



# Income and Corporation Taxes Act 1988

## 1988 CHAPTER 1

### PART XIII

#### MISCELLANEOUS SPECIAL PROVISIONS

#### CHAPTER I

#### INTELLECTUAL PROPERTY

##### Modifications etc. (not altering text)

C1 Pt. 13 Ch. 1 modified (8.11.1995) by [Atomic Energy Authority Act 1995 \(c. 37\)](#), [Sch. 3 para. 20](#)

##### *Patents and know-how*

**520 Allowances for expenditure on purchase of patent rights: post-31st March 1986 expenditure.**

F1 .....

##### Textual Amendments

F1 [Ss. 520-523](#) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 44](#), [Sch. 4](#)

**521 Provisions supplementary to section 520.**

F2 .....

*Status:* Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.  
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**Textual Amendments**  
F2 Ss. 520-523 repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 44, Sch. 4](#)

**522 Allowances for expenditure on purchase of patent rights: pre-1st April 1986 expenditure.**

F3 .....

**Textual Amendments**  
F3 Ss. 520-523 repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 44, Sch. 4](#)

**523 Lapses of patent rights, sales etc.**

F4 .....

**Textual Amendments**  
F4 Ss. 520-523 repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 44, Sch. 4](#)

**524 Taxation of receipts from sale of patent rights.**

(1) <sup>M1</sup>Subject to subsection (2) below, where a person resident in the United Kingdom sells all or any part of any patent rights and the net proceeds of the sale consist wholly or partly of a capital sum, he shall, subject to the provisions of this Chapter, be charged to tax under Case VI of Schedule D, for the chargeable period in which the sum is received by him and successive chargeable periods, being charged in each period on the same fraction of the sum as the period is of six years (or such less fraction as has not already been charged).

(2) If the person by notice served on [<sup>F5</sup>an officer of the Board within the period specified in subsection (2A) below], elects that the whole of the sum shall be charged to tax for [<sup>F6</sup>the chargeable period in which it was received], it shall be charged to tax accordingly.

[<sup>F7</sup>(2A) The period mentioned in subsection (2) above is—

- (a) in the case of an election for the purposes of income tax, the period ending with the first anniversary of the 31st January next following the year of assessment in which the sum was received;
- (b) in the case of an election for the purposes of corporation tax, the period of two years beginning at the end of the accounting period in which the sum was received.]

(3) <sup>M2</sup>Subject to subsection (4) below, where a person not resident in the United Kingdom sells all or any part of any patent rights and the net proceeds of the sale consist wholly

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- or partly of a capital sum, and the patent is a United Kingdom patent, then, subject to the provisions of this Chapter—
- (a) he shall be chargeable to tax in respect of that sum under Case VI of Schedule D; and
  - (b) section 349(1) shall apply to that sum as if it was an annual sum payable otherwise than out of profits or gains charged to income tax; and
  - (c) all other provisions of the Tax Acts shall, save as therein otherwise provided, have effect accordingly.
- (4) If, [<sup>F8</sup>on or before the first anniversary of the 31st January next following] the year of assessment in which the sum is paid, the person to whom it is paid, by notice to the Board, elects that the sum shall be treated for the purpose of income tax for that year and each of the five succeeding years as if one-sixth thereof, and no more, were included in his income chargeable to tax for all those years respectively, it shall be so treated, and all such repayments and assessments of tax for each of those years shall be made as are necessary to give effect to the election, but—
- (a) the election shall not affect the amount of tax which is to be deducted and assessed under section 349(1) and 350; and
  - (b) where any sum is deducted under section 349(1), any adjustments necessary to give effect to the election shall be made by way of repayment of tax; and
  - (c) those adjustments shall be made year by year and as if one-sixth of the sum deducted had been deducted in respect of tax for each year, and no repayment of, or of any part of, that portion of the tax deducted which is to be treated as deducted in respect of tax for any year shall be made unless and until it is ascertained that the tax ultimately falling to be paid for that year is less than the amount of tax paid for that year.
- (5) <sup>M3</sup>In subsections (3) and (4) above, “tax” shall mean income tax or, in subsection (3) in a case where the seller of the patent rights, being a company, would be within the charge to corporation tax in respect of any proceeds of the sale not consisting of a capital sum, corporation tax.
- (6) Where subsection (3) applies to charge a company to corporation tax in respect of a sum paid to it, subsection (4) shall not apply, but the company may, by notice given to the Board not later than two years after the end of the accounting period in which the sum is paid, elect that the sum shall be treated as arising rateably in the accounting periods ending not later than six years from the beginning of that in which the sum is paid (being accounting periods during which the company remains within the charge to corporation tax in respect of any proceeds of the sale not consisting of a capital sum), and there shall be made all such repayments of tax and assessments to tax as are necessary to give effect to any such election.
- (7) <sup>M4</sup>Subject to subsections (8) and (9) below, where the person selling all or any part of any patent rights (“the seller”) acquired the rights sold, or the rights out of which they were granted, by purchase and the price paid by him consisted wholly or partly of a capital sum, the preceding provisions of this section shall apply as if any capital sum received by him when he sells the rights were reduced by the amount of that sum.
- (8) Where between the purchase and the sale the seller has sold part of the rights acquired by him and the net proceeds of that sale consist wholly or partly of a capital sum, the amount of the reduction falling to be made under subsection (7) above in respect of the subsequent sale shall be itself reduced by the amount of that sum.

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(9) Nothing in subsections (7) and (8) above shall affect the amount of income tax which is to be deducted and assessed under section 349(1) and (3) by virtue of subsection (3) above, and, where any sum is deducted under section 349(1), any adjustment necessary to give effect to the provisions of this subsection shall be made by way of repayment of tax.

(10) <sup>M5</sup>A claim for relief under this section shall be made to the Board.

#### Textual Amendments

- F5** Words in s. 524(2) substituted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 15(2)(a)**
- F6** Words in s. 524(2) substituted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 15(2)(b)**
- F7** S. 524(2A) inserted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 15(3)**
- F8** Words in s. 524(4) substituted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 15(4)**

#### Modifications etc. (not altering text)

- C2** See S.I. 1970 No.488 (under “Double taxation relief: general” in Part III Vol.5) regns. 2-10—*payments exempt under double taxation agreements.*

#### Marginal Citations

- M1** Source - 1970 s.380(1)
- M2** Source - 1970 s.380(2)
- M3** Source - 1970 s.380(3)
- M4** Source - 1970 s.380(4)
- M5** Source - 1970 s.380(5)

### 525 Capital sums: death, winding up or partnership change.

- (1) <sup>M6</sup>Where a person on whom, by reason of the receipt of a capital sum, a charge falls or would otherwise fall to be made under section 524 dies or, being a body corporate, commences to be wound up—
- (a) no sums shall be charged under that section on that person for any chargeable period subsequent to that in which the death takes place or the winding up commences; and
  - (b) the amount falling to be charged for the chargeable period in which the death occurs or the winding up commences shall, subject to subsection (2) below, be increased by the total amounts which, but for the death or winding up, would have fallen to be charged for subsequent chargeable periods.
- (2) In the case of a death the personal representatives may, by notice served on the inspector not later than 30 days after notice has been served on them of the charge falling to be made by virtue of subsection (1) above, require that the income tax payable out of the estate of the deceased by reason of the increase provided for by that subsection shall be reduced so as not to exceed the total amount of income tax which would have been payable by him or out of his estate by reason of the operation of section 524 in relation to that sum, if, instead of the amount falling to be charged

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for the year in which the death occurs being increased by the whole amount of the sums charged for subsequent years, the several amounts falling to be charged for the years beginning with that in which the capital sum was received and ending with that in which the death occurred had each been increased by that whole amount divided by the number of those years.

- (3) <sup>M7</sup>Where, under [<sup>F9</sup>section 559 of the Capital Allowances Act (effect of successions)] as applied by section 532, a charge under section 524 falls to be made on two or more persons jointly as being the persons for the time being carrying on a trade, and that trade is discontinued, subsection (1) above shall have effect in relation to the discontinuance as it has effect where a body corporate commences to be wound up.
- (4) Where subsection (3) above applies—
- (a) the additional sum which, under subsection (1) above, falls to be charged for the chargeable period in which the discontinuance occurs shall be apportioned among the members of the partnership immediately before the discontinuance, according to their respective interests in the partnership profits before the discontinuance, and each partner (or, if he is dead, his personal representatives) shall be charged separately for his proportion; and
  - (b) each partner (or, if he is dead, his personal representatives) shall have the same right to require a reduction of the total income tax payable by him or out of his estate by reason of the increase as would have been exercisable by the personal representatives under subsection (2) above in the case of a death, and that subsection shall have effect accordingly, but as if references to the amount of income tax which would have been payable by the deceased or out of his estate in the event therein mentioned were a reference to the amount of income tax which would in that event have fallen to be paid or borne by the partner in question or out of his estate.
- (5) <sup>F10</sup> .....

**Textual Amendments**

- F9** Words in s. 525(3) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 45](#)
- F10** S. 525(5) repealed (with effect in accordance with Sch. 14 Pt. 8 Note 4 of the repealing Act) by [Finance Act 1988 c. 39, Sch. 14 Pt. 8](#)

**Marginal Citations**

- M6** Source - 1970 s.381(1)  
**M7** Source - 1970 s.381(2)

**526 Relief for expenses.**

- <sup>M8</sup>(1) Where—
- (a) a person, otherwise than for the purposes of a trade carried on by him, pays any fees or incurs any expenses in connection with the grant or maintenance of a patent, or the obtaining of an extension of a term of a patent, or a rejected or abandoned application for a patent, and
  - (b) those fees or expenses would, if they had been paid or incurred for the purposes of a trade, have been allowable as a deduction in estimating the [<sup>F11</sup>profits] of that trade,

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there shall be made to him, for the chargeable period in which those expenses were paid or incurred, an allowance equal to the amount thereof.

- (2) Where a patent is granted in respect of any invention, an allowance equal to so much of the net amount of any expenses incurred by an individual who, whether alone or in conjunction with any other person, actually devised the invention as is properly ascribable to the devising thereof (not being expenses in respect of which, or of assets representing which, an allowance falls to be made under any other provision of the Income Tax Acts) shall be made to that individual for the year of assessment in which the expenses were incurred.

#### Textual Amendments

**F11** Word in s. 526(1)(b) substituted (31.7.1998) by [Finance Act 1998 \(c. 36\)](#), s. 46(3)(a), [Sch. 7 para. 1](#)

#### Marginal Citations

**M8** Source - 1970 s.382

### 527 Spreading of royalties over several years.

<sup>M9</sup>(1) Where a royalty or other sum to which section 348 or 349(1) applies is paid in respect of the user of a patent, and that user extended over a period of six complete years or more, the person receiving the payment may on the making of a claim require that the income tax or corporation tax payable by him by reason of the receipt of that sum shall be reduced so as not to exceed the total amount of income tax or corporation tax which would have been payable by him if that royalty or sum had been paid in six equal instalments at yearly intervals, the last of which was paid on the date on which the payment was in fact made.

(2) Subsection (1) above shall apply in relation to a royalty or other sum where the period of the user is two complete years or more but less than six complete years as it applies to the royalties and sums mentioned in that subsection, but with the substitution for the reference to six equal instalments of a reference to so many equal instalments as there are complete years comprised in that period.

(3) <sup>F12</sup> .....

(4) Nothing in this section shall apply to any sum to which section 349(1) applies by virtue of section 524(3)(b).

#### Textual Amendments

**F12** [S. 527\(3\)](#) repealed (with effect in accordance with Sch. 14 Pt. 8 Note 5 of the repealing Act) by [Finance Act 1988 \(c. 39\)](#), [Sch. 14 Pt. 8](#)

#### Marginal Citations

**M9** Source - 1970 s.384

### 528 Manner of making allowances and charges.

<sup>M10</sup>(1) <sup>F13</sup> .....

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- (2) Where an allowance falls to be made to a person for any year of assessment under [F14 section 526 as that provision applies] for the purposes of income tax, and the allowance is not to be made in taxing a trade—
- (a) the amount of the allowance shall be deducted from or set off against his income from patents for that year of assessment, and
  - (b) if the amount to be allowed is greater than the amount of his income from patents for that year of assessment, the balance shall be deducted from or set off against his income from patents for the next year of assessment, and so on for subsequent years of assessment, and tax shall be discharged or repaid accordingly.

Relief shall be given under this subsection on the making of a claim.

- (3) Where an allowance falls to be made to a company for any accounting period under [F14 section 526 as that provision applies] for the purposes of corporation tax, and is not to be made in taxing a trade—
- (a) the allowance shall, as far as may be, be given effect by deducting the amount of the allowance from the company's income from patents of the accounting period;
  - (b) where the allowance cannot be given full effect under paragraph (a) above in that period by reason of a want or deficiency of income from patents, then (so long as the company remains within the charge to corporation tax) the amount unallowed shall be carried forward to the succeeding accounting period, and shall be treated for the purposes of that paragraph, and of any further application of this paragraph, as the amount of a corresponding allowance for that period.

[F15(3A) In this section references to a person's or a company's income from patents are references to that income after any allowance has been deducted from or set off against it under section 479 or 480 of the Capital Allowances Act.]

(4) F13 .....

**Textual Amendments**

- F13** S. 528(1)(4) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 46\(1\)\(4\), Sch. 4](#)
- F14** Words in s. 528(2)(3) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 46\(2\)](#)
- F15** S. 528(3A) inserted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 46\(3\)](#)

**Marginal Citations**

- M10** Source-1970 s.385; 1985 s.64(2)(d)-(f)

**529 Patent income to be earned income in certain cases.**

<sup>M11</sup>(1) Subject to subsection (2) below, any income from patent rights arising to an individual where the patent was granted for an invention actually devised by him, whether alone or jointly with any other person, shall be treated for all purposes as earned income.

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- (2) Where any part of the rights in question or of any rights out of which they were granted has at any time belonged to any other person, so much only of that income shall be treated as earned income as is not properly attributable to the rights which have belonged to that other person.

#### Marginal Citations

**M11** Source-1970 s.383

### 530 Disposal of know-how.

**F16** .....

#### Textual Amendments

**F16** S. 530 repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 47, Sch. 4](#)

### 531 Provisions supplementary to section 530.

- (1) <sup>M12</sup>Subject to subsection (7) below, where, after 19th March 1968, a person disposes of know-how which has been used in a trade carried on by him, and continues to carry on the trade after the disposal, the amount or value of any consideration received by him for the disposal shall—
- (a) if it is received in respect of the disposal of know-how after 31st March 1986, so far as it is not brought into account [<sup>F17</sup>as a disposal value under section 462 of the Capital Allowances Act], nor is chargeable to tax as a revenue or income receipt;
  - (b) in any other case, so far as it is not chargeable to tax as a revenue or income receipt,
- be treated for all purposes as a trading receipt.
- (2) <sup>M13</sup>Subject to subsection (3) below, where, after 19th March 1968, a person disposes of a trade or part of a trade and, together with that trade or part, of know-how used in it, any consideration received by him for the know-how shall be dealt with in relation both to him and to the person acquiring the know-how, if that person provided the consideration, and for the purposes of corporation tax, income tax and capital gains tax, as a payment for goodwill.
- (3) Subsection (2) above shall not apply—
- (a) to either of the persons concerned if they so elect by notice given jointly to the inspector within two years of the disposal, or
  - (b) to the person acquiring the know-how if the trade in question was, before the acquisition, carried on wholly outside the United Kingdom;
- F18** .....
- (4) <sup>M14</sup>Subject to subsections (5) and (7) below, any consideration received by a person for the disposal of know-how shall—



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- (a) if it is received in respect of the disposal of know-how after 31st March 1986 and is not brought into account [<sup>F19</sup>as a disposal value under section 462 of the Capital Allowances Act], or
- (b) if it is neither chargeable to tax under subsection (1) above or otherwise as a revenue or income receipt, nor dealt with in relation to him as a payment for goodwill as mentioned in subsection (2) above, (whether the disposal took place before or after 31st March 1986),

be treated as a profit or gain chargeable to tax under Case VI of Schedule D.

- (5) <sup>M15</sup>Where the person concerned has incurred expenditure wholly and exclusively in the acquisition or disposal of the know-how, the amount which would apart from this subsection be treated as a profit or gain chargeable to tax under Case VI of Schedule D shall be reduced by the amount of that expenditure; but a deduction shall not be twice made in respect of the same expenditure, whether under this subsection or otherwise.
- (6) Where subsection (4) above has effect in the case of an individual who devised the know-how in question, whether alone or jointly with any other person, the amount in respect of which he is chargeable to tax by virtue of that subsection shall be treated for all purposes as earned income.
- (7) Subsections (1) and (3) to (6) above <sup>F20</sup>. . . shall not apply on any sale of know-how where the buyer is a body of persons over whom the seller has control, or the seller is a body of persons over whom the buyer has control, or both the seller and the buyer are bodies of persons and some other person has control over both of them; and subsection (2) above shall apply in any such case with the omission of the words “Subject to subsection (3) below”.

In this subsection references to a body of persons include references to a partnership.

- (8) <sup>M16</sup>Where in connection with any disposal of know-how a person gives an undertaking (whether absolute or qualified, and whether legally valid or not) the tenor or effect of which is to restrict his or another’s activities in any way, any consideration received in respect of the giving of the undertaking or its total or partial fulfilment shall be treated for the purposes of this section as consideration received for the disposal of the know-how.

#### Textual Amendments

- F17** Words in s. 531(1) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 48\(1\)](#)
- F18** Words in s. 531(3) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 48\(2\), Sch. 4](#)
- F19** Words in s. 531(4)(a) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 48\(3\)](#)
- F20** Words in s. 531(7) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 48\(4\), Sch. 4](#)

#### Modifications etc. (not altering text)

- C3** S. 531(2)(7) excluded (8.11.1995) by [Atomic Energy Authority Act 1995 \(c. 37\), Sch. 3 para. 19\(2\)](#)

#### Marginal Citations

- M12** Source-1970 s.386(2); 1985 s.65(3)(a)
- M13** Source-1970 s.386(3)

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- M14** Source-1970 s.386(4); 1985 s.65(3)(b)  
**M15** Source-1970 s.386(4)-(6)  
**M16** Source-1970 s.386(8); 1985 Sch.18 Part II 8

## [<sup>F21</sup>532 Application of Capital Allowances Act

The Tax Acts have effect as if sections 524 to 529 and 531, this section and section 533 were contained in the Capital Allowances Act.]

### Textual Amendments

- F21** S. 532 substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 49](#)

## 533 Interpretation of sections 520 to 532.

- (1) <sup>M17</sup>In [<sup>F22</sup>sections 524 to 529]—
- “income from patents” means—
- (a) any royalty or other sum paid in respect of the user of a patent; and
- (b) any amount on which tax is payable for any chargeable period by virtue of section <sup>F23</sup> . . . 524 or 525 [<sup>F24</sup>or section 472(5) of, or paragraph 100 of Schedule 3 to, the Capital Allowances Act];
- <sup>F25</sup> . . . . .
- “patent rights” means the right to do or authorise the doing of anything which would, but for that right, be an infringement of a patent;
- “United Kingdom patent” means a patent granted under the laws of the United Kingdom.
- (2) Subject to subsection (3) below, in [<sup>F22</sup>sections 524 to 529] any reference to the sale of part of patent rights includes a reference to the grant of a licence in respect of the patent in question, and any reference to the purchase of patent rights includes a reference to the acquisition of a licence in respect of a patent.
- (3) If a licence granted by a person entitled to any patent rights is a licence to exercise those rights to the exclusion of the grantor and all other persons for the whole of the remainder of the term for which the right subsists, the grantor shall be treated for the purposes of [<sup>F22</sup>sections 524 to 529] as thereby selling the whole of the rights.
- (4) Where, under sections 46 to 49 of the Patents Act 1949 [<sup>F26</sup>, sections 55 to 59 of the Patents Act 1977] or any corresponding provisions of the law of any country outside the United Kingdom, an invention which is the subject of a patent is made, used, or exercised or vended by or for the service of the Crown or the government of the country concerned, [<sup>F22</sup>sections 524 to 529] shall have effect as if the making, user, exercise or vending of the invention had taken place in pursuance of a licence, and any sums paid in respect thereof shall be treated accordingly.
- (5) Expenditure incurred in obtaining a right to acquire in the future patent rights as respects any invention in respect of which the patent has not yet been granted shall be deemed for all the purposes of [<sup>F22</sup>sections 524 to 529] to be expenditure on the purchase of patent rights, and if the patent rights are subsequently acquired the

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expenditure shall be deemed for those purposes to have been expenditure on the purchase of those rights.

- (6) Any sum received from a person which by virtue of subsection (5) above is deemed to be expenditure incurred by him on the purchase of patent rights shall be deemed to be proceeds of a sale of patent rights.
- (7) <sup>M18</sup>In [<sup>F27</sup>section 531]“know-how” means any industrial information and techniques likely to assist in the manufacture or processing of goods or materials, or in the working of a mine, oil-well or other source of mineral deposits (including the searching for, discovery or testing of deposits or the winning of access thereto), or in the carrying out of any agricultural, forestry or fishing operations.

#### Textual Amendments

- F22** Words in ss. 533(1)-(5) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 50\(1\)](#)
- F23** Words in s. 533(1) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 50\(2\)\(b\), Sch. 4](#)
- F24** Words in s. 533(1) inserted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para 50\(2\)\(a\)](#)
- F25** Words in s. 533(1) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 4\), Sch. 2 para. 50\(2\)\(b\), Sch. 4](#)
- F26** Words in s. 533(4) inserted (with retrospective effect) by Finance Act 1988, Sch. 13 Pt. 1 paras. 5, 1
- F27** Words in s. 533(7) substituted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 50\(3\)](#)

#### Marginal Citations

- M17** Source-1970 s.388; 1985 s.64(2)(g)
- M18** Source-1970 s.386(8); 1985 Sch.18 Part II 8

### *Copyright and public lending right*

#### **534 Relief for copyright payments etc.**

<sup>F28</sup> .....

#### Textual Amendments

- F28** [S. 534](#) repealed (with effect in accordance with s. 71(3) of the repealing Act) by [Finance Act 2001 \(c. 9\), Sch. 33 Pt. 2\(6\)](#)

#### **535 Relief where copyright sold after ten years or more.**

<sup>F29</sup> .....

#### Textual Amendments

- F29** [S. 535](#) repealed (with effect in accordance with s. 71(3) of the repealing Act) by [Finance Act 2001 \(c. 9\), Sch. 33 Pt. 2\(6\)](#)

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### 536 Taxation of royalties where owner abroad.

- <sup>M19</sup>(1) Subject to the provisions of this section, where the usual place of abode of the owner of a copyright is not within the United Kingdom, section 349(1) shall apply to any payment of or on account of any royalties or sums paid periodically for or in respect of that copyright as it applies to annual payments not payable out of profits or gains brought into charge to income tax.
- (2) In subsection (1) above—
- [<sup>F30</sup>“copyright” does not include copyright in—
- (i) a cinematograph film or video recording, or
- (ii) the sound-track of such a film or recording, so far as it is not separately exploited; and]
- “owner of a copyright” includes a person who, notwithstanding that he has assigned a copyright to some other person, is entitled to receive periodical payments in respect of that copyright;
- and the reference to royalties or sums paid periodically for or in respect of a copyright does not include royalties or sums paid in respect of copies of works which <sup>F31</sup> . . . have been exported from the United Kingdom for distribution outside the United Kingdom.
- (3) Subject to subsection (4) below, where any payment to which subsection (1) above applies is made through an agent resident in the United Kingdom and that agent is entitled as against the owner of the copyright to deduct any sum by way of commission in respect of services rendered, the amount of the payment shall for the purposes of section 349(1) be taken to be diminished by the sum which the agent is so entitled to deduct.
- (4) Where the person by or through whom the payment is made does not know that any such commission is payable or does not know the amount of any such commission, any income tax deducted by or assessed and charged on him shall be computed in the first instance on, and the account to be delivered of the payment shall be an account of, the total amount of the payment without regard being had to any diminution thereof <sup>F32</sup> . . . .
- (5) The time of the making of a payment to which subsection (1) above applies shall, for all tax purposes, be taken to be the time when it is made by the person by whom it is first made and not the time when it is made by or through any other person.
- (6) Any agreement for the making of any payment to which subsection (1) above applies in full and without deduction of income tax shall be void.

#### Textual Amendments

- F30** Words in s. 536(2) substituted (1.8.1989) by [Copyright, Designs and Patents Act 1988 \(c. 48\)](#), [Sch. 7 para. 36\(5\)](#); S.I. 1989/816, [art. 2](#)
- F31** Words in s. 536(2) repealed (with effect in accordance with s. 103(7) of the repealing Act) by [Finance Act 1995 \(c. 4\)](#), s. 115(10)(a), [Sch. 29 Pt. 8\(14\)](#), Note 2
- F32** Words in s. 536(4) repealed (with effect in accordance with s. 103(7) of the repealing Act) by [Finance Act 1995 \(c. 4\)](#), s. 115(10)(b), [Sch. 29 Pt. 8\(14\)](#), Note 2

#### Modifications etc. (not altering text)

- C4** See—1988 s.387—*sums assessed under s.350 by virtue of s.536 not to be carried forward under s.387 as trading losses.* 1988 s.821—*under-deductions of tax from payments made before passing of annual Act.* S.I. 1970 No.488 (*under “Double Taxation relief: general”*)

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in Part III Vol.5) regns.2-10—payments exempt under double taxation agreements.

**Marginal Citations**

**M19** Source-1970 s.391

**537 Public lending right.**

[<sup>F33M20</sup>Section 536] shall have effect in relation to public lending right as [<sup>F34</sup>it has] effect in relation to copyright.

**Textual Amendments**

**F33** Words in s. 537 substituted (with application in accordance with Sch. 24 para. 4(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 24 para. 4(1)(a)

**F34** Words in s. 537 substituted (with application in accordance with Sch. 24 para. 4(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 24 para. 4(1)(b)

**Marginal Citations**

**M20** Source-1983 s.27(b)

*[<sup>F35</sup> Designs*

**Textual Amendments**

**F35** Ss. 537A, 537B and preceding cross-heading inserted (1.8.1989) by Intellectual Property Act 1988 (c. 48), Sch. 7 para. 36(6); S.I. 1989/816, art. 2

**537A Relief for payments in respect of designs.**

<sup>F36</sup> .....

**Textual Amendments**

**F36** S. 537A repealed (with effect in accordance with s. 71(3) of the repealing Act) by Finance Act 2001 (c. 9), Sch. 33 Pt. 2(6)

**537B Taxation of design royalties where owner abroad.**

- (1) Where the usual place of abode of the owner of a right in a design is not within the United Kingdom, section 349(1) shall apply to any payment of or on account of any royalties or sums paid periodically for or in respect of that right as it applies to annual payments not payable out of profits or gains brought into charge to income tax.
- (2) In subsection (1) above—
  - (a) “right in a design” means design right or the right in a registered design,
  - (b) the reference to the owner of a right includes a person who, notwithstanding that he has assigned the right to some other person, is entitled to receive periodical payments in respect of the right, and

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- (c) the reference to royalties or other sums paid periodically for or in respect of a right does not include royalties or sums paid in respect of articles which<sup>F37</sup> . . . have been exported from the United Kingdom for distribution outside the United Kingdom.
- (3) Where a payment to which subsection (1) above applies is made through an agent resident in the United Kingdom and that agent is entitled as against the owner of the right to deduct any sum by way of commission in respect of services rendered, the amount of the payment shall for the purpose of section 349(1) be taken to be diminished by the sum which the agent is entitled to deduct.
- (4) Where the person by or through whom the payment is made does not know that any such commission is payable or does not know the amount of any such commission, any income tax deducted by or assessed and charged on him shall be computed in the first instance on, and the account to be delivered of the payment shall be an account of, the total amount of the payment without regard being had to any diminution thereof<sup>F38</sup> . . . .
- (5) The time of the making of a payment to which subsection (1) above applies shall, for all tax purposes, be taken to be the time when it is made by the person by whom it is first made and not the time when it is made by or through any other person.
- (6) Any agreement for the making of any payment to which subsection (1) above applies in full and without deduction of income tax shall be void.

#### Textual Amendments

**F37** Words in s. 537B(2) repealed (with effect in accordance with s. 103(7) of the repealing Act) by Finance Act 1995 (c. 4), s. 115(10)(a), **Sch. 29 Pt. 8(14)**, Note 2

**F38** Words in s. 537B(4) repealed (with effect in accordance with s. 103(7) of the repealing Act) by Finance Act 1995 (c. 4), s. 115(10)(b), **Sch. 29 Pt. 8(14)**, Note 2

#### *Artists' receipts*

### 538 Relief for painters, sculptors and other artists.

<sup>F39</sup> . . . . .

#### Textual Amendments

**F39** S. 538 repealed (with effect in accordance with s. 71(3) of the repealing Act) by Finance Act 2001 (c. 9), **Sch. 33 Pt. 2(6)**

## CHAPTER II

### LIFE POLICIES, LIFE ANNUITIES AND CAPITAL REDEMPTION POLICIES

#### Modifications etc. (not altering text)

**C5** Pt. 13 Ch. 2 restricted (with effect in accordance with s. 105(1) of the affecting Act) by Finance Act 1996 (c. 8), **Sch. 13 para. 3(2)** (with Sch. 13 para. 16)

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- C6** Pt. 13 Ch. 2 applied (with modifications) (6.4.1999) by [The Individual Savings Account Regulations 1998 \(S.I. 1998/1870\)](#), [regs. 35\(7\), 36\(3\)-\(7\)](#) (as amended by [The Individual Savings Account \(Amendment\) Regulations 1998 \(S.I. 1998/3174\)](#)), [reg. 12](#)
- C7** Pt. 13 Ch. 2 applied (with modifications) (6.4.1999 with effect in accordance with reg. 1 of the affecting S.I.) by [The Personal Portfolio Bonds \(Tax\) Regulations 1999 \(S.I. 1999/1029\)](#), [reg. 6\(2\)-\(8\)](#) (as amended (6.4.2002) by [The Personal Portfolio Bonds \(Tax\) \(Amendment\) Regulations 2002 \(S.I. 2002/455\)](#)), [regs. 1, 2](#))

### 539 Introductory.

- (1) <sup>M21</sup>This Chapter shall have effect for the purposes of imposing, in the manner and to the extent therein provided, charges to tax,<sup>F40</sup> . . . , in respect of gains to be treated in accordance with this Chapter as arising in connection with policies of life insurance, contracts for life annuities and capital redemption policies.
- (2) <sup>M22</sup>Nothing in this Chapter shall apply—
- to any policy of life insurance having as its sole object the provision on an individual's death or disability of a sum substantially the same as any amount then outstanding under a mortgage of his residence, or of any premises occupied by him for the purposes of a business, being a mortgage the principal amount secured by which is repayable by instalments payable annually or at shorter regular intervals; or
  - to any policy of life insurance issued in connection with an approved scheme, as defined in Chapter I of Part XIV; or
  - <sup>M23</sup>to a policy of insurance which constitutes, or is evidence of, a contract for the time being approved under section 621<sup>F41</sup>; or
  - to any policy of life insurance held in connection with a personal pension scheme, within the meaning of Chapter IV of Part XIV, for the time being approved under that Chapter].

In the application of this subsection to Scotland, for the reference to a mortgage there shall be substituted a reference to a heritable security within the meaning of the <sup>M24</sup>Conveyancing (Scotland) Act 1924 (but including a security constituted by ex facie absolute disposition or assignation).

- (3) <sup>M25</sup>In this Chapter—
- “assignment”, in relation to Scotland, means an assignation;
- “capital redemption policy” means any <sup>F42</sup>contract] effected in the course of a capital redemption business as defined in section 458(3);
- <sup>F43</sup>“friendly society” means the same as in the Friendly Societies Act 1992 (and includes any society that by virtue of section 96(2) of that Act is to be treated as a registered friendly society within the meaning of that Act);] and
- “life annuity” means any annuity to which sections 656 and 657 apply and any annuity the contract for which is made on or after 1st June 1984 by a friendly society or branch thereof in the course of life or endowment business as defined in section 466.

<sup>F44</sup>(3A) References in this Chapter to assignment of the whole of, or assignment of part of or a share in, the rights conferred by a policy or contract shall, in any case where section 546A applies, be construed in accordance with that section.]

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- (4) <sup>M26</sup>For the purposes of this Chapter the falling due of a sum payable in pursuance of a right conferred by a policy or contract to participate in profits shall be treated as the surrender of rights conferred by the policy or contract.
- (5) <sup>M27</sup>This Chapter shall have effect only as respects policies of life insurance issued in respect of insurances made after 19th March 1968, contracts for life annuities entered into after that date, and capital redemption policies effected after that date.
- (6) A policy of life insurance issued in respect of an insurance made on or before 19th March 1968 shall be treated for the purposes of subsection (5) above and the following provisions of this Chapter as issued in respect of one made after that date if it is varied after that date so as to increase the benefits secured or to extend the term of the insurance.
- (7) A variation effected before the end of the year 1968 shall be disregarded for the purposes of subsection (6) above if its only effect was to bring into conformity with paragraph 2 of Schedule 9 to the Finance Act 1968 (which is re-enacted, as amended, by paragraph 2 of Schedule 15 to this Act) a policy previously conforming therewith except as respects the amount guaranteed on death, and no increase was made in the premiums payable under the policy.
- (8) Subsections (1) to (7) above do not apply in relation to section 554.
- [<sup>F45</sup>(9) A policy of life insurance issued in respect of an insurance made before 14th March 1989 shall be treated for the purposes of sections 540(5A), 547(8) and 548(3A) as issued in respect of one made on or after that date if it is varied on or after that date so as to increase the benefits secured or to extend the term of the insurance; and any exercise of rights conferred by the policy shall be regarded for this purpose as a variation.]

#### Textual Amendments

- F40** Words in s. 539(1) repealed (with effect in accordance with Sch. 17 Pt. 5 Note 6 of the repealing Act) by [Finance Act 1989 \(c. 26\)](#), [Sch. 17 Pt. 5](#)
- F41** S. 539(2)(d) and preceding word inserted (with effect in accordance with [Sch. 13 para. 2\(3\)](#) of the amending Act) by [Finance Act 2000 \(c. 17\)](#), [Sch. 13 para. 2\(2\)](#) (with [Sch. 13 Pt. 2](#))
- F42** S. 539(3): word in definition of "capital redemption policy" substituted (with effect in accordance with s. 168(6) of the amending Act) by [Finance Act 1996 \(c. 8\)](#), [s. 168\(4\)](#)
- F43** S. 539(3): definition of "friendly society" inserted (19.2.1993) by [Finance \(No. 2\) Act 1992 \(c. 48\)](#), s. 56, [Sch. 9 para.15](#); [S.I. 1993/236](#), [art. 2](#)
- F44** S. 539(3A) inserted (with effect in accordance with s. 83(2) of the amending Act) by [Finance Act 2001 \(c. 9\)](#), [Sch. 28 para. 2](#)
- F45** S. 539(9) inserted (with effect in accordance with [Sch. 9 para. 8](#) of the amending Act) by [Finance Act 1989 \(c. 26\)](#), [Sch. 9 para. 2](#)

#### Marginal Citations

- M21** Source-1970 s.393(1); 1971 Sch.6 41; 1972 Sch.24 23
- M22** Source-1970 s.393(2)(a), (c); 1971 Sch.3 11
- M23** Source-1970 s.393(2A); 1971 Sch.2 6
- M24** 1924 c. 27.
- M25** Source-1970 s.393(3); 1985 s.41(8) 56, Sch. 9 para. 15
- M26** Source-1975 Sch.2 15
- M27** Source-1970 s.393(4), (5)



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VALID FROM 06/04/2005

**[<sup>F46</sup>539ZA] Application of this Chapter etc. to policies and contracts in which persons other than companies are interested**

- (1) This section applies where, for the purposes of determining the application of this Chapter in relation to a policy or contract at any time, it is necessary to have regard to its application at another time.
- (2) It makes no difference to the application of this Chapter at that other time whether liability in respect of a gain arising at that time would have arisen or (as the case may be) would arise because of the application of this Chapter or Chapter 9 of Part 4 of ITTOIA 2005 (which makes provision for income tax purposes corresponding to that made by this Chapter).
- (3) References in this section to this Chapter include references to paragraph 20 of Schedule 15 to this Act and section 79 of the Finance Act 1997 (payments under certain life insurance policies).]

**Textual Amendments**

- F46** S. 539ZA inserted (6.4.2005 with effect in accordance with s. 883(1) of the amending Act) by [Income Tax \(Trading and Other Income\) Act 2005 \(c. 5\)](#), [Sch. 1 para. 211](#) (with [Sch. 2](#))

VALID FROM 09/04/2003

**[<sup>F47</sup>539A] The conditions for being an excepted group life policy**

- (1) The conditions mentioned in section 539(2)(f) (excepted group life policies) are those set out in the following provisions of this section.
- (2) Condition 1 is that under the terms of the policy a sum or other benefit of a capital nature is payable or arises on the death of each of the individuals insured under the policy who dies without attaining an age which is specified in the policy and is not greater than 75 years.  
  
In determining whether this condition is satisfied, disregard any terms of the policy which exclude from benefit the death of a person in specified circumstances, if the exclusion applies in relation to death in those circumstances in the case of each of the individuals insured under the policy.
- (3) Condition 2 is that under the terms of the policy—
  - (a) the same method is to be used for calculating the sums or other benefits of a capital nature payable or arising on each death, and
  - (b) if there is any limitation on those sums or other benefits, the limitation is the same in the case of any death.
- (4) Condition 3 is that the policy does not have, and is not capable of having, on any day—

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- (a) a surrender value that exceeds the proportion of the premiums paid which, on a time apportionment, is referable to the unexpired paid-up period beginning with that day, or
- (b) if there is no such period, any surrender value.

For the purposes of this subsection the unexpired paid-up period beginning with any day is the period (if any) which—

- (i) begins with that day, and
- (ii) ends with the earliest subsequent day on which—
  - (a) a payment of premium falls due under the policy, or
  - (b) the term of the policy ends.

(5) Condition 4 is that no sums or other benefits may be paid or conferred under the policy, except as mentioned in condition 1 or condition 3.

(6) Condition 5 is that any sums payable or other benefits arising under the policy must (whether directly or indirectly) be paid to or for, or conferred on, or applied at the direction of—

- (a) an individual or charity beneficially entitled to them, or
- (b) a trustee or other person acting in a fiduciary capacity who will secure that the sums or other benefits are paid to or for, or conferred on, or applied in favour of, an individual or charity beneficially.

In this subsection “charity” means any body of persons or trust established for charitable purposes only.

(7) Condition 6 is that no person—

- (a) who is an individual whose life is insured under the policy, or
- (b) who is, within the meaning of section 839, connected with an individual whose life is so insured,

may, by virtue of a group membership right relating to that individual, receive (directly or indirectly) any death benefit in respect of another group member.

In this subsection—

- (i) “group membership right”, in relation to an individual, means any right (including the right of any person to be considered by trustees in their exercise of a discretion) that is referable to that individual’s being one of the individuals whose lives are insured by the policy; and
- (ii) “death benefit in respect of another group member” means—
  - (a) any sums or other benefits payable or arising under the policy on the death of any other of those individuals, or
  - (b) anything representing any such sums or benefits.

