

---

*Status: This is the original version (as it was originally enacted). This item of legislation is currently only available in its original format.*

---

## SCHEDULES.

### NINTH SCHEDULE

Section 23.

#### COMPUTATION OF PROFIT AND CAPITAL FOR PURPOSES OF ARMAMENT PROFITS DUTY.

##### PART I

###### ADAPTATION OF INCOME TAX PROVISIONS AS TO COMPUTATION OF PROFIT.

- 1 The profits shall be taken to be the actual profits arising in the year or chargeable accounting period, and the principles of computing profits by reference to any other period and of allowing losses sustained in any other period to be carried forward shall not be followed.
- 2 There may be deducted in respect of any such year or chargeable accounting period a sum (ascertained on the like basis as the amount of a deduction for wear and tear is ascertained under Rule 6 of the Rules applicable to Cases I and II of Schedule D) which represents the diminution in value by reason of wear and tear during that year or period of any plant or machinery in respect of which a deduction can be made under the said Rule 6, plus, in the case of a year constituting or comprised in the standard period, ten per cent., and, in the case of a chargeable accounting period, twenty per cent., of that sum.
- 3 (1) Where any buildings, plant or machinery have, - after the beginning of the year nineteen hundred and thirty-seven, been provided for the purpose of fulfilling armament contracts by the persons carrying on the business, then, if either—
  - (a) on such date as Parliament may hereafter declare to be the date of the restoration of normal conditions as respects the requirements of the Crown for armaments, the buildings, plant or machinery have, wholly or partially, become obsolete or ceased to be required and the value thereof is less than the net cost thereof; or
  - (b) the buildings, plant or machinery are sold before the said date at a price which is less than the net cost thereof,there shall be allowed in respect of each chargeable accounting period such proportion of the deficiency as is properly attributable to that period, less the amount of any allowances for wear and tear or depreciation already made for that period in respect of the buildings, plant or machinery otherwise than under this paragraph, and if any plant or machinery provided as aforesaid is replaced, no allowance other than that made under this paragraph shall be made in respect of the amount expended in the replacement thereof.
- (2) Pending an ascertainment whether any allowance falls to be made under sub-paragraph (1) of this paragraph in respect of buildings, plant or machinery, the Commissioners, if they are satisfied that any buildings, plant or machinery provided as aforesaid are of such a character that it is likely that the conditions specified in the said sub-paragraph will be fulfilled in the case thereof, may allow in any chargeable accounting period such sums as they think fit, not exceeding ten per cent. (or, if the

---

*Status: This is the original version (as it was originally enacted). This item of legislation is currently only available in its original format.*

---

chargeable accounting period is less than a year, a proportionately reduced amount) of the net cost of the buildings, plant or machinery, but any such allowance shall be provisional only, and on the coming of the said date, or, as the case may be, on the previous sale of the buildings, plant or machinery, the amount thereof shall be adjusted so as to accord with the provisions of the said sub-paragraph.

- (3) In this paragraph, the expression " net cost " means, in relation to any buildings, plant or machinery, the cost of the provision thereof less any sum provided, or to be provided, directly or indirectly, out of the Consolidated Fund of the United Kingdom or of Northern Ireland, or out of moneys provided by the Parliament of the United Kingdom or the Parliament of Northern Ireland, towards the cost of the provision of the buildings, plant or machinery, or towards any depreciation thereof.
- 4 The principles of the Income Tax Acts under which deductions are not allowed for interest, annuities or other annual payments payable out of the profits, or for royalties, or (in certain cases) for rent, and under which the annual value of lands, tenements, hereditaments or heritages occupied for the purposes of a business is excluded, and under which a deduction may be allowed in respect of such annual value, shall not be followed :

Provided that—

- (a) nothing in this paragraph shall authorise any deduction in respect of any payment of dividend or distribution of profits;
  - (b) for the purposes of this paragraph any additional deduction allowable for income tax purposes by virtue of the proviso to paragraph (2) of Rule 5 of the Rules applicable to Cases I and II of Schedule D and any deduction allowable for those purposes under section eighteen of the Finance Act, 1919, shall not be treated as a deduction in respect of annual value.
- 5 The provisions of subsection (4) of section twenty-seven of the Finance Act, 1920 (which disallows deductions on account of the payment of Dominion income tax) shall not apply.
- 6 No income received from investments shall be included in the profits; and where the person carrying on the business is the beneficial owner of any investments and a deduction would, apart from the provisions of this paragraph, fall to be made in respect of interest on borrowed money, the deduction (if any) to be made in respect of that interest shall be computed as if the principal of the borrowed money were reduced by the value of those investments :

Provided that where the person carrying on the business is not a body corporate, no deduction shall be treated as made in the principal of any borrowed money in respect of any investments unless those investments are mortgaged, charged or pledged as security for the repayment of that money and the interest thereon.

