



# Finance Act 2003

## CHAPTER 14

### FINANCE ACT 2003

#### PART 1

##### EXCISE DUTIES

###### *Tobacco products duty*

- 1 Rates of tobacco products duty

###### *Alcoholic liquor duties*

- 2 Rate of duty on beer
- 3 Rates of duty on wine and made-wine

###### *Hydrocarbon oil duties*

- 4 Rates of hydrocarbon oil duties
- 5 Rebates on hydrocarbon oil duties

###### *Betting and gaming duties*

- 6 General betting duty and pool betting duty: relief for losses
- 7 General betting duty: betting exchanges
- 8 General betting duty: restriction of exemption for on-course bets
- 9 Bingo duty
- 10 Amusement machines not operated by coins or tokens
- 11 Amusement machines: use of currencies other than sterling
- 12 Responsibility for unlicensed amusement machines
- 13 Rates of gaming duty

*Vehicle excise duty*

- 14 Vehicle excise duty: rates
- 15 Disclosure for exemptions: Northern Ireland
- 16 Duty at higher rate: exception for tractive units

**PART 2**

## VALUE ADDED TAX

- 17 Requirement of evidence or security
- 18 Joint and several liability for unpaid VAT of another trader
- 19 Face-value vouchers
- 20 Supplies arising from prior grant of fee simple
- 21 Business gifts
- 22 Non-business use of business property
- 23 Supply of electronic services in member States: special accounting scheme

**PART 3**

## TAXES AND DUTIES ON IMPORTATION AND EXPORTATION: PENALTIES

*Preliminary*

- 24 Introductory

*The penalties*

- 25 Penalty for evasion
- 26 Penalty for contravention of relevant rule
- 27 Exceptions from section 26
- 28 Liability of directors etc where body corporate liable to penalty for evasion

*Reduction of amount of penalty*

- 29 Reduction of penalty under section 25 or 26

*Demand notices*

- 30 Demands for penalties
- 31 Time limits for demands for penalties
- 32 No prosecution after demand notice for penalty under section 26

*Reviews*

- 33 Right to review of certain decisions
- 34 Time limit and right to further review
- 35 Powers of Commissioners on a review

*Appeals*

- 36 Appeals to a tribunal
- 37 Appeal tribunals

*Evidence*

- 38 Admissibility of certain statements and documents

*Miscellaneous and supplementary*

- 39 Service of notices
- 40 Penalties not to be deducted for income tax or corporation tax purposes
- 41 Regulations and orders

**PART 4**

STAMP DUTY LAND TAX

*Introduction*

- 42 The tax

*Land transactions*

- 43 Land transactions
- 44 Contract and conveyance
- 45 Contract and conveyance: effect of transfer of rights
- 46 Options and rights of pre-emption
- 47 Exchanges

*Chargeable interests, chargeable transactions and chargeable consideration*

- 48 Chargeable interests
- 49 Chargeable transactions
- 50 Chargeable consideration
- 51 Contingent, uncertain or unascertained consideration
- 52 Annuities etc: chargeable consideration limited to twelve years' payments
- 53 Deemed market value where transaction involves connected company
- 54 Exceptions from deemed market value rule

*Amount of tax chargeable*

- 55 Amount of tax chargeable: general
- 56 Amount of tax chargeable: rent

*Reliefs*

- 57 Disadvantaged areas relief
- 58 Relief for certain exchanges of residential property
- 59 Relocation relief
- 60 Compulsory purchase facilitating development
- 61 Compliance with planning obligations
- 62 Group relief and reconstruction or acquisition relief
- 63 Demutualisation of insurance company
- 64 Demutualisation of building society
- 65 Incorporation of limited liability partnership
- 66 Transfers involving public bodies
- 67 Transfer in consequence of reorganisation of parliamentary constituencies
- 68 Charities relief
- 69 Acquisition by bodies established for national purposes
- 70 Right to buy transactions, shared ownership leases etc
- 71 Certain acquisitions by registered social landlord

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- 72 Alternative property finance: land sold to financial institution and leased to individual
- 73 Alternative property finance: land sold to financial institution and re-sold to individual
- 74 Collective enfranchisement by leaseholders
- 75 Crofting community right to buy

*Returns and other administrative matters*

- 76 Duty to deliver land transaction return
- 77 Notifiable transactions
- 78 Returns, enquiries, assessments and related matters
- 79 Registration of land transactions etc
- 80 Adjustment where contingency ceases or consideration is ascertained
- 81 Further return where relief withdrawn
- 82 Loss or destruction of, or damage to, return etc
- 83 Formal requirements as to assessments, penalty determinations etc
- 84 Delivery and service of documents

*Liability for and payment of tax*

- 85 Liability for tax
- 86 Payment of tax
- 87 Interest on unpaid tax
- 88 Interest on penalties
- 89 Interest on repayment of tax overpaid etc
- 90 Application to defer payment in case of contingent or uncertain consideration
- 91 Collection and recovery of tax etc
- 92 Payment by cheque

*Compliance*

- 93 Information powers
- 94 Power to inspect premises
- 95 Offence of fraudulent evasion of tax
- 96 Penalty for assisting in preparation of incorrect return etc
- 97 Power to allow further time and reasonable excuse for failure
- 98 Admissibility of evidence not affected by offer of settlement etc
- 99 General provisions about penalties

*Application of provisions*

- 100 Companies
- 101 Unit trust schemes
- 102 Open-ended investment companies
- 103 Joint purchasers
- 104 Partnerships
- 105 Trustees
- 106 Persons acting in a representative capacity etc
- 107 Crown application

*Supplementary provisions*

- 108 Linked transactions

- 109 General power to vary this Part by regulations
- 110 Approval of regulations under general power
- 111 Claim for repayment if regulations under general power not approved
- 112 Power to amend certain provisions before implementation
- 113 Functions conferred on “the Inland Revenue”
- 114 Orders and regulations made by the Treasury or the Inland Revenue
- 115 General and Special Commissioners, appeals and other proceedings

*Interpretation etc*

- 116 Meaning of “residential property”
- 117 Meaning of “major interest” in land
- 118 Meaning of “market value”
- 119 Meaning of “effective date” of a transaction
- 120 Meaning of “lease” and other supplementary provisions
- 121 Minor definitions
- 122 Index of defined expressions