(8) Condition 7 is that a tax avoidance purpose is not the main purpose, or one of the main purposes, for which a person is at any time—

- (a) the holder, or one of the holders, of the policy, or
- (b) the person, or one of the persons, beneficially entitled under the policy.

In this subsection—

- (i) “tax avoidance purpose” means any purpose that consists in securing a tax advantage (whether for the holder of the policy or any other person); and
- (ii) “tax advantage” has the same meaning as in Chapter 1 of Part 17 (tax avoidance).]

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### Textual Amendments

F47 S. 539A inserted (9.4.2003) by Finance Act 2003 (c. 14), s. 171(1)(3), Sch. 34 para. 2

## 540 Life policies: chargeable events.

- (1) <sup>M28</sup>Subject to the provisions of this section, in this Chapter “chargeable event” means, in relation to a policy of life insurance—
- (a) if it is not a qualifying policy, any of the following—
    - (i) any death giving rise to benefits under the policy;
    - (ii) the maturity of the policy;
    - (iii) the surrender in whole of the rights conferred by the policy;
    - (iv) the assignment for money or money’s worth of those rights; and
    - (v) [<sup>F48</sup>subject to section 546B(3)(a),] an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3) of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section) except, if it ends with another chargeable event, the final year; and
  - (b) if it is a qualifying policy (whether or not the premiums thereunder are eligible for relief under section 266), any of the above events, but—
    - (i) in the case of death or maturity, only if the policy is converted into a paid-up policy before the expiry of ten years from the making of the insurance, or, if sooner, of three-quarters of the term for which the policy is to run if not ended by death or disability;
    - (ii) in the case of a surrender or assignment or [<sup>F49</sup>(subject to section 546B(3)(a))] such an excess as is mentioned in paragraph (a) (v) above, only if it is effected or occurs within that time, or the policy has been converted into a paid-up policy within that time.
- (2) <sup>M29</sup>The maturity of a policy is not a chargeable event in relation thereto if—
- (a) a new policy is issued in consequence of the exercise of an option conferred by the maturing policy, and
  - (b) the whole of the sums becoming payable under the maturing policy are retained by the company with whom the insurance was made and applied in the payment of one or more premiums under the new policy,
- unless the circumstances are such that the person making the insurance in respect of which the new policy is issued was an infant when the former policy was issued, and the former policy was one securing a capital sum payable either on a specified date falling not later than one month after his attaining 25 or on the anniversary of the policy immediately following his attainment of that age.
- (3) <sup>M30</sup>Except as provided by section 544, no event is a chargeable event in relation to a policy issued in respect of an insurance made before 26th June 1982 if the rights conferred by the policy have at any time before that date and before the event been assigned for money or money’s worth and are not at the time of the event held by the original beneficial owner.
- (4) <sup>M31</sup>No account shall be taken for the purposes of [<sup>F50</sup>subsections (1) and (3) above] of any assignment effected by way of security for a debt, or on the discharge of a debt

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secured by the rights or share concerned, or of any assignment between spouses living together.

- (5) Where subsection (1)(b) applies to a policy which has been varied so as to increase the premiums payable thereunder, it shall so apply as if the references in subsection (1)(b)(i) to the making of the insurance and the term of the policy were references respectively to the taking effect of the variation and the term of the policy as from the variation.
- [<sup>F51</sup>(5A) Sub-paragraphs (i) and (ii) of subsection (1)(b) above shall not apply in relation to a policy issued in respect of an insurance made on or after 14th March 1989 if, immediately before the happening of the event, the rights conferred by the policy were in the beneficial ownership of a company, or were held on trusts created, or as security for a debt owed, by a company.]
- (6) <sup>M32</sup>This section has effect subject to paragraph 20 of Schedule 15.

#### Textual Amendments

- F48** Words in s. 540(1)(a)(v) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 3(2)**
- F49** Words in s. 540(1)(b)(ii) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 3(3)**
- F50** Words in s. 540(4) substituted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), **Sch. 9 para. 3(2)**
- F51** S. 540(5A) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), **Sch. 9 para. 3(3)**

#### Marginal Citations

- M28** Source-1970 s.394(1), (2); 1975 Sch.2 9(1), (2)
- M29** Source-1970 s.394(3); 1984 s.75(1)
- M30** Source-1970 s.394(4); 1983 s.18(1) 1975 Sch.2 10
- M31** Source-1970 s.394(5), (6); 1975 Sch.2 10
- M32** Source-1982 s.34

### 541 Life policies: computation of gain.

- (1) <sup>M33</sup>On the happening of a chargeable event in relation to any policy of life insurance, there shall be treated as a gain arising in connection with the policy—
- (a) if the event is a death, the excess (if any) of the surrender value of the policy immediately before the death, plus the amount or value of any relevant capital payments, over the sum of the following—
- (i) the total amount previously paid under the policy by way of premiums; and
- (ii) the total amount treated as a gain by virtue of paragraph (d) below [<sup>F52</sup>or section 546C(7)(b)] on the previous happening of chargeable events;
- (b) if the event is the maturity of the policy, or the surrender in whole of the rights thereby conferred, the excess (if any) of the amount or value of the sum payable or other benefits arising by reason of the event, plus the amount or value of any relevant capital payments, over the sum of the following—

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- (i) the total amount previously paid under the policy by way of premiums; and
  - (ii) the total amount treated as a gain by virtue of paragraph (d) below [<sup>F52</sup>or section 546C(7)(b)] on the previous happening of chargeable events;
- (c) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the policy, over the sum of the following—
- (i) the total amount previously paid under the policy by way of premiums; and
  - (ii) the total amount treated as a gain by virtue of paragraph (d) below [<sup>F52</sup>or section 546C(7)(b)] on the previous happening of chargeable events;
- (d) if the event is the occurrence of such an excess as is mentioned in section 540(1)(a)(v), the amount of the excess [<sup>F53</sup>(subject to section 546B(3)(a))].
- (2) <sup>M34</sup>Where, in a case falling within subsection (1)(b) above, a right to periodical payments arises by reason of the event, there shall be treated as payable by reason thereof an amount equal to the capital value of those payments at the time the right arises.
- (3) Where, in a case falling within subsection (1)(c) above, the assignment is between persons who are connected with each other within the meaning of section 839, the assignment shall be deemed to have been made for a consideration equal to the market value of the rights or share assigned.
- (4) <sup>F54</sup>.....
- [<sup>F55</sup>(4A) Where, immediately before the happening of the chargeable event, the rights conferred by a qualifying endowment policy are held as security for a debt owed by a company, then, if—
- (a) the conditions in subsection (4B) below are satisfied,
  - (b) the amount of the debt exceeds the total amount previously paid under the policy by way of premiums, and
  - (c) the company makes a claim for the purpose within two years after the end of the accounting period in which the chargeable event happens,
- this section shall have effect as if the references in subsection (1)(a) and (b) to that total amount were references to the amount of the debt.
- (4B) The conditions referred to in subsection (4A) above are—
- (a) that, throughout the period beginning with the making of the insurance and ending immediately before the happening of the chargeable event, the rights conferred by the policy have been held as security for a debt owed by the company;
  - (b) that the capital sum payable under the policy in the event of death during the term of the policy is not less than the amount of the debt when the insurance was made;
  - (c) that any sum payable under the policy by reason of the chargeable event is applied in repayment of the debt (except to the extent that its amount exceeds the amount of debt);

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- (d) that the debt was incurred to defray money applied—
  - (i) in purchasing an estate or interest in land to be occupied by the company for the purposes of a trade carried on by it, or
  - (ii) for the purpose of the construction, extension or improvement (but not the repair or maintenance) of buildings which are or are to be so occupied.
- (4C) If the amount of the debt is higher immediately before the happening of the chargeable event than it was at some earlier time during the period mentioned in subsection (4B) (a) above, the amount to be taken into account for the purposes of subsection (1) above shall be the lowest amount at which it stood during that period.
- (4D) If during the period mentioned in subsection (4B)(a) above the company incurs a debt by borrowing in order to repay another debt, subsections (4B) and (4C) above shall have effect as if, where appropriate, references to either debt included references to the other.]
- (5) <sup>M35</sup>In this section—
  - (a) “relevant capital payments” means, in relation to any policy, any sum or other benefit of a capital nature, other than one attributable to a person’s disability, paid or conferred under the policy before the happening of the chargeable event; and
  - (b) references in this subsection and (in relation to premiums) in subsection (1) above to “the policy” include references to any related policy, that is to say, to any policy in relation to which the policy is a new policy within the meaning of paragraph 17 of Schedule 15, and any policy in relation to which that policy is such a policy, and so on; [<sup>F56</sup>and
  - (c) “qualifying endowment policy” means a policy which is a qualifying policy by virtue of paragraph 2 of Schedule 15;]
 and the provisions of this section are subject to paragraph 20 of Schedule 15.
- (6) There shall be disregarded for the purposes of this section any amount which was treated under section 72(9) of the <sup>M36</sup>Finance Act 1984 as an additional premium.

#### Textual Amendments

- F52** Words in s. 541(1)(a)(ii)(b)(ii)(c)(ii) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 4(2)**
- F53** Words in s. 541(1)(d) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 4(3)**
- F54** S. 541(4) repealed (with effect in accordance with s. 83(2) of the repealing Act) by Finance Act 2001 (c. 9), Sch. 28 para. 4(4), **Sch. 33 Pt. 2(9)**, Note
- F55** S. 541(4A)-(4D) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), **Sch. 9 para. 4(2)**
- F56** S. 541(5)(c) and word inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), **Sch. 9 para. 4(3)**

#### Modifications etc. (not altering text)

- C8** S. 541 extended (retrospectively and with effect in accordance with s. 79(7)(8) of the extending Act) by Finance Act 1997 (c. 16), **s. 79(3)(b)**

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### Marginal Citations

- M33** Source-1970 s.395(1); 1975 Sch.2 11(1)  
**M34** Source-1970 s.395 (2), (3)  
**M35** Source-1970 s.395(4); 1982 s.34; 1975 Sch.2 10  
**M36** 1984 c. 43

## 542 Life annuity contracts: chargeable events.

- (1) <sup>M37</sup> Subject to subsections (2) and (3) below, in this Chapter “chargeable event” means, in relation to any contract for a life annuity—
- the surrender in whole of the rights conferred by the contract, or
  - the assignment for money or money’s worth of those rights, or
  - [<sup>F57</sup>subject to section 546B(3)(a),] an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3) of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section) except, if it ends with another chargeable event, the final year.
- (2) Where the terms of a contract provide for the payment of a capital sum as an alternative, in whole or in part, to payments by way of annuity, the taking of the capital sum shall be treated for the purposes of this section and section 543 as a surrender in whole or in part of the rights conferred by the contract, and where the terms of the contract provide for the payment of a capital sum on death and the contract was made on or after 10th December 1974, the death shall be treated for those purposes as a surrender in whole of the rights conferred by the contract.
- (3) <sup>M38</sup> Except as provided by section 544, an event referred to in subsection (1) above [<sup>F58</sup>or section 546C(7)(a)] is not a chargeable event in relation to any contract made before 26th June 1982 if the rights conferred by the contract have at any time before that date and before the event been assigned for money or money’s worth and are not at the time of the event held by the original beneficial owner.
- (4) Subsection (4) of section 540 shall, with any necessary modifications, apply for the purposes of this section as it applies for the purposes of that section.

### Textual Amendments

- F57** Words in s. 542(1)(c) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 5(2)**
- F58** Words in s. 542(3) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 5(3)**

### Marginal Citations

- M37** Source-1970 s.396(1); 396(1); 1975 Sch.2 9(3), 12  
**M38** Source-1970 s.396(2), (3); 1983 s.18(2); 1975 Sch.2 12

## 543 Life annuity contracts: computation of gain.

- <sup>M39</sup>(1) On the happening of a chargeable event in relation to any contract for a life annuity, there shall be treated as a gain arising in connection with the contract—

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- (a) if the event is the surrender in whole of the rights conferred by the contract, the excess (if any) of the amount payable by reason of the event plus the amount or value of any relevant capital payments over the sum of the following—
    - (i) the total amount previously paid under the contract, whether by way of premiums or as lump sum consideration, reduced, if before the happening of the event one or more payments have been made on account of the annuity, by the capital element in that payment or payments, as determined in accordance with section 656; and
    - (ii) the total amount treated as a gain by virtue of paragraph (c) below [<sup>F59</sup>or section 546C(7)(b)] on the previous happening of chargeable events;
  - (b) if the event is an assignment, the excess (if any) of the amount or value of the consideration, plus the amount or value of any relevant capital payments or of any previously assigned share in the rights conferred by the contract, over the sum of the following—
    - (i) the amount specified paragraph (a)(i) above; and
    - (ii) any amount treated as a gain by virtue of paragraph (c) below [<sup>F59</sup>or section 546C(7)(b)] on the previous happenings of chargeable events;
  - (c) if the event is the occurrence of such an excess as is mentioned in section 542(1), the amount of the excess [<sup>F60</sup>(subject to section 546B(3)(a))] .
- (2) Subsection (3) of section 541 shall apply for the purposes of subsection (1) above as it applies for the purposes of subsection (1)(c) of that section, and subsection (4) of that section shall apply for the purposes of this section with the substitution of references to the contract for references to the policy.
- (3) In this section “relevant capital payments” means, in relation to any contract, any sum or other benefit of a capital nature paid or conferred under the contract before the happening of the chargeable event.

#### Textual Amendments

**F59** Words in s. 543(1)(a)(ii)(b)(ii) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 6(2)

**F60** Words in s. 543(1)(c) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 6(3)

#### Marginal Citations

**M39** Source-1970 s.397; 1975 Sch.2 13

### 544 Second and subsequent assignment of life policies and contracts.

- (1) <sup>M40</sup>In this section “assigned policy” means a policy of life assurance—
- (a) which was issued in respect of an insurance made before 26th June 1982; and
  - (b) the rights conferred by which have been assigned for money or money’s worth before that date; and
  - (c) in relation to which an event occurring on or after that date would not, apart from this section, be a chargeable event.
- (2) In this section “assigned contract” means a contract for a life annuity—
- (a) which was made before 26th June 1982; and



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- (b) the rights conferred by which have been assigned for money or money's worth before that date; and
  - (c) in relation to which an event occurring on or after that date would not, apart from this section, be a chargeable event.
- (3)<sup>M41</sup>In any case where after 23rd August 1982—
- (a) the rights conferred by an assigned policy or, as the case may be, an assigned contract are again assigned for money or money's worth; or
  - (b) a payment is made by way of premium or as lump sum consideration under the policy or contract; or
  - (c) subject to subsections (5) and (7) below, a sum is lent by or by arrangement with the body issuing the policy or, as the case may be, the body with which the contract was made;
- section 540(3) shall cease to apply to the policy or section 542(3) shall cease to apply to the contract, as the case may be.
- (4)<sup>M42</sup>No account shall be taken for the purposes of subsection (3)(a) above of any assignment effected by way of security for a debt, or on the discharge of a debt secured by the rights concerned, or of an assignment between spouses living together.
- (5)<sup>M43</sup>Subsection (3)(c) above does not apply unless—
- (a) the policy was issued in respect of an insurance made after 26th March 1974 or, as the case may be, the contract was entered into after that date; and
  - (b) the sum concerned is lent to or at the direction of the individual who, in accordance with subsection (6) below, is at the time of the loan the chargeable individual.
- (6) The individual who is at any time the chargeable individual for the purposes of subsection (5)(b) above shall be determined as follows—
- (a) if at the time the rights conferred by the policy or contract are vested in an individual as beneficial owner or are held on trusts created by an individual (including such trusts as are referred to in section 547(1)(a)), that individual is the chargeable individual; and
  - (b) if at that time those rights are held as security for a debt owed by an individual, that individual is the chargeable individual.
- (7) Subsection (3)(c) above does not apply in relation to a policy if—
- (a) it is a qualifying policy; and
  - (b) either interest at a commercial rate is payable on the sum lent or the sum is lent to a full-time employee of the body issuing the policy for the purpose of assisting him in the purchase or improvement of a dwelling-house to be used as his only or main residence.
- (8)<sup>M44</sup>Where section 540(3) or 542(3) ceases to apply to an assigned policy or assigned contract by virtue of paragraph (c) of subsection (3) above, the lending of the sum concerned shall be regarded for the purposes of the Income Tax Acts (other than that paragraph) as taking place immediately after the time at which section 540(3) or, as the case may be, 542(3) ceases so to apply.

#### Marginal Citations

M40 Source-1983 Sch.4 1

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**M41** Source-1983 s.18(3), Sch.4 2(1)

**M42** Source-1983 Sch.4 2(2)

**M43** Source-1983 Sch.4 2(3)

**M44** Source-1983 Sch.4 2(4)

## 545 Capital redemption policies.

<sup>M45</sup>(1) Subject to subsection (2) below, in this Chapter “chargeable event” means, in relation to a capital redemption policy, any of the following—

- (a) the maturity of the policy, except where the sums payable on maturity are annual payments chargeable to tax under Schedule D;
- (b) the surrender in whole of the rights conferred by the policy;
- (c) the assignment for money or money’s worth of those rights; and
- (d) [<sup>F61</sup>subject to section 546B(3)(a),] an excess of the reckonable aggregate value mentioned in subsection (2) of section 546 over the allowable aggregate amount mentioned in subsection (3) of that section, being an excess occurring at the end of any year (as defined in subsection (4) of that section), except, if it ends with another chargeable event, the final year.

(2) Subsection (4) of section 540 shall apply for the purposes of this section as it applies for purposes of that section.

(3) The provisions of section 541, except subsection (3), shall, so far as appropriate and subject to subsection (4) below, apply to capital redemption policies as they apply to policies of life assurance.

(4) Where a chargeable event happens in relation to a capital redemption policy which has previously been assigned for money or money’s worth, section 541 shall have effect in relation thereto as if, for the references to the total amount previously paid under the policy by way of premiums, there were substituted references to the amount or value of the consideration given for the last such assignment, plus the total amount of the premiums paid under the policy since that assignment.

### Textual Amendments

**F61** Words in s. 545(1)(d) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 7**

### Marginal Citations

**M45** Source-1970 s.398; 1975 Sch.2 14, 9(4)

## 546 Calculation of certain amounts for purposes of sections 540, 542 and 545.

(1) <sup>M46</sup>For the purposes of sections 540, 542 and 545, there shall be calculated as at the end of each year—

- (a) the value, as at the time of surrender or assignment, of any part of or share in the rights conferred by the policy or contract which—

[<sup>F62</sup>(i)] has been [<sup>F63</sup>assigned for money or money’s worth, or surrendered,] during the period ending with the end of that year and beginning with the commencement of the first year which falls wholly after 13th March 1975; [<sup>F64</sup> or

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- (ii) has been assigned otherwise than for money or money's worth during that period but in a year beginning on or before 5th April 2001;] and
- (b) the appropriate portion of any payment made up to the end of that period by way of premium or as a lump sum consideration;
- and the appropriate portion of any payment shall be one-twentieth for the year in which it is made, increased by a further one-twentieth for each of the subsequent years, up to a maximum of nineteen, but excluding therefrom any such one-twentieth for any year before that first year.
- (2) <sup>M47</sup>The reckonable aggregate value referred to in those sections shall be—
- (a) the sum of the values calculated under subsection (1) above; less
- (b) the sum of the values so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (3) The allowable aggregate amount referred to in those sections shall be—
- (a) the aggregate of the appropriate portions calculated under subsection (1) above; less
- (b) the aggregate of the appropriate portions so calculated for a previous year and brought into account on the previous happening of a chargeable event.
- (4) <sup>M48</sup>In this section “year” means the 12 months beginning with the making of the insurance or contract and any subsequent period of 12 months; except that—
- (a) death, the maturity of the policy or the surrender of the rights conferred by the policy or contract shall be treated as ending the final year; and
- (b) if the final year would by virtue of paragraph (a) above begin and end in the same year of assessment, the final year and the year preceding it shall together be one year.
- (5) There shall be disregarded for the purposes of this section any amount which was treated under section 72(9) of the <sup>M49</sup>Finance Act 1984 as an additional premium.
- [<sup>F65</sup>(6) Where any part of or share in the rights conferred by a policy or contract is assigned, the value of the part or share, as at the time of the assignment, shall be taken for the purposes of this section to be its surrender value at that time.]

#### Textual Amendments

- F62** Words in s. 546(1)(a) renumbered as s. 546(1)(a)(i) (with effect in accordance with s. 83(2) of the amending Act) by virtue of Finance Act 2001 (c. 9), **Sch. 28 para 8(2)(a)**
- F63** Words in s. 546(1)(a) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 8(2)(b)**
- F64** S. 546(1)(a)(ii) and preceding word inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 8(2)(c)**
- F65** S. 546(6) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 8(3)**

#### Marginal Citations

- M46** Source-1975 Sch.2 9(5), (8)
- M47** Source-1975 Sch.2 9(6), (7)
- M48** Source-1975 Sch.2 9(9)
- M49** 1984 c. 43

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## **[<sup>F66</sup>546A Treatment of certain assignments etc involving co-ownership**

- (1) This section applies in any case where—
  - (a) as a result of any transaction (the “material transaction”) the whole or part of or a share in the rights conferred by a policy or contract (“the material interest”) becomes beneficially owned by one person or by two or more persons jointly or in common (“the new ownership”);
  - (b) immediately before the material transaction, the material interest was in the beneficial ownership of one person or of two or more persons jointly (“the old ownership”); and
  - (c) at least one person who is a member of the old ownership is also a member of the new ownership.
- (2) In any such case, the material transaction shall, in accordance with the following provisions of this section, be taken for the purposes of this Chapter (other than this section) to be one or more assignments, of part only of the rights conferred by the policy or contract.
- (3) For the purposes of this Chapter (other than this section), the members of the old ownership shall be treated—
  - (a) where the old ownership consists of two or more persons beneficially entitled jointly, as if the material interest had been in their beneficial ownership in equal shares instead of jointly;
  - (b) where the new ownership consists of two or more persons beneficially entitled jointly, as if the result of the material transaction had been that the material interest was in the beneficial ownership of those persons in equal shares instead of jointly; and
  - (c) as if the material transaction had been the assignment by each member of the old ownership of so much (if any) of his old share as exceeds his new share (or, if he does not have a new share, the whole of his old share).
- (4) In this section—
 

“new share”, in relation to the material interest and a person who is a member of the new ownership, means—

  - (a) if there is only one member of the new ownership, the material interest;
  - (b) if there are two or more members of the new ownership beneficially entitled to the material interest in common, the member’s share in the material interest; or
  - (c) if there are two or more members of the new ownership beneficially entitled to the material interest jointly, the share attributed to the member by subsection (3)(b) above;

“old share”, in relation to the material interest and a person who is a member of the old ownership, means—

  - (a) if there is only one member of the old ownership, the material interest; or
  - (b) if there are two or more members of the old ownership, the share attributed to the member by subsection (3)(a) above.]

### **Textual Amendments**

**F66** S. 546A inserted (with effect in accordance with s. 83(2) of the amending Act) by [Finance Act 2001 \(c. 9\), Sch. 28 para. 9](#)

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### [<sup>F67</sup>546B Special provision in respect of certain section 546 excesses

- (1) This section applies in relation to a policy or contract in any case where—
  - (a) a section 546 excess occurs at the end of any year (including the final year, whether or not ending with a terminal chargeable event); and
  - (b) the condition in subsection (2) below is satisfied in relation to that year.
- (2) The condition is that—
  - (a) during the year there has been an assignment for money or money's worth of part of or a share in the rights conferred by the policy or contract; or
  - (b) during the year there has been both—
    - (i) an assignment, otherwise than for money or money's worth, of the whole or part of or a share in the rights conferred by the policy or contract; and
    - (ii) an earlier surrender of part of or a share in the rights conferred by the policy or contract.
- (3) Where this section applies—
  - (a) the occurrence of the section 546 excess shall be treated for the purposes of this Chapter as not being a chargeable event; but
  - (b) the amount of the section 546 excess shall be charged to tax in accordance with the provisions of section 546C.
- (4) In this section—
 

“final year” has the meaning given by section 546(4);

“section 546 excess”, in relation to any year, means an excess, occurring at the end of the year, of—

  - (a) the reckonable aggregate value mentioned in subsection (2) of section 546, over
  - (b) the allowable aggregate amount mentioned in subsection (3) of that section;

“terminal chargeable event” means any chargeable event other than—

  - (a) an assignment for money or money's worth of the whole of the rights conferred by the policy or contract;
  - (b) the occurrence of a section 546 excess; or
  - (c) a chargeable event by virtue of section 546C(7)(a);

“year” has the meaning given by section 546(4).]

#### Textual Amendments

**F67** Ss. 546B-546D inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 10

### [<sup>F67</sup>546C Charging the section 546 excess to tax where section 546B applies

- (1) This section applies where, in relation to any policy or contract, the amount of a section 546 excess occurring at the end of any year falls to be charged to tax in accordance with this section by virtue of section 546B(3)(b).
- (2) The following amounts shall be calculated as at the end of that year—

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- (a) the aggregate of the values calculated under section 546(1)(a) in respect of any part of or share in the rights conferred by the policy or contract which has been assigned for money or money's worth, or surrendered, during the year;
  - (b) the amount by which—
    - (i) the reckonable aggregate value mentioned in section 546(2), as at the end of the year, exceeds
    - (ii) the aggregate calculated under paragraph (a) above;
 and
  - (c) the amount by which—
    - (i) the allowable aggregate amount mentioned in section 546(3), as at the end of the year, exceeds
    - (ii) the amount calculated under paragraph (b) above.
- (3) In this section—
- (a) “relevant transaction” means any assignment for money or money's worth, or any surrender, of a part of or share in the rights conferred by the policy or contract which has happened during the year;
  - (b) “transaction value”, in relation to any relevant transaction, means the value calculated in accordance with section 546(1)(a) in the case of that transaction;
  - (c) “the amount of available premium” means—
    - (i) in relation to the earliest relevant transaction, the amount calculated under subsection (2)(c) above (that amount being taken to be nil if there is no such excess as is there mentioned); and
    - (ii) in relation to each successive relevant transaction, that amount as successively reduced under subsections (5) to (7) below.
- (4) Subsection (5) below shall apply successively to each of the relevant transactions that happened in the year, in the order in which they happened.
- If the year is the final year and ends with a terminal chargeable event, this subsection is subject to section 546D.
- (5) Where this subsection applies in relation to a relevant transaction—
- (a) the transaction value shall be compared to the amount of available premium; and
  - (b) if the amount of available premium exceeds or is equal to the transaction value, subsection (6) below shall apply in relation to the transaction; but
  - (c) if the transaction value exceeds the amount of available premium, subsection (7) below shall apply in relation to the transaction.
- (6) Where this subsection applies in relation to a relevant transaction—
- (a) the amount of available premium shall be reduced (or further reduced) by the transaction value; and
  - (b) that reduction shall have effect in relation to the next subsequent relevant transaction.
- (7) Where this subsection applies in relation to a relevant transaction—
- (a) the relevant transaction shall for the purposes of this Chapter be a chargeable event in relation to the policy or contract, except as provided by sections 540(3) and 542(3);

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- (b) a gain of an amount equal to that by which the transaction value exceeds the amount of available premium shall be treated for the purposes of this Chapter as arising in connection with the policy or contract on the happening of that chargeable event; and
  - (c) in relation to any subsequent relevant transaction, the amount of available premium shall be reduced to nil.
- (8) Where the whole or any part of the amount of any gain treated as arising by subsection (7)(b) above falls to be treated under any provision of section 547 as forming part of the income of any body or person for—
- (a) the year of assessment in which the chargeable event in question happened, or
  - (b) the accounting period in which it happened,
- that year of assessment or accounting period shall be taken to be the one which includes the end of the year as at which the section 546 excess in question occurs, instead of the one (if different) in which the relevant transaction happened.
- (9) Where this section applies in relation to the final year and that year ends with a terminal chargeable event—
- (a) effect shall be given to this section before applying the provisions of this Chapter in relation to the terminal chargeable event; and
  - (b) in applying this Chapter in relation to the terminal chargeable event, any chargeable event by virtue of subsection (7)(a) above accordingly falls to be regarded as having occurred before the terminal chargeable event.
- (10) This section shall be construed as one with section 546B.]

#### Textual Amendments

**F67** Ss. 546B-546D inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 10

#### [<sup>F67</sup>546D Modifications of s.546C for final year ending with terminal chargeable event

- (1) This section applies in any case where the year mentioned in section 546C(4) is the final year and that year ends with a terminal chargeable event.
- (2) In any such case there shall be calculated, as at the end of the year, the amount of the gain (“the gains limit”) that would have been treated as arising on the happening of the terminal chargeable event, apart from the application of sections 546B and 546C in relation to that year.
- (3) Subsection (5) of section 546C shall apply successively to each of the relevant transactions that happened in the year, in the order in which they happened, unless and until the transaction in question (the “final transaction”) is such that the aggregate of—
  - (a) its transaction value apart from subsection (4) below, and
  - (b) the sum of the transaction values of any relevant transactions to which subsection (5) of that section has previously applied,
 exceeds the gains limit.
- (4) If, in the case of the final transaction,—
  - (a) the aggregate mentioned in subsection (3) above exceeds the gains limit, but
  - (b) the sum mentioned in paragraph (b) of that subsection is less than that limit,

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subsection (5) of section 546C shall apply in relation to that transaction, but for the purposes of subsections (5) to (7) of that section its transaction value shall be reduced to an amount equal to the difference between the gains limit and the sum mentioned in paragraph (b) above.

- (5) Except as provided by subsection (4) above, subsection (5) of section 546C shall not apply in relation to the final transaction or any subsequent relevant transaction.
- (6) This section shall be construed as one with sections 546B and 546C.]

#### Textual Amendments

**F67** Ss. 546B-546D inserted (with effect in accordance with s. 83(2) of the amending Act) by [Finance Act 2001 \(c. 9\), Sch. 28 para. 10](#)

#### 547 Method of charging gain to tax.

- (1) <sup>M50</sup>Where under section 541, 543 [<sup>F68</sup> 545 or 546C] a gain is to be treated as arising in connection with any policy or contract—
- (a) if, immediately before the happening of the chargeable event in question, the rights conferred by the policy or contract were vested in an individual as beneficial owner, or were held on trusts created by an individual <sup>F69</sup>. . . or as security for a debt owed by an individual, the amount of the gain shall be deemed to form part of that individual's total income for the year in which the event happened;
- [<sup>F70</sup>(b) if, immediately before the happening of that event, those rights were in the beneficial ownership of a company, or were held on trusts created, or as security for a debt owed, by a company, the amount of the gain shall be deemed to form part of the company's income (chargeable under Case VI of Schedule D) for the accounting period in which the event happened;]
- (c) if, immediately before the happening of that event, those rights were vested in personal representatives, within the meaning of Part XVI, the amount of the gain [<sup>F71</sup>(so far as it is not otherwise comprised in that income)] shall be deemed for the purposes of that Part to be part of the aggregate income of the estate of the deceased;
- [<sup>F72</sup>(d) if, immediately before the happening of that event,—
- (i) those rights were held on trusts, and the person who created the trusts was not resident in the United Kingdom or had died or (in the case of a company or foreign institution) had been dissolved or wound up or had otherwise come to an end, or
- (ii) those rights were held as security for a debt owed by trustees, subsection (9) or (10) below (as the case may be) shall apply in relation to the amount of the gain;
- (e) if, immediately before the happening of that event, those rights—
- (i) were in the beneficial ownership of a foreign institution, or
- (ii) were held as security for a debt owed by a foreign institution, subsection (11) below shall apply in relation to the amount of the gain.]
- [<sup>F73</sup>(1A) In their application in relation to a gain which is treated as arising by virtue of section 546C(7)(b), subsection (1) above and subsections (9) to (11) below are subject to section 546C(8).]



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- (2) Nothing in subsection (1) above shall apply to any amount which is chargeable to tax apart from that subsection.
- (3) <sup>F74</sup> . . . . .
- [<sup>F75</sup>(4) References in subsection (1) above to the rights conferred by a policy or contract are, in the case of an assignment or surrender of only a part of or share in any rights, references to that part or share.]
- (5) <sup>M51</sup> Subject to subsections (6) and (7) below and section 550, where by virtue of [<sup>F76</sup>subsection (1)(a)] above, a sum is included in an individual's total income—
- <sup>F77</sup> . . . he shall be treated as having paid income tax at the basic rate on that sum or, if his total income is reduced by any deductions, on so much of that sum as is part of his total income as so reduced;
  - no repayment shall be made of the income tax treated by virtue of paragraph (a) above as having been paid; and
  - the sum so included shall be treated [<sup>F78</sup>as income which is not chargeable at the [<sup>F79</sup>starting rate] and] for the purposes of sections 348 and 349(1) as not brought into charge to income tax.
- [<sup>F80</sup>(5AA) If, in a case falling within subsection (1)(d) above, a sum forms part of the income of trustees by virtue of subsection (9)(a) below, subsection (5) above shall (subject to subsections (6) and (7) below and section 553(6)) apply in relation to the trustees and that sum—
- as it applies in relation to an individual and a sum included in his total income by virtue of subsection (1)(a) above, but
  - with the omission from paragraph (a) of the words from “or” to the end of that paragraph.]
- [<sup>F81</sup>(5A) Where a gain is to be treated under section 543 [<sup>F82</sup>or 546C(7)(b)] as arising in connection with a contract for a life annuity made—
- after 26th March 1974, and
  - unless the contract falls, or has at any time fallen, to be regarded as not forming part of any insurance company or friendly society's basic life assurance and general annuity business the income and gains of which are subject to corporation tax, in an accounting period of the insurance company or friendly society beginning before 1st January 1992,
- subsection (6) below shall apply in relation to the gain unless [<sup>F83</sup>subsection (6A) or (7)] below applies in relation to it.]
- (6) [<sup>F84M52</sup>Where this subsection applies in relation to such a gain as is mentioned in subsection (5A) above]—
- this section shall have effect, in relation to the gain, as if subsection (5) were omitted; and
  - the gain shall be chargeable to tax under Case VI of Schedule D; but
  - any relief under section 550 shall be computed as if this subsection had not been enacted.
- [<sup>F85</sup>(6A) Subsection (6) above shall not apply in relation to a gain treated as arising in connection with a contract for a life annuity in any case where the Board are satisfied, on a claim made for the purpose—

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- (a) that the company liable to make payments under the contract (“the grantor”) has not, at any time (“a relevant time”) between the date on which it entered into the contract and the date on which the gain is treated as arising, been resident in the United Kingdom;
- (b) that at all relevant times the grantor has—
  - (i) as a body deriving its status as a company from the laws of a territory outside the United Kingdom,
  - (ii) as a company with its place of management in such a territory, or
  - (iii) as a company falling, under the laws of such a territory, to be regarded, for any other reason, as resident or domiciled in that territory,
 been within a charge to tax under the laws of that territory;
- (c) that that territory is a territory within the European Economic Area when the gain is treated as arising;
- (d) that the charge to tax mentioned in paragraph (b) above has at all relevant times been such a charge made otherwise than by reference to profits as (by disallowing their deduction in computing the amount chargeable) to require sums payable and other liabilities arising under contracts of the same class as the contract in question to be treated as sums or liabilities falling to be met out of amounts subject to tax in the hands of the grantor;
- (e) that the rate of tax fixed for the purposes of that charge in relation to the amounts subject to tax in the hands of the grantor (not being amounts arising or accruing in respect of investments that are of a particular description for which a special relief or exemption is generally available) has at all relevant times been at least 20 per cent.; and
- (f) that none of the grantor’s obligations under the contract in question to pay any sum or to meet any other liability arising under that contract is or has been the subject, in whole or in part, of any reinsurance contract relating to anything other than the risk that the annuitant will die or will suffer any sickness or accident;

and subsection (6) above shall also not apply where the case would fall within paragraphs (a) to (f) above if references to a relevant time did not include references to any time when the contract fell to be regarded as forming part of so much of any basic life assurance and general annuity business the income and gains of which were subject to corporation tax as was being carried on through a branch or agency in the United Kingdom.]

- (7) <sup>M53</sup>Where under section 541 [<sup>F86</sup>, 543 or 546C(7)(b)] a gain is to be treated as arising in connection with a policy issued by a friendly society in the course of tax exempt life or endowment business, this section shall have effect in relation to the gain as if subsection (5) were omitted, but any relief under section 550 shall be computed as if this subsection had not been enacted.

[<sup>F87</sup>(7A) Where, in the case of any gain—

- (a) this section has effect by virtue of subsection (5A) or (7) above with the omission of subsection (5) above, and
- (b) the rights conferred by the contract or policy were vested immediately before the happening of the chargeable event in question in personal representatives within the meaning of Part XVI,

the gain shall be deemed for the purposes of income tax to be income of the personal representatives as such.]

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- [<sup>F88</sup>(8) Subsection (1)(b) above shall not have effect as respects—
- (a) a policy of life insurance issued in respect of an insurance made before 14th March 1989,
  - (b) a contract for a life annuity made before that date, or
  - (c) a capital redemption policy issued in respect of an insurance made before that date, or issued by a company resident in the United Kingdom in respect of an insurance made on or after that date.]
- [<sup>F89</sup>(9) If, in a case falling within subsection (1)(d) above, the trustees were resident in the United Kingdom immediately before the happening of the chargeable event in question, the amount of the gain—
- (a) shall be deemed to form part of the income of the trustees for the year of assessment in which the chargeable event happened; and
  - (b) shall be chargeable to income tax at the rate applicable to trusts for that year.
- (10) If, in a case falling within subsection (1)(d) above, the trustees were not resident in the United Kingdom immediately before the happening of the chargeable event in question, then, for the purpose of determining whether an individual ordinarily resident in the United Kingdom has a liability for income tax in respect of the amount of the gain, section 740 shall apply as if—
- (a) the amount of the gain constituted income becoming payable to the trustees; and
  - (b) that income were income arising to the trustees in the year of assessment in which the chargeable event happened.
- (11) In a case falling within subsection (1)(e) above, for the purpose of determining whether an individual ordinarily resident in the United Kingdom has a liability for income tax in respect of the amount of the gain, section 740 shall apply as if—
- (a) the amount of the gain constituted income becoming payable to the foreign institution; and
  - (b) that income were income arising to the foreign institution in the year of assessment in which the chargeable event happened.
- (12) For the purposes of this section, property held for the purposes of a foreign institution shall be regarded as in the beneficial ownership of the foreign institution.]
- [<sup>F90</sup>(13)] In this section—
- “basic life assurance and general annuity business” has the same meaning as in Chapter I of Part XII;
- [<sup>F91</sup>“foreign institution” means a person which is a company or other institution resident or domiciled outside the United Kingdom.]
- [<sup>F92</sup>(14) Any reference in this section to trusts created by an individual includes a reference to trusts arising under—
- (a) section 11 of the <sup>M54</sup>Married Women’s Property Act 1882;
  - (b) section 2 of the <sup>M55</sup>Married Women’s Policies of Assurance (Scotland) Act 1880; or
  - (c) section 4 of the <sup>M56</sup>Law Reform (Husband and Wife) Act Northern Ireland) 1964;
- and references to the settlor or to the person creating the trusts shall be construed accordingly.]

