997. This version of this schedule contains provisions that are prospective.

Changes to legislation: There are currently no known outstanding effects for the Finance (No. 2) Act 1997, SCHEDULE 4. (See end of Document for details)

SCHEDULES

SCHEDULE 4

Section 34.

TAX CREDITS, TAXATION OF DISTRIBUTIONS ETC

Modifications etc. (not altering text)

C1 Sch. 4 applied (with modifications) (temp. from 6.4.1999 to 6.4.2004) by [S.I. 1998/1871, reg. 4](#)

PART I

GENERAL

THE TAXES MANAGEMENT ACT 1970

Section 7

- 1 (1) In section 7 of the ^{M1}Taxes Management Act 1970 (notice of liability to income tax and capital gains tax) in subsection (6) (sources of income which fall within that subsection) after the words “other than the basic rate” there shall be inserted “, the Schedule F ordinary rate”.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Marginal Citations

M1 1970 c. 9.

Section 42 (pre-corporation tax self-assessment version)

Modifications etc. (not altering text)

C2 Sch. 4 para. 2 modified (31.7.1998) by [1998 c. 36, s. 90\(2\)\(b\)](#)

- 2 (1) In section 42 of the Taxes Management Act 1970 (procedure for making claims), as it has effect in relation to corporation tax for accounting periods ending before the day appointed under section 199 of the ^{M2}Finance Act 1994, the following provisions shall cease to have effect—
- (a) in subsection (5) (form of claim) the words “Subject to subsection (5A) below,”;
 - (b) subsection (5A) (claims by companies for payment of tax credits); and

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(c) subsection (10A) (extended meaning of terms used in subsection (5A)).

(2) This paragraph has effect in relation to tax credits in respect of distributions made on or after 6th April 1999.

Marginal Citations

M2 1994 c. 9.

Section 42 (corporation tax self-assessment version)

- 3 (1) In section 42 of the Taxes Management Act 1970 (procedure for making claims), as it has effect in relation to corporation tax for accounting periods ending on or after the day appointed under section 199 of the Finance Act 1994, the following provisions shall cease to have effect—
- (a) subsections (4) and (4A) (claims by companies for payment of tax credits); and
 - (b) in subsection (5), the words from “and the reference in subsection (4) above” onwards.
- (2) This paragraph has effect in relation to tax credits in respect of distributions made on or after 6th April 1999.

THE TAXES ACT 1988

Section 231

- 4 (1) In section 231 of the Taxes Act 1988 (tax credits for certain recipients of qualifying distributions) in subsection (1) (whose provisions are expressed to be subject to sections 247 and 441A) for “441A” there shall be substituted “ 469(2A) ”.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 232

- 5 (1) In section 232 of the Taxes Act 1988 (tax credits for non-UK residents) the following provisions shall cease to have effect—
- (a) subsection (2) (funds to which section 615(2)(b) or (c) applies); and
 - (b) subsection (3) (sovereign powers, governments and international organisations).
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 233

- 6 (1) Section 233 of the Taxes Act 1988 (taxation of certain recipients of distributions and in respect of non-qualifying distributions) shall be amended as follows.

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- (2) In subsections (1) to (1B), for the words “lower rate”, wherever occurring, there shall be substituted “ Schedule F ordinary rate ”.
- (3) In subsection (1B), for the words “rate applicable to trusts”, in both places where they occur, there shall be substituted “ Schedule F trust rate ”.
- (4) In subsection (2), in the definition of “excess liability”, for “were charged at the lower rate to the exclusion of the higher rate or, as the case may be, the rate applicable to trusts” there shall be substituted “were charged—
 - (a) in the case of income chargeable under Schedule F, at the Schedule F ordinary rate, and
 - (b) in the case of any other income, at the lower rate,to the exclusion of the higher rate, the Schedule F upper rate or, as the case may be, the Schedule F trust rate ”.
- (5) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Sections 235 to 237

- 7 (1) Sections 235 to 237 of the Taxes Act 1988 (distributions of exempt funds and bonus issues) shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 238

- 8 (1) In section 238(1) of the Taxes Act 1988 (interpretation etc) in the definition of “franked payment” for “rate of advance corporation tax” there shall be substituted “ tax credit fraction ”.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 241