*Final provisions*

- 123 Consequential amendments
- 124 Commencement and transitional provisions

**PART 5**

STAMP DUTY

- 125 Abolition of stamp duty except on instruments relating to stock or marketable securities
- 126 Circumstances in which group relief withdrawn
- 127 Circumstances in which relief for company acquisitions withdrawn
- 128 Exemption of certain leases granted by registered social landlords
- 129 Relief for certain leases granted before section 128 has effect
- 130 Registered social landlords: treatment of certain leases granted between 1st January 1990 and 27 March 2000

**PART 6**

INCOME TAX AND CORPORATION TAX: CHARGE AND RATE BANDS

*Income tax*

- 131 Charge and rates for 2003-04
- 132 Indexed rate bands for 2003-04: PAYE deductions etc

*Corporation tax*

- 133 Charge and main rate for financial year 2004
- 134 Small companies' rate and fraction for financial year 2003
- 135 Corporation tax starting rate and fraction for financial year 2003

**PART 7**

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX: GENERAL

*Employment income and related matters*

- 136 Provision of services through intermediary

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- 137 Exemption where homeworker's additional expenses met by employer
- 138 Taxable benefits: lower threshold for cars with a CO<sub>2</sub> emissions figure
- 139 Approved share plans and schemes
- 140 Employee securities and options
- 141 Corporation tax relief for employee share acquisitions
- 142 Ending of relief for contributions to QUESTS
- 143 Restriction of deductions for employee benefit contributions
- 144 PAYE on notional payments: reimbursement period
- 145 PAYE: regulations and notional payments
- 146 Payroll giving: extension of 10% supplement to 5th April 2004
- 147 Sub-contractor deductions etc: interest on late payment or repayment

*Taxation of non-resident companies and related matters*

- 148 Meaning of "permanent establishment"
- 149 Non-resident companies: basis of charge to corporation tax
- 150 Non-resident companies: assessment, collection and recovery of corporation tax
- 151 Non-resident companies: extent of charge to income tax
- 152 Non-resident companies: transactions carried out through broker, investment manager or Lloyd's agent
- 153 General replacement of references to branch or agency of company
- 154 Double taxation relief: profits attributable to overseas permanent establishment
- 155 Consequential amendments
- 156 Overseas life insurance companies

*Chargeable gains*

- 157 Life insurance policies and deferred annuity contracts
- 158 Application of market value rule in case of exercise of option
- 159 Reporting limits and annual exempt amount
- 160 Taper relief: assets qualifying as business assets
- 161 Earn-out rights to be treated as securities unless contrary election
- 162 Deferred unascertainable consideration: election for treatment of loss
- 163 Transfers of value: attribution of gains to beneficiaries

*Capital allowances and related matters*

- 164 Avoidance affecting proceeds of balancing event
- 165 Extension of first-year allowances for ICT expenditure by small enterprises
- 166 Expenditure on software for sub-licensing
- 167 First-year allowances for expenditure on environmentally beneficial plant or machinery
- 168 Relief for research and development
- 169 Tonnage tax: extension of capital allowance restrictions on lessors of ships

*Life insurance and pensions*

- 170 Insurance companies
- 171 Policies of life insurance etc: miscellaneous amendments
- 172 Charges under life insurance policies for exceptional risk of disability
- 173 Gains on policies of life insurance etc: rate of tax

174 Personal pension arrangements: limit on contributions

*Miscellaneous*

175 Payments to adopters  
176 Foster carers  
177 Currency contracts and currency options  
178 Loan relationships: amendments  
179 Derivative contracts: transactions within groups  
180 Contributions to urban regeneration companies  
181 Repos etc  
182 Relevant discounted securities: withdrawal of relief for costs and losses,  
etc  
183 Court common investment funds  
184 Intangible fixed assets: tax avoidance arrangements and related parties

**PART 8**

OTHER TAXES

*Inheritance tax*

185 Gifts with reservation  
186 Authorised unit trusts, OEICs and common investment funds

*Landfill tax*

187 Rate of landfill tax

*Climate change levy*

188 Exemption for fuel used in recycling processes  
189 CHP exemption to be based on current efficiency  
190 Supplies not known to be taxable when made, etc  
191 Deemed supplies  
192 Amendments about registration, payment etc  
193 Electricity from renewable sources etc

*Insurance premium tax*

194 Higher rate of tax: divided companies

**PART 9**

MISCELLANEOUS AND SUPPLEMENTARY PROVISIONS

*Provisions consequential on changes to company law*

195 Companies acquiring their own shares  
196 Companies in administration

*International matters*

197 Exchange of information between tax authorities of member States  
198 Arrangements for mutual exchange of tax information  
199 Savings income: Community obligations and international arrangements  
200 Controlled foreign companies: exempt activities  
201 Application of CFC provisions to Hong Kong and Macao companies

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*Administrative matters*

- 202 Deduction of tax from interest: recognised clearing houses etc
- 203 Authorised unit trusts: interest distributions paid gross
- 204 Mandatory electronic payment by large employers
- 205 Use of electronic means of payment under other provisions
- 206 Admissibility of evidence not affected by offer of settlement etc
- 207 Consequential claims etc

*National Savings*

- 208 Ordinary accounts and investment accounts
- 209 Abolition of accounting requirements relating to investment deposits

*Other financial matters*

- 210 Payments for service of national debt
- 211 Definition of liabilities and assets of National Loans Fund
- 212 Accounts of Consolidated Fund and National Loans Fund
- 213 Debt Management Account: abolition of borrowing cap
- 214 Payments in error from or to National Loans Fund

*Supplementary*

- 215 Interpretation
- 216 Repeals
- 217 Short title

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SCHEDULES

SCHEDULE 1 — VAT: face-value vouchers

- 1 In Part 3 of the Value Added Tax Act 1994...
- 2 After Schedule 10 to that Act insert— SCHEDULE 10A Face-value...
- 3 In Schedule 6 to the Value Added Tax Act 1994...
- 4 The amendments made by this Schedule apply to supplies of...

