



Finance Act 1994

1994 CHAPTER 9

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

Income tax: charge, rates and reliefs

75 Charge and rates of income tax for 1994-95

- (1) Income tax shall be charged for the year 1994-95, and for that year—
 - (a) the lower rate shall be 20 per cent.,
 - (b) the basic rate shall be 25 per cent., and
 - (c) the higher rate shall be 40 per cent.
- (2) For the year 1994-95 section 1(2) of the Taxes Act 1988 shall apply as if—
 - (a) the amount specified in paragraph (aa) were £3,000 (the lower rate limit), and
 - (b) the amount specified in paragraph (b) were £23,700 (the basic rate limit);and accordingly section 1(4) of that Act (indexation) shall not apply for the year 1994-95.

76 Personal allowance

Section 257 of the Taxes Act 1988 (personal allowance) shall apply for the year 1994-95 as if the amounts specified in it were the same as the amounts specified in it as it applies for the year 1993-94, and accordingly section 257C(1) of that Act (indexation) so far as relating to section 257 shall not apply for the year 1994-95.

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77 **Rate of relief to married couples etc**

(1) The provisions of section 256 of the Taxes Act 1988 (general provision as to personal reliefs) shall become subsection (1) of that section and after that subsection there shall be inserted the following subsections—

“(2) Where under any provision of this Chapter the relief to which a person is entitled for any year of assessment consists in an income tax reduction calculated by reference to a specified amount, the effect of that relief shall be that the amount of that person’s liability for that year to income tax on his total income shall be the amount to which he would have been liable apart from that provision less whichever is the smaller of—

- (a) the amount equal to 20 per cent. of the specified amount; and
- (b) the amount which reduces his liability to nil.

(3) In determining for the purposes of subsection (2) above the amount of income tax to which a person would be liable apart from any provision providing for an income tax reduction, no account shall be taken—

- (a) where that provision is section 259 or 261A, of any income tax reduction under any of the other provisions of this Chapter;
- (b) where that provision is section 262(1), of any income tax reduction under any of the other provisions of this Chapter except section 259 or 261A; or
- (c) whatever that provision—
 - (i) of any relief by way of a reduction of liability to tax which is given in accordance with any arrangements having effect by virtue of section 788 or by way of a credit under section 790(1); or
 - (ii) of any tax at the basic rate on so much of that person’s income as is income the income tax on which he is entitled to charge against any other person or to deduct, retain or satisfy out of any payment;

but paragraph (a) above, so far as it relates to any income tax reduction under section 261A, is without prejudice to the provisions of subsection (2) of that section.”

(2) In section 257A of that Act (married couple’s allowance)—

- (a) in subsection (1), for the words from “to a deduction” onwards there shall be substituted “for that year to an income tax reduction calculated by reference to £1,720”;
- (b) in subsection (2), for the words from “to a deduction” to “the deduction” there shall be substituted “for that year to an income tax reduction calculated by reference to £2,665 (instead of to the reduction”;
- (c) in subsection (3), for the words from “to a deduction” to “the deduction” there shall be substituted “for that year to an income tax reduction calculated by reference to £2,705 (instead of to the reduction”.

(3) In section 259(2) of that Act (additional personal allowance), for “to a deduction from his total income of” there shall be substituted “for that year to an income tax reduction calculated by reference to”.

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- (4) In section 261A(1) of that Act (additional personal allowance for a year in which spouses separate), for “to a deduction from his total income of” there shall be substituted “for that year to an income tax reduction calculated by reference to”.
- (5) In subsection (1) of section 262 of that Act (widow’s bereavement allowance)—
 - (a) in paragraph (a), for “to a deduction from her total income of” there shall be substituted “to an income tax reduction calculated by reference to”; and
 - (b) in paragraph (b), for “to a deduction of” there shall be substituted “to an income tax reduction calculated by reference to”.
- (6) The Taxes Act 1988 and the Taxes Management Act 1970 shall have effect with the amendments specified in Schedule 8 to this Act (which supplements the provisions of this section).
- (7) This section and Schedule 8 to this Act shall have effect for the year 1994-95 and, subject to the following provisions of this section, for subsequent years of assessment.
- (8) For the year 1995-96 and subsequent years of assessment section 256(2)(a) of the Taxes Act 1988 shall have effect with the substitution of “15 per cent” for the words “20 per cent.”
- (9) For the year 1995-96, section 257A of the Taxes Act 1988 shall have effect—
 - (a) as if the same amount (namely £1,720) were specified in subsection (1) as is specified in that subsection as it applies for the year 1994-95;
 - (b) as if the amount specified in subsection (2) were “£2,995”; and
 - (c) as if the amount specified in subsection (3) were “£3,035”.
- (10) Section 257C(1) of the Taxes Act 1988 (indexation), so far as relating to section 257A (1) to (3) of that Act, shall not apply for the year 1994-95 or for the year 1995-96 but shall not be prevented by anything in this section from applying for the year 1996-97 or any subsequent year of assessment.