- 9 (1) In section 241 of the Taxes Act 1988, for subsection (2) (amount on which ACT is payable where there is in an accounting period an excess of franked payments over franked investment income) there shall be substituted—

“(2) If in an accounting period there is such an excess, advance corporation tax shall be payable on the excess at nine-tenths of the rate of advance corporation tax.”
- (2) Sub-paragraph (1) above has effect in relation to accounting periods beginning on or after 6th April 1999.
- (3) In the case of an accounting period beginning before, and ending on or after, 6th April 1999, the advance corporation tax payable shall be computed—
 - (a) in accordance with section 241, as amended by sub-paragraph (1) above, in the case of that part of the excess, if any, which, had there been such a period,

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would have accrued in an accounting period beginning with 6th April 1999 and ending with the true accounting period; and

- (b) in accordance with that section as it has effect apart from subsection (1) above in the case of that part of the excess, if any, which, had there been such a period, would have accrued in an accounting period beginning with the true accounting period and ending with 6th April 1999.

Section 249

- 10 (1) Section 249 of the Taxes Act 1988 (stock dividends treated as income) shall be amended as follows.
- (2) In subsection (4) (taxation of individuals)—
- (a) in the words preceding paragraph (a), for “lower rate” there shall be substituted “ Schedule F ordinary rate ”;
- (b) in paragraph (a), for “lower rate” there shall be substituted “ Schedule F ordinary rate ”; and
- (c) in paragraph (c), after “as if it were income to which section 1A applies” there shall be inserted “ as it applies to income chargeable under Schedule F ”.
- (3) In subsection (6) (taxation of trustees) in paragraph (b) for “lower rate” there shall be substituted “ Schedule F ordinary rate ”.
- (4) This paragraph has effect in relation to share capital, within the meaning of section 249 of the Taxes Act 1988, issued on or after 6th April 1999.

Section 421

- 11 (1) In section 421 of the Taxes Act 1988 (taxation of borrower when loan under s.419 released etc) in subsection (1)—
- (a) in paragraphs (a) and (b), for the words “lower rate”, in both places where they occur, there shall be substituted “ Schedule F ordinary rate ”; and
- (b) in paragraph (c), after the words “as if it were income to which section 1A applies” there shall be inserted “ by virtue of subsection (2)(b) of that section ”.
- (2) This paragraph has effect in relation to the release or writing off of the whole or part of a debt on or after 6th April 1999.

Section 469

- 12 (1) Section 469 of the Taxes Act 1988 (unit trusts other than authorised unit trusts) shall be amended as follows.
- (2) In subsection (2) (income of the trustees to which section 1A applies to be chargeable at the basic rate instead of the lower rate) for “lower rate” there shall be substituted “ rate applicable in accordance with subsection (1A) of that section ”.
- (3) After subsection (2) there shall be inserted—
- “(2A) Section 231(1) shall not apply where the recipient of the distribution there mentioned is the trustees of the scheme.

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(2B) Section 233(1) shall not apply where the person there mentioned is the trustees of the scheme.”

(4) In subsection (9) (sections 686 and 687 not to apply) after “686” there shall be inserted “, 686A ”.

(5) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 549

13 (1) In section 549 of the Taxes Act 1988 (policies of life insurance etc: corresponding deficiency relief) in subsection (2) (which contains a definition of “excess liability”)

(a) after “(so far as applicable in accordance with section 1A) the lower rate” there shall be inserted “ or the Schedule F ordinary rate ”; and

(b) for “any higher rate” there shall be substituted “ the higher rate and the Schedule F upper rate ”.

(2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 660C

14 (1) Section 660C of the Taxes Act 1988 (settlements where the settlor retains an interest: nature of the charge on settlor) shall be amended as follows.

(2) In subsection (1) (tax to be charged under Case VI of Schedule D) for “under Case VI of Schedule D” there shall be substituted—

“(a) in the case of income falling within subsection (1A) below, as if it were income to which section 1A applies by virtue of subsection (2) (b) of that section; and

(b) in the case of any other income, under Case VI of Schedule D”.