SCHEDULE 2 — Supply of electronic services in member States: VAT special accounting scheme

- 1 Introductory
- 2 Insertion of new section 3A
- 3 Persons registered under Schedule 1
- 4 The special accounting scheme

SCHEDULE 3 — Stamp duty land tax: transactions exempt from charge

- 1 No chargeable consideration
- 2 Grant of certain leases by registered social landlords
- 3 Transactions in connection with divorce etc
- 4 Variation of testamentary dispositions etc
- 5 Power to add further exemptions

SCHEDULE 4 — Stamp duty land tax: chargeable consideration

- 1 Money or money's worth
- 2 Value added tax
- 3 Postponed consideration



- 4 Just and reasonable apportionment
- 5 Exchanges
- 6 Partition etc: disregard of existing interest
- 7 Valuation of non-monetary consideration
- 8 Debt as consideration
- 9 Conversion of amounts in foreign currency
- 10 Carrying out of works
- 11 Provision of services
- 12 Land transaction entered into by reason of employment
- 13 Obligations under lease
- 14 Surrender of existing lease in return for new lease
- 15 Reverse premium
- 16 Indemnity given by purchaser

SCHEDULE 5 — Stamp duty land tax: amount of tax chargeable: rent

- 1 Introduction
- 2 Calculation of tax chargeable in respect of rent
- 3 Net present value of rent payable over term of lease
- 4 Rent payable
- 5 Effect of provision for rent review
- 6 Term of lease
- 7 Treatment of lease for indefinite term
- 8 Temporal discount rate
- 9 Tax chargeable in respect of consideration other than rent
- 10 Increase of rent treated as grant of new lease
- 11 Interpretation

SCHEDULE 6 — Stamp duty land tax: disadvantaged areas relief

Part 1 — DISADVANTAGED AREAS

- 1 Meaning of “disadvantaged area”
  - 2 Continuation of regulations made for purposes of stamp duty
- Part 2 — LAND WHOLLY SITUATED IN A DISADVANTAGED AREA
- 3 Introduction
  - 4 Land all non-residential
  - 5 Land all residential
  - 6 Land partly non-residential and partly residential
- Part 3 — LAND PARTLY SITUATED IN A DISADVANTAGED AREA
- 7 Introduction
  - 8 Land all non-residential
  - 9 Land all residential
  - 10 Land partly non-residential and partly residential
- Part 4 — INTERPRETATION
- 11 Relevant consideration and relevant rental value
  - 12 Rent and annual rent

SCHEDULE 7 — Stamp duty land tax: group relief and reconstruction and acquisition reliefs

Part 1 — GROUP RELIEF

- 1 Group relief
- 2 Restrictions on availability of group relief
- 3 Withdrawal of group relief
- 4 Cases in which group relief not withdrawn

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- 5 Recovery of group relief from another group company or controlling director
- 6 Recovery of group relief: supplementary
  - Part 2 — RECONSTRUCTION AND ACQUISITION RELIEFS
- 7 Reconstruction relief
- 8 Acquisition relief
- 9 Withdrawal of reconstruction or acquisition relief
- 10 Cases in which reconstruction or acquisition relief not withdrawn
- 11 Withdrawal of reconstruction or acquisition relief on subsequent non-exempt transfer
- 12 Recovery of reconstruction or acquisition relief from another group company or controlling director
- 13 Recovery of reconstruction or acquisition relief: supplementary

SCHEDULE 8 — Stamp duty land tax: charities relief

- 1 Charities relief
- 2 Withdrawal of charities relief

SCHEDULE 9 — Stamp duty land tax: right to buy, shared ownership leases etc

- 1 Right to buy transactions
- 2 Shared ownership lease: election for market value treatment
- 3 Transfer of reversion under shared ownership lease where election made for market value treatment
- 4 Shared ownership lease: election where staircasing allowed
- 5 Shared ownership leases: meaning of “qualifying body” and “preserved right to buy”
- 6 Rent to mortgage or rent to loan: chargeable consideration

SCHEDULE 10 — Stamp duty land tax: returns, enquiries, assessments and appeals

Part 1 — LAND TRANSACTION RETURNS

- 1 Contents of return
- 2 Meaning of filing date and delivery of return
- 3 Failure to deliver return: flat-rate penalty
- 4 Failure to deliver return: tax-related penalty
- 5 Formal notice to deliver return: daily penalty
- 6 Amendment of return by purchaser
- 7 Correction of return by Revenue
- 8 Penalty for incorrect or uncorrected return
- Part 2 — DUTY TO KEEP AND PRESERVE RECORDS
- 9 Duty to keep and preserve records
- 10 Preservation of information instead of original records
- 11 Penalty for failure to keep and preserve records
- Part 3 — ENQUIRY INTO RETURN
- 12 Notice of enquiry
- 13 Scope of enquiry
- 14 Notice to produce documents etc for purposes of enquiry
- 15 Appeal against notice to produce documents etc
- 16 Penalty for failure to produce documents etc
- 17 Amendment of self-assessment during enquiry to prevent loss of tax
- 18 Amendment of return by taxpayer during enquiry
- 19 Referral of questions to Special Commissioners during enquiry
- 20 Withdrawal of notice of referral
- 21 Effect of referral on enquiry

- 22 Effect of determination
- 23 Completion of enquiry
- 24 Direction to complete enquiry
  - Part 4 — REVENUE DETERMINATION IF NO RETURN DELIVERED
- 25 Determination of tax chargeable if no return delivered
- 26 Determination to have effect as a self-assessment
- 27 Determination superseded by actual self-assessment
  - Part 5 — REVENUE ASSESSMENTS
- 28 Assessment where loss of tax discovered
- 29 Assessment to recover excessive repayment of tax
- 30 Restrictions on assessment where return delivered
- 31 Time limit for assessment
- 32 Assessment procedure
  - Part 6 — RELIEF IN CASE OF EXCESSIVE ASSESSMENT
- 33 Relief in case of double assessment
- 34 Relief in case of mistake in return
  - Part 7 — APPEALS AGAINST REVENUE DECISIONS ON TAX
- 35 Right of appeal
- 36 Notice of appeal
- 37 Settling of appeals by agreement
- 38 Recovery of tax not postponed by appeal
- 39 Direction by Commissioners to postpone payment
- 40 Agreement to postpone payment of tax

