



Finance Act 1972

1972 CHAPTER 41

PART V

TAXATION OF COMPANIES AND COMPANY DISTRIBUTIONS

Advance corporation tax and tax credit

84 Liability for advance corporation tax where company makes qualifying distribution

- (1) Where a company resident in the United Kingdom makes a qualifying distribution after 5th April 1973 it shall be liable to pay an amount of corporation tax (to be known as " advance corporation tax ") in accordance with this section.
- (2) Subject to section 89 below, advance corporation tax shall be payable on an amount equal to the amount or value of the distribution, and shall be so payable at a rate (to be known as " the rate of advance corporation tax ") which for the period beginning with 6th April 1973 and ending with 31st March 1974 shall be three-sevenths and thereafter such fraction as Parliament may from time to time determine.
- (3) The sum of the amount or value of a qualifying distribution and such proportion thereof as corresponds to the rate of advance corporation tax in force for the financial year in which the distribution is made is in this Part of this Act referred to as " a franked payment ", and references to any accounting or other period in which a franked payment is made are references to the period in which the distribution in question is made.
- (4) In this Part of this Act " qualifying distribution " means any distribution other than—
 - (a) a distribution which, in relation to the company making it, is a distribution by virtue only of paragraph (c) of section 233(2) of the Taxes Act (bonus redeemable share capital and bonus securities); or
 - (b) a distribution consisting of any share capital or security which the company making the distribution has directly or indirectly received from the company

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by which the share capital or security was issued and which, in relation to the latter company, is a distribution by virtue only of that paragraph.

- (5) Schedule 14 to this Act shall have effect for the purpose of regulating the time and manner in which advance corporation tax is to be accounted for and paid.

85 Payments of advance corporation tax to be set against company's liability to corporation tax on its income

- (1) Subject to subsection (2) below, advance corporation tax paid by a company (and not repaid) in respect of any distribution made by it in an accounting period shall be set against its liability to corporation tax on any income charged to corporation tax for that accounting period and shall accordingly discharge a corresponding amount of that liability.
- (2) The amount of advance corporation tax to be set against a company's liability for any accounting period under subsection (1) above shall not exceed the amount of advance corporation tax that would have been payable (apart from section 89 below) in respect of a distribution made at the end of that period of an amount which, together with the advance corporation tax so payable in respect of it, is equal to the company's income charged to corporation tax for that period.
- (3) Where in the case of any accounting period of a company there is an amount of surplus advance corporation tax (that is to say, advance corporation tax which cannot be set against the company's liability to corporation tax for that period because the company has no income charged to corporation tax for that period or because of subsection (2) above) the company may, within two years after the end of that period, claim to have the whole or any part of that amount treated for the purposes of this section (but not of any further application of this subsection) as if it were advance corporation tax paid in respect of distributions made by the company in any of its accounting periods beginning in the two years preceding that period (but so that the amount which is the subject of the claim is set, so far as possible, against the company's liability for a more recent accounting period before a more remote one) and corporation tax shall, so far as may be required, be repaid accordingly.
- (4) Where in the case of any accounting period of a company there is an amount of surplus advance corporation tax which has not been dealt with under subsection (3) above, that amount shall be treated for the purposes of this section (including any further application of this subsection) as if it were advance corporation tax paid in respect of distributions made by the company in the next accounting period.
- (5) Effect shall be given to subsections (1) and (4) above as if on a claim in that behalf by the company and, for that purpose, a return made by the company under section 11 of the Management Act containing particulars of advance corporation tax or surplus advance corporation tax which falls to be dealt with under those subsections shall be treated as a claim.
- (6) For the purposes of this section the income of a company charged to corporation tax for any period shall be taken to be the amount of its profits for that period on which corporation tax falls finally to be borne exclusive of the part of the profits attributable to chargeable gains; and that part shall be taken to be the amount brought into the company's profits for that period for the purposes of corporation tax in respect of chargeable gains before any deduction for charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of more than one description.

- (7) No advance corporation tax shall by virtue of this section be set against a company's liability to corporation tax charged for any time before 1st April 1973, and this section has effect subject to the subsequent provisions of this Act.

86 Tax credit for certain recipients of qualifying distributions

- (1) Where a company resident in the United Kingdom makes a qualifying distribution after 5th April 1973 and the person receiving the distribution is another such company or a person resident in the United Kingdom, not being a company, the recipient of the distribution shall be entitled to a tax credit under this section (in this Part of this Act referred to as a " tax credit").
- (2) The tax credit in respect of a distribution shall be available for the purposes specified in this section and the subsequent provisions of this Act, and shall be equal to such proportion of the amount or value of the distribution as corresponds to the rate of advance corporation tax in force for the financial year in which the distribution is made.
- (3) Subject to section 89(5) below, a company resident in the United Kingdom which is entitled to a tax credit in respect of a distribution may claim to have the amount of the credit paid to it if—
- (a) the company is wholly exempt from corporation tax or is only not exempt in respect of trading income; or
 - (b) the distribution is one in relation to which express exemption (otherwise than by section 239 of the Taxes Act) is given, whether specifically or by virtue of a more general exemption from tax, under any provision of the Tax Acts.
- (4) A person, not being a company resident in the United Kingdom, who is entitled to a tax credit in respect of a distribution may claim to have the credit set against the income tax chargeable on his income under section 3 of the Taxes Act or on his total income for the year of assessment in which the distribution is made and, where the credit exceeds that income tax, to have the excess paid to him.
- (5) Where a distribution mentioned in subsection (1) above is, or falls to be treated as, or under any provision of the Tax Acts is deemed to be, income of a person other than the recipient, that person shall be treated for the purposes of this section as receiving the distribution (and accordingly the question whether he is entitled to a tax credit in respect of it shall be determined by reference to where he, and not the actual recipient, is resident); and where any such distribution is income of a United Kingdom trust the trustees shall be entitled to a tax credit in respect of it if no other person falls to be treated for the purposes of this section as receiving the distribution.