(3) After subsection (1) there shall be inserted—

“(1A) Income falls within this subsection if it is—

(a) income chargeable under Schedule F;

(b) income to which section 1A applies by virtue of its being equivalent foreign income falling within subsection (3)(b) of that section and chargeable under Case V of Schedule D;

(c) a distribution in relation to which section 233(1) applies;

(d) a qualifying distribution whose amount or value is determined in accordance with section 233(1A);

(e) a non-qualifying distribution, within the meaning of section 233(1B);

(f) income treated as arising by virtue of section 249;

(g) income treated as received by virtue of section 421(1)(a).”

(4) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

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Section 687

15 (1) In section 687 of the Taxes Act 1988 (payments under discretionary trusts) subsection (3) (amounts which may be set against the amount assessable on trustees) shall be amended as follows.

(2) For paragraphs (a) and (aa) there shall be substituted—

“(a) the amount of any tax on income arising to the trustees which (not being income the tax on which falls within paragraphs (a1) to (bc) below) is charged in pursuance of section 686 at the rate applicable to trusts or the Schedule F trust rate;

(a1) the amount of tax at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate on any income of the trustees chargeable under Schedule F;

(a2) the amount of tax which, by virtue of section 233(1A), is charged, at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate, on the amount or value of the whole or any part of any qualifying distribution included in the income arising to the trustees;

(aa) the amount of tax which, by virtue of section 233(1B), is charged, at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate, on the amount or value of the whole or any part of any non-qualifying distribution included in the income arising to the trustees;”.

(3) For paragraph (b) there shall be substituted—

“(b) the amount of tax at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate on any sum treated, under section 249(6), as income of the trustees;”.

(4) After paragraph (b) there shall be inserted—

“(bb) the amount of tax at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate on any sum treated under section 421(1)(a) as income of the trustees;

(bc) the amount of tax at a rate equal to the difference between the Schedule F ordinary rate and the Schedule F trust rate on any sum treated under section 686A as income of the trustees;”.

(5) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 689B

16 (1) Section 689B of the Taxes Act 1988 (order in which expenses of trustees are to be set against income) shall be amended as follows.

(2) In subsection (1)—

(a) in paragraph (a) (set against income within subsection (2) or (3) before other income) after “subsection (2)” there shall be inserted “, (2A) ”;

(b) in paragraph (b) (set against income within subsection (2) before subsection (3)) after “subsection (2)” there shall be inserted “ or (2A) ”; and

(c) at the end of paragraph (b) there shall be added “and

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- (c) as set against so much (if any) of any income as is income falling within subsection (2) below before being set against income falling within subsection (2A) below”.
- (3) In subsection (2) (income against which expenses are to be first set)—
 - (a) before paragraph (a) there shall be inserted—
 - “(za) so much of the income of the trustees as is income chargeable under Schedule F;”;
 - (b) after paragraph (a) there shall be inserted—
 - “(aa) so much of the income of the trustees as is a non-qualifying distribution, within the meaning of section 233(1B);”.
- (4) After subsection (2) there shall be inserted—
 - “(2A) Income falls within this subsection if it is income to which section 1A applies by virtue of its being equivalent foreign income falling within subsection (3) (b) of that section and chargeable under Case V of Schedule D.”
- (5) In subsection (3) (income to which section 1A applies but which does not fall within subsection (2) of s.689B) after “subsection (2)” there shall be inserted “ or (2A) ”.
- (6) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 699

- 17 (1) In section 699 of the Taxes Act 1988 (relief from higher rate tax for inheritance tax on accrued income) in subsection (2) (definition of “excess liability”)—
 - (a) after “(so far as applicable in accordance with section 1A) the lower rate” there shall be inserted “ or the Schedule F ordinary rate ”; and
 - (b) for “any higher rate” there shall be substituted “ the higher rate and the Schedule F upper rate ”.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 703

- 18 (1) In section 703 of the Taxes Act 1988 (cancellation of tax advantage) in subsection (5) (b) (which requires a notice under that section to specify the amount equal to tax at the lower rate on the amount there mentioned) for “lower rate” there shall be substituted “ Schedule F ordinary rate ”.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 709