#### SCHEDULE 11 — Stamp duty land tax: self-certificates

##### Part 1 — GENERAL

- 1 Introductory
- 2 Form and contents of self-certificate
- 3 Tax-related penalty for fraud or negligence
  - Part 2 — DUTY TO KEEP AND PRESERVE RECORDS
- 4 Duty to keep and preserve records
- 5 Preservation of information instead of original records
- 6 Penalty for failure to keep and preserve records
  - Part 3 — ENQUIRY INTO SELF-CERTIFICATE
- 7 Notice of enquiry
- 8 Scope of enquiry
- 9 Notice to produce documents etc for purposes of enquiry
- 10 Appeal against notice to produce documents etc
- 11 Penalty for failure to produce documents etc
- 12 Referral of questions to Special Commissioners during enquiry
- 13 Withdrawal of notice of referral
- 14 Effect of referral on enquiry
- 15 Effect of determination
- 16 Completion of enquiry
- 17 Direction to complete enquiry

#### SCHEDULE 12 — Stamp duty land tax: collection and recovery of tax

##### Part 1 — GENERAL

- 1 Issue of tax demands and receipts
- 2 Recovery of tax by distraint
- 3 Recovery of tax by diligence in Scotland
  - Part 2 — COURT PROCEEDINGS
- 4 Civil proceedings in magistrates' court or court of summary jurisdiction

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- 5 Proceedings in county court or sheriff court
- 6 Proceedings in High Court or Court of Session
- 7 Evidence of unpaid tax

#### SCHEDULE 13 — Stamp duty land tax: information powers

##### Part 1 — POWER OF AUTHORISED OFFICER TO CALL FOR DOCUMENTS OR INFORMATION FROM TAXPAYER

- 1 Notice requiring taxpayer to deliver documents or provide information
- 2 Requirement of consent of General or Special Commissioner
- 3 Contents of notice under this Part
- 4 Summary of reasons to be given
- 5 Power to take copies of documents etc

##### Part 2 — POWER OF AUTHORISED OFFICER TO CALL FOR DOCUMENTS FROM THIRD PARTY

- 6 Notice requiring documents to be delivered or made available
- 7 Requirement of consent of General or Special Commissioner
- 8 Contents of notice under paragraph 6
- 9 Copy of notice to be given to taxpayer
- 10 Summary of reasons to be given
- 11 Power to give notice relating to unnamed taxpayer or taxpayers
- 12 Contents of notice under paragraph 11
- 13 Power to take copies of documents etc

##### Part 3 — POWER TO CALL FOR PAPERS OF TAX ACCOUNTANT

- 14 Power to call for papers of tax accountant
- 15 When notice may be given
- 16 Requirement of consent of appropriate judicial authority
- 17 Contents of notice
- 18 Power to take copies of documents etc

##### Part 4 — RESTRICTIONS ON POWERS UNDER PARTS 1 TO 3

- 19 Introduction
- 20 Personal records or journalistic material
- 21 Documents or information relating to pending appeal
- 22 Barristers, advocates and solicitors
- 23 Provision of copies instead of original documents
- 24 Documents originating more than six years before date of notice
- 25 Documents subject to legal privilege
- 26 Documents belonging to auditor or tax adviser
- 27 Documents belonging to auditor or tax adviser: information to be disclosed

##### Part 5 — POWERS OF BOARD TO CALL FOR DOCUMENTS OR INFORMATION

- 28 Notice requiring delivery of documents or provision of information
- 29 Contents of notice
- 30 Power to take copies of documents etc
- 31 Exclusion of personal records or journalistic material

##### Part 6 — ORDER OF JUDICIAL AUTHORITY FOR THE DELIVERY OF DOCUMENTS

- 32 Order for the delivery of documents
- 33 Notice of application for order
- 34 Obligations of person given notice of application
- 35 Exception of items subject to legal privilege
- 36 Resolution of disputes as to legal privilege
- 37 Complying with an order
- 38 Document not to be retained if photograph or copy sufficient

- 39 Access to or supply of photograph or copy of documents delivered
- 40 Sanction for failure to comply with order
- 41 Notice of order, etc
- 42 General provisions about regulations
  - Part 7 — ENTRY WITH WARRANT TO OBTAIN EVIDENCE OF OFFENCE
- 43 Power to issue warrant
- 44 Meaning of offence involving serious fraud
- 45 Approval of application by Board
- 46 Extent of powers conferred by warrant
- 47 Exercise of powers conferred by warrant
- 48 Items subject to legal privilege
- 49 Procedure where documents etc are removed
- 50 Document not to be retained if photograph or copy sufficient
- 51 Access to or supply of photograph or copy of items removed
- 52 Endorsement and custody etc of warrant
  - Part 8 — FALSIFICATION ETC OF DOCUMENTS
- 53 Falsification etc of documents

SCHEDULE 14 — Stamp duty land tax: determination of penalties and related appeals

- 1 Determination of penalties and appeals
- 2 Determination of penalty by officer of the Board
- 3 Alteration of penalty determination
- 4 Liability of personal representatives
- 5 Appeal against penalty determination
- 6 Further appeal
- 7 Penalty proceedings before the court
- 8 Time limit for determination of penalties

SCHEDULE 15 — Stamp duty land tax: partnerships

Part 1 — GENERAL PROVISIONS

- 1 Partnerships
- 2 Legal personality of partnership disregarded
- 3 Continuity of partnership
- 4 Partnership not to be regarded as unit trust scheme etc

Part 2 — ORDINARY PARTNERSHIP TRANSACTIONS

- 5 Introduction
- 6 Responsibility of partners
- 7 Joint and several liability of responsible partners
- 8 Representative partners

Part 3 — TRANSACTIONS EXCLUDED FROM STAMP DUTY LAND TAX

- 9 Introduction
- 10 Transfer of interest in land into a partnership
- 11 Acquisition of partnership interest
- 12 Transfer of interest in land out of a partnership
- 13 Effect of exclusion of transaction from stamp duty land tax
- 14 Construction of references to partnership property

SCHEDULE 16 — Stamp duty land tax: trusts and powers

- 1 Meaning of “settlement” and “bare trust”
- 2 Interests of beneficiaries under certain trusts
- 3 Acquisition etc by bare trustee attributed to beneficial owner
- 4 Acquisition by trustees of settlement

