Finance (No. 2) Act 1997

1997 CHAPTER 58

PART III

INCOME TAX AND CORPORATION TAX

Reliefs for interest and private medical insurance

15 Mortgage interest payments

(1) In section 353 of the Taxes Act 1988 (general provision for relief for interest payments), in subsection (1G) (amount of relief for interest on loans to buy land, etc.), for paragraph (a) there shall be substituted—

> "(a) in relation to so much of any interest as is eligible for relief under this section by virtue of section 354, means 10 per cent; and".

(2) In section 369 of that Act (deduction at source of mortgage interest relief), in subsection (1A) (percentage of interest deductible), for paragraph (a) there shall be substituted—

> "(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 10 per cent; and".

(3) Subsection (1) above has effect in relation to any payment of interest (whenever falling due) made in the year 1998-99 or any subsequent year of assessment; and subsection (2) above has effect in relation to any payment of interest which becomes due in the year 1998-99 or any subsequent year of assessment.

16 Limit on relief for interest for 1998-99

For the year 1998-99 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.

17 Withdrawal of relief on medical insurance premiums

(1) Subject to subsections (2) and (3) below, relief under section 54 of the Finance Act 1989 (medical insurance) shall not be given in respect of any payment where either—

(a) the premium in respect of which the payment is made is a premium under a contract entered into on or after 2nd July 1997; or

(b) the payment is received by the insurer on or after 6th April 1999.

(2) Subsection (1) above shall not affect the giving of relief in respect of a payment received by an insurer before 6th April 1999 where—

(a) the premium in respect of which the payment is made is a premium under a contract entered into on or after 2nd July 1997 but before 1st August 1997;

(b) the contract is one entered into in pursuance of a written proposal received by or on behalf of the insurer before 2nd July 1997;

(c) the contract is not a contract entered into by way of the renewal of an earlier contract; and

(d) if the payment is not itself a payment received before 1st August 1997, the insurer had before 1st August 1997 received an earlier payment in respect of a premium under the contract in question.

(3) Subsection (1) above shall not affect the giving of relief in respect of a payment received by an insurer before 6th April 1999 where—

(a) the premium in respect of which the payment is made is a premium under a contract entered into on or after 2nd July 1997 but before 1st August 1997;

(b) that contract is one entered into by way of the renewal of an earlier contract;

(c) the period of insurance under the earlier contract ended before 2nd July 1997; and

(d) if the payment is not itself a payment received before 1st August 1997, the insurer had before 1st August 1997 received an earlier payment in respect of a premium under the renewal contract.

(4) For the purposes of the preceding provisions of this section a contract shall be taken to have been entered into by way of the renewal of an earlier contract only if—

(a) it was entered into by way of the renewal of a contract which was an eligible contract for the purposes of section 54 of the Finance Act 1989 when that earlier contract was entered into;

(b) the insurer under the earlier contract and the insurer under the contract by which it has been renewed are the same; and

(c) the period of insurance under the earlier contract ended immediately before the beginning of the period of insurance under the contract by which it has been renewed.

(5) This section has effect for the year 1997-98 and subsequent years of assessment.

Corporation tax

18 Rates for financial year 1997

(1) The rate at which corporation tax is charged for the financial year 1997 shall be, and shall be deemed always to have been, 31 per cent. (and not 33 per cent. as provided by section 58 of the Finance Act 1997).

(2) The small companies' rate for that year shall be, and shall be deemed always to have been, 21 per cent. (and not 23 per cent. as provided by section 59(a) of that Act).

(3) All such adjustments shall be made, whether by way of discharge or repayment of tax or otherwise, as may be required in consequence of the provisions of this section.

Distributions, tax credits etc on and after 2nd July 1997

19 Pension funds no longer entitled to payment of tax credits

(1) In section 231 of the Taxes Act 1988 (tax credits for certain recipients of qualifying distributions)—

(a) in subsection (2) (payment of tax credits to companies resident in the United Kingdom) for "Subject to section 241(5)" there shall be substituted "Subject to sections 231A and 241(5)"; and

(b) at the beginning of subsection (3) (claims by other persons to set tax credits against income tax liability and to receive payment of any excess of tax credit over that liability) there shall be inserted "Subject to section 231A,".

(2) After section 231 of the Taxes Act 1988 there shall be inserted—

"**231A Restrictions on the use of tax credits by pension funds**

(1) No claim shall be made under section 231(2) for payment of the amount of a tax credit if or to the extent that the qualifying distribution to which the credit relates is income of a pension fund.

(2) In the case of any pension fund, for any year of assessment the aggregate amount of the tax credits in respect of which claims are made under section 231(3) must not exceed the aggregate amount of the tax credits in respect of the qualifying distributions comprised in the income of the pension fund and brought into charge to tax.

(3) Accordingly, no payment shall be made under section 231(3) in respect of so much of the excess there mentioned as is referable to a tax credit in respect of a qualifying distribution if or to the extent that the qualifying distribution is income of a pension fund.