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### Textual Amendments

- F68** Words in s. 547(1) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 11(2)**
- F69** Words in s. 547(1)(a) repealed (with effect in accordance with Sch. 14 para. 7(5) of the repealing Act) by Finance Act 1998 (c. 36), Sch. 14 para. 1(2), **Sch. 27 Pt. 3(19)**, Note
- F70** S. 547(1)(b) substituted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26 ), Sch. 9 para. 5(3)
- F71** Words in s. 547(1)(c) inserted (with effect in accordance with s. 76(6) of the amending Act) by Finance Act 1995 (c. 4), **s. 76(2)(a)**
- F72** S. 547(1)(d)(e) inserted (with effect in accordance with Sch. 14 para. 7(1)(2)(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(3)**
- F73** S. 547(1A) inserted in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 11(3)**
- F74** S. 547(3) repealed (with effect in accordance with Sch. 14 para. 7(5) of the repealing Act) by Finance Act 1998 (c. 36), Sch. 14 para. 1(4), **Sch. 27 Pt. 3(19)**, Note
- F75** S. 547(4) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 11(4)**
- F76** Words in s. 547(5) substituted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(6)**
- F77** Words in s. 547(5)(a) repealed (with effect in accordance with s. 128(8) of the repealing Act) by Finance Act 1996 (c. 8), s. 122(7)(a), **Sch. 41 Pt. 5(6)**, Note 3
- F78** Words in s. 547(5)(c) inserted (16.7.1992) by Finance (No. 2) Act 1992 (c. 48), **s. 19(4)(7)**
- F79** Words in s. 547(5)(c) substituted (with application in accordance with s. 22(12) of the amending Act) by Finance Act 1999 (c. 16), **s. 22(8)(a)**
- F80** S. 547(5AA) inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(7)**
- F81** S. 547(5A) inserted by Finance Act 1991 (c. 31, SIF 63:1), s. 48, **Sch. 7 para. 9(1)**
- F82** Words in s. 547(5A) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 11(5)**
- F83** Words in s. 547(5A) substituted (with effect in accordance with s. 56(4) of the amending Act) by Finance Act 1995 (c. 4), **s. 56(1)**
- F84** Words in s. 547(6) substituted by Finance Act 1991 (c. 31, SIF 63:1), s. 48, **Sch. 7 para. 9(2)**
- F85** S. 547(6A) inserted (with effect in accordance with s. 56(4) of the amending Act) by Finance Act 1995 (c. 4), **s. 56(1)**
- F86** Words in s. 547(7) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 11(6)**
- F87** S. 547(7A) inserted (with effect in accordance with s. 76(6) of the amending Act) by Finance Act 1995 (c. 4), **s. 76(2)(b)**
- F88** S. 547(8) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), **Sch. 9 para. 5(3)**
- F89** S. 547(9)-(12) inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(8)**
- F90** S. 547(9) inserted by Finance Act 1991 (c. 31, SIF 63:1), s. 48, **Sch. 7 para. 9(3)**
- F91** S. 547(13): definition of "foreign institution" inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(9)**
- F92** S. 547(14) inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 1(10)**

### Modifications etc. (not altering text)

- C9** S. 547: power to modify conferred (with effect in accordance with s. 56(4) of the affecting Act) by Finance Act 1995 (c. 4), **s. 56(3)**

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### Marginal Citations

**M50** Source-1970 s.399(1); 1972 Sch.24 24

**M51** Source-1970 s.399(4); 1971 Sch.6 42

**M52** Source-1975 Sch.2 17

**M53** Source-1985 s.41(9); 1987 s.30(8)

**M54** 1882 c. 75.

**M55** 1880 c. 26.

**M56** 1964 c. 23 (N.I.).

### [<sup>F93</sup>547A Method of charging gain to tax: multiple interests.

(1) Where, immediately before the happening of a chargeable event, two or more persons have relevant interests in the rights conferred by the policy or contract in question, section 547 shall have effect in relation to each of those persons as if that person had been the only person with a relevant interest in those rights, but with references to the amount of the gain construed as references to his proportionate share of the amount of the gain.

[<sup>F94</sup>(2) References in this section to the rights conferred by a policy or contract are, in the case of an assignment or surrender of only a part of or share in any rights, references to that part or share.]

(3) For the purposes of this section, a person has a “relevant interest” in the rights conferred by a policy or contract—

- (a) in the case of an individual, if a share in the rights is vested in him as beneficial owner, or is held on trusts created, or as security for a debt owed, by him;
- (b) in the case of a company, if a share in the rights is in the beneficial ownership of the company, or is held on trusts created, or as security for a debt owed, by the company;
- (c) in the case of personal representatives, if a share in the rights is vested in them;
- (d) in the case of trustees—
  - (i) if a share in the rights is held by them, and the person who created the trusts is not resident in the United Kingdom or has died or (in the case of a company or foreign institution) has been dissolved or wound up or has otherwise come to an end; or
  - (ii) if a share in the rights is held as security for a debt owed by them;
- (e) in the case of a foreign institution, if a share in the rights is in the beneficial ownership of the foreign institution, or is held as security for a debt owed by the foreign institution.

(4) For the purposes of subsection (1) above, a person’s “proportionate share” of the amount of a gain is that share of it which is proportionate to the share of the rights by reference to which he has the relevant interest in question.

(5) Where, immediately before the happening of a chargeable event, the rights conferred by the policy or contract in question are, or a share in those rights is, held as security for one or more debts owed by two or more persons, this section shall effect in relation to the chargeable event as if—

- (a) each of those persons were instead the sole debtor in respect of a separate debt; and

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- (b) the security for that separate debt were the appropriate share of the security for the actual debt or debts (so far as consisting of the rights, or a share in the rights, conferred by the policy or contract);
- and for the purposes of paragraph (b) above the appropriate share, in the case of any person, is a share which is proportionate to that share of the actual debt or, as the case may be, the aggregate of the two or more actual debts, for which he is liable as between the debtors.
- (6) Where, immediately before the happening of a chargeable event, the rights conferred by the policy or contract in question are, or a share in those rights is, held on trusts created by two or more persons, this section shall have effect in relation to that chargeable event as if—
- (a) each of those persons had instead been the sole settlor in relation to a separate share of the rights or share so held; and
- (b) that separate share were proportionate to the share which originates from him of the whole of the property subject to the trusts immediately before the happening of the chargeable event.
- (7) The reference in subsection (6)(b) above to the share of the property which originates from a person is a reference to the share of the property which consists of—
- (a) property which that person has provided directly or indirectly for the purposes of the trusts;
- (b) property representing property which that person has so provided; and
- (c) so much of any property which represents both property so provided and other property as, on a just apportionment, represents the property so provided.
- (8) References in subsection (7) above to property which a person has provided directly or indirectly—
- (a) include references to property which has been provided directly or indirectly by another in pursuance of reciprocal arrangements with the person, but
- (b) do not include references to property which the person has provided directly or indirectly in pursuance of reciprocal arrangements with another.
- (9) References in subsection (7) above to property which represents other property include references to property which represents accumulated income from that other property.
- (10) Where immediately before the happening of a chargeable event—
- (a) the rights conferred by the policy or contract in question are, or a share in those rights is, held subject to any trusts, and
- (b) different shares of the whole of the property subject to those trusts originate (within the meaning of subsection (6)(b) above) from different persons,
- the rights or share shall, in relation to that chargeable event, be taken for the purposes of this section to be held on trusts created by those persons.
- (11) Where the rights conferred by a policy or contract are, or an interest in any such rights is, in the beneficial ownership of two or more persons jointly, the rights or interest shall be treated for the purposes of this section as if they were in the beneficial ownership of those persons in equal shares.
- (12) A non-fractional interest in the rights conferred by a policy or contract shall be treated for the purposes of this section as if it were instead such a share in those rights as may justly and reasonably be regarded for those purposes as representing the non-fractional interest.

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- (13) For the purposes of subsection (12) above, a “non-fractional interest” in the rights conferred by a policy or contract is an interest in some or all of those rights which is not a share in all of those rights (otherwise than by virtue only of subsection (2) above).
- (14) This section applies in a case where the same person has two or more relevant interests in the rights conferred by a policy or contract as it applies in a case where two or more persons have separate relevant interests, unless—
- (a) that person is the only person with a relevant interest in those rights, and
  - (b) he has all the relevant interests in the same capacity,
- in which case section 547 applies.
- (15) In this section—
- “foreign institution” has the same meaning as in section 547;
- “personal representatives” has the same meaning as in Part XVI.
- (16) Subsections (12) and (14) of section 547 apply for the purposes of this section as they apply for the purposes of that section.]

#### Textual Amendments

**F93** S. 547A inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), Sch. 14 para. 2

**F94** S. 547A(2) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para 12

#### 548 Deemed surrender of certain loans.

- (1) Where—<sup>M57</sup>
- (a) under section 547 a gain arising in connection with a policy or contract would be treated as forming part of an individual’s total income [<sup>F95</sup>or the income of a company] ; and
  - (b) the policy was issued in respect of an insurance made after 26th March 1974 or the contract was made after that date; and
  - (c) any sum is at any time after the making of the insurance or contract lent to or at the direction of that individual [<sup>F96</sup>or company] by or by arrangement with the body issuing the policy or, as the case may be, the body with which the contract was made;
- then, subject to [<sup>F97</sup>subsections (3) and (3A)] below, the same results shall follow under this Chapter as if at the time the sum was lent there had been a surrender of part of the rights conferred by the policy or contract and the sum had been paid as consideration for the surrender.
- (2) If the whole or any part of the sum is repaid the repayment shall be treated, for the purpose of computing any gain arising on the happening, at the end of the final year, of a chargeable event, as a payment of a premium or lump sum consideration.
- (3) Subsections (1) and (2) above do not apply in relation—
- [<sup>F98</sup>(a) to a policy if it is a qualifying policy and interest at a commercial rate is payable on the sum lent;]
  - (b) to a contract if and to the extent that interest on the sum lent is eligible for relief under section 353 by virtue of section 365.

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[<sup>F99</sup>(3A) Subsections (1) and (2) do not apply where the rights conferred by the policy or contract are in the beneficial ownership of a company, or are held on trusts created, or as security for a debt owed, by a company, if the policy was issued in respect of an insurance made before 14th March 1989 or the contract was made before that date.]

(4) In this section “final year” has the same meaning as in section 546.

#### Textual Amendments

- F95** Words in s. 548(1)(a) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), Sch. 9 para. 6(2)(a)
- F96** Words in s. 548(1)(c) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), Sch. 9 para. 6(2)(b)
- F97** Words in s. 548(1) substituted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), Sch. 9 para. 6(2)(c)
- F98** S. 548(3)(a) substituted (with effect in accordance with Sch. 4 para. 18(3) of the amending Act) by Finance Act 1999 (c. 16), Sch. 4 para. 16
- F99** S. 548(3A) inserted (with effect in accordance with Sch. 9 para. 8 of the amending Act) by Finance Act 1989 (c. 26), Sch. 9 para. 6(3)

#### Marginal Citations

**M57** Source-1975 Sch.2 16; 1976 s.35

VALID FROM 19/07/2007

#### [<sup>F100</sup>548A Effect of rebated or reinvested commission in certain cases

- (1) This section applies if—
  - (a) a relevant chargeable event occurs in respect of a policy or contract,
  - (b) commission in respect of the policy or contract has at any time been rebated or reinvested, and
  - (c) condition A or B is met.
- (2) For the purposes of performing the calculation under section 541(1)(b) or (c) or 543(1)(a) or (b) for the chargeable event, the total amount paid under the policy or contract by way of premiums in any period is to be reduced by the total amount of commission attributable to those premiums that has been rebated or reinvested.
- (3) Condition A is that the total amount paid under the policy or contract by way of premiums in a relevant period exceeds £100,000.
- (4) Condition B is that—
  - (a) at a time when the policy or contract was the taxable person's, the taxable person's policies and contracts exceeded the relevant threshold as respects a relevant period, and
  - (b) payments under the policy or contract by way of premiums were made in that relevant period.
- (5) In subsection (4)(a) “taxable person” means the person whose policy or contract the policy or contract is, immediately before the chargeable event.



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- (6) For the purposes of subsection (4)(a) a person's policies and contracts “exceed the relevant threshold” as respects a relevant period if the total amount of payments under them by way of premiums in that relevant period exceeds the sum specified in subsection (3).
- (7) In this section “relevant chargeable event” means a chargeable event within—
- (a) any of sub-paragraphs (ii) to (iv) of section 540(1)(a) (including those sub-paragraphs as they apply in relation to a qualifying policy),
  - (b) section 542(1)(a) or (b), or
  - (c) section 545(1)(a) to (c).
- (8) In this section “relevant period” means—
- (a) the period beginning with the beginning of the year of assessment in which the chargeable event occurs and ending with the chargeable event, or
  - (b) any of the 3 preceding years of assessment.
- (9) References in this section to a premium include, in relation to a contract for a life annuity, lump sum consideration.
- (10) The Treasury may by order—
- (a) substitute another sum for the sum for the time being specified in subsection (3);
  - (b) amend the definition of “relevant period”.]

### Textual Amendments

**F100** Ss. 548A, 548B inserted (with effect in accordance with s. 29(4) of the amending Act) by Finance Act 2007 (c. 11), s. 29(1)

VALID FROM 19/07/2007

### [<sup>F100</sup>548B] Section 548A: further definitions

- (1) This section supplements section 548A.
- (2) “Commission”, in relation to a policy or contract, includes any passing of value to or for the benefit of an intermediary, or a person connected with an intermediary, that can reasonably be taken to represent a reward in respect of the policy or contract.
- (3) Commission in respect of a policy or contract is “reinvested” if, as a result of a waiver of an entitlement to it, there is an increase in the total value of a relevant person's policies and contracts.
- (4) The amount of commission reinvested is the amount of the increase.
- (5) Commission in respect of a policy or contract is “rebated” if—
  - (a) value passes (directly or indirectly) from an intermediary, or a person connected with an intermediary, to or for the benefit of a relevant person (and the passing of value does not amount to the reinvestment of the commission), and

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- (b) the passing of value can reasonably be taken to be in respect of the commission.
- (6) The amount of commission rebated is the amount of value passed.
- (7) A policy or contract is a person's policy or contract if a gain arising in connection with it would be—
  - (a) a gain for which the person, or (if the person is an individual) the person's spouse or civil partner, would be liable to tax under Chapter 9 of Part 4 of ITTOIA 2005, or
  - (b) treated by virtue of section 547(1) above as forming part of the person's income.
- (8) Any necessary apportionment is to be made (on a just and reasonable basis) as regards—
  - (a) commission which is attributable to two or more premiums, and
  - (b) any part of such commission that has been rebated or reinvested.
- (9) Commission which is in respect of one or more policies or contracts (but is not attributable to particular premiums) is to be attributed to such premiums as is just and reasonable.
- (10) In subsections (3) and (5), “relevant person” means—
  - (a) any of the policyholders (including any of the persons who hold the contract),
  - (b) a person who beneficially owns the rights under the policy or contract,
  - (c) if those rights are held on trust, any of the trustees, or
  - (d) a person connected (within the meaning of section 839) with a person within any of paragraphs (a) to (c).
- (11) In subsections (8) and (9), references to a premium include, in relation to a contract for a life annuity, lump sum consideration.]

#### Textual Amendments

**F100** Ss. 548A, 548B inserted (with effect in accordance with s. 29(4) of the amending Act) by Finance Act 2007 (c. 11), s. 29(1)

#### 549 Certain deficiencies allowable as deductions.

- <sup>M58</sup>(1) Subject to subsection (2) below, where such an excess as is mentioned in section 541(1) (a) or (b) [<sup>F101</sup>, 543(1)(c) or 546C(7)(b)]—
- (a) would be treated as a gain arising in connection with a policy or contract, and
  - (b) would form part of an individual's total income for the year of assessment in which the final year ends,
- a corresponding deficiency occurring at the end of the final year shall be allowable as a deduction from his total income for that year of assessment, so far as it does not exceed the total amount treated as a gain by virtue of section 541(1)(d) or 543(1)(c) on the previous happenings of chargeable events.
- (2) Except where the deficiency mentioned in subsection (1) above occurs in connection with a contract for a life annuity made after 26th March 1974 [<sup>F102</sup>but in an accounting

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period of the insurance company or friendly society beginning before 1st January 1992,] the deduction allowable under that subsection shall be made only for the purposes of ascertaining the individual's excess liability, that is to say, the excess (if any) of his liability to income tax over what it would be if all income tax [F103 not chargeable [F104 at the starting rate]] [F105 were chargeable at the basic rate, or (so far as applicable in accordance with [F106 section 1A]) the lower rate [F107 or the Schedule F ordinary rate],] to the exclusion of [F108 the higher rate and the Schedule F upper rate].

(3) In this section “final year” has the same meaning as in section 546.

#### Textual Amendments

- F101** Words in s. 549(1) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 13**
- F102** Words in s. 549(2) substituted by Finance Act 1991 (c. 31, SIF 63:1), s. 48, **Sch. 7 para. 9(4)**
- F103** Words in s. 549(2) inserted (16.7.1992) by Finance (No. 2) Act 1992 (c. 48), **s. 19(3)(7)**
- F104** Words in s. 549(2) substituted (with application in accordance with s. 22(12) of the amending Act) by Finance Act 1999 (c. 16), **s. 22(9)(a)**
- F105** Words in s. 549(2) substituted (27.7.1993 with effect for the year 1993-94 and subsequent years of assessment) by 1993 c. 34, **s. 79**, Sch. 6 paras. 6, 25(1)
- F106** Words in s. 549(2) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 1996 (c. 8), **Sch. 6 para. 13**
- F107** Words in s. 549(2) inserted (with effect in accordance with Sch. 4 para. 13(2) of the amending Act) by Finance (No. 2) Act 1997 (c. 58), **Sch. 4 para. 13(1)(a)**
- F108** Words in s. 549(2) substituted (with effect in accordance with Sch. 4 para. 13(2) of the amending Act) by Finance (No. 2) Act 1997 (c. 58), **Sch. 4 para. 13(1)(b)**

#### Marginal Citations

- M58** Source-1975 Sch.2 19; 1975 (No.2) s.40

## 550 Relief where gain charged at a higher rate.

- (1) <sup>M59</sup>The following provisions of this section shall have effect for the purposes of giving relief, on a claim in that behalf being made by him to the Board, in respect of any increase in an individual's liability to tax which is attributable to one or more amounts being included in his total income for a year of assessment by virtue of section 547(1) (a).
- (2) Where one amount only is so included, there shall be computed—
- the tax which would be chargeable in respect of the amount if relief under this section were not available and it constituted the highest part of the claimant's total income for the year, and
  - the tax (if any) which would be chargeable in respect of the amount if calculated, in accordance with subsection (3) below, by reference to its appropriate fraction;

and the relief shall consist of a reduction or repayment of tax equal to the difference between the two amounts of tax so computed, or, if tax would not be chargeable on a calculation by reference to the appropriate fraction, of a reduction or repayment of the tax equal to the tax computed under paragraph (a) above.

- (3) In subsection (2) above “appropriate fraction” means, in relation to any amount, such a sum as bears thereto the same proportion as that borne by one to the number of

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complete years for which the policy or contract has run before the happening of the chargeable event; and the computation required by paragraph (b) of that subsection shall be made by applying to the amount in question such rate or rates of income tax, other than the basic rate [<sup>F109</sup>or the [<sup>F110</sup>starting rate]], as would apply if it were reduced to that fraction and, as so reduced, still constituted the highest part of the claimant's total income for the year.

- (4) For the purposes of subsection (3) above the number of years for which a policy of life insurance has run before the happening of a chargeable event shall be calculated, where appropriate, from the issue of the earliest related policy, meaning, any policy in relation to which the policy is a new policy within the meaning of paragraph 17 of Schedule 15, any policy in relation to which that policy is such a policy, and so on.
- (5) <sup>M60</sup>Where a chargeable event on the happening of which an amount is included in an individual's total income by virtue of section 547(1)(a) follows the happening of another chargeable event in relation to the same policy or contract, and each of those events is such an excess as is mentioned in section 540(1)(a)(v), 542(1) or 545(1)(d), subsections (3) and (4) above shall have effect in relation to that amount as if the number of complete years referred to in subsection (3) were the number of complete years elapsing between that other event (or, if more than one, the last of them) and the first-mentioned event.
- [<sup>F111</sup>(5A) For the purposes of this section, a chargeable event by virtue of section 546C(7)(a)—
- (a) shall be treated as being such a chargeable event as is mentioned in subsection (5) above; and
  - (b) accordingly, in computing any number of complete years, shall be treated as happening at the end of the year (within the meaning given by section 546(4)) as at which occurs the excess that gives rise to it.]
- (6) <sup>M61</sup>Where by virtue of section 547(1)(a) two or more amounts are included in an individual's total income for any year of assessment, subsections (2) and (3) above shall apply as if they together constituted a single amount, but with the appropriate fraction of the whole determined by adding together the appropriate fractions of the individual amounts.
- (7) A provision of this section requiring tax to be calculated as if an amount constituted the highest part of a claimant's total income shall apply notwithstanding any other provision of the Income Tax Acts directing any other amount to be treated as the highest part thereof, but, for the purposes of this section, a claimant's total income shall be deemed not to include any amount in respect of which he is chargeable to tax under section 34, 35, 36 or 148.

#### Textual Amendments

**F109** Words in s. 550(3) inserted (16.7.1992) by [Finance \(No. 2\) Act 1992 \(c. 48\), s. 19\(2\)\(7\)](#)

**F110** Words in s. 550(3) substituted (with application in accordance with s. 22(12) of the amending Act) by [Finance Act 1999 \(c. 16\), s. 22\(8\)\(b\)](#)

**F111** [S. 550\(5A\)](#) inserted (with effect in accordance with s. 83(2) of the amending Act) by [Finance Act 2001 \(c. 9\), Sch. 28 para. 14](#)

#### Marginal Citations

**M59** Source-1970 s.400(1)-(3); 1971 Sch.6 43

**M60** Source-1975 Sch.2 18

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**M61** Source-1970 s.400(4), (5); 1971 Sch.6 43

## 551 Right of individual to recover tax from trustees.

<sup>M62</sup>(1) Where—

- (a) an amount is included in an individual's income by virtue of section 547(1)(a), and
- (b) the [<sup>F112</sup>rights, or the part or share,] in question were held immediately before the happening of the chargeable event on trust,

the individual shall be entitled to recover from the trustees, to the extent of any sums, or to the value of any benefits, received by them by reason of the event, an amount equal to that (if any) by which the tax with which he is chargeable for the year of assessment in question, reduced by the amount of any relief available under section 550 in respect of the amount so included, exceeds the tax with which he would have been chargeable for the year if that amount had not been so included.

- (2) Where, for the purposes of relief under section 550, two or more amounts are to be treated as one, the reduction required by subsection (1) above on account of the relief available in respect of any of them shall consist of a proportionate part of the relief available in respect of their aggregate.
- (3) An individual may require the Board to certify any amount recoverable by him by virtue of this section, and the certificate shall be conclusive evidence of the amount.

### Textual Amendments

**F112** Words in s. 551(1)(b) substituted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 15

### Marginal Citations

**M62** Source-1970 s.401

## [<sup>F113</sup>551A] Right of company to recover tax from trustees.

(1) Where—

- (a) an amount is included in a company's income by virtue of section 547(1)(b), and
- (b) the [<sup>F114</sup>rights, or the part or share,] in question were held immediately before the happening of the chargeable event on trust,

the company shall be entitled to recover from the trustees, to the extent of any sums, or to the value of any benefits, received by them by reason of the event, the amount (if any) by which T1 exceeds T2.

(2) For the purposes of subsection (1) above—

T1 is the tax with which the company is chargeable for the accounting period in question; and

T2 is the tax with which the company would have been chargeable for the accounting period if the amount mentioned in subsection (1)(a) above had not been included as there mentioned.

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- (3) A company may require the Board to certify any amount recoverable by the company by virtue of this section, and the certificate shall be conclusive evidence of the amount.]

#### Textual Amendments

**F113** Ss. 551A inserted (with effect in accordance with [Sch. 14 para. 7\(5\)](#) of the amending Act) by [Finance Act 1998 \(c. 36\)](#), [Sch. 14 para. 3](#)

**F114** Words in [s. 551A\(1\)\(b\)](#) substituted (with effect in accordance with [s. 83\(2\)](#) of the amending Act) by [Finance Act 2001 \(c. 9\)](#), [Sch. 28 para. 16](#)

#### [<sup>F115</sup>552 Information: duty of insurers.

- (1) Where a chargeable event within the meaning of this Chapter has happened in relation to any policy or contract, the body by or with whom the policy or contract was issued, entered into or effected shall—
- (a) unless satisfied that no gain is to be treated as arising by reason of the event, deliver to the appropriate policy holder before the end of the relevant three month period a certificate specifying the information described in subsection (5) below; and
  - (b) if the condition in paragraph (a) or (b) of subsection (2) below is satisfied, deliver to the inspector before the end of the relevant three month period a certificate specifying the information described in subsection (5) below together with the name and address of the appropriate policy holder.
- (2) For the purposes of this section—
- (a) the condition in this paragraph is that the event is an assignment for money or money's worth of the whole of the rights conferred by the policy or contract; or
  - (b) the condition in this paragraph is that the amount of the gain, or the aggregate amount of the gain and any gains connected with it, exceeds one half of the basic rate limit for the relevant year of assessment.
- (3) If, in the case of every certificate which a body delivers under subsection (1)(a) above which relates to a gain attributable to a year of assessment (or, where the appropriate policy holder is a company, the corresponding financial year), the body also delivers to the inspector—
- (a) before the end of the relevant three month period for the purposes of subsection (1)(b) above,
  - (b) by a means prescribed by the Board for the purposes of this subsection under section 552ZA(5), and
  - (c) in a form so prescribed in the case of that means,
- a certificate specifying the same information as the certificate under subsection (1)(a) together with the name and address of the appropriate policy holder, the body shall be taken to have complied with the requirements of subsection (1)(b) above in relation to that year of assessment, and the corresponding financial year, so far as relating to the chargeable events to which the certificates relate.
- (4) Where a certificate is not required to be delivered under subsection (1)(b) above in the case of any chargeable event—

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- (a) the inspector may by notice require the body to deliver to him a copy of any certificate that the body was required to deliver under subsection (1)(a) above which relates to the chargeable event; and
  - (b) it shall be the duty of the body to deliver such a copy within 30 days of receipt of the notice.
- (5) The information to be given to the appropriate policy holder pursuant to subsection (1) (a) above or the inspector pursuant to subsection (1)(b) above is—
- (a) any unique identifying designation given to the policy or contract;
  - (b) the nature of the chargeable event and—
    - (i) the date on which it happened; and
    - (ii) if it is a chargeable event by virtue of section 546C(7)(a), the date on which the year ends;
  - (c) if the event is the assignment of all the rights conferred by the policy or contract, such of the following as may be required for computing the amount of the gain to be treated as arising by virtue of this Chapter—
    - (i) the amount or value of any relevant capital payments;
    - (ii) the amounts previously paid under the policy or contract by way of premiums or otherwise by way of consideration for an annuity;
    - (iii) the capital element in any payment previously made on account of an annuity;
    - (iv) the value of any previously assigned parts of or shares in the rights conferred by the policy or contract;
    - (v) the total of the amounts of gains treated as arising on previous chargeable events by reason, or in consequence, of the occurrence of a section 546 excess at the end of a year;
  - (d) except where paragraph (c) above applies, the amount of the gain treated as arising by reason of the event;
  - (e) the number of years relevant for computing the appropriate fraction of the gain for the purposes of section 550(3), apart from section 553(8);
  - (f) on the assumption that section 547(1)(a) has effect in relation to the gain—
    - (i) whether an individual would fall to be treated as having paid income tax at the basic rate on the amount of the gain in accordance with section 547(5)(a); and
    - (ii) if so, except in a case where paragraph (c) above applies, the amount of such tax that would fall to be so treated as paid.
- (6) For the purposes of subsection (1)(a) above, the relevant three month period is whichever of the following periods ends the latest—
- (a) the period of three months following the happening of the chargeable event;
  - (b) if the event is a surrender or assignment which is a chargeable event by virtue of section 546C(7)(a), the period of three months following the end of the year in which the event happens;
  - (c) if the event is a death or an assignment of the whole of the rights or a surrender or assignment which is a chargeable event by virtue of section 546C(7)(a), the period of three months beginning with receipt of written notification of the event.
- (7) For the purposes of subsection (1)(b) above, the relevant three month period is whichever of the following periods ends the latest—

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- (a) the period of three months following the end of the year of assessment, or, where the policy holder is a company, the financial year, in which the event happened;
  - (b) if the event is a surrender or assignment which is a chargeable event by virtue of section 546C(7)(a), the period of three months following the end of the year in which the event happens;
  - (c) if the event is a death or an assignment, the period of three months beginning with receipt of written notification of the event;
  - (d) if a certificate under subsection (1)(b) above would not be required in respect of the event apart from the happening of another event, and that other event is one of those mentioned in paragraph (c) above, the period of three months beginning with receipt of written notification of that other event.
- (8) For the purposes of this section the cases where a gain is connected with another gain are those cases where—
- (a) both gains arise in connection with policies or contracts containing obligations which, immediately before the chargeable event, were obligations of the same body;
  - (b) the policy holder of those policies or contracts is the same;
  - (c) both gains are attributable to the same year of assessment or, where the policy holder is a company, to the same financial year;
  - (d) the terms of the policies or contracts are the same, apart from any difference in their maturity dates; and
  - (e) the policies or contracts were issued in respect of insurances made, or were entered into or effected, on the same date.
- (9) For the purposes of this section, the year of assessment or financial year to which a gain is attributable is—
- (a) in the case of a gain treated as arising by virtue of section 546C(7)(b), the year of assessment or financial year which includes the end of the year as at which the section 546 excess in question occurs; or
  - (b) in any other case, the year of assessment or financial year in which happens the chargeable event by reason of which the gain is treated as arising.
- (10) In this section—
- “amount”, in relation to any gain, means the amount of the gain apart from section 553(3);
- “appropriate policy holder” means—
- (a) in relation to an assignment of part of or a share in the rights conferred by a policy or contract, any person who is both—
    - (i) the policy holder, or one of the policy holders, immediately before the assignment; and
    - (ii) the assignor or one of the assignors; and
  - (b) in relation to any other chargeable event, the person who is the policy holder immediately before the happening of the event;
- “financial year” means a period of 12 months beginning with 1st April;
- “the relevant year of assessment”, in the case of any gain, means—
- (a) the year of assessment to which the gain is attributable, or
  - (b) if the gain arises to a company, the year of assessment which corresponds to the financial year to which the gain is attributable;



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“section 546 excess” has the meaning given in section 546B(4);  
“year”, in relation to any policy or contract, has the meaning given by section 546(4).

(11) For the purposes of this section a year of assessment and a financial year correspond to each other if the financial year ends with 31st March in the year of assessment.

(12) This section is supplemented by section 552ZA.]

#### Textual Amendments

**F115** Ss. 552, 552ZA substituted for s. 552 (with effect in accordance with s. 83(3) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 18

#### Modifications etc. (not altering text)

**C10** S. 552(6) modified (9.4.2003) by Finance Act 2003 (c. 14), s. 171(1)(3), Sch. 34 para. 5

### [<sup>F116</sup>552ZA] information: supplementary provisions

- (1) This section supplements section 552 and shall be construed as one with it.
- (2) Where the obligations under any policy or contract of the body that issued, entered into or effected it (“the original insurer”) are at any time the obligations of another body (“the transferee”) to whom there has been a transfer of the whole or any part of a business previously carried on by the original insurer, section 552 shall have effect in relation to that time, except where the chargeable event—
  - (a) happened before the transfer, and
  - (b) in the case of a death or an assignment, is an event of which the notification mentioned in subsection (6) or (7) of that section was given before the transfer, as if the policy or contract had been issued, entered into or effected by the transferee.
- (3) Where, in consequence of section 546C(7)(a), paragraph (a) or (b) of section 552(1) requires certificates to be delivered in respect of two or more surrenders, happening in the same year, of part of or a share in the rights conferred by the policy or contract, a single certificate may be delivered under the paragraph in question in respect of all those surrenders (and may treat them as if they together constituted a single surrender) unless between the happening of the first and the happening of the last of them there has been—
  - (a) an assignment of part of or a share in the rights conferred by the policy or contract; or
  - (b) an assignment, otherwise than for money or money’s worth, of the whole of the rights conferred by the policy or contract.
- (4) Where the appropriate policy holder is two or more persons—
  - (a) section 552(1)(a) requires a certificate to be delivered to each of them; but
  - (b) nothing in section 552 or this section requires a body to deliver a certificate under subsection (1)(a) of that section to any person whose address has not been provided to the body (or to another body, at a time when the obligations under the policy or contract were obligations of that other body).
- (5) A certificate under section 552(1)(b) or (3)—
  - (a) shall be in a form prescribed for the purpose by the Board; and

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- (b) shall be delivered by any means prescribed for the purpose by the Board; and different forms, or different means of delivery, may be prescribed for different cases or different purposes.
- (6) The Board may by regulations make such provision as they think fit for securing that they are able—
  - (a) to ascertain whether there has been or is likely to be any contravention of the requirements of section 552 or this section; and
  - (b) to verify any certificate under that section.
- (7) Regulations under subsection (6) above may include, in particular, provisions requiring persons to whom premiums under any policy are or have at any time been payable—
  - (a) to supply information to the Board; and
  - (b) to make available books, documents and other records for inspection on behalf of the Board.
- (8) Regulations under subsection (6) above may—
  - (a) make different provision for different cases; and
  - (b) contain such supplementary, incidental, consequential or transitional provision as appears to the Board to be appropriate.]

#### Textual Amendments

**F116** Ss. 552, 552ZA substituted for s. 552 (with effect in accordance with s. 83(3) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 18

VALID FROM 17/07/2013

#### [<sup>F117</sup>552ZB] Regulations in relation to qualifying policies

- (1) The Commissioners for Her Majesty's Revenue and Customs may make regulations—
  - (a) requiring relevant persons—
    - (i) to provide prescribed information to persons who apply for the issue of qualifying policies or who are, or may be, required to make statements under paragraph B3(2) of Schedule 15;
    - (ii) to provide to an officer of Revenue and Customs prescribed information about qualifying policies which have been issued by them or in relation to which they are or have been a relevant transferee;
  - (b) making such provision (not falling within paragraph (a)) as the Commissioners think fit for securing that an officer of Revenue and Customs is able—
    - (i) to ascertain whether there has been or is likely to be any contravention of the requirements of the regulations or of paragraph B3(2) of Schedule 15;
    - (ii) to verify any information provided to an officer of Revenue and Customs as required by the regulations.

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- (2) The provision that may be made by virtue of subsection (1)(b) includes, in particular, provision requiring relevant persons to make available books, documents and other records for inspection by or on behalf of an officer of Revenue and Customs.
- (3) The regulations may—
  - (a) make different provision for different cases or circumstances, and
  - (b) contain incidental, supplementary, consequential, transitional, transitory or saving provision.
- (4) In this section—
  - “prescribed” means prescribed by the regulations,
  - “qualifying policy” includes a policy which would be a qualifying policy apart from—
    - (a) paragraph A1(2), B1(2), B2(2) or B3(3) of Schedule 15, or
    - (b) paragraph 17(2)(za) of that Schedule (including as applied by paragraph 18), and
  - “relevant person” means a person—
    - (a) who issues, or has issued, qualifying policies, or
    - (b) who is, or has been, a relevant transferee in relation to qualifying policies.
- (5) For the purposes of this section a person (“X”) is at any time a “relevant transferee” in relation to a qualifying policy if the obligations under the policy of its issuer are at that time the obligations of X as a result of there having been a transfer to X of the whole or any part of a business previously carried on by the issuer.]

#### Textual Amendments

F117 S. 552ZB inserted (17.7.2013) by Finance Act 2013 (c. 29), Sch. 9 para. 10

#### [<sup>F118</sup>552A Tax representatives.

- (1) This section has effect for the purpose of securing that, where it applies to an overseas insurer, another person is the overseas insurer’s tax representative.
- (2) In this section “overseas insurer” means a person who is not resident in the United Kingdom who carries on a business which consists of or includes the effecting and carrying out of—
  - (a) policies of life insurance;
  - (b) contracts for life annuities; or
  - (c) capital redemption policies.
- (3) This section applies to an overseas insurer—
  - (a) if the condition in subsection (4) below is satisfied on the designated day; or
  - (b) where that condition is not satisfied on that day, if it has subsequently become satisfied.
- (4) The condition mentioned in subsection (3) above is that—

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- (a) there are in force relevant insurances the obligations under which are obligations of the overseas insurer in question or of an overseas insurer connected with him; and
  - (b) the total amount or value of the gross premiums paid under those relevant insurances is £1 million or more.
- (5) In this section “relevant insurance” means any policy of life insurance, contract for a life annuity or capital redemption policy in relation to which this Chapter has effect and in the case of which—
- (a) the holder is resident in the United Kingdom;
  - (b) the obligations of the insurer are obligations of a person not resident in the United Kingdom; and
  - (c) those obligations are not attributable to a branch or agency of that person’s in the United Kingdom.
- (6) Before the expiration of the period of three months following the day on which this section first applies to an overseas insurer, the overseas insurer must nominate to the Board a person to be his tax representative.
- (7) A person shall not be a tax representative unless—
- (a) if he is an individual, he is resident in the United Kingdom and has a fixed place of residence there, or
  - (b) if he is not an individual, he has a business establishment in the United Kingdom,
- and, in either case, he satisfies such other requirements (if any) as are prescribed in regulations made for the purpose by the Board.
- (8) A person shall not be an overseas insurer’s tax representative unless—
- (a) his nomination by the overseas insurer has been approved by the Board; or
  - (b) he has been appointed by the Board.
- (9) The Board may by regulations make provision supplementing this section; and the provision that may be made by any such regulations includes provision with respect to—
- (a) the making of a nomination by an overseas insurer of a person to be his tax representative;
  - (b) the information which is to be provided in connection with such a nomination;
  - (c) the form in which such a nomination is to be made;
  - (d) the powers and duties of the Board in relation to such a nomination;
  - (e) the procedure for approving, or refusing to approve, such a nomination, and any time limits applicable to doing so;
  - (f) the termination, by the overseas insurer or the Board, of a person’s appointment as a tax representative;
  - (g) the appointment by the Board of a person as the tax representative of an overseas insurer (including the circumstances in which such an appointment may be made);
  - (h) the nomination by the overseas insurer, or the appointment by the Board, of a person to be the tax representative of an overseas insurer in place of a person ceasing to be his tax representative;

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- (j) circumstances in which an overseas insurer to whom this section applies may, with the Board's agreement, be released (subject to any conditions imposed by the Board) from the requirement that there must be a tax representative;
  - (k) appeals to the Special Commissioners against decisions of the Board under this section or regulations under it.
- (10) The provision that may be made by regulations under subsection (9) above also includes provision for or in connection with the making of other arrangements between the Board and an overseas insurer for the purpose of securing the discharge by or on behalf of the overseas insurer of the relevant duties, within the meaning of section 552B.
- (11) Section 839 (connected persons) applies for the purposes of this section.
- (12) In this section—
- “the designated day” means such day as the Board may specify for the purpose in regulations;
  - “tax representative” means a tax representative under this section.]