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- 5 Responsibility of trustees of settlement
- 6 Relevant trustees for purposes of return etc
- 7 Consideration for exercise of power of appointment or discretion

SCHEDULE 17 — Stamp duty land tax: General and Special Commissioners, appeals and other proceedings

- 1 General and Special Commissioners: application of general provisions
- 2 Prescribed matters to be determined by Commissioners or Lands Tribunal
- 3 General or Special Commissioners: jurisdiction
- 4 Proceedings brought out of time
- 5 Quorum etc of the Commissioners
- 6 Procedure
- 7 Consequences of determination by the Commissioners
- 8 Costs
- 9 Finality of decisions of the Commissioners
- 10 Publication of reports of decisions
- 11 Supplementary provisions

SCHEDULE 18 — Stamp duty land tax: consequential amendments

- 1 Provisional Collection of Taxes Act 1968
- 2 Inheritance Tax Act 1984
- 3 Income and Corporation Taxes Act 1988
- 4 Finance Act 1989
- 5 Taxation of Chargeable Gains Act 1992
- 6 Income Tax (Earnings and Pensions) Act 2003

SCHEDULE 19 — Stamp duty land tax: commencement and transitional provisions

- 1 Introduction
- 2 The implementation date
- 3 Contract entered into before first relevant date
- 4 Contract substantially performed before implementation date
- 5 Credit for ad valorem stamp duty paid
- 6 Effect for stamp duty purposes of stamp duty land tax being paid or chargeable
- 7 Earlier related transactions under stamp duty
- 8 Time for stamping agreement for lease: lease subject to stamp duty land tax
- 9 Exercise of option or right of pre-emption acquired before implementation date
- 10 Supplementary

SCHEDULE 20 — Stamp duty: restriction to instruments relating to stock or marketable securities

Part 1 — SUPPLEMENTARY PROVISIONS

- 1 Reduction of stamp duty where instrument partly relating to stock or marketable securities
- 2 Apportionment of consideration for stamp duty purposes

Part 2 — CONSEQUENTIAL AMENDMENTS AND REPEALS

- 3 Removal of unnecessary references to “conveyance”
- 4 Finance Act 1895
- 5 Finance Act 1990
- 6 Finance Act 1999

7 Power to make further consequential amendments or repeals

SCHEDULE 21 — Approved share plans and schemes

Part 1 — SHARE INCENTIVE PLANS

- 1 Introductory
- 2 Participation in more than one connected plan in a tax year
- 3 In paragraph 13 (eligibility of individuals: introduction), for the entry...
- 4 In paragraph 14(7) (eligibility to participate dependent on certain requirements...
- 5 In paragraph 18 (requirement not to participate in connected SIPs),...
- 6 After paragraph 71 insert— Duty to monitor participants in connected...
- 7 Partnership shares
- 8 In paragraph 47 (minimum amount of deductions)—

Part 2 — SAYE OPTION SCHEMES

- 9 Introductory
- 10 Minor correction
- 11 Exercise of options: scheme-related employment ends because of change of control or transfer
- 12 Alteration of schemes

Part 3 — CSOP SCHEMES

- 13 Introductory
- 14 Exercise of options: exclusion of income tax liability
- 15 (1) Schedule 4 (approved CSOP schemes) is amended as follows....
- 16 Meaning of “material interest”
- 17 Alteration of schemes
- 18 PAYE

SCHEDULE 22 — Employee securities and options

- 1 Introductory
- 2 Main provisions
- 3 (1) For Chapter 2 of Part 7 substitute— Chapter 2...
- 4 (1) For Chapter 3 of Part 7 substitute— Chapter 3...
- 5 (1) After Chapter 3 of Part 7 insert— Chapter 3A...
- 6 (1) After Chapter 3A of Part 7 (inserted by paragraph...
- 7 (1) After Chapter 3B of Part 7 (inserted by paragraph...
- 8 (1) After Chapter 3C of Part 7 (inserted by paragraph...
- 9 (1) For Chapter 4 of Part 7 substitute— Chapter 4...
- 10 (1) For Chapter 5 of Part 7 substitute— Chapter 5...
- 11 PAYE
- 12 (1) For sections 698 and 699 (PAYE: conditional interests in...
- 13 (1) For section 700 (PAYE: gains from share options) substitute—...
- 14 (1) In section 701(2)(b) (“asset” not to include vouchers or...
- 15 (1) Section 702 (meaning of “readily convertible asset”) is amended...
- 16 Consequential amendments
- 17 (1) In section 7(6)(b) (employment income), for “(share-related income and...
- 18 (1) In section 19(2) (year in which earnings treated as...
- 19 (1) In section 32(2) (receipt of non-money earnings), omit the...
- 20 (1) In section 63(1) (the benefits code), omit the entries...
- 21 (1) In section 64 (relationship between earnings and benefits code),...
- 22 (1) Omit Chapter 8 of Part 3.
- 23 (1) Omit Chapter 9 of Part 3.

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- 24 (1) Section 216 (provisions not applicable to lower-paid employments) is...
- 25 (1) Section 227(4) (employment income: exemptions) is amended as follows....
- 26 (1) Omit section 491 (no charge under Chapter 8 of...
- 27 (1) Omit section 494 (no charge on removal of restrictions...
- 28 (1) Omit section 495 (approved share incentive plan shares: value...
- 29 (1) Omit section 518 (no charge in respect of acquisition...
- 30 (1) In section 519 (no charge in respect of exercise...
- 31 (1) Omit section 520 (approved SAYE option schemes: no charge...
- 32 (1) Omit section 523 (no charge in respect of acquisition...
- 33 (1) In section 524 (no charge in respect of exercise...
- 34 (1) Omit section 525 (approved CSOP schemes: no charge in...
- 35 (1) In section 526(4) (charge where approved CSOP scheme option...
- 36 (1) Omit section 528 (enterprise management incentives: no charge in...
- 37 (1) In section 531(4) (enterprise management incentives: limitation of charge...
- 38 (1) In section 532(5) (enterprise management incentives: modified tax consequences...
- 39 (1) In section 538 (share conversions excluded for purposes of...
- 40 (1) In section 540(1) (enterprise management incentives: notional loan provisions...
- 41 (1) In section 541 (enterprise management incentives: effect on other...
- 42 (1) Part 2 of Schedule 1 (index of defined expressions)...
- 43 (1) In paragraph 35 of Schedule 2 (approved share incentive...
- 44 (1) In paragraph 42(3) of Schedule 3 (approved SAYE option...
- 45 (1) Schedule 5 (enterprise management incentives) is amended as follows....
- 46 (1) Schedule 7 (transitionals and savings) is amended as follows....
- 47 Consequential amendments of other enactments
- 48 (1) In section 4(4)(a) of— (a) the Social Security Contributions...
- 49 The Taxation of Chargeable Gains Act 1992 (c. 12) is...
- 50 (1) After section 119 insert— Increase in expenditure by reference...
- 51 In section 120 (increase in expenditure by reference to tax...
- 52 (1) After section 149A insert— Restricted and convertible employment-related securities...
- 53 In section 149B (employee incentive schemes: conditional interests in shares),...
- 54 (1) In section 288 (interpretation), after subsection (1) insert—
- 55 (1) The Social Security Contributions (Share Options) Act 2001 (c....
- 56 In section 2(3)(b) (effect of notice under section 1), insert...
- 57 (1) Section 3 (special provision for roll-overs) is amended as...
- 58 In section 5(2)(c) (interpretation), for “483(1)” substitute “477(6)”.
- 59 Schedule 23 to this Act (corporation tax relief for employee...
- 60 (1) Paragraph 1 is amended as follows.
- 61 (1) For paragraph 5(2) substitute— (2) Where the shares acquired...
- 62 (1) For paragraph 11(2) substitute— (2) Where the shares acquired...
- 63 (1) In paragraph 12, for “in exercise of” substitute “pursuant...
- 64 (1) Paragraph 13 is amended as follows.
- 65 (1) For paragraph 14 substitute— Income tax position of the...
- 66 (1) Paragraph 15 is amended as follows.
- 67 (1) In paragraph 17(1), for “in exercise of” substitute “pursuant...
- 68 (1) For Part 4 substitute— Part 4 Provisions applying in...



- 69 (1) After Part 4 insert— Part 4A Provisions applying in...
- 70 (1) In paragraph 23(2)(a), for “or 22” substitute “, 22...
- 71 (1) In paragraph 26 before paragraph (a) insert—
- 72 (1) For paragraph 27 substitute— Acquisition of shares pursuant to...
- 73 (1) Paragraph 31 is amended as follows.

## SCHEDULE 23 — Corporation tax relief for employee share acquisition

### Part 1 — GENERAL PROVISIONS

- 1 Introduction
- 2 Requirements for relief
- 3 Business must be within the charge to corporation tax
- 4 Kind of shares acquired

### Part 2 — AWARD OF SHARES

- 5 Introduction
- 6 The company whose shares are acquired
- 7 Income tax position of employee
- 8 Amount of relief
- 9 How relief is given
- 10 Timing of relief

### Part 3 — GRANT OF OPTION

- 11 Introduction
- 12 The company whose shares are acquired
- 13 Takeover of company whose shares are subject of option
- 14 Income tax position of the employee
- 15 Amount of relief
- 16 How relief is given
- 17 Timing of relief

### Part 4 — PROVISIONS APPLYING IN CASE OF SHARES SUBJECT TO FORFEITURE

- 18 Introduction
- 19 Meaning of shares being “subject to forfeiture”
- 20 Income tax position of the employee in case of shares subject to forfeiture
- 21 Amount of relief in case of shares subject to forfeiture
- 22 Timing of relief in case of shares subject to forfeiture

### Part 5 — SUPPLEMENTARY PROVISIONS

- 23 Transfer of business within a group
- 24 Relationship between relief and other deductions: priority of deductions under SIP code
- 25 Relationship between relief and other deductions: exclusion of other deductions
- 26 Meaning of “employment”
- 27 Exercise of option after death of employee or recipient
- 28 Meaning of “group company” and “parent company”
- 29 Meaning of “consortium” and “commercial association of companies”
- 30 Minor definitions
- 31 Index of defined expressions

### Part 6 — COMMENCEMENT AND TRANSITIONAL PROVISIONS

- 32 Commencement
- 33 Transitional provisions

## SCHEDULE 24 — Restriction of deductions for employee benefit contributions

- 1 Restriction of deductions

- 2 “Provision of qualifying benefits”
- 3 “Qualifying expenses”
- 4 Payment “out of” employee benefit contributions
- 5 Transfer of asset to employee
- 6 Provisional calculation of profits
- 7 Life assurance business
- 8 Deductions to which Schedule does not apply
- 9 Interpretation
- 10 Consequential amendments
- 11 Commencement and transitory provisions

SCHEDULE 25 — Determination of profits attributable to permanent establishment:  
supplementary provisions  
The Schedule inserted in the Taxes Act 1988 as Schedule...

SCHEDULE 26 — Non-resident companies: transactions through broker, investment  
manager or Lloyd’s agent

- 1 Introduction
- 2 Brokers
- 3 Investment managers
- 4 Investment managers: the 20% rule
- 5 Investment managers: application of 20% rule to collective investment  
schemes
- 6 Lloyd’s agents
- 7 General supplementary provisions

SCHEDULE 27 — Permanent establishment etc: consequential amendments

- 1 Taxes Act 1988
- 2 Taxation of Chargeable Gains Act 1992
- 3 Finance Act 1993
- 4 Finance Act 1995
- 5 (1) Section 127 of the Finance Act 1995 (persons not...
- 6 In section 128 of the Finance Act 1989 (limit on...
- 7 Omit section 129 of the Finance Act 1995 (c. 4)...
- 8 Finance Act 1996
- 9 Finance Act 2000

SCHEDULE 28 — Capital gains tax: reporting limits and annual exempt amount

- Part 1 — REPORTING LIMITS
- 1 After section 3 of the Taxation of Chargeable Gains Act...
- 2 (1) In the heading to Schedule 1 to that Act...
- Part 2 — ANNUAL EXEMPT AMOUNT
- 3 (1) Section 3 of the Taxation of Chargeable Gains Act...
- 4 (1) Paragraph 1 of Schedule 1 to that Act is...
- 5 (1) Paragraph 2 of that Schedule is amended as follows....
- 6 In the first column of the Table in section 98...
- Part 3 — COMMENCEMENT
- 7 The amendments in paragraphs 1, 2, 3(2) and (3), 4(2)(a)...
- 8 The amendments in paragraphs 3(4), 4(2)(b), (3) and (4)(b) and...
- 9 The amendments in paragraphs 4(5), 5(6) and 6 of this...