(4) In this section—

"income", in relation to a pension fund, means income derived from investments or deposits held for the purposes of the pension fund;

"pension fund" means any scheme, fund or other arrangements established and maintained (whether in the United Kingdom or elsewhere) for the purpose of providing pensions, retirement annuities, allowances, lump sums, gratuities or other superannuation benefits (with or without subsidiary benefits);

"scheme" includes any deed, agreement or series of agreements.

(5) For convenience of identification only, the schemes, funds or other arrangements which are "pension funds" for the purposes of this section by virtue of the definition of that expression in subsection (4) above include, in

particular, those whose income is, in whole or in part, exempt, or eligible for exemption, from tax under or by virtue of any of the following provisions—

(a) section 512(2);

(b) section 592(2);

(c) section 608(2)(a);

(d) section 613(4);

(e) section 614(2), (3), (4) or (5);

(f) section 620(6);

(g) section 643(2).

(6) The preceding provisions of this section do not have effect in relation to—

(a) claims made in respect of tax credits to which entitlement arises by virtue of section 232(3); or

(b) claims made by virtue of arrangements having effect under section 788."

(3) This section has effect in relation to qualifying distributions made on or after 2nd July 1997.

20 Losses etc not to be set against surplus franked investment income

(1) No claim shall be made under section 242 or 243 of the Taxes Act 1988 (set off of losses etc against surplus of franked investment income) for any accounting period beginning on or after 2nd July 1997; and section 244(1) of that Act shall cease to have effect accordingly.

(2) Sections 242(5) and (6) and 243(4) of the Taxes Act 1988 (restoration of loss etc in later accounting period for which there is a surplus of franked payments) shall not have effect where the later accounting period mentioned in section 242(5)(b) begins on or after 2nd July 1997.

(3) No amount shall be deducted under paragraph (a), or carried forward and deducted under paragraph (b), of section 244(2) (deduction of tax credit paid from ACT subsequently available for set off or surrender) for any accounting period beginning on or after 2nd July 1997.

(4) For the purposes of sections 242 and 243 of the Taxes Act 1988, if—

(a) a company has a surplus of franked investment income for an accounting period beginning before 2nd July 1997 and ending on or after that date, and

(b) that surplus exceeds the surplus of franked investment income which the company would have had for that accounting period had it ended on 1st July 1997,

the surplus shall be treated as reduced by the excess.

(5) Sections 242 to 244 of the Taxes Act 1988 cease to have effect in consequence of, and in accordance with, the foregoing provisions of this section.

(6) In section 237(4) of the Taxes Act 1988 (bonus issue and related tax credit not to be franked investment income for the purposes of sections 241 and 244) for "sections 241 and 244" there shall be substituted "section 241".

(7) Subsection (6) above has effect in accordance with subsection (5) above.

21 Estates in administration: distributions to which s.233(1) applies

(1) Section 699A of the Taxes Act 1988 (untaxed sums comprised in the income of the estate) shall be amended as follows.

(2) In subsection (1) (which defines "a relevant amount" by reference to an amount which is or would be paid out of sums to which paragraphs (a) and (b) apply) after paragraph (b) there shall be inserted—

"or out of any sums included in the aggregate income of the estate of the deceased which fall within subsection (1A) below."

(3) After subsection (1) there shall be inserted—

"(1A) A sum falls within this subsection if it is a sum in respect of a distribution to which section 233(1) applies.

(1B) Any reference in this Part to a sum to which subsection (1)(a) and (b) above applies includes a reference to a sum falling within subsection (1A) above which is included in the aggregate income of the estate of the deceased."

(4) In subsection (4) (rate at which sums are assumed to bear tax) after paragraph (b) there shall be inserted "; and

(c) in the case of sums falling within subsection (1A) above, at the lower rate."

(5) This section has effect in relation to amounts which a person is deemed by virtue of Part XVI of the Taxes Act 1988 (estates in the course of administration) to receive, or to have a right to receive, on or after 2nd July 1997.

22 Lloyd's underwriters

(1) In section 171 of the Finance Act 1993 (taxation of profits, and allowance of losses, of non-corporate members) after subsection (2A) there shall be inserted—

"(2B) Section 231(1) of the Taxes Act 1988 (entitlement to tax credit) shall not apply where the distribution there mentioned is a distribution in respect of any asset of a member's premiums trust fund."

(2) In section 219 of the Finance Act 1994 (taxation of profits of corporate members) at the beginning of subsection (3) there shall be inserted "Subject to subsection (4A) below,".

(3) In subsection (4) of that section (subsection (2) applies in relation to distributions and associated tax credits notwithstanding section 11(2)(a) or 208 of the Taxes Act 1988) —

(a) for "dividends or other distributions of a company resident in the United Kingdom" there shall be substituted "UK distributions"; and

(b) the words "(and any associated tax credits)" shall cease to have effect.

(4) After that subsection there shall be inserted—

"(4A) Notwithstanding anything in section 11(2)(a) or 208 of the Taxes Act 1988, UK distributions in respect of any assets of a corporate member which are mentioned in paragraