Income and Corporation Taxes Act 1988

1988 CHAPTER 1

PART XII

SPECIAL CLASSES OF COMPANIES AND BUSINESSES

CHAPTER I

INSURANCE COMPANIES, UNDERWRITERS AND CAPITAL REDEMPTION BUSINESS

Insurance companies: general

431 Interpretative provisions relating to insurance companies

(1) This section has effect for the interpretation of this Chapter.

(2) Unless the context otherwise requires—

"annuity business" means the business of granting annuities on human life;

"general annuity business" means any annuity business which is not pension business, and "pension business" shall be construed in accordance with subsections (3) and (4) below;

"annuity fund" means, where an annuity fund is not kept separately from the life assurance fund of an insurance company, such part of the life assurance fund as represents the liability of the company under its annuity contracts, as stated in its periodical returns;

"insurance company" means a company to which Part II of the Insurance Companies Act 1982 applies;

"life assurance business" includes annuity business;

"offshore income gain" has the same meaning as in Chapter V of Part XVII;

"overseas life insurance company" means an insurance company having its head office outside the United Kingdom but carrying on life assurance business through a branch or agency in the United Kingdom; and

"periodical return", in relation to an insurance company, means a return deposited with the Secretary of State under Part II of the Insurance Companies Act 1982.

(3) Subject to section 439, any division to be made between general annuity business, pension business and other life assurance business shall be made on the principle of—

(a) referring to pension business any premiums falling within subsection (4) below, together with the incomings, outgoings and liabilities referable to those premiums and the policies and contracts under which they are or have been paid;

(b) allocating to general annuity business all other annuity business;

and references to "pension fund" and "general annuity fund" shall be construed accordingly, whether or not any such funds are kept separate from the insurance company's life assurance fund.

(4) The premiums to be referred to pension business are those payable under contracts falling within one or other of the following descriptions, that is to say—

(a) any contract with an individual who is, or would but for an insufficiency of profits or gains be, chargeable to income tax in respect of relevant earnings (as defined in section 623(1) and (2)) from a trade, profession, vocation, office or employment carried on or held by him (being a contract approved by the Board under section 620), or any substituted contract within the meaning of section 622(3);

(b) any contract (including a contract of insurance) entered into for the purposes of, and made with the persons having the management of, an exempt approved scheme as defined in Chapter I of Part XIV, being a contract so framed that the liabilities undertaken by the insurance company under the contract correspond with liabilities against which the contract is intended to secure the scheme;

(c) any contract made under approved personal pension arrangements within the meaning of Chapter IV of Part XIV;

(d) any annuity contract entered into for the purposes of—

(i) a scheme which is approved or is being considered for approval under Chapter I of Part XIV;

(ii) a statutory scheme as defined by section 612(1); or

(iii) a fund to which section 608 applies,

being a contract which is approved by the Board and made with the persons having the management of the scheme or fund (or those persons and a member of or contributor to the scheme or fund) and by means of which relevant benefits as defined by section 612(1) (but no other benefits) are secured;

(e) any annuity contract approved by the Board which is entered into in substitution for a contract within paragraph (d) above;

(f) any contract with the trustees or other persons having the management of a scheme approved under section 620 or, subject to subsection (5) below, of a superannuation fund which was approved under section 208 of the 1970 Act, being a contract which—

(i) was entered into for the purposes only of that scheme or fund or, in the case of a fund part only of which was approved under section 208, for the purposes only of that part of that fund, and

(ii) (in the case of a contract entered into or varied after 1st August 1956) is so framed that the liabilities undertaken by the insurance company under the contract correspond with liabilities against which

the contract is intended to secure the scheme or fund (or the relevant part of the fund).

(5) Subsection (4)(c) above shall not apply to premiums payable under a contract where the fund in question was approved under section 208 of the 1970 Act unless—

(a) immediately before 6th April 1980 premiums paid under the contract with the trustees or other persons having the management of the fund fell within section 323(4) of that Act (premiums referable to pension business); and

(b) the terms on which benefits are payable from the fund have not been altered since that time; and

(c) section 608 applies to the fund.

(6) In subsections (3) to (5) above "premium" includes any consideration for an annuity.

432 Separation of different classes of business

(1) Where an insurance company carries on life assurance business in conjunction with insurance business of any other class, the life assurance business shall, for the purposes of the Corporation Tax Acts, be treated as a separate business from any other class of business carried on by the company.

(2) Where an insurance company carries on both ordinary life assurance business and industrial life assurance business, the business of each such class shall, for the purposes of the Corporation Tax Acts, be treated as though it were a separate business, and section 76 shall apply separately to each such class of business.

433 Profits reserved for policy holders and annuitants

Where the profits of an insurance company in respect of its life assurance business are, for the purposes of this Act, computed in accordance with the provisions of this Act applicable to Case I of Schedule D, such part of those profits as belongs or is allocated to, or is reserved for, or expended on behalf of, policy holders or annuitants shall be excluded in making the computation, but if any profits so excluded as being reserved for policy holders or annuitants cease at any time to be so reserved and are not allocated to or expended on behalf of policy holders or annuitants, those profits shall be treated as profits of the company for the accounting period in which they ceased to be so reserved.

434 Franked investment income etc

(1) Section 208 shall not prevent franked investment income of a company resident in the United Kingdom which carries on life assurance business from being taken into account as part of the profits in computing trading income in accordance with the provisions applicable to Case I of Schedule D.

(2) In ascertaining for the purposes of section 393 or 394 whether and to what extent a company has incurred a loss on its life assurance business, any profits derived from the investments of its life assurance fund (including franked investment income of a company so resident) shall be treated as part of the profits of that business.

(3) Any such part of the franked investment income from investments held in connection with a company's life assurance business as is specified in subsection (4) below ("the

specified part") shall not be used under Chapter V of Part VI to frank distributions made by the company.

(4) Subject to subsection (5) below, the specified part shall be, in the case of any unrelieved income, the same fraction of it as the fraction which, on a computation of the profits of the company in respect of its life assurance business in accordance with the provisions applicable to Case I of Schedule D (whether or not the company is in fact charged to tax under that Case for the relevant accounting period or periods), would be connoted by the words in section 433 "such part of those profits as belongs or is allocated to, or is reserved for, or expended on behalf of, policy holders or annuitants".

(5) If the income exceeds the profits as computed in accordance with the provisions applicable to Case I of Schedule D other than section 433, the specified part shall be that fraction of the income so far as not exceeding the profits, together with the amount of the excess.

(6) For the purposes of section 239 the profits charged to corporation tax for any accounting period (as defined in subsection (6) of that section) shall be reduced by deducting therefrom such fraction thereof as is equal to the fraction of the profits of the company in respect of its life assurance business which under section 433 is excluded from the computation of those profits or would be so excluded if the profits were computed in accordance with the provisions applicable to Case I of Schedule D.

(7) For the purposes of subsection (4) above "unrelieved income" means income which has not been excluded from charge to tax by virtue of any provision and against which no relief has been allowed by deduction or set-off.

(8) Where subsection (3) or (6) above would deny to a company any relief to which it would have been entitled if it had been charged to tax in respect of its life assurance business under Case I of Schedule D, corresponding relief shall be afforded to the company by repayment of, or set-off against, corporation tax or by payment of tax credit comprised in franked investment income from investments held in connection with that business.

435 Taxation of gains reserved for policy holders and annuitants

(1) This section has effect in relation to any accounting period of an insurance company carrying on life assurance business and for the purposes of this section—

(a) the life assurance gains are such part of the amount to be included, in accordance with section 345, in the company's total profits as is attributable to gains from investments held in connection with the company's life assurance business;

(b) the policy holders' share of the life assurance gains or of the relevant reliefs is such fraction thereof as is equal to the fraction of the profits of the company in respect of its life assurance business which, under section 433, is excluded from the computation of those profits or would be so excluded if the profits were computed in accordance with the provisions applicable to Case I of Schedule D; and

(c) the relevant reliefs are such of the sums to be deducted from or set off against the company's profits as are deducted from or set off against the life assurance gains.

(2) Corporation tax charged on so much of the policy holders' share of the life assurance gains as remains after setting against it the amounts referred to in subsection (3)(c) below shall be calculated on the basis of a rate of corporation tax of 30 per cent.

(3) For the purposes of this section there shall be ascertained the policy holders' share and the remainder ("the residual part") of the life assurance gains and of the relevant reliefs; and—

(a) the residual part of the relevant reliefs shall be set against the residual part of those gains; and

(b) if the residual part of the relevant reliefs exceeds the residual part of those gains, the excess (or so much of it as does not, together with the policy holders' share of the relevant reliefs, exceed the policy holders' share of those gains) shall be added to the policy holders' share of the relevant reliefs; and

(c) the policy holders' share of the relevant reliefs, with any addition made under paragraph (b) above, shall be set against the policy holders' share of the life assurance gains.

436 Annuity business and pension business: separate charge on profits

(1) Subject to the provisions of this section, profits arising to an insurance company from general annuity business or pension business shall be treated as income within Schedule D, and be chargeable under Case VI of that Schedule, and for that purpose—

(a) the business of each such class shall be treated separately, and

(b) subject to paragraph (a) above, and to subsection (3) below, the profits therefrom shall be computed in accordance with the provisions of this Act applicable to Case I of Schedule D.

(2) Subsection (1) above shall not apply to an insurance company charged to corporation tax in accordance with the provisions applicable to Case I of Schedule D in respect of the profits of its ordinary life assurance business.

(3) In making the computation referred to in subsection (1) above—

(a) section 433 shall apply with the necessary modifications and in particular with the omission of all references to policy holders (other than holders of policies referable to pension business);

(b) no deduction shall be allowed in respect of any expenses of management deductible under section 76;

(c) there may be set off against the profits any loss, to be computed on the same basis as the profits, which has arisen from pension business or general annuity business in any previous accounting period or year of assessment;

(d) where the computation in question is of profits arising to an insurance company from pension business—

(i) group income shall not be taken into account as part of those profits, and

(ii) annuities shall be deductible notwithstanding section 337(2);

and the company shall not be entitled to treat as paid out of profits or gains brought into charge to income tax any part of the annuities paid by the company which is referable to pension business; and

(e) distributions which are not qualifying distributions shall not be taken into account where the computation in question is of the profits arising to an

insurance company or overseas life insurance company from general annuity business or pension business.

(4) Section 396 shall not be taken to apply to a loss incurred by a company on its general annuity business or pension business.

(5) Nothing in section 128 or 399(1) shall affect the operation of this section.

437 General annuity business

(1) In the case of a company carrying on general annuity business, the annuities paid by the company, so far as referable to that business and so far as they do not exceed the taxed income of the part of the annuity fund so referable, shall be treated as charges on income.

(2) In computing under section 436 the profits arising to an insurance company from general annuity business—

(a) taxed income, group income and income attributable to offshore income gains shall not be taken into account as part of those profits; and

(b) of the annuities paid by the company and referable to general annuity business—

(i) those which under subsection (1) above are treated as charges on income shall not be deductible, and

(ii) those which are not so treated shall (notwithstanding section 337(2)) be deductible.

(3) In subsections (1) and (2) above "taxed income" means income charged to corporation tax otherwise than under section 436, and franked investment income.

(4) Subject to subsection (5) below, franked investment income which is taken into account under subsection (2) above to enable annuities referable to general annuity business to be treated as charges on income shall not be used under Chapter V of Part VI to frank distributions made by the company.

(5) For the purposes of subsection (4) above there shall be deducted from the amount of the franked investment income of the company arising in any accounting period and taken into account under subsection (1) above—

(a) the amount of any profit arising in that accounting period to the company from general annuity business and computed under section 436; and

(b) the amount of any group income arising in that accounting period to the company and referable to its general annuity business.

(6) A company which is not resident in the United Kingdom but carries on through a branch or agency there any general annuity business shall not be entitled to treat any part of the annuities paid by it which are referable to that business as paid out of profits or gains brought into charge to income tax.

438 Pension business: exemption from tax

(1) Exemption from corporation tax shall be allowed in respect of income from, and chargeable gains in respect of, investments and deposits of so much of an insurance company's life assurance fund and separate annuity fund, if any, as is referable to pension business.

(2) The exemption from tax conferred by subsection (1) above shall not exclude any sums from being taken into account as receipts in computing profits or losses for any purpose of the Corporation Tax Acts.

(3) Subject to subsection (6) below, the exclusion by section 208 from the charge to corporation tax of franked investment income shall not prevent such income being taken into account as part of the profits in computing under section 436 income from pension business.

(4) If in the case of any company the income referred to in subsection (1) above includes a distribution in respect of which the company is entitled to a tax credit, the company may, subject to subsections (5) and (6) below, claim to have the amount of that credit paid to it.

(5) If the company is resident in the United Kingdom (so that the distribution and the tax credit in question constitute franked investment income of that company), no franked investment income comprising any tax credit which is paid under subsection (4) above shall, subject to subsection (6) below, be used under Chapter V of Part VI to frank the company's distributions.

(6) If for any accounting period there is, apart from this subsection, a profit arising to an insurance company from pension business and computed under section 436, and the company so elects as respects all or any part of its franked investment income arising in that period, being an amount of franked investment income not exceeding the amount of that profit, subsections (3) to (5) above shall not apply to the franked investment income to which the election relates.

(7) An election under subsection (6) above shall be made by notice given to the inspector not later than two years after the end of the accounting period to which the election relates or within such longer period as the Board may by notice allow.

(8) Nothing in sections 431(4)(c) or 643(2) of this Act or section 149B(1)(h) of the 1979 Act shall be construed as affording relief in respect of any sums to be brought into account under this section.

439 Restricted government securities

(1) This section applies where for any accounting period —

(a) any division falls to be made between the pension business and any other kind of long-term business of an insurance company, and

(b) any of the income or gains or losses of the company for that period relate to restricted government securities;

and where this section applies section 431(3) shall have effect subject to the provisions of this section.

(2) All income, gains or losses of the company which relate to restricted government securities shall be referred to its pension business.

(3) Where the division of the other income, gains or losses of the company is made by reference to the liabilities at any time in the accounting period which are referable to pension business or to two or more kinds of business including pension business, those liabilities shall be treated as reduced by the appropriate amount.

(4) In subsection (3) above "the appropriate amount" means—

(a) in a case in which the total liabilities of the company at the time in question which are referable to long-term business are less than the market value at that time of the investments and deposits held by the company relating to all such business, such proportion of the market value of the restricted government securities held by the company at that time as those liabilities bear to the market value of those investments and deposits, and

(b) in any other case, the market value of the restricted government securities at that time.

(5) In this section—

"long-term business" has the same meaning as in section 1(1) of the Insurance Companies Act 1982;

"restricted government securities" means, subject to the following provisions of this section, government securities issued on the condition that, except in such circumstances as may be specified in the conditions of issue, they are to be held by insurance companies against and applied solely towards meeting pension business liabilities.

(6) Subject to subsection (7) below, the following Treasury Stock, namely—

(a) 2 per cent. Index-linked Treasury Stock 1996;

(b) 2 per cent. Index-linked Treasury Stock 2006;

(c) 2½ per cent. Index-linked Treasury Stock 2011;

are not restricted government securities for the purposes of this section.

(7) If any of the index-linked stock referred to in subsection (6) above was on 27th March 1982 held by an insurance company against and applied solely towards meeting the liabilities of the company's pension business, then—

(a) if and so long as the stock continues to be so held by that company, it shall continue to be treated as restricted government securities for the purposes of this section; and

(b) if the stock ceases to be restricted government securities otherwise than by virtue of being actually disposed of or redeemed, on the day on which it so ceases the stock shall be deemed for the purposes of corporation tax, including (subject to subsection (8) below) corporation tax on chargeable gains, to have been disposed of and immediately re-acquired at its market value on that date.

(8) For the purposes of sections 67 and 68 of the 1979 Act (gilt-edged securities)—

(a) in ascertaining the date on which securities were acquired, no account shall be taken of any deemed disposal and re-acquisition resulting from subsection (7)(b) above; and

(b) so long as any index-linked stock continues, by virtue of subsection (7)(a) above, to be treated as restricted government securities for the purposes of this section, it shall be regarded as being stock of a different kind from the index-linked stock referred to in subsection (6) above which is not so treated.

440 Identification or exchange of long term assets

(1) The provisions of this section apply to any insurance company which carries on or has carried on long term business, and shall have effect for all purposes of the Corporation Tax Acts.

(2) Subject to subsection (4) below, a profit or loss shall not be taken to arise in respect of any asset of the company by reason only that at any time after the base date the asset was or is exchanged for other assets of the company so as to become or cease to be part of the long term assets.

(3) Subject to subsection (5) below, if an asset of the company which has at any time after 29th April 1975 been exchanged as mentioned in subsection (2) above is—

(a) within the period of one year beginning with the date of that exchange ("the relevant exchange") exchanged again for other assets of the company so as to cease to be or, as the case may be, become part of the long term assets; or

(b) within the period of six months beginning with the date of the relevant exchange disposed of by the company,

then any income arising in respect of the asset after the relevant exchange, and any profit, gain or loss accruing to the company on a disposal of the asset made after the relevant exchange, shall be treated as if the relevant exchange had not taken place.

(4) If an insurance company to which this section applies by notice given to the inspector so elects, then, where in the relevant period any relevant asset of the company was or is exchanged as mentioned in subsection (2) above—

(a) that subsection shall not apply in relation to that asset as regards that exchange; and

(b) the company shall be treated as if the asset had been disposed of at market value by the company at the time of the exchange.

In this and the following subsection—

"the relevant period", in relation to a notice under this subsection, means the period of six years from the end of the accounting period of the company in which the notice is given;

"relevant asset", in relation to an insurance company, means an asset of the company such that, if it were sold, the proceeds would be taken into account in any computation of profits of the company in accordance with the provisions of this Act applicable to Case I of Schedule D.

(5) Where an insurance company has given a notice under subsection (4) above, subsection (3) above shall, as regards relevant assets disposed of by the company in the relevant period, have effect as if paragraph (b) and the reference to any profit, gain or loss accruing to the company on a disposal made after the relevant exchange were omitted.

(6) If at any time after the base date an insurance company to which this section applies disposed or disposes of an asset which—

(a) was or is part of the long term assets at the time of the disposal, but without having been continuously part of those assets since its acquisition by the company; or

(b) was or is not part of the long term assets at the time of the disposal, but without having been continuously not part of those assets since its acquisition by the company,

the asset shall be treated, in a case falling within paragraph (a) above, as if it had been continuously part of the long term assets from the time of its acquisition by the company to the time of the disposal, or, in a case falling within paragraph (b) above, as if it had been continuously not part of the long term assets from the time of its acquisition by the company to the time of its disposal; and if the disposal is one

as respects which subsection (3) above applies, this subsection shall apply as if the relevant exchange (within the meaning of that subsection) had not taken place.

(7) Without prejudice to subsection (6) above, if—

(a) an insurance company to which this section applies disposes of an asset which, since its acquisition by the company, has on one or more occasions (whether after the base date or not) been exchanged for other assets of the company; and

(b) as regards that occasion or one or more of those occasions the company was assessed to income tax or corporation tax in an amount computed by reference to the value of the asset at the time of the exchange,

then, in computing for any purpose of the Corporation Tax Acts the profit, gain or loss (if any) arising on the disposal, the asset shall be deemed to have been acquired by the company on the occasion or latest of the occasions mentioned in paragraph (b) above at a cost equal to the value by reference to which the company was so assessed as regards that occasion.

(8) There shall be made such assessments, reductions of assessments or, on a claim in that behalf, repayments of tax as may in any case be required in order to give effect to subsection (3) or (4) above.

(9) In this section, unless the context otherwise requires, "asset" includes part of an asset and any reference to a disposal of part of an asset includes a reference to a part disposal of an asset within the meaning of section 19(2)(b) of the 1979 Act; and where part of an asset is exchanged or disposed of as mentioned in any of subsections (2) to (7) above, that subsection shall have effect as if that part of the asset and the part not exchanged or disposed of were separate assets.

(10) For the purposes of this section—

"the base date", in relation to an insurance company, means the last day of the financial year of the company which ended next after 7th December 1973;

"financial year" has the meaning given by section 96 of the Insurance Companies Act 1982;

"long term assets", in relation to an insurance company, means assets representing the fund or funds maintained by the company in respect of its long term business; and

"long term business" has the meaning given by section 1(1) of the Insurance Companies Act 1982.

441 Foreign life assurance funds

(1) Corporation tax under Cases IV and V on income arising from investments of the foreign life assurance fund of an insurance company shall be computed as in the case mentioned in section 65(4), that is to say, by reference to the amount of income received in the United Kingdom; and this subsection shall apply notwithstanding that that section relates only to income tax.

(2) Where any of the following securities, namely—

(a) securities issued by the Treasury with the condition that the interest thereon shall not be liable to income tax so long as it is shown, in manner directed by the Treasury, that the securities are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom; or

(b) securities issued by the Treasury with the condition that—

(i) so long as the securities are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom, the interest thereon shall be exempt from income tax, and

(ii) so long as the securities are in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom, neither the capital thereof nor the interest thereon shall be liable to any taxation present or future; or

(c) securities to which section 581 applies;

for the time being form part of the investments of the foreign life assurance fund of an insurance company, the income arising from those securities, if applied for the purposes of that fund or reinvested so as to form part of that fund, shall not be liable to tax.

(3) Where any income arising abroad from the investments of the foreign life assurance fund of an insurance company has been remitted to the United Kingdom and invested, as part of the investments of that fund, in any such securities as are mentioned in subsection (2) above, that income shall not be liable to tax and any tax paid thereon shall, if necessary, be repaid to the company on the making of a claim.

(4) Any securities issued by the Treasury in pursuance of the power conferred by section 60(1) of the Finance Act 1940 with a modified form of the condition specified in subsection (2)(b) above shall, save in so far as the terms of the issue otherwise provide, be deemed for the purposes of subsections (2) and (3) above to be such securities as are mentioned in subsection (2) above.