78 Amount by reference to which MCA is reduced

Section 257A(5) of the Taxes Act 1988 (reduction of married couple’s allowance if claimant’s total income exceeds a certain amount) shall apply for the year 1994-95 as if the amount specified in it were the same as the amount specified in it as it applies for the year 1993-94, and accordingly section 257C(1) of that Act (indexation) so far as relating to section 257A(5) shall not apply for the year 1994-95.

79 Relief for maintenance payments

- (1) Sections 347A and 347B of the Taxes Act 1988 and section 38 of the Finance Act 1988 (which contain provision with respect to the deductions from income allowed on account of maintenance payments) shall have effect in relation to payments becoming due on or after 6th April 1994 with the following modifications.
- (2) Section 347A (which restricts the making of deductions) shall apply to any payment made—
 - (a) in pursuance of any obligation which falls within paragraphs (a) to (c) of subsection (4) of section 36 of the Finance Act 1988 (existing obligations) and is an obligation under an order made by a court, a written or oral agreement or a deed executed for giving effect to an agreement, and

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- (b) for the benefit, maintenance or education of a person (whether or not the person to whom the payment is made) who attained the age of 21 on or before the day on which the payment became due but after 5th April 1994, as if that obligation were not an existing obligation within the definition contained in that subsection.
- (3) In subsection (2) of section 347B (relief for qualifying maintenance payments)—
- (a) the words “Notwithstanding section 347A(1)(a) but” shall be omitted; and
 - (b) for the words from “in computing” to “to deduct” there shall be substituted “for a year of assessment to an income tax reduction calculated by reference to”.
- (4) In subsection (3) of section 347B (restriction of relief to amount of married couple’s allowance), for the words from the beginning to “exceed” there shall be substituted “The amount by reference to which any income tax reduction is to be calculated under this section shall be limited to”.
- (5) In subsection (5) of section 347B (other payments attracting relief), for “otherwise than under this section” there shall be substituted “by virtue of section 36(3) of the Finance Act 1988 but otherwise than in accordance with section 38(2)(a) of that Act”.
- (6) After subsection (5) of section 347B there shall be inserted the following subsections—
- “(5A) Where any person is entitled under this section for any year of assessment to an income tax reduction calculated by reference to the amount determined in accordance with subsections (2) to (5) above (“the relevant amount”), the amount of that person’s liability for that year to income tax on his total income shall be the amount to which he would have been liable apart from this section less whichever is the smaller of—
- (a) the amount equal to the appropriate percentage of the relevant amount; and
 - (b) the amount which reduces his liability to nil;
- and in this subsection “the appropriate percentage” means 20 per cent. for the year 1994-95 and 15 per cent. for the year 1995-96 and subsequent years of assessment.
- (5B) In determining for the purposes of subsection (5A) above the amount of income tax to which a person would be liable apart from any income tax reduction under this section, no account shall be taken of—
- (a) any income tax reduction under Chapter I of Part VII;
 - (b) any relief by way of a reduction of liability to tax which is given in accordance with any arrangements having effect by virtue of section 788 or by way of a credit under section 790(1); or
 - (c) any tax at the basic rate on so much of that person’s income as is income the income tax on which he is entitled to charge against any other person or to deduct, retain or satisfy out of any payment.”
- (7) In subsection (3) of section 38 (amount of relief in transitional cases for persons making payments), for the words from the word “aggregate”, in the first place where it occurs, to “exceed” there shall be substituted “amount (if any) by which the relevant aggregate exceeds the amount specified in section 257A(1) of the Taxes Act 1988 for the year; and in this subsection and subsection (3A) below “the relevant aggregate”

means whichever is the smaller of the following, that is to say, the aggregate amount of the payments made by him which fall due in that year and to which this section applies and”.

(8) After subsection (3) of section 38 there shall be inserted the following subsection—

“(3A) Sections 347A and 347B of the Taxes Act 1988 (except, in the case of section 347A, so far as it restricts the extent to which any payment is to be treated as forming part of the income of the person to whom it is made or any other person) shall have effect as if so much of the relevant aggregate for any year of assessment as does not exceed the amount specified for that year in section 257A(1) of that Act were a qualifying maintenance payment made otherwise than in pursuance of an existing obligation.”

80 Limit on relief for interest

For each of the years 1994-95 and 1995-96 the qualifying maximum defined in section 367(5) of the Taxes Act 1988 (limit on relief for interest on certain loans) shall be £30,000.