#### Subordinate Legislation Made

**P1** S. 552A(12) power exercised: 6.4.1999 appointed by S.I. 1999/881, **reg. 3**

#### Textual Amendments

**F118** Ss. 552A, 552B inserted (31.7.1998) by Finance Act 1998 (c. 36), **s. 87**

#### Modifications etc. (not altering text)

**C11** S. 522A restricted (6.4.1999) by The Overseas Insurers (Tax Representatives) Regulations 1999 (S.I. 1999/881), **reg. 11(2)**

### [<sup>F118</sup>552B] Duties of overseas insurers' tax representatives.

- (1) It shall be the duty of an overseas insurer's tax representative to secure (where appropriate by acting on the overseas insurer's behalf) that the relevant duties are discharged by or on behalf of the overseas insurer.
- [<sup>F119</sup>(2) For the purposes of this section “the relevant duties” are—
- (a) the duties imposed by section 552,
  - (b) the duties imposed by section 552ZA(2), (4) or (5), and
  - (c) any duties imposed by regulations made under subsection (6) of section 552ZA by virtue of subsection (7) of that section,
- so far as relating to relevant insurances under which the overseas insurer in question has any obligations.]
- (3) An overseas insurer's tax representative shall be personally liable—
- (a) in respect of any failure to secure the discharge of the relevant duties, and
  - (b) in respect of anything done for purposes connected with acting on the overseas insurer's behalf,
- as if the relevant duties were imposed jointly and severally on the tax representative and the overseas insurer.

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- (4) In the application of this section in relation to any particular tax representative, it is immaterial whether any particular relevant duty arose before or after his appointment.
- (5) This section has effect in relation to relevant duties relating to chargeable events happening on or after the day by which section 552A(6) requires the nomination of the overseas insurer's first tax representative to be made.
- (6) Expressions used in this section and in section 552A have the same meaning in this section as they have in that section.]

#### Textual Amendments

**F118** Ss. 552A, 552B inserted (31.7.1998) by Finance Act 1998 (c. 36), s. 87

**F119** S. 552B(2) substituted (with effect in accordance with s. 83(3) of the amending Act) by Finance Act 2001 (c. 9), Sch. 28 para. 19

### 553 Non-resident policies and off-shore capital redemption policies.

- <sup>M63</sup>(1) If, in the case of a substitution of policies falling within paragraph 25(1) or (3) of Schedule 15, the new policy is a qualifying policy, section 540 shall have effect with the following modifications—
- (a) the surrender of the rights conferred by the old policy shall not be a chargeable event (within the meaning of that section); and
  - (b) the new policy shall be treated as having been issued in respect of an insurance made on the day referred to in paragraph 26 of that Schedule.
- (2) If at any time [<sup>F120</sup>the conditions in paragraph 24(3) of Schedule 15 to this Act are not fulfilled] with respect to a new non-resident policy which has previously become a qualifying policy, then, from that time onwards, this Chapter shall apply in relation to the policy as if it were not a qualifying policy.
- (3) Subject to [<sup>F121</sup>subsections (5) and (5A)] below, on the happening of a chargeable event in relation to a new non-resident policy or a new offshore capital redemption policy, the amount which, apart from this subsection, would by virtue of section 541 [<sup>F122</sup>or 546C(7)(b)] be treated as a gain arising in connection with the policy shall be reduced by multiplying it by the fraction—

$$\frac{A}{B}$$

where—

A is the number of days on which the policy holder was resident in the United Kingdom in the period for which the policy has run before the happening of the chargeable event; and

B is the number of days in that period.

- (4) The calculation of the number of days in the period referred to in subsection (3) above shall be made in like manner as is provided in section 550(4), substituting a reference to the number of days for the reference to the number of years.

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- (5) If, on the happening of the chargeable event referred to in subsection (3) above or at any time during the period referred to in that subsection, the policy is or was held by a trustee resident outside the United Kingdom or by two or more trustees any of whom is or was so resident, no reduction shall be made under that subsection unless—
- (a) the policy was issued in respect of an insurance made on or before 19th March 1985; and
  - (b) on that date the policy was held by a trustee who was so resident or, as the case may be, by two or more trustees any of whom was so resident.
- [<sup>F123</sup>(5A) If, on the happening of the chargeable event referred to in subsection (3) above or at any time during the period referred to in that subsection, the policy is or was held by a foreign institution, no reduction shall be made under that subsection unless—
- (a) the policy was issued in respect of an insurance made on or before 16th March 1998; and
  - (b) on that date the policy was held by a foreign institution.]
- (6) Subject to [<sup>F124</sup>subsections (6A) and (7)] below, where, under section 541 [<sup>F125</sup>or 546C(7)(b)], a gain (reduced in accordance with subsection (3) above) is to be treated as arising in connection with a new non-resident policy or a new offshore capital redemption policy—
- (a) section 547 shall have effect, in relation to the gain, as if subsection (5) were omitted; and
  - (b) the gain shall be chargeable to tax under Case VI of Schedule D;
- but any relief under section 550 shall be computed as if this subsection had not been enacted.
- [<sup>F126</sup>(6A) Paragraphs (a) and (b) of subsection (6) above do not apply to a gain in a case where the Board are satisfied, on a claim made for the purpose—
- (a) that the insurer has not, at any time (“a relevant time”) between the making of the insurance and the date on which the gain is treated as arising, been resident in the United Kingdom;
  - (b) that at all relevant times the insurer has—
    - (i) as a body deriving its status as a company from the laws of a territory outside the United Kingdom,
    - (ii) as a company with its place of management in such a territory, or
    - (iii) as a company falling, under the laws of such a territory, to be regarded, for any other reason, as resident or domiciled in that territory,been within a charge to tax under the laws of that territory;
  - (c) that that territory is a territory within the European Economic Area when the gain is treated as arising;
  - (d) that the charge to tax mentioned in paragraph (b) above has at all relevant times been such a charge made otherwise than by reference to profits as (by disallowing their deduction in computing the amount chargeable) to require sums payable and other liabilities arising under policies of the same class as the policy in question to be treated as sums or liabilities falling to be met out of amounts subject to tax in the hands of the insurer;
  - (e) that the rate of tax fixed for the purposes of that charge in relation to the amounts subject to tax in the hands of the insurer (not being amounts arising or accruing in respect of investments that are of a particular description for

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which a special relief or exemption is generally available) has at all relevant times been at least 20 per cent.; and

- (f) that none of the insurer’s obligations under the policy in question to pay any sum or to meet any other liability arising under that policy is or has been the subject, in whole or in part, of any reinsurance contract relating to anything other than the risk that the person whose life is insured by the policy will die or will suffer any sickness or accident;

and paragraphs (a) and (b) of subsection (6) above shall also not apply where the case would fall within paragraphs (a) to (f) above if references to a relevant time did not include references to any time when the conditions required to be fulfilled in relation to that time for the purposes of subsection (7) below were fulfilled.]

- (7) Paragraphs (a) and (b) of subsection (6) above do not apply to a gain arising in connection with a new non-resident policy if the conditions in [F127 sub-paragraph (3)] of paragraph 24 of Schedule 15 are fulfilled at all times between the date on which the policy was issued and the date on which the gain is treated as arising.

[F128(7A) Where, in the case of a gain to which subsection (6)(a) and (b) above applies, the rights conferred by the policy were vested immediately before the happening of the chargeable event in question in personal representatives within the meaning of Part XVI, the gain shall be deemed for the purposes of income tax to be income of the personal representatives as such.]

- (8) Where a claim is made under section 550 in respect of the amount of a gain treated as arising in connection with a new non-resident policy or a new offshore capital redemption policy (with or without other amounts), the “appropriate fraction” which, in accordance with subsection (2) of that section, is to be applied to that amount shall be modified by deducting from the number of complete years referred to in subsection (3) of that section any complete years during which the policy holder was not resident in the United Kingdom.

- (9) Subsection (5) of section 550 shall not apply in relation to a new non-resident policy or a new offshore capital redemption policy.

- (10) In this section—

“chargeable event” has, subject to subsection (1) above, the meaning given by section 540 or, as the case may be, 545 [F129 or 546C(7)(a)];

[F130 “foreign institution” has the same meaning as in section 547;]

“new non-resident policy” has the meaning given by paragraph 24 of Schedule 15; and

“new offshore capital redemption policy” means a capital redemption policy, as defined in section 539(3), which—

- (a) is issued in respect of [F131 a contract] made after 22nd February 1984; and

- (b) is so issued by a company resident outside the United Kingdom.

#### Textual Amendments

**F120** Words in s. 553(2) substituted (1.5.1995) by Finance Act 1995 (c. 4), s. 55(8)(a) (with saving)

**F121** Words in s. 553(3) substituted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), Sch. 14 para. 4(2)

**F122** Words in s. 553(3) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001, (c. 9), Sch. 28 para. 17(2)



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- F123** S. 553(5A) inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 4(3)**
- F124** Words in s. 553(6) substituted (with effect in accordance with s. 56(4) of the amending Act) by Finance Act 1995 (c. 4), **s. 56(2)**
- F125** Words in s. 553(6) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 17(3)**
- F126** S. 553(6A) inserted (with effect in accordance with s. 56(4) of the amending Act) by Finance Act 1995 (c. 4), **s. 56(2)**
- F127** Words in s. 553(7) substituted (1.5.1995) by Finance Act 1995 (c. 4), **s. 55(8)(b)** (with saving)
- F128** S. 553(7A) inserted (with effect in accordance with s. 76(6) of the amending Act) by Finance Act 1995 (c. 4), **s. 76(3)**
- F129** Words in s. 553(10) inserted (with effect in accordance with s. 83(2) of the amending Act) by Finance Act 2001 (c. 9), **Sch. 28 para. 17(4)**
- F130** S. 553(10): definition of "foreign institution" inserted (with effect in accordance with Sch. 14 para. 7(5) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 14 para. 4(4)**
- F131** Words in s. 553(10) substituted (with effect in accordance with s. 168(6) of the amending Act) by Finance Act 1996 (c. 8), **s. 168(5)**

#### Modifications etc. (not altering text)

- C12** S. 553: power to modify conferred (with effect in accordance with s. 56(4) of the affecting Act) by Finance Act 1995 (c. 4), **s. 56(3)**

#### Marginal Citations

- M63** Source-1984 Sch.15 Part III; 1984 s.76(5); 1985 s.51

### [<sup>F132</sup>553A] Overseas life assurance business: life policies.

- (1) A policy of life insurance which, immediately before the happening of a chargeable event or a relevant event—
  - (a) is an overseas policy, but
  - (b) is not a new non-resident policy,
 shall, in relation to that event, be treated for the purposes of this Chapter as if it were a new non-resident policy.
- (2) A policy of life insurance which, immediately before the happening of a relevant event—
  - (a) is an overseas policy, and
  - (b) is a new non-resident policy,
 shall, in relation to that event, be taken for the purposes of this Chapter not to be a qualifying policy.
- (3) Where a chargeable event happens in relation to a new non-resident policy, section 553(7) shall not have effect in relation to the gain treated as arising in connection with the policy on the happening of the chargeable event.
- (4) In this section—
 

“new non-resident policy” means a new non-resident policy as defined in paragraph 24 of Schedule 15 (and in subsections (2) and (3) above includes a policy treated as such by virtue of subsection (1) above);

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“overseas policy” means a policy of life insurance which, by virtue of section 431D(1)(a), forms part of the overseas life assurance business of an insurance company or friendly society;

“relevant event”, in relation to a policy of life insurance, means an event which would be a chargeable event in relation to that policy if the policy were assumed not to be a qualifying policy.

- (5) This section applies in relation to chargeable events and relevant events happening on or after 17th March 1998 in relation to policies of life insurance issued in respect of insurances made on or after that date.
- (6) A policy of life insurance issued in respect of an insurance made before 17th March 1998 shall be treated for the purposes of this section as issued in respect of one made on or after that date if it is varied on or after that date so as to increase the benefits secured or to extend the term of the insurance; and any exercise of rights conferred by the policy shall be regarded for this purpose as a variation.]

#### Textual Amendments

**F132** S. 553A inserted (31.7.1998) by [Finance Act 1998 \(c. 36\), s. 88\(1\)](#)

#### [<sup>F133</sup>553B] Overseas life assurance business: capital redemption policies.

- (1) A capital redemption policy which immediately before the happening of a chargeable event—
- (a) is an overseas policy, but
  - (b) is not a new offshore capital redemption policy,
- shall, in relation to that event, be treated for the purposes of this Chapter as if it were a new offshore capital redemption policy.
- (2) In this section—
- “new offshore capital redemption policy” has the same meaning as in section 553;
- “overseas policy” means a capital redemption policy which, by virtue of section 431D(1)(a), forms part of the overseas life assurance business of an insurance company.
- (3) This section applies in relation to capital redemption policies where the contract is made after the coming into force of the first regulations under section 458A in consequence of which capital redemption business forms part of the overseas life assurance business of an insurance company.]

#### Textual Amendments

**F133** S. 553B inserted (31.7.1998) by [Finance Act 1998 \(c. 36\), s. 88\(2\)](#)

#### [<sup>F134</sup>553C] Personal portfolio bonds.

- (1) The Treasury may by regulations make provision imposing a yearly charge to tax in relation to personal portfolio bonds (“yearly” being construed for this purpose by reference to years as defined in section 546(4)).

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- (2) Subject to any provision to the contrary made by the regulations, any charge to tax under this section is in addition to any other charge to tax under this Chapter.
- (3) The regulations may make provision with respect to or in connection with all or any of the following—
  - (a) the method by which the charge to tax, or any relief, allowance or deduction against or in respect of the tax, is to be imposed or given effect;
  - (b) the person who is to be liable for the tax;
  - (c) the periods for or in respect of which the tax is to be charged;
  - (d) the amounts in respect of which, or by reference to which, the tax is to be charged;
  - (e) the period or periods by reference to which those amounts are to be determined;
  - (f) the rate or rates at which the tax is to be charged;
  - (g) any reliefs, allowances or deductions which are to be given or made against or in respect of the tax;
  - (h) the administration of the tax.
- (4) The provision that may be made by the regulations includes provision for imposing the charge to tax by a method which involves—
  - (a) treating an event described in the regulations as if it were a chargeable event;
  - (b) treating an amount determined in accordance with the regulations as if it were a gain treated as arising on the happening of a chargeable event;
  - (c) deeming an amount determined in accordance with the regulations to be income of a person or body of persons (or to be part of the aggregate income of the estate of a deceased person); or
  - (d) applying section 740, with or without modification, in relation to an amount determined in accordance with the regulations.
- (5) The provision that may be made in the regulations includes provision for the amount or amounts in respect of which, or by reference to which, the tax is to be charged for periods beginning after the coming into force of the regulations to be determined in whole or in part by reference to periods beginning or ending, premiums paid, or events happening, before, on or after the day on which the Finance Act 1998 is passed.
- (6) The regulations may make provision excluding, or applying (with or without modification), other provisions of this Chapter in relation to policies or contracts which are also personal portfolio bonds.
- (7) In this section, “personal portfolio bond” means a policy of life insurance, contract for a life annuity or capital redemption policy under whose terms—
  - (a) some or all of the benefits are determined by reference to the value of, or the income from, property of any description (whether or not specified in the policy or contract) or fluctuations in, or in an index of, the value of property of any description (whether or not so specified); and
  - (b) some or all of the property, or such an index, may be selected by, or by a person acting on behalf of, the holder of the policy or contract or a person connected with him (or the holder of the policy or contract and a person connected with him);

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but a policy or contract is not a personal portfolio bond if the only property or index which may be so selected is of a description prescribed for this purpose in the regulations.

- (8) The regulations may prescribe additional conditions which must be satisfied if a policy or contract is to be a personal portfolio bond.
- (9) The regulations—
  - (a) may make different provision for different cases, different circumstances or different periods; and
  - (b) may make incidental, consequential, supplemental or transitional provision.
- (10) In this section, “holder”, in the case of a policy or contract held by two or more persons, includes a reference to any of those persons.
- (11) Section 839 (connected persons) applies for the purposes of this section.]

#### **Textual Amendments**

**F134** S. 553C inserted (31.7.1998) by [Finance Act 1998 \(c. 36\)](#), s. 89

#### **554 Borrowings on life policies to be treated as income in certain cases.**

<sup>M64</sup>(1) Where—

- (a) under any contract or arrangements made on or after 7th April 1949, provision is made for the making to any person, at intervals until the happening of an event or contingency dependent on human life, of payments by way of loan; and
- (b) under the contract or arrangements, the loans are secured upon a policy of life assurance which assures moneys payable on the happening of such an event or contingency and need not be repaid until the policy moneys become payable; and
- (c) the amount of the moneys payable on the happening of the event or contingency is made by the policy to increase by reference to the length of a period ending on the happening of that event or contingency;

the payments made by way of loan shall be treated for tax purposes as annual payments falling within Case III of Schedule D, or, if they are made to a person residing in the United Kingdom and the contract or arrangements were made outside the United Kingdom, as income from a possession out of the United Kingdom and, for income tax, as falling within section 65(1).

- (2) The amount of the moneys payable under a policy of life assurance shall not be deemed for the purposes of this section to be made to increase by reference to the length of a period ending on the happening of an event or contingency dependent on human life by reason only that those moneys are to increase from time to time if profits are made by the person liable under the policy.
- (3) This section shall not apply to any payments by way of loan if the Board are satisfied as respects those payments that it is not one of the objects of the contract or arrangements under which the payments are made that the recipient of them should enjoy the advantages which would, apart from any question of liability to tax, be enjoyed by

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a person in receipt of payments of the same amounts paid at the same times by way of annuity.

**Marginal Citations**

**M64** Source-1970 s.405

## CHAPTER III

### ENTERTAINERS AND SPORTSMEN

#### 555 Payment of tax.

- (1) <sup>M65</sup>Where a person who is an entertainer or sportsman of a prescribed description performs an activity of a prescribed description in the United Kingdom (“a relevant activity”), this Chapter shall apply if he is not resident in the United Kingdom in the year of assessment in which the relevant activity is performed.
- (2) <sup>M66</sup>Where a payment is made (to whatever person) and it has a connection of a prescribed kind with the relevant activity, the person by whom it is made shall on making it deduct out of it a sum representing income tax and shall account to the Board for the sum.
- (3) <sup>M67</sup>Where a transfer is made (to whatever person) and it has a connection of a prescribed kind with the relevant activity, the person by whom it is made shall account to the Board for a sum representing income tax.
- (4) <sup>M68</sup>The sums mentioned in subsections (2) and (3) above shall be such as are calculated in accordance with prescribed rules but shall in no case exceed the relevant proportion of the payment concerned or of the value of what is transferred, as the case may be; and “relevant proportion” here means a proportion equal to the basic rate of income tax for the year of assessment in which the payment or, as the case may be, the transfer is made.
- (5) <sup>M69</sup>In this Chapter—
  - (a) references to a payment include references to a payment by way of loan of money; and
  - (b) references to a transfer do not include references to a transfer of money but, subject to that, include references to a temporary transfer (as by way of loan) and to a transfer of a right (whether or not a right to receive money).
- (6) <sup>M70</sup>This section shall not apply to payments or transfers of such a kind as may be prescribed.
- (7) <sup>M71</sup>Regulations may—
  - (a) make provision enabling the Board to serve notices requiring persons who make payments or transfers to which subsection (2) or (3) above applies to furnish to the Board particulars of a prescribed kind in respect of payments or transfers;
  - (b) make provision requiring persons who make payments or transfers to which subsection (2) or (3) above applies to make, at prescribed times and for prescribed periods, returns to the Board containing prescribed information

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- about payments or transfers and the income tax for which those persons are accountable in respect of them;
- (c) make provision for the collection and recovery of such income tax, provision for assessments and claims to be made in respect of it, and provision for the payment of interest on it;
- (d) adapt, or modify the effect of, any enactment relating to income tax for the purpose of making any such provision as is mentioned in paragraphs (a) to (c) above.
- (8) <sup>M72</sup>Where in accordance with subsections (2) to (7) above a person pays a sum to the Board, they shall treat it as having been paid on account of a liability of another person to income tax or corporation tax; and the liability and the other person shall be such as are found in accordance with prescribed rules.
- (9) Where the sum exceeds the liability concerned, the Board shall pay such of the sum as is appropriate to the other person mentioned in subsection (8) above.
- (10) Where no liability is found as mentioned in subsection (8) above, the Board shall pay the sum to the person to whom the payment or transfer to which subsection (2) or (3) above applies, and which gave rise to the payment of the sum concerned to the Board, was made.
- (11) In construing references to a sum in subsections (8) to (10) above, anything representing interest shall be ignored.

**Modifications etc. (not altering text)**

**C13** See 1988(F) s.130(7)—*payment of outstanding tax by migrating companies.*

**C14** For regulations see Part III Vol.5 (under “Entertainers and sportsmen”).

**Marginal Citations**

**M65** Source-1986 Sch.11 1

**M66** Source-1986 Sch.11 2(1)

**M67** Source-1986 Sch.11 2(3)

**M68** Source-1986 Sch.11 2(2), (4)

**M69** Source-1986 Sch.11 2(5), (6)

**M70** Source-1986 Sch.11 2(7)

**M71** Source-1986 Sch.11 3(1)

**M72** Source-1986 Sch.11 4

**556 Activity treated as trade etc. and attribution of income.**

- (1) <sup>M73</sup>Where a payment is made (to whatever person) and it has a connection of the prescribed kind with the relevant activity, the activity shall be treated for the purposes of the Tax Acts as performed in the course of a trade, profession or vocation exercised by the entertainer or sportsman within the United Kingdom, to the extent that (apart from this subsection) it would not be so treated.

This subsection shall not apply where the relevant activity is performed in the course of an office or employment.

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- (2)<sup>M74</sup> Where a payment is made to a person who fulfils a prescribed description but is not the entertainer or sportsman and the payment has a connection of the prescribed kind with the relevant activity—
- (a) the entertainer or sportsman shall be treated for the purposes of the Tax Acts as the person to whom the payment is made; and
  - (b) the payment shall be treated for those purposes as made to him in the course of a trade, profession or vocation exercised by him within the United Kingdom (whether or not he would be treated as exercising such a trade, profession or vocation apart from this paragraph).
- (3) Regulations may provide—
- (a) for the deduction, in computing any [<sup>F135</sup>profits] of the entertainer or sportsman arising from the payment, of expenses incurred by other persons in relation to the payment;
  - (b) that any liability to tax (whether of the entertainer or sportsman or of another person) which would, apart from subsection (2) above, arise in relation to the payment shall not arise or shall arise only to a prescribed extent.
- (4)<sup>M75</sup> References in this section to a payment include references to a transfer.
- (5)<sup>M76</sup> This section shall not apply unless the payment or transfer is one to which section 555(2) or (3) applies, and subsections (2) and (3) above shall not apply in such circumstances as may be prescribed.

#### Textual Amendments

**F135** Words in s. 556(3)(a) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), Sch. 7 para. 1

#### Modifications etc. (not altering text)

**C15** For regulations see Part III Vol.5 (under “Entertainers and sportsmen”).

#### Marginal Citations

**M73** Source-1986 Sch.11 6(1), (3)

**M74** Source-1986 Sch.II 7(2), (3)

**M75** Source-1986 Sch.11 6(4) 7(6)

**M76** Source-1986 Sch.11 6(2), 7(5)

### 557 Charge on [<sup>F136</sup>profits].

- <sup>M77</sup>(1) Where income tax is chargeable under Case I or II of Schedule D on the [<sup>F137</sup>profits] arising from payment (made to whatever person) and the payments have a connection of the prescribed kind with relevant activities of the entertainer or sportsman, such tax shall be charged—
- (a) as if those payments were received in the course of one trade, profession or vocation exercised by the entertainer or sportsman within the United Kingdom separately from any other trade, profession or vocation exercised by him; and
  - (b) for each year of assessment, on the full amount of the [<sup>F137</sup>profits] arising in the year from those payments.

- (2) Regulations may—

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- (a) provide for the apportionment of [<sup>F137</sup>profits] between different trades, professions or vocations of the entertainer or sportsman;
  - (b) provide for the apportionment between different years of assessment of the [<sup>F137</sup>profits] arising from relevant activities of the entertainer or sportsman;
  - (c) provide for losses sustained in any trade, profession or vocation of the entertainer or sportsman to be deducted from or set off against the [<sup>F137</sup>profits] of another trade, profession or vocation of the entertainer or sportsman;
  - (d) provide that prescribed provisions of the Tax Acts about losses, or about expenditure, shall not apply (or shall apply with prescribed modifications) in prescribed circumstances relating to the entertainer or sportsman.
- (3) References in subsection (2)(a) and (c) above to a trade, profession or vocation of the entertainer or sportsman include references to that first mentioned in subsection (1)(a) above as well as to any other exercised by him.
- (4) References in this section to a payment include references to a transfer.
- (5) This section shall not apply in the case of a payment or transfer unless it is one to which section 555(2) or (3) applies.

#### Textual Amendments

**F136** Word in s. 557 sidenote substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), Sch. 7 para. 1

**F137** Words in s. 557(1)(2) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), Sch. 7 para. 1

#### Modifications etc. (not altering text)

**C16** For regulations see Part III Vol.5 (under “Entertainers and sportsmen”).

#### Marginal Citations

**M77** Source-1986 Sch.11 8

### 558 Supplementary provisions.

- (1) <sup>M78</sup>A payment to which subsection (2) of section 555 applies shall be treated for the purposes of the Tax Acts as not diminished by the sum mentioned in that subsection.
- (2) Regulations may provide that for the purposes of the Tax Acts the value of what is transferred by a transfer to which section 555(3) applies shall be calculated in accordance with prescribed rules.
- (3) In particular, rules may include provision for the calculation of an amount representing the actual worth of what is transferred, for that amount to be treated as a net amount corresponding to a gross amount from which income tax at the basic rate has been deducted, and for the gross amount to be taken to be the value of what is transferred.
- (4) <sup>M79</sup>No obligation as to secrecy imposed by statute or otherwise shall preclude the Board or an authorised officer of the Board from disclosing to any person who appears to the Board to have an interest in the matter information which may be relevant to determining whether section 555(2) or (3) applies to a payment or transfer.



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- (5) <sup>M80</sup>Regulations may make provision generally for giving effect to this Chapter, and may make different provision for different cases or descriptions of case.
- (6) <sup>M81</sup>In this Chapter—  
“regulations” means regulations made by the Treasury; and  
“prescribed” means prescribed by regulations.

**Modifications etc. (not altering text)**

**C17** For regulations see Part III Vol.5 (under “Entertainers and sportsmen”).

**Marginal Citations**

**M78** Source-1986 Sch.11 9

**M79** Source-1986 Sch.11 5

**M80** Source-1986 Sch.11 10, 11(2)

**M81** Source-1986 Sch.11 11(1), (3)

## CHAPTER IV

### SUB-CONTRACTORS IN THE CONSTRUCTION INDUSTRY

**Modifications etc. (not altering text)**

**C18** For regulations see Part III Vol.5.

#### 559 Deductions on account of tax etc. from payments to certain sub-contractors.

- (1) <sup>M82</sup>Subject to [<sup>F138</sup>the following provisions of this section], where a contract relating to construction operations is not a contract of employment but—
- one party to the contract is a sub-contractor; and
  - another party to the contract (“the contractor”) either is a sub-contractor under another such contract relating to all or any of the construction operations or is a person to whom section 560(2) applies,

this section shall apply to any payments which are made under the contract and are so made by the contractor to—

- the sub-contractor;
- a person nominated by the sub-contractor or the contractor; or
- a person nominated by a person who is a sub-contractor under another such contract relating to all or any of the construction operations.

[<sup>F139</sup>(1A) Subsection (1) above shall not apply to any payment made under the contract in question that is chargeable to income tax under Schedule E by virtue of section 134(1).]

- (2) Subsection (1) above shall not apply to any payment made under the contract in question if the person to whom it is made or, if it is made to a nominee, each of the following persons, that is to say, the nominee, the person who nominated him and the person for whose labour (or, where that person is a company, for whose employees’

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or officers' labour) the payment is made, is excepted from this section in relation to those payments by virtue of section 561.

(3) <sup>F140</sup> .....

[<sup>F141</sup>(3A) Subsection (1) above shall not apply to a payment made under any contract if such conditions as may be prescribed in regulations made by the Board are satisfied in relation to the payment and the person making it.]

(4) <sup>M83</sup> On making a payment to which this section applies the contractor shall deduct from it a sum equal to [<sup>F142</sup>the relevant percentage] of so much of the payment as is not shown to represent the direct cost to any other person of materials used or to be used in carrying out the construction operations to which the contract under which the payment is to be made relates; and the sum so deducted shall be paid to the Board and shall be treated for the purposes of income tax or, as the case may be, corporation tax—

- (a) as not diminishing the payment; but
- (b) subject to subsection (5) below, as being income tax or, as the case may be, corporation tax paid in respect of the [<sup>F143</sup>profits] of the trade, profession or vocation of the person for whose (or for whose employees' or officers') labour the contractor makes the payment.

[<sup>F144</sup>(4A) In subsection (4) above “the relevant percentage”, in relation to a payment, means such percentage (not exceeding the percentage which is the basic rate for the year of assessment in which the payment is made) as the Treasury may by order determine.]

(5) Where a sum deducted and paid to the Board under subsection (4) above is more than sufficient to discharge the liability to income tax of the person referred to in paragraph (b) of that subsection in respect of the [<sup>F143</sup>profits] mentioned in that paragraph, so much of the excess as is required to discharge any liability of that person for Class 4 contributions shall be treated as being, for the purposes of the Social Security Act, Class 4 contributions paid in respect of the [<sup>F143</sup>profits] so mentioned.

[<sup>F145</sup>(5A) Notwithstanding anything in the preceding provisions of this section, the requirement to make a deduction under subsection (4) above shall have effect for the purposes of section 829 (application of Income Tax Acts to public departments) as if the whole of any deduction required to be made in pursuance of that subsection were in all cases a deduction of income tax.]

[<sup>F146</sup>(6) <sup>M84</sup>References in section 1(1) of the Preferential Payments (Bankruptcies and Arrangements) Act (Northern Ireland) 1964 to sums due on account of tax deductions for any period shall be construed as including references to any amounts due from any person in respect of deductions required to be made by him under this section].

(7) <sup>M85</sup>For the purposes of this Chapter a payment (including a payment by way of loan) that has the effect of discharging an obligation under a contract relating to construction operations shall be taken to be made under the contract; and if—

- (a) the obligation is to make a payment to a person within subsection (1)(i) to (iii) above, but
- (b) the payment discharging that obligation is made to a person not within those paragraphs,

the payment shall for those purposes be taken to be made to the first-mentioned person.

(8) <sup>M86</sup>In this section—

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“Class 4 contributions” means Class 4 contributions within the meaning of the <sup>M87</sup>Social Security Act 1975 or, as the case may be, the <sup>M88</sup>Social Security (Northern Ireland) Act 1975; and

“the Social Security Act” means whichever of those Acts is the one under which the contribution in question is payable.

#### Textual Amendments

- F138** Words in s. 559(1) substituted (with effect in accordance with s. 55(3) of the amending Act) by Finance Act 1998 (c. 36), s. 55(2)
- F139** S. 559(1A) inserted (with effect in accordance with s. 55(3) of the amending Act) by Finance Act 1998 (c. 36), s. 55(2)
- F140** S. 559(3) repealed (with effect in accordance with Sch. 29 Pt. 8(21) Notes 1, 5 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 27 para. 1(2), Sch. 29 Pt. 8(21); S.I. 1998/2620, art. 3
- F141** S. 559(3A) inserted (with effect in accordance with Sch. 27 para. 1(4) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 1(3); S.I. 1998/2620, art. 3
- F142** Words in s. 559(4) substituted (with effect in accordance with the amending provision) by Finance Act 1995 (c. 4), s. 139(1); S.I. 2000/922, art. 2
- F143** Words in s. 559(4)(b)(5) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), Sch. 7 para. 1
- F144** S. 559(4A) inserted (with effect in accordance with the amending provision) by Finance Act 1995 (c. 4), s. 139(1); S.I. 2000/922, art. 2
- F145** S. 559(5A) inserted (with effect in accordance with Sch. 8 para. 2(3) of the amending Act) by Finance Act 1998 (c. 36), Sch. 8 para. 2(1)
- F146** S. 559(6) repealed (N.I.) (1.10.1991) by S.I. 1989/2404, art. 382, Sch. 10; S.R. 1991/411, art. 2

#### Modifications etc. (not altering text)

- C19** See—1970(M) s.62(1A)—priority of claim for tax.1970(M) s.63(3)—recovery of tax in Scotland.1970(M) s.64(1A)—priority in cases of poinding in Scotland.
- C20** See 1988(F) s.130(7)(d)—payment of outstanding tax by migrating companies.
- C21** S. 559(4) modified (29.4.1996) by Finance Act 1996 (c. 8), s. 72(3)
- C22** S. 559(4) modified (19.3.1997) by Finance Act 1997 (c. 16), s. 54(5)
- C23** See Insolvency (Northern Ireland) Order 1989, Art.381(2)and Sch.9 para.61and Art.382and Sch.10 (S.I. 1989 No.2405—not reproduced)

#### Marginal Citations

- M82** Source-1975 (No.2) s.69(1), 70A(2); 1982 Sch.8 5
- M83** Source-1975 (No.2) s.69(4), (5); 1987 s.23
- M84** Source-1975 (No.2) Sch.12 Pt.I 2(2); 1980 Sch.8 4(3); 1982 Sch.8 8
- M85** Source-1972 s.71(5); 1982 Sch.8 6
- M86** Source-1975 (No.2) s.69(10)
- M87** 1975 c. 14.
- M88** 1975 c. 15.

VALID FROM 24/07/2002

#### [<sup>F147</sup>559A] Treatment of sums deducted under s.559

- (1) A sum deducted under section 559 from a payment made by a contractor—
- (a) shall be paid to the Board, and

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- (b) shall be treated for the purposes of income tax or, as the case may be, corporation tax as not diminishing the amount of the payment.
- (2) If the sub-contractor is not a company a sum deducted under section 559 and paid to the Board shall be treated as being income tax paid in respect of the sub-contractor's relevant profits.
- If the sum is more than sufficient to discharge his liability to income tax in respect of those profits, so much of the excess as is required to discharge any liability of his for Class 4 contributions shall be treated as being Class 4 contributions paid in respect of those profits.
- (3) If the sub-contractor is a company—
- (a) a sum deducted under section 559 and paid to the Board shall be treated, in accordance with regulations, as paid on account of any relevant liabilities of the sub-contractor;
  - (b) regulations shall provide for the sum to be applied in discharging relevant liabilities of the year of assessment in which the deduction is made;
  - (c) if the amount is more than sufficient to discharge the sub-contractor's relevant liabilities, the excess may be treated, in accordance with the regulations, as being corporation tax paid in respect of the sub-contractor's relevant profits; and
  - (d) regulations shall provide for the repayment to the sub-contractor of any amount not required for the purposes mentioned in paragraphs (b) and (c).
- (4) For the purposes of subsection (3) the “relevant liabilities” of a sub-contractor are any liabilities of the sub-contractor, whether arising before or after the deduction is made, to make a payment to a collector of inland revenue in pursuance of an obligation as an employer or contractor.
- (5) In this section—
- (a) “the sub-contractor” means the person for whose labour (or for whose employees' or officers' labour) the payment is made;
  - (b) references to the sub-contractor's “relevant profits” are to the profits from the trade, profession or vocation carried on by him in the course of which the payment was received;
  - (c) “Class 4 contributions” means Class 4 contributions within the meaning of the Social Security Contributions and Benefits Act 1992 or the Social Security Contributions and Benefits (Northern Ireland) Act 1992.
- (6) References in this section to regulations are to regulations made by the Board.
- (7) Regulations under this section—
- (a) may contain such supplementary, incidental or consequential provision as appears to the Board to be appropriate, and
  - (b) may make different provision for different cases.]

#### Textual Amendments

**F147** S. 559A inserted (with effect in accordance with s. 40(4) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 40\(1\)](#)

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## 560 Persons who are sub-contractors or contractors for purposes of Chapter IV.

- (1)<sup>M89</sup>For the purposes of this Chapter a party to a contract relating to construction operations is a sub-contractor if, under the contract—
- (a) he is under a duty to the contractor to carry out the operations, or to furnish his own labour (that is to say, in the case of a company, the labour of employees or officers of the company) or the labour of others in the carrying out of the operations or to arrange for the labour of others to be furnished in the carrying out of the operations; or
  - (b) he is answerable to the contractor for the carrying out of the operations by others, whether under a contract or under other arrangements made or to be made by him.
- (2)<sup>M90</sup>This subsection applies [<sup>F148</sup>(subject to subsection (2A) below)] to the following persons, that is to say—
- (a) any person carrying on a business which includes construction operations;
  - [<sup>F149</sup>(aa) any public office or department of the Crown (including any Northern Ireland department [<sup>F150</sup>and any part of the Scottish Administration]);]
  - (b) any local authority;
  - (c) any development corporation or new town commission;
  - (d) the Commission for the New Towns;
  - [<sup>F151</sup>(da) the Secretary of State if the contract is made by him under section 89 of the <sup>M91</sup>Housing Associations Act 1985;]
  - (e) the Housing Corporation,<sup>F152</sup> . . . a housing association, a housing trust, the Scottish Special Housing Association, and the Northern Ireland Housing Executive;
  - [<sup>F153</sup>(ea) any such body, being a body (in addition to those falling within paragraphs (aa) to (e) above) which has been established for the purpose of carrying out functions conferred on it by or under any enactment, as may be designated as a body to which this subsection applies in regulations made by the Board;]
  - (f) <sup>M92</sup>a person carrying on a business at any time if—
    - (i) his average annual expenditure on construction operations in the period of three years ending with the end of the last period of account before that time exceeds [<sup>F154</sup>£1,000,000], or
    - (ii) where he was not carrying on the business at the beginning of that period of three years, one-third of his total expenditure on construction operations for the part of that period during which he has been carrying on the business exceeds [<sup>F154</sup>£1,000,000];

and in paragraph (f) “period of account” means a period for which an account is made up in relation to the business in question.

[<sup>F155</sup>(2A) Subject to subsection (2B) below, subsection (2) above does not apply at any time to an office, department or body falling within paragraph (aa), (b), (c), (d), (e) or (ea) of that subsection unless that office, department or body has, in the period of three years ending with the 31st March next before that time, had an average annual expenditure on construction operations of more than £1,000,000.

(2B) Where the condition provided for in subsection (2A) above has been satisfied in the case of any office, department or body in relation to any period of three years, that subsection shall not prevent subsection (2) above from applying to that office, department or body until there have been three successive years after the end of

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that period in each of which the office, department or body has had expenditure on construction operations of less than £1,000,000.]