87 Income tax on distributions

- (1) This section shall have effect for the year 1973-74 and subsequent years of assessment.
- (2) For the Schedule F set out in subsection (1) of section 232 of the Taxes Act there shall be substituted—

“SCHEDULE F

- 1 Income tax under this Schedule shall be chargeable for any year of assessment in respect of all dividends and other distributions in that year

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of a company resident in the United Kingdom which are not specially excluded from income tax, and for the purposes of income tax all such distributions shall be regarded as income however they fall to be dealt with in the hands of the recipient.

2 For the purposes of this Schedule and all other purposes of the Tax Acts and such distribution as aforesaid in respect of which a person is entitled to a tax credit shall be treated as representing income equal to the aggregate of the amount or value of that distribution and the amount of that credit, and income tax under this Schedule shall accordingly be charged on that aggregate.”

- (3) No distribution which is chargeable under the said Schedule F shall be chargeable under any other provision of the Income Tax Acts.
- (4) Subsections (2) and (3) of the said section 232 (which require a company resident in the United Kingdom to deduct and account for income tax in respect of distributions made by it) shall cease to have effect.
- (5) Where in any year of assessment the income of a person, not being a company resident in the United Kingdom, includes a distribution in respect of which that person is not entitled to a tax credit—
- (a) no assessment shall be made on that person in respect of income tax at the basic rate on the amount or value of the distribution;
 - (b) that person's liability under any assessment made in respect of income tax at any such higher rate as is mentioned in section 32(1)(b) of the Finance Act 1971 on the amount or value of the distribution or on any part thereof shall be reduced by a sum equal to income tax at the basic rate on so much thereof as is assessed at any such higher rate; and
 - (c) the amount or value of the distribution shall be treated for the purposes of sections 52 and 53 of the Taxes Act as not brought into charge to income tax.
- (6) Where a person has paid tax in respect of excess liability on, or on any part of, a distribution which is not a qualifying distribution (" the non-qualifying distribution "), then, if, apart from this subsection, he would be liable to pay an amount of tax in respect of excess liability on, or on any part of, a repayment of the share capital or of the principal of the security which constituted the non-qualifying distribution, he shall be so liable only to the extent (if any) to which that amount exceeds the tax which he has already paid as aforesaid.

In this subsection " excess liability" means the excess of liability to income tax over what it would be if all income tax were charged at the basic rate to the exclusion of any other rate.

Franked investment income

88 " Franked investment income "

- (1) Income of a company resident in the United Kingdom which consists of a distribution in respect of which the company is entitled to a tax credit (and which accordingly represents income equal to the aggregate of the amount or value of the distribution and the amount of that credit) is in this Part of this Act referred to as " franked investment income " of the company.

- (2) Subject to the transitional provisions hereinafter contained, the foregoing subsection shall apply also for the construction of references to franked investment income in other provisions of the Tax Acts in their application to any time after 5th April 1973 and shall so apply to the exclusion of the definition in section 240 of the Taxes Act.

89 Calculation of advance corporation tax where company receives franked investment income

- (1) Where in any accounting period a company receives franked investment income the company shall not be liable to pay advance corporation tax in respect of qualifying distributions made by it in that period unless the amount of the franked payments made by it in that period exceeds the amount of that income.
- (2) If in an accounting period there is such an excess, advance corporation tax shall be payable on an amount which, when the advance corporation tax payable thereon is added to it, is equal to the excess.
- (3) If the amount of franked investment income received by a company in an accounting period exceeds the amount of the franked payments made by it in that period the excess shall be carried forward to the next accounting period and treated for the purposes of this section (including any further application of this subsection) as franked investment income received by the company in that period.
- (4) Schedule 14 to this Act shall apply for the purpose of regulating the manner in which effect is to be given to the foregoing provisions of this section.
- (5) No franked investment income shall be used to frank distributions of a company (that is to say, used in accordance with this section and the said Schedule so as to relieve the company from, or obtain repayment of, advance corporation tax for which the company would otherwise be liable) if the amount of the tax credit comprised in it has been paid under subsection (3) of section 86 above; and no payment shall be made under that subsection in respect of the tax credit comprised in franked investment income which has been used as aforesaid.
- (6) In this Part of this Act any such excess as is mentioned in subsection (3) above (calculated without regard to franked investment income which by virtue of subsection (5) above cannot be used to frank distributions) is referred to as a "surplus of franked investment income"; and, subject to the transitional provisions hereinafter contained, references to a surplus of franked investment income in other provisions of the Tax Acts in their application to any time after 5th April 1973 shall be construed as references to any such excess instead of as references to any such surplus as is mentioned in section 240(1) of the Taxes Act.