- 19 (1) In section 709 of the Taxes Act 1988 (meaning of tax advantage etc) in subsection (2A) (references to a relief and to repayment of tax to include references to a tax credit and payment of any amount in respect of a tax credit) the words “and to a repayment of tax”, “respectively” and “and to a payment of any amount in respect of a tax credit” shall be omitted.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

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Section 743

- 20 (1) Section 743 of the Taxes Act 1988 (provisions supplemental to section 739 etc) shall be amended as follows.
- (2) In subsection (1) (subject to an exception for income which has borne tax by deduction at the basic rate or the lower rate, income chargeable under s.739 to be charged under Case VI of Schedule D)—
- (a) for “or the lower rate” there shall be substituted “, the lower rate or the Schedule F ordinary rate”; and
- (b) for “under Case VI of Schedule D” there shall be substituted—
- “(a) in the case of income falling within subsection (1A) below, as if it were income to which section 1A applies by virtue of subsection (2)(b) of that section; and
- (b) in the case of any other income, under Case VI of Schedule D”.
- (3) After subsection (1) there shall be inserted—
- “(1A) Income falls within this subsection if it is—
- (a) income chargeable under Schedule F;
- (b) income to which section 1A applies by virtue of its being equivalent foreign income falling within subsection (3)(b) of that section and chargeable under Case V of Schedule D;
- (c) a distribution in relation to which section 233(1) applies;
- (d) a qualifying distribution whose amount or value is determined in accordance with section 233(1A);
- (e) a non-qualifying distribution, within the meaning of section 233(1B);
- (f) income treated as arising by virtue of section 249;
- (g) income treated as received by virtue of section 421(1)(a).”
- (4) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 819

- 21 (1) In section 819 of the Taxes Act 1988 (old references to standard rate tax) in subsection (2)—
- (a) after “(so far as applicable in accordance with section 1A) the lower rate” there shall be inserted “ or the Schedule F ordinary rate”; and
- (b) for “any higher rate” there shall be substituted “ the higher rate and the Schedule F upper rate”.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Section 832

- 22 (1) In section 832 of the Taxes Act 1988 (interpretation of the Tax Acts) the following definitions shall be inserted in subsection (1) at the appropriate places—
- ““the Schedule F ordinary rate” shall be construed in accordance with section 1B(2);”;

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“(b) “the Schedule F trust rate” shall be construed in accordance with section 686(1A);”;

“(c) “the Schedule F upper rate” shall be construed in accordance with section 1B(2);”.

(2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Schedule 13

23 (1) Schedule 13 to the Taxes Act 1988 (collection of ACT) shall be amended as follows.

(2) In paragraph 2, in sub-paragraph (4) (calculation of amount to be paid where the franked payments for the return period exceed the franked investment income or where there is no franked investment income) for the words following “shall be calculated” there shall be substituted “in accordance with sub-paragraph (4A) below”.

(3) After that sub-paragraph there shall be inserted—

“(4A) The tax mentioned in sub-paragraph (4) above shall be calculated at a rate equal to nine-tenths of the rate of advance corporation tax in force for the financial year in which the return period ends—

- (a) in a case falling within paragraph (a) of that sub-paragraph, on the excess mentioned in that paragraph; or
- (b) in a case falling within paragraph (b) of that sub-paragraph, on the amount shown under sub-paragraph (1)(a) above.”

(4) In paragraph 4 (receipt of franked investment income after payment of ACT) for sub-paragraph (3) (which imposes a limit on repayment) there shall be substituted—

“(3) The amount of the repayment—

- (a) if no franked payments were made by the company in the return period for which a return is made by virtue of sub-paragraph (2) above, shall not exceed an amount equal to the advance corporation tax that would be payable in respect of a distribution equal to the difference between—
 - (i) the franked investment income received, and
 - (ii) the tax credit comprised in that franked investment income; and
- (b) in any other case, shall not exceed an amount equal to the advance corporation tax that would be payable in respect of a distribution equal to the amount by which—
 - (i) the franked investment income received, exceeds
 - (ii) the franked payments made in the return period,at the rate provided in paragraph 2(4A) above.”