- (3) <sup>M93</sup>Where section 559(1)(b) begins to apply to any person in any period of account by virtue of his falling within subsection (2)(f) above, it shall continue to apply to him until he satisfies the Board that his expenditure on construction operations has been less than [<sup>F156</sup>£1,000,000] in each of three successive years beginning in or after that period of account.
- (4) Where the whole or part of a trade is transferred by a company (“the transferor”) to another company (“the transferee”) and section 343 has effect in relation to the transfer, then in determining for the purposes of this section the amount of expenditure incurred by the transferee—
- (a) the whole or, as the case may be, a proportionate part of any expenditure incurred by the transferor at a time before the transfer shall be treated as if it had been incurred at that time by the transferee; and
  - (b) where only a part of the trade is transferred the expenditure shall be apportioned in such manner as appears to the Board, or on appeal to the Commissioners, to be just and reasonable.
- (5) <sup>M94</sup>In this section—
- “development corporation” has the same meaning as in the <sup>M95</sup>New Towns Act 1981 or the <sup>M96</sup>New Towns (Scotland) Act 1968;
- “housing association” has the same meaning as in the <sup>M97</sup>Housing Associations Act 1985 or the <sup>M98</sup>Housing (Northern Ireland) Order 1981;
- “housing trust” has the same meaning as in the <sup>M99</sup>Housing Associations Act 1985; and
- “new town commission” has the same meaning as in the <sup>M100</sup>New Towns Act (Northern Ireland) 1965.

#### Textual Amendments

- F148** Words in s. 560(2) inserted (with effect in accordance with Sch. 8 para. 2(3) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 8 para. 2(2)**
- F149** S. 560(2)(aa) inserted (with application in accordance with Sch. 27 para. 2(3) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27 para. 2(1)(a)**
- F150** Words in s. 560(2)(aa) inserted (1.7.1999) by The Scotland Act 1998 (Consequential Modifications) (No.2) Order 1999 (S.I. 1999/1820), art. 1(2), **Sch. 2 para. 87(3)**
- F151** S. 560(2)(da) inserted (1.11.1998) by Government of Wales Act 1998 (c. 38), **Sch. 16 para. 58(a)**; S.I. 1998/2244, **art. 5**
- F152** Words in s. 560(2)(e) repealed (1.11.1998) by Government of Wales Act 1998 (c. 38), Sch. 16 para. 58(b), **Sch. 18 Pt. 6**; S.I. 1998/2244, **art. 5**
- F153** S. 560(2)(ea) inserted (with application in accordance with Sch. 27, para. 2(3) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27, para. 2(1)(b)**
- F154** Words in s. 560(2)(f)(3) substituted (with application in accordance with Sch. 27 para. 2(3) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27, para. 2(2)**
- F155** S. 560(2A)(2B) inserted (with effect in accordance with Sch. 8 para. 2(3)(4) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 8 para. 2(2)**
- F156** Word in s. 560(3) substituted (with application in accordance with Sch. 27 para. 2(3) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27, para. 2(2)**

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#### Marginal Citations

- M89** Source-1975 (No.2) s.69(2)  
**M90** Source-1975 (No.2) s.69(3)  
**M91** 1985 c. 69.  
**M92** Source-1975 (No.2) s.69(3A); 1980 Sch.8 1  
**M93** Source-1975 (No.2) s.69(3B), (3C); 1980 Sch.8 1  
**M94** Source-1975 (No.2) s.71(3)  
**M95** 1981 c. 64.  
**M96** 1968 c. 16.  
**M97** 1985 c. 69.  
**M98** S.I. 1981/156 (N.I. 3).  
**M99** 1985 c. 69.  
**M100** 1965 c. 13 (N.I.).

### 561 Exceptions from section 559.

<sup>M101</sup>(1) Subject to the provisions of regulations under <sup>F157</sup> . . . section 566(2), a person is excepted from section 559 in relation to payments made under a contract if a certificate under this section has been issued to that person and is in force when the payment is made, but—

- (a) where the certificate has been issued to a person who becomes a partner in a firm, that person is not excepted in relation to payments made under contracts under which the firm or, where a person has nominated the firm to receive payments, the person who has nominated the firm is a sub-contractor; and
- (b) where a certificate has been issued to a person as a partner in a firm, that person is excepted in relation only to payments made under contracts under which the firm or, where a person has nominated the firm to receive payments, the person who has nominated the firm, is a sub-contractor.

(2) If the Board are satisfied, on the application of an individual or a company, that—

- (a) where the application is for the issue of a certificate to an individual (otherwise than as a partner in a firm), he satisfies the conditions set out in section 562;
- (b) where the application is for the issue of a certificate to a person as a partner in a firm, that person satisfies the conditions set out in section <sup>F158</sup>562] if he is an individual or, if a company, the conditions set out in section 565 and, in either case, the firm itself satisfies the conditions set out in section 564;
- (c) where the application is for the issue of a certificate to a company, the company satisfies the conditions set out in section 565 and, if the Board have given a direction under <sup>F159</sup>subsection (6)] below, each of the persons to whom any of the conditions set out in section 562 applies in accordance with the direction satisfies the conditions which so apply to him,

the Board shall issue to that individual or company a certificate excepting that individual or company (or, in a case falling within paragraph (b) above, that individual or company as a partner in the firm specified in the certificate) from section 559.

(3) References in subsection (2) above to an individual, a company or a firm satisfying conditions set out in section 562, <sup>F160</sup> . . . 564 or 565 include, in relation to a condition which may, by virtue of a provision of that section, be treated as being satisfied, references to that individual, company or firm being treated as satisfying that condition.

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- (4) <sup>F161</sup> .....
- (5) <sup>F161</sup> .....
- (6) Where it appears to the Board, on an application made under subsection (2) above by a company, that the company—
- (a) was incorporated on a date within the period of three years ending with the date of the application; or
  - (b) has not carried on business continuously throughout that period; or
  - (c) has carried on business continuously throughout that period but the business has not at all times in that period consisted of or included the carrying out of construction operations; or
  - (d) does not at the date of the application hold a certificate which is then in force under this section;

the Board may direct that the conditions set out in section 562 or such of them as are specified in the direction shall apply to the directors of the company and, if the company is a close company, to the persons who are the beneficial owners of shares in the company or to such of those directors or persons as are so specified as if each of them were an applicant for a certificate under this section<sup>F162</sup> . . . .

In this subsection “director” has the same meaning as in Chapter II of Part V.

- (7) Where it appears to the Board that there has been a change in the control of a company holding or applying for a certificate, the Board may make any such direction as is referred to in subsection (6) above.
- (8) The Board may at any time cancel a certificate which has been issued to a person and is in force under this section if it appears to them that—
- (a) it was issued on information which was false;
  - (b) if an application for the issue of a certificate under this section to that person were made at that time, the Board would refuse to issue a certificate;
  - (c) that person has permitted the certificate to be misused; or
  - (d) in the case of a certificate issued to a company, there has been a change in the control of the company and information with respect to that change has not been furnished in accordance with regulations under section 566(2);
- and may by notice require that person to deliver the certificate to the Board within the time specified in the notice.

Section 840 shall apply for the purposes of paragraph (d) above.

- (9) A person aggrieved by the refusal of an application for a certificate under this section or the cancellation of such a certificate may, by notice given to the Board within 30 days after the refusal or, as the case may be, cancellation, appeal to the General Commissioners or, if he so elects in the notice, to the Special Commissioners; and the jurisdiction of the Commissioners on such an appeal shall include jurisdiction to review any relevant decision taken by the Board in the exercise of their functions under this section.
- (10) If any person, for the purpose of obtaining a certificate under this section—
- (a) makes any statement, or furnishes any document, which he knows to be false in a material particular; or
  - (b) recklessly makes any statement, or furnishes any document, which is false in a material particular,



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he shall be liable [<sup>F163</sup>to a penalty not exceeding £3,000].

(11) A person to whom a certificate is issued under this section or a voucher is given as required by regulations under section 566(2)(j) [<sup>F164</sup>or who is in possession of any form or other document supplied to him by the Board for use in connection with any regulations under this Chapter] shall take all reasonable steps to ensure its safety; and any person who, without lawful authority or lawful excuse—

- (a) disposes of any such certificate or voucher or any form supplied by the Board in connection with regulations made by virtue of section 566(2)(e); or
- (b) possesses such a certificate, voucher or form or any document purporting to be such a certificate, voucher or form,

shall be liable [<sup>F165</sup>to a penalty not exceeding £3,000].

(12) <sup>F166</sup> .....

(13) Without prejudice to section 843(3), this section shall come into force on 6th April 1988 to the exclusion of the provisions of section 70 of the Finance (No.2) Act 1975 which are re-enacted in this section, but any offence committed before that date shall not be punishable under this section and neither this subsection nor any other provision of this Act shall prevent any such offence from being punishable as if this Act had not been passed.

#### Textual Amendments

- F157** Words in s. 561(1) repealed (with effect in accordance with Sch. 29 Pt. 8(21) Notes 1, 5 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 29 Pt. 8(21); S.I. 1999/2156, art. 2(a)
- F158** Words in s. 561(2)(b) substituted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 3(1); S.I. 1998/2620, art. 3
- F159** Words in s. 561(2)(c) substituted (retrospectively) by Finance Act 1994 (c. 9), Sch. 17 para. 5
- F160** Words in s. 561(3) repealed (with effect in accordance with Sch. 29 Pt. 8(21) Notes 3, 5 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 29 Pt. 8(21); S.I. 1999/2156, art. 2(a)
- F161** S. 561(4)(5) repealed (with effect in accordance with Sch. 29 Pt. 8(21) Notes 1, 5 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 29 Pt. 8(21); S.I. 1999/2156, art. 2(a)
- F162** Words in s. 561(6) repealed (with effect in accordance with Sch. 29 Pt. 8(21) Notes 3, 5 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 29 Pt. 8(21); S.I. 1999/2156, art. 2(a)
- F163** Words in s. 561(10) substituted (with effect in accordance with Sch. 27 para. 8(2) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 3(2); S.I. 1998/2620, art. 2
- F164** Words in s. 561(11) inserted (with effect in accordance with Sch. 27 para. 8(2) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 3(3)(a)
- F165** Words in s. 561(11) substituted (with effect in accordance with Sch. 27 para. 8(2) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 3(3)(b); S.I. 1998/2620, art. 2
- F166** S. 561(12) repealed (with effect in accordance with Sch. 27 para. 8(2) of the repealing Act) by Finance Act 1995 (c. 4), Sch. 29 Pt. 8(21), Note 2; S.I. 1998/2620, art. 2

#### Marginal Citations

- M101** Source-1975 (No.2) s.70(1)-(6), (9)-(11), 70A(1), (2), 71(4); 1982 Sch.8 3, 5; 1987 (No.2) s.93

## 562 Conditions to be satisfied by individuals.

(1) In the case of an application for the issue of a certificate under section 561 to an individual <sup>F167</sup>. . . the following conditions are required to be satisfied by that individual [<sup>F168</sup>except that, where the application is for the issue of that certificate to

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that individual as a partner in a firm, this section shall have effect with the omission of subsections (2) to (2B).]

- (2)<sup>M102</sup>The applicant must be carrying on a business in the United Kingdom which satisfies the following conditions, that is to say—
  - (a) the business consists of or includes the carrying out of construction operations or the furnishing or arranging for the furnishing of labour in carrying out construction operations;
  - (b) the business is, to a substantial extent, carried on by means of an account with a bank;
  - (c) the business is carried on with proper records and in particular with records which are proper having regard to the obligations referred to in subsections (8) to (12) below; and
  - (d) the business is carried on from proper premises and with proper equipment, stock and other facilities.

[<sup>F169</sup>(2A) The applicant must satisfy the Board, by such evidence as may be prescribed in regulations made by the Board, that the carrying on of the business mentioned in subsection (2) above is likely to involve the receipt, annually in the period to which the certificate would relate, of an aggregate amount by way of relevant payments which is not less than the amount specified in regulations made by the Board as the minimum turnover for the purposes of this subsection.

- (2B) In subsection (2A) above “relevant payments” means the following payments, other than so much of them as would fall, as representing the direct cost to any person of any materials, to be disregarded in calculating the amount of any deductions under subsection (4) of section 559, that is to say—
  - (a) payments from which such deductions would fall to be made if the certificate is not granted; and
  - (b) payments which would be such payments but for any regulations under subsection (3A) of that section.]

- (3)<sup>F170</sup> .....
- (4)<sup>F170</sup> .....
- (5)<sup>F170</sup> .....
- (6)<sup>F170</sup> .....
- (7)<sup>F170</sup> .....

- (8)<sup>M103</sup>The applicant must, subject to subsection (10) below, have complied with all obligations imposed on him by or under the Tax Acts or the Management Act in respect of periods ending within the qualifying period and with all requests to supply to an inspector accounts of, or other information about, any business of his in respect of periods so ending.
- (9)<sup>M104</sup>An applicant who at any time in the qualifying period had control of a company shall be taken not to satisfy the condition in subsection (8) above unless the company has satisfied that condition in relation to periods ending at a time within that period when he had control of it; and for this purpose “control”<sup>F171</sup> shall be construed in accordance with section 416(2) to (6)].

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- (10) <sup>M105</sup>An applicant or company that has failed to comply with such an obligation or request as is referred to in subsection (8) above shall nevertheless be treated as satisfying that condition as regards that obligation or request if the Board are of the opinion that the failure is minor and technical and does not give reason to doubt that the conditions mentioned in subsection (13) below will be satisfied.
- [<sup>F172</sup>(11) Where the applicant states, for the purpose of showing that he has complied with all obligations imposed on him as mentioned in subsection (8) above, that he was not subject to any of one or more obligations in respect of any period ending within the qualifying period—
- (a) he must satisfy the Board of that fact by such evidence as may be prescribed in regulations made by the Board; and
  - (b) if for that purpose he states that he has been outside the United Kingdom for the whole or any part of the qualifying period, he must also satisfy them, by such evidence as may be so prescribed,] that he has complied with any obligations imposed under the tax laws of any country in which he was living during that period which are comparable to the obligations mentioned in subsection (8) above.
- (12) <sup>M106</sup>The applicant must, if any contribution has at any time during the qualifying period become due from him under Part I of the <sup>M107</sup>Social Security Act 1975 or Part I of the <sup>M108</sup>Social Security (Northern Ireland) Act 1975, have paid the contribution when it became due.
- (13) <sup>M109</sup>There must be reason to expect that the applicant will, in respect of periods ending after the end of the qualifying period, comply with such obligations as are referred to in subsections (8) to (12) above and with such requests as are referred to in subsection (8) above.
- [<sup>F173</sup>(13A) Subject to subsection (10) above, a person shall not be taken for the purposes of this section to have complied with any such obligation or request as is referred to in subsections (8) to (11) above if there has been a contravention of a requirement as to the time at which, or the period within which, the obligation or request was to be complied with.
- (14) In this section “the qualifying period”, in relation to an application for the issue of a certificate under section 561, means the period of three years ending with the date of the application.]

#### Textual Amendments

- F167** Words in s. 562(1) repealed (with effect in accordance with Sch. 27 para. 8(1), Sch. 29 Pt. 8(21) Note 3 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(2)(a), Sch. 29 Pt. 8(21); S.I. 1998/2620, art. 3
- F168** Words in s. 562(1) inserted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(2)(b); S.I. 1998/2620, art. 3
- F169** S. 562(2A)(2B) inserted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(3); S.I. 1998/2620, art. 3
- F170** S. 562(3)-(7) repealed (with effect in accordance with Sch. 27 para. 8(1), Sch. 29 Pt. 8(21) Note 3 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(4), Sch. 29 Pt. 8(21); S.I. 1998/2620, art. 3
- F171** Words in s. 562(9) substituted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(5); S.I. 1998/2620, art. 3

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**F172** Words in s. 562(11) substituted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(6); S.I. 1998/2620, art. 3

**F173** S. 562(13A)(14) substituted for s. 562(14) (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 4(7); S.I. 1998/2620, art. 3

#### Modifications etc. (not altering text)

**C24** Ss. 562-565 modified (retrospectively, with application in accordance with s. 53(3) of the modifying Act) by Finance Act 1999 (c. 16), s. 53(1)(2)

#### Marginal Citations

**M102** Source-1975 (No.2) Sch.12 Pt. I 1

**M103** Source-1975 (No.2) Sch.12 Pt.I 3(1); 1982 Sch.8 11

**M104** Source-1975 (No.2) Sch.12 Pt.I 3(1A); 1982 Sch.8 12

**M105** Source-1975 (No.2) Sch.12 Pt.I 3(2); 1980 Sch.8 7; 1982 Sch.8 13

**M106** Source-1975 (No.2) Sch.12 Pt.I 4.

**M107** 1975 c. 14.

**M108** 1975 c. 15.

**M109** Source-1975 (No.2) Sch.12 Pt.I 7

### 563 Conditions to be satisfied by partners who are individuals.

**F174** .....

#### Textual Amendments

**F174** S. 563 repealed (with effect in accordance with Sch. 27 para. 8(1), Sch. 29 Pt. 8(21) Note 3 of the repealing Act) by Finance Act 1995 (c. 4), Sch. 27 para. 5, Sch. 29 Pt. 8(21); S.I. 1998/2620, art. 3

### 564 Conditions to be satisfied by firms.

- (1) In the case of an application for the issue of a certificate under section 561 to an individual or a company as a partner in a firm the following conditions are required to be satisfied by the firm.
  - (2) <sup>M110</sup>The firm's business must be carried on in the United Kingdom and must satisfy the conditions mentioned in section 562(2)(a) to (d).
- [<sup>F175</sup>(2A) The partners must satisfy the Board, by such evidence as may be prescribed in regulations made by the Board, [<sup>F176</sup> that the carrying on of the firm's business is likely to involve—
- (a) the receipt, annually in the period to which the certificate would relate, of an aggregate amount by way of relevant payments which is not less than the sum specified in subsection (2B) below; or
  - (b) the receipt, annually in the period to which the certificate would relate, of an aggregate amount by way of construction contract payments which is not less than the amount specified for the purposes of this paragraph in regulations made by the Board.]
- [<sup>F177</sup>(2AA) In subsection (2A)(a) above “relevant payments” has the meaning given by section 562(2B).]

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(2B) The sum referred to in subsection (2A)(a) above is the sum of the following amounts, that is to say—

- (a) the amount obtained by multiplying the number of partners in the firm who are individuals by the amount specified in regulations as the minimum turnover for the purposes of section 562(2A); and
- (b) in respect of each partner in the firm who is a company (other than one to which section 565(2A)(b) would apply), the amount equal to what would have been the minimum turnover for the purposes of section 565(2A) if the application had been for the issue of a certificate to that company.

[<sup>F178</sup>(2C) In subsection (2A)(b) above “construction contract payments” means payments under contracts relating to, or to the work of individuals participating in the carrying out of, any operations which—

- (a) are of a description specified in subsection (2) of section 567; but
- (b) are not of a description specified in subsection (3) of that section, other than so much of the payments as represents the direct cost to the firm of materials used or to be used in carrying out the operations in question.]

(3) Subject to subsection (4) below, each of the persons who are partners at the time of the application must have complied, so far as any such charge to income tax or corporation tax is concerned as falls to be computed by reference to the profits or gains of the firm’s business—

- (a) with all obligations imposed on him by or under the Tax Acts or the Management Act in respect of periods ending within the qualifying period; and
- (b) with all requests to him as such a partner to supply to an inspector accounts of, or other information about, the firm’s business or his share of the profits or gains of that business.

(4) Where a person has failed to comply with such an obligation or request as is referred to in subsection (3) above the firm shall nevertheless be treated, in relation to that partner, as satisfying that condition as regards that obligation or request if the Board are of the opinion that the failure is minor and technical and does not give reason to doubt that the condition mentioned in subsection (5) below will be satisfied.

(5) There must be reason to expect that each of the persons who are from time to time partners in the firm will, in respect of periods ending after the end of the qualifying period, comply with such obligations and requests as are referred to in subsection (3) above.

(6) Subject to subsection (4) above, a person shall not be taken for the purposes of this section to have complied with any such obligation or request as is referred to in subsection (3) above if there has been a contravention of a requirement as to the time at which, or the period within which, the obligation or request was to be complied with.

(7) In this section “the qualifying period”, in relation to an application for the issue of a certificate under section 561, means the period of three years ending with the date of the application.]

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#### Textual Amendments

**F175** S. 564(2A)-(7) substituted for s. 564(3)-(5) (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), Sch. 27 para. 6; S.I. 1998/2620, art. 3

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**F176** Words in s. 564(2A) substituted (with effect in accordance with Sch. 8 para. 5 of the amending Act) by Finance Act 1998 (c. 36), Sch. 8 para. 3(1)

**F177** S. 564(2AA) inserted (with effect in accordance with Sch. 8 para. 5 of the amending Act) by Finance Act 1998 (c. 36), Sch. 8 para. 3(2)

**F178** S. 564(2C) inserted (with effect in accordance with Sch. 8 para. 5 of the amending Act) by Finance Act 1998 (c. 36), Sch. 8 para. 3(3)

**Modifications etc. (not altering text)**

**C25** Ss. 562-565 modified (retrospectively, with application in accordance with s. 53(3) of the modifying Act) by Finance Act 1999 (c. 16), s. 53(1)(2)

**Marginal Citations**

**M110** Source-1975 (No.2) Sch.12 Pt.III 1, 2; 1980 Sch.8 7

**565 Conditions to be satisfied by companies.**

(1) In the case of an application for the issue of a certificate under section 561 to a company (whether as a partner in a firm or otherwise), the following conditions are required to be satisfied by the company.

(2) <sup>M111</sup>The company must be carrying on (whether or not in partnership) a business in the United Kingdom and that business must satisfy the conditions mentioned in section 562(2)(a) to (d).

[<sup>F179</sup><sup>F180</sup>(2A) The company must either—

- (a) satisfy the Board, by such evidence as may be prescribed in regulations made by them, that the annual receipts test is satisfied; or
- (b) satisfy the Board that the only persons with shares in the company are companies which are limited by shares and themselves excepted from section 559 by virtue of a certificate which is in force under section 561.

(2B) The annual receipts test is satisfied in relation to a company if the carrying on of its business is likely to involve the receipt, annually in the period to which the certificate would relate—

- (a) of an aggregate amount by way of relevant payments which is not less than the amount obtained by multiplying the amount specified in regulations as the minimum turnover for the purposes of section 562(2A) by the number of persons who are relevant persons in relation to the company; or
- (b) of an aggregate amount by way of construction contract payments which is not less than the amount specified for the purposes of this paragraph in regulations made by the Board.

(2BB) In subsection (2B) above “relevant payments” has the meaning given by section 562(2B).]

(2C) For the purposes of subsection (2B) above a person is a relevant person in relation to the company—

- (a) where the company is a close company, if he is a director of the company (within the meaning of Chapter II of Part V) or a beneficial owner of shares in the company; and
- (b) in any other case, if he is such a director of the company.]

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- [<sup>F181</sup>(2D) In subsection (2B) above “construction contract payments” means payments under contracts relating to, or to the work of individuals participating in the carrying out of, any operations which—
- (a) are of a description specified in subsection (2) of section 567; but
  - (b) are not of a description specified in subsection (3) of that section, other than so much of the payments as represents the direct cost to the company of materials used or to be used in carrying out the operations in question.]
- (3) The company must, subject to subsection (4) below, have complied with all obligations imposed on it by or under the Tax Acts or the Management Act in respect of periods ending within the qualifying period and with all requests to supply to an inspector accounts of, or other information about, the business of the company in respect of periods so ending.
- (4) A company which has failed to comply with such an obligation or request as is referred to in subsection (3) above shall nevertheless be treated as satisfying this condition as regards that obligation or request if the Board are of the opinion that the failure is minor and technical and does not give reason to doubt that the conditions mentioned in subsection (8) below will be satisfied.
- (5) <sup>M112</sup>The company must, if any contribution has at any time during the qualifying period become due from the company under Part I of the <sup>M113</sup>Social Security Act 1975 or Part I of the <sup>M114</sup>Social Security (Northern Ireland) Act 1975 have paid the contribution when it became due.
- (6) <sup>M115</sup>The company must have complied with any obligations imposed on it by the following provisions of the <sup>M116</sup>Companies Act 1985, in so far as those obligations fell to be complied with within the qualifying period, that is to say—
- (a) [<sup>F182</sup>sections 226, 241 and 242] (contents, laying and delivery of annual accounts);
  - (b) <sup>F183</sup> .....
  - (c) section 288(2) (return of directors and secretary and notification of changes therein);
  - (d) [<sup>F184</sup>sections 363 to 365] (annual returns);
  - (e) section 691 (registration of constitutional documents and list of directors and secretary of oversea company);
  - (f) section 692 (notification of changes in constitution or directors or secretary of oversea company);
  - (g) section 693 (oversea company to state its name and country of incorporation);
  - (h) section 699 (obligations of companies incorporated in Channel Islands or Isle of Man);
  - (j) Chapter II of Part XXIII (accounts of oversea company).
- (7) The company must have complied with any obligations imposed on it by the following provisions of the <sup>M117</sup>Companies (Northern Ireland) Order 1986, in so far as those obligations fell to be complied with within the qualifying period, that is to say—
- (a) Articles 235, 247 and 249 (annual accounts, documents included in annual accounts and laying and delivery of accounts);
  - (b) Article 295 (registered office and notification of changes therein);

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- (c) Article 296(2) (return of directors and secretary and notification of changes therein);
  - (d) <sup>F185</sup>Articles 371 to 373] (annual returns);
  - (e) Article 641 (registration of constitutional documents and list of directors and secretary of oversea company);
  - (f) Article 642 (notification of changes in constitution or directors or secretary of oversea company);
  - (g) Article 643 (oversea company to state its name and country of incorporation);
  - (h) Article 649 (accounts of oversea company).
- (8) <sup>M118</sup>There must be reason to expect that the company will, in respect of periods ending after the end of the qualifying period, comply with all such obligations as are referred to in subsections (2) to (7) above and with such requests as are referred to in subsection (3) above.
- <sup>F186</sup>(8A) Subject to subsection (4) above, a company shall not be taken for the purposes of this section to have complied with any such obligation or request as is referred to in subsections (3) to (7) above if there has been a contravention of a requirement as to the time at which, or the period within which, the obligation or request was to be complied with.]
- (9) <sup>M119</sup>In this section “qualifying period” means the period of three years ending with the date of the company’s application for a certificate under section 561.

#### Textual Amendments

- F179** S. 565(2A)-(2C) inserted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27 para. 7(1)**; S.I. 1998/2620, **art. 3**
- F180** S. 565(2A)(2B)(2BB) substituted for s. 565(2A)(2B) (with effect in accordance with Sch. 8 para. 5 of the amending Act) by Finance Act 1998 (c. 36), **Sch. 8 para. 4(1)**
- F181** S. 565(2D) inserted (with effect in accordance with Sch. 8 para. 5 of the amending Act) by Finance Act 1998 (c. 36), **Sch. 8 para. 4(2)**
- F182** Words in s. 565(6)(a) substituted (E.W.S.) (1.4.1990 with effect in accordance with S.I. 1990/355, arts. 6-9, **Sch. 1**) by Companies Act 1989 (c. 40), **Sch. 10 para. 38(3)**; S.I. 1990/355, arts. 3, 8, **Sch. 1**
- F183** S. 565(6)(b) repealed (1.10.1991) by Companies Act 1989 (c. 40, SIF 27), ss. 212, 213, **Sch. 24**; S.I. 1991/1996, **art. 2(c)(iv)**
- F184** Words in s. 565(6)(d) substituted (E.W.S.) (1.10.1990 with saving and transitional provisions in S.I. 1990/1707, **arts. 4, 5**) by Companies Act 1989 (c. 40), **s. 139(5)**
- F185** Words in s. 565(7)(d) substituted (1.10.1991) by S.I. 1990/1504, **art. 74(5)**; S.R. 1991/398, **art. 2(a)** (subject to the provisions set out in S.R. 1991/398, **arts. 3, 4**)
- F186** S. 565(8A) inserted (with effect in accordance with Sch. 27 para. 8(1) of the amending Act) by Finance Act 1995 (c. 4), **Sch. 27 para. 7(2)**; S.I. 1998/2620, **art. 3**

#### Modifications etc. (not altering text)

- C26** Ss. 562-565 modified (retrospectively, with application in accordance with s. 53(3) of the modifying Act) by Finance Act 1999 (c. 16), **s. 53(1)(2)**

#### Marginal Citations

- M111** Source-1975 (No.2) Sch.12 Pt.IV 1, 2(1), (2); 1980 Sch.8 7; 1982 Sch.8 15
- M112** Source-1975 (No.2) Sch.12 Pt.IV 3
- M113** 1975 c. 14.
- M114** 1975 c. 15.



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**M115** Source-1975 (No.2) Sch.12 Pt.IV 6; 1987 Sch.15 8

**M116** 1985 c. 6

**M117** S.I. 1986/1032 (N.I. 6).

**M118** Source-1975 (No.2) Sch.12 Pt.IV 7

**M119** Source-1975 (No.2) Sch.12 Pt.IV 2(3)

## 566 General powers to make regulations under Chapter IV.

- (1)<sup>M120</sup>The Board shall make regulations with respect to the collection and recovery, whether by assessment or otherwise, of sums required to be deducted from any payments under section 559 and for the giving of receipts by persons receiving the payments to persons making them; and those regulations may include any matters with respect to which regulations may be made under section 203.
- (2)<sup>M121</sup>The Board may make regulations—
- (a) prescribing the period for which certificates under section 561 are to be issued and the form of such certificates;
  - (b) providing for the renewal of such certificates;
  - (c) providing for the issue, renewal or cancellation of such certificates or the giving of directions under section 561(6)<sup>F187</sup> . . . on behalf of the Board;
  - (d) requiring the furnishing of information with respect to changes in the control of a company holding or applying for such a certificate;
  - (e) requiring the production of such certificates to such persons and in such circumstances as may be specified in the regulations and providing for the completion and return to the Board of forms certifying such production;
  - (f) requiring the surrender to the Board of such certificates in such circumstances as may be specified in the regulations;
  - (g) requiring persons who make payments under contracts relating to construction operations to keep such records and to make to the Board such returns relating to payments so made by them as may be specified in the regulations, and requiring persons who hold such certificates to keep such records relating to payments so made to them as may be so specified;
  - (h) with respect to the production, copying and removal of, and the making of extracts from, any records kept by virtue of any such requirement as is referred to in paragraph (g) above and with respect to rights of access to or copies of any such records which are removed;
  - (j) requiring vouchers for payments made under contracts relating to construction operations to persons who hold such certificates to be obtained by the person making, and given by the person receiving, the payment, prescribing the form of the vouchers, and requiring their production or surrender to the Board in such circumstances as may be specified in the regulations; and
  - (k) excluding payments from the operation of section 561 where, in such circumstances as may be specified in the regulations, the requirements of regulations relating to the production of certificates or the obtaining, production or surrender of vouchers have not been complied with.

<sup>F188</sup>  
.....

Section 840 shall apply for the purposes of paragraph (d) above.

[<sup>F189</sup>(2A) The Board may by regulations make provision—

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- (a) for the issue of documents (to be known as “registration cards”) to persons who are parties, as sub-contractors, to any contract relating to construction operations or who are likely to become such parties;
- (b) for a registration card to contain all such information about the person to whom it is issued as may be required, for the purposes of any regulations under this section, by a person making payments under any such contract;
- (c) for a registration card to take such form and to be valid for such period as may be prescribed by the regulations;
- (d) for the renewal, replacement or cancellation of a registration card;
- (e) for requiring the surrender of a registration card in such circumstances as may be specified in the regulations;
- (f) for requiring the production of a registration card to such persons and in such circumstances as may be so specified;
- (g) for requiring any person who—
  - (i) makes or is proposing to make payments to which section 559 applies, and
  - (ii) is a person to whom a registration card has to be produced under the regulations,
 to take steps that ensure that it is produced to him and that he has an opportunity of inspecting it for the purpose of checking that it is a valid registration card issued to the person required to produce it.

(2B) A person who fails to comply with an obligation imposed on him by virtue of subsection (2A)(g) above shall be liable to a penalty not exceeding £3,000.

(2C) Subject to subsection (2D) below, where—

- (a) a person who is a party to a contract relating to any construction operations (“the contractor”) makes or is proposing to make payments to which section 559 applies,
- (b) the contractor is required by regulations under this section to make statements about another party to the contract (“the sub-contractor”) in any return, certificate or other document,
- (c) a registration card containing the information to be stated should have been produced, in accordance with any such regulations, to the contractor, and
- (d) the statements made in the return, certificate or other document, so far as relating to matters the information about which should have been obtainable from the card, are inaccurate or incomplete in any material respect,

the contractor shall be liable to a penalty not exceeding £3,000.

(2D) A person shall not be liable to a penalty under subsection (2C) above if—

- (a) a valid registration card issued to the sub-contractor, or a document which the contractor had reasonable grounds for believing to be such a card, was produced to the contractor and inspected by him before the statements in question were made; and
- (b) the contractor took all such steps as were reasonable, in addition to the inspection of that card, for ensuring that the statements were accurate and complete.

(2E) A person liable to a penalty under subsection (2C) above shall not, by reason only of the matters in respect of which he is liable to a penalty under that subsection, be liable to any further penalty under section 98 of the Management Act.

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(2F) Regulations under this section may make different provision for different cases.]

[<sup>F190</sup>(3) Any power under this Chapter to make regulations prescribing the evidence required for establishing what is likely to happen at any time shall include power to provide for such matters to be presumed (whether conclusively or unless the contrary is shown in the manner provided for in the regulations) from evidence of what has previously happened.]

[<sup>F191</sup>(4) Any power under this Chapter to make regulations authorising or requiring a document (whether or not of a particular description), or any records or information, to be issued, given or requested or to be sent, produced, returned or surrendered to the Board shall include power—

(a) to authorise the Board to nominate a person who is not an officer of the Board to be the person who on behalf of the Board—

- (i) issues, gives or requests the document, records or information; or
- (ii) is the recipient of the document, records or information;

and

(b) to require the document, records or information, in cases prescribed by or determined under the regulations, to be sent, produced, returned or surrendered to the address (determined in accordance with the regulations) of the person nominated by the Board to receive it on their behalf.

[ Any power under this Chapter to make regulations imposing requirements with respect  
<sup>F192</sup>(5) to any description of document, with respect to documents generally or with respect to any records or information shall include power to make provision, subject to such conditions as may be prescribed by or determined in accordance with the regulations—

(a) for the documents, records or information to be allowed to take an electronic form so prescribed or determined;

(b) for the issue, completion, furnishing, production, keeping, cancellation, return, surrender or giving of the documents, records or information to be something that has to be or may be done by the electronic means so prescribed or determined; and

(c) for the manner of proving in any proceedings the contents or transmission of anything that, by virtue of any regulations under this Chapter, takes an electronic form or is transmitted to any person by electronic means.]]

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#### Textual Amendments

**F187** Words in s. 566(2)(c) repealed (31.7.1998) by Finance Act 1998 (c. 36), Sch. 27 Pt. 3(8)

**F188** Words in s. 566(2) repealed (29.4.1996) by Finance Act 1996 (c. 8), Sch. 41 Pt. 5(32)

**F189** S. 566(2A)-(2F) inserted (29.4.1996) by Finance Act 1996 (c. 8), s. 178(1)

**F190** S. 566(3) inserted (1.5.1995) by Finance Act 1995 (c. 4), Sch. 7 para. 9

**F191** S. 566(4)(5) inserted (31.7.1998) by Finance Act 1998 (c. 36), Sch. 8 para. 6

**F192** S. 566(5) repealed (prosp.) by Finance Act 1999 (c. 16), s. 133(4), Sch. 20 Pt. 7, Notes 1 and 2

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#### Modifications etc. (not altering text)

**C27** For regulations see Part III Vol.5. And see 1970(M) s.98A—special penalties in the case of certain returns.

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#### Marginal Citations

**M120** Source-1975 (No.2) s.69(6)

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**M121** Source-1975 (No.2) s.70(7); 1982 Sch.8 4; 1987 (No.2) s.93 (5), (6)

## **567 Meaning of “construction operations”.**

- (1)<sup>M122</sup>In this Chapter “construction operations” means operations of any description specified in subsection (2) below, not being operations of any description specified in subsection (3) below; and references to construction operations shall be taken—
- (a) except where the context otherwise requires, as including references to the work of individuals participating in the carrying out of such operations; and
  - (b) except in the case of offshore installations, as not including references to operations carried out or to be carried out otherwise than in the United Kingdom.
- (2)<sup>M123</sup>The following operations are, subject to subsection (3) below, construction operations for the purposes of this Chapter—
- (a) construction, alteration, repair, extension, demolition or dismantling of buildings or structures (whether permanent or not), including offshore installations;
  - (b) construction, alteration, repair, extension or demolition of any works forming, or to form, part of the land, including (without prejudice to the foregoing) walls, roadworks, power-lines, telecommunication apparatus, aircraft runways, docks and harbours, railways, inland waterways, pipe-lines, reservoirs, water-mains, wells, sewers, industrial plant and installations for purposes of land drainage, coast protection or defence;
  - (c) installation in any building or structure of systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection;
  - (d) internal cleaning of buildings and structures, so far as carried out in the course of their construction, alteration, repair, extension or restoration;
  - (e) operations which form an integral part of, or are preparatory to, or are for rendering complete, such operations as are previously described in this subsection, including site clearance, earth-moving, excavation, tunnelling and boring, laying of foundations, erection of scaffolding, site restoration, landscaping and the provision of roadways and other access works;
  - (f) painting or decorating the internal or external surfaces of any building or structure.
- (3)<sup>M124</sup>The following operations are not construction operations for the purposes of this Chapter—
- (a) drilling for, or extraction of, oil or natural gas;
  - (b) extraction (whether by underground or surface working) of minerals; tunnelling or boring, or construction of underground works, for this purpose;
  - (c) manufacture of building or engineering components or equipment, materials, plant or machinery, or delivery of any of these things to site;
  - (d) manufacture of components for systems of heating, lighting, air-conditioning, ventilation, power supply, drainage, sanitation, water supply or fire protection, or delivery of any of these things to site;
  - (e) the professional work of architects or surveyors, or of consultants in building, engineering, interior or exterior decoration or in the laying-out of landscape;

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- (f) the making, installation and repair of artistic works, being sculptures, murals and other works which are wholly artistic in nature;
  - (g) signwriting and erecting, installing and repairing signboards and advertisements;
  - (h) the installation of seating, blinds and shutters;
  - (j) the installation of security systems, including burglar alarms, closed circuit television and public address systems.
- (4) <sup>M125</sup>In this section “offshore installations” means installations which are maintained, or are intended to be established, for underwater exploitation or exploration to which the <sup>M126</sup>Mineral Workings (Offshore Installations) Act 1971 applies.
- (5) <sup>M127</sup>The Treasury may by order—
- (a) include in subsection (2) above any description of operations as to which they are satisfied that it is a normal activity of the construction industry and that its inclusion in that subsection is necessary for achieving the object of section 559;
  - (b) include in subsection (3) above any description of operations as to which they are satisfied that it cannot properly be considered a normal activity of the construction industry and ought to be excluded from subsection (2) above.
- (6) An order under subsection (5) above shall not have effect unless a draft of the instrument containing it has been laid before and approved by a resolution of the House of Commons.