(5) Where income arising from the investments of the foreign life assurance fund of an insurance company has been relieved from tax in pursuance of the provisions of this section, a corresponding reduction shall be made—

(a) in the relief granted under section 76 in respect of expenses of management; and

(b) in any amount on which the company is chargeable to tax by virtue of section 436.

(6) In this section "foreign life assurance fund"—

(a) means any fund representing the amount of the liability of an insurance company in respect of its life assurance business with policy holders and annuitants residing outside the United Kingdom whose proposals were made to, or whose annuity contracts were granted by, the company at or through a branch or agency outside the United Kingdom; and

(b) where such a fund is not kept separately from the life assurance fund, means such part of the life assurance fund as represents the liability of the company under such policies and contracts, such liability being estimated in the same manner as it is estimated for the purpose of the company's periodical return.

(7) Where this section has effect in relation to income arising from investments of any part of an insurance company's life assurance fund, it shall have the like effect in relation to chargeable gains accruing from the disposal of any such investments, and losses so accruing shall not be allowable losses.

(8) For the purposes of this section, an offshore income gain accruing to an insurance company carrying on life assurance business shall, if it accrues in respect of investments held in connection with that business, be treated as if it were income from investments held in connection with that business.

(9) Where any payment is made by the Export Credits Guarantee Department—

(a) under any agreement entered into under arrangements made by the Secretary of State in pursuance of section 11 of the Export Guarantees and Overseas Investment Act 1978, and

(b) in respect of any income —

(i) which cannot be transferred to the United Kingdom, and

(ii) which arises from investments of the foreign life assurance fund of an insurance company,

then, to the extent of the payment, this section shall apply in relation to the income as if it had been received in the United Kingdom (and accordingly cannot be received again in the United Kingdom).

442 Overseas business of U.K. companies

(1) Subsections (2) and (3) below apply where a company resident in the United Kingdom carries on insurance business outside the United Kingdom through a branch or agency and—

(a) that business, or part of it, together with the whole assets of the company used for the purposes of that business or part (or together with the whole of those assets other than cash), is transferred to a company not resident in the United Kingdom;

(b) the business or part is so transferred wholly or partly in exchange for shares, or for shares and loan stock, issued by the transferee company to the transferor company; and

(c) the shares so issued, either alone or taken together with any other shares in the transferee company already held by the transferor company, amount in all to not less than one quarter of the ordinary share capital of the transferee company.

(2) In making any computation in accordance with the provisions of this Act applicable to Case I of Schedule D of the profits or losses of the transferor company for the accounting period in which the transfer occurs, there shall be disregarded any profit or loss in respect of any asset transferred which, apart from this subsection, would fall to be taken into account in making that computation.

(3) Where by virtue of subsection (2) above any profit or loss is disregarded in making any computation otherwise than for the purposes of section 76(2) the profit or loss shall be treated for the purposes of the 1979 Act as a chargeable gain or allowable loss accruing to the transferor company on the transfer.

(4) Where at any time a company resident in the United Kingdom—

(a) which carries on insurance business wholly outside the United Kingdom, and

(b) the whole or part of whose ordinary share capital is beneficially owned by one or more companies resident in the United Kingdom,

ceases to be resident in the United Kingdom, the profits or losses of the company in respect of that business for the accounting period ending at that time shall be computed for tax purposes without regard to the whole, or, as the case may be, a corresponding part of any profit or loss in respect of any asset which, apart from this subsection, would fall to be calculated in accordance with section 100(1)(b) and taken into account in making that computation.

443 Life policies carrying rights not in money

Where any investments or other assets are or have been, in accordance with a policy issued in the course of life assurance business carried on by an insurance company, transferred to the policy holder on or after 6th April 1967, the policy holder's acquisition of the assets, and the disposal of them to him, shall be deemed to be for a consideration equal to the market value of the assets for the purposes of computing income in accordance with Case I or VI of Schedule D.

444 Life policies issued before 5th August 1965

(1) This section applies in relation to policies of life assurance issued before 5th August 1965 by a company carrying on life assurance business, being policies which—

(a) provide for benefits consisting to any extent of investments of a specified description or of a sum of money to be determined by reference to the value of such investments, but

(b) do not provide for the deduction from those benefits of any amount by reference to tax chargeable in respect of chargeable gains.

(2) Where—

(a) the investments of the company's life assurance fund, so far as referable to those policies, consist wholly or mainly of investments of the description so specified, and

(b) on the company becoming liable under any of those policies for any such benefits (including benefits to be provided on the surrender of a policy), a chargeable gain accrues to the company from the disposal, in meeting or for the purpose of meeting that liability, of investments of that description forming part of its life assurance fund, or would so accrue if the liability were met by or from the proceeds of such a disposal,

then the company shall be entitled as against the person receiving the benefits to retain out of those benefits a part not exceeding in amount or value corporation tax, at the rate specified in subsection (3) below, in respect of the chargeable gain referred to in paragraph (b) above, computed without regard to any amount retained under this subsection.

(3) The amount to be retained under subsection (2) above shall, subject to subsection (4) below, be computed by reference to the rate of corporation tax for the time being in force or, if no rate of corporation tax has yet been fixed for the financial year, the rate last in force.

(4) In so far as the chargeable gain represents or would represent a gain belonging or allocated to, or reserved for, policy holders, the amount to be retained shall be computed by reference to a rate of tax not exceeding 37.5 per cent.

Provisions applying only to overseas life insurance companies

445 Charge to tax on investment income

(1) Any income of an overseas life insurance company from the investments of its life assurance fund (excluding the pension fund and general annuity fund, if any), wherever received, shall, to the extent provided in this section, be deemed to be profits

comprised in Schedule D and shall be charged to corporation tax under Case III of Schedule D.

(2) In subsection (1) above "income" shall not include—

(a) distributions which are not qualifying distributions or income attributable to offshore income gains; or

(b) annual profits or gains chargeable to tax by virtue of section 714(2) or 716(3).

(3) Qualifying distributions received from companies resident in the United Kingdom shall be brought into account under this section notwithstanding their exclusion from the charge to corporation tax.

(4) A portion only of the income from the investments of the life assurance fund (excluding the pension fund and general annuity fund, if any) shall be charged in accordance with subsection (1) above, and for any accounting period that portion shall be determined by the formula—

$$\frac{A \times B}{C}$$

where—

A is the total income from those investments for that period;

B is the average of the liabilities for that period to policy holders resident in the United Kingdom and to policy holders resident abroad whose proposals were made to the company at or through its branch or agency in the United Kingdom; and

C is the average of the liabilities for that period to all the company's policy holders;

but any reference in this subsection to liabilities does not include liabilities in respect of general annuity and pension business.

(5) For the purposes of subsection (4) above the average of any liabilities for an accounting period shall be taken as one half of the aggregate of the liabilities at the beginning and end of the valuation period which coincides with that accounting period or in which that accounting period falls.

(6) For the purposes of this section the liabilities of an insurance company attributable to any business at any time shall be ascertained by reference to the net liabilities of the company as valued by an actuary for the purposes of the relevant periodical return.

(7) Section 73 shall not apply to tax in respect of income to which subsection (1) above applies.

(8) In the case of an overseas life insurance company—

(a) in computing for the purposes of this section the income from the investments of the life assurance fund of the company, any interest, dividends and other payments whatsoever to which section 48 or 123(4) extends shall be included notwithstanding the exemption from tax conferred by those sections respectively; and

(b) where in computing that income any interest on any securities issued by the Treasury is excluded by virtue of a condition of the issue of those securities regulating the treatment of the interest on them for tax purposes, the relief under section 76 shall be reduced so as to bear to the amount of relief which would be granted but for the provisions of this paragraph the same proportion

as the amount of that income, excluding that interest, bears to the amount of that income including that interest.

446 Annuity business

(1) Nothing in the Corporation Tax Acts shall prevent the qualifying distributions of companies resident in the United Kingdom from being taken into account as part of the profits in computing, under section 436, the profits arising from pension business and general annuity business to an overseas life insurance company.

(2) Any charge to tax under section 436 for any accounting period on profits arising to an overseas life insurance company from general annuity business shall extend only to a portion of the profits arising from that business and that portion shall be determined by the formula—

$$\frac{A \times B}{C}$$

where—

A is the total amount of those profits;

B is the average of the liabilities attributable to that business for the relevant accounting period in respect of contracts with persons resident in the United Kingdom or contracts with persons resident abroad whose proposals were made to the company at or through its branch or agency in the United Kingdom; and

C is the average of the liabilities attributable to that business for that accounting period in respect of all contracts.

(3) For the purposes of subsection (2) above, the average of any liabilities for an accounting period shall be taken as one half of the aggregate of the liabilities at the beginning and end of the valuation period which coincides with that accounting period or in which that accounting period falls.

(4) For the purposes of this section the liabilities of an insurance company attributable to general annuity business at any time shall be ascertained by reference to the net liabilities of the company as valued by an actuary for the purposes of the relevant periodical return.

447 Set-off of income tax and tax credits against corporation tax

(1) For the purposes of subsection (3) of section 11 as it applies to life insurance companies, the amount of the income tax referred to in that subsection which shall be available for set-off under that subsection in an accounting period shall be limited in accordance with subsections (2) to (4) below.

(2) If the company is chargeable to corporation tax for an accounting period in accordance with section 445 in respect of the income from the investments of its life assurance fund, the amount of income tax available for set-off against any corporation tax assessed for that period on that income shall not exceed an amount equal to income tax at the basic rate on the portion of income from investments which is chargeable to corporation tax by virtue of subsection (4) of that section.

(3) If the company is chargeable to corporation tax for an accounting period in accordance with section 446 on a proportion of the total amount of the profits arising from its general annuity business, the amount of income tax available for set-off against any

corporation tax assessed for that period on those profits shall not exceed an amount equal to income tax at the basic rate on the like proportion of the income from investments included in computing those profits.

(4) Where an overseas life insurance company receives a distribution in respect of which it is entitled to a tax credit the company may claim to have that credit set off against any corporation tax assessed on the company under section 445 or 446 for the accounting period in which the distribution is received, but the restriction in subsections (2) and (3) above on the amount of income tax that may be set off against corporation tax so assessed shall apply to the aggregate of that income tax and of the tax credit that can be so set off by virtue of this subsection.

448 Qualifying distributions and tax credits

(1) Where an overseas life insurance company receives a qualifying distribution made by a company resident in the United Kingdom and relief in respect of the distribution is not available or is not claimed under arrangements specified in an Order in Council made under section 788, the overseas life insurance company shall be deemed for the purposes of sections 76(3) and (4), 434(8), 436, 438 and 445 to 447 to be entitled to such a tax credit in respect of the distribution as it would be entitled to under section 231 if it were resident in the United Kingdom; and accordingly the distribution shall be treated for the purposes of those provisions as representing income equal to the aggregate of the amount or value of the distribution and the amount of that credit.

(2) Where under subsection (1) above an overseas life insurance company is deemed to be entitled to a tax credit in respect of a distribution, it may claim to have the income represented by the distribution set, subject to subsection (3) below, against its profits chargeable to tax under section 436 or against its income chargeable to tax in accordance with section 445 or partly against the one and partly against the other; but to the extent that any income is so set the tax credit included in it shall not be payable and shall not be set against corporation tax under section 447(4).

(3) The amounts that an overseas life insurance company may by virtue of subsection (2) above set against profits or income of any description shall not exceed the amount of the profits or income of that description and shall be further limited as follows—

(a) the amount set against profits arising from general annuity business shall not exceed a portion of the company's income from investments referable to that business, and that portion shall be determined by the same formula as determines under section 446 the portion of those profits which is chargeable to tax; and

(b) the amount set against profits from pension business shall not exceed such of its income referable to that business as is represented by distributions in respect of which the company is deemed to be entitled to a tax credit by virtue of this section, and shall not reduce any other income.

(4) Where by virtue of a set-off under this section income or profits of any description are reduced by any amount, that amount shall be left out of account in determining the amount of income tax which is available for set-off against corporation tax under section 11(3).

(5) A claim under this section in respect of a distribution shall not prevent the making of a subsequent claim for relief in respect of that distribution under arrangements specified in an Order in Council made under section 788; but where such a subsequent claim is made the claim under this section shall be deemed never to have been made, and no

adjustment (whether by additional assessments or otherwise) to which the subsequent claim gives rise shall be out of time if it is made within 12 months after the making of the subsequent claim.

449 Double taxation agreements

(1) This section applies to an overseas life insurance company if, by virtue of arrangements specified in an Order in Council made under section 788, no charge to corporation tax under Case III of Schedule D arises under section 445 in respect of any income of the company from the investments of its life assurance fund (excluding the pension fund and general annuity fund, if any).

(2) For the purposes of section 242 so much of any relevant distributions as is received in any year of assessment by an overseas life insurance company to which this section applies in respect of the portion of the investments of its life assurance fund (excluding the pension fund and general annuity fund, if any) attributable to the business of its branch or agency in the United Kingdom shall be deemed to be franked investment income of that company, and accordingly the company may make a claim under subsection (1) of section 242 for any of the purposes specified in subsection (2) of that section.

(3) In subsection (2) above "relevant distributions" means distributions in respect of which the company receiving them is entitled to a tax credit.

Underwriters

450 Assessment, set-off of losses and reinsurance

(1) Income tax, for any year of assessment, on the profits or gains arising from a member's underwriting business or from assets forming part of a premiums trust fund shall be computed on the profits or gains of that year of assessment; but for this purpose and all other purposes of the Income Tax Acts—

(a) the profits or gains arising in any year of assessment from a member's underwriting business shall be taken to be those arising in the corresponding underwriting year; and

(b) the profits or gains arising from assets forming part of a premiums trust fund shall be taken to be those allocated under the rules or practice of Lloyd's to the corresponding underwriting year.

(2) Income tax on the profits or gains arising to a member from assets forming part of a premiums trust fund may be assessed on the underwriting agent through whom his business is carried on.

(3) Relief under section 380 in respect of a loss sustained by a member in his underwriting business in any year of assessment shall not be given under subsection (2) of that section but may, if the member so claims and he was a member in the preceding year of assessment, be given against his income for that preceding year, so far as it cannot be given against the income for the year in which the loss was sustained and can be given after any relief for a loss sustained in that preceding year.

(4) In any case where a member has taken out an insurance against losses in his underwriting business—

(a) any premium paid by him on that insurance shall be deducted as an expense in computing the profits or gains arising from that business; and

(b) any insurance money paid to him under that insurance shall be taken into account as a trading receipt in computing those profits or gains for the year of assessment for which the premium was allowed as a deduction.

(5) Where, in accordance with the rules or practice of Lloyd's, and in consideration of the payment of a premium, one member agrees with another to meet liabilities arising from the latter's business for an underwriting year so that the accounts of the business for that year may be closed—

(a) in computing for the purposes of income tax the profits or gains of his business, the amount of the premium shall be deductible as an expense of the member by whom it is payable only to the extent that it is shown not to exceed a fair and reasonable assessment of the value of the liabilities in respect of which it is payable; and

(b) any part of a premium which, by virtue of paragraph (a) above, is not deductible as an expense of the member by whom it is payable, shall be disregarded in computing for the purposes of income tax the profits or gains of the business of the member to whom it is payable;

and the assessment referred to above shall be taken to be fair and reasonable only if it is arrived at with a view to producing the result that a profit does not accrue to the member to whom the premium is payable but that he does not suffer a loss.

This subsection has effect in relation to premiums payable in connection with the closing of the accounts of a member's business for an underwriting year ending in the year of assessment 1985-86 or any later year of assessment.

(6) The cost of acquisition and the consideration for the disposal of assets forming part of a premiums trust fund shall be left out of account in computing the profits or gains or losses of a member's underwriting business for the purposes of Schedule D (and accordingly shall not be excluded for the purposes of capital gains tax under section 31 or 33 of the 1979 Act).

451 Regulations

(1) The Board may by regulations provide—

(a) for the assessment and collection of tax charged in accordance with section 450;

(b) for modifying the provisions of section 450 in relation to syndicates continuing for more than two years after the end of an underwriting year;

(c) for giving credit for foreign tax.

(2) The Treasury may by regulations modify any of the provisions specified in paragraphs (a) to (c) below in their application to companies permitted by the Council of Lloyd's to act as underwriting agents at Lloyd's—

(a) section 11 of the Management Act (return of profits);

(b) section 87A of that Act (interest on overdue corporation tax); and

(c) section 10(1) of this Act.

(3) Regulations under subsection (2) above shall not have effect with respect to accounting periods ending on or before such day, not being earlier than 31st March 1992, as the Treasury may by order appoint for the purposes of that subsection.

(4) Regulations made under paragraph 17(1)(b) of Schedule 16 to the Finance Act 1973 which are in force immediately before the coming into operation of this Act shall continue in force notwithstanding the repeal of that paragraph by this Act, and shall be deemed to have been made under this section.

452 Special reserve funds

(1) If in the case of Lloyd's—

(a) arrangements are made for the setting up in relation to each underwriting member of such a special reserve fund as is referred to in the following provisions of this section and sections 453 to 456; and

(b) the arrangements comply with the requirements of this section and sections 453 to 455, are approved by the Board and are certified by the Secretary of State to be in the public interest;

then, subject to section 456(4), the provisions of this section and sections 453 to 456 relating to taxation shall have effect in relation to any underwriting member.

(2) The arrangements must provide for the setting up, in relation to the underwriter, of a special reserve fund vested in trustees who have control over it and power to invest the capital thereof and to vary the investments.

(3) Where part of the business of the underwriter is carried on through an underwriting agent and part is not so carried on, or where different parts of his business are carried on through different underwriting agents, the arrangements may provide for separate special reserve funds being constituted in relation to the different parts of his business.

(4) The arrangements must provide—

(a) for the income arising from the investments of the underwriter's special reserve fund or funds being held on trust for the underwriter, his personal representatives or assigns; and

(b) that, on the underwriter ceasing to carry on his business, the capital of his special reserve fund or funds, so far as not required for giving effect to the requirements of section 453, shall be paid over to the underwriter or his personal representatives or assigns.

(5) The arrangements must be such as to secure that if, for an underwriting year corresponding to a year of assessment during the whole or any part of which the underwriter continues to carry on his business (subject to section 456(4)), the underwriter makes a profit from his business, he has the right to make, into his special reserve fund or funds, payments ("permissible payments") the gross amount of which is not in the aggregate greater than £7,000 or 50 per cent. of the profit, whichever is the less, or such less sum as may be specified in the arrangements.

(6) The amount of any permissible payment shall be notified to the inspector not later than 12 months after the date at which the accounts of the business for that underwriting year are deemed by the Board to be closed for the purposes of the arrangements, and no permissible payment shall be made more than 30 days after the date on which the inspector has notified his agreement in writing or, if later, 30 days after the expiration of those 12 months.

(7) Where the underwriter carries on his business during part only of the year of assessment referred to in subsection (5) above, the maximum gross amount of the permissible payments shall be reduced by the application thereto of the proportion

which the part of that year of assessment for which he is entitled to profits from the business bears to a full year.

(8) In subsection (5) above "profit" means a profit computed in the manner in which the profits or gains of the business of the underwriting year in question would fall to be computed under Case I of Schedule D if—

(a) income arising from the investments forming part of the premiums trust fund of the underwriter, his special reserve fund or funds and any other fund required or authorised by the rules of Lloyd's or required by the underwriting agent through whom the business or any part thereof is carried on, to be kept in connection with the business fell to be taken into account; and

(b) all shares of the profits of the business and all charges related to those profits or to the income mentioned in paragraph (a) above, being shares and charges payable to persons other than the underwriter and not otherwise taken into account, fell to be deducted.

In paragraph (a) above "income" includes annual profits or gains chargeable to tax by virtue of section 714(2) or 716(3).

453 Payments into premiums trust fund on account of losses

(1) The arrangements must be such as to secure that, if it is certified that the underwriter has sustained a loss in his business for an underwriting year subsequent to that which corresponds to the first year of assessment to which section 452(5) applies, there shall be made into his premiums trust fund, out of the capital of his special reserve fund or funds, payments the gross amount of which is equal in the aggregate to the certified amount of the loss.

(2) If the capital of the underwriter's special reserve fund or funds, reduced by so much thereof as represents sums paid into it or them as a consequence of a profit for a year later than the year of the loss, is less than the net amount of the payments required to be made by subsection (1) above, those payments shall be reduced so that the net amount thereof is equal to the capital of the fund or funds as so reduced.

(3) In this section—

(a) "loss" means a loss computed in the manner in which the profits or gains of the business of the underwriting year in question would fall to be computed under section 452(8); and

(b) where, under any arrangement between the underwriter and another person which provides for the sharing of losses, any amount is paid to the underwriter by that person as that person's share of a loss for that year, the loss (as so computed) shall be reduced by that amount.

(4) In this section "certified" means certified by a certificate of the inspector, but—

(a) no certificate shall be given by the inspector until 30 days have elapsed from the date on which he has given notice to the underwriter or his personal representatives stating his intention to give a certificate and stating the amount which he proposes to specify as the amount of the loss;

(b) the underwriter or his personal representatives may, on giving notice to the inspector within that 30 day period, appeal to the Special Commissioners;

(c) where notice is so given by the underwriter or his personal representatives, the inspector shall not without the consent of the underwriter or his personal representatives give any certificate until after the hearing of the appeal; and

(d) on the hearing of the appeal, the Special Commissioners may direct the inspector not to give a certificate or to give it with such an amount specified as the amount of the loss as may be specified in the direction.

(5) The arrangements may authorise the making of payments pursuant to subsection (1) above on a provisional basis before the amount of the loss has been finally ascertained and certified by the inspector.

(6) The amount so withdrawn shall not exceed such proportion of the estimated loss as may be specified in the arrangements.

(7) When the amount of the loss has been certified by the inspector such adjustments shall be made by repayment to the underwriter's special reserve fund or funds, or by further withdrawal of sums for payment into the underwriter's premiums trust fund, as will secure that the net amount withdrawn from the underwriter's special reserve fund or funds in respect of the loss is that required pursuant to subsection (1) above; and no tax consequences shall ensue on the withdrawal of sums in respect of a loss until the amount of the loss has been so certified and any such adjustments have been made.