90 Set-off of losses etc. against surplus of franked investment income

- (1) For sections 254 and 255 of the Taxes Act (under which a company may recover income tax on any such surplus of franked investment income as is mentioned in section 240(1) of that Act by claiming a set-off for trading losses and certain other matters) there shall, as respects any time after 5th April 1973, be substituted the sections set out in Part I of Schedule 15 to this Act (under which a company may in corresponding circumstances receive payment of the amount of the tax credit comprised in a surplus of franked investment income as defined in section 89(6) above).

- (2) Without prejudice to subsection (8) of the said section 254 or subsection (7) of the said section 255 as set out in the said Schedule, the surplus of franked investment income for an accounting period for which a claim is made under either of those sections shall be calculated without regard to any part of that surplus which, when the claim is made, has been used to frank distributions made by the company in a later accounting period.
- (3) Where in consequence of a claim under either of the said sections 254 and 255 for any accounting period a company is entitled to payment of a sum in respect of tax credit, an amount equal to that sum shall be deducted from any advance corporation tax which apart from this subsection would fall, under section 85 above, to be set against the company's liability to corporation tax for the next accounting period and, if that amount exceeds that advance corporation tax or there is no such advance corporation tax, that excess or that amount (as the case may be) shall be carried forward and similarly deducted in relation to the following accounting period and so on.

Groups of companies

91 Group income

- (1) For subsection (1) of section 256 of the Taxes Act (under which two related companies may elect to pay dividends to each other without deducting and accounting for income tax) there shall, as respects any time after 5th April 1973, be substituted the subsection (1) set out in Part II of Schedule 15 to this Act (under which companies may in corresponding circumstances elect to pay dividends to each other without incurring a liability to advance corporation tax and without the recipient being entitled to a tax credit).
- (2) For subsection (4) of the said section 256 (recovery of tax where companies wrongly omit to pay it) there shall, as respects any time after 5th April 1973, be substituted the subsections (4) and (4A) set out in Part II of the said Schedule.
- (3) The Board may make regulations with respect to the procedure to be adopted for giving effect to the said section 256 and as to the information and evidence to be furnished by a company in connection with that section.

Regulations under this subsection shall be made by statutory instrument, and the Board shall not make any such regulations unless a draft of them has been laid before, and approved by a resolution of, the Commons House of Parliament.

- (4) Any election which has been made for the purpose of subsection (1) of the said section 256 as originally enacted and has not ceased to have effect by virtue of section 257(3) or (4) of the Taxes Act before 6th April 1973 shall be treated as having been made also for the purposes of subsection (1) of the said section 256 as substituted by this section.

92 Setting of company's surplus advance corporation tax against subsidiary's liability

- (1) Where in the case of any accounting period of a company—
 - (a) there is an amount of surplus advance corporation tax (calculated without regard to any surplus carried back or forward to that period under section 85(3) or (4) above); and

- (b) advance corporation tax has been paid in respect of a dividend or dividends paid by the company in that period,
- the company (in this section referred to as " the surrendering company ") may, on making a claim, surrender the benefit of the whole or any part of the amount mentioned in paragraph (a) above, up to a sum not exceeding the advance corporation tax mentioned in paragraph (b) above, to any company which was a subsidiary of the surrendering company throughout that accounting period, or (in such proportions as the surrendering company may determine) to any two or more companies which were subsidiaries of the surrendering company throughout that period.
- (2) Subject to subsection (4) below, where the benefit of any amount of surplus advance corporation tax (" the surrendered amount") is surrendered under this section to a subsidiary, then—
- (a) if the advance corporation tax mentioned in subsection (1)(b) above was paid in respect of one dividend only or of dividends all of which were paid on the same date, the subsidiary shall be treated for the purposes of section 85 above as having paid an amount of advance corporation tax equal to the surrendered amount in respect of a distribution made by it on the date on which the dividend or dividends were paid;
- (b) if the advance corporation tax mentioned in subsection (1)(b) above was paid in respect of dividends paid on different dates, the subsidiary shall be treated for the purposes of that section as having paid an amount of advance corporation tax equal to the appropriate part of the surrendered amount in respect of a distribution made by it on each of those dates.
- (3) For the purposes of paragraph (b) of subsection (2) above " the appropriate part of the surrendered amount", in relation to any distribution treated as made on the same date as that on which a dividend was paid, means such part of that amount as bears to the whole of it the same proportion as the amount of that dividend bears to the total amount of the dividends mentioned in that paragraph.
- (4) No advance corporation tax which a subsidiary is treated as having paid by virtue of subsection (2) above shall be set against the subsidiary's liability to corporation tax for any accounting period in which, or in any part of which, it was not a subsidiary of the surrendering company.
- (5) Any claim under this section shall be made within two years after the end of the accounting period to which it relates and shall require the consent, notified to the inspector in such form as the Board may require, of the subsidiary or subsidiaries concerned.
- (6) No amount of surplus advance corporation tax which has been dealt with under subsection (3) of section 85 above shall be available for the purposes of a claim under this section; and no amount of surplus advance corporation tax the benefit of which has been surrendered under this section shall be treated for the purposes of that section as advance corporation tax paid by the surrendering company.
- (7) A payment made by a subsidiary to a surrendering company in pursuance of an agreement between them as respects the surrender of the benefit of an amount of surplus advance corporation tax, being a payment not exceeding that amount,—
- (a) shall not be taken into account in computing profits or losses of either company for corporation tax purposes; and
- (b) shall not for any of the purposes of the Corporation Tax Acts be regarded as a distribution or a charge on income.