81 Mortgage interest relief etc

(1) For subsection (1) of section 353 of the Taxes Act 1988 (general provision for relief for interest payments) there shall be substituted the following subsection—

“(1) Where a person pays interest in any year of assessment, that person, if he makes a claim to the relief, shall for that year of assessment be entitled (subject to sections 354 to 368) to relief in accordance with this section in respect of so much (if any) of the amount of that interest as is eligible for relief under this section by virtue of sections 354 to 365.”

(2) After that subsection there shall be inserted the following subsections—

“(1A) Where a person is entitled for any year of assessment to relief under this section in respect of any amount of interest which—

- (a) is eligible for that relief by virtue of section 354 or 365, and
- (b) so far as eligible by virtue of section 354, is so eligible in a case which falls, or is treated as falling, within section 355(1)(a), 356 or 358,

that relief shall consist in an income tax reduction for that year calculated by reference to that amount.

(1B) Where a person is entitled for any year of assessment to relief under this section in respect of any amount of interest which—

- (a) is eligible for that relief otherwise than by virtue of section 354 or 365, or
- (b) is eligible for that relief by virtue of section 354 in a case falling within section 355(1)(b),

that relief shall consist (subject to sections 237(5)(b) and 355(4)) in a deduction or set-off of that amount from or against that person’s income for that year.

(1C) Without prejudice to subsection (1E) below, where the whole or any part of an amount of interest is eligible for relief under this section by virtue of section 354 in a case which (apart from this subsection) would fall, or be

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treated as falling, within both section 355(1)(a) or 356 and section 355(1)(b), then that case shall be treated for the purposes of this section and the following provisions of this Act—

- (a) except in relation to payments to which an election made for the purposes of this subsection by the person entitled to the relief applies, as falling within section 355(1)(b) and not within section 355(1)(a) or 356; and
- (b) in relation to payments to which such an election does apply, as falling within section 355(1)(a) or, as the case may be, 356, and not within section 355(1)(b).

(1D) An election for the purposes of subsection (1C)—

- (a) shall be made, and may be withdrawn, by the giving of written notice to an officer of the Board;
- (b) shall apply to every payment of interest which—
 - (i) is made after the time specified in the notice of that election as the time as from which it takes effect; and
 - (ii) is not made after a time specified in a notice of the withdrawal of that election as the time as from which that election is withdrawn;
- (c) shall not be made so as to take effect as from any time except the beginning of a year of assessment or a time as from which the conditions for the case to fall, or be treated as falling, within both section 355(1)(a) or 356 and section 355(1)(b) have begun to be satisfied in relation to payments of interest on the loan in question;
- (d) shall not be withdrawn except as from the beginning of a year of assessment; and
- (e) shall not be made so as to take effect, and shall not be withdrawn, as from any time before the beginning of the year of assessment immediately before that in which the notice of the election or, as the case may be, of the withdrawal is given to an officer of the Board.

(1E) Where any person is entitled for any year of assessment to relief under this section in respect of any amount of interest as is eligible for that relief partly as mentioned in subsection (1A) above and partly as mentioned in subsection (1B) above, that amount of interest shall be apportioned between the cases to which each of those subsections applies without regard to what parts of the total amount borrowed remain outstanding but according to the following factors, that is to say—

- (a) the proportions of the total amount borrowed which were applied for different purposes; and
- (b) in the case of so much of any amount of interest which is, or in pursuance of an apportionment under paragraph (a) above is treated as, eligible for relief by virtue of section 354, the different uses to which the land or other property in question is put from time to time;

and subsection (1A) or (1B) above shall apply accordingly in relation to the interest apportioned to the case to which that subsection applies.

(1F) Where any person is entitled under this section for any year of assessment to an income tax reduction calculated by reference to an amount of interest, the amount of that person's liability for that year to income tax on his total

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income shall be the amount to which he would have been liable apart from this section less whichever is the smaller of—

- (a) the amount equal to the applicable percentage of that amount of interest; and
- (b) the amount which reduces his liability to nil.

(1G) In subsection (1F) above “the applicable percentage”—

- (a) in relation to so much of any interest as is eligible for relief under this section by virtue of section 354, means 20 per cent.; and
- (b) in relation to so much of any interest as is eligible for relief under this section by virtue of section 365, means the percentage which is the basic rate for the year of assessment in question;

but, in relation to any payment of interest which (whenever falling due) is made in the year 1995-96 or any subsequent year of assessment, paragraph (a) above shall have effect with the substitution of “15 per cent.” for “20 per cent.”