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**Modifications etc. (not altering text)**

**C28** For regulations see Part III Vol.5.

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**Marginal Citations**

**M122** Source-1975 (No.2) s.71(8)  
**M123** Source-1975 (No.2) Sch.13 Pt.I  
**M124** Source-1975 (No.2) Sch.13 Pt.II; 1980/1171  
**M125** Source-1975 (No.2) s.71(8), Sch.13, Pt.I  
**M126** 1971 c. 61.  
**M127** Source-1975 (No.2) s.71 (9) (10)

## CHAPTER V

### SCHEMES FOR RATIONALIZING INDUSTRY

#### **568 Deductions from profits of contributions paid under certified schemes.**

- <sup>M128</sup>(1) Notwithstanding anything contained in section 74 but subject to the following provisions of this Chapter, where a person pays, wholly and exclusively for the purposes of a trade in respect of which he is chargeable under Case I of Schedule D, a contribution in furtherance of a scheme which is for the time being certified by the Secretary of State under this section, the contribution shall, in so far as it is paid in furtherance of the primary object of the scheme, be allowed to be deducted as an expense in computing the [<sup>F193</sup>profits] of that trade.

**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.

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- (2) The Secretary of State shall certify a scheme under this section if he is satisfied—
- (a) that the primary object of the scheme is the elimination of redundant works or machinery or plant from use in an industry in the United Kingdom; and
  - (b) that the scheme is in the national interest and in the interests of that industry as a whole; and
  - (c) that such number of persons engaged in that industry as are substantially representative of the industry are liable to pay contributions in furtherance of the primary object of the scheme by agreement between them and the body of persons carrying out the scheme.

References in this subsection to an industry in the United Kingdom shall include references to the business carried on by owners of ships or of a particular class of ships, wherever that business is carried on, and, in relation to that business, references in this subsection to works or machinery or plant shall include references to ships.

- (3) The Secretary of State shall cancel any certificate granted under this section if he ceases to be satisfied as to any of the matters referred to in subsection (2) above.
- (4) The Secretary of State may at any time require the body of persons carrying out a scheme certified under this section to produce any books or documents of whatever nature relating to the scheme and, if the requirement is not complied with, he may cancel the certificate.
- (5) In this section and in section 569 “contribution”, in relation to a scheme, does not include a sum paid by a person by way of loan or subscription of share capital, or in consideration of the transfer of assets to him, or by way of a penalty for contravening or failing to comply with the scheme.

#### Textual Amendments

**F193** Words in s. 568(1) substituted (31.7.1998) by *Finance Act 1998 (c. 36)*, s. 46(3)(a), **Sch. 7 para. 1**

#### Marginal Citations

**M128** Source-1970 s.406

## 569 Repayment of contributions.

- <sup>M129</sup>(1) In the event of the repayment, whether directly or by way of distribution of assets on a winding up or otherwise, of a contribution or any part of a contribution which has been allowed to be deducted under section 568, the deduction of the contribution, or so much of it as has been repaid, shall be deemed to be an unauthorised deduction in respect of which an assessment shall be made, and, notwithstanding the provisions of the Tax Acts requiring assessments to be made within six years after the end of the chargeable period to which they relate, any such assessment and any consequential assessment may be made at any time within three years after the end of the chargeable period in which the repayment was made.
- (2) For the purposes of this section, a sum received by any person by way of repayment of contributions shall be deemed to be by way of repayment of the last contribution paid by him, and, if the sum exceeds the amount of that contribution, by way of repayment of the penultimate contribution so paid, and so on.

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#### Marginal Citations

M129 Source-1970 s.407; 1971 Sch.6 45

### 570 Payments under certified schemes which are not repayments of contributions.

- <sup>M130</sup>(1) Subject to the provisions of this section, where, under any scheme which is for the time being certified or has at any time been certified by the Secretary of State under section 568, any payment (not being a payment made by way of repayment of contributions) is made to a person carrying on a trade to which the scheme relates, that payment shall be treated for the purposes of the Tax Acts as a trading receipt of the trade, and shall accordingly be taken into account in computing the [<sup>F194</sup>profits] of the trade for those purposes.
- (2) Where <sup>F195</sup> . . . the payments which have been made under such a scheme in respect of a trade (not being payments made by way of repayment of contributions) have been made wholly or partly in respect of damage in respect of which no relief may be given under the Tax Acts, [<sup>F196</sup>and a claim is made to that effect,] then, subject to and in accordance with the provisions of [<sup>F197</sup>Schedule 21]—
- (a) relief shall be given in respect of those payments by reducing the amounts which are to be treated as trading receipts of the trade under subsection (1) above; but
- (b) where such relief is given, section 568 shall, in relation to contributions subsequently paid under the scheme in respect of the trade, have effect subject to the modifications specified in Part III of that Schedule, [<sup>F198</sup>and paragraph 6 of that Schedule applies for the purposes of this subsection as it applies for the purposes of that Schedule.]
- (3) The provisions of this section and Schedule 21 shall apply in relation to any payment made to a person who has ceased to carry on a trade to which any such scheme as is mentioned in subsection (1) above relates as they apply in relation to payments made to a person carrying on such a trade, subject to the modification that so much of that payment as falls to be treated as a trading receipt by virtue of those provisions shall be deemed for the purposes of those provisions to have been made to him on the last day on which he was engaged in carrying on the trade.
- (4) In determining for the purposes of this section and of Schedule 21—
- (a) whether any trade has ceased to be carried on; or
- (b) whether any contribution is paid in respect of a trade in respect of which a payment has been made; or
- (c) whether any payment is made in respect of a trade in respect of which a contribution has been paid,
- no regard shall be had to any event which, by virtue of any of the provisions of section 113 or section 337(1), is to be treated as effecting a discontinuance of a trade.

#### Textual Amendments

**F194** Words in s. 570(1) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), Sch. 7 para. 1

**F195** Words in s. 570(2) repealed (with effect in accordance with s. 134(2) of the repealing Act) by Finance Act 1996 (c. 8), Sch. 20 para. 31(a), Sch. 41 Pt. 5(10), Note

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**F196** Words in s. 570(2) inserted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 31(b)**

**F197** Words in s. 570(2) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 31(c)**

**F198** Words in s. 570(2) added (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 31(d)**

#### Marginal Citations

**M130** Source-1970 s.408

### 571 Cancellation of certificates.

- <sup>M131</sup>(1) Where any certificate granted with respect to a scheme under section 568 is cancelled by the Secretary of State, and any deductible contributions paid in furtherance of the scheme have not been repaid at the expiration of one year from the cancellation, the body of persons carrying out the scheme shall, for the chargeable period in which that year expires, be charged to tax under Case VI of Schedule D upon the aggregate amount of the deductible contributions which have not been repaid at that time.
- (2) The charge to tax under subsection (1) above shall not be made if the total amount of any contributions, other than deductible contributions, which have been paid under the scheme and have not been repaid before that time is greater than the available resources of the scheme, and shall not in any case be made upon an amount greater than the excess, if any, of those resources over that total amount.
- (3) In subsection (2) above “the available resources”, in relation to any scheme, means a sum representing the total funds held for the purposes of the scheme at the expiration of one year from the cancellation of the certificate plus a sum representing any funds held for the purposes of the scheme which, during that year, have been applied otherwise than in accordance with the provisions of the scheme as in force when the certificate was granted.
- (4) Where the body of persons carrying out a scheme are charged to tax by virtue of subsection (1) above, and, after the expiration of one year from the cancellation of the certificate, any deductible contribution paid in furtherance of the scheme is repaid, the amount upon which the charge is made shall on the making of a claim be reduced by the amount repaid, and all such repayments of tax shall be made as are necessary to give effect to the provisions of this subsection.
- (5) In this section “contribution” includes a part of a contribution, and “deductible contribution” means a contribution allowed to be deducted under section 568, any reduction under Part III of Schedule 21 being left out of account.
- (6) For the purposes of this section, a sum received by any person by way of repayment of contributions shall be deemed to be by way of repayment of the last contribution paid by him, and, if the sum exceeds the amount of that contribution, by way of repayment of the penultimate contribution so paid, and so on.

#### Marginal Citations

**M131** Source-1970 s.409



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## 572 Application to statutory redundancy schemes.

- <sup>M132</sup>(1) Sections 569 to 571 and Schedule 21 shall, subject to the adaptations specified in subsection (2) below, apply in relation to a statutory redundancy scheme as they apply in relation to a scheme certified under section 568.
- (2) The adaptations referred to above are as follows, that is to say—
- (a) for any reference to a contribution allowed to be deducted under section 568 there shall be substituted a reference to a contribution allowed to be deducted under any provision of the Tax Acts other than that section;
  - (b) any provision that section 568 shall, in relation to contributions, have effect subject to modifications, shall be construed as a provision that so much of any provision of the Tax Acts other than that section as authorises the deduction of contributions shall, in relation to the contributions in question, have effect subject to the modifications in question;
  - (c) for any reference to the cancellation of a certificate with respect to a scheme there shall be substituted a reference to the scheme ceasing to have effect; and
  - (d) for any reference to the provisions of the scheme as in force when the certificate was granted there shall be substituted a reference to the provisions of the scheme as in force when the contributions were first paid thereunder.
- (3) In this section “statutory redundancy scheme” means a scheme for the elimination or reduction of redundant works, machinery or plant, or for other similar purposes, to which effect is given by or under any Act, whether passed before or after this Act.

### Marginal Citations

<sup>M132</sup> Source-1970 s.410

VALID FROM 06/04/2007

## <sup>F199</sup> CHAPTER 5A

### SHARE LOSS RELIEF

### Textual Amendments

<sup>F199</sup> Pt. 13 Ch. 5A created (6.4.2007 with effect in accordance with s. 1034(1) of the affecting Act) by virtue of [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 117\(3\)](#) (with [Sch. 2](#))

*Relief for losses on unquoted shares in trading companies*

## 573 Relief for companies.

- (1) <sup>M133</sup>Subsection (2) below has effect where a company which has subscribed for shares in a qualifying trading company incurs an allowable loss (for the purpose of corporation tax on chargeable gains) on the disposal of the shares in any accounting period and the company disposing of the shares—
- (a) is an investment company on the date of the disposal and either—

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- (i) has been an investment company for a continuous period of six years ending on that date; or
  - (ii) has been an investment company for a shorter continuous period ending on that date and has not before the beginning of that period been a trading company or an excluded company; and
- (b) was not associated with, or a member of the same group as, the qualifying trading company at any time in the period beginning with the date when it subscribed for the shares and ending with the date of the disposal.
- (2) The company disposing of the shares may, within two years after the end of the accounting period in which the loss was incurred, make a claim requiring that the loss be set off for the purposes of corporation tax against income—
- (a) of that accounting period; and
  - (b) if the company was then an investment company and the claim so requires, of preceding accounting periods ending within the time specified in subsection (3) below;
- and, subject to any relief for an earlier loss, the income of any of those periods shall then be treated as reduced by the amount of the loss or by so much of it as cannot be relieved under this subsection against income of a later accounting period.
- (3) The time referred to in subsection (2) above is the period of 12 months ending immediately before the accounting period in which the loss is incurred; but the amount of the reduction which may be made under that subsection in the income of an accounting period falling partly before that time shall not exceed a part of that income proportionate to the part of the accounting period falling within that time.
- (4) <sup>F200</sup>Where relief is claimed under subsection (2) above, it must be claimed before any deduction is made for] charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of any description; and where relief <sup>F201</sup>is obtained] under that subsection <sup>F202</sup>for an amount] of a loss no deduction shall be made in respect of that amount for the purposes of corporation tax on chargeable gains.
- <sup>F203</sup>This subsection is subject to subsection (4A) below.]
- <sup>F204</sup>(4A) Paragraph 70 of Schedule 15 to the Finance Act 2000 (priority of loss relief) provides that where relief under Part VII of that Schedule (relief for losses on disposals of shares to which investment relief is attributable) is claimed it must be claimed in priority to relief under subsection (2) above.]
- (5) For the purposes of subsection (1)(b) above companies are associated with each other if one controls the other or both are under the control of the same person or persons; and section 416(2) to (6) shall apply for the purposes of this subsection.
- (6) <sup>M134</sup>For the purposes of this section a company subscribes for shares in another company if they are issued to it by that other company in consideration of money or money's worth.

#### Textual Amendments

**F200** Words in s. 573(4) substituted (with effect in accordance with s. 63(3)(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(2)(a)(i)**

**F201** Words in s. 573(4) substituted (with effect in accordance with s. 63(3)(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(2)(a)(ii)**

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- F202** Words in s. 573(4) substituted (with effect in accordance with s. 63(3)(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(2)(a)(iii)**
- F203** Words in s. 573(4) inserted (with effect in accordance with s. 63(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(2)(a)(iv)**
- F204** S. 573(4A) inserted (with effect in accordance with s. 63(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(2)(b)**

#### Modifications etc. (not altering text)

- C29** S. 573(2) restricted (with effect in accordance with s. 63(4) of the affecting Act) by Finance Act 2000, Sch. 15 para. 70(2)

#### Marginal Citations

- M133** Source-1981 s.36(1)-(5)  
**M134** Source-1981 s.36(6); 1980 s.37(3)

### 575 Exclusion of relief under section 573 or 574 in certain cases.

- <sup>M135</sup>(1) Sections 573 and 574 do not apply unless the disposal is—
- (a) by way of a bargain made at arm's length for full consideration; or
  - (b) by way of a distribution in the course of dissolving or winding up the company; or
  - <sup>F205</sup>(ba) a disposal within section 24(1) of the 1992 Act (entire loss, destruction, dissipation or extinction of asset); or]
  - (c) a deemed disposal under section <sup>F206</sup>24(2) of the 1992 Act] (claim that value of asset has become negligible).
- (2) Where a person disposes of shares (“the new shares”) which by virtue of section <sup>F207</sup>127 of the 1992 Act] (reorganisation etc. treated as not involving disposal) are identified with other shares (“the old shares”) previously held by him, relief shall not be given under section 573 or 574 on the disposal of the new shares unless—
- (a) relief under section 573 or 574 could (or if this section had been in force could) have been given on a disposal of the old shares if he had incurred an allowable loss in disposing of them as mentioned in subsection (1)(a) above on the occasion of the disposal that would have occurred but for section <sup>F207</sup>127 of the 1992 Act]; or
  - (b) he gave new consideration for the new shares;
- but in a case within paragraph (b) above the amount of relief under section 573 or 574 on the disposal of the new shares shall not exceed the amount or value of the new consideration taken into account as a deduction in computing the loss incurred on their disposal.
- (3) Where the shares are the subject of an exchange or arrangement of the kind mentioned in section <sup>F208</sup>135 or 136 of the 1992 Act] (company reconstructions etc.) which by reason of section <sup>F208</sup>137] of that Act involves a disposal of the shares, section 573 or 574 shall not apply to any allowable loss incurred on the disposal.

#### Textual Amendments

- F205** S. 575(1)(ba) inserted (with effect in accordance with s. 63(3)(4) of the amending Act) by Finance Act 2000 (c. 17), **Sch. 16 para. 3(3)**

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- F206** Words in s. 575(1)(c) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation and Chargeable Gains Act 1992 (c. 12), ss. 289, 290, **Sch. 10 para. 14(34)(a)** (with ss. 60, 101(1), 171, 201(3))
- F207** Words in s. 575(2) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation and Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), **Sch. 10 para. 14(34)(b)** (with ss. 60, 101(1), 171, 201(3))
- F208** Words in s. 575(3) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation and Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), **Sch. 10 para. 14(34)(c)** (with ss. 60, 101(1), 171, 201(3))

**Modifications etc. (not altering text)**

- C30** Ss. 574-576 applied (with effect in accordance with s. 93(11) of the affecting Act) by Finance Act 1994 (c. 9), **Sch. 12 para. 3(3)**

**Marginal Citations**

- M135** Source-1980 s.37(6)-(8); 1981 s.36(6)

**576 Provisions supplementary to sections 573 to 575.**

- (1) [<sup>F209</sup>Subject to subsections (1A) [<sup>F210</sup>to (1C)] below,] where a person holds shares in a company which constitute a holding and comprise—

- (a) shares for which he has subscribed (“qualifying shares”); and
- (b) shares which he has acquired otherwise than by subscription,

any question whether a disposal by him of shares forming part of the holding is of qualifying shares shall be determined by treating that and any previous disposal by him out of the holding as relating to shares acquired later rather than earlier; and if a disposal by him is of qualifying shares forming part of a holding and he makes a claim under section 573 or 574 in respect of a loss incurred on their disposal, the amount of relief under that section on the disposal shall not exceed the sums that would be allowed as deductions in computing the loss if the shares had not been part of the holding.

- [<sup>F211</sup>(1A) Subsection (1B) below applies where the holding mentioned in subsection (1) above comprises any of the following, namely—

- (a) shares issued before 1st January 1994 in respect of which relief has been given under Chapter III of Part VII and has not been withdrawn;
- (b) shares issued on or after that date to which relief under that Chapter is attributable; and
- (c) shares to which deferral relief (within the meaning of Schedule 5B to the 1992 Act) is attributable.

- (1B) Any such question as is mentioned in subsection (1) above shall not be determined as provided by that subsection, but shall be determined instead—

- (a) in the case of shares issued before 1st January 1994, as provided by subsections (3) to (4C) of section 299 as it has effect in relation to such shares; and
- (b) in the case of shares issued on or after that date, as provided by subsections (6) to (6D) of that section as it has effect in relation to such shares.]

- [<sup>F212</sup>(1C) Where the holding mentioned in subsection (1) above comprises any shares—

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- (a) to which investment relief is attributable under Schedule 15 to the Finance Act 2000 (corporate venturing scheme), and
- (b) which have been held continuously (within the meaning of paragraph 97 of that Schedule) from the time they were issued until the disposal,

any such question as is mentioned in that subsection shall not be determined as provided by that subsection, but shall be determined instead as provided by paragraph 93 of that Schedule (identification of shares on a disposal of part of a holding where investment relief is attributable to any shares in the holding held continuously by the disposing company).

For this purpose paragraph 93 of that Schedule shall have effect as if the references in it to a disposal had the same meaning as in subsection (1) above.]

- (2) Where a claim is made under section 573 or 574 in respect of a loss accruing on the disposal of shares, section [F213]30 of the 1992 Act] (value-shifting) shall have effect in relation to the disposal as if for the references in subsections (1)(b) and [F213]5) to a tax-free benefit there were substituted references to any benefit whether tax-free or not.
- (3) There shall be made all such adjustments of corporation tax on chargeable gains or capital gains tax, whether by way of assessment or by way of discharge or repayment of tax, as may be required in consequence of relief being given under section 573 or 574 in respect of an allowable loss or in consequence of the whole or part of such a loss in respect of which a claim is made not being relieved under that section.

[F214] (4) For the purposes of sections 573 to 575 and this section a qualifying trading company is a company which F215 . . . —

- (a) either—
  - (i) is an eligible trading company on the date of the disposal; or
  - (ii) has ceased to be an eligible trading company at a time which is not more than three years before that date and has not since that time been an excluded company, an investment company or a trading company that is not an eligible trading company; and
- (b) either—
  - (i) has been an eligible trading company for a continuous period of six years ending on that date or at that time; or
  - (ii) has been an eligible trading company for a shorter continuous period ending on that date or at that time and has not before the beginning of that period been an excluded company, an investment company or a trading company that is not an eligible trading company; and
- (c) has carried on its business wholly or mainly in the United Kingdom throughout the relevant period.

(4A) A company is an eligible trading company for the purposes of subsection (4) above at any time when, or in any period throughout which, it would comply with the requirements of section 293 if—

- (a) the provisions mentioned in subsection (4B) below were omitted;
- [F216] (ab) the reference in subsection (1A) of section 293 to the beginning of the relevant period were a reference to the time at which the shares in respect of which relief is claimed under section 573 or 574 were issued;]
- (b) the references in subsection (6) of section 293 to dissolution were omitted [F217] and after paragraph (a) of that subsection there were inserted— and

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- (b) the company continues, during the winding up, to be a trading company within the meaning of section 576(5).];
  - (c) the reference in section 293(6A) to the eligible shares were a reference to the shares in respect of which relief is claimed under section 573 or 574;
  - (d) any reference in section 293 [<sup>F218</sup>(except subsection (1A))], 297 or 308 to the relevant period were a reference to the time that is relevant for the purposes of subsection (4)(a) above or, as the case may require, the continuous period that is relevant for the purposes of subsection (4)(b) above;
  - (e) the reference in section 304A(1)(e)(i) to eligible shares were a reference to shares in respect of which relief is claimed under section 573 or 574;
  - (f) references in section 304A(3) to an individual were references to a person;
  - (g) the reference in section 304A(4) to section 304 were a reference to section 574(3)(b); and
  - (h) the reference in section 304A(6) to the expressions “eligible shares” and “subscriber shares” were a reference to the expression “subscriber shares”.
- (4B) The provisions are—
- (a) in section 293, the words “Subject to section 294,” in subsection (1)<sup>F219</sup> . . . and subsections (8A) and (8B);
  - (b) sections 294 to 296;
  - (c) in section 298(5), the words “and section 312(1A)(b) shall apply to determine the relevant period for the purposes of that section”;
  - (d) in section 304A, subsections (1)(e)(ii) and (2)(b), in subsection (3), the words “to which relief becomes so attributable” and paragraphs (c) and (d), in subsection (4), the words “to which relief becomes so attributable” and paragraphs (c) and (d), and subsection (5); and
  - (e) section 308(5A).]
- (5) <sup>M136</sup>In sections 573 to 575 and this section—
- “excluded company” means a company—
- (a) which has a trade which consists wholly or mainly of [<sup>F220</sup>dealing in land, in commodities or futures or in shares, securities or other financial instruments,] or is not carried on on a commercial basis and in such a way that profits in the trade can reasonably be expected to be realised; or
  - (b) which is the holding company of a group other than a trading group; or
  - (c) which is a building society or a registered industrial and provident society as defined in section 486(12);
- “group” means a company which has one or more 51 per cent. subsidiaries together with that or those subsidiaries;
- [<sup>F221</sup>“holding” means any number of shares of the same class held by one person in one capacity, growing or diminishing as shares of that class are acquired or disposed of, but shares shall not be treated as being of the same class unless they are so treated by the practice of a recognised stock exchange or would be so treated if dealt with on such a stock exchange, and subsection (4) of section 104 of the 1992 Act shall apply for the purposes of this definition as it applies for the purposes of subsection (1) of that section;]
- “holding company” means a company whose business consists wholly or mainly in the holding of shares or securities of one or more companies which are its 51 per cent. subsidiaries;

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“investment company” has the meaning given by section 130 except that it does not include the holding company of a trading group;

“new consideration” means consideration in money or money’s worth other than consideration of the kind excluded by [F<sup>222</sup> paragraph (a) or (b) of section 128(2)] [F<sup>223</sup> of the 1992 Act];

“relevant period” means the period ending with the date on which the shares in question are disposed of and beginning with the incorporation of the company, or, if later, one year before the date on which the shares were [F<sup>224</sup> issued];

[F<sup>225</sup> “shares”—

- (a) except in subsections (1A) and (1B) above, includes stock; but
- (b) except in the definition of “excluded company”, does not include shares or stock not forming part of a company’s ordinary share capital;]

“spouse” refers to one of two spouses who are living together (construed in accordance with section [F<sup>226</sup> 288(3) of the 1992 Act]);

“trading company” means a company other than an excluded company which is—

- (a) [F<sup>227</sup> a company whose business consists wholly or mainly of the carrying on of a trade or trades]; or
- (b) the holding company of a trading group;

“trading group” means a group the business of whose members, taken together, consists wholly or mainly in the carrying on of a trade or trades, but for the purposes of this definition any trade carried on by a subsidiary which is an excluded company [F<sup>228</sup> . . . shall be treated as not constituting a trade.

### Textual Amendments

- F209** Words in s. 576(1) inserted (with effect in accordance with s. 80(5)(a) of the amending Act) by Finance Act 1998 (c. 36), s. 80(1)
- F210** Words in s. 576(1) substituted (with application in accordance with s. 63(4) of the amending Act) by Finance Act 2000 (c. 17), Sch. 16 para. 3(4)(a)
- F211** S. 576(1A)(1B) inserted (with effect in accordance with s. 80(5)(a) of the amending Act) by Finance Act 1998 (c. 36), s. 80(2)
- F212** S. 576(1C) inserted (with application in accordance with s. 63(4) of the amending Act) by Finance Act 2000 (c. 17), Sch. 16 para. 3(4)(b)
- F213** Words in s. 576(2) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation and Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), Sch. 10 para. 14(35)(a) (with ss. 60, 101(1), 171, 201(3))
- F214** S. 576(4)-(4B) substituted for s. 576(4) (with effect in accordance with s. 80(5)(b) of the amending Act) by Finance Act 1998 (c. 36), s. 80(3)
- F215** Words in s. 576(4) repealed (with effect in accordance with Sch. 15 para. 38(5)(6) of the repealing Act) by Finance Act 2001 (c. 9), Sch. 15 para. 38(2), Sch. 33 Pt. 2(3), Note 3
- F216** S. 576(4A)(ab) inserted (with effect in accordance with Sch. 15 para. 38(5)(6) of the amending Act) by Finance Act 2001 (c. 9), Sch. 15 para. 38(3)(a)
- F217** Words in s. 576(4A)(b) substituted (with effect in accordance with Sch. 15 para. 38(4) of the amending Act) by Finance Act 2001 (c. 9), Sch. 15 para. 38(3)(b)
- F218** Words in s. 576(4A)(d) inserted (with effect in accordance with Sch. 15 para. 38(5)(6) of the amending Act) by Finance Act 2001 (c. 9), Sch. 15 para. 38(3)(c)
- F219** Words in s. 576(4B)(a) repealed (with effect in accordance with Sch. 15 para. 38(5)(6) of the repealing Act) by Finance Act 2001 (c. 9), Sch. 33 Pt. 2(3), Note 3

**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.

**Changes to legislation:** Income and Corporation Taxes Act 1988, PART XIII is up to date with all changes known to be in force on or before 03 April 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- F220** Words in s. 576(5) substituted (with effect in accordance with s. 80(5)(b) of the amending Act) by Finance Act 1998 (c. 36), s. 80(4)(a)
- F221** Definition in s. 576(5) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), Sch. 10 para. 14(35)(b)(i) (with ss. 60, 101(1), 171, 201(3))
- F222** Words in s. 576(5) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), Sch. 10 para. 14(35)(b)(ii) (with ss. 60, 101(1), 171, 201(3))
- F223** Words in s. 576(5) inserted (retrospectively) by Finance Act 1994 (c. 9), Sch. 17 para. 6
- F224** Word in s. 576(5) substituted (with effect in accordance with s. 80(5)(b) of the amending Act) by Finance Act 1998 (c. 36), s. 80(4)(b)
- F225** S. 576(5): definition of "shares" substituted (with effect in accordance with s. 80(5)(b) of the amending Act) by Finance Act 1998 (c. 36), s. 80(4)(c)
- F226** Words in s. 576(5) substituted (6.3.1992 with effect as mentioned in s. 289(1)(2) of the amending Act) by Taxation of Chargeable Gains Act 1992 (c. 12), ss. 289, 290(1), Sch. 10 para. 14(35)(b)(iii) (with ss. 60, 101(1), 171, 201(3))
- F227** 1989 s.107 and Sch.12 para.14 in relation to disposals made after 31 March 1989. Previously “(a) a trading company within the meaning of paragraph 7 of Schedule 19”.
- F228** Words in s. 576(5) repealed (with effect in accordance with s. 80(5)(b), Sch. 27 Pt. 3(16) Note of the repealing Act) by Finance Act 1998 (c. 36), s. 80(4)(d), Sch. 27 Pt. 3(16)

#### Modifications etc. (not altering text)

- C31** Ss. 574-576 applied (with effect in accordance with s. 93(11) of the affecting Act) by Finance Act 1994 (c. 9), Sch. 12 para. 3(3)

#### Marginal Citations

- M136** Source-1980 s.37(12); 1981 s.36(6), (7); 1987 (No.2) s.71

### <sup>F229</sup>576A Qualifying trading companies

- (1) For the purposes of this Chapter a qualifying trading company is a company which meets each of conditions A to D.
- (2) Condition A is that the company either—
  - (a) meets each of the following requirements on the date of the disposal—
    - (i) the trading requirement (see section 576B),
    - (ii) the control and independence requirement (see section 576D),
    - (iii) the qualifying subsidiaries requirement (see section 576E), and
    - (iv) the property managing subsidiaries requirement (see section 576F),
 or
  - (b) has ceased to meet any of those requirements at a time which is not more than 3 years before that date and has not since that time been an excluded company, an investment company or a trading company.
- (3) Condition B is that the company either—
  - (a) has met each of the requirements mentioned in condition A for a continuous period of 6 years ending on that date or at that time, or
  - (b) has met each of those requirements for a shorter continuous period ending on that date or at that time and has not before the beginning of that period been an excluded company, an investment company or a trading company.
- (4) Condition C is that the company—



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- (a) met the gross assets requirement (see section 576G) both immediately before and immediately after the issue of the shares in respect of which the relief is claimed under this Chapter, and
  - (b) met the unquoted status requirement (see section 576H) at the relevant time within the meaning of that section.
- (5) Condition D is that the company has carried on its business wholly or mainly in the United Kingdom throughout the period—
- (a) beginning with the incorporation of the company or, if later, 12 months before the shares in question were issued, and
  - (b) ending with the date of the disposal.]

#### Textual Amendments

**F229** S. 576A inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by Income Tax Act 2007 (c. 3), Sch. 1 para. 121 (with Sch. 2)

#### <sup>F230</sup>Qualifying trading companies: the requirements

#### Textual Amendments

**F230** S. 576B and preceding cross-heading inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by Income Tax Act 2007 (c. 3), Sch. 1 para. 122 (with Sch. 2)

### 576B The trading requirement

- (1) The trading requirement is that—
- (a) the company, disregarding any incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, or
  - (b) the company is a parent company and the business of the group does not consist wholly or as to a substantial part in the carrying on of non-qualifying activities.
- (2) If the company intends that one or more other companies should become its qualifying subsidiaries with a view to their carrying on one or more qualifying trades—
- (a) the company is treated as a parent company for the purposes of subsection (1)(b), and
  - (b) the reference in subsection (1)(b) to the group includes the company and any existing or future company that will be its qualifying subsidiary after the intention in question is carried into effect.

This subsection does not apply at any time after the abandonment of that intention.

- (3) For the purpose of subsection (1)(b) the business of the group means what would be the business of the group if the activities of the group companies taken together were regarded as one business.
- (4) For the purpose of determining the business of a group, activities are disregarded to the extent that they are activities carried on by a mainly trading subsidiary otherwise than for its main purpose.

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(5) For the purposes of determining the business of a group, activities of a group company are disregarded to the extent that they consist in—

- (a) the holding of shares in or securities of a qualifying subsidiary of the parent company,
- (b) the making of loans to another group company,
- (c) the holding and managing of property used by a group company for the purpose of one or more qualifying trades carried on by a group company, or
- (d) the holding and managing of property used by a group company for the purpose of research and development from which it is intended—
  - (i) that a qualifying trade to be carried on by a group company will be derived, or
  - (ii) that a qualifying trade carried on or to be carried on by a group company will benefit.

(6) Any reference in subsection (5)(d)(i) or (ii) to a group company includes a reference to any existing or future company which will be a group company at any future time.

(7) In this section—

“excluded activities” has the meaning given by section 192 of ITA 2007 read with sections 193 to 199 of that Act,

“group” means a parent company and all its qualifying subsidiaries,

“group company”, in relation to a group, means the parent company or any of its qualifying subsidiaries,

“incidental purposes” means purposes having no significant effect (other than in relation to incidental matters) on the extent of the activities of the company in question,

“mainly trading subsidiary” means a subsidiary which, apart from incidental purposes, exists wholly for the purpose of carrying on one or more qualifying trades, and any reference to the main purpose of such a subsidiary is to be read accordingly,

“non-qualifying activities” means—

- (a) excluded activities, and
- (b) activities (other than research and development) carried on otherwise than in the course of a trade,

“parent company” means a company that has one or more qualifying subsidiaries,

“qualifying subsidiary” is to be read in accordance with section 191 of ITA 2007,

“qualifying trade” has the meaning given by section 189 of that Act,

“research and development” has the meaning given by section 837A.

(8) In sections 189(1)(b) and 194(4)(c) of ITA 2007 (as applied by subsection (7) for the purposes of the definitions of “excluded activities” and “qualifying trade”) “period B” means the continuous period that is relevant for the purposes of section 576A(3).

[<sup>F231</sup>(9) In section 195 of ITA 2007 as applied by subsection (7) for the purposes mentioned in subsection (8), references to the issuing company are to be read as references to the company mentioned in subsection (1).]

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### Textual Amendments

**F231** S. 576B(9) inserted (6.4.2007) by Finance Act 2007 (c. 11), Sch. 16 paras. 11(3), 13

### [<sup>F232</sup>576C] **Ceasing to meet the trading requirement because of administration or receivership**

- (1) A company is not regarded as ceasing to meet the trading requirement by reason only of anything done in consequence of the company or any of its subsidiaries being in administration or receivership.

This has effect subject to subsections (2) and (3).

- (2) Subsection (1) applies only if—
- (a) the entry into administration or receivership, and
  - (b) everything done as a result of the company concerned being in administration or receivership,
- is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax.

- (3) A company ceases to meet the trading requirement if before the time that is relevant for the purposes of section 576A(2)—
- (a) a resolution is passed, or an order is made, for the winding up of the company or any of its subsidiaries (or, in the case of a winding up otherwise than under the Insolvency Act 1986 or the Insolvency (Northern Ireland) Order 1989, any other act is done for the like purpose), or
  - (b) the company or any of its subsidiaries is dissolved without winding up.

This is subject to subsection (4).

- (4) Subsection (3) does not apply if—
- (a) the winding up is for genuine commercial reasons, and is not part of a scheme or arrangement the main purpose or one of the main purposes of which is the avoidance of tax, and
  - (b) the company continues, during the winding up, to be a trading company.
- (5) References in this section to a company being “in administration” or “in receivership” are to be read in accordance with section 252 of ITA 2007.]

### Textual Amendments

**F232** S. 576C inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by Income Tax Act 2007 (c. 3), Sch. 1 para. 123 (with Sch. 2)

### [<sup>F233</sup>576D] **The control and independence requirement**

- (1) The control element of the requirement is that—
- (a) the company must not control (whether on its own or together with any person connected with it) any company which is not a qualifying subsidiary of the company, and

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- (b) no arrangements must be in existence by virtue of which the company could fail to meet paragraph (a) (whether at a time during the continuous period that is relevant for the purposes of section 576A(3) or otherwise).
- (2) The independence element of the requirement is that—
- (a) the company must not—
- (i) be a 51% subsidiary of another company, or
- (ii) be under the control of another company (or of another company and any other person connected with that other company), without being a 51% subsidiary of that other company, and
- (b) no arrangements must be in existence by virtue of which the company could fail to meet paragraph (a) (whether at a time during the continuous period that is relevant for the purposes of section 576A(3) or otherwise).
- (3) This section is subject to section 576J(3).
- [ Section 839 (connected persons) applies for the purposes of this section.]
- <sup>F234</sup>(3A)
- (4) In this section—
- “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable,
- “control” is to be read as follows—
- (a) in subsection (1)(a), in accordance with section 416(2) to (6),
- (b) in subsection (2)(a), in accordance with section 840,
- “qualifying subsidiary” is to be read in accordance with section 191 of ITA 2007.]

#### Textual Amendments

**F233** S. 576D inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 124](#) (with [Sch. 2](#))

**F234** S. 576D(3A) inserted (retrospective to 6.4.2007 and with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\)](#), [art. 2\(2\)](#)

#### [<sup>F235</sup> 576E] The qualifying subsidiaries requirement

- (1) The qualifying subsidiaries requirement is that any subsidiary that the company has must be a qualifying subsidiary of the company.
- (2) In this section “qualifying subsidiary” is to be read in accordance with section 191 of ITA 2007.]

#### Textual Amendments

**F235** S. 576E inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 125](#) (with [Sch. 2](#))

**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.  
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### <sup>F236</sup> 576F The property managing subsidiaries requirement

- (1) The property managing subsidiaries requirement is that any property managing subsidiary that the company has must be a qualifying 90% subsidiary of the company.
- (2) In this section—
  - “property managing subsidiary” has the meaning given by section 188(2) of ITA 2007,
  - “qualifying 90% subsidiary” has the meaning given by section 190 of that Act.]

#### Textual Amendments

**F236** S. 576F inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by Income Tax Act 2007 (c. 3), Sch. 1 para. 126 (with Sch. 2)

### <sup>F237</sup> 576G The gross assets requirement

- (1) The gross assets requirement in the case of a single company is that the value of the company's gross assets—
  - (a) must not exceed £7 million immediately before the shares in respect of which the relief is claimed under this Chapter are issued, and
  - (b) must not exceed £8 million immediately afterwards.
- (2) The gross assets requirement in the case of a parent company is that the value of the group assets—
  - (a) must not exceed £7 million immediately before the shares in respect of which the relief is claimed under this Chapter are issued, and
  - (b) must not exceed £8 million immediately afterwards.
- (3) The value of the group assets means the aggregate of the values of the gross assets of each of the members of the group, disregarding any that consist in rights against, or shares in or securities of, another member of the group.
- (4) In this section—
  - “group” means a parent company and its qualifying subsidiaries,
  - “parent company” means a company that has one or more qualifying subsidiaries,
  - “qualifying subsidiary” is to be read in accordance with section 191 of ITA 2007, and
  - “single company” means a company that does not have one or more qualifying subsidiaries.]

#### Textual Amendments

**F237** S. 576G inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by Income Tax Act 2007 (c. 3), Sch. 1 para. 127 (with Sch. 2)

**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.

**Changes to legislation:** Income and Corporation Taxes Act 1988, PART XIII is up to date with all changes known to be in force on or before 03 April 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

### <sup>F238</sup>576H The unquoted status requirement

- (1) The unquoted status requirement is that, at the time (“the relevant time”) at which the shares in respect of which the relief is claimed under this Chapter are issued—
- (a) the company must be an unquoted company,
  - (b) there must be no arrangements in existence for the company to cease to be an unquoted company, and
  - (c) there must be no arrangements in existence for the company to become a subsidiary of another company (“the new company”) by virtue of an exchange of shares, or shares and securities, if—
    - (i) section 576J applies in relation to the exchange, and
    - (ii) arrangements have been made with a view to the new company ceasing to be an unquoted company.
- (2) The arrangements referred to in subsection (1)(b) and (c)(ii) do not include arrangements in consequence of which any shares, stocks, debentures or other securities of the company or the new company are at any subsequent time—
- (a) listed on a stock exchange that is a recognised stock exchange by virtue of an order made under section 1005 of ITA 2007, or
  - (b) listed on an exchange, or dealt in by any means, designated by an order made for the purposes of section 184(3)(b) or (c) of that Act,
- if the order was made after the relevant time.
- (3) In this section—
- “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable,
- “debenture” has the meaning given by section 744 of the Companies Act 1985,
- “unquoted company” has the meaning given by section 184(2) of ITA 2007.]

#### Textual Amendments

**F238** S. 576H inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 128](#) (with [Sch. 2](#))

### <sup>F239</sup>576I Power to amend requirements by Treasury order]

The Treasury may by order make such amendments of sections 576B to 576H as they consider appropriate.]