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- (8) References in this section to a company apply only to bodies corporate resident in the United Kingdom; and for the purposes of this section the question whether one body corporate is the subsidiary of another shall be determined as a question whether it is a 51 per cent. subsidiary of that other, except that that other shall be treated as not being the owner—
- (a) of any share capital which it owns directly in a body corporate if a profit on the sale of the shares would be treated as a trading receipt of its trade; or
 - (b) of any share capital which it owns indirectly, and which is owned directly by a body corporate for which a profit on the sale of the shares would be a trading receipt; or
 - (c) of any share capital which it owns directly or indirectly in a body corporate not resident in the United Kingdom.

Companies' capital gains

93 Reduction of corporation tax liability in respect of chargeable gains

- (1) This section shall have effect—
- (a) in relation to companies other than authorised unit trusts or investment trusts, from 1st April 1973 ;
 - (b) in relation to authorised unit trusts and investment trusts from 1st April 1972.
- (2) The amount which in accordance with section 265 of the Taxes Act is to be included in respect of chargeable gains in a company's total profits for any accounting period shall, subject to subsections (3) and (4) below, be reduced—
- (a) in the case of a company other than an authorised unit trust or investment trust, by such fraction as Parliament may from time to time determine for the purposes of this paragraph;
 - (b) in the case of an authorised unit trust or investment trust, by five-eighths or such other fraction as Parliament may from time to time determine for the purposes of this paragraph.
- (3) Where under either paragraph of subsection (2) above different fractions are in force in different parts of an accounting period—
- (a) the amount mentioned in that subsection shall be apportioned between those parts; and
 - (b) the portion for each part shall be reduced under that subsection by the fraction in force in that part.
- (4) If in an accounting period of a company there is a part falling before and a part falling after the time when this section comes into force in relation to the company, the amount mentioned in subsection (2) above shall be apportioned between those parts and no reduction shall be made under that subsection in respect of the portion for the part falling before that time.
- (5) In this section " authorised unit trust" has the meaning given in section 358 of the Taxes Act and, subject to subsection (6) below, " investment trust" has the meaning given in section 359 of that Act.
- (6) The said section 359 shall be amended as follows—

- (a) before paragraph (a) of subsection (1) there shall be inserted " (aa) that the company is resident in the United Kingdom, and ";
- (b) for the purposes of paragraph (b) of that subsection and the other provisions having effect in relation thereto—
 - (i) holdings in companies which are members of a group (whether or not including the investing company) and are not excluded from that paragraph shall be treated as holdings in a single company;
 - (ii) where the investing company is a member of a group, money owed to it by another member of the group shall be treated as a security of the latter held by the investing company and accordingly as, or as part of, the holding of the investing company in the company owing the money,and for the purposes of this paragraph " group " means a company and all companies which are its 51 per cent. subsidiaries;
- (c) for paragraph (c) of that subsection there shall be substituted " (c) that the shares making up the company's ordinary share capital (or, if there are such shares of more than one class, those of each class) are quoted on a recognised stock exchange in the United Kingdom, and ",

but the amendments in paragraphs (b) and (c) above shall not affect the meaning of " investment trust " for any time before 11th April 1972 and, in relation to a company which immediately before that date was an investment trust within the meaning of the said section 359 without those amendments, that section shall continue to have effect without those amendments until the end of the company's accounting period containing or ending with 11th April 1975.

- (7) The following provisions, that is to say—
 - (a) section 311 of the Taxes Act (under which the effective rate of corporation tax is reduced for insurance companies in respect of chargeable gains reserved for holders of life assurance policies);
 - (b) section 356 of that Act (which limits the rate of corporation tax payable on chargeable gains by authorised unit trusts and investment trusts to the rate payable by an individual),

shall cease to have effect, but this subsection shall not affect the operation of those provisions in relation to any accounting period ending before the time when this section comes into force in relation to the company concerned or, in the case of any such accounting period as is mentioned in subsection (4) above, as respects any portion of gains which, in accordance with that subsection, is not reduced under this section.

- (8) The proviso to subsection (3) of section 322 of the Taxes Act (rate of corporation tax relevant for determining the amounts that may be retained under subsection (2) of that section by an insurance company when paying benefit in certain circumstances) shall not apply where the disposal mentioned in subsection (2)(b) of that section is on or after 1st April 1974; and where the disposal is on or after that date the rate of corporation tax mentioned in the said subsection (3) shall be reduced by the fraction for the time being fixed for the purposes of subsection (2)(a) of this section.

*Close companies***94 Close companies**

- (1) Schedule 16 to this Act shall have effect instead of sections 289 to 301 of the Taxes Act (charge to income tax in respect of shortfall in distributions of close companies and apportionment of income of close companies among participators).
- (2) The remaining provisions of Chapter III of Part XI of the Taxes Act shall be amended in accordance with Schedule 17 to this Act.
- (3) The said Schedule 16 shall be construed as if it were included in the said Chapter III.
- (4) Subsection (1) above shall have effect in relation to accounting periods ending after 5th April 1973.