- 7 No deduction shall be made on account of liability to pay or payment of United Kingdom income tax, the national defence contribution, or armament profits duty.
- 8 No deduction shall be made in respect of any transaction or operation of any nature if and so far as it appears that the transaction or operation has artificially reduced the profits, or would artificially reduce the profits.
- 9 In the case of a business carried on in any chargeable accounting period by a company the directors whereof have a controlling interest therein,—
- (a) if the standard profits for the company are computed by reference to a standard period, no deduction shall be allowed in respect of directors'

---

*Status: This is the original version (as it was originally enacted). This item of legislation is currently only available in its original format.*

---

remuneration in excess of the amount paid for directors' remuneration in respect of the standard period or, if the standard period is longer than the chargeable accounting period, in excess of so much of the sum paid for directors' remuneration in respect of the standard period as bears to the total amount thereof the like proportion as the length of the chargeable accounting period bears to that of the standard period;

- (b) if the standard profits are not computed by reference to a standard period, no deduction shall be allowed in respect of the remuneration of the directors.

- 10 Where the performance of a contract extends beyond the year or chargeable accounting period, there shall (unless the Commissioners, owing to any special circumstances, otherwise direct) be attributed to the year or period such proportion of the entire profit or loss which has resulted, or which it is estimated will result, from the complete performance of the contract as is properly attributable to the year or period, having regard to the extent to which the contract was performed in the year or period.

## PART II

### PROVISION FOR COMPUTING CAPITAL.

- 1 (1) Subject to the provisions of this Part of this Schedule, the amount of the capital employed in a business (so far as it does not consist of money) shall be taken to be—
- (a) so far as it consists of assets acquired by purchase on or after the commencement of the business, the price at which those assets were acquired, subject to the deductions hereafter specified;
  - (b) so far as it consists of assets being debts due to the person carrying on the business, the nominal amount of those debts, subject to the said deductions;
  - (c) so far as it consists of any other assets which have been acquired otherwise than by purchase as aforesaid, the value of the assets when they become assets of the business, subject to the said deductions.
- (2) The price or value of any assets other than a debt shall be subject to the following deductions—
- (a) a deduction of any sum contributed, directly or indirectly, out of the Consolidated Fund of the United Kingdom or of Northern Ireland, or out of moneys provided by the Parliament of the United Kingdom or the Parliament of Northern Ireland, towards the acquisition of the asset;
  - (b) any such deductions for wear and tear or for depreciation as are authorised by the Income Tax Acts or Part I of this Schedule,
- and, in the case of a debt, the nominal amount of the debt shall be subject to any deduction which has been allowed in respect thereof for income tax purposes.
- (3) Where the price of any asset has been satisfied otherwise than in cash, the then value of the consideration actually given for the asset shall be treated as the price at which the asset was acquired.
- (4) For the purposes of the provisions of sub-paragraph (2) of this paragraph relating to deductions for wear and tear or depreciation, any additional deduction allowable for income tax purposes by virtue of the proviso to paragraph (2) of Rule 5 of the Rules applicable to Cases I and II of Schedule D, and any deduction allowable for those purposes under section eighteen of the Finance Act, 1919, shall be treated as a deduction for depreciation.

---

*Status: This is the original version (as it was originally enacted). This item of legislation is currently only available in its original format.*

---

- 2 Any borrowed money and debts shall be deducted, and in particular any debt for income tax computed by reference to the standard rate or for the national defence contribution or the armament profits duty in respect of the business shall be deducted :

Provided that any such debt for income tax or the national defence contribution or the armament profits duty shall, for the purposes of this Part of this Schedule, be deemed to have become due—

- (a) in the case of income tax, on the first day of January in the year of assessment for which the tax is assessable;
- (b) in the case of the national defence contribution or the armament profits duty, on the first day after the end of the chargeable accounting period in respect of which the contribution or duty is assessable;

notwithstanding that the tax, contribution or duty may not have been assessed until after those dates respectively.

- 3 Any investments and any moneys not required for the purposes of the business, shall be left out of account, but where any investments in the beneficial ownership of the person carrying on the business are so left out of account, the sum (if any) to be deducted under the last preceding paragraph in respect of borrowed money shall be computed as if the principal of the borrowed money were reduced by the value of those investments :

Provided that where the person carrying on the business is not a body corporate, no reduction shall be treated as made in the principal of any borrowed money in respect of any investments unless those investments are mortgaged, charged or pledged as security for the repayment of that money and the interest thereon.

- 4 For the purpose of ascertaining the average amount of capital employed in a trade or business during any period, the profits or losses made in that period shall, except so far as the contrary is shown, be deemed—
- (a) to have accrued at an even rate throughout the period; and
  - (b) to have resulted, as they accrued, in a corresponding increase or decrease, as the case may be, in the capital employed in the business.