454 Income tax consequences on payments into and out of special reserve fund

(1) Where such a payment as is mentioned in section 452(5) is made into a special reserve fund of an underwriter by reason of the making by him of a profit for an underwriting year—

(a) subject to subsection (2) below, the payment shall be deemed to be an annual payment chargeable to income tax by way of deduction and payable and paid in the year of assessment corresponding to that underwriting year; and

(b) the sum actually paid shall be deemed for the purposes of sections 452 to 456 and for all income tax purposes to be a net amount corresponding to a gross amount from which income tax has been duly deducted.

(2) Subsection (1)(a) above—

(a) shall not reduce any income other than income derived from the underwriter's underwriting business or from any deposit made or assets held on trust in connection with that business; and

(b) subject to paragraph (a) above, shall reduce income other than investment income before reducing investment income.

(3) Where such a payment as is mentioned in section 453(1) is made out of a special reserve fund of an underwriter into a premiums trust fund of his by reason that he has sustained a loss for an underwriting year then, subject to section 453(7)—

(a) the payment shall be deemed for all income tax purposes—

(i) to be an annual payment chargeable to income tax by way of deduction and paid out of profits or gains brought into charge to income tax; and

(ii) to have been payable and paid to the underwriter; and

(iii) to have been payable and paid to him on the last day of the year of assessment corresponding to that underwriting year or, if he ceased to carry on his business before that day, on the last day on which he carried on his business; and

(b) the sum actually paid shall be deemed for the purposes of sections 452 to 456 and for all income tax purposes to be a net amount corresponding to a

gross amount from which income tax has been duly deducted for the year of assessment in which the payment is so deemed to have been payable and paid.

(4) Where such a payment as is mentioned in section 453(1) is made out of a special reserve fund of an underwriter by reason that he has sustained a loss, relief in respect of the loss shall, so far as possible, be given by treating the loss as reducing the income represented by the payment.

(5) Where the underwriter ceases to carry on his business before his death and under so much of the arrangements as gives effect to section 452(4)(b) a sum is paid to him or his personal representatives or assigns—

(a) the payment shall be deemed for all income tax purposes—

(i) to be an annual payment chargeable to income tax by way of deduction and paid out of profits or gains brought into charge to income tax; and

(ii) to have been payable and paid to the underwriter; and

(iii) to have been payable and paid to him on the last day on which he carried on his business; and

(b) the sum actually paid shall be deemed for the purposes of sections 452 to 456 and for all income tax purposes to be a net amount corresponding to a gross amount from which income tax has been duly deducted.

(6) Neither the arrangements, nor any disposition, trust, covenant, agreement or arrangement entered into for the purposes of the arrangements, shall be treated as included in the expression "settlement" for the purposes of Chapter III or IV of Part XV.

455 Income tax consequences on death of underwriter

(1) In this section "the lower limit" means the limit which would be imposed by section 452(5) if the words "£5,000 or 35 per cent. of that profit, whichever is the less" stood in that subsection in place of the words "£7,000 or 50 per cent. of that profit, whichever is the less".

(2) Where an underwriter dies while carrying on his business and, after giving effect to the requirements of section 453, his special reserve fund or funds include an amount which represents an excess in the payments made into the fund or funds for any underwriting year over the lower limit—

(a) he shall be deemed for all income tax purposes to have received in the year of assessment corresponding to that underwriting year a payment of that amount—

(i) which was an annual payment chargeable to income tax by way of deduction and paid out of profits or gains brought into charge to income tax, and

(ii) which was payable in the year of assessment in which it is deemed to have been paid, and

(b) the payment (to that actual amount) shall be deemed for the purposes of sections 452 to 456 and for all income tax purposes to be a net amount corresponding to a gross amount from which tax has been duly deducted.

(3) Where, to give effect to the requirements of section 453 as to the meeting of a loss, any withdrawal was made at any time from the capital of the underwriter's special

reserve fund or funds, the amount withdrawn shall be regarded for the purposes of subsection (2) above—

(a) as having been met out of payments made into the fund or funds for underwriting years before that in which the loss was incurred, and as having been met before any withdrawal to meet a loss for a later underwriting year; and

(b) as having been met out of so much of the payments made for any underwriting year as was not in excess of the lower limit, rather than out of such part of the payments made for any underwriting year as was in excess of the lower limit; and

(c) subject to that, as having been met out of payments in excess of the lower limit for a later year rather than out of payments in excess of the lower limit for an earlier year;

and, where payments have been made into the underwriter's special reserve fund or funds for any underwriting year in excess of the lower limit, his fund or funds shall be deemed at all subsequent times to include an amount representing that excess except to the extent that any withdrawal is, under the provisions of this subsection, to be regarded as having been met out of that amount.

(4) Any tax chargeable by virtue of this section shall be assessed and charged upon the underwriter's personal representatives and tax so charged shall be a debt due from and payable out of his estate; and, notwithstanding section 34(1) of the Management Act (which requires assessments to be made not later than six years after the end of the year to which they relate), assessments in respect of tax so chargeable may be made at any time not later than three years after the end of the year of assessment in which the underwriter died.

(5) References in this section to payments made into a special reserve fund or funds for any underwriting year are references to payments made, as described in section 452(5), by reference to the profits made for that underwriting year.

456 Unearned income, variation of arrangements and cancellation of approval etc

(1) So much of an underwriter's income as is attributable to payments from his special reserve fund or to such an excess as is mentioned in section 455 shall (so far as remaining after allowing for any relief by which it is reduced) be treated as unearned income if, but only if, his income from his underwriting business falls to be so treated.

(2) Where, as a result of a change in the circumstances in which an underwriting business is carried on, an underwriter's income from the business falls to be treated as unearned income, the change shall be disregarded for the purposes of subsection (1) above except to the extent that the special reserve fund represents payments made into it after the change; and for this purpose any amount withdrawn after the change to give effect to the requirements of section 453 shall, so far as possible and notwithstanding section 455(3), be regarded as having been met by payments into the fund made after the change.

(3) The arrangements may from time to time be varied with the consent of the Board and the Secretary of State.

(4) If, after giving notice of their intention so to do to the Council of Lloyd's, the Board or the Secretary of State cancel the approval or certificate which they have or he has given with respect to the arrangements, section 452(5) to (9) shall not apply, in the case

of any underwriter, to any year of assessment after the year of assessment in which the approval or certificate is cancelled.

457 Interpretation of sections 450 to 456

(1) In sections 450 to 456—

"arrangements" means any such arrangements as are referred to in section 452(1);

"business", in relation to an underwriter, means his underwriting business as a member of Lloyd's, whether carried on personally or through an underwriting agent, and does not include any other business carried on by him, and in particular, where he is himself an underwriting agent, does not include his business as such an agent;

"member" means an underwriting member of Lloyd's;

"net amount" and "gross amount", in relation to any payment, mean respectively the sum actually paid and the sum which, after deduction of income tax, is equal to the sum actually paid;

"premiums trust fund" means such a trust fund as is referred to in section 83 of the Insurance Companies Act 1982;

"underwriting year" means the calendar year.

(2) For the purpose of construing any reference in sections 450 to 456 to the year of assessment which corresponds to an underwriting year or to the underwriting year which corresponds to a year of assessment, an underwriting year and a year of assessment shall be deemed to correspond to each other if the underwriting year ends in the year of assessment.

Capital redemption business

458 Capital redemption business

(1) Where any person carries on capital redemption business in conjunction with business of any other class, the capital redemption business shall, for the purposes of the Corporation Tax Acts (including the provisions about corporation tax on chargeable gains) and the Income Tax Acts, be treated as a separate business from any other class of business carried on by that person.

(2) In ascertaining whether and to what extent any person has incurred a loss on his capital redemption business for the purposes of section 380 or sections 393 and 394—

(a) any profits derived from investments held in connection with the capital redemption business (including franked investment income of a company resident in the United Kingdom) shall be treated as part of the profits of that business, and

(b) in determining whether any, and if so what, relief can be given under section 385(4) in the case of capital redemption business, the loss which may be carried forward under subsection (1) of that section shall be similarly computed.

(3) In this section "capital redemption business" means the business (not being life assurance business or industrial assurance business) of effecting and carrying out contracts of insurance, whether effected by the issue of policies, bonds or endowment

certificates or otherwise, whereby, in return for one or more premiums paid to the insurer, a sum or a series of sums is to become payable to the insured in the future.

(4) This section shall not apply to any capital redemption business in so far as it consists of carrying out contracts of insurance effected before 1st January 1938.

CHAPTER II

FRIENDLY SOCIETIES, TRADE UNIONS AND EMPLOYERS' ASSOCIATIONS

Unregistered friendly societies

459 Exemption from tax

An unregistered friendly society whose income does not exceed £160 a year shall, on making a claim, be entitled to exemption from income tax and corporation tax (whether on income or chargeable gains).

Registered friendly societies

460 Exemption from tax in respect of life or endowment business

(1) Subject to subsection (2) below, a registered friendly society shall, on making a claim, be entitled to exemption from income tax and corporation tax (whether on income or chargeable gains) on its profits arising from life or endowment business.

(2) Subsection (1) above—

(a) shall not, subject to section 462, exempt a friendly society registered after 31st December 1957 which at any time in the period of three months ending 3rd May 1966 entered into any transaction in return for a single premium, being a transaction forming part of its life or endowment business;

(b) shall not apply to profits arising from pension business;

(c) shall not apply to profits arising from life or endowment business consisting—

(i) where the profits relate to contracts made after 31st August 1987, of the assurance of gross sums under contracts under which the total premiums payable in any period of 12 months exceed £100 or of the granting of annuities of annual amounts exceeding £156;

(ii) where the profits relate to contracts made after 13th March 1984 but before 1st September 1987, of the assurance of gross sums exceeding £750 or of the granting of annuities of annual amounts exceeding £156;

(iii) where the profits relate to contracts made before 14th March 1984, of the assurance of gross sums exceeding £500 or of the granting of annuities of annual amounts exceeding £104; and

(d) as respects other life or endowment business ("tax exempt life or endowment business"), has effect subject to the following provisions of this Chapter.

(3) In determining for the purposes of subsection (2)(c)(i) above the total premiums payable in any period of 12 months—

(a) where those premiums are payable more frequently than annually, there shall be disregarded an amount equal to 10 per cent. of those premiums; and

(b) so much of any premium as is charged on the ground that an exceptional risk of death is involved shall be disregarded;

and in applying the limit of £156 in subsection (2)(c)(i) above, any bonus or addition declared upon an annuity shall be disregarded.

(4) In applying the limits referred to in subsection (2)(c)(ii) and (iii) above, any bonus or addition which either is declared upon an assurance of a gross sum or annuity or accrues upon such an assurance by reference to an increase in the value of any investments shall be disregarded.

(5) A registered friendly society is within this subsection if its rules make no provision for it to carry on life or endowment business consisting of the assurance of gross sums exceeding £2,000 or of the granting of annuities of annual amounts exceeding £416.

(6) In the case of a registered friendly society within subsection (5) above—

(a) subsection (2)(c)(iii) above shall have effect with the substitution of references to £2,000 and £416 respectively for the references to £500 and £104; and

(b) references in this Chapter to tax exempt life or endowment business shall be construed accordingly.

(7) Where at any time a registered friendly society within subsection (5) above amends its rules so as to cease to be within that subsection, any part of its life or endowment business consisting of business which—

(a) relates to contracts made before that time; and

(b) immediately before that time was tax exempt life or endowment business,

shall thereafter continue to be tax exempt life or endowment business for the purposes of this Chapter.

(8) Where at any time a registered friendly society not within subsection (5) above amends its rules so as to bring itself within that subsection, any part of its life or endowment business consisting of business which—

(a) related to contracts made before that time; and

(b) immediately before that time was not tax exempt life or endowment business,

shall thereafter continue not to be tax exempt life or endowment business for the purposes of this Chapter.

(9) Where at any time a registered friendly society not within subsection (5) above acquires by way of transfer of engagements or amalgamation from another registered friendly society any life or endowment business consisting of business which—

(a) relates to contracts made before that time; and

(b) immediately before that time was tax exempt life or endowment business,

that business shall thereafter continue to be tax exempt life or endowment business for the purposes of this Chapter.

(10) Where at any time a registered friendly society within subsection (5) above acquires by way of transfer of engagements or amalgamation from another registered friendly society any life or endowment business consisting of business which—

(a) relates to contracts made before that time; and

(b) immediately before that time was not tax exempt life or endowment business,

that business shall thereafter continue not to be tax exempt life or endowment business for the purposes of this Chapter.

(11) Where at any time a registered friendly society ceases by virtue of section 84 of the Friendly Societies Act 1974 or by virtue of section 72 of the Friendly Societies Act (Northern Ireland) 1970 (conversion into company) to be registered under that Act, any part of its life or endowment business consisting of business which—

(a) relates to contracts made before that time; and

(b) immediately before that time was tax exempt life or endowment business,

shall thereafter continue to be tax exempt life or endowment business for the purposes of this Chapter.

(12) For the purposes of the Corporation Tax Acts any part of a company's business which continues to be tax exempt life or endowment business by virtue of subsection (11) above shall be treated as a separate business from any other business carried on by the company.

461 Taxation in respect of other business

(1) Subject to the following provisions of this section, a registered friendly society other than a society to which subsection (2) below applies shall, on making a claim, be entitled to exemption from income tax and corporation tax (whether on income or chargeable gains) on its profits other than those arising from life or endowment business.

(2) This subsection applies to any society registered after 31st May 1973 unless—

(a) its business is limited to the provision, in accordance with the rules of the society, of benefits for or in respect of employees of a particular employer or such other group of persons as is for the time being approved for the purposes of this section by the registrar; or

(b) it was registered before 27th March 1974 and its rules limit the aggregate amount which may be paid by a member by way of contributions and deposits to not more than £1 per month or such greater amount as the registrar may authorise for the purposes of this section;

and also applies to any society registered before 1st June 1973 with respect to which a direction under subsection (8) below is in force.

(3) If a society to which subsection (2) above applies, after 26th March 1974 or such later date as may be specified in a direction under this section, makes a payment to a member in respect of his interest in the society and the payment is made otherwise than in the course of life or endowment business and exceeds the aggregate of any sums paid by him to the society by way of contributions or deposits, after deducting from that aggregate the amount of—

(a) any previous payment so made to him by the society after that date, and

(b) any earlier repayment of such sums paid by him,

the excess shall be treated for the purposes of corporation tax and income tax as a qualifying distribution.

(4) Where a registered friendly society—

(a) at any time ceases by virtue of section 84 of the Friendly Societies Act 1974 or by virtue of section 72 of the Friendly Societies Act (Northern Ireland) 1970 (conversion into company) to be registered under that Act; and

(b) immediately before that time was exempt from income tax or corporation tax on profits arising from any business carried on by it other than life or endowment business,

the company into which the society is converted shall be so exempt on its profits arising from any part of that business which relates to contracts made before that time so long as there is no increase in the scale of benefits which it undertakes to provide in the course of carrying on that part of its business.

(5) For the purposes of the Corporation Tax Acts any part of a company's business in respect of the profits from which the company is exempt by virtue of subsection (4) above shall be treated as a separate business from any other business carried on by the company.

(6) If—

(a) a friendly society registered before 1st June 1973 begins after 26th March 1974 to carry on business other than life or endowment business or, in the opinion of the registrar, begins to carry on business other than life or endowment business on an enlarged scale or of a new character; and

(b) it appears to the registrar, having regard to the restrictions imposed by this section on friendly societies registered later, that for the protection of the revenue it is expedient to do so;

he may serve a notice on the society referring to the provisions of this subsection and stating that he is considering the question whether, for the protection of the revenue, it is expedient to give a direction that subsection (2) above shall apply to the society as from the date of the notice.

(7) The registrar shall consider any representations or undertakings made or offered to him by the society within the period of one month from service of the notice, and if the society so requests shall afford it an opportunity of being heard by him not later than three weeks after the end of that period.

(8) If, after consideration of any such representations or undertakings, the registrar remains of the opinion that it is expedient to do so, he shall direct that subsection (2) above shall apply to the society as from the date of the notice, but subject to any further direction given by him cancelling that direction.

(9) A friendly society may, within one month from the giving of a direction under subsection (8) above, appeal against it to the court to which or person to whom it might appeal under section 92 of the Friendly Societies Act 1974 or section 81 of the Friendly Societies Act (Northern Ireland) 1970 against cancellation of its registration.

(10) For the purposes of this section a registered friendly society formed on the amalgamation of two or more friendly societies shall be treated as registered before 1st June 1973 if at the time of the amalgamation subsection (2) above did not apply to any of the societies amalgamated, but otherwise shall be treated as registered at that time.

462 Conditions for tax exempt business

(1) Subject to subsections (2) to (4) below, section 460(1) shall not apply to so much of the profits arising from tax exempt life or endowment business as is attributable to a policy which, by virtue of paragraph 6(2) of Schedule 15—

(a) is not a qualifying policy; and

(b) would not be a qualifying policy if all policies with other friendly societies were left out of account.

(2) Section 460(2)(a) and subsection (1) above shall not withdraw exemption under section 460(1) for profits arising from any part of a life or endowment business relating to contracts made not later than 3rd May 1966.

(3) If, with respect to a policy issued in respect of an insurance made on or after 1st June 1984 and before 19th March 1985 for the assurance of a gross sum, there is or has been an infringement of any of the conditions in paragraph 3(2) to (11) of Schedule 15, section 460(1) shall not apply to so much as is attributable to that policy of the profits of the registered friendly society or branch concerned which arise from tax exempt life or endowment business.

(4) Nothing in subsection (3) above shall be taken to affect the status of a policy as a qualifying policy.

463 Life or endowment business: application of the Corporation Tax Acts

Subject to section 460(1), the Corporation Tax Acts shall apply to the life or endowment business carried on by registered friendly societies in the same way as they apply to mutual life assurance business carried on by insurance companies, so however that the Treasury may by regulations provide that those Acts as so applied shall have effect subject to such modifications and exceptions as may be prescribed by the regulations, and those regulations may in particular require any part of any business to be treated as a separate business.

464 Maximum benefits payable to members

(1) Subject to subsections (2) and (3) below, a member of a registered friendly society or branch shall not be entitled to have at any time outstanding contracts with any one or more such societies or branches (taking together all such societies or branches throughout the United Kingdom) for the assurance of—

(a) more than £750 by way of gross sum under tax exempt life or endowment business;

(b) more than £156 by way of annuity under tax exempt life or endowment business.

In any case where the member's outstanding contracts were all made before 14th March 1984 this subsection shall have effect with the substitution for "£750" and "£156" of "£2,000" and "£416" respectively.

(2) Subsection (1)(a) above shall not apply as respects sums assured under contracts made after 31st August 1987.

(3) With respect to contracts for the assurance of gross sums under tax exempt life or endowment business, a member of a registered friendly society or branch shall not be entitled to have outstanding with any one or more such societies or branches (taking together all such societies or branches throughout the United Kingdom) contracts under which the total premiums payable in any period of 12 months exceed £100 unless all those contracts were entered into before 1st September 1987.

(4) In applying the limit in subsection (3) above, the premiums under any contract for an annuity which was made before 1st June 1984 by a new society shall be brought into account as if the contract were for the assurance of a gross sum.

(5) In applying the limits in this section there shall be disregarded—

(a) any bonus or addition which either is declared upon assurance of a gross sum or annuity or accrues upon such an assurance by reference to an increase in the value of any investments;

(b) any approved annuities as defined in section 620(9) or any policy of insurance or annuity contract by means of which the benefits to be provided under an occupational pension scheme as defined in section 51(3)(a) of the Social Security Act 1973 are secured;

(c) any increase in a benefit under a friendly society contract, as defined in section 6 of the Decimal Currency Act 1969, resulting from the adoption of a scheme prescribed or approved in pursuance of subsection (3) of that section; and

(d) so far as concerns the total premiums payable in any period of 12 months—

(i) 10 per cent. of the premiums payable under any contract under which the premiums are payable more frequently than annually; and

(ii) £10 of the premiums payable under any contract made before 1st September 1987 by a society which is not a new society; and

(iii) so much of any premium as is charged on the ground that an exceptional risk of death is involved.

(6) In applying the limits in this section in any case where a member has outstanding with one or more society or branch one or more contracts made after 13th March 1984 and one or more contracts made on or before that date, any contract for an annuity which was made before 1st June 1984 by a new society shall be regarded not only as a contract for the annual amount concerned but also as a contract for the assurance of a gross sum equal to 75 per cent. of the total premiums which would be payable under the contract if it were to run for its full term or, as the case may be, if the member concerned were to die at the age of 75 years.

(7) A registered friendly society or branch may require a member to make and sign a statutory declaration that the total amount assured under outstanding contracts entered into by that member with any one or more registered friendly societies or branches (taking together all such societies or branches throughout the United Kingdom) does not exceed the limits applicable by virtue of this section and that the total premiums under those contracts do not exceed those limits.

465 Old societies

(1) In this section "old society" means a friendly society which is not a new society.

(2) This section applies if, on or after 19th March 1985, an old society—

(a) begins to carry on tax exempt life or endowment business; or

(b) in the opinion of the Board begins to carry on such business on an enlarged scale or of a new character.

(3) If it appears to the Board, having regard to the restrictions placed on qualifying policies issued by new societies by paragraphs 3(1)(b) and (c) and 4(3)(b) of Schedule 15, that

for the protection of the revenue it is expedient to do so, the Board may give a direction to the old society under subsection (4) below.

(4) A direction under this subsection is that (and has the effect that) the old society to which it is given is to be treated for the purposes of this Act as a new society with respect to business carried on after the date of the direction.

(5) An old society to which a direction is given may, within 30 days of the date on which it is given, appeal against the direction to the Special Commissioners on the ground that—

(a) it has not begun to carry on business as mentioned in subsection (2) above; or

(b) that the direction is not necessary for the protection of the revenue.