#### Textual Amendments

**F239** S. 576I inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 129](#) (with [Sch. 2](#))

**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.  
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## <sup>F240</sup>Qualifying trading companies: supplementary provisions

### Textual Amendments

**F240** S. 576J and preceding cross-heading inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 130](#) (with [Sch. 2](#))

### 576J Relief after an exchange of shares for shares in another company

- (1) This section and section 576K apply in relation to shares if—
- a company (“the new company”) in which the only issued shares are subscriber shares acquires all the shares (“old shares”) in another company (“the old company”),
  - the consideration for the old shares consists wholly of the issue of shares (“new shares”) in the new company,
  - the consideration for the new shares of each description consists wholly of old shares of the corresponding description,
  - new shares of each description are issued to the holders of old shares of the corresponding description in respect of and in proportion to their holdings, and
  - by virtue of section 127 of the 1992 Act as applied by section 135(3) of that Act (company reconstructions etc), the exchange of shares is not to be treated as involving a disposal of the old shares or an acquisition of the new shares.

In this subsection references to shares, except the first and that in the expression “subscriber shares”, include securities.

- (2) For the purposes of this Chapter the exchange of shares is not regarded as involving any disposal of the old shares or any acquisition of the new shares.
- (3) Nothing in section 576D (the control and independence requirement) applies in relation to such an exchange of shares, or shares and securities, as is mentioned in subsection (1), or arrangements with a view to such an exchange.
- (4) For the purposes of this section old shares and new shares are of a corresponding description if, on the assumption that they were shares in the same company, they would be of the same class and carry the same rights.
- (5) References in section 576K to “old shares”, “new shares”, “the old company” and “the new company” are to be read in accordance with this section.

### <sup>F241</sup>576K Substitution of new shares for old shares

- (1) Subsection (2) applies if, in the case of any new shares held by a company or by a nominee for a company, the old shares for which they were exchanged were shares that had been subscribed for by the company (“the investor”).
- (2) This Chapter has effect as if—
- the new shares had been subscribed for by the investor at the time when, and for the amount for which, the old shares were subscribed for by the investor,
  - the new shares had been issued by the new company at the time when the old shares were issued to the investor by the old company, and

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(c) any requirements of this Chapter which were met at any time before the exchange by the old company had been met at that time by the new company.

(3) Section 573(6) applies for the purposes of this section.

[ Nothing in subsection (2) applies in relation to section 195(7) of ITA 2007 as applied<sup>F242</sup>(4) by section 576B(7) above for the purposes mentioned in section 576B(8). ]

#### Textual Amendments

**F241** S. 576K inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), **Sch. 1 para. 131** (with Sch. 2)

**F242** S. 576K(4) inserted (6.4.2007) by [Finance Act 2008 \(c. 9\)](#), Sch. 16 paras. 11(4), **13**

[<sup>F243</sup>Supplemental]

#### Textual Amendments

**F243** S. 576L and preceding cross-heading inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), **Sch. 1 para. 132** (with Sch. 2)

### 576L Interpretation of Chapter

(1) In this Chapter (subject to subsections (2) to (5))—

“excluded company” means a company which—

- (a) has a trade which consists wholly or mainly of dealing in land, in commodities or futures or in shares, securities or other financial instruments,
- (b) has a trade which is not carried on on a commercial basis and in such a way that profits in the trade can reasonably be expected to be realised,
- (c) is a holding company of a group other than a trading group, or
- (d) is a building society or a registered industrial and provident society,

“group” (except in sections 576B and 576G) means a company which has one or more 51% subsidiaries together with that or those subsidiaries,

“holding company” means a company whose business consists wholly or mainly in the holding of shares or securities of companies which are its 51% subsidiaries,

“investment company” has the meaning given by section 130 except that it does not include the holding company of a trading group,

“registered industrial and provident society” means a society registered or treated as registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies Act (Northern Ireland) Act 1969,

“shares”—

- (a) includes stock, but
- (b) does not include shares or stock not forming part of a company's ordinary share capital,

“trading company” means a company other than an excluded company which is—



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- (a) a company whose business consists wholly or mainly of the carrying on of a trade or trades, or
  - (b) the holding company of a trading group, and
- “trading group” means a group the business of whose members, when taken together, consists wholly or mainly in the carrying on of a trade or trades.
- (2) Except as provided by subsection (3), paragraph (b) of the definition of “shares” in subsection (1) does not apply in the definition of “excluded company” in subsection (1) or in section 576J(1) to (4).
  - (3) Paragraph (b) of that definition applies in relation to the first reference to “shares” in section 576J(1).
  - (4) The definition of “shares” in subsection (1) does not apply in sections 576B(5)(a), 576G(3) and 576H(1)(c) and (2).
  - (5) For the purposes of the definition of “trading group” in subsection (1), any trade carried on by a subsidiary which is an excluded company is treated as not constituting a trade.]

## CHAPTER VI

### OTHER PROVISIONS

#### Modifications etc. (not altering text)

- C32** Pt 13 Ch. 6: ss. 573, 575 and 576 transposed to Pt. 13 Ch. 5A (6.4.2007 with effect in accordance with s. 1034(1) of the affecting Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 paras. 117\(3\), 119\(7\), 120\(7\)](#) (with [Sch. 2](#))

#### *Relief for losses on unquoted shares in trading companies*

#### **574 Relief for individuals.**

- [<sup>F244</sup>(1) Where an individual who has subscribed for shares in a qualifying trading company incurs an allowable loss (for capital gains tax purposes) on the disposal of the shares in any year of assessment, he may, by notice given within twelve months from the 31st January next following that year, make a claim for relief from income tax on—
- (a) so much of his income for that year as is equal to the amount of the loss or, where it is less than that amount, the whole of that income; or
  - (b) so much of his income for the last preceding year as is equal to that amount or, where it is less than that amount, the whole of that income;
- but relief shall not be given for the loss or the same part of the loss both under paragraph (a) and under paragraph (b) above.

Where such relief is given in respect of the loss or any part of it, no deduction shall be made in respect of the loss or (as the case may be) that part under the 1992 Act.

- (2) Any relief claimed under paragraph (a) of subsection (1) above in respect of any income shall be given in priority to any relief claimed in respect of that income under

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paragraph (b) of that subsection; and any relief claimed under either paragraph in respect of any income shall be given in priority to any relief claimed in respect of that income under section 380 or 381.]

(3) For the purposes of this section—

- (a) an individual subscribes for shares if they are issued to him by the company in consideration of money or money's worth; and
- (b) an individual shall be treated as having subscribed for shares if his spouse did so and transferred them to him by a transaction inter vivos.

#### Textual Amendments

**F244** S. 574(1)(2) substituted (with effect in accordance with s. 210(2) of the amending Act) by Finance Act 1994 (c. 9), s. 210 (as amended (retrospectively) by Finance Act 1995 (c. 4), s. 119) (with Sch. 20)

#### Modifications etc. (not altering text)

**C33** Ss. 574-576 applied (with effect in accordance with s. 93(11) of the affecting Act) by Finance Act 1994 (c. 9), Sch. 12 para. 3(3)

**C34** S. 574(1) modified (3.5.1994) by Finance Act 1994 (c. 9), Sch. 20 para. 8

**C35** S. 574(1) modified (1991-92) by The Lloyd's Underwriters (Tax) (1991-92) Regulations 1994 (S.I. 1994/728), regs. 1, 9, Sch. 2

**C36** S. 574(1) modified (1992-93, 1993-94 and 1994-5) by The Lloyd's Underwriters (Tax) (1992-93 to 1996-97) Regulations 1995 (S.I. 1995/352), regs. 1, 14, 15, Sch.

#### *Miscellaneous*

### 577 Business entertaining expenses.

(1) <sup>M137</sup>Subject to the provisions of this section—

- (a) no deduction shall be made in computing [<sup>F245</sup>profits] chargeable to tax under <sup>F246</sup> . . . Schedule D for any expenses incurred in providing business entertainment, and such expenses shall not be included in computing any expenses of management in respect of which relief may be given under the Tax Acts; [<sup>F247</sup>and]
- (b) no deduction for expenses so incurred shall be made from emoluments chargeable to tax under Schedule E; <sup>F248</sup> . . .
- (c) <sup>F248</sup> . . . . .

(2) <sup>F249</sup> . . . . .

(3) The expenses to which paragraph (a) of subsection (1) above applies include, in the case of any person, any sums paid by him to, or on behalf of, or placed by him at the disposal of a member of his staff exclusively for the purpose of defraying expenses incurred or to be incurred by him in providing business entertainment, but where—

- (a) any such sum falls to be included in his emoluments chargeable to tax under Schedule E; and
- (b) the deduction or inclusion of that sum as mentioned in that paragraph falls to be disallowed in whole or in part by virtue of this section;

paragraph (b) of that subsection shall not preclude the deduction of any expenses defrayed out of that sum.

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- (4) <sup>F249</sup> .....
- (5) For the purposes of this section “business entertainment” means entertainment (including hospitality of any kind) provided by a person, or by a member of his staff, in connection with a trade carried on by that person, but does not include anything provided by him for bona fide members of his staff unless its provision for them is incidental to its provision also for others.
- (6) <sup>F249</sup> .....
- (7) In this section—
- (a) any reference to expenses incurred in <sup>F250</sup> . . . providing entertainment includes a reference to expenses incurred in <sup>F250</sup> . . . providing anything incidental thereto;
  - (b) references to a trade include references to any business, profession or vocation; and
  - (c) references to the members of a person’s staff are references to persons employed by that person, directors of a company or persons engaged in the management of a company being for this purpose deemed to be persons employed by it.
- (8) This section shall apply in relation to the provision of a gift as it applies in relation to the provision of entertainment, except that it shall not by virtue of this subsection apply in relation to the provision for any person of a gift consisting of an article incorporating a conspicuous advertisement for the donor, being an article—
- (a) which is not food, drink, tobacco or a token or voucher exchangeable for goods; and
  - (b) the cost of which to the donor, taken together with the cost to him of any other such articles given by him to that person in the same [<sup>F251</sup>relevant tax period], does not exceed [<sup>F252</sup>£50].
- [<sup>F253</sup>(8A) In subsection (8)(b) “relevant tax period” means—
- (a) for the purposes of corporation tax, an accounting period;
  - (b) for the purposes of income tax—
    - (i) for a year of assessment in relation to which sections 60 to 63 apply and give a basis period, that basis period;
    - (ii) in any other case, a year of assessment.]
- (9) <sup>M138</sup>Subsection (8) above shall not preclude the deduction, in computing [<sup>F245</sup>profits] under <sup>F246</sup> . . . Case I or II of Schedule D, of expenditure incurred in making a gift to a body of persons or trust established for charitable purposes only; and for the purposes of this subsection the Historic Buildings and Monuments Commission for England and the Trustees of the National Heritage Memorial Fund shall each be treated as such a body of persons.
- (10) <sup>M139</sup>Nothing in this section shall be taken as precluding the deduction of expenses incurred in <sup>F254</sup> . . . the provision by any person of anything which it is his trade to provide, and which is provided by him in the ordinary course of that trade for payment or, with the object of advertising to the public generally, gratuitously.

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### Textual Amendments

- F245** Words in s. 577(1)(a)(9) substituted (31.7.1998) by [Finance Act 1998 \(c. 36\), s. 46\(3\)\(a\)](#), [Sch. 7 para. 1](#)
- F246** Words in s. 577(1)(9) repealed (with effect in accordance with s. 38(2)(3) of the repealing Act) by [Finance Act 1998 \(c. 36\), Sch. 27 Pt. 3\(4\)](#), Note
- F247** Word at the end of s. 577(1)(a) inserted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 51\(1\)\(a\)](#)
- F248** S. 577(1)(c) and preceding word repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 51\(1\)\(b\)](#), [Sch. 4](#)
- F249** S. 577(2)(4)(6) repealed (with effect in accordance with s. 72(1) of the repealing Act) by [Finance Act 1988 \(c. 39\), Sch 14 Pt. 4](#)
- F250** Words in s. 577(7)(a) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 51\(2\)](#), [Sch. 4](#)
- F251** Words in s. 577(8)(b) substituted (with application in accordance with s. 73(4) of the amending Act) by [Finance Act 2001 \(c. 9\), s. 73\(2\)\(a\)](#)
- F252** Words in s. 577(8)(b) substituted (with application in accordance with s. 73(4) of the amending Act) by [Finance Act 2001 \(c. 9\), s. 73\(2\)\(b\)](#)
- F253** S. 577(8A) inserted (with application in accordance with s. 73(4) of the amending Act) by [Finance Act 2001 \(c. 9\), s. 73\(3\)](#)
- F254** Words in s. 577(10) repealed (with effect in accordance with s. 579 of the repealing Act) by [Capital Allowances Act 2001 \(c. 2\), Sch. 2 para. 51\(3\)](#), [Sch. 4](#)

### Marginal Citations

- M137** Source-1970 s.411(1)-(8); 1985 s.43; 1971 s.50(8)
- M138** Source-1980 s.54, 118(3); 1983 s.46(3)(b)
- M139** Source-1970 s.411(9)

### [<sup>F255</sup>577A] Expenditure involving crime.

- (1) In computing [<sup>F256</sup>profits] chargeable to tax under <sup>F257</sup>. . . Schedule D, no deduction shall be made for any expenditure incurred in making a payment the making of which constitutes the commission of a criminal offence.
- [ In computing [<sup>F256</sup>profits] chargeable to tax under <sup>F257</sup>. . . Schedule D, no deduction
- <sup>F258</sup>(1A) shall be made for any expenditure incurred in making a payment induced by a demand constituting—
- (a) the commission in England or Wales of the offence of blackmail under section 21 of the Theft Act 1968,
  - (b) the commission in Northern Ireland of the offence of blackmail under section 20 of the Theft Act (Northern Ireland) 1969, or
  - (c) the commission in Scotland of the offence of extortion.]
- (2) [<sup>F259</sup>Any expenditure mentioned in subsection (1) or (1A) above] shall not be included in computing any expenses of management in respect of which relief may be given under the Tax Acts.]

### Textual Amendments

- F255** S. 577A inserted (with application in accordance with s. 123(2) of the amending Act) by [Finance Act 1993 \(c. 34\), s. 123\(1\)\(2\)](#)

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- F256** Words in s. 577A(1)(1A) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), **Sch. 7 para. 1**
- F257** Words in s. 577A(1)(1A) repealed (with effect in accordance with s. 38(2)(3) of the repealing Act) by Finance Act 1998 (c. 36), **Sch. 27 Pt. 3(4)**, Note
- F258** S. 577A(1A) inserted (with application in accordance with s. 141(4) of the amending Act) by Finance Act 1994 (c. 9), s. 141(2)
- F259** Words in s. 577A(2) substituted (with application in accordance with s. 141(4) of the amending Act) by Finance Act 1994 (c. 9), s. 141(3)

**578 Housing grants.**

- <sup>M140</sup>(1) Where, under any enactment relating to the giving of financial assistance for the provision, maintenance or improvement of housing accommodation or other residential accommodation, a payment is made to a person by way of grant or other contribution towards expenses incurred, or to be incurred, by that or any other person, the payment shall not be treated as a receipt in computing income for any tax purpose.
- (2) Subsection (1) above shall not apply to a payment in so far as it is made in respect of an expense giving rise to a deduction in computing income for any tax purpose.

**Marginal Citations**  
 M140 Source-1970 s.376

[<sup>F260</sup>**578A Expenditure on car hire**

- (1) This section provides for a reduction in the amounts—
  - (a) allowable as deductions in computing profits chargeable to tax under Case I or II of Schedule D, [<sup>F261</sup> or]
  - (b) which can be included as expenses of management of an investment company (as defined by section 130), <sup>F262</sup> . . .
  - (c) <sup>F263</sup> . . . . .
 for expenditure on the hiring of a car to which this section applies.
- (2) This section applies to the hiring of a car—
  - (a) which is not a qualifying hire car, and
  - (b) the retail price of which when new exceeds £12,000.
 “Car” and “qualifying hire car” are defined by section 578B.
- (3) The amount which would, apart from this section, be allowable or capable of being included must be reduced by multiplying it by the fraction—

$$\frac{\pounds 12,000 + P}{2P}$$

where P is the retail price of the car when new.

- (4) If an amount has been reduced under subsection (3) and subsequently—
  - (a) there is a rebate (however described) of the rentals, or

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- (b) there occurs in connection with the rentals a transaction that falls within section 94 (debts deducted and subsequently released),  
the amount otherwise taxable in respect of the rebate or transaction must be reduced by multiplying it by the fraction in subsection (3) above.]

#### Textual Amendments

- F260** Ss. 578A, 578B inserted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 52](#) (with [Sch. 3 para. 113](#))
- F261** Word at the end of s. 578A(1)(a) inserted (with effect in accordance with s. 57(4) of the amending Act) by [Finance Act 2001 \(c. 9\)](#), [Sch. 12 Pt. 2 para. 11\(a\)](#)
- F262** S. 578A(1)(c) and preceding word repealed (with effect in accordance with s. 57(4), Sch. 33 Pt. 2(1) Note of the repealing Act) by [Finance Act 2001 \(c. 9\)](#), [Sch. 12 Pt. 2 para. 11\(b\)](#), [Sch. 33 Pt. 2\(1\)](#)
- F263** S. 578A(1)(c) and preceding word repealed (with effect in accordance with s. 57(4), Sch. 33 Pt. 2(1) Note of the repealing Act) by [Finance Act 2001 \(c. 9\)](#), [Sch. 12 Pt. 2 para. 11\(b\)](#), [Sch. 33 Pt. 2\(1\)](#)

#### [<sup>F260</sup>578B] Expenditure on car hire: supplementary

- (1) In section 578A “car” means a mechanically propelled road vehicle other than one—
- (a) of a construction primarily suited for the conveyance of goods or burden of any description, or
  - (b) of a type not commonly used as a private vehicle and unsuitable for such use.
- References to a car accordingly include a motor cycle.
- (2) For the purposes of section 578A, a car is a qualifying hire car if—
- (a) it is hired under a hire-purchase agreement (within the meaning of section 784(6)) under which there is an option to purchase exercisable on the payment of a sum equal to not more than 1 per cent. of the retail price of the car when new, or
  - (b) it is a qualifying hire car for the purposes of Part 2 of the Capital Allowances Act (under section 82 of that Act).
- (3) In section 578A and this section “new” means unused and not second-hand.
- (4) The power under section 74(4) of the Capital Allowances Act to increase or further increase the sums of money specified in Chapter 8 of Part 2 of that Act includes the power to increase or further increase the sum of money specified in section 578A(2) (b) or (3).]

#### Textual Amendments

- F260** Ss. 578A, 578B inserted (with effect in accordance with s. 579 of the amending Act) by [Capital Allowances Act 2001 \(c. 2\)](#), [Sch. 2 para. 52](#) (with [Sch. 3 para. 113](#))

#### 579 Statutory redundancy payments.

- <sup>M141</sup>(1) Any redundancy payment, and the corresponding amount of any other employer’s payment, shall be exempt from income tax under Schedule E.

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- (2) Where a redundancy payment or other employer's payment is made in respect of employment wholly in a trade, profession or vocation carried on by the employer, and within the charge to tax, the amount of the redundancy payment or the corresponding amount of the other employer's payment shall (if not otherwise so allowable) be allowable as a deduction in computing for the purposes of Schedule D the [<sup>F264</sup>profits] or losses of the trade, profession or vocation, but—
  - (a) <sup>F265</sup> . . . . .
  - (b) if the employer's payment was made after the discontinuance of the trade, profession or vocation the <sup>F266</sup> . . . amount so deductible shall be treated as if it were a payment made on the last day on which the trade, profession or vocation was carried on.
- (3) Where a redundancy payment or other employer's payment is made in respect of employment wholly in a business carried on by the employer and expenses of management of the business are eligible for relief under section 75 or 76—
  - (a) the amount [<sup>F267</sup>of the redundancy payment or the corresponding amount of the other employer's payment] shall (if not otherwise so allowable) be allowable as expenses of management eligible for relief under that section, and
  - (b) if the employer's payment was made after the discontinuance of the business the <sup>F268</sup> . . . amount so allowable shall be treated as if it were expenses of management incurred on the last day on which the business was carried on.
- (4) <sup>F269</sup> . . . . .
- (5) Relief shall not be given under [<sup>F270</sup>subsections (2) and (3)] above, or otherwise, more than once in respect of any employer's payment, and if the employee was being employed in such a way that different parts of his remuneration fell for tax purposes to be treated in different ways—
  - (a) the amount [<sup>F271</sup>of the redundancy payment or the corresponding amount of the other employer's payment] shall be apportioned to the different capacities in which the employee was employed; and
  - (b) [<sup>F270</sup>subsections (2) and (3)] above shall apply separately to the employment in those capacities, and by reference to the apportioned part of that amount, instead of by reference to the full amount of the employer's payment <sup>F272</sup> . . . .
- (6) Where the Minister pays a sum under [<sup>F273</sup>section 166 of the Employment Rights Act 1996] or [<sup>F274</sup>Article 201 of the Employment Rights (Northern Ireland) Order 1996] in respect of an employer's payment this section shall apply as if—
  - (a) that sum had been paid on account of that redundancy or other employer's payment, and
  - (b) so far as the employer has reimbursed the Minister, it had been so paid by the employer.

#### Textual Amendments

- F264** Words in s. 579(2) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), **Sch. 7 para. 1**
- F265** S. 579(2)(a) repealed (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 3 Pt. 1**
- F266** Word in s. 579(2)(b) repealed (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 3 Pt. 1**
- F267** Words in s. 579(3)(a) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(2)(a)**
- F268** Word in s. 579(3)(b) repealed (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 3 Pt. 1**

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- F269** S. 579(4) repealed (with effect in accordance with s. 38(2)(3) of the repealing Act) by Finance Act 1998 (c. 36), Sch. 5 para. 43, **Sch. 27 Pt. 3(4)**, Note (with Sch. 5 para. 73)
- F270** Words in s. 579(5) substituted (with effect in accordance with s. 38(2)(3) of the amending Act) by Finance Act 1998 (c. 36), **Sch. 5 para. 43** (with Sch. 5 para. 73)
- F271** Words in s. 579(5)(a) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(2)(a)**
- F272** Words in s. 579(5)(b) repealed (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 3 Pt. 1**
- F273** Words in s. 579(6) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(2)(b)**
- F274** Words in s. 579(6) substituted (24.9.1996) by The Employment Rights (Northern Ireland) Order 1996 (S.I. 1996/1919 (N.I. 16)), arts. 1(2), 255, **Sch. 1** (with Sch. 2 para. 1)

#### Modifications etc. (not altering text)

- C37** S. 579 modified (with effect in accordance with s. 39(3)-(5) of the modifying Act) by Finance Act 1995 (c. 4), **Sch. 6 para. 23**

#### Marginal Citations

- M141** Source-1970 s.412(1)-(6)

## 580 Provisions supplementary to section 579.

<sup>M142</sup>(1) In section 579—

- (a) “redundancy payment”<sup>F275</sup> and “employer’s payment” have the same meaning as in Part XI of the Employment Rights Act 1996] or [<sup>F276</sup>Part XII of the Employment Rights (Northern Ireland) Order 1996];
- (b) references to the corresponding amount of an employer’s payment (other than a redundancy payment) are references to the amount of that employer’s payment so far as not in excess of the amount [<sup>F277</sup>which would have been payable as a redundancy payment had one been payable;]
- (c) “the Minister” in relation to [<sup>F278</sup>the Employment Rights Act 1996] means the Secretary of State and in relation to [<sup>F279</sup>the Employment Rights (Northern Ireland) Order 1996] means the Department of Health and Social Services.

(2) <sup>F280</sup> .....

- (3) In section 579(1) the reference to tax under Schedule E does not include a reference to tax under section 148 and accordingly payments exempted by section 579(1) may be taken into account under section 148.

#### Textual Amendments

- F275** Words in s. 580(1)(a) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(3)(a)**
- F276** Words in s. 580(1)(a) substituted (24.9.1996) by The Employment Rights (Northern Ireland) Order 1996 (S.I. 1996/1919 (N.I. 16)), arts. 1(2), 255, **Sch. 1** (with Sch. 2 para. 1)
- F277** Words in s. 580(1)(b) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(3)(b)**
- F278** Words in s. 580(1)(c) substituted (22.8.1996) by Employment Rights Act 1996 (c. 18), s. 243, **Sch. 1 para. 35(3)(c)**
- F279** Words in s. 580(1)(c) substituted (24.9.1996) by The Employment Rights (Northern Ireland) Order 1996 (S.I. 1996/1919 (N.I. 16)), arts. 1(2), 255, **Sch. 1** (with Sch. 2 para. 1)



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**F280** S. 580(2) repealed (22.8.1996) by [Employment Rights Act 1996 \(c. 18\)](#), s. 243, [Sch. 3 Pt. 1](#)

**Marginal Citations**

**M142** Source-1970 s.412(7), (8)

**[<sup>F281</sup>580A] Relief from tax on annual payments under certain insurance policies.**

- (1) This section applies (subject to subsection (7)(b) below) in the case of any such annual payment under an insurance policy as—
  - (a) apart from this section, would be brought into charge under Case III of Schedule D; or
  - (b) is equivalent to a description of payment brought into charge under Case III of that Schedule but (apart from this section) would be brought into charge under Case V of that Schedule.
- (2) Subject to the following provisions of this section, the annual payment shall be exempt from income tax if—
  - (a) it constitutes a benefit provided under so much of an insurance policy as provides insurance against a qualifying risk;
  - (b) the provisions of the policy by which insurance is provided against that risk are self-contained (within the meaning of section 580B);
  - (c) the only annual payments relating to that risk for which provision is made by that policy are payments in respect of a period throughout which the relevant conditions of payment are satisfied; and
  - (d) at all times while the policy has contained provisions relating to that risk, those provisions have been of a qualifying type.
- (3) For the purposes of this section and section 580B a qualifying risk is any risk falling within either of the following descriptions, that is to say—
  - (a) a risk that the insured will (or will in any specified way) become subject to, or to any deterioration in a condition resulting from, any physical or mental illness, disability, infirmity or defect;
  - (b) a risk that circumstances will arise as a result of which the insured will cease to be employed or will cease to carry on any trade, profession or vocation carried on by him.
- (4) For the purposes of this section the relevant conditions of payment are satisfied in relation to payments under an insurance policy for so long as any of the following continues, that is to say—
  - (a) an illness, disability, infirmity or defect which is insured against by the relevant part of the policy, and any related period of convalescence or rehabilitation;
  - (b) any period during which the insured is, in circumstances insured against by the relevant part of the policy, either unemployed or not carrying on a trade, profession or vocation;
  - (c) any period during which the income of the insured (apart from any benefits under the policy) is less, in circumstances so insured against, than it would have been if those circumstances had not arisen; or
  - (d) any period immediately following the end, as a result of the death of the insured, of any period falling within any of paragraphs (a) to (c) above;

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and in this subsection “the relevant part of the policy” means so much of it as relates to insurance against one or more risks mentioned in subsection (3) above.

- (5) For the purposes of subsection (2)(d) above provisions relating to a qualifying risk are of a qualifying type if they are of such a description that their inclusion in any policy of insurance containing provisions relating only to a comparable risk would (apart from any reinsurance) involve the possibility for the insurer that a significant loss might be sustained on the amounts payable by way of premiums in respect of the risk, taken together with any return on the investment of those amounts.
- (6) An annual payment shall not be exempt from income tax under this section if it is paid in accordance with a contract the whole or any part of any premiums under which have qualified for relief for the purposes of income tax by being deductible either—
- (a) in the computation of the insured’s income from any source; or
  - (b) from the insured’s income.
- (7) Where a person takes out any insurance policy wholly or partly for the benefit of another and that other person pays or contributes to the payment of the premiums under that policy, then to the extent only that the benefits under the policy are attributable, on a just and reasonable apportionment, to the payments or contributions made by that other person—
- (a) that other person shall be treated for the purposes of this section and section 580B as the insured in relation to that policy;
  - (b) this section shall have effect in relation to those benefits, so far as comprised in payments to that other person or his spouse, as if the reference in subsection (1)(a) above to Case III of Schedule D included a reference to Schedule E; and
  - (c) subsection (6) above shall have effect as if the references to the premiums under the policy were references only to the payments or contributions made by that other person in respect of the premiums.
- (8) Where—
- (a) payments are made to or in respect of any person (“the beneficiary”) under any insurance policy (“the individual policy”),
  - (b) the rights under the individual policy in accordance with which the payments are made superseded, with effect from the time when another policy (“the employer’s policy”) ceased to apply to that person, any rights conferred under that other policy,
  - (c) the employer’s policy is or was a policy entered into wholly or partly for the benefit of persons holding office or employment under any person (“the employer”) against risks falling within subsection (3)(a) above,
  - (d) the individual policy is one entered into in pursuance of, or in accordance with, any provisions contained in the employer’s policy, and
  - (e) the beneficiary has ceased to hold office or employment under the employer as a consequence of the occurrence of anything insured against by so much of the employer’s policy as related to risks falling within subsection (3)(a) above,
- this section shall have effect as if the employer’s policy and the individual policy were one policy.
- (9) In the preceding provisions of this section references to the insured, in relation to any insurance policy, include references to—
- (a) the insured’s spouse; and

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- (b) in the case of a policy entered into wholly or partly for purposes connected with the meeting of liabilities arising from an actual or proposed transaction identified in the policy, any person on whom any of those liabilities will fall jointly with the insured or his spouse.
- (10) References in this section and section 580B to insurance against a risk include references to any insurance for the provision (otherwise than by way of indemnity) of any benefits against that risk, and references to what is insured against by a policy shall be construed accordingly.]

#### Textual Amendments

**F281** Ss. 580A, 580B inserted (with effect in accordance with s. 143(2)-(5) of the amending Act) by Finance Act 1996 (c. 8), s. 143(1)

#### [<sup>F281</sup> 580B Meaning of “self-contained” for the purposes of s.580A.

- (1) For the purposes of section 580A the provisions of an insurance policy by which insurance is provided against a qualifying risk are self-contained unless subsection (2) or (3) below applies to the provisions of that policy so far as they relate to that risk; but, in determining whether either of those subsections so applies, regard shall be had to all the persons for whose benefit insurance is provided by that policy against that risk.
- (2) This subsection applies to the provisions of an insurance policy so far as they relate to a qualifying risk if—
  - (a) that insurance policy contains provision for the payment of benefits other than those relating to that risk;
  - (b) the terms of the policy so far as they relate to that risk, or the manner in which effect is given to those terms, would have been significantly different if the only benefits under the policy had been those relating to that risk; and
  - (c) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the policy is applied for reducing the amount of other benefits payable to or in respect of that person under the policy.
- (3) This subsection applies to the provisions of an insurance policy (“the relevant policy”) so far as they relate to a qualifying risk if—
  - (a) the insured under that policy is, or has been, the insured under one or more other policies;
  - (b) that other policy, or each of those other policies, is in force or has been in force at a time when the relevant policy was in force or at the time immediately before the relevant policy was entered into;
  - (c) the terms of the relevant policy so far as relating to that risk, or the manner in which effect is given to those terms, would have been significantly different if the other policy or policies had not been entered into; and
  - (d) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the other policy, or any of the other policies, is applied for reducing the amount of benefits payable to or in respect of that person under the relevant policy.

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- (4) In subsections (2)(b) and (3)(c) above the references to the terms of a policy so far as they relate to a risk include references to the terms fixing any amount payable by way of premium or otherwise in respect of insurance against that risk.]

#### Textual Amendments

**F281** Ss. 580A, 580B inserted (with effect in accordance with s. 143(2)-(5) of the amending Act) by Finance Act 1996 (c. 8), s. 143(1)

VALID FROM 22/07/2004

#### [<sup>F282</sup> 580] Relief from tax on annual payments under immediate needs annuities

- (1) No liability to income tax arises in respect of a relevant annual payment made under an immediate needs annuity to the extent that—
- (a) it is made for the benefit of the person protected under the immediate needs annuity, and
  - (b) it is made to a care provider or a local authority in respect of the provision of care for the person protected.
- (2) In this section “relevant annual payment” means an annual payment which—
- (a) would (apart from this section) be brought into charge under Case III of Schedule D, or
  - (b) is equivalent to a description of payment brought into charge under Case III of that Schedule but would (apart from this section) be brought into charge under Case V of that Schedule.
- (3) In this section “immediate needs annuity” means a contract for a life annuity—
- (a) the purpose, or one of the purposes, of which is to protect a person against the consequences of his being unable, at the time the contract is made, to live independently without assistance because of—
    - (i) mental or physical impairment, or
    - (ii) injury, sickness or other infirmity,
 which is expected to be permanent, and
  - (b) under which benefits are payable in respect of the provision of care for the person protected.
- (4) In this section “care provider” means a person who carries on a trade, profession or vocation which consists of or includes the provision of care and who—
- (a) in relation to care provided in England and Wales or Northern Ireland, is registered under the relevant enactment in respect of the provision of care;
  - (b) in relation to care provided in Scotland, provides care which is registered under the relevant enactment;
  - (c) in relation to care provided in a territory outside the United Kingdom, satisfies comparable requirements under the law of that territory relating to the provision of care.
- (5) In this section “the relevant enactment” means—
- (a) in relation to England and Wales, Part 2 of the Care Standards Act 2000,

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- (b) in relation to Scotland, Part 1 of the Regulation of Care (Scotland) Act 2001,
  - (c) in relation to Northern Ireland, Part 2 or 3 of the Registered Homes (Northern Ireland) Order 1992 or Part 3 of the Health and Personal Social Services (Quality, Improvement and Regulation) (Northern Ireland) Order 2003.
- (6) In this section “care” means accommodation, goods or services which it is necessary or desirable to provide to a person because of—
- (a) mental or physical impairment, or
  - (b) injury, sickness or other infirmity,
- which is expected to be permanent.
- (7) In this section “life annuity” means an annuity to which section 656 (read with section 657) applies.
- (8) The Treasury may by order amend—
- (a) the definition of “immediate needs annuity” in subsection (3) above;
  - (b) the definitions of “care provider” in subsection (4) above and of “the relevant enactment” in subsection (5) above.]

#### Textual Amendments

**F282** S. 580C inserted (with effect in accordance with s. 147(6) of the amending Act) by Finance Act 2004 (c. 12), s. 147(3)

### 581 Borrowing in foreign currency by local authorities and statutory corporations.

- (1) <sup>M143</sup>If the Treasury direct that this section shall apply to any securities issued by a local authority and expressed in a currency other than sterling, interest on those securities—
- (a) shall be paid without deduction of income tax, and
  - (b) so long as the beneficial owner is not resident in the United Kingdom, shall be exempt from income tax (but not corporation tax).
- (2) Where for repayment of the principal amount due under the securities there is an option between sterling and one or more currencies other than sterling, that subsection shall be applicable to the securities if the option is exercisable only by the holder of the securities, and shall not be applicable to the securities in any other case.
- (3) Where any income of any person is by virtue of any provision of the Income Tax Acts to be deemed to be income of any other person, that income shall not be exempt from tax by virtue of this section by reason of the first-mentioned person not being resident in the United Kingdom.
- (4) <sup>M144</sup>This section shall have effect in relation to any securities issued by or loan made to a statutory corporation as it has effect in relation to any securities issued by a local authority, the references to the beneficial owner or holder of the securities being for this purpose read, in the case of such a loan, as references to the person for the time being entitled to repayment or eventual repayment of the loan.
- (5) In subsection (4) above “statutory corporation” means—
- (a) a corporation incorporated by an Act; or

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- (b) any other corporation, being a corporation to which functions in respect of the carrying on of an undertaking are entrusted by an Act or by an order made under or confirmed by an Act;
- but, save as is provided by paragraph (b) above, does not include any company within the meaning of the <sup>M145</sup>Companies Act 1985 or the <sup>M146</sup>Companies (Northern Ireland) Order 1986.
- (6) <sup>M147</sup>In relation to securities issued before 6th April 1982 subsections (1) and (2) above shall have effect with the substitution for references to sterling of references to a currency of a country which at the time of the issue was specified in Schedule 1 to the <sup>M148</sup>Exchange Control Act 1947.

#### Marginal Citations

- M143** Source-1970 s.416(1)-(3); 1982 s.64(2)  
**M144** Source-1975 s.12; 1987 Sch.15 7  
**M145** 1985 c. 6.  
**M146** S.I. 1986/1032 (N.I. 6).  
**M147** Source-1970 s.416(1)-(3); 1982 s.64(2)  
**M148** 1947 c. 14.

VALID FROM 06/04/2005

#### <sup>F283</sup>**581A Interest on foreign currency securities etc.**

Interest within section 755(1) of ITTOIA 2005 (interest on foreign currency securities etc.) shall be paid without deduction of income tax.]

#### Textual Amendments

- F283** S. 581A inserted (6.4.2005 with effect in accordance with s. 883(1) of the amending Act) by *Income Tax (Trading and Other Income) Act 2005 (c. 5), Sch. 1 para. 242* (with Sch. 2)

### **582 Funding bonds issued in respect of interest on certain debts.**

- <sup>M149</sup>(1) Where any funding bonds are issued to a creditor in respect of any liability to pay interest on any debt to which this section applies—
- (a) the issue of the bonds shall be treated for all the purposes of the Tax Acts as if it were the payment of an amount of that interest equal to the value of the bonds at the time of their issue, and
  - (b) the redemption of the bonds shall not be treated for those purposes as the payment of any amount of that interest.
- (2) Where an issue of bonds is treated by virtue of subsection (1) above as if it were the payment of an amount of interest, and any person by or through whom the bonds are issued would be required by virtue of any provision of the Tax Acts to deduct income tax from that amount of interest if it had been actually paid by or through him, the following provisions shall have effect—
- (a) subject to paragraph (b) below, any such person—

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- (i) shall retain bonds the value of which at the time of their issue is equal to income tax on that amount of interest at the [<sup>F284</sup>applicable] rate for the year of assessment in which the bonds are issued, and
  - (ii) shall be acquitted in respect of any such retention in the same way as if he had deducted such tax from the interest, and
  - (iii) shall be chargeable with that tax accordingly, but may tender the bonds retained in satisfaction thereof;
- (b) where <sup>F285</sup> . . . it is impracticable to retain bonds on account of income tax under paragraph (a) above—
- [<sup>F286</sup>(i) any such person shall be relieved from the obligation to retain bonds and account for income tax under that paragraph, on his furnishing to the Board] a statement of the names and addresses of the persons to whom the bonds have been issued and the amount of the bonds issued to each such person; and
  - (ii) tax in respect of the amount of interest treated by virtue of this section as having been paid by the issue of the bonds shall be charged under Case VI of Schedule D for the chargeable period in which the bonds are issued on the persons receiving or entitled to the bonds.
- [<sup>F287</sup>(2A) In subsection (2) above “the applicable rate”, in relation to a year of assessment, means whichever of the basic rate and the lower rate for that year is the rate at which the person by or through whom the bonds are issued would have had to deduct income tax from the amount of interest in question if that amount had been actually paid by or through him.]
- (3) This section applies to any debt incurred, whether in respect of any money borrowed or otherwise, by any government, public authority or public institution whatsoever, or by any body corporate whatsoever.
- (4) For the purposes of this section “funding bonds” includes any bonds, stocks, shares, securities or certificates of indebtedness.