*Special classes of companies***95 Mitigation of corporation tax liability of small companies**

- (1) Where in any accounting period the profits of a company resident in the United Kingdom do not exceed the lower relevant maximum amount, the corporation tax charged on its income for that period shall be calculated as if the rate of corporation tax (instead of being the rate fixed for companies generally) were such lower rate (to be known as the "small companies rate ") as Parliament may from time to time determine.
- (2) Where in any accounting period the profits of any such company exceed the lower relevant maximum amount but do not exceed the upper relevant maximum amount, the corporation tax charged on its income for that period shall be reduced by a sum equal to such fraction as Parliament may from time to time determine of the following amount—

$$(M - P) \times \frac{I}{P}$$

where M is the upper relevant maximum amount, P is the amount of the profits and I is the amount of the income.

- (3) The lower and upper relevant maximum amounts mentioned above shall be determined as follows—
 - (a) where the company has no associated company in the accounting period, those amounts are £15,000 and £25,000 respectively;
 - (b) where the company has one or more associated companies in the accounting period, the lower relevant maximum amount is £15,000 divided by one plus the number of those associated companies and the upper relevant maximum amount is £25,000 divided by one plus the number of those associated companies.
- (4) In applying subsection (3) above to any accounting period of a company, an associated company which has not carried on any trade or business at any time in that accounting period (or, if an associated company during part only of that accounting period, at any time in that part of that accounting period) shall be disregarded and for the purposes of this section a company is to be treated as an " associated company " of another at a given time if at that time one of the two has control of the other or both are under the control of the same person or persons.

In this subsection "control" shall be construed in accordance with section 302 of the Taxes Act.

- (5) In determining how many associated companies a company has got in an accounting period or whether a company has an associated company in an accounting period, an associated company shall be counted even if it was an associated company for part only of the accounting period, and two or more associated companies shall be counted even if they were associated companies for different parts of the accounting period.
- (6) For an accounting period of less than twelve months the relevant maximum amounts determined in accordance with subsection (3) above shall be proportionately reduced.
- (7) For the purposes of this section the profits of a company for an accounting period shall be taken to be the amount of its profits for that period on which corporation tax falls finally to be borne, with the addition of franked investment income other than franked investment income which the company (if a member of a group) receives from companies within the group ; and for this purpose distributions received by the company from another are to be treated as coming from within the company's group if, but only if, dividends so received are group income or would be group income if the companies so elected.
- (8) For the purposes of this section the income of a company for an accounting period is its income charged to corporation tax for that period as defined in section 85(6) above.

96 Mitigation of corporation tax liability of industrial and provident societies, housing associations and building societies

- (1) Where in any accounting period of a body to which this section applies the rate of corporation tax exceeds such special rate as Parliament may fix for the purposes of this section, the corporation tax charged on the income of that body for that period shall be calculated as if the rate of corporation tax were equal to that special rate.
- (2) The bodies to which this section applies are—
 - (a) any registered industrial and provident society as defined in section 340 of the Taxes Act and any such cooperative association as is mentioned in subsection (8) of that section;
 - (b) any housing association for the time being approved for the purposes of section 341 of that Act;
 - (c) any building society as defined in section 343 of that Act and any company to which that section applies by virtue of subsection (9) of that section, not being a society, association or company under the control (within the meaning of section 302 of that Act) of one or more companies which are not themselves bodies to which this section applies.
- (3) For the purposes of this section the income of a company for an accounting period is its income charged to corporation tax for that period as defined in section 85(6) above.

97 Insurance companies

The enactments relating to the taxation of insurance companies shall, as from 6th April 1973, have effect subject to the provisions of Schedule 18 to this Act, being provisions for adapting and supplementing those enactments in consequence of the foregoing provisions of this Part of this Act.

*Overseas residents and income***98 Persons resident abroad: tax credit**

- (1) An individual who, having made a claim in that behalf, is entitled to relief under Chapter II of Part I of the Taxes Act by virtue of section 27(2) of that Act (personal reliefs for certain non-residents) in respect of any year of assessment shall be entitled to a tax credit in respect of any qualifying distribution received by him in that year to the same extent as if he were resident in the United Kingdom.
- (2) In subsection (1) of section 497 of the Taxes Act (which gives effect to double taxation agreements so far as they provide for the matters specified in paragraphs (a) to (c) of that subsection) after paragraph (c) there shall be inserted "or
 - (d) for conferring on persons not resident in the United Kingdom the right to a tax credit under section 86 of the Finance Act 1972 in respect of qualifying distributions made to them by companies which are so resident."
- (3) Where a qualifying distribution is income of a fund to which section 214(1)(b) or (c) of the Taxes Act applies (colonial pension funds) the persons entitled to receive the income shall be entitled to a tax credit in respect of the distribution to the same extent as a recipient mentioned in section 86(1) above.
- (4) Where a qualifying distribution is income of, or of the government of, any sovereign power or of any international organisation, that power, government or organisation shall be entitled to a tax credit in respect of the distribution to the same extent as a recipient mentioned in section 86(1) above.

In this subsection " international organisation" means an organisation of which two or more sovereign powers, or the governments of two or more such powers, are members; and if in any proceedings a question arises whether a person is within this subsection a certificate issued by or under the authority of the Secretary of State stating any fact relevant to that question shall be conclusive evidence of that fact.