466 Interpretation of Chapter II

(1) In this Chapter "life or endowment business" means any business within any of paragraphs (1), (2), (4) and (5) of Schedule 1 to the Friendly Societies Act 1974 or paragraphs 1, 2, 4 and 5 of Schedule 1 to the Friendly Societies Act (Northern Ireland) 1970, any pension business and any other life assurance business, but—

(a) shall not include the issue of a policy affording provision for sickness or other infirmity (whether bodily or mental) unless—

(i) it also affords assurance for a gross sum independent of sickness or other infirmity; and

(ii) not less than 60 per cent. of the amount of the premiums is attributable to the provision afforded during sickness or other infirmity; and

(iii) there is no bonus or addition which may be declared or accrue upon the assurance of the gross sum;

(b) shall not include the assurance of any annuity the consideration for which consists of sums obtainable on the maturity, or on the surrender, of any other policy of assurance issued by the friendly society, being a policy of assurance forming part of the tax exempt life or endowment business of the friendly society.

(2) In this Chapter—

"life assurance business" means the issue of, or the undertaking of liability under, policies of assurance upon human life, or the granting of annuities upon human life, not being industrial assurance business;

"new society" means a friendly society which was registered after 3rd May 1966 or which was registered in the period of three months ending on that date but which at no time earlier than that date carried on any life or endowment business;

"pension business" shall be construed in accordance with section 431;

"policy", in relation to life or endowment business, includes an instrument evidencing a contract to pay an annuity upon human life;

"registrar" means the Chief Registrar of Friendly Societies or, in the application of this Chapter to Scotland, the assistant registrar for Scotland or, in the application of this Chapter to Northern Ireland, the Registrar of Friendly Societies for Northern Ireland;

"tax exempt life or endowment business" has, subject to subsections (7) to (11) of section 460, the meaning given by subsection (2)(d) of that section, that is to say, it means (subject to those subsections) life or endowment

business other than business profits arising from which are excluded from subsection (1) of that section by subsection (2)(b) or (c) of that section (read, where appropriate, with subsection (6) of that section);

and references in sections 460 to 465 and this subsection to a friendly society include references to any branch of that friendly society.

(3) It is hereby declared that for the purposes of this Chapter (except where provision to the contrary is made) a registered friendly society formed on the amalgamation of two or more friendly societies is to be treated as different from the amalgamated societies.

(4) A registered friendly society formed on the amalgamation of two or more friendly societies shall, for the purposes of this Chapter, be treated as registered not later than 3rd May 1966 if at the time of the amalgamation—

(a) all the friendly societies amalgamated were registered friendly societies eligible for the exemption conferred by section 460(1); and

(b) at least one of them was not a new society;

or, if the amalgamation took place before 19th March 1985, the society was treated as registered not later than 3rd May 1966 by virtue of the proviso to section 337(4) of the 1970 Act.

Trade unions and employers' associations

467 Exemption for trade unions and employers' associations

(1) A trade union which is precluded by Act of Parliament or by its rules from assuring to any person a sum exceeding £3,000 by way of gross sum or £625 by way of annuity shall on making a claim be entitled—

(a) to exemption from income tax and corporation tax in respect of its income which is not trading income and which is applicable and applied for the purpose of provident benefits;

(b) to exemption from tax in respect of chargeable gains which are applicable and applied for the purpose of provident benefits.

(2) In this section "provident benefits" includes any payment, expressly authorised by the rules of the trade union, which is made to a member during sickness or incapacity from personal injury or while out of work, or to an aged member by way of superannuation, or to a member who has met with an accident, or has lost his tools by fire or theft, and includes a payment in discharge or aid of funeral expenses on the death of a member or the wife of a member or as provision for the children of a deceased member.

(3) In determining for the purposes of this section whether a trade union is by Act of Parliament or its rules precluded from assuring to any person a sum exceeding £625 by way of annuity, there shall be disregarded any approved annuities (as defined in section 620(9)).

(4) In this section "trade union" means—

(a) any trade union the name of which is entered in the list of trade unions maintained by the Registrar of Friendly Societies under section 8 of the Trade Union and Labour Relations Act 1974;

(b) any employers' association the name of which is entered in the list of employers' associations maintained by the Registrar of Friendly Societies under section 8 of the Trade Union and Labour Relations Act 1974 and which

on 30th September 1971 was a registered trade union for the purposes of section 338 of the 1970 Act; and

(c) the Police Federation for England and Wales, the Police Federation for Scotland, the Police Federation for Northern Ireland and any other organisation of persons in police service which has similar functions.

CHAPTER III

UNIT TRUST SCHEMES, DEALERS IN SECURITIES ETC.

Unit trust schemes

468 Authorised unit trusts

(1) In respect of income arising to the trustees of an authorised unit trust, and for the purposes of the provisions relating to relief for capital expenditure, the Tax Acts shall have effect as if—

(a) the trustees were a company resident in the United Kingdom; and

(b) the rights of the unit holders were shares in the company.

(2) The Tax Acts shall also have effect as if the aggregate amount shown in the accounts of the trust as income available for payment to unit holders or for investment were dividends on the shares referred to in subsection (1) above paid to them in proportion to their rights, the date of payment, in the case of income not paid to unit holders, being taken to be—

(a) the date or latest date provided by the terms of the authorised unit trust for any distribution in respect of the distribution period in question;

(b) if no date is so provided, the last day of the distribution period.

This subsection shall not apply to any authorised unit trust which is also an approved personal pension scheme (within the meaning of Chapter IV of Part XIV).

(3) References in the Corporation Tax Acts to a body corporate shall be construed in accordance with subsections (1) and (2) above, and section 234(3) and (4) shall apply with any necessary modifications.

(4) Section 75 shall apply in relation to an authorised unit trust whether or not it is an investment company within the meaning of section 130; and sums periodically appropriated for managers' remuneration shall be treated for the purposes of section 75 as sums disbursed as expenses of management.

(5) Subsection (1) above shall not apply in relation to an authorised unit trust under the terms of which the funds of the trust cannot be invested in such a way that income can arise to the trustees which will be chargeable to tax in the hands of the trustees otherwise than—

(a) under Schedule C as profits arising from United Kingdom public revenue dividends, or

(b) under Case III of Schedule D;

and in this subsection "United Kingdom public revenue dividends" means public revenue dividends payable in the United Kingdom (whether they are also payable outside the United Kingdom or not) out of the public revenue of the United Kingdom.

(6) In this section—

"authorised unit trust" means, as respects an accounting period, a unit trust scheme in the case of which an order under section 78 of the Financial Services Act 1986 is in force during the whole or part of that accounting period;

"distribution period" means a period beginning on or after 1st April 1987 over which income from the investments subject to the trusts is aggregated for the purposes of ascertaining the amount available for distribution to unit holders;

"unit holder" means a person entitled to a share of the investments subject to the trusts of a unit trust scheme; and

"unit trust scheme" has the same meaning as in section 469.

469 Other unit trusts

(1) This section applies to—

(a) any unit trust scheme that is not an authorised unit trust; and

(b) any authorised unit trust to which, by virtue of subsection (5) of section 468, that section does not apply,

except where the trustees of the scheme are not resident in the United Kingdom.

(2) Income arising to the trustees of the scheme shall be regarded for the purposes of the Tax Acts as income of the trustees (and not as income of the unit holders); and the trustees (and not the unit holders) shall be regarded as the persons to or on whom allowances or charges are to be made under the provisions of those Acts relating to relief for capital expenditure.

(3) For the purposes of the Tax Acts the unit holders shall be treated as receiving annual payments (made by the trustees under deduction of tax) in proportion to their rights.

This subsection shall not apply to any authorised unit trust which is also an approved personal pension scheme (within the meaning of Chapter IV of Part XIV).

(4) The total amount of those annual payments in respect of any distribution period shall be the amount which, after deducting income tax at the basic rate in force for the year of assessment in which the payments are treated as made, is equal to the aggregate amount shown in the accounts of the scheme as income available for payment to unit holders or for investment.

(5) The date on which the annual payments are treated as made shall be the date or latest date provided by the terms of the scheme for any distribution in respect of the distribution period in question, except that, if—

(a) the date so provided is more than 12 months after the end of the period; or

(b) no date is so provided,

the date on which the payments are treated as made shall be the last day of the period.

(6) In this section "distribution period" has the same meaning as in section 468, but—

(a) if the scheme does not make provision for distribution periods, then for the purposes of this section its distribution periods shall be taken to be successive

periods of 12 months the first of which began with the day on which the scheme took effect; and

(b) if the scheme makes provision for distribution periods of more than 12 months, then for the purposes of this section each of those periods shall be taken to be divided into two (or more) distribution periods, the second succeeding the first after 12 months (and so on for any further periods).

(7) In this section "unit trust scheme" has the same meaning as in the Financial Services Act 1986, except that the Treasury may by regulations provide that any scheme of a description specified in the regulations shall be treated as not being a unit trust scheme for the purposes of this section.

(8) Regulations under this section may contain such supplementary and transitional provisions as appear to the Treasury to be necessary or expedient.

(9) Sections 686 and 687 shall not apply to a scheme to which this section applies.

(10) Section 720(5) shall not apply in relation to profits or gains treated as received by the trustees of a scheme to which this section applies if or to the extent that those profits or gains represent accruals of interest (within the meaning of Chapter II of Part XVII) which are treated as income in the accounts of the scheme.

(11) This section shall have effect in relation to distribution periods beginning on or after 6th April 1987.

470 Transitional provisions relating to unit trusts

(1) Any transitional provisions contained in an order made under section 40(5) of the Finance Act 1987 appointing a day for the coming into force of subsections (1) and (2) of that section and made in connection therewith shall after the coming into force of this section have effect for the purposes of this Act as they had effect for the purposes of that section, with such modifications if any as may be necessary.

(2) If such an order as is mentioned in subsection (1) above has not been made before the coming into force of this Act, section 468 shall have effect with the substitution for the definition of "authorised unit trust" contained in subsection (6) of the following definition—

> "authorised unit trust" means, as respects any accounting period, a unit trust scheme in the case of which an order under section 17 of the Prevention of Frauds (Investments) Act 1958 or under section 16 of the Prevention of Frauds (Investments) Act (Northern Ireland) 1940 is in force during the whole or some part of that accounting period;

and sections 468 and 832 shall have effect with the omission of the definition of "unit trust scheme".

(3) If such an order as is mentioned in subsection (1) above has not been made before the coming into force of this Act, subsection (2) above shall cease to have effect on such day as the Board may by order appoint; and an order under this subsection may contain such transitional provisions as appear to the Board to be necessary or expedient.

Dealers in securities, banks and insurance businesses

471 Exchange of securities in connection with conversion operations, nationalisation etc

(1) If—

(a) any securities to which a person who is carrying on a trade which consists wholly or partly in dealing in securities is beneficially entitled are exchanged for other securities; and

(b) the exchange is one to which this section applies,

then, whether or not any additional consideration is given for the exchange but subject to subsection (2) below, that person shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both at the time of the exchange and thereafter, as if the exchange had not taken place, and in that case the produce of any subsequent realisation of any of the securities received by him under the exchange (together with any additional consideration, or the appropriate part of any additional consideration, received by him under the exchange) shall be treated as the produce of the realisation of the corresponding securities surrendered by or transferred from him under the exchange, or of a corresponding part thereof, as the case may be.

(2) Subsection (1) above shall not apply to any person who gives notice to the inspector not later than two years after the end of the chargeable period in which the exchange takes place that he desires not to be treated as mentioned in that subsection.

(3) The exchanges to which this section applies are—

(a) any exchange effected under any arrangement carried out under section 2 of the National Loans Act 1939 or section 14 of the National Loans Act 1968 if the Treasury direct, in pursuance of that arrangement, that this section shall apply to exchanges thereunder;

(b) any exchange of securities effected by section 1 of the Bank of England Act 1946; and

(c) any exchange of securities effected in pursuance of any enactment passed after 5th April 1946 which provides for the compulsory acquisition of any securities and the issue of other securities in lieu thereof, if the Treasury direct that this section shall apply to exchanges of securities effected in pursuance of that enactment.

(4) In this section "securities" includes shares, stock, bonds, debentures and debenture stock.

472 Distribution of securities issued in connection with nationalisation etc

(1) Where—

(a) in pursuance of any enactment passed after 5th April 1946 any securities are issued to any body corporate as, or as part of, the consideration for the compulsory acquisition of any property under that enactment; and

(b) that body corporate is wound up or the capital thereof is reduced or any bonds, debentures or debenture stock thereof are redeemed, and, in or in connection with the winding up, reduction of capital or redemption, all or any of the securities so issued are distributed to holders of securities of the body corporate ("the distributed securities"); and

(c) the Treasury direct that this section shall apply in relation to the distribution,

any person ("the dealer") who is carrying on a trade which consists wholly or partly in dealing in securities and is beneficially entitled to any securities ("the relevant securities") to the holders of which the distribution is made shall, in relation to that distribution, be treated for tax purposes in the manner specified in subsections (2) and (3) below, unless he gives notice to the inspector not later than two years after the end of the chargeable period in which the distribution takes place that he desires not to be so treated in relation to that distribution.

(2) If the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock is that the relevant securities to which the dealer is beneficially entitled are wholly extinguished without his receiving anything in respect thereof except the distributed securities, he shall be treated for tax purposes (except as regards any tax payable in respect of dividends or interest), both then and thereafter, as if neither the extinction nor the distribution had taken place but as if the produce of any subsequent realisation of any of the distributed securities were the produce of the realisation of the relevant securities or a corresponding part thereof, as the case may be.

(3) In any other case—

(a) the dealer shall be treated as having acquired the distributed securities at a cost equal to such proportion of the cost to him of the relevant securities as may be specified in the direction of the Treasury referred to in subsection (1) above and the question whether he has made any, and if so what, profit or suffered any, and if so what, loss on any subsequent realisation of the distributed securities shall be determined accordingly; and

(b) in considering whether he has, either as the result of the winding up, reduction of capital or redemption of bonds, debentures or debenture stock and the distribution of the securities, or on any subsequent realisation of any of the relevant securities, made any, and if so what, profit or suffered any, and if so what, loss in connection with the relevant securities, the distributed securities shall be left out of account and the cost to him of the relevant securities shall be deemed to be reduced by the amount of the cost at which, under paragraph (a) above, he is taken to have acquired the distributed securities.

(4) In this section "securities" includes shares, stock, bonds, debentures and debenture stock.

473 Conversion etc. of securities held as circulating capital

(1) Subsections (3) and (4) below shall have effect where a transaction to which this section applies occurs in relation to any securities ("the original holding")—

(a) to which a person carrying on a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is beneficially entitled; and

(b) which are such that a profit on their sale would form part of the trading profits of that business.

(2) This section applies to any transaction which, if the securities were not such as are mentioned in subsection (1)(b) above—

(a) would result in the original holding being equated with a new holding by virtue of sections 77 to 86 of the 1979 Act (capital gains tax roll-over relief in cases of conversion etc.); or

(b) would be treated by virtue of section 84 of that Act (compensation stock) as an exchange for a new holding which does not involve a disposal of the the original holding;

but does not apply to any transaction in relation to which section 471 applies or would apply if the person concerned had not given a notice under that section.

(3) Subject to subsection (4) below, in making any computation in accordance with the provisions of this Act applicable to Case I of Schedule D of the profits or losses of the business —

(a) the transaction shall be treated as not involving any disposal of the original holding, and

(b) the new holding shall be treated as the same asset as the original holding.

(4) Where under the transaction the person concerned receives or becomes entitled to receive any consideration in addition to the new holding, subsection (3) above shall have effect as if references to the original holding were references to the proportion of it which the market value of the new holding at the time of the transaction bears to the aggregate of that value and the market value at that time (or, if it is cash, the amount) of the consideration.

(5) Subsections (3) and (4) above shall have effect with the necessary modifications in relation to any computation made for the purposes of section 76(2) in a case where securities held by the company concerned are equated with a new holding by virtue of any of sections 77 to 86 of the 1979 Act or are treated as not disposed of by virtue of section 84 of that Act.

(6) In this section "securities" includes shares, any security within the meaning of section 82 of the 1979 Act and any rights, interests or options which by virtue of section 86(7), 93 or 139 of that Act are treated as shares for the purposes of sections 77 to 86 of that Act.

(7) In determining for the purposes of subsection (2)(a) above whether a transaction would result in the original holding being equated with a new holding by virtue of section 85 or 86 of the 1979 Act the reference in section 87(1) of that Act to capital gains tax shall be construed as a reference to income tax.

474 Treatment of tax-free income

(1) Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities is carried on in the United Kingdom by a person not resident there, then—

(a) in computing for any of the purposes of the Tax Acts the profits arising from, or loss sustained in, the business, and

(b) in the case of an insurance business, also in computing the profits or loss from pension business and general annuity business under section 436,

all interest, dividends and other payments whatsoever to which section 48 or 123(4) extends shall be included notwithstanding the exemption from tax conferred by those sections respectively.

In this subsection "securities" includes stocks and shares.

(2) Where a banking business, an insurance business or a business consisting wholly or partly in dealing in securities—

(a) is carried on in the United Kingdom by a person not ordinarily resident there, and

(b) in making any such computation as is referred to in subsection (1) above with respect to that business, any interest on any securities issued by the Treasury is excluded by virtue of a condition of the issue thereof regulating the treatment of the interest on those securities for tax purposes,

then any expenses attributable to the acquisition or holding of, or to any transaction in, the securities (but not including in those expenses any interest on borrowed money), and any profits or losses so attributable, shall also be excluded in making that computation.

475 Tax-free Treasury securities: exclusion of interest on borrowed money

(1) This section has effect where paragraphs (a) and (b) of section 474(2) apply to a business for any accounting period or year of assessment.

(2) Up to the amount determined under this section ("the amount ineligible for relief"), interest on money borrowed for the purposes of the business—

(a) shall be excluded in any computation under the Tax Acts of the profits (or losses) arising from the business or, where subsection (6) below applies, arising from any annuity business forming part of the life assurance business, and

(b) shall be excluded from the definition of "charges on income" in section 338.

(3) Subject to subsection (4) below, in determining the amount ineligible for relief, account shall be taken of all money borrowed for the purposes of the business which is outstanding in the accounting or basis period, up to the total cost of the tax-free Treasury securities held for the purpose of the business in that period.

(4) Where the person carrying on the business is a company, account shall not be taken of any borrowed money carrying interest which, apart from subsection (2) above, does not fall to be included in the computations under paragraph (a) of that subsection, and is not to be treated as a charge on income for the purposes of the Corporation Tax Acts.

(5) Subject to subsection (6) below, the amount ineligible for relief shall be equal to a year's interest on the amount of money borrowed which is to be taken into account under subsection (3) above at a rate equal to the average rate of interest in the accounting or basis period on money borrowed for the purposes of the business, except that in the case of a period of less than 12 months interest shall be taken for that shorter period instead of for a year.

(6) Where relief for expenses of management is to be granted to an insurance company for any accounting period, and that relief falls to be reduced under section 445(8)(b) (by applying the fraction which is investment income of the life assurance fund other than income from tax-free Treasury securities divided by that total investment income)—

(a) the amount ineligible for relief shall be a fraction of the amount of interest in the accounting period on money borrowed for the purposes of the business; and

(b) that fraction shall be the fraction which is income from tax-free Treasury securities divided by total investment income of the life assurance fund (that is to say, one minus the fraction to be applied under section 445(8)(b)).

(7) In this section "tax-free Treasury securities" means securities issued by the Treasury with a condition regulating the treatment of the interest thereon for income tax or corporation tax purposes such that interest on the securities is excluded in computing the income or profits.

(8) For the purposes of this section the cost of a holding of tax-free Treasury securities which has fluctuated in the accounting or basis period shall be the average cost of acquisition of the initial holding, and of any subsequent acquisitions in the accounting or basis period, applied to the average amount of the holding in the accounting or basis period, and this subsection shall be applied separately to securities of different classes.

(9) In this section "accounting or basis period" means the company's accounting period or the period by reference to which the profits or gains arising in the year of assessment are to be computed.

CHAPTER IV

BUILDING SOCIETIES, BANKS, SAVINGS BANKS, INDUSTRIAL AND PROVIDENT SOCIETIES AND OTHERS

476 Building societies: regulations for payment of tax

(1) The Board may by regulations make provision with respect to any year of assessment requiring building societies, on such sums as may be determined in accordance with the regulations (including sums paid or credited before the beginning of the year but not previously brought into account under this subsection), to account for and pay an amount representing income tax calculated in part at the basic rate and in part at the reduced rate determined for the year of assessment concerned under section 483(1)(a); and in this section and section 477 such sums are referred to as "aggregate rate sums".

(2) Regulations under subsection (1) may contain such incidental and consequential provisions as appear to the Board to be appropriate, including provisions requiring the making of returns.

(3) For any year of assessment to which regulations under subsection (1) above apply, dividends or interest payable in respect of shares in, or deposits with or loans to, a building society shall be dealt with for the purposes of corporation tax as follows—

(a) in computing for any accounting period ending in the year of assessment the income of the society from the trade carried on by it, there shall be allowed as a deduction the actual amount paid or credited in the accounting period of any such dividends or interest, together with any amount accounted for and paid by the society in respect thereof as representing income tax;

(b) in computing the income of a company which is paid or credited in the year of assessment with any such dividends or interest which are aggregate rate sums, the company shall—

(i) be treated as having received an amount which, after deduction of income tax, is equal to the amount paid or credited, and

(ii) be entitled to a set-off or repayment of income tax accordingly;

(c) no part of any such dividends or interest paid or credited in the year of assessment shall be treated as a distribution of the society or as franked investment income of any company resident in the United Kingdom.

(4) Nothing in section 326 shall be taken as affecting subsection (3)(a) above and that paragraph shall apply to any terminal bonus paid by the society under a certified contractual savings scheme as if it were a dividend on a share in the society.