SCHEDULE 29 — Transfers of value: attribution of gains to beneficiaries

- 1 Introduction

- 2 Scope and scheme of Schedule
- 3 Other gains to be brought into Schedule 4C pool
- 4 Attribution of gains to beneficiaries
- 5 Gains attributed to settlor
- 6 Minor and consequential amendments

SCHEDULE 30 — First-year allowances for expenditure on environmentally beneficial plant or machinery

- 1 Introductory
- 2 Types of expenditure for which first-year allowances available
- 3 First-year qualifying expenditure on environmentally beneficial plant or machinery
- 4 General exclusions affecting first-year qualifying expenditure
- 5 Amount of first-year allowances
- 6 Penalty for failure to provide information etc
- 7 Transitory provision: expenditure incurred etc before first order made

SCHEDULE 31 — Tax relief for expenditure on research and development  
Part 1 — SMALL AND MEDIUM-SIZED ENTERPRISES: SCHEDULE 20 TO FINANCE ACT 2000

- 1 Introductory
- 2 Required minimum aggregate expenditure: reduction from £25,000 to £10,000
- 3 Required minimum aggregate expenditure: inclusion of new class of expenditure
- 4 Qualifying R&D expenditure: expenditure on externally provided workers
- 5 Staffing costs: persons partly engaged directly and actively in relevant R&D
- 6 Qualifying expenditure on externally provided workers
- 7 Qualifying expenditure on sub-contracted R&D: externally provided workers

Part 2 — LARGE COMPANIES: PART 1 OF SCHEDULE 12 TO FINANCE ACT 2002

- 8 Introductory
- 9 Required minimum aggregate expenditure: reduction from £25,000 to £10,000
- 10 Qualifying expenditure on externally provided workers

Part 3 — WORK SUB-CONTRACTED TO SMES: PART 2 OF SCHEDULE 12 TO FINANCE ACT 2002

- 11 Introductory
- 12 Required minimum aggregate expenditure: reduction from £25,000 to £10,000
- 13 Required minimum aggregate expenditure: inclusion of new class of expenditure
- 14 R&D directly undertaken by SME: qualifying expenditure on externally provided workers

Part 4 — ENTITLEMENT OF SME TO CERTAIN RELIEF AVAILABLE TO LARGE COMPANIES

- 15 Insertion of Part 2A of Schedule 12 to the Finance Act 2002

Part 5 — SUPPLEMENTARY: AMENDMENTS TO PARTS 3 TO 6 OF SCHEDULE 12 TO FINANCE ACT 2002

- 16 Introductory

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- 17 Deduction in computing profits of trade
- 18 Refunds of contributions to independent research and development

*Meaning of “qualifying expenditure on externally provided workers”*

- 19 (1) Paragraph 17 (which applies certain definitions from Schedule 20...  
Part 6 — EXPENDITURE ON VACCINE RESEARCH ETC: SCHEDULE 13 TO  
FINANCE ACT 2002
- 20 Introductory
- 21 Reduction of required qualifying expenditure from £25,000 to £10,000
- 22 Direct research and development: qualifying expenditure on externally  
provided workers
- 23 Meaning of “qualifying expenditure on externally provided workers”
- 24 Relevant expenditure of sub-contractor: qualifying expenditure on  
externally provided workers

SCHEDULE 32 — Tonnage tax: restrictions on capital allowances for lessors of  
ships

- 1 The ring fence: amendments to the provisions about capital allowances  
and ship leasing
- 2 Consequential amendments
- 3 Commencement and temporary provision
- 4 (1) This paragraph applies in relation to any lease entered...
- 5 In paragraphs 3 and 4 “lease” means any arrangements that...

SCHEDULE 33 — Insurance companies

- 1 Case I profits
- 2 (1) Section 83 of the Finance Act 1989 (receipts etc...
- 3 (1) In the Finance Act 1989 (c. 26), after section...
- 4 (1) In section 83AA of the Finance Act 1989 (c....
- 5 (1) In section 83AB(1)(c) of the Finance Act 1989 (treatment...
- 6 (1) In section 88 of the Finance Act 1989 (c....
- 7 (1) In section 89(7) of the Finance Act 1989 (which...
- 8 (1) In section 76(1) of the Taxes Act 1988 (expenses...
- 9 (1) In section 432D of the Taxes Act 1988 (section...
- 10 (1) Section 432E of the Taxes Act 1988 (apportionment of...
- 11 (1) In section 804B(7) of the Taxes Act 1988 (double...
- 12 (1) In section 76(2B)(b) of the Taxes Act 1988 (expenses...
- 13 Rate of tax on policy holders' share of life assurance profits
- 14 Chargeable gains
- 15 (1) In the Taxation of Chargeable Gains Act 1992 (c....
- 16 (1) Section 213 of the Taxation of Chargeable Gains Act...
- 17 (1) Section 171A of the Taxation of Chargeable Gains Act...
- 18 Transfers of business
- 19 (1) In the Taxes Act 1988, after section 444AA (inserted...
- 20 (1) In the Taxes Act 1988, after section 444AB (inserted...
- 21 (1) In the Taxation of Chargeable Gains Act 1992 (c....
- 22 (1) In section 431 of the Taxes Act 1988 (interpretative...
- 23 (1) Section 442A of the Taxes Act 1988 (investment return...
- 24 (1) Section 444A of the Taxes Act 1988 (transfers of...
- 25 Meaning of “investment reserve” etc
- 26 In section 432A(9A) of the Taxes Act 1988 (apportionment of...
- 27 In paragraph 4(5) of Schedule 19AA to the Taxes Act...

- 28 Paragraphs 25 to 27 have effect in relation to periods...
- 29 Meaning of “period of account”
- 30 Rationalisation of interpretation provisions
- 31 In the Finance Act 1989, after section 90 insert— Interpretation...
- 32 In the Taxation of Chargeable Gains Act 1992 (c. 12),...