99 Companies with overseas trading income: extension and modification of transitional relief

- (1) The relief afforded by section 84 of the Finance Act 1965 (transitional relief for companies with overseas trading income) shall be available for an additional four years and accordingly in subsection (1) of that section for the words " the seven years of assessment" and " those seven years " there shall be substituted respectively the words " the eleven years of assessment " and " those eleven years " .
- (2) The proportion by which relief under that section is to be reduced in accordance with the proviso to the said subsection (1) shall be three-fifths in the five years following the year 1971-72, and accordingly in that proviso for the words " by three-fifths in the year 1971-72 " to the end there shall be substituted the words " and by three-fifths in the year 1971-72 and each of the five following years of assessment " .
- (3) Subsection (4) of the said section 84 (restriction of relief where a company increases its net dividends) shall not apply to any year of assessment after the year 1971-72.
- (4) In relation to any year of assessment beginning with the year 1973-74 the said section 84 and Schedule 20 to the said Act of 1965 shall have effect subject to Schedule 19 to this Act.

100 Double taxation relief

- (1) The provisions of Chapters I and II of Part XVIII of the Taxes Act (double taxation relief) applicable to corporation tax in respect of income shall apply also to corporation tax in respect of chargeable gains, and for that purpose—
 - (a) references in those Chapters to income shall be construed as references to chargeable gains; and
 - (b) in sections 497(1) and 498(6) references to taxes of a similar character, or corresponding, to corporation tax shall be construed as references to taxes on chargeable gains;and sections 517 and 518 of that Act (regulations and information) shall have effect accordingly.
- (2) Section 499 of the Taxes Act (which has the effect that the provisions of those Chapters applicable to income tax apply to corporation tax in respect of chargeable gains) shall cease to have effect.
- (3) For the purposes of section 505 of the Taxes Act (which limits the credit for foreign tax allowable against corporation tax in respect of any income to the corporation tax attributable to that income and, by virtue of subsection (1) above, applies similarly in relation to chargeable gains) the corporation tax attributable to any income or gain (" the relevant income or gain ") shall be determined in accordance with subsections (4) to (6) below.
- (4) Subject to subsections (5) and (6) below, the amount of corporation tax attributable to the relevant income or gain shall be treated as equal to such proportion of the amount of that income or gain as corresponds to the rate of corporation tax payable by the company (before any credit under the said Part XVIII) on its income or chargeable gains for the accounting period in which the income arises or the gain accrues (" the relevant accounting period ").
- (5) Where in the relevant accounting period there is any deduction to be made for charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of more than one description—
 - (a) the company may for the purposes of this section allocate the deduction in such amounts and to such of its profits for that period as it thinks fit; and
 - (b) the amount of the relevant income or gain shall be treated for the purposes of subsection (4) above as reduced or, as the case may be, extinguished by so much (if any) of the deduction as is allocated to it.
- (6) Where in accordance with section 85 above any advance corporation tax falls to be set against the company's liability to corporation tax on its income for the relevant accounting period—
 - (a) the company may for the purposes of this section allocate that advance corporation tax in such amounts and to the corporation tax attributable to such of its income for that period as it thinks fit; and
 - (b) the amount of corporation tax attributable to the relevant income as determined in accordance with subsections (4) and (5) above shall be reduced by so much (if any) of that advance corporation tax as is allocated to the corporation tax attributable to that income;

but the amount of advance corporation tax allocated under this subsection to the corporation tax attributable to any income shall not exceed the advance corporation tax that would have been payable (apart from section 89 above) in respect of a distribution

made at the end of the relevant accounting period of an amount which, together with the advance corporation tax so payable in respect of it, is equal to that income.

- (7) The foregoing provisions of this section shall have effect from 1st April 1973.
- (8) No order shall be made under section 31 or 32 of the Finance Act 1966 (transitory provisions for dividends, interest and royalties paid to non-residents) extending the period mentioned in either of those sections beyond 5th April 1973.

Miscellaneous provisions

101 Change in ownership of company: calculation and treatment of advance corporation tax

- (1) This section applies if—
- (a) within any period of three years there is both a change in the ownership of a company and (either earlier or later in that period, or at the same time) a major change in the nature or conduct of a trade or business carried on by the company; or
 - (b) at any time after the scale of the activities in a trade or business carried on by a company has become small or negligible, and before any considerable revival of the trade or business, there is a change in the ownership of the company.
- (2) Sections 85 and 89 above and Schedule 14 below shall apply to an accounting period in which the change of ownership occurs as if the part ending with the change of ownership, and the part after, were two separate accounting periods; and for that purpose the income of the company charged to corporation tax for the accounting period (as defined in subsection (6) of the said section 85) shall be apportioned between those parts.
- (3) No advance corporation tax paid by the company in respect of distributions made in an accounting period beginning before the change of ownership shall be treated under subsection (4) of the said section 85 as paid by it in respect of distributions made in an accounting period ending after the change of ownership; and this subsection shall apply to an accounting period in which the change of ownership occurs as if the part ending with the change of ownership, and the part after, were two separate accounting periods.
- (4) In subsection (1) above "major change in the nature or conduct of a trade or business" includes—
- (a) a major change in the type of property dealt in, or services or facilities provided, in the trade or business; or
 - (b) a major change in customers, outlets or markets of the trade or business; or
 - (c) a change whereby the company ceases to be a trading company and becomes an investment company or vice versa;
 - (d) where the company is an investment company, a major change in the nature of the investments held by the company;

and this section applies even if the change is the result of a gradual process which began outside the period of three years mentioned in subsection (1)(a) above.