(5) Except in so far as regulations under subsection (1) above otherwise provide, for any year of assessment to which such regulations apply—

(a) notwithstanding anything in sections 348 to 350, income tax shall not be deducted from any dividends or interest payable in that year in respect of shares in or deposits with or loans to a building society;

(b) subject to subsections (3)(b), (6) and (7) of this section, no repayment of income tax and no assessment to income tax shall be made in respect of any such dividends or interest to or on the person receiving or entitled to the dividends or interest;

(c) any amounts paid or credited in respect of any such dividends or interest shall in computing the total income of an individual entitled thereto be treated as income for that year received by him after deduction of income tax from a corresponding gross amount;

(d) subject to section 7(1), the amounts so paid or credited (and no more) shall, in applying sections 348 and 349(1) to other payments, be treated as profits or gains which have been brought into charge to income tax.

(6) Subsection (5)(b) above shall not prevent an assessment in respect of income tax at a rate other than the basic rate.

(7) Subsection (5)(b) above shall not apply to sums which are payable to exempt pension funds and which are aggregate rate sums; but the amounts paid or credited in respect of such sums shall be treated as paid or credited after deduction of income tax from a corresponding gross amount.

In this subsection "exempt pension fund" means any fund or scheme in the case of which provision is made by section 592(2), 613(4), 614(1), (2) or (3), 620(6) or 643(2) for exempting the whole or part of its income from income tax.

(8) For the purpose of determining whether any or what amount of tax is, by virtue of subsection (5)(c) above, to be taken into account as having been deducted from a gross amount in the case of an individual whose total income is reduced by any deductions, so much only of that gross amount shall be taken into account as is part of his total income as so reduced.

(9) Notwithstanding anything in sections 348 to 350, for any year of assessment to which regulations under subsection (1) above apply income tax shall not be deducted upon payment to the society of any interest on advances, being interest payable in that year.

(10) Subsection (9) above shall not apply to any payment of relevant loan interest to which section 369 applies.

(11) In this section "dividend" has the meaning given by regulations under subsection (1) above, but any sum which is paid by a building society by way of dividend and which is not an aggregate rate sum shall be treated for the purposes of Schedule D as paid by way of interest.

477 Investments becoming or ceasing to be relevant building society investments

(1) Where a building society investment which is a source of income of any person ("the lender") is not a relevant building society investment but at any time becomes such an investment, section 67 shall apply as if the investment were a source of income which the lender ceased to possess immediately before that time.

(2) Where a building society investment which is a source of income of any person ceases at any time to be a relevant building society investment, section 66(3) shall apply as if the investment were a new source of income acquired by him immediately after that time.

(3) In this section "building society investment" does not include a quoted Eurobond (as defined in section 124(1)) but, subject to that, means any share in, deposit with or loan to a building society; and for the purposes of this section a building society investment is relevant if dividends or interest payable in respect of it are aggregate rate sums.

478 Building societies: time for payment of tax

(1) This section shall apply, in place of the provisions of section 10, with respect to any accounting period ending before 6th April 1990 of a building society to which section 344 of the 1970 Act applied immediately before the coming into force of this Act.

(2) Where this section applies to a building society, then —

(a) corporation tax assessed on the society for any accounting period shall be paid within 30 days from the date of the issue of the notice of assessment, except that if the society's basis period for the year 1965-66 did not extend into the year 1966, the tax shall not be payable before the like time after the last day of the accounting period as 1st January 1966 is after the last day of that basis period; but

(b) if corporation tax has not become payable by the society for an accounting period by the like time from the beginning of that period as there is between the beginning of the society's basis period for the year 1965-66 and 1st January 1966, the society shall at that time from the beginning of the accounting period make a provisional payment of tax computed on the amount on which the society is chargeable to corporation tax for the accounting period last ended with such adjustments, if any, as may be required for periods of different length or as may be agreed between the society and the inspector.

(3) References in section (2) above to a society's basis period for the year 1965-66 are references to the period by reference to which the society was assessed to income tax for that year under arrangements entered into under section 445 of the Income Tax Act 1952.

(4) Where, by virtue of subsection (2)(a) above, corporation tax assessed on a building society in respect of a 1989 accounting period would, apart from this subsection, be payable by a date which is earlier than the end of the period of two months from the end of that accounting period, the tax shall be payable within that period of two months.

(5) If, apart from this subsection, the date on which, under subsection (2)(b) above, a building society would be required to make a provisional payment of corporation tax for a 1989 accounting period would fall before the end of the period of two months from the end of that accounting period, that date shall be postponed until the end of that period of two months.

(6) With respect to a 1989 accounting period of a building society to which subsection (4) above applies, in section 825(8)(b) of this Act and paragraph 5(c) in the second column of the Table in section 86(4) of the Management Act (the reckonable date for interest on overdue tax), the reference to the time limit imposed by section (2)(a) above shall be construed as a reference to the limit imposed by subsection (4) above.

(7) In subsections (4) to (6) above a "1989 accounting period" means an accounting period ending in the year 1989-90.

479 Interest paid on deposits with banks etc

(1) Any deposit-taker making a payment of interest in respect of a relevant deposit shall be liable to account for and pay an amount representing income tax on that payment, calculated by applying the composite rate (determined in accordance with section 483) to the grossed-up amount of the payment, that is to say, to the amount which after deduction of tax at the composite rate would be equal to the amount actually paid.

(2) Where in relation to any payment of interest a deposit-taker is liable to account for and pay an amount under subsection (1) above—

(a) subject to subsection (3) below, no assessment to income tax shall be made on, and no repayment of income tax shall be made to, the person receiving or entitled to the payment in respect of it;

(b) the payment shall, in computing the total income of the person entitled to it, be treated as income for that year received by him after deduction of income tax at the basic rate from a corresponding gross amount; and

(c) the payment (and no more) shall, in applying sections 348 and 349 to other payments, be treated as profits or gains which have been brought into charge to income tax.

(3) Subsection (2)(a) above shall not prevent an assessment in respect of income tax at a rate other than the basic rate.

(4) For the purpose of determining whether any or what amount of tax is, by virtue of subsection (2)(b) above, to be taken into account as having been deducted from a gross amount in the case of an individual whose total income is reduced by any deductions, so much only of that gross amount shall be taken into account as is part of his total income as so reduced.

(5) Any payment of interest in respect of which an amount is payable under subsection (1) above shall be a relevant payment for the purposes of Schedule 16 whether or not the deposit-taker making the payment is resident in the United Kingdom.

(6) Schedule 16 shall apply in relation to any payment which is a relevant payment by virtue of subsection (5) above—

(a) with the substitution for any reference to a company of a reference to a deposit-taker;

(b) as if any amount payable under subsection (1) above were payable as income tax;

(c) as if paragraph 5 applied only in relation to payments received by the deposit-taker and falling to be taken into account in computing his income chargeable to corporation tax; and

(d) as if in paragraph 7 the reference to section 7(2) included a reference to sections 11(3) and 349(1).

(7) In relation to any deposit-taker who is not a company, Schedule 16 shall have effect as if—

(a) paragraph 5 were omitted; and

(b) references to accounting periods were references to periods for which the deposit-taker makes up his accounts.

480 Deposits becoming or ceasing to be composite rate deposits

(1) Where a deposit which is a source of income of any person ("the lender") is not a composite rate deposit but at any time becomes such a deposit, section 67 shall apply as if the deposit were a source of income which the lender ceased to possess immediately before it became a composite rate deposit.

(2) Section 67 shall apply in relation to a deposit which became a composite rate deposit on 6th April 1985 with the omission from subsection (1)(b) of the words from "and shall" to "this provision".

(3) Where a deposit which is a source of income of any person ceases to be a composite rate deposit, section 66(3) shall apply as if the deposit were a new source of income acquired by him immediately after it ceased to be a composite rate deposit.

(4) For the purposes of this section a deposit is at any time a composite rate deposit if, were the person holding it to make a payment of interest in respect of it at that time, he would be liable to account for and pay an amount on that payment under section 479(1).

481 "Deposit-taker", "deposit" and "relevant deposit"

(1) In this section "the relevant provisions" means sections 479 and 480, this section and section 482.

(2) In the relevant provisions "deposit-taker" means any of the following—

(a) the Bank of England;

(b) any institution authorised under the Banking Act 1987 or municipal bank within the meaning of that Act;

(c) the Post Office;

(d) any company to which property and rights belonging to a trustee savings bank were transferred by section 3 of the Trustee Savings Bank Act 1985;

(e) any bank formed under the Savings Bank (Scotland) Act 1819; and

(f) any person or class of person who receives deposits in the course of his business or activities and which is for the time being prescribed by order made by the Treasury for the purposes of this paragraph.

(3) In the relevant provisions "deposit" means a sum of money paid on terms under which it will be repaid with or without interest and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person to whom it is made.

(4) For the purposes of the relevant provisions a deposit is a relevant deposit if, but only if—

(a) the person who is beneficially entitled to any interest in respect of the deposit is an individual or, where two or more persons are so entitled, all of them are individuals; or

(b) in Scotland, the person who is so entitled is a partnership all the partners of which are individuals; or

(c) the person entitled to any such interest receives it as a personal representative in his capacity as such;

and the deposit is not prevented from being a relevant deposit by subsection (5) below.

(5) A deposit is not a relevant deposit if—

(a) a qualifying certificate of deposit has been issued in respect of it or it is a qualifying time deposit;

(b) it is a debt on a debenture ("debenture" having the meaning given in section 744 of the Companies Act 1985) issued by the deposit-taker;

(c) it is a loan made by a deposit-taker in the ordinary course of his business or activities;

(d) it is a debt on a security which is listed on a recognised stock exchange;

(e) it is a general client account deposit;

(f) it forms part of a premiums trust fund (within the meaning of section 457) of an underwriting member of Lloyd's;

(g) it is made by a Stock Exchange money broker (recognised by the Bank of England) in the course of his business as such a broker;

(h) in the case of a deposit-taker resident in the United Kingdom for the purposes of income tax or corporation tax, it is held at a branch of his situated outside the United Kingdom;

(j) in the case of a deposit-taker who is not so resident, it is held otherwise than at a branch of his situated in the United Kingdom; or

(k) the appropriate person has declared in writing to the deposit-taker liable to pay interest in respect of the deposit that—

(i) at the time when the declaration is made, the person who is beneficially entitled to the interest is not, or, as the case may be, all the persons who are so entitled are not, ordinarily resident in the United Kingdom;

(ii) in a case falling within subsection (4)(c) above the deceased was, immediately before his death, not ordinarily resident in the United Kingdom.

(6) The Treasury may by order make amendments in this section and sections 479(2) to (7), 480 and 482 providing for deposits of a kind specified in the order to be or, as the case may be, not to be relevant deposits in relation to all deposit-takers or such deposit-takers or classes of deposit-takers as may be so specified.

482 Supplementary provisions

(1) For the purposes of sections 479, 480 and 481 and this section, any amount which is credited as interest in respect of a relevant deposit shall be treated as a payment of interest.

(2) A declaration under section 481(5)(k) shall—

(a) if made under sub-paragraph (i), contain an undertaking by the person making it that if the person, or any of the persons in respect of whom it is made, becomes ordinarily resident in the United Kingdom he will notify the deposit-taker accordingly; and

(b) in any case, be in such form as may be prescribed or authorised, and contain such information as may reasonably be required, by the Board.

(3) A deposit-taker shall, on being so required by notice given to him by an inspector, make all declarations which have been made to him under section 481(5) available for inspection by the inspector or by a named officer of the Board.

(4) Where a notice has been given to a deposit-taker under subsection (3) above, the declarations shall be made available within such time as may be specified in the notice, and the person to whom they are to be made available may take copies of or extracts from them.

(5) A deposit-taker shall treat every deposit made with him as a relevant deposit unless satisfied that it is not a relevant deposit, but where he has satisfied himself that a deposit is not a relevant deposit he shall be entitled to continue to so treat it until such time as he is in possession of information which can reasonably be taken to indicate that the deposit is or may be a relevant deposit.

(6) In section 481(5)—

"appropriate person", in relation to a deposit, means any person who is beneficially entitled to any interest in respect of the deposit or entitled to receive any such interest as a personal representative in his capacity as such or to whom any such interest is payable;

"general client account deposit" means a deposit, held by the deposit-taker in a client account (other than one which is identified by the deposit-taker as one in which sums are held only for one or more particular clients of the person whose account it is) in respect of which that person is required by provision made under any enactment to make payments representing interest to some or all of the clients for whom, or on whose account, he received the sums deposited in the account;

"qualifying certificate of deposit" means a certificate of deposit, as defined in section 56(5), which is issued by a deposit-taker and under which—

(a) the amount payable by the deposit-taker, exclusive of interest, is not less than £50,000 (or, for a deposit denominated in foreign currency, not less than the equivalent of £50,000 at the time when the deposit is made); and

(b) the obligation of the deposit-taker to pay that amount arises after a period of not less than seven days beginning with the date on which the deposit is made; and

"qualifying time deposit" means a deposit which is made by way of loan for an amount which is not less than £50,000 (or, for a deposit denominated in foreign currency, not less than the equivalent of £50,000 at the time when the deposit is made) and on terms which—

(a) prevent repayment of the deposit before the expiry of the period of seven days beginning with the date on which the deposit is made, but which require repayment at the end of a specified period;

(b) do not make provision for the transfer of the right to repayment; and

(c) prevent partial withdrawals of, or additions to, the deposit.

In relation to deposits made before 20th May 1986 this subsection shall have effect with the substitution for "seven" of "28" (in both places).

(7) For the purposes of section 481(5)(h) and (j) a deposit is held at a branch of a deposit-taker if it is recorded in his books as a liability of that branch.

(8) A certificate of deposit, as defined in section 56(5), which was issued before 13th March 1984 on terms which provide for interest to be payable on the deposit at any time after 5th April 1985 (whether or not interest is payable on it before that date) shall, if it is not a qualifying certificate of deposit, be treated for the purposes of section 481(5) as if it were a qualifying certificate of deposit.

(9) Any deposit which was made before 6th July 1984 but which is not a qualifying time deposit shall, where it is made on terms which—

(a) do not make provision for the transfer of the right to repayment;

(b) prevent partial withdrawals of, or additions to, the deposit; and

(c) require—

(i) the deposit-taker to repay the sum at the end of a specified period which ends after 5th April 1985; or

(ii) in a case where interest is payable only at the time of repayment of the deposit, the deposit-taker to repay the sum on demand or on notice;

be treated for the purposes of section 481(5) as if it were a qualifying time deposit.

(10) An order under section 481(2)(f) may prescribe a person or class of person in relation to all relevant deposits or only in relation to relevant deposits of a kind specified in the order.

(11) The Board may by regulations make provision—

(a) requiring any declaration under section 481(5)(k)(i) which does not give the address of the person making it, to be supported by a certificate given by the deposit-taker concerned—

(i) in such form as may be prescribed or authorised by the Board; and

(ii) containing such information as may reasonably be required by the Board; and

(b) generally for giving effect to sections 479 to 481 and this section.

(12) Regulations under subsection (11) above or an order under section 481(6) may contain such incidental and consequential provision as appears to the Board or the Treasury, as the case may be, to be appropriate.

483 Determination of reduced rate for building societies and composite rate for banks etc

(1) In every year of assessment the Treasury shall by order determine a rate which shall, for the following year of assessment, be—

(a) the reduced rate for the purposes of section 476; and

(b) the composite rate for the purposes of section 479.

(2) The order made under subsection (1) above in each year of assessment shall—

(a) be made before 31st December in that year; and

(b) be based only on information relating to periods before the end of the year of assessment in which the order is made.

(3) Whenever they exercise their powers under this section the Treasury shall aim at securing that (assuming for the purposes of this subsection that the amounts payable by building societies under section 476 and by deposit-takers under section 479 are income tax) the total income tax becoming payable to, and not being repayable by, the

Crown is (when regard is had to the operation of those sections) as nearly as may be the same in the aggregate as it would have been if those sections had not been enacted.

(4) If the order made under section 26 of the Finance Act 1984 in the year 1987-88 is made in pursuance of subsection (4) of that section, that order shall, notwithstanding that that subsection is not re-enacted by this Act, apply for the purposes of sections 476 and 479 for the year 1988-89.

(5) For the purposes of enabling the Treasury to comply with the requirements of subsection (3) above, the Board may by notice require any deposit-taker (within the meaning of section 481) or building society to furnish to the Board such information about its depositors as the Board may reasonably require for those purposes.

In this subsection "depositors", in relation to a building society, includes shareholders.

484 Savings banks: exemption from tax

(1) Any savings bank other than a savings bank which is the successor or further successor to an existing trustee savings bank shall on making a claim be entitled to exemption from income tax and corporation tax in respect of the income of its funds to the extent that such income is applied in the payment or credit of interest to any depositor; but, subject to section 325, any such interest shall be chargeable under Case III of Schedule D.

(2) Any gain or loss accruing to a savings bank which is the successor to an existing trustee savings bank on a disposal of an exempt investment held by that existing bank on 21st November 1979, may, if that existing bank has so elected, be computed by reference to the cost of the investment instead of by reference to its market value on the latter date and, in the case of a loss, without any restriction under section 270(4) of the 1970 Act.

(3) In subsection (2) above the reference to an election is a reference to an election under paragraph 2(3) of Schedule 11 to the Finance Act 1980 (under which the election must have been by notice in writing given to the Board within two years after 21st November 1979, and has effect in relation to all exempt investments held by the bank on that date).

(4) Where a savings bank which is the successor to an existing trustee savings bank holds investments which include both exempt investments held by the existing bank on 21st November 1979 and other investments of the same class, any investments of that class which are disposed of by the successor shall be treated for the purposes of subsection (2) above as consisting of the other investments rather than of the exempt investments held on that date.

(5) In this section references to exempt investments held by an existing trustee savings bank on 21st November 1979 are to investments on the disposal of which immediately before that date no chargeable gain or allowable loss would have accrued to the bank by virtue of section 67 of the 1979 Act (gilt-edged securities held for more than a year).

(6) In this section "successor" and "existing", in relation to a trustee savings bank, have the meanings given by section 1 of the Trustee Savings Bank Act 1985, and "further successor" has the meaning given by paragraph 9 of Schedule 2 to that Act.

485 Savings banks: supplemental

(1) Where the business of a trustee savings bank has been transferred to another trustee savings bank after 21st November 1979 and before the day which was the vesting day for the purposes of the Trustee Savings Bank Act 1985—

(a) any exempt investment which was held on that date by the first bank and was transferred with the business shall be treated for the purposes of section 484 in its application to any savings bank which is the successor to the second bank as if it had been held on that date by the second bank but without prejudice to any election made in respect of the investment by the first bank under sub-paragraph (3) of paragraph 2 of Schedule 11 to the Finance Act 1980; and

(b) the cost of the investment shall be taken for the purposes of that sub-paragraph as equal to the cost of the investment to the first bank.

(2) Where the business of a trustee savings bank was transferred to another trustee savings bank before 21st November 1979 the cost of any exempt investment held by the second bank on that date which—

(a) was transferred to it with the business; and

(b) was an exempt investment on the date of the transfer,

shall be taken for the purposes of section 484(2) in its application to any savings bank which is the successor to the second bank as equal to the cost of the investment to the first bank.

(3) In this section references to exempt investments held by a trustee savings bank on 21st November 1979 or the date of the transfer are to investments on the disposal of which immediately before that date no chargeable gain or allowable loss would have accrued to the bank by virtue of section 67 of the 1979 Act (gilt-edged securities held for more than a year) or, in the case of a transfer which took place before that section came into force, section 41 of the Finance Act 1969 (which was re-enacted by section 67 of the 1979 Act).

486 Industrial and provident societies and co-operative associations

(1) Notwithstanding anything in the Tax Acts, share interest or loan interest paid by a registered industrial and provident society shall not be treated as a distribution; and, subject to subsection (7) below and section 487(3), any share or loan interest paid in an accounting period of the society—

(a) shall be deductible in computing, for the purposes of corporation tax, the income of the society for that period from the trade carried on by the society, or

(b) if the society is not carrying on a trade, shall be treated for those purposes as a charge on the income of the society.

(2) Notwithstanding anything in sections 348 to 350, any share interest or loan interest paid by a registered industrial and provident society, except any to which subsection (3) below applies, shall be paid without deduction of income tax.

(3) This subsection applies to any share interest or loan interest payable to a person whose usual place of abode is not within the United Kingdom, and in any such case section 349(2) shall apply to the payment as it applies to a payment of yearly interest, and income tax shall be deducted accordingly.

(4) Any share interest or loan interest paid by a registered industrial and provident society shall be chargeable under Case III of Schedule D.

(5) Where at any time, by virtue of this section, the income of a person from any source, not having previously been chargeable by direct assessment on that person, becomes so chargeable, section 66(3) shall apply as if the source of that income were a new source of income acquired by that person at that time.

(6) Every registered industrial and provident society shall, within three months after the end of any accounting period of the society, deliver to the inspector a return showing—

(a) the name and place of residence of every person to whom the society has by virtue of this section paid without deduction of income tax sums amounting to more than £15 in that period; and

(b) the amount so paid in that period to each of those persons.

(7) If for any accounting period a return under subsection (6) above is not duly made by a registered industrial and provident society, share and loan interest paid by the society in that period shall not be deductible in computing its income, or be treated as a charge on income.

(8) If in the course of, or as part of, a union or amalgamation of two or more registered industrial and provident societies, or a transfer of engagements from one registered industrial and provident society to another, there is a disposal of an asset by one society to another, both shall be treated for the purposes of corporation tax in respect of chargeable gains as if the asset were acquired from the society making the disposal for a consideration of such amount as would secure that neither a gain nor a loss would accrue to that society on the disposal.

(9) Subsections (1) and (8) above shall have effect as if references to a registered industrial and provident society included any co-operative association established and resident in the United Kingdom, and having as its object or primary object to assist its members in the carrying on of agricultural or horticultural businesses on land occupied by them in the United Kingdom or in the carrying on of businesses consisting in the catching or taking of fish or shellfish.