(1H) In determining for the purposes of subsection (1F) above the amount of income tax to which a person would be liable apart from any income tax reduction under this section, no account shall be taken of—

- (a) any income tax reduction under Chapter I of Part VII or section 347B;
- (b) any relief by way of a reduction of liability to tax which is given in accordance with any arrangements having effect by virtue of section 788 or by way of a credit under section 790(1); or
- (c) any tax at the basic rate on so much of that person’s income as is income the income tax on which he is entitled to charge against any other person or to deduct, retain or satisfy out of any payment.”

(3) In subsection (1) of section 369 of that Act (deduction at source of mortgage interest relief), for the words from “income tax” onwards there shall be substituted “the applicable percentage thereof.” and after that subsection there shall be inserted the following subsection—

“(1A) In subsection (1) above “the applicable percentage”—

- (a) in relation to so much of any payment of relevant loan interest as is not a payment in relation to which paragraph (b) below has effect, means 20 per cent.; and
- (b) in relation to so much of any payment as—
 - (i) has become due before 6th April 1994; or
 - (ii) being a payment becoming due on or after 6th April 1994, would, apart from section 353(2), be eligible for relief under section 353 by virtue of section 365,

means the percentage which is the basic rate for the year of assessment in which the payment has become or becomes due;

but, in relation to any payment of interest which becomes due in the year 1995-96 or any subsequent year of assessment, paragraph (a) above shall have effect with the substitution of “15 per cent.” for “20 per cent.””

(4) For subsections (3) to (5B) of section 369 of that Act (provisions balancing deduction of relevant loan interest from income against charge to tax) there shall be substituted the following subsection—

“(3) The following payments, that is to say—

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- (a) payments of relevant loan interest to which this section applies, and
 (b) payments which would be such payments but for section 373(5),
 shall not be allowable as deductions for any purpose of the Income Tax Acts except in so far as they fall to be treated as such payments by virtue only of section 375(2) and would be allowable apart from this subsection.”
- (5) Schedule 9 to this Act (which for the purposes of or in connection with the provisions of this section makes further modifications of certain enactments in relation to tax relief on interest payments) shall have effect.
- (6) The preceding provisions of this section and that Schedule—
- (a) shall have effect in relation to payments of interest made on or after 6th April 1994 (whenever falling due); and
 (b) shall also have effect, so far as they relate to relevant loan interest, in relation to any payments of interest becoming due on or after 6th April 1994 which have been made at any time before that date but on or after 30th November 1993.
- (7) Any provision made before the passing of this Act by reference to the basic rate of income tax and contained in any instrument or agreement under or in accordance with which payments of relevant loan interest have been or are to be made shall be taken, in relation to any such payment as is mentioned in subsection (6)(a) or (b) above, to have been made, instead, by reference to a rate which, in the case of that payment, is the applicable percentage for the purposes of subsection (1) of section 369 of the Taxes Act 1988.
- (8) Section 377 of the Taxes Act 1988 (variation of terms of repayment of certain loans) shall have effect—
- (a) as if the references in subsections (3), (4) and (7) of that section to a change in the basic rate of income tax included references to the amendments having effect by virtue of this section and to any change in the applicable percentage for the time being specified in section 369(1A) of that Act; and
 (b) in relation to any notice under section 377(2)(a) of that Act the effective date of which is on or after 6th April 1994, as if the reference to tax at the basic rate for the year of assessment in which that date falls, were a reference to tax at a rate equal to the percentage which is the applicable percentage for the purposes of section 369(1) of that Act in relation to payments becoming due in that year of assessment.
- (9) In this section “relevant loan interest” has the same meaning as in Part IX of the Taxes Act 1988.

82 Relief for blind persons

- (1) In section 265(1) of the Taxes Act 1988 (blind person’s allowance) for “£1,080” there shall be substituted “£1,200”.
- (2) This section shall apply for the year 1994-95 and subsequent years of assessment.

83 Medical insurance

Schedule 10 to this Act (which contains provisions about medical insurance) shall have effect.

84 Relief for vocational training

- (1) In subsection (1) of section 32 of the Finance Act 1991 (relief for vocational training), after paragraph (c) there shall be inserted the following paragraphs—
 - “(ca) the individual has attained school-leaving age and, if under the age of nineteen, is not a person who is being provided with full-time education at a school,
 - (cb) the individual undertakes the course neither wholly nor mainly for recreational purposes or as a leisure activity.”
- (2) In subsection (10) of that section, the words after paragraph (b) (which exclude from the qualifying courses those programmes of activity capable of counting towards a qualification at the highest defined level) shall be omitted.
- (3) After subsection (10) of that section there shall be inserted the following subsection—
 - “(11) In this section—
 - “school” means any institution at which full-time education is provided to persons at least some of whom are under school-leaving age; and
 - “school-leaving age” means the age of sixteen.”
- (4) This section has effect in relation to payments made on or after 1st January 1994.