- (5) In this section—
- "trading company" means a company whose business consists wholly or mainly of the carrying on of a trade or trades;

" investment company " means a company (other than a holding company) whose business consists wholly or mainly in the making of investments and the principal part of whose income is derived therefrom ;

" holding company " means a company whose business consists wholly or mainly in the holding of shares or securities of companies which are its 90 per cent. subsidiaries and which are trading companies.

- (6) Subsection (3) above applies to advance corporation tax which a company is treated as having paid by virtue of section 92 above as it applies to advance corporation tax which it has actually paid.
- (7) Subsections (6) and (7) of section 483 of the Taxes Act (which contain supplementary provisions relating to the restriction of the carry-forward of losses under that section in circumstances corresponding to those dealt with in this section) and section 484 of that Act (which contains rules for ascertaining changes of ownership for the purposes of that section) shall apply also for the purposes of this section and as if in subsection (3) of section 484 the reference to the benefit of the losses were a reference to the benefit of the advance corporation tax.

102 Rectification of excessive set-off etc. of advance corporation tax or tax credit

- (1) If an inspector discovers that—
- (a) any set-off of advance corporation tax under section 85 above; or
 - (b) any set-off or payment of tax credit,
- ought not to have been made, or is or has become excessive, the inspector may make any such assessments as may in his judgment be required for recovering any tax that ought to have been paid or any payment of tax credit that ought not to have been made and generally for securing that the resulting liabilities to tax (including interest on unpaid tax) of the persons concerned are what they would have been if only such set-offs or payments had been made as ought to have been made.
- (2) The Management Act shall apply to any assessment under this section for recovering a payment of tax credit as if it were an assessment to income tax for the year of assessment, or, in the case of a company, corporation tax for the accounting period, in respect of which the payment was claimed, and as if that payment represented a loss of tax to the Crown; and any sum charged by any such assessment shall, subject to any appeal against the assessment, be due within fourteen days after the issue of the notice of assessment.

103 Charge of advance corporation tax at previous rate until new rate is fixed and changes of rate

- (1) Notwithstanding that a rate of advance corporation tax has not been fixed for any financial year, advance corporation tax in respect of distributions made in that year shall be payable under Schedule 14 to this Act and may be assessed under that Schedule according to the rate last fixed but, if a rate of advance corporation tax for that year is not fixed by an Act passed on or before 5th August next after the end of the year, or advance corporation tax is charged for that year 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.
- (2) Where the House of Commons passes a Resolution for fixing the rate of advance corporation tax for any financial year or for altering the charge to advance corporation

Status: This is the original version (as it was originally enacted).

tax for any financial year, then any payment or assessment afterwards made by virtue of subsection (1) above may be made in accordance with the Resolution; but that subsection shall not require any payment to be made or authorise the making of any assessment later than 5th May next after the end of any financial year unless a Resolution for fixing a rate of advance corporation tax for that year has been so passed, nor shall any such payment be required or assessment made by virtue of any such Resolution later than the prescribed period from the date on which the Resolution is passed.

- (3) In subsection (2) above " the prescribed period " has the meaning given in section 243(7) of the Taxes Act.
- (4) Where different rates of advance corporation tax are in force in different parts of an accounting period, the maximum set-off permitted for that accounting period under subsection (2) of section 85 above shall be determined by apportioning the income of the company charged to corporation tax for that period (as defined in subsection (6) of that section) between the different parts of the period, calculating the maximum for each part as if it were a separate accounting period and aggregating the result.
- (5) Where a company makes a distribution before 6th April in any financial year and the rate of advance corporation tax for that year differs from the rate last fixed—
 - (a) any advance corporation tax payable in respect of the distribution shall be calculated according to the rate last fixed and sections 84(3) and 86(2) above and Schedule 14 below shall have effect in relation to the distribution as if the rate for that year were the same as the rate last fixed ;
 - (b) if the distribution is made in an accounting period which extends beyond 5th April in that year and another distribution is made, or franked investment income is received, in that period after that date, the company's liability for advance corporation tax, the amount of any such tax and the amount of any surplus of franked investment income for that accounting period shall be determined under section 89 above and Schedule 14 below as if the part of the accounting period ending with, and the part of it beginning after, that date were separate accounting periods.

104 Payments in respect of which company is liable to account for income tax

Schedule 20 to this Act shall have effect for the purpose of regulating the time and manner in which companies resident in the United Kingdom—

- (a) are to account for and pay income tax in respect of payments made after 5th April 1973 from which tax is deductible under section 53 or 54 of the Taxes Act;
- (b) are to be repaid income tax in respect of payments received by them after that date.

105 Returns of distributions which are not qualifying distributions

Schedule 21 to this Act shall have effect for the purpose of requiring companies resident in the United Kingdom to make returns and give information to the inspector in respect of distributions made by them after 5th April 1973 which are not qualifying distributions.

106 Amendments as to meaning of " distribution "

Sections 233 to 237 of the Taxes Act (meaning of " distribution ") shall have effect subject to the provisions of Schedule 22 to this Act.