(10) It is hereby declared that, in computing, for the purposes of any provision of the Tax Acts relating to profits or gains chargeable under Case I of Schedule D ("the tax computation"), any profits or gains of—

(a) any registered industrial and provident society which does not sell to persons not members thereof; or

(b) any registered industrial and provident society the number of the shares in which is not limited by its rules or practice;

there are to be deducted as expenses any sums which—

(i) represent a discount, rebate, dividend or bonus granted by the company to members or other persons in respect of amounts paid or payable by or to them on account of their transactions with the company, being transactions which are taken into account in the tax computation; and

(ii) are calculated by reference to those amounts or to the magnitude of those transactions and not by reference to the amount of any share or interest in the capital of the company.

(11) No dividends or bonus deductible in computing income as mentioned in subsection (10) above shall be regarded as a distribution.

(12) In this section—

"co-operative association" means a body of persons having a written constitution from which the Minister is satisfied, having regard to the provision made as to the manner in which the income of the body is to be applied for the benefit of its members and all other relevant provisions, that the body is in substance a co-operative association;

"the Minister" means—

the Minister of Agriculture, Fisheries and Food, as regards England and Wales;

he Secretary of State, as regards Scotland; and

the Department of Agriculture for Northern Ireland, as regards Northern Ireland;

"registered industrial and provident society" means a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or under the Industrial and Provident Societies Act (Northern Ireland) 1969;

"share interest" means any interest, dividend, bonus or other sum payable to a shareholder of the society by reference to the amount of his holding in the share capital of the society;

"loan interest" means any interest payable by the society in respect of any mortgage, loan, loan stock or deposit;

and references to the payment of share interest or loan interest include references to the crediting of such interest.

487 Credit unions

(1) Subject to subsection (2) below, in computing for the purposes of corporation tax the income of a credit union for any accounting period—

(a) neither the activity of the credit union in making loans to its members nor in placing on deposit or otherwise investing from time to time its surplus funds shall be regarded as the carrying on of a trade or part of a trade; and

(b) interest received by the credit union on loans made by it to its members shall not be chargeable to tax under Case III of Schedule D or otherwise.

(2) Paragraph (b) of subsection (1) above shall not apply to an accounting period of a credit union for which the credit union is obliged to make a return under section 486(6) and has not done so within three months after the end of that accounting period or such longer period as the inspector shall allow.

(3) No share interest, loan interest or annuity or other annual payment paid or payable by a credit union in any accounting period shall be deductible in computing for the purposes of corporation tax the income of the credit union for that period from any trade carried on by it or be treated for those purposes as a charge on income.

(4) A credit union shall not be regarded as an investment company for the purposes of section 75 above or section 306 of the 1970 Act (capital allowances).

(5) In this section—

"credit union" means a society registered as a credit union under the Industrial and Provident Societies Act 1965 or the Credit Unions (Northern Ireland) Order 1985;

"share interest" and "loan interest" have the same meaning as in section 486;

"surplus funds", in relation to a credit union, means funds not immediately required for its purposes;

and references to the payment of share interest or loan interest include references to the crediting of such interest.

488 Co-operative housing associations

(1) Where a housing association makes a claim in that behalf for any year or part of a year of assessment during which the association was approved for the purposes of this section—

(a) rent to which the association was entitled from its members for the year or part shall be disregarded for tax purposes; and

(b) any yearly interest payable by the association for the year or part shall be treated for tax purposes as payable not by the association but severally by the members of the association who during the year or part were tenants of property of the association, in the proportion which the rents payable by those members for the year or part bear to the aggregate of the rents to which the association was entitled for the year or part from the properties to which the interest relates; and

(c) each member of the association shall be treated for the purposes of section 354 as if he were the owner of the association's estate or interest in the property of which he is the tenant.

(2) Where the property, or any of the properties, to which any such interest as is mentioned in paragraph (b) of subsection (1) above relates is for any period not subject to a tenancy—

(a) that paragraph shall not apply in relation to so much of the interest as is attributable to the property not subject to a tenancy; and

(b) for the purposes of that paragraph as it applies in relation to a tenant of any other property to which the interest relates, the association shall be deemed to have received, in respect of the property not subject to a tenancy, rent at the rate payable therefor when it was last let by the association.

(3) In computing the income of the association no payments shall be deductible under section 25(3) to (7) in so far as attributable to a period as respects which a claim under subsection (1) above has effect.

(4) Where a claim under subsection (1) above has effect, any adjustment of the liability to tax of a member or of the association which is required in consequence of the claim may be made by an assessment or by repayment or otherwise, as the case may require.

(5) Where a housing association makes a claim in that behalf for an accounting period or part of an accounting period during which it was approved for the purposes of this section, the housing association shall be exempt from corporation tax on chargeable gains accruing to it in the accounting period or part on the disposal by way of sale of any property which has been or is being occupied by a tenant of the housing association.

(6) References in this section to the approval of an association shall be construed as references to approval—

(a) by the Secretary of State in the case of a housing association in Great Britain;

(b) by the Head of the Department of the Environment for Northern Ireland in the case of a housing association in Northern Ireland;

and an association shall not be approved unless the approving authority is satisfied—

(i) that the association is, or is deemed to be, duly registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) 1969, and is a housing association within the meaning of the Housing Associations Act 1985 or Article 114 of the Housing (Northern Ireland) Order 1981;

(ii) that the rules of the association restrict membership to persons who are tenants or prospective tenants of the association, and preclude the granting or assignment (or, in Scotland, the granting or assignation) of tenancies to persons other than members; and

(iii) that the association satisfies such other requirements as may be prescribed by the approving authority, and will comply with such conditions as may for the time being be so prescribed.

(7) An approval given for the purposes of this section shall have effect as from such date (whether before or after the giving of the approval) as may be specified by the approving authority and shall cease to have effect if revoked.

(8) The Secretary of State as respects Great Britain, or the Head of the Department of the Environment for Northern Ireland as respects Northern Ireland, may make regulations for the purpose of carrying out the provisions of this section; and, from the coming into operation of regulations under this subsection prescribing requirements or conditions for the purposes of subsection (6)(iii) above, "prescribed" in subsection (6)(iii) above shall mean prescribed by or under such regulations.

The power to make regulations under this subsection shall be exercisable by the Secretary of State by statutory instrument and by the Head of the Department of the Environment for Northern Ireland by statutory rule for the purposes of the Statutory Rules (Northern Ireland) Order 1979.

(9) A claim under this section shall be made to the inspector, and shall be made not later than two years after the end of the year of assessment or accounting period to which, or to a part of which, it relates.

Section 42 of the Management Act shall not apply to a claim under this section.

(10) Subject to subsection (11) below, no claim under this section shall have effect unless it is proved that during the year or accounting period, or part thereof, to which the claim relates—

(a) no property belonging to the association making the claim was let otherwise than to a member of the association;

(b) no property let by the association, and no part of such property, was occupied, whether solely or as joint occupier, by a person not being a member of the association;

(c) the association making the claim satisfies the conditions specified in subsection (6)(i) and (ii) above and has complied with the conditions prescribed under subsection (6)(iii) for the time being in force; and

(d) any covenants required to be included in grants of tenancies by those conditions have been observed.

For the purposes of paragraph (b) above occupation by any other person in accordance with the will, or the provisions applicable on the intestacy, of a deceased member, shall be treated during the first six months after the death as if it were occupation by a member.

(11) Where the Board are satisfied that the requirements of subsection (10) above are substantially complied with they may direct that the claim shall have effect; but if subsequently information comes to the knowledge of the Board which satisfies them that the direction was not justified they may revoke the direction and thereupon the liability of all persons concerned to tax for all relevant years or accounting periods shall be adjusted by the making of assessments or otherwise.

(12) A claim under this section shall be in such form and contain such particulars as may be prescribed by the Board, and, without prejudice to the generality of this provision, the required particulars may include an authority granted by all members of the association for any relevant information contained in any return made by a member under the provisions of the Income Tax Acts to be used by the Board in such manner as the Board may think fit for determining whether the claim ought to be allowed.

489 Self-build societies

(1) Where a self-build society makes a claim in that behalf for any year or part of a year of assessment during which the society was approved for the purposes of this section, rent to which the society was entitled from its members for the year or part shall be disregarded for tax purposes.

(2) Where a claim under subsection (1) above has effect, any adjustment of the society's liability to tax which is required in consequence of the claim may be made by an assessment or by repayment or otherwise, as the case may require.

(3) Where a self-build society makes a claim in that behalf for an accounting period or part during which it was approved for the purposes of this section, the society shall be exempt from corporation tax on chargeable gains accruing to it in the accounting period or part thereof on the disposal of any land to a member of the society.

(4) References in this section to the approval of a self-build society are references to its approval by the Secretary of State, and the Secretary of State shall not approve a self-build society for the purposes of this section unless he is satisfied—

(a) that the society is, or is deemed to be, duly registered under the Industrial and Provident Societies Act 1965; and

(b) that the society satisfies such other requirements as may be prescribed by or under regulations under subsection (6) below and will comply with such conditions as may for the time being be so prescribed.

(5) An approval given for the purposes of this section shall have effect as from such date (whether before or after the giving of the approval) as may be specified by the Secretary of State and shall cease to have effect if revoked by him.

(6) The Secretary of State may by statutory instrument make regulations for the purpose of carrying out the provisions of this section; and a statutory instrument containing any such regulations shall be subject to annulment in pursuance of a resolution of the House of Commons.

(7) Section 42 of the Management Act shall not apply to a claim under this section, but such a claim shall be made to the inspector and shall be made not later than two years after the end of the year of assessment or accounting period to which, or to a part of which, it relates.

(8) Subject to subsection (9) below, no claim under this section shall have effect unless it is proved that during the year or accounting period, or part thereof, to which the claim relates—

(a) no land owned by the society was occupied, in whole or in part and whether solely or as joint occupier, by a person who was not, at the time of his occupation, a member of the society; and

(b) the society making the claim satisfies the condition specified in paragraph (a) of subsection (4) above and has complied with the conditions prescribed under paragraph (b) of that subsection and for the time being in force;

and for the purposes of paragraph (a) above, occupation by any other person in accordance with the will, or the provisions applicable on the intestacy, of a deceased member, shall be treated during the first six months after the death as if it were occupation by a member.

(9) Notwithstanding the provisions of subsection (8) above, where, on a claim under this section, the Board are satisfied that the requirements of paragraphs (a) and (b) of that subsection are substantially complied with, they may direct that the claim shall have effect; but if, subsequently, information comes to the knowledge of the Board which satisfies them that the direction was not justified, they may revoke the direction and thereupon the liability of the society to tax for all relevant years or accounting periods shall be adjusted by the making of assessments or otherwise.

(10) A claim under this section shall be in such form and contain such particulars as may be prescribed by the Board.

(11) In this section—

"self-build society" has the same meaning as in the Housing Associations Act 1985 or, in Northern Ireland, Part VII of the Housing (Northern Ireland) Order 1981; and

"rent" includes any sums to which a self-build society is entitled in respect of the occupation of any of its land under a licence or otherwise.

(12) In the application of this section to Northern Ireland—

(a) any reference in subsections (4) and (5) above to the Secretary of State shall be construed as a reference to the Department of the Environment for Northern Ireland;

(b) the reference in subsection (4)(a) to the Industrial and Provident Societies Act 1965 shall be construed as a reference to the Industrial and Provident Societies Act (Northern Ireland) 1969; and

(c) for subsection (6) there shall be substituted the following subsection—

"(6) The Department of the Environment for Northern Ireland may by statutory rule for the purposes of the Statutory Rules (Northern Ireland) Order 1979 make regulations for the purpose of carrying out the provisions of this section; and a statutory rule containing any such regulations shall be subject to negative resolution within the meaning of section 41(6) of the Interpretation Act (Northern Ireland) 1954".

490 Companies carrying on a mutual business or not carrying on a business

(1) Subject to subsection (2) below, where a company carries on any business of mutual trading or mutual insurance or other mutual business the provisions of the Tax

Acts relating to distributions shall apply to distributions made by the company notwithstanding that they are made to persons participating in the mutual activities of that business and derive from those activities, but shall so apply only to the extent to which the distributions are made out of profits of the company which are brought into charge to corporation tax or out of franked investment income (including group income).

(2) In the case of a company carrying on any mutual life assurance business, the provisions of the Tax Acts relating to distributions shall not apply to distributions made to persons participating in the mutual activities of that business and derived from those activities; but if the business includes annuity business, the annuities payable in the course of that business shall not be treated as charges on the income of the company to any greater extent than if the business were not mutual but were being carried on by the company with a view to the realisation of profits for the company.

(3) Subject to subsections (1) and (2) above, the fact that a distribution made by a company carrying on any such business is derived from the mutual activities of that business and the recipient is a person participating in those activities shall not affect the character which the payment or other receipt has for purposes of corporation tax or income tax in the hands of the recipient.

(4) Where a company does not carry on, and never has carried on, a trade or a business of holding investments, and is not established for purposes which include the carrying on of a trade or of such a business, the provisions of the Tax Acts relating to distributions shall apply to distributions made by the company only to the extent to which the distributions are made out of profits of the company which are brought into charge to corporation tax or out of franked investment income.

491 Distribution of assets of body corporate carrying on mutual business

(1) Where any person receives any money or money's worth—

(a) forming part of the assets of a body corporate, other than assets representing capital; or

(b) forming part of the consideration for the transfer of the assets of a body corporate, other than assets representing capital, as part of a scheme of amalgamation or reconstruction which involves the winding up of the body corporate; or

(c) consisting of the consideration for a transfer or surrender of a right to receive anything falling under paragraph (a) or (b) above, being a receipt not giving rise to any charge to tax on the recipient apart from this section,

and the body corporate has at any time carried on a trade which consists of or includes the conducting of any mutual business (whether confined to members of the body corporate or not), and is being or has been wound up or dissolved, the provisions of this section shall apply to the receipt.

(2) If a transfer or surrender of a right under subsection (1)(c) above is not at arm's length, the person making the transfer or surrender shall, for the purposes of this section, be deemed then to have received consideration equal to the value of the right.

(3) If in respect of a payment of any amount made to the body corporate for the purposes of its mutual business any deduction has been allowed for the purposes of tax in computing the profits or gains or losses of a trade, then—

(a) if at the time of the receipt the recipient is the person, or one of the persons, carrying on that trade, the amount or value of the receipt shall be treated for the purposes of tax as a trading receipt of that trade; and

(b) if at the time of the receipt the recipient is not the person, or one of the persons, carrying on that trade, but was the person, or one of the persons, carrying on that trade when any payment was made to the body corporate for the purposes of its mutual business in respect of which a deduction was allowed for the purposes of tax in computing the profits or gains or losses of the trade, the recipient shall, subject to subsection (6) below, be charged under Case VI of Schedule D for the chargeable period in which the receipt falls on an amount equal to the amount or value of the receipt.

(4) Subsection (3)(a) above applies notwithstanding that, as a result of a change in the persons carrying on the trade, the profits or gains are under section 113 or 337(1) determined as if it had been permanently discontinued and a new trade set up and commenced.

(5) Where an individual is chargeable to tax by virtue of subsection (3)(b) above and the profits or gains of the trade there mentioned fell to be treated as earned income for the purposes of the Income Tax Acts, the sums in respect of which he is so chargeable shall also be treated for those purposes as earned income.

(6) If the trade mentioned in subsection (3)(b) above was permanently discontinued before the time of the receipt, then in computing the charge to tax under subsection (3)(b) above there shall be deducted from the amount or value of the receipt—

(a) any loss, expense or debit (not being a loss, expense or debit arising directly or indirectly from the discontinuance itself) which, if the trade had not been discontinued, would have been deducted in computing for tax purposes the profits or gains or losses of the person by whom it was carried on before the discontinuance, or would have been deducted from or set off against those profits as so computed, and

(b) any capital allowance to which the person who carried on the trade was entitled immediately before the discontinuance and to which effect has not been given by way of relief before discontinuance.

(7) Relief shall not be given under subsection (6) above or under section 105(1) in respect of any loss, expense, debit or allowance if and so far as it has been so given by reference to another charge to tax under this section or under section 103.

(8) For the purposes of subsection (1) above assets representing capital consist of—

(a) assets representing any loan or other capital subscribed, including income derived from any investment of any part of that capital, but not including profits from the employment of that capital for the purposes of the mutual business of the body corporate;

(b) assets representing any profits or gains charged to tax as being profits or gains of any part of the trade carried on by the body corporate which does not consist of the conducting of any mutual business;

(c) (so far as not comprised in paragraphs (a) and (b) above) assets representing taxed income from any investments.

(9) In this section "mutual business" includes any business of mutual insurance or mutual trading.

(10) Subsections (3) to (7) above shall apply with any necessary modifications—

(a) to a profession or vocation; and

(b) to the occupation of woodlands the profits or gains of which are assessable under Schedule D;

as they apply to a trade.

(11) It is hereby declared that the description of trades in subsection (1) above does not include any trade all the profits or gains of which are chargeable to tax and, in particular, does not include such a trade carried on by any registered industrial and provident society.

CHAPTER V

PETROLEUM EXTRACTION ACTIVITIES

492 Treatment of oil extraction activities etc. for tax purposes

(1) Where a person carries on as part of a trade—

(a) any oil extraction activities; or

(b) any of the following activities, namely, the acquisition, enjoyment or exploitation of oil rights; or

(c) activities of both those descriptions,

those activities shall be treated for all purposes of income tax, and for the purposes of the charge of corporation tax on income, as a separate trade, distinct from all other activities carried on by him as part of the trade.

(2) Relief in respect of a loss incurred by a person shall not be given under section 380 or 381 against income arising from oil extraction activities or from oil rights ("ring fence income") except to the extent that the loss arises from such activities or rights.

(3) Relief in respect of a loss incurred by a person shall not be given under section 393(2) against his ring fence profits except to the extent that the loss arises from oil extraction activities or from oil rights.

(4) In any case where—

(a) in any chargeable period a person incurs a loss in activities ("separate activities") which, for that or any subsequent chargeable period, are treated by virtue of subsection (1) above as a separate trade for the purposes specified in that subsection; and

(b) in any subsequent chargeable period any of his trading income is derived from activities ("related activities") which are not part of the separate activities but which, apart from subsection (1) above, would together with those activities constitute a single trade,

then, notwithstanding anything in that subsection, the amount of the loss may be set off, in accordance with section 385 or 393(1), against so much of his trading income in any subsequent chargeable period as is derived from the related activities.

(5) Subject to subsection (7) below, a capital allowance which is to be given to any person by discharge or repayment of tax shall not to any extent be given effect under section 71 of the 1968 Act by deduction from or set off against his ring fence income.

(6) Subject to subsection (7) below, a capital allowance which is to be given to any person by discharge or repayment of tax shall not to any extent be given effect under section 74 of the 1968 Act by deduction from or set off against his ring fence profits.

(7) Subsection (5) or (6) above shall not apply to a capital allowance which falls to be made to a company for any accounting period in respect of an asset used in the relevant accounting period by a company associated with it and so used in carrying on oil extraction activities.

For the purposes of this subsection, the relevant accounting period is that in which the allowance in question first falls to be made to the company (whether or not it can to any extent be given effect in that period under section 74(1) of the 1968 Act).

(8) On a claim for group relief made by a claimant company in relation to a surrendering company, group relief shall not be allowed against the claimant company's ring fence profits except to the extent that the claim relates to losses incurred by the surrendering company that arose from oil extraction activities or from oil rights.

493 Valuation of oil disposed of or appropriated in certain circumstances

(1) Where a person disposes of any oil in circumstances such that the market value of that oil in a particular month falls to be taken into account under section 2 of the Oil Taxation Act 1975 ("the 1975 Act"), otherwise than by virtue of paragraph 6 of Schedule 3 to that Act, in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field (or as would so fall but for section 10 of that Act), then—

(a) for all purposes of income tax, and

(b) for the purposes of the charge of corporation tax on income,

the disposal of the oil and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil as so taken into account under section 2 of that Act (or as would have been so taken into account under that section but for section 10 of that Act).

(2) Where a person makes a relevant appropriation of any oil without disposing of it and does so in circumstances such that the market value of that oil in a particular month falls to be taken into account under section 2 of the 1975 Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to him in any chargeable period from an oil field (or would so fall but for section 10 of that Act), then for all the purposes of income tax and for the purposes of the charge of corporation tax on income, he shall be treated—

(a) as having, at the time of the appropriation—

(i) sold the oil in the course of the separate trade consisting of activities falling within section 492(1)(a) or (b); and

(ii) bought it in the course of the separate trade consisting of activities not so falling; and

(b) as having so sold and bought it at a price equal to its market value as so taken into account under section 2 of the 1975 Act (or as would have been so taken into account under that section but for section 10 of that Act).

In this subsection "relevant appropriation" has the meaning given by section 12(1) of the 1975 Act.

(3) Where—

(a) a person disposes otherwise than in a sale at arm's length (as defined in paragraph 1 of Schedule 3 to the 1975 Act) of oil acquired by him in the course of oil extraction activities carried on by him or by virtue of oil rights held by him, and

(b) subsection (1) above does not apply in relation to the disposal,

then, for all purposes of income tax and for the purposes of the charge of corporation tax on income, the disposal of the oil and its acquisition by the person to whom it was disposed of shall be treated as having been for a consideration equal to the market value of the oil in the calendar month in which the disposal was made.

(4) If a person appropriates oil acquired by him in the course of oil extraction activities carried on by him or by virtue of oil rights held by him and the appropriation is to refining or to any use except for production purposes of an oil field, within the meaning of Part I of the 1975 Act, then, unless subsection (2) above applies, for all purposes of income tax and for the purposes of the charge of corporation tax on income—

(a) he shall be treated as having, at the time of the appropriation, sold and bought the oil as mentioned in subsection (2)(a)(i) and (ii) above; and

(b) that sale and purchase shall be deemed to have been at a price equal to the market value of the oil in the calendar month in which it was appropriated.