(5) The preceding provisions of this paragraph have effect in relation to return periods, within the meaning of Schedule 13 to the Taxes Act 1988, ending on or after 6th April 1999.

(6) If, in the period beginning with 1st April 1999 and ending with 5th April 1999—

- (a) any franked investment income is received by a company, or

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(b) any franked payments are made by a company, that period shall, in the case of the company, be treated for the purposes of Schedule 13 to the Taxes Act 1988 as if it were a separate return period.

THE TAXATION OF CHARGEABLE GAINS ACT 1992

Section 4

- 24 (1) Section 4 of the ^{M3}Taxation of Chargeable Gains Act 1992 (rates of capital gains tax) shall be amended as follows.
- (2) In subsection (2) (case where income tax is chargeable at the higher rate on part of income of an individual) after “the higher rate”, where first occurring, there shall be inserted “ or the Schedule F upper rate ”.
- (3) In subsection (3) (case where income tax is not chargeable at the higher rate on income of an individual but his gains exceed the unused basic rate band) after “the higher rate”, where first occurring, there shall be inserted “ or the Schedule F upper rate ”.
- (4) In subsection (3A) (disregard of income chargeable at the lower rate in accordance with section 1A of the Taxes Act 1988 etc)—
- (a) after “the lower rate” there shall be inserted “ or the Schedule F ordinary rate ”; and
- (b) after “the higher rate” there shall be inserted “ or the Schedule F upper rate ”.
- (5) In subsection (3B), in paragraph (a) (determination in certain cases of the amount of income comprised in an individual’s total income which is chargeable at the higher rate) after “the higher rate” there shall be inserted “ or the Schedule F upper rate ”.
- (6) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Marginal Citations

M3 1992 c. 12.

Section 6

- 25 (1) In section 6 of the ^{M4}Taxation of Chargeable Gains Act 1992 (other special cases) in subsection (3) (cases where income includes gains on policies of life insurance etc) in paragraph (b) after “as if no income were chargeable at the higher rate” there shall be inserted “ or the Schedule F upper rate ”.
- (2) This paragraph has effect for the year 1999-00 and subsequent years of assessment.

Marginal Citations

M4 1992 c. 12.

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PART II

INSURANCE COMPANIES AND LLOYD’S UNDERWRITERS

THE TAXES ACT 1988

Section 231B

- 26 (1) In section 231B of the Taxes Act 1988, in subsection (4)(b), the words “or 441A(7)” shall be omitted.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 434

- 27 (1) In section 434 of the Taxes Act 1988 (franked investment income etc) in subsection (1A) (which modifies paragraph 2 of Schedule F) the words from “but this subsection” onwards shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Section 441A

- 28 (1) In section 441A, subsections (2) to (8) (regulations about tax credits to which insurance companies are entitled) shall cease to have effect.
- (2) This paragraph has effect in relation to distributions made on or after 6th April 1999.

Schedule 19AC

- 29 (1) Schedule 19AC to the Taxes Act 1988 (overseas life insurance companies) shall be amended as follows.
- (2) In paragraph 9(1) (which notionally inserts subsections (1C) to (1E) into section 434 of the Taxes Act 1988) in the notionally inserted subsection (1D), the words from “but this subsection” onwards shall cease to have effect.
- (3) Paragraph 11A(2) (which modifies section 441A(2) and (3) of the Taxes Act 1988) shall cease to have effect.
- (4) This paragraph has effect in relation to distributions made on or after 6th April 1999.

THE FINANCE ACT 1993

Schedule 20

PROSPECTIVE

- 30 (1) In Schedule 20 to the ^{M5}Finance Act 1993 (Lloyd’s underwriters: special reserve funds) the following provisions shall cease to have effect—

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- (a) paragraph 9(3) (claims for payment of tax credits); and
- (b) in paragraph 11(3)(c) (value of fund as increased by tax repayment or tax credit received under paragraph 9(2) or (3)) the words “or tax credit received” and “or (3)”.

(2) Sub-paragraph (1) above has effect in relation to distributions made on or after 6th April 1999.

Marginal Citations

M5 1993 c. 34.

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