107 Amendments as to accounting periods

(1) For paragraph (c) of section 247(3) of the Taxes Act (under which a company's accounting period ends on its beginning or ceasing to carry on any trade or to be, in respect of a trade, within the charge to corporation tax) there shall be substituted—

“(c) the company beginning or ceasing to trade or to be, in respect of the trade or (if more than one) of all the trades carried on by it, within the charge to corporation tax”.

(2) For subsection (2) of section 155 of the said Act (corporation tax in respect of company's share in partnership profits etc.) there shall be substituted—

“(2) A company's share in the profits or loss of any accounting period of the partnership, or in any matter excluded from the computation by proviso (b) to subsection (1) above, shall be determined according to the interests of the partners during that period, and corporation tax shall be chargeable as if that share derived from a trade carried on by the company alone in its corresponding accounting period or periods; and the company shall be assessed and charged to tax for its corresponding accounting period or periods accordingly.

In this subsection "corresponding accounting period or periods " means the accounting period or periods of the company comprising or together comprising the accounting period of the partnership, and any necessary apportionment shall be made between corresponding accounting periods if more than one.”

(3) In section 252(8) of the said Act (company reconstructions without change of ownership) for the words from " the accounting periods" onwards there shall be substituted the words " any necessary apportionment shall be made of receipts or expenses ".

(4) This section has effect in relation to accounting periods ending after 5th April 1972.

Supplementary

108 Power to make regulations modifying or replacing Schedules 14, 20 and 21

(1) The Board may, by regulations made for any of the purposes mentioned in sections 84(5), 89(4), 104 or 105 above, modify, supplement or replace any of the provisions of Schedules 14, 20 or 21 to this Act; and references in this Act and in any other enactment to any of those Schedules shall be construed as including references to any such regulations.

(2) Without prejudice to the generality of the preceding subsection, regulations under that subsection may, in relation to advance corporation tax or income tax for which a company is liable to account, modify any provision of Parts II to VI of the Management Act or apply any such provision with or without modifications.

- (3) Regulations under this section may—
- (a) make different provision for different descriptions of companies and for different circumstances and may authorise the Board, where in their opinion there are special circumstances justifying it, to make special arrangements as respects advance corporation tax or income tax for which a company is liable to account or the repayment of income tax borne by a company or the payment to a company of amounts in respect of any tax credit to which it is entitled ;
 - (b) include such transitional and other supplemental provisions as appear to the Board to be expedient or necessary.
- (4) Regulations under this section shall be made by statutory instrument, and the Board shall not make any such regulations unless a draft of them has been laid before, and approved by a resolution of, the Commons House of Parliament.

109 Transitional provisions

Schedule 23 to this Act shall have effect with respect to the matters there dealt with, being transitional provisions relating to this Part of this Act.

110 Interpretation of Part V

- (1) In this Part of this Act—
- " franked investment income " shall be construed in accordance with section 88 above but subject to section 256(1) of the Taxes Act;
 - " franked payment " shall be construed in accordance with section 84(3) above but subject to section 256(1) of the Taxes Act;
 - " the Management Act " means the Taxes Management Act 1970;
 - " qualifying distribution " has the meaning given in section 84(4) above;
 - " surplus of franked investment income " has the meaning given in section 89(6) above ;
 - " surplus advance corporation tax " has the meaning given in section 85(3) above ;
 - " tax credit " means a tax credit under section 86 above ;
 - " United Kingdom trust " means a trust administered under the law of any part of the United Kingdom, not being a trust the general administration of which is ordinarily carried on outside the United Kingdom and the trustees, or a majority of the trustees, of which are resident or ordinarily resident outside the United Kingdom.
- (2) References in this Part of this Act to distributions or payments received by a company apply to any received by another person on behalf of or in trust for the company but not to any received by the company on behalf of or in trust for another person.
- (3) References in this Part of this Act to using franked investment income to frank distributions of a company shall be construed in accordance with section 89(5) above.
- (4) References in this Part of this Act to an amount of profits on which corporation tax falls finally to be borne are references to the amount of those profits after making all deductions and giving all reliefs that for the purposes of corporation tax are made or given from or against those profits, including deductions and reliefs which under any provision are treated as reducing them for those purposes.

- (5) For the purposes of any reference in this Part of this Act, or in any provision amended thereby, to the rate of advance corporation tax in force for a financial year, the period beginning with 6th April 1973 and ending with 31st March 1974 shall be treated as if it were a financial year.

111 Consequential amendments

- (1) The enactments specified in Schedule 24 to this Act shall have effect with the amendments there specified, being amendments adapting and supplementing those enactments in consequence of the provisions of this Part of this Act.
- (2) The provisions of the Taxes Act as to the charge, calculation and payment of corporation tax (including provisions conferring any exemption) shall not be construed as affecting the charge, calculation or payment of advance corporation tax, and the Corporation Tax Acts shall apply for the purposes of this Part of this Act whether or not they are for the time being applicable for the purposes of corporation tax other than advance corporation tax.
- (3) This section has effect from 6th April 1973 and does not affect the operation of any enactment in relation to any previous time; and no amendment in the said Schedule 24 adapting an enactment so as to make it apply or refer to a provision of this Act instead of a provision repealed thereby shall be construed as affecting the operation of that enactment in relation to the repealed provision so far as concerns matters occurring before the repeal or otherwise unaffected by it.