(5) For the purposes of subsections (3) and (4) above—

(a) "calendar month" means a month of the calendar year; and

(b) paragraph 2 of Schedule 3 to the 1975 Act shall apply as it applies for the purposes of Part I of that Act, but with the following modifications, that is to say—

(i) for sub-paragraph (2)(f) there shall be substituted—

"(f) the contract is for the sale of the whole quantity of oil of which the market value falls to be ascertained for the purposes of section 493(3) or (4) of the Income and Corporation Taxes Act 1988 and of no other oil; and for the avoidance of doubt it is hereby declared that the terms as to payment which are to be implied in the contract shall be those which are customarily contained in contracts for sale at arm's length of oil of the kind in question."; and

(ii) sub-paragraphs (3) and (4) shall be omitted.

494 Charges on income

(1) Section 338 shall have effect subject to the following provisions of this section.

(2) Interest paid by a company shall not be allowable under section 338 as a deduction against the company's ring fence profits except—

(a) to the extent that it was payable in respect of money borrowed by the company which is shown to have been used to meet expenditure incurred by the company in carrying on oil extraction activities or in acquiring oil rights otherwise than from a connected person or to have been appropriated to meeting expenditure to be so incurred by the company; and

(b) in the case of interest paid by the company to a company associated with it, to the extent that (subject always to paragraph (a) above) the rate at which it was payable did not exceed what, having regard to all the terms on which

the money was borrowed and the standing of the borrower, was a reasonable commercial rate.

Section 839 shall apply for the purposes of this subsection.

(3) Where a company pays to a company associated with it a charge on income not consisting of a payment of interest, the charge shall not be allowable to any extent under section 338 against the first-mentioned company's ring fence profits.

(4) In any case where—

(a) such of the charges on income which are paid by a company and allowable under section 338 as, by virtue of subsections (2) and (3) above, are not allowable against the company's ring fence profits exceed the remaining part of its profits (the company's ("non-oil profits"), and

(b) the amount of that excess is greater than the amount (if any) by which the total of the charges on income which are allowable to the company under that section exceeds the total of the company's profits,

then, for the purpose of enabling the company to surrender the excess referred to in paragraph (a) above by way of group relief, section 403(7) shall have effect as if in that subsection—

(i) the reference to the amount paid by the surrendering company by way of charges on income were a reference to so much of that amount as is allowable only against the company's non-oil profits; and

(ii) the reference to the surrendering company's profits were a reference to its non-oil profits alone.

495 Regional development grants

(1) Subsection (2) below applies in any case where—

(a) a person has incurred expenditure (by way of purchase, rent or otherwise) on the acquisition of an asset in a transaction to which paragraph 2 of Schedule 4 to the 1975 Act applies (transactions between connected persons and otherwise than at arm's length), and

(b) the expenditure incurred by the other person referred to in that paragraph in acquiring, bringing into existence or enhancing the value of the asset as mentioned in that paragraph has been or is to be met by a regional development grant and, in whole or in part, falls to be taken into account under Chapter I of Part I, or under Part II, of the 1968 Act (industrial buildings and structures and scientific research) or Chapter I of Part III of the Finance Act 1971 (machinery or plant).

(2) Where this subsection applies, for the purposes of the charge of income tax or corporation tax on the income arising from those activities of the person referred to in paragraph (a) of subsection (1) above which are treated by virtue of section 492(1) as a separate trade for those purposes, the expenditure referred to in that paragraph shall be treated as reduced by the amount of the regional development grant referred to in paragraph (b) of that subsection.

(3) Subsections (4) to (6) below apply where—

(a) expenditure incurred by any person in relation to an asset in any relevant period ("the initial period") has been or is to be met by a regional development grant; and

(b) notwithstanding the provisions of section 137 of the Finance Act 1982 and subsections (1) and (2) above, in determining that person's liability to income tax or corporation tax for the initial period the whole or some part of that expenditure falls to be taken into account under Chapter I of Part I, or under Part II, of the 1968 Act or Chapter I of Part III of the Finance Act 1971; and

(c) in a relevant period subsequent to the initial period either expenditure on the asset becomes allowable under section 3 or 4 of the 1975 Act or the proportion of any such expenditure which is allowable is different as compared with the initial period;

and in subsections (4) to (6) below the subsequent relevant period referred to in paragraph (c) above is referred to as "the adjustment period".

(4) Where this subsection applies—

(a) there shall be redetermined for the purposes of subsections (5) and (6) below the amount of the expenditure referred to in subsection (3)(a) above which would have been taken into account as mentioned in subsection (3)(b) if the circumstances referred to in subsection (3)(c) had existed in the initial period; and

(b) according to whether the amount as so redetermined is greater or less than the amount actually taken into account as mentioned in subsection (3)(b), the difference is in subsections (5) and (6) below referred to as the increase or the reduction in the allowance.

(5) If there is an increase in the allowance, then, for the purposes of the provisions referred to in subsection (3)(b) above, an amount of capital expenditure equal to the increase shall be deemed to have been incurred by the person concerned in the adjustment period on an extension of or addition to the asset referred to in subsection (3)(a) above.

(6) If there is a reduction in the allowance, then, for the purpose of determining the liability to income tax or corporation tax of the person concerned, he shall be treated as having received in the adjustment period, as income of the trade in connection with which the expenditure referred to in subsection (3)(a) above was incurred, a sum equal to the amount of the reduction in the allowance.

(7) In this section—

"regional development grant" means a grant made under the provisions of Part II of the Industrial Development Act 1982 or Part I of the Industry Act 1972 or such grant made under an enactment of the Parliament of Northern Ireland or Measure of the Northern Ireland Assembly as has been or may be declared by the Treasury under section 84 or 95 of the 1968 Act to correspond to a grant made under those provisions; and

"relevant period" means an accounting period of a company or a year of assessment.

496 Tariff receipts

(1) Any sum which—

(a) constitutes a tariff receipt of a person who is a participator in an oil field, and

(b) constitutes consideration in the nature of income rather than capital, and

(c) would not, apart from this subsection, be treated for the purposes of this Chapter as a receipt of the separate trade referred to in section 492(1),

shall be so treated for those purposes.

(2) To the extent that they would not otherwise be so treated, the activities of a participator in an oil field or a person connected with him in making available an asset in a way which gives rise to tariff receipts of the participator shall be treated for the purposes of this Chapter as oil extraction activities.

(3) In determining for the purposes of subsection (1) above whether any sum constitutes a tariff receipt of a person who is a participator, no account shall be taken of any sum which—

(a) is in fact received or receivable by a person connected with the participator, and

(b) constitutes a tariff receipt of the participator,

but in relation to the person by whom such a sum is actually received, subsection (1) above shall have effect as if he were a participator and as if the condition in paragraph (a) of that subsection were fulfilled.

(4) References in this section to a person connected with a participator include references to a person with whom the person is associated within the meaning of paragraph 11 of Schedule 2 to the Oil Taxation Act 1983.

497 Restriction on setting ACT against income from oil extraction activities etc

(1) Section 239 shall have effect subject to the following provisions of this section; and in those provisions any reference to a company's ring fence income shall be construed, except in relation to relief under section 380 of this Act and section 71 of the 1968 Act, as a reference to the company's ring fence profits.

(2) Where advance corporation tax is paid by a company ("the distributing company") in respect of any distribution made by it to a company associated with it and resident in the United Kingdom or, where subsection (3) below applies, in respect of any distribution consisting of a dividend on a redeemable preference share—

(a) that advance corporation tax shall not be set against the distributing company's liability to corporation tax on any ring fence income of the distributing company; and

(b) if the benefit of any amount of that advance corporation tax is surrendered under section 240 to a subsidiary of the distributing company, the corresponding amount of advance corporation tax which under that section the subsidiary is treated for the purposes of section 239 as having paid shall not be set against the subsidiary's liability to corporation tax on any ring fence income of the subsidiary.

(3) Subject to subsection (4) below, this subsection applies in relation to the payment of a dividend on redeemable preference shares if the dividend is paid on or after 17th March 1987 and—

(a) at the time the shares are issued, or

(b) at the time the dividend is paid,

the company paying the dividend is under the control of a company resident in the United Kingdom, and in this subsection "control" shall be construed in accordance with section 416.

(4) Subsection (3) above does not apply if or to the extent that it is shown that the proceeds of the issue of the redeemable preference shares—

(a) were used to meet expenditure incurred by the company issuing them in carrying on oil extraction activities or in acquiring oil rights otherwise than from a connected person; or

(b) were appropriated to meeting expenditure to be so incurred by that company;

and section 839 applies for the purposes of this subsection.

(5) Where in the case of any accounting period of a company there is an amount of advance corporation tax which because of subsection (2) above is not available to be set against the company's liability to corporation tax for that period on ring fence income of the company, section 239(2) shall as regards that period have effect as if the reference to the company's profits charged to corporation tax for that period were a reference to the company's profits so charged exclusive of any ring fence income.

(6) For the purposes of subsections (2) to (4) above, shares in a company are redeemable preference shares either if they are so described in the terms of their issue or if, however they are described, they fulfil the condition in paragraph (a) below and either or both of the conditions in paragraphs (b) and (c) below—

(a) that, as against other shares in the company, they carry a preferential entitlement to a dividend or to any assets in a winding up or both;

(b) that, by virtue of the terms of their issue, the exercise of a right by any person or the existence of any arrangements, they are liable to be redeemed, cancelled or repaid, in whole or in part;

(c) that, by virtue of any material arrangements, the holder has a right to require another person to acquire the shares or is obliged in any circumstances to dispose of them or another person has a right or is in any circumstances obliged to acquire them.

(7) For the purposes of paragraph (a) of subsection (6) above, shares are to be treated as carrying a preferential entitlement to a dividend as against other shares if, by virtue of any arrangements, there are circumstances in which a minimum dividend will be payable on those shares but not on others; and for the purposes of paragraph (c) of that subsection arrangements relating to shares are material arrangements if the company which issued the shares or a company associated with that company is a party to the arrangements.

498 Limited right to carry back surrendered ACT

(1) In any case where,—

(a) on a date not earlier than 17th March 1987, a company which is the surrendering company for the purposes of section 240 paid a dividend; and

(b) at no time in the accounting period of the surrendering company in which that dividend was paid was the surrendering company under the control of a company resident in the United Kingdom (construing "control" in accordance with section 416); and

(c) under section 240(1) the benefit of the advance corporation tax paid in respect of that dividend was surrendered to a subsidiary of the surrendering company; and

(d) that advance corporation tax is not such that the restriction in paragraph (a) or paragraph (b) of section 497(2) applies with respect to it; and

(e) in one or more of the accounting periods of the subsidiary beginning in the six years preceding the accounting period in which falls the date referred to in

paragraph (a) above, the subsidiary has a liability to corporation tax in respect of profits which consist of or include ring fence profits,

sections 239 and 240 shall have effect subject to subsections (3) to (7) below.

(2) Where the conditions in subsection (1) above are fulfilled, the subsidiary to which the benefit of the advance corporation tax is surrendered is in the following provisions of this section referred to as a "qualifying subsidiary"; and in those provisions—

(a) "the surrendering company" has the same meaning as in section 240;

(b) "surrendered advance corporation tax" means advance corporation tax which, by virtue of section 240(2), a qualifying subsidiary is treated as having paid in respect of a distribution made on a particular date; and

(c) "the principal accounting period" means the accounting period of the qualifying subsidiary in which that date falls.

(3) So much of section 240(4) as would prevent surrendered advance corporation tax being set against a qualifying subsidiary's liability to corporation tax under section 239(3) shall not apply, but section 239(3) shall instead have effect subject to the following provisions of this section.

(4) Surrendered advance corporation tax may not under section 239(3) be set against a qualifying subsidiary's liability to corporation tax for an accounting period earlier than the principal accounting period unless throughout—

(a) that period,

(b) the principal accounting period, and

(c) any intervening accounting period,

the qualifying subsidiary was carrying on activities which, under and for the purposes specified in section 492, constitute a separate trade.

(5) Subject to subsection (6) below, for each accounting period of the surrendering company in which is paid a dividend the advance corporation tax on which gives rise, under section 240, to surrendered advance corporation tax, the total amount of that surrendered advance corporation tax in respect of which claims may be made under section 239(3) (whether by one qualifying subsidiary of the surrendering company or by two or more taken together) shall not exceed whichever of the following limits is appropriate to the accounting period of the surrendering company—

(a) for periods ending on or after 17th March 1987 and before 1st April 1989, £10 million;

(b) for periods ending on or after 1st April 1989 and before 1st April 1991, £15 million;

(c) for later periods, £20 million.

(6) In any case where an accounting period of the surrendering company is less than 12 months, the amount which is appropriate to it under subsection (5)(a) to (c) above shall be proportionately reduced.

(7) The amount of surrendered advance corporation tax of the principal accounting period which, on a claim under section 239(3), may be treated as if it were advance corporation tax paid in respect of distributions made by the qualifying subsidiary concerned in any earlier accounting period shall not exceed the amount of advance corporation tax that would have been payable in respect of a distribution made at the end of that earlier period of an amount which, together with the advance corporation tax so payable in respect of it, would equal the qualifying subsidiary's ring fence profits of that period.

(8) In determining the amount (if any) of advance corporation tax which may be repayable—

(a) under section 17(3) of the 1975 Act, or

(b) under section 127(5) of the Finance Act 1981,

any advance corporation tax in respect of a distribution actually made on or after 17th March 1987 shall be left out of account.

499 Surrender of ACT where oil extraction company etc. owned by a consortium

(1) In any case where—

(a) a company (in this section referred to as ("the consortium company") is owned by a consortium consisting of two members only, each of which owns 50 per cent. of the issued share capital of the company; and

(b) the consortium company carries on a trade consisting of or including activities falling within section 492(1)(a) to (c); and

(c) all of the issued share capital of the consortium company is of the same class and carries the same rights as to voting, dividends and distribution of assets on a winding up,

section 240 shall have effect, subject to the following provisions of this section, as if the company were a subsidiary of each member of the consortium.

(2) This section has effect with respect to advance corporation tax paid by either member of the consortium in respect of a dividend paid by it on or after 17th March 1987; and, in relation to a surrender under section 240 of the benefit of the advance corporation tax paid in respect of such a dividend—

(a) "surrendered advance corporation tax" means advance corporation tax which, by virtue of section 240(2), the consortium company is treated as having paid; and

(b) "the notional distribution date" means the date of the distribution in respect of which the surrendered advance corporation tax is treated as paid.

(3) No surrender under section 240 of the benefit of advance corporation tax may be made by virtue of this section—

(a) unless the conditions in paragraphs (a) to (c) of subsection (1) above are fulfilled throughout that accounting period of the consortium company in which falls the notional distribution date; or

(b) if arrangements are in existence by virtue of which any person could cause one or more of those conditions to cease to be fulfilled at some time during that or any later accounting period.

(4) In the application of section 239 in relation to surrendered advance corporation tax resulting from a surrender by either one of the consortium members under section 240, the reference in section 239(2) to the consortium company's profits charged to corporation tax shall be construed as a reference to one half of so much of those profits as consists of ring fence profits.

(5) So much of any surplus advance corporation tax as consists of or includes surrendered advance corporation tax shall not be treated under section 239(4) as if it were advance corporation tax paid in respect of distributions made by the consortium company in a later accounting period unless the conditions in paragraphs (a) to (c) of subsection (1) above are fulfilled throughout that later period.

(6) In any case where—

(a) as a result of a surrender by one of the consortium members, the consortium company is treated as paying an amount of surrendered advance corporation tax which exceeds the limit applicable under section 239(2) (as modified by subsection (4) above), and

(b) that excess falls to be treated under section 239(4) as advance corporation tax paid by the consortium company in respect of distributions made in a later accounting period,

then, for the purposes of the application of section 239(2) (as modified by subsection (4) above) in relation to that later accounting period, the excess of the surrendered advance corporation tax shall be treated as resulting from a surrender by that one of the consortium members referred to in paragraph (a) above.

(7) Where section 240 has effect as mentioned in subsection (2) above, subsection (11) of that section shall have effect with the omission of paragraph (b) (and the word "and" immediately preceding it).

(8) Notwithstanding the provisions of subsection (1) above the consortium company shall not be regarded as a subsidiary for the purposes of section 498.

500 Deduction of PRT in computing income for corporation tax purposes

(1) Where a participator in an oil field has paid any petroleum revenue tax with which he was chargeable for a chargeable period, then, in computing for corporation tax the amount of his income arising in the relevant accounting period from oil extraction activities or oil rights, there shall be deducted an amount equal to that petroleum revenue tax.

(2) There shall be made all such adjustments of assessments to corporation tax as are required in order to give effect to subsection (1) above.

(3) For the purposes of subsection (1) above, the relevant accounting period, in relation to any petroleum revenue tax paid by a company, is—

(a) the accounting period of the company in or at the end of which the chargeable period for which that tax was charged ends; or

(b) if that chargeable period ends after the accounting period of the company in or at the end of which the trade giving rise to the income referred to above is permanently discontinued, that accounting period.

(4) If some or all of the petroleum revenue tax in respect of which a deduction has been made under subsection (1) above is subsequently repaid, that deduction shall be reduced or extinguished accordingly; and any additional assessment to corporation tax required in order to give effect to this subsection may be made at any time not later than six years after the end of the accounting period in which the first-mentioned tax was repaid.

(5) In this section "chargeable period" has the same meaning as in Part I of the 1975 Act.

501 Interest on repayment of PRT

Where any amount of petroleum revenue tax paid by a participator in an oil field is, under any provision of Part I of the 1975 Act, repaid to him with interest, the amount

of the interest paid to him shall be disregarded in computing the amount of his income for the purposes of corporation tax.

502 Interpretation of Chapter V

(1) In this Chapter—

"the 1975 Act" means the Oil Taxation Act 1975;

"oil" means any substance won or capable of being won under the authority of a licence granted under either the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964, other than methane gas won in the course of operations for making and keeping mines safe;

"oil extraction activities" means any activities of a person—

(a) in searching for oil in the United Kingdom or a designated area or causing such searching to be carried out for him; or

(b) in extracting or causing to be extracted for him oil at any place in the United Kingdom or a designated area under rights authorising the extraction and held by him or, if the person in question is a company, by the company or a company associated with it; or

(c) in transporting or causing to be transported for him as far as dry land in the United Kingdom oil extracted at any such place not on dry land under rights authorising the extraction and so held; or

(d) in effecting or causing to be effected for him the initial treatment or initial storage of oil won from any oil field under rights authorising its extraction and so held;

"oil field" has the same meaning as in Part I of the 1975 Act;

"oil rights" means rights to oil to be extracted at any place in the United Kingdom or a designated area, or to interests in or to the benefit of such oil;

"participator" has the same meaning as in Part I of the 1975 Act; and

"ring fence income" means income arising from oil extraction activities or oil rights; and

"ring fence profits" has the same meaning as in section 79(5) of the Finance Act 1984 or, in any case where that subsection does not apply, means ring fence income.

(2) For the purposes of subsection (1) above—

(a) "designated area" means an area designated by Order in Council under section 1(7) of the Continental Shelf Act 1964;

(b) "initial treatment" has the same meaning as in Part I of the 1975 Act; and

(c) the definition of "initial storage" in section 12(1) of the 1975 Act shall apply but, in its application for those purposes in relation to the person mentioned in subsection (1)(d) above and to oil won from any one oil field shall have effect as if the reference to the maximum daily production rate of oil for the field as there mentioned were a reference to that person's share of that maximum daily production rate, that is to say, a share thereof proportionate to his share of the oil won from that field.

(3) For the purposes of this Chapter two companies are associated with one another if—

(a) one is a 51 per cent. subsidiary of the other;

(b) each is a 51 per cent. subsidiary of a third company; or

(c) one is owned by a consortium of which the other is a member.

Section 413(6) shall apply for the purposes of paragraph (c) above.

(4) Without prejudice to subsection (3) above, for the purposes of this Chapter, two companies are also associated with one another if one has control of the other or both are under the control of the same person or persons; and in this subsection "control" shall be construed in accordance with section 416.

CHAPTER VI

MISCELLANEOUS BUSINESSES AND BODIES

503 Letting of furnished holiday accommodation treated as a trade

(1) Subject to the following provisions of this section, for the purposes of sections 5(2), 380 to 390, 393, 394, 401, 623(2)(c), 644(2)(c) and 833(4)(c) and of Chapter I of Part III of the Finance Act 1971—

(a) the commercial letting of furnished holiday accommodation in the United Kingdom in respect of which the profits or gains are chargeable under Case VI of Schedule D shall be treated as a trade; and

(b) all such lettings made by a particular person or partnership or body of persons shall be treated as one trade.

(2) In their application by virtue of subsection (1) above sections 390(1) and 401(1) shall have effect as if for the references in those sections to Case I of Schedule D there were substituted references to Case VI of that Schedule.

(3) No relief shall be given to an individual under section 381 as it has effect by virtue of subsection (1) above, in respect of a loss sustained in any year of assessment, if any of the accommodation in respect of which the trade is carried on in that year was first let by him as furnished accommodation more than three years before the beginning of that year of assessment.

(4) Relief shall not be given for the same loss or the same portion of a loss both under any provision of Chapters I and II of Part X except sections 391, 392, 395 and 396, as those Chapters apply by virtue of this section, and under any other provision of the Tax Acts.

(5) In computing the profits or gains arising from the commercial letting of furnished holiday accommodation which are chargeable to tax under Case VI of Schedule D, such expenditure may be deducted as would be deductible if the letting were a trade and those profits or gains were accordingly to be computed in accordance with the rules applicable to Case I of that Schedule.

(6) Where there is a letting of accommodation only part of which is holiday accommodation such apportionments shall be made for the purposes of this section as appear to the inspector, or on appeal the Commissioners, to be just and reasonable.

(7) Where a person has been charged to income tax or corporation tax otherwise than in accordance with the provisions of this section, such assessment, reduction or discharge of an assessment or, where a claim for repayment is made, such repayment, shall be made as may be necessary to give effect to those provisions.