#### Textual Amendments

**F284** Word in s. 582(a)(i) substituted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 1996 (c. 8), Sch. 6 para. 14(1)

**F285** Words in s. 582(2)(b) repealed (with effect in accordance with s. 134(2) of the repealing Act) by Finance Act 1996 (c. 8), Sch. 20 para 32(a), Sch. 41 Pt. 5(10), Note

**F286** Words in s. 582(b)(i) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), Sch. 20 para. 32(b)

**F287** S. 582(2A) inserted (with effect in accordance with Sch. 6 para. 28 of the amending Act) by Finance Act 1996 (c. 8), Sch. 6 para. 14(2)

#### Marginal Citations

**M149** Source-1970 s.417; 1971 Sch.6 47

#### [<sup>F288</sup>582A] Designated international organisations: miscellaneous exemptions.

- (1) The Treasury may by order designate for the purposes of any one or more of subsections [<sup>F289</sup>(2) and (4) to (6) below <sup>F290</sup> . . . ] any international organisation of which the United Kingdom is a member; and in those subsections “designated” means designated under this subsection.

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- (2) Section 43 shall not apply in the case of payment made by an organisation designated for the purposes of this subsection.
- (3) <sup>F291</sup> .....
- (4) Section 349(1) shall not apply in the case of a payment of an amount payable by an organisation designated for the purposes of this subsection.
- (5) Section 349(2) shall not apply in the case of interest payable by—
- (a) an organisation designated for the purposes of this subsection, or
  - (b) a partnership of which such an organisation is a member.
- (6) An organisation designated for the purposes of this subsection shall not be a person to whom section 560(2) applies.]

#### Textual Amendments

**F288** S. 582A inserted by Finance Act 1991 (c. 31, SIF 63:1), s. 118(1)

**F289** Words in s. 582A(1) substituted (29.4.1996) by Finance Act 1996 (c. 8), Sch. 29 para. 6

**F290** Words in s. 582(1) repealed (with effect in accordance with s. 111(6)(a) of the repealing Act) by Finance Act 2000 (c. 17), Sch. 40 Pt. 2(17), Note 1

**F291** S. 582A(3) repealed (with effect in accordance with Sch. 7 para. 32, Sch. 41 Pt. 5(2) Note of the repealing Act) by Finance Act 1996 (c. 8), Sch. 7 para. 22, Sch. 41 Pt. 5(2)

### 583 Inter-American Development Bank.

<sup>M150</sup>A person not resident in the United Kingdom shall not be liable to income tax in respect of income from any security issued by the Inter-American Development Bank if he would not be liable but for the fact that—

- (a) the security or income is issued, made payable or paid in the United Kingdom or in sterling; or
- (b) the Bank maintains an office or other place of business in the United Kingdom.

#### Marginal Citations

**M150** Source-1976 s.131(2)

### 584 Relief for unremittable overseas income

- (1) <sup>M151</sup>Where a person is chargeable to tax by reference to the amount of any income arising in a territory outside the United Kingdom (“overseas income”), then for the purposes of tax this section shall apply to the overseas income in so far as—
- (a) he is prevented from transferring the amount of the overseas income to the United Kingdom, either by the laws of that territory or any executive action of its government or by the impossibility of obtaining foreign currency in that territory; and
  - (b) he has not realised the overseas income outside that territory for a consideration in sterling or a consideration in some other currency which he is not prevented from transferring to the United Kingdom.

Overseas income to which this section applies is referred to below as unremittable.



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- [<sup>F292</sup>(2) Subject to subsection (2A) below, where a person so chargeable makes a claim under this subsection in relation to any overseas income—
- (a) which is unremittable; and
  - (b) to which subsection (1)(a) above will continue to apply notwithstanding any reasonable endeavours on his part,
- then, in the first instance, account shall not be taken of that income, and tax shall be assessed, or, in the case of corporation tax, assessable, and shall be charged on all persons concerned and for all periods accordingly.
- (2A) If on any date paragraph (a) or (b) of subsection (2) above ceases to apply to any part of any overseas income in relation to which a claim has been made under that subsection—
- (a) that part of the income shall be treated as income arising on that date, and
  - (b) account shall be taken of it, and of any tax payable in respect of it under the law of the territory where it arises, according to their value at that date.]
- (4) Where [<sup>F293</sup>a person becomes chargeable to income tax or corporation tax in respect of income from any source by virtue of subsection (2) or (2A)] above after it has ceased to possess that source of income, the income shall be chargeable under Case VI of Schedule D.
- (5) <sup>M152</sup>Where under an agreement entered into under arrangements made by the Secretary of State in pursuance of section 11 of the <sup>M153</sup>Export Guarantees and Overseas Investment Act 1978 any payment is made by the Export Credit Guarantee Department in respect of any income which cannot be transferred to the United Kingdom, then, to the extent of the payment, the income shall be treated as income [<sup>F294</sup>to which paragraphs (a) and (b) of subsection (2) above do not apply (and accordingly cannot cease to apply)].
- [<sup>F295</sup>(6) A claim under subsection (2) above—
- (a) for the purposes of income tax, shall be made on or before the first anniversary of the 31st January next following the year of assessment in which the income arises;
  - (b) for the purposes of corporation tax, shall be made no later than two years after the end of the accounting period in which the income arises.]
- (7) In the case of the death of a person who, if he had not died, would, under subsection (2) [<sup>F296</sup>or (2A)] above, have become chargeable to any income tax, the tax which would have been so chargeable shall be assessed and charged upon his executors or administrators, and shall be a debt due from and payable out of his estate.
- (8) Subject to subsections (2) and [<sup>F297</sup>(2A)] above, the amount of any unremittable overseas income shall be determined by reference to the generally recognised market value in the United Kingdom (if any), or, in the absence of any such value, according to the official rate of exchange of the territory where the income arises.
- (9) Any appeal against an assessment which involves a question as to the operation of this section shall be made to the Special Commissioners and not to the General Commissioners.
- (10) <sup>M154</sup>This section shall have effect as respects any accounting period in which the conditions in subsection (2) above cease to be satisfied in relation to any income, being an accounting period ending on or before such day, not being earlier than 31st March

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1992, as the Treasury may by order appoint for the purposes of this section, with the omission of subsections (3) and (4).

#### Subordinate Legislation Made

**P2** S. 584(10) power exercised: 30.9.1993 appointed by S.I. 1992/3066, **art. 2(2)(b)**

#### Textual Amendments

**F292** S. 584(2)(2A) substituted for s. 584(2)(3) (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(2)**

**F293** Words in s. 584(4) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(3)**

**F294** Words in s. 584(5) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(4)**

**F295** S. 584(6) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(5)**

**F296** Words in s. 584(7) inserted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(6)**

**F297** Words in s. 584(8) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 33(7)**

#### Modifications etc. (not altering text)

**C38** See 1979(C) s.13—*delayed remittances of capital gains*.

#### Marginal Citations

**M151** Source-1970 s.418(1), (2), (2A), (2B); 1987 (No.2) Sch.6 6

**M152** Source-1972 s.124(2)(a)

**M153** 1978 c. 18.

**M154** Source-1987 (No.2) Sch.6 6(5)

### 585 Relief from tax on delayed remittances.

<sup>M155</sup>(1) A person charged or chargeable for any year of assessment in respect of income from any source with tax which (apart from this section) falls to be computed under Case IV or V of Schedule D, or under Case III of Schedule E, on the amount of income received in the United Kingdom in the basis year for that year of assessment, may [<sup>F298</sup>, if the relevant conditions are satisfied, by making a claim require that the following provisions of this section shall apply; and for this purpose the relevant conditions are—]

- (a) that of the income so received all or part arose before the basis year but he was unable to transfer it to the United Kingdom before that year; and
- (b) subject to subsection (2) below, that that inability was due to the laws of the territory where the income arose, or to executive action of its government, or to the impossibility of obtaining foreign currency in that territory; and
- (c) that the inability was not due to any want of reasonable endeavours on his part.

(2) For the purposes of this section, where in any year of assessment a person is granted a pension or increase of pension retrospectively, the amount paid in respect of any previous year of assessment by virtue of the grant shall be treated as income arising in that previous year, whenever it is paid, and he shall be treated as having possessed the source of income from the time as from which the grant has effect; and subsection (1)

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- (b) above shall not apply in relation to any amount so paid, except as respects the period after it becomes payable.
- (3) Where a person claims that the provisions of this section shall apply for any year of assessment as respects the income from any source, then for the purposes of income tax—
- (a) there shall be deducted from the income received in the United Kingdom in the basis year for that year the amount as respects which the conditions in paragraphs (a), (b) and (c) of subsection (1) above are satisfied, so far as applicable; but
  - (b) the part (if any) of that amount arising in each previous year of assessment shall be treated as if it were income received in the United Kingdom in the basis year for that previous year.
- (4) Nothing in this section shall alter the year which is to be taken as the basis year for computing tax chargeable for any year of assessment under Case IV or V of Schedule D, and where under subsection (3)(b) above income is treated as received in the United Kingdom in a year which is the basis year for two years of assessment, it shall not by reason thereof be taken into account except in the year in which it arose.
- (5) Where—
- (a) a person makes a claim under this section for any year of assessment as respects income from any source chargeable under Case IV or V of Schedule D, and
  - (b) that year is the basis year for computing the tax with which he is chargeable on the income from that source both for that and for the succeeding year of assessment,
- tax shall not be chargeable for either of those years of assessment on the amount referred to in paragraph (a) of subsection (3) above (without however being charged a second time by virtue of paragraph (b) of that subsection).
- (6) No claim under this section shall be made in respect of any income [<sup>F299</sup>after the fifth anniversary of the 31st January next following] the year of assessment in which the income is received in the United Kingdom.
- (7) There shall be made all such adjustments, whether by way of repayment of tax, assessment or otherwise, as may be necessary to give effect to this section, and notwithstanding anything in the Income Tax Acts, any adjustment to give effect to a claim under this section may be made at any time.
- (8) A person's executors or administrators may make any claim under this section which he might have made, if he had not died, and after a person's death—
- (a) any tax paid by him and repayable by virtue of a claim under this section (whoever made the claim) shall be repaid to his executors or administrators; and
  - (b) any additional tax chargeable by virtue of such a claim shall be assessed and charged upon his executors or administrators and shall be a debt due from and payable out of his estate.
- (9) In this section “basis year” means—
- (a) in relation to tax chargeable for any year of assessment under Case IV or V of Schedule D in respect of income from any source, the year by reference to which the amount of the income chargeable finally falls to be computed; and

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**Changes to legislation:** Income and Corporation Taxes Act 1988, PART XIII is up to date with all changes known to be in force on or before 03 April 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

- (b) in relation to tax chargeable for any year of assessment under Case III of Schedule E, that year of assessment;  
 and any reference in this section to a source of income includes a part of a source.

#### Textual Amendments

**F298** Words in s. 585(1) substituted (with effect in accordance with s. 134(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 20 para. 34**

**F299** Words in s. 585(6) substituted (with effect in accordance with s. 135(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 21 para. 16**

#### Modifications etc. (not altering text)

**C39** See 1979(C) s.13—*delayed remittances of capital gains.*

#### Marginal Citations

**M155** Source-1970 s.419

### 586 Disallowance of deductions for war risk premiums.

- <sup>M156</sup>(1) In computing the amount of the profits or gains of any person for any tax purpose, no sum shall be deducted in respect of any payment made by him to which this section applies.
- (2) No payment to which this section applies shall be included in computing the expenses of management in respect of which relief may be given under section 75 or 76.
- (3) Subject to subsections (4) and (5) below, this section applies to any payment made by any person under any contract or arrangement under which that person is, in the event of war damage, entitled or eligible, either absolutely or conditionally, to or for any form of indemnification, whether total or partial, and whether by way of a money payment or not, in respect of that war damage.
- (4) Where the payment is made in respect of the right or eligibility mentioned in subsection (3) above and also in respect of other matters, the deduction or inclusion of so much of the payment as is properly attributable to the other matters shall not be disallowed by virtue only of subsection (1) or (2) above.
- (5) This section shall not apply to any payment made under any contract of marine insurance, or any contract of insurance of an aircraft, or any contract of insurance of goods in transit.
- (6) In this section “war damage” means loss or damage arising from action taken by an enemy of Her Majesty, or action taken in combating such an enemy or in repelling an imagined attack by such an enemy, or action taken in anticipation of or in consequence of an attack by such an enemy.

#### Marginal Citations

**M156** Source-1970 s.420

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**Status:** Point in time view as at 11/05/2001. This version of this part contains provisions that are not valid for this point in time.  
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## **587 Disallowance of certain payments in respect of war injuries to employees.**

- <sup>M157</sup>(1) In computing the amount of the profits or gains, or total income, of any person for any tax purpose, no sum shall be deducted in respect of any payment made by him to which this section applies.
- (2) No payment to which this section applies shall be included in computing—
- (a) the expenses of management in respect of which relief may be given under section 75 or 76; or
  - (b) the expenses of management or supervision in respect of which relief may be given under section 121.
- (3) Subject to subsections (4) and (5) below, this section applies—
- (a) to any payments by way of benefit made by any person to, or to the personal representatives or dependants of, any employees of his on account of their incapacity, retirement or death owing to war injuries, whether sustained in the United Kingdom or elsewhere; and
  - (b) to any payments made by any person by way of premium or contribution under any policy, agreement, scheme or arrangement providing for the payment of benefits to, or to the personal representatives or dependants of, any employees of his on account of their incapacity, retirement or death owing to such war injuries.
- (4) This section shall not apply to any payment (whether by way of benefit or by way of premium or contribution) which is payable under any policy, agreement, scheme or arrangement made before 3rd September 1939, except to the extent that the amount of the payment is increased by any variation of the terms of that policy, agreement, scheme or arrangement made on or after that date.
- (5) This section shall not apply to any payment by way of benefit if, in the opinion of the Board, that payment was made under an established practice which was such that the same or a greater payment would have been made if the incapacity, retirement or death had not been due to war injuries.
- (6) Where a person makes a payment by way of benefit to which this section applies and, in the opinion of the Board, there is an established practice under which a smaller payment would have been made if the incapacity, retirement or death had not been due to war injuries, the deduction or inclusion of an amount equal to that smaller payment shall not be disallowed by virtue only of subsection (1) or (2) above.
- (7) Where a person makes a payment to which this section applies by way of premium or contribution, and the policy, agreement, scheme or arrangement provides for the payment of any benefit in the event of incapacity, retirement or death not due to war injuries, the deduction or inclusion of so much of the payment of premium or contribution as, in the opinion of the Board, is properly attributable to benefit payable in the event of incapacity, retirement or death not due to war injuries shall not be disallowed by virtue only of subsection (1) or (2) above.
- (8) In this section “war injuries” means physical injuries—
- (a) caused by—
    - (i) the discharge of any missile (including liquids and gas);
    - (ii) the use of any weapon, explosive or other noxious thing; or
    - (iii) the doing of any other injurious act,

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either by the enemy or in combating the enemy or in repelling an imagined attack by the enemy; or

- (b) caused by the impact on any person or property of any enemy aircraft, or any aircraft belonging to, or held by any person on behalf of, or for the benefit of, Her Majesty or any allied power, or any part of, or anything dropped from, any such aircraft.

**Marginal Citations**

M157 Source-1970 s.421

**[<sup>F300</sup>587A] New issues of securities: extra return.**

- (1) This section applies where—
- (a) securities (old securities) of a particular kind are issued by way of the original issue of securities of that kind,
  - (b) on a later occasion securities (new securities) of the same kind are issued,
  - (c) a sum (the extra return) is payable in respect of the new securities, by the person issuing them, to reflect the fact that interest is accruing on the old securities,
  - (d) the issue price of the new securities includes an element (whether or not separately identified) representing payment for the extra return, and
  - (e) the extra return is equal to the amount of interest payable for the relevant period on so many old securities as there are new (or, if there are more new securities than old, the amount of interest which would be so payable if there were as many old securities as new),

[<sup>F301</sup>but this section shall not apply for the purposes of corporation tax, except where the issue of the new securities was before 1st April 1996.]

- (2) Anything payable or paid by way of the extra return shall be treated for the purposes of the Tax Acts as payable or paid by way of interest (to the extent that it would not be so treated apart from this subsection).
- (3) But as regards any payment by way of the extra return, relief shall not be given under any provision of the Tax Acts to the person by whom the new securities are issued; and “relief” here means relief by way of deduction in computing profits or gains or deduction or set off against income or total profits.
- (4) For the purposes of this section securities are of the same kind if they are treated as being of the same kind by the practice of a recognised stock exchange or would be so treated if dealt with on such a stock exchange.
- (5) For the purposes of this section the relevant period is the period beginning with the day following the relevant day and ending with the day on which the new securities are issued.
- (6) For the purposes of this section the relevant day is—
  - (a) the last (or only) interest payment day to fall in respect of the old securities before the day on which the new securities are issued, or
  - (b) the day on which the old securities were issued, in a case where no interest payment day fell in respect of them before the day on which the new securities are issued;

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and an interest payment day, in relation to the old securities, is a day on which interest is payable under them.]

#### Textual Amendments

**F300** S. 587A inserted by Finance Act 1991 (c. 31, SIF 63:1), s. 54, Sch. 12 para. 1 (with application as referred to in Sch. 12 para. 5 of that Act)

**F301** Words in s. 587A(1) inserted (with effect in accordance with s. 105(1) of the amending Act) by Finance Act 1996 (c. 8), Sch. 14 para. 33 (with Sch. 15)

#### [<sup>F302</sup>587B Gifts of shares and securities to charities etc.

- (1) Subsections (2) and (3) below apply where, otherwise than by way of a bargain made at arm's length, an individual, or a company which is not itself a charity, disposes of the whole of the beneficial interest in a qualifying investment to a charity.
- (2) On a claim made in that behalf to an officer of the Board—
  - (a) the relevant amount shall be allowed—
    - (i) in the case of a disposal by an individual, as a deduction in calculating his total income for the purposes of income tax for the year of assessment in which the disposal is made;
    - (ii) in the case of a disposal by a company, as a charge on income for the purposes of corporation tax for the accounting period in which the disposal is made; and
  - (b) no relief in respect of the disposal shall be given under section 83A or any other provision of the Income Tax Acts;but paragraph (a)(i) above shall not apply for the purposes of any computation under section 550(2)(a) or (b).
- (3) The consideration for which the charity's acquisition of the qualifying investment is treated by virtue of section 257(2) of the 1992 Act as having been made—
  - (a) shall be reduced by the relevant amount; or
  - (b) where that consideration is less than that amount, shall be reduced to nil.
- (4) Subject to subsections (5) to (7) below, the relevant amount is an amount equal to—
  - (a) where the disposal is a gift, the market value of the qualifying investment at the time when the disposal is made;
  - (b) where the disposal is at an undervalue, the difference between that market value and the amount or value of the consideration for the disposal.
- (5) Where there are one or more benefits received in consequence of making the disposal which are received by the person making the disposal or a person connected with him, the relevant amount shall be reduced by the value of that benefit or, as the case may be, the aggregate value of those benefits; and section 839 applies for the purposes of this subsection.
- (6) Where the disposal is a gift, the relevant amount shall be increased by the amount of the incidental costs of making the disposal to the person making it.
- (7) Where the disposal is at an undervalue—
  - (a) to the extent that the consideration for the disposal is less than that for which the disposal is treated as made by virtue of section 257(2)(a) of the 1992 Act,

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the relevant amount shall be increased by the amount of the incidental costs of making the disposal to the person making it; and

- (b) section 48 of that Act (consideration due after time of disposal) shall apply in relation to the computation of the relevant amount as it applies in relation to the computation of a gain.

(8) In the case of a disposal by a company which is carrying on life assurance business—

- (a) if the company is charged to tax under Case I of Schedule D in respect of such business, subsections (2) and (3) above shall not apply;
- (b) if the company is not so charged to tax in respect of such business—
- (i) subsection (2)(a)(ii) above shall have effect as if for “a charge on income” there were substituted “an expense of management”; and
- (ii) the relevant amount given by subsection (4) above shall be reduced by so much (if any) of that amount as is not referable to basic life assurance and general annuity business;

and for the purpose of determining how much (if any) of that amount is not so referable, section 432A shall have effect as if that amount were a gain accruing on the disposal of the qualifying investment to the company.

(9) In this section—

“authorised unit trust” and “open-ended investment company” have the meanings given by section 468;

“charity” has the same meaning as in section 506 and includes each of the bodies mentioned in section 507(1);

“the incidental costs of making the disposal to the person making it” shall be construed in accordance with section 38(2) of the 1992 Act;

“life assurance business” and related expressions have the same meaning as in Chapter I of Part XII;

“offshore fund” means a collective investment scheme (within the meaning of the <sup>M158</sup>Financial Services Act 1986) which is constituted by any company, unit trust scheme or other arrangement falling within paragraph (a), (b) or (c) of section 759(1);

“qualifying investment” means any of the following—

- (a) shares or securities which are listed or dealt in on a recognised stock exchange;
- (b) units in an authorised unit trust;
- (c) shares in an open-ended investment company; and
- (d) an interest in an offshore fund.

(10) Subject to subsection (11) below, the market value of any qualifying investment shall be determined for the purposes of this section as for the purposes of the 1992 Act.

(11) In the case of an interest in an offshore fund for which there are separate published buying and selling prices, section 272(5) of the 1992 Act (meaning of “market value” in relation to rights of unit holders in a unit trust scheme) shall apply with any necessary modifications for determining the market value of the interest for the purposes of this section.]



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### Textual Amendments

**F302** S. 587B inserted (with effect in accordance with s. 43(3) of the amending Act) by Finance Act 2000 (c. 17), s. 43(1)

### Modifications etc. (not altering text)

**C40** S. 587B modified (with effect in accordance with reg. 30AA(3) of the modifying reg.) by the Friendly Societies (Modification of the Corporation Tax Acts) Regulations 1997 (S.I. 1997/473), reg. 30AA(1)(2) (as inserted (25.10.2000) by The Friendly Societies (Modification of the Corporation Tax Acts) (Amendment) Regulations 2000 (S.I. 2000/2710), regs. 1, 5)

### Marginal Citations

M158 1986 c. 60.

VALID FROM 06/04/2007

## **[<sup>F303</sup> 587B] Qualifying interests in land held jointly**

- (1) This section applies for the purposes of section 587B where a qualifying investment is a qualifying interest in land.
- (2) Where two or more persons (“the owners”)—
  - (a) are jointly beneficially entitled to the qualifying interest in land, or
  - (b) are, taken together, beneficially entitled in common to the qualifying interest in land,relief under section 587B is available if at least one of the owners is a qualifying company and all the owners dispose of the whole of their beneficial interests in the qualifying interest in land to the charity.
- (3) Subsection (4) applies if one or more of the owners is not a company.
- (4) For the purpose of determining whether the owners' beneficial interests are disposed of as mentioned in subsection (2), section 587B(9B) and (9C) applies as if references to a company included a reference to a person who is not a company.
- (5) Relief under section 587B is available to each of the owners which is a qualifying company.
- (6) If one or more of the owners is an individual—
  - (a) the relevant amount is taken to be the relievable amount calculated for the purposes of Chapter 3 of Part 8 of ITA 2007, and
  - (b) the amount of relief under section 587B to be given to a qualifying company is such share of the relievable amount as is allocated to the company by the agreement mentioned in section 442(5) of ITA 2007.
- (7) Subsections (8) to (12) apply if none of the owners is an individual.
- (8) The amount of relief under section 587B to be given to a qualifying company is such share of the relevant amount as is allocated to the company by an agreement made between those owners which are qualifying companies.
- (9) Calculate the relevant amount as if—

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- (a) the owners were a single qualifying company, and
  - (b) the disposals of the owners' beneficial interests were a single disposal by that single company of the whole of the beneficial interest in the qualifying interest in land.
- (10) In particular, for the purposes of section 587B(7) calculate the consideration for which the disposal is made by virtue of section 257(2)(a) of the 1992 Act by—
- (a) calculating, for each owner, the consideration for which the disposal of the owner's beneficial interest is so made, and
  - (b) adding together all the consideration calculated under paragraph (a).
- (11) If one or more of the owners is not a qualifying company, in calculating the relevant amount make just and reasonable adjustments to reduce the relevant amount to reflect the fact that relief under section 587B is not available to that owner or to those owners.
- (12) If one or more of the owners is within paragraph (b) of section 587B(8), in calculating the relevant amount make just and reasonable adjustments to reduce the relevant amount to reflect the requirements of sub-paragraph (ii) of that paragraph.
- (13) A company is a qualifying company if—
- (a) it is not itself a charity, and
  - (b) it is not within section 587B(8)(a).]

#### Textual Amendments

**F303** S. 587BA inserted (6.4.2007 with effect in accordance with s. 1034(1) of the amending Act) by [Income Tax Act 2007 \(c. 3\)](#), [Sch. 1 para. 138](#) (with [Sch. 2](#))

VALID FROM 24/07/2002

#### <sup>F304</sup> 587C Supplementary provision for gifts of real property

- (1) This section applies for the purposes of section 587B where a qualifying investment is a qualifying interest in land.
- (2) Where two or more persons—
  - (a) are jointly beneficially entitled to the qualifying interest in land, or
  - (b) are, taken together, beneficially entitled in common to the qualifying interest in land,
 section 587B applies only if each of those persons disposes of the whole of his beneficial interest in the qualifying interest in land to the charity.
- (3) Relief under section 587B shall be available to each of the persons referred to in subsection (2) above, but the amount that may be allowed as respects any of them shall be only such share of the relevant amount as they may agree in the case of that person.
- (4) No person may make a claim for a relief under subsection (2) of section 587B unless he has received a certificate given by or on behalf of the charity.

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- (5) The certificate must—
- (a) specify the description of the qualifying interest in land which is the subject of the disposal,
  - (b) specify the date of the disposal, and
  - (c) contain a statement that the charity has acquired the qualifying interest in land.
- (6) If, in the case of a disposal of a qualifying interest in land, a disqualifying event occurs at any time in the relevant period, the person (or each of the persons) who made the disposal to the charity shall be treated as never having been entitled to relief under section 587B in respect of the disposal.
- (7) All such assessments and adjustments of assessments are to be made as are necessary to give effect to subsection (6) above.
- (8) For the purposes of subsection (6) above a disqualifying event occurs if the person (or any one of the persons) who made the disposal or any person connected with him (or any one of them)—
- (a) becomes entitled to an interest or right in relation to all or part of the land to which the disposal relates, or
  - (b) becomes party to an arrangement under which he enjoys some right in relation to all or part of that land,
- otherwise than for full consideration in money or money's worth.
- (9) A disqualifying event does not occur, for the purposes of subsection (6) above, if a person becomes entitled to an interest or right as mentioned in subsection (8)(a) above as a result of a disposition of property on death, whether the disposition is effected by will, under the law relating to intestacy or otherwise.
- (10) For the purposes of subsection (6) above the relevant period is the period beginning with the date of the disposal of the qualifying interest in land and ending with—
- (a) in the case of an individual, the fifth anniversary of the 31st January next following the end of the year of assessment in which the disposal was made, and
  - (b) in the case of a company, the sixth anniversary of the end of the accounting period in which the disposal was made.
- (11) Section 839 (connected persons) applies for the purposes of this section.
- (12) This section shall be construed as one with section 587B.]

#### Textual Amendments

**F304** S. 587C inserted (with effect in accordance with s. 97(6) of the amending Act) by [Finance Act 2002 \(c. 23\), s. 97\(5\)](#)

#### 588 Training courses for employees.

- <sup>M159</sup>(1) Where, on or after 6th April 1987, a person (in this section referred to as the “employer”) incurs expenditure in paying or reimbursing relevant expenses incurred in connection with a qualifying course of training which—

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- (a) is undertaken by a person (in this section referred to as the “employee”) who is the holder or past holder of any office or employment under the employer; and
  - (b) is undertaken with a view to retraining the employee,
- the employee shall not thereby be regarded as receiving any emolument which forms part of his income for any purpose of Schedule E.
- (2) Section 589 shall have effect to determine for the purposes of this section—
- (a) what is a qualifying course of training;
  - (b) whether such a course is undertaken by an employee with a view to retraining; and
  - (c) what are relevant expenses in relation to such a course.
- (3) Subject to subsection (4) below, where—
- (a) an employer incurs expenditure in paying or reimbursing relevant expenses as mentioned in subsection (1) above; and
  - (b) that subsection has effect in relation to the income of the employee for the purposes of Schedule E;
- then, if and so far as that expenditure would not, apart from this subsection, be so deductible, it shall be deductible in computing for the purposes of Schedule D the [<sup>F305</sup>profits] of the trade, profession or vocation of the employer for the purposes of which the employee is or was employed.
- (4) If the employer carries on a business, the expenses of management of which are eligible for relief under section 75, subsection (3) above shall have effect as if for the words from “in computing” onwards there were substituted “ as expenses of management for the purposes of section 75 ”.
- (5) In any case where—
- (a) an employee’s liability to tax for any year of assessment is determined (by assessment or otherwise) on the assumption that subsection (1) above applies in his case and, subsequently, there is a failure to comply with any provision of section 589(3) and (4); or
  - (b) an employer’s liability to tax for any year is determined (by assessment or otherwise) on the assumption that, by virtue only of subsection (3) above (or subsections (3) and (4) above), he is entitled to a deduction on account of any expenditure and, subsequently, there is such a failure as is referred to in paragraph (a) above;
- an assessment under [<sup>F306</sup>section 29(1)] of the Management Act [<sup>F307</sup>, or paragraph 41 of Schedule 18 to the Finance Act 1998,] of an amount due in consequence of the failure referred to above may be made at any time not later than six years after the end of the chargeable period in which the failure occurred.
- (6) Where an event occurs by reason of which there is a failure to comply with any provision of section 589(3) and (4), the employer of the employee concerned shall within 60 days of coming to know of the event give a notice to the inspector containing particulars of the event.
- (7) If the inspector has reason to believe that an employer has not given a notice which he is required to give under subsection (6) above in respect of any event, the inspector may by notice require the employer to furnish him within such time (not less than 60 days) as may be specified in the notice with such information relating to the event as the inspector may reasonably require for the purposes of this section.

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#### Textual Amendments

- F305** Word in s. 588(3) substituted (31.7.1998) by Finance Act 1998 (c. 36), s. 46(3)(a), **Sch. 7 para. 1**
- F306** Words in s. 588(5) substituted (with effect in accordance with Sch. 18 para. 17(1)(2) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 18 para. 10**
- F307** Words in s. 588(5) inserted (with effect in accordance with s. 93(2) of the amending Act) by Finance Act 1999 (c. 16), **Sch. 11 para. 2**

#### Modifications etc. (not altering text)

- C41** S. 588 modified (with effect in accordance with s. 39(4)(5) of the modifying Act) by Finance Act 1995 (c. 4), **Sch. 6 para 24** (the modification consisting of the insertion of a s. 588(4A) for limited purposes, and that s. 588(4A) was repealed (with effect in accordance with s. 38(2)(3) of the repealing Act) by Finance Act 1998 (c. 36), **Sch. 27 Pt. 3(4)**, Note)

#### Marginal Citations

- M159** Source-1987 s.35(1)-(7)

### 589 Qualifying courses of training etc.

- <sup>M160</sup>(1) Subject to subsection (2) below, a course is a qualifying course of training if—
- (a) it provides a course of training designed to impart or improve skills or knowledge relevant to, and intended to be used in the course of, gainful employment (including self-employment) of any description; and
  - (b) the course is entirely devoted to the teaching or practical application of the skills or knowledge (or to both such teaching and practical application); and
  - (c) the duration of the course does not exceed one year; and
  - (d) all teaching and practical application forming part of the course takes place within the United Kingdom.
- (2) A course shall not be regarded as a qualifying course of training in relation to a particular employee unless—
- (a) he attends the course on a full-time or substantially full-time basis; and
  - (b) he is employed by the employer full-time throughout the period of two years ending at the time when he begins to undertake the course or, if it is earlier, at the time he ceases to be employed by him; and
  - (c) the opportunity to undertake the course, on similar terms as to payment or reimbursement of relevant expenses, is available either generally to holders or past holders of offices or employment under the employer or to a particular class or classes of such holders or past holders.
- (3) An employee shall not be regarded as undertaking a course with a view to retraining unless—
- (a) he begins to undertake the course of training while he is employed by the employer or within the period of one year after he ceases to be so employed; and
  - (b) he ceases to be employed by the employer not later than the end of the period of two years beginning at the end of the qualifying course of training.
- (4) An employee shall not be regarded as having undertaken a course with a view to retraining if, any time within the period of two years beginning at the time when he

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ceased to be employed as mentioned in subsection (3)(b) above, he is again employed by the employer.

(5) Where an employee undertakes a qualifying course of training, the relevant expenses consist of—

- (a) fees for attendance at the course;
- (b) fees for any examination which is taken during or at the conclusion of the course;
- (c) the cost of any books which are essential for a person attending the course, and
- (d) travelling expenses falling within subsection (6) below.

[<sup>F308</sup>(6) The travelling expenses referred to in subsection (5)(d) above are—

- (a) those in respect of which, on the assumptions in subsection (6A) below, mileage allowance relief would be available if no mileage allowance payments (within the meaning of section 197AD(2)) had been made; or
- (b) those which, on those assumptions, would be deductible under section 198.

(6A) The assumptions are—

- (a) that attendance at the course is one of the duties of the employee's office or employment; and
- (b) if the employee has in fact ceased to be employed by the employer, that he continues to be employed by him.]

(7) Any reference in this section to an employee being employed by an employer is a reference to the employee holding office or employment under the employer.

#### Textual Amendments

**F308** S. 589(6)(6A) substituted for s. 589(6) (with effect in accordance with s. 57(4) of the amending Act) by Finance Act 2001 (c. 9), Sch. 12 Pt. 2 para. 12

#### Marginal Citations

**M160** Source-1987 Sch.5

[<sup>F309</sup>**589A**Counselling services for employees.

(1) This section applies where—

- (a) qualifying counselling services are provided to a person (the employee) in connection with the termination of the holding by him of any office or employment, and
- (b) the termination takes place on or after 16th March 1993.

(2) This section also applies where—

- (a) subsection (1)(a) above applies, and
- (b) the termination takes place before 16th March 1993 but relevant expenditure is incurred on or after that date.

(3) Relevant expenditure is expenditure incurred in—

- (a) providing the qualifying counselling services to the employee,
- (b) paying or reimbursing fees for the provision to the employee of the qualifying counselling services, or

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- (c) paying or reimbursing any allowable travelling expenses incurred in connection with the provision of the qualifying counselling services to the employee.
- (4) No charge to tax under Schedule E shall arise in respect of—
  - (a) the provision of the qualifying counselling services to the employee,
  - (b) the payment or reimbursement of fees for the provision to the employee of the qualifying counselling services, or
  - (c) the payment or reimbursement of any allowable travelling expenses incurred in connection with the provision of the qualifying counselling services to the employee.
- (5) Where this section applies by virtue of subsection (2) above, subsection (4) above shall apply only to the extent that the expenditure incurred in providing the services or paying or reimbursing the fees or expenses is incurred on or after 16th March 1993.
- (6) Subsection (4) above shall apply whether or not the person who provides the services or pays or reimburses the fees or expenses is the person under whom the employee holds or held the office or employment mentioned in subsection (1) above.
- (7) Subsections (8) to (10) below apply where any relevant expenditure is incurred by the person under whom the employee holds or held the office or employment mentioned in subsection (1) above (the employer).
- (8) If and so far as the expenditure would not, apart from this subsection, be so deductible, it shall be deductible in computing for the purposes of Schedule D the [<sup>F310</sup>profits] of the trade, profession or vocation of the employer for the purposes of which the employee is or was employed.
- (9) If the employer carries on a business and the expenses of management of the business are eligible for relief under section 75, subsection (8) above shall have effect as if for the words from “in computing” onwards there were substituted “as expenses of management for the purposes of section 75”.
- (10) Where this section applies by virtue of subsection (2) above, subsections (8) and (9) above shall apply only to the extent that the expenditure is incurred on or after 16th March 1993.]

#### Textual Amendments

**F309** Ss. 589A, 589B inserted (27.7.1993) by [Finance Act 1993 \(c. 34\)](#), [s. 108](#)

**F310** Word in [s. 589A\(8\)](#) substituted (31.7.1998) by [Finance Act 1998 \(c. 36\)](#), [s. 46\(3\)\(a\)](#), [Sch. 7 para. 1](#)

#### Modifications etc. (not altering text)

**C42** [S. 589A](#) modified (with effect in accordance with [s. 39\(4\)\(5\)](#) of the modifying Act) by [Finance Act 1995 \(c. 4\)](#), [Sch. 6 para 25](#) (the modification consisting of the insertion of a [s. 589A\(9A\)](#) for limited purposes, and that [s. 589A\(9A\)](#) was repealed (with effect in accordance with [s. 38\(2\)\(3\)](#) of the repealing Act) by [Finance Act 1998 \(c. 36\)](#), [Sch. 27 Pt. 3\(4\)](#), Note)

#### **589B** <sup>F311</sup>Qualifying counselling services etc.

- (1) Subsections (2) to (4) below apply for the purposes of section 589A.
- (2) Subject to subsection (3) below, services are qualifying counselling services if—

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- (a) the purpose, or main purpose, of their provision is to enable the employee to adjust to the termination of his holding of the office or employment mentioned in section 589A(1) or is to enable him to find other gainful employment (including self-employment) or is to enable him to do both,
  - (b) the services consist wholly of any or all of the following, namely, giving advice and guidance, imparting or improving skills, and providing or making available the use of office equipment or similar facilities,
  - (c) the employee has been employed by the employer full-time throughout the period of two years ending at the time when the services begin to be provided to him or, if it is earlier, at the time he ceases to be employed by the employer,
  - (d) the opportunity to receive the services, on similar terms as to payment or reimbursement of any expenses incurred in connection with their provision, is available either generally to holders or past holders of offices or employment under the employer or to a particular class or classes of such holders or past holders, and
  - (e) the services are provided in the United Kingdom.
- (3) Where paragraphs (a) to (d) of subsection (2) above are satisfied in relation to particular services but the services are provided partly in and partly outside the United Kingdom, the extent to which the services are qualifying counselling services shall be determined on a just and reasonable basis.
- [<sup>F312</sup>(4) In relation to services, allowable travelling expenses are—
- (a) those in respect of which, on the assumptions in subsection (4A) below, mileage allowance relief would be available if no mileage allowance payments (within the meaning of section 197AD(2)) had been made; or
  - (b) those which, on those assumptions, would be deductible under section 198.
- (4A) The assumptions are—
- (a) that receipt of the services is one of the duties of the employee's office or employment; and
  - (b) if the employee has in fact ceased to be employed by the employer, that he continues to be employed by him.]
- (5) Any reference in this section or section 589A to an employee being employed by an employer is a reference to the employee holding office or employment under the employer.

#### Textual Amendments

**F311** Ss. 589A, 589B inserted (27.7.1993) by Finance Act 1993 (c. 34), s. 108

**F312** S. 589B(4)(4A) substituted for s. 589B(4) (with effect in accordance with s. 57(4) of the amending Act) by Finance Act 2001 (c. 9), Sch. 12 Pt. 2 para. 13



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