SCHEDULE 34 — Policies of life insurance etc: miscellaneous amendments

Part 1 — GROUP LIFE POLICIES

- 1 Exception of certain group life policies from Chapter 2 of Part 13
- 2 Excepted group life policies
- 3 Retrospective exception of past and present pure protection group life policies
- 4 Existing group life policies: time for compliance with the conditions in section 539A
- 5 Deaths before 6th April 2004: period for insurer to give certificate under section 552(1)(a)

Part 2 — CHARITABLE AND NON-CHARITABLE TRUSTS

- 6 Interpretation
- 7 Method of charging gain to tax
- 8 Method of charging gain to tax: multiple interests
- 9 Deemed surrender of certain loans
- 10 Right of individual to recover tax from trustees
- 11 Right of company to recover tax from trustees
- 12 Section 547(1)(cc) and (d)(ia): exception for certain old policies and contracts

Part 3 — MEANING OF “LIFE ANNUITY”

- 13 Restriction of “life annuity” to contracts to which section 656 of the Taxes Act 1988 applies

Part 4 — ROLLOVER OF GAIN ON MATURITY INTO NEW POLICY

- 14 Repeal of section 540(2) of the Taxes Act 1988
- 15 Saving for certain policies maturing on or after 9th April 2003

SCHEDULE 35 — Gains on policies of life insurance etc: rate of tax

- 1 Application of the lower rate
- 2 Method of charging gains from policies of life insurance etc to tax
- 3 Relief where gain charged at a higher rate
- 4 Gains included in aggregate income of estate of deceased
- 5 Income to be disregarded in determining highest part of person’s income

SCHEDULE 36 — Foster carers

Part 1 — INTRODUCTION

- 1 Introductory
- 2 Individuals qualifying for relief
- 3 Meaning of “foster care receipts”
- 4 Meaning of “provision of foster care”
- 5 Meaning of “total foster care receipts”
- 6 The individual’s limit
- 7 The individual’s share of the fixed amount
- 8 The amount per child
- 9 Power to alter amounts

Part 2 — THE EXEMPTION AND THE ALTERNATIVE METHODS OF CALCULATION

- 10 The exemption

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- 11 Alternative calculation of profits where amount is above the limit
- 12 Alternative calculation of profits: income from trade etc
- 13 Alternative calculation of profits: income charged under Case VI of Schedule D
- 14 Election for alternative method
- 15 Periods of account ending otherwise than on 5th April
  - Part 3 — CAPITAL ALLOWANCES
- 16 Introductory
- 17 Provisions applying in relation to carried forward unrelieved qualifying expenditure
- 18 Expenditure incurred in a relevant chargeable period not qualifying expenditure
- 19 Excluded capital expenditure: subsequent treatment of asset
- 20 Interpretation of this Part
  - Part 4 — SUPPLEMENTARY
- 21 Interpretation

#### SCHEDULE 37 — Loan relationships: amendments

##### Part 1 — AMENDMENTS TO SCHEDULE 9 TO THE FINANCE ACT 1996

- 1 Introductory
- 2 Late interest
- 3 Continuity of treatment: groups etc
- 4 Discounted securities where companies have a connection
- 5 Discounted securities of close companies
  - Part 2 — TRANSITIONAL PROVISIONS
- 6 Transitional provisions

#### SCHEDULE 38 — Sale and repurchase of securities etc

- 1 Increase of repurchase price of UK securities by amount of deemed manufactured dividend
- 2 Deemed manufactured payment where transferor or connected person makes payment representative of dividend
- 3 In section 737C of the Taxes Act 1988 (deemed manufactured...)
- 4 Provisions to cover both “put” and “call” options
- 5 In section 730A(1) of the Taxes Act 1988 (treatment of...)
- 6 In section 731(2D) of the Taxes Act 1988 (provisions about...)
- 7 In section 737A(1) of the Taxes Act 1988 (deemed manufactured...)
- 8 In section 737E(8) of the Taxes Act 1988 (power to...)
- 9 In paragraph 12(4) of Schedule 7AC to the Taxation of...)
- 10 Option premium to be reflected in sale price unless brought into account under derivative contracts provisions
- 11 Exchange gains and losses
- 12 After section 730B of the Taxes Act 1988 insert— Exchange...
- 13 (1) Section 737E of the Taxes Act 1988 (power to...)
- 14 In section 100 of the Finance Act 1996 (c. 8)...
- 15 Exceptions
- 16 In section 730A(8)(b) of the Taxes Act 1988 (treatment of...)
- 17 In section 737C(11A) of the Taxes Act 1988 (purposes for...)
- 18 (1) Paragraph 15 of Schedule 9 to the Finance Act...
- 19 Connected persons
- 20 Correction of section 730A(6B) of the Taxes Act 1988
- 21 Commencement

SCHEDULE 39 — Relevant discounted securities: withdrawal of relief for costs and losses, etc

- 1 Withdrawal of relief for incidental costs
- 2 Withdrawal of relief for losses
- 3 Withdrawal of loss relief: exception for strips of government securities
- 4 Extension of provisions about strips to strips of foreign government securities
- 5 Consequential amendments
- 6 Commencement and transitional provisions

SCHEDULE 40 — Acquisition by company of its own shares

- 1 Venture capital trusts
- 2 Stamp duty and stamp duty reserve tax
- 3 In section 90 of that Act (exemptions from stamp duty...)
- 4 (1) Section 92 of that Act (stamp duty reserve tax:....)
- 5 In Schedule 13 to the Finance Act 1999 (c. 16)...

SCHEDULE 41 — Companies in administration

- 1 Accounting period for company in administration
- 2 Responsibility of officers of company in administration
- 3 Tax on companies in administration
- 4 Debit for bad debt where parties connected and creditor insolvent
- 5 Commencement

SCHEDULE 42 — Controlled foreign companies: exempt activities

- 1 Introductory
- 2 Companies engaged in wholesale, distributive, financial or service business
- 3 Companies engaged in business of banking etc
- 4 Interpretation of paragraph 6(2B)

SCHEDULE 43 — Repeals

- Part 1 — EXCISE DUTIES
- Part 2 — VALUE ADDED TAX
- Part 3 — INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX
- Part 4 — OTHER TAXES
- Part 5 — MISCELLANEOUS