504 Supplementary provisions

(1) This section has effect for the purposes of section 503.

(2) A letting—

(a) is a commercial letting if it is let on a commercial basis and with a view to the realisation of profits; and

(b) is of furnished accommodation if the tenant is entitled to the use of furniture.

(3) Accommodation shall not be treated as holiday accommodation for the purposes of this section unless—

(a) it is available for commercial letting to the public generally as holiday accommodation for periods which amount, in the aggregate, to not less than 140 days;

(b) the periods for which it is so let amount in the aggregate to at least 70 days; and

(c) for a period comprising at least seven months (which need not be continuous but includes any months in which it is let as mentioned in paragraph (b) above) it is not normally in the same occupation for a continuous period exceeding 31 days.

(4) Any question whether accommodation let by any person other than a company is, at any time in a year of assessment, holiday accommodation shall be determined—

(a) if the accommodation was not let by him as furnished accommodation in the preceding year of assessment but is so let in the following year of assessment, by reference to the 12 months beginning with the date on which he first so let it in the year of assessment;

(b) if the accommodation was let by him as furnished accommodation in the preceding year of assessment but is not so let in the following year of assessment, by reference to the 12 months ending with the date on which he ceased so to let it in the year of assessment; and

(c) in any other case, by reference to the year of assessment.

(5) Any question whether accommodation let by a company is at any time in an accounting period holiday accommodation shall be determined—

(a) if the accommodation was not let by it as furnished accommodation in the period of 12 months immediately preceding the accounting period but is so let in the period of 12 months immediately following the accounting period, by reference to the 12 months beginning with the date in the accounting period on which it first so let it;

(b) if the accommodation was let by it as furnished accommodation in the period of 12 months immediately preceding the accounting period but is not so let by it in the period of 12 months immediately following the accounting period, by reference to the 12 months ending with the date in the accounting period on which it ceased so to let it;

(c) in any other case, by reference to the period of 12 months ending with the last day of the accounting period.

(6) Where, in any year of assessment or accounting period, a person lets furnished accommodation which is treated as holiday accommodation for the purposes of this section in that year or period ("the qualifying accommodation"), he may make a claim under this subsection, within two years after that year or period, for averaging treatment to apply for that year or period to that and any other accommodation specified in the claim which was let by him as furnished accommodation during that

year or period and would fall to be treated as holiday accommodation in that year or period if subsection (3)(b) above were satisfied in relation to it.

(7) Where a claim is made under subsection (6) above in respect of any year of assessment or accounting period, any such other accommodation shall be treated as being holiday accommodation in that year or period if the number of days for which the qualifying accommodation and any other such accommodation was let by the claimant as mentioned in subsection (3)(a) above during the year or period amounts on average to at least 70.

(8) Qualifying accommodation may not be specified in more than one claim in respect of any one year of assessment or accounting period.

(9) For the purposes of this section a person lets accommodation if he permits another person to occupy it, whether or not in pursuance of a lease; and "letting" and "tenant" shall be construed accordingly.

505 Charities: general

(1) Subject to subsections (2) and (3) below, the following exemptions shall be granted on a claim in that behalf to the Board—

(a) exemption from tax under Schedules A and D in respect of the rents and profits of any lands, tenements, hereditaments or heritages belonging to a hospital, public school or almshouse, or vested in trustees for charitable purposes, so far as the same are applied to charitable purposes only;

(b) exemption from tax under Schedule B in respect of any lands occupied by a charity;

(c) exemption—

(i) from tax under Schedule C in respect of any interest, annuities, dividends or shares of annuities,

(ii) from tax under Schedule D in respect of any yearly interest or other annual payment, and

(iii) from tax under Schedule F in respect of any distribution,

where the income in question forms part of the income of a charity, or is, according to rules or regulations established by Act of Parliament, charter, decree, deed of trust or will, applicable to charitable purposes only, and so far as it is applied to charitable purposes only;

(d) exemption from tax under Schedule C in respect of any interest, annuities, dividends or shares of annuities which are in the names of trustees and are applicable solely towards the repairs of any cathedral, college, church or chapel, or of any building used solely for the purposes of divine worship, so far as the same are applied to those purposes;

(e) exemption from tax under Schedule D in respect of the profits of any trade carried on by a charity, if the profits are applied solely to the purposes of the charity and either—

(i) the trade is exercised in the course of the actual carrying out of a primary purpose of the charity; or

(ii) the work in connection with the trade is mainly carried out by beneficiaries of the charity.

(2) Any payment which—

(a) is received by a charity from another charity; and

(b) is not made for full consideration in money or money's worth; and

(c) is not chargeable to tax apart from this subsection; and

(d) is not, apart from this subsection, of a description which (on a claim) would be eligible for relief from tax by virtue of any provision of subsection (1) above;

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

(3) If in any chargeable period of a charity—

(a) its relevant income and gains are not less than £10,000; and

(b) its relevant income and gains exceed the amount of its qualifying expenditure; and

(c) the charity incurs, or is treated as incurring, non-qualifying expenditure;

relief shall not be available under either subsection (1) above or section 145 of the 1979 Act for so much of the excess as does not exceed the non-qualifying expenditure incurred in that period.

(4) In relation to a chargeable period of less than 12 months, subsection (3) above shall have effect as if the amount specified in paragraph (a) of that subsection were proportionately reduced.

(5) In subsection (3) above "relevant income and gains" means—

(a) income which apart from subsection (1) above would not be exempt from tax together with any income which is taxable notwithstanding that subsection; and

(b) gains which apart from section 145 of the 1979 Act would be chargeable gains together with any gains which are chargeable gains notwithstanding that section.

(6) Where by virtue of subsection (3) above there is an amount of a charity's relevant income and gains for which relief under subsection (1) above and section 145 of the 1979 Act is not available, the charity may, by notice to the Board, specify which items of its relevant income and gains are, in whole or in part, to be attributed to that amount, and, for this purpose, all covenanted payments to charity (within the meaning of section 660(3)) shall be treated as a single item; and if within 30 days of being required to do so by the Board, a charity does not give notice under this subsection, the items of its relevant income and gains which are to be attributed to the amount in question shall be such as the Board may determine.

(7) Where it appears to the Board that two or more charities acting in concert are engaged in transactions of which the main purpose or one of the main purposes is the avoidance of tax (whether by the charities or by any other person), the Board may by notice given to the charities provide that, for such chargeable periods as may be specified in the notice, subsection (3) above shall have effect in relation to them with the omission of paragraph (a).

(8) An appeal may be brought against a notice under subsection (7) above as if it were notice of the decision of the Board on a claim made by the charities concerned.

506 Qualifying expenditure and non-qualifying expenditure

(1) In this section, section 505 and Schedule 20—

"charity" means any body of persons or trust established for charitable purposes only;

"qualifying expenditure", in relation to a chargeable period of a charity, means, subject to subsection (3) below, expenditure incurred in that period for charitable purposes only; and

"non-qualifying expenditure" means expenditure which is not qualifying expenditure.

(2) For the purposes of section 505 and subsection (1) above, where expenditure which is not actually incurred in a particular chargeable period properly falls to be charged against the income of that chargeable period as being referable to commitments (whether or not of a contractual nature) which the charity has entered into before or during that period, it shall be treated as incurred in that period.

(3) A payment made (or to be made) to a body situated outside the United Kingdom shall not be qualifying expenditure by virtue of this section unless the charity concerned has taken such steps as may be reasonable in the circumstances to ensure that the payment will be applied for charitable purposes.

(4) If in any chargeable period a charity—

(a) invests any of its funds in an investment which is not a qualifying investment, as defined in Part I of Schedule 20; or

(b) makes a loan (not being an investment) which is not a qualifying loan, as defined in Part II of that Schedule;

then, subject to subsection (5) below, the amount so invested or lent in that period shall be treated for the purposes of this section as being an amount of expenditure incurred by the charity, and, accordingly, as being non-qualifying expenditure.

(5) If, in any chargeable period, a charity which has in that period made an investment or loan falling within subsection (4) above—

(a) realises the whole or part of that investment; or

(b) is repaid the whole or part of that loan;

any further investment or lending in that period of the sum realised or repaid shall, to the extent that it does not exceed the sum originally invested or lent, be left out of account in determining the amount which, by virtue of subsection (4) above, is treated as non-qualifying expenditure incurred in that period.

(6) If the aggregate of the qualifying and non-qualifying expenditure incurred by a charity in any chargeable period exceeds the relevant income and gains of that period, Part III of Schedule 20 shall have effect to treat, in certain cases, some or all of that excess as non-qualifying expenditure incurred in earlier periods.

507 The National Heritage Memorial Fund, the Historic Buildings and Monuments Commission for England and the British Museum

(1) There shall on a claim in that behalf to the Board be allowed in the case of—

(a) the Trustees of the National Heritage Memorial Fund;

(b) the Historic Buildings and Monuments Commission for England;

such exemption from tax as falls to be allowed under section 505 in the case of a charity the whole income of which is applied to charitable purposes.

(2) The Trustees of the British Museum and the Trustees of the British Museum (Natural History) shall each be entitled, on a claim in that behalf to the Board, to the following exemptions—

(a) exemption from tax under Schedules A and D in respect of any land, or interest in or right over land, vested in them; and

(b) the like exemptions in respect of any dividends of stock vested in them, or in any other person for their use, and in respect of distributions charged under Schedule F, as are granted to charities under section 505.

508 Scientific research organisations

(1) Where—

(a) an Association which has as its object the undertaking of scientific research which may lead to or facilitate an extension of any class or classes of trade is approved for the purposes of this section by the Secretary of State; and

(b) the memorandum of association or other similar instrument regulating the functions of the Association precludes the direct or indirect payment or transfer to any of its members of any of its income or property by way of dividend, gift, division, bonus or otherwise howsoever by way of profit;

there shall, on a claim in that behalf to the Board, be allowed in the case of the Association such exemption from tax as falls to be allowed under section 505 in the case of a charity the whole income of which is applied to charitable purposes.

(2) The condition specified in paragraph (b) of subsection (1) above shall not be deemed not to be complied with in the case of any Association by reason only that the memorandum or other similar instrument regulating its functions does not prevent the payment to its members of reasonable remuneration for goods, labour or power supplied, or for services rendered, of reasonable interest for money lent, or of reasonable rent for any premises.

(3) In this section "scientific research" means any activities in the fields of natural or applied science for the extension of knowledge.

509 Reserves of marketing boards and certain other statutory bodies

(1) Where a body established by or under any enactment and having as its object, or one of its objects, the marketing of an agricultural product or the stabilising of the price of an agricultural product is required, by or under any scheme or arrangements approved by or made with a Minister of the Crown or government department, to pay the whole or part of any surplus derived from its trading operations or other trade receipts into a reserve fund satisfying the conditions specified in subsection (2) below, then, in computing for the purposes of tax the profits or gains or losses of the body's trade—

(a) there shall be allowed as deductions any sums so required to be paid by the body into the reserve fund out of the profits or gains of the trade, and

(b) there shall be taken into account as trading receipts any sums withdrawn by the body from the fund, except so far as they are so required to be paid to a Minister or government department, or are distributed to producers of the product in question or refunded to persons paying any levy or duty.

(2) The conditions to be satisfied by the reserve fund are as follows—

(a) that no sum may be withdrawn from the fund without the authority or consent of a Minister of the Crown or government department; and

(b) that where money has been paid to the body by a Minister of the Crown or government department in connection with arrangements for maintaining guaranteed prices, or in connection with the body's trading operations, and

is repayable to that Minister or department, sums afterwards standing to the credit of the fund are required as mentioned in subsection (1) above to be applied in whole or in part in repaying the money; and

(c) that the fund is reviewed by a Minister of the Crown at intervals fixed by or under the scheme or arrangements in question, and any amount by which it appears to the Minister to exceed the reasonable requirements of the body is withdrawn therefrom.

(3) In this section references to a Minister of the Crown or government department include references to a Head of a Department or a Department in Northern Ireland, and references to producers of a product include references to producers of one type or quality of a product from another.

510 Agricultural societies

(1) Profits or gains arising to an agricultural society from any exhibition or show held for the purposes of the society shall be exempt from tax if applied solely to the purposes of the society.

(2) In this section "agricultural society" means any society or institution established for the purpose of promoting the interests of agriculture, horticulture, livestock breeding or forestry.

511 The Electricity Council and Boards, the Northern Ireland Electricity Service and the Gas Council

(1) For the purposes of the Corporation Tax Acts, the Electricity Council shall be treated as carrying on a trade, and those Acts shall have effect as if the trade carried on by the Central Electricity Authority at any time before 1st January 1958 had been the trade of the Electricity Council.

(2) For the purposes of the Corporation Tax Acts—

(a) any trade carried on by a Board shall be treated as if it were part of the trade carried on by the Electricity Council;

(b) subject to paragraph (c) below, any property, rights or liabilities of a Board shall be treated as property, rights or liabilities of the Electricity Council, and anything done by or to a Board shall be deemed to have been done by or to the Electricity Council;

(c) any rights, liabilities or things done —

(i) of, by or to the Electricity Council against, to or by a Board, or

(ii) of, by or to a Board against, to or by the Electricity Council or any other Board,

shall be left out of account;

and corporation tax shall be charged accordingly.

(3) For the purposes of the operation of the Corporation Tax Acts in accordance with subsections (1) and (2) above, the Electricity Council shall be deemed to have been in existence as from 1st April 1948, and anything done by, to or in relation to the Central Electricity Authority shall be treated as if it had been done by, to or in relation to the Electricity Council.

(4) The Corporation Tax Acts shall have effect as if the trade carried on at any time before 1st April 1973 by any predecessor of the Northern Ireland Electricity Service had been

carried on by the Service; and for that purpose the Service shall be deemed to have been in existence as from the time when the predecessor began to carry on its trade and anything done by, to or in relation to the predecessor shall be treated as if it had been done by, to or in relation to the Service.

(5) In subsection (4) above references to a predecessor of the Northern Ireland Electricity Service are references to any body whose functions were transferred to the Service on the 1st April 1973, and references to the trade of a predecessor are references to its activities in the discharge of the functions that were so transferred.

(6) In subsections (1) and (2) above "Board" means—

(a) any Area Board established by or under the provisions of the Electricity Act 1947; and

(b) in relation to any time on or after 1st January 1958, the Central Electricity Generating Board.

(7) The Corporation Tax Acts shall apply in relation to the trade of the Gas Council as if before the beginning of April 1962 it had consisted of the trades of the Area Boards (within the meaning of the Gas Act 1948), and (without prejudice to the generality of the foregoing) allowances and balancing charges shall be made to or on the Gas Council accordingly by reference to the capital expenditure of Area Boards and to the allowances made to Area Boards in respect of that expenditure.

512 Atomic Energy Authority and National Radiological Protection Board

(1) The United Kingdom Atomic Energy Authority and the National Radiological Protection Board shall be entitled to exemption from income tax and corporation tax—

(a) under Schedules A, B and C;

(b) under Schedule D in respect of any yearly interest or other annual payment received by the Authority or Board;

(c) under Schedule F in respect of distributions received by the Authority or Board.

(2) Income arising from investments or deposits held for the purposes of any pension scheme provided and maintained by the Authority shall be treated for the purposes of this section as if that income and the source thereof belonged to the Authority.

513 British Airways Board and National Freight Corporation

(1) Subject to subsection (2) below, the successor company in which the property, rights, liabilities and obligations of the British Airways Board are vested by the Civil Aviation Act 1980 shall be treated for all purposes of corporation tax as if it were the same person as the British Airways Board; and the successor company to which the undertaking of the National Freight Corporation is transferred by the Transport Act 1980 shall be treated for those purposes as if it were the same person as the National Freight Corporation.

(2) The transfer by the Civil Aviation Act 1980 from the British Airways Board to the successor company of liability for any loan made to the Board shall not affect any direction in respect of the loan which has been given by the Treasury under section 581.

(3) A successor company shall not by virtue of subsection (1) above be regarded as a body falling within section 272(5) of the 1970 Act.

514 Funds for reducing the National Debt

Where any property is held upon trust in accordance with directions which are valid and effective under section 9 of the Superannuation and other Trust Funds (Validation) Act 1927 (which provides for the validation of trust funds for the reduction of the national debt), any income arising from that property or from any accumulation of any such income, and any profits of any description otherwise accruing to the property and liable to be accumulated under the trust, shall be exempt from income tax.

515 Signatories to Operating Agreement for INMARSAT

(1) An overseas signatory to the Operating Agreement made pursuant to the Convention on the International Maritime Satellite Organisation which came into force on 16th July 1979 shall be exempt from income tax and corporation tax in respect of any payment received by that signatory from the Organisation in accordance with that Agreement.

(2) In this section "an overseas signatory" means a signatory other than one designated for the purposes of the Agreement by the United Kingdom in accordance with the Convention.

516 Government securities held by non-resident central banks

(1) Tax shall not be chargeable on dividends (within the meaning of Schedule C) paid out of the public revenue of the United Kingdom where they are income of any bank or issue department of a bank to which this subsection for the time being applies.

(2) Subsection (1) above shall not prevent any such dividends being taken into account in computing profits or gains or losses of a business carried on in the United Kingdom.

(3) A bank or issue department of a bank to which this subsection for the time being applies shall be exempt from tax in respect of chargeable gains accruing to it.

(4) Her Majesty may by Order in Council direct that subsection (1) or (3), or both, shall apply to any bank, or to its issue department, if it appears to Her Majesty that the bank is not resident in the United Kingdom and is entrusted by the government of a territory outside the United Kingdom with the custody of the principal foreign exchange reserves of that territory.

(5) No recommendation shall be made to Her Majesty in Council to make an order under this section unless a draft of the order has been laid before the House of Commons and has been approved by resolution of that House.

517 Issue departments of the Reserve Bank of India and the State Bank of Pakistan

There shall be exempt from tax any profits or income arising or accruing to the issue department of the Reserve Bank of India constituted under an Act of the Indian legislature called the Reserve Bank of India Act 1934, or to the issue department of the State Bank of Pakistan constituted under certain orders made under section 9 of the Indian Independence Act 1947.

518 Harbour reorganisation schemes

(1) This section has effect where the trade of any body corporate other than a limited liability company is transferred to a harbour authority by or under a certified harbour reorganisation scheme which provides also for the dissolution of the transferor.

(2) For the purposes of the Corporation Tax Acts, the trade shall not be treated as permanently discontinued, nor shall a new trade be treated as set up and commenced.

(3) The transferee shall be entitled to relief from corporation tax under section 393(1), as for a loss sustained by it in carrying on the transferred trade or any trade of which it comes to form part, for any amount which, if the transferor had continued to carry it on, would have been available to the transferor for carry-forward against chargeable profits of succeeding accounting periods, but subject to any claim made by the transferor under section 393(2).

(4) There shall be made to or on the transferee in accordance with the provisions of the Capital Allowances Acts all such allowances and charges as would, if the transferor had continued to carry on the trade, have fallen to be made to or on it under those Acts and the amount of any such allowance or charge shall be computed as if the transferee had been carrying on the trade since the transferor had begun to do so and as if everything done to or by the transferor had been done to or by the transferee.

(5) No sale or transfer which on the transfer of the trade is made by the transferor to the transferee of any assets in use for the purposes of the trade shall be treated as giving rise to any such allowance or charge as is mentioned in subsection (4) above.

(6) The transferor shall not be entitled to relief under section 394 in respect of the trade.

(7) The transferee shall be entitled to relief from corporation tax in respect of chargeable gains for any amount for which the transferor would have been entitled to claim relief in respect of allowable losses if it had continued to carry on the trade.

(8) Where part only of such trade is transferred to a harbour authority by or under a certified harbour organisation scheme, and the transferor continues to carry on the remainder of the trade, or any such trade is, by or under a certified harbour reorganisation scheme which provides also for the dissolution of the transferor, transferred in parts to two or more harbour authorities, this section shall apply as if the transferred part, or each of the transferred parts, had at all times been a separate trade.

(9) Where a part of any trade is to be treated by virtue of subsection (8) above as having been a separate trade over any period there shall be made any necessary adjustments of accounting periods, and such apportionments as may be just of receipts, expenses, allowances or charges.

Subsection (10) of section 343 shall apply to any apportionment under this subsection as it applies to an apportionment under subsection (9) of that section.

(10) In this section—

"harbour authority" has the same meaning as in the Harbours Act 1964;

"harbour reorganisation scheme" means any statutory provision providing for the management by a harbour authority of any harbour or group of harbours in the United Kingdom, and "certified", in relation to any harbour reorganisation scheme, means certified by a Minister of the Crown or government department as so providing with a view to securing, in the public

interest, the efficient and economical development of the harbour or harbours in question;

"limited liability company" means a company having a limit on the liability of its members;

"statutory provision" means any enactment, or any scheme, order or other instrument having effect under an enactment, and includes an enactment confirming a provisional order; and

"transferor", in relation to a trade, means the body from whom the trade is transferred, whether or not the transfer is effected by that body.

519 Local authorities

(1) A local authority in the United Kingdom—

(a) shall be exempt from all charge to income tax in respect of its income;

(b) shall be exempt from corporation tax;

and so far as the exemption from income tax conferred by this subsection calls for repayment of tax, effect shall be given thereto by means of a claim.

(2) Subsection (1) above shall apply to a local authority association as it applies to a local authority.

(3) In this Act "local authority association" means any incorporated or unincorporated association—

(a) of which all the constituent members are local authorities, groups of local authorities or local authority associations, and

(b) which has for its object or primary object the protection and furtherance of the interests in general of local authorities or any description of local authorities;

and for this purpose, if a member of an association is a representative of or appointed by any authority, group of authorities or association, that authority, group or association (and not he) shall be treated as a constituent member of the association.

(4) In this Act "local authority" means—

(a) any authority having power to make or determine a rate;

(b) any authority having power to issue a precept, requisition or other demand for the payment of money to be raised out of a rate;

and in this subsection "rate" means a rate the proceeds of which are applicable for public local purposes and which is leviable by reference to the value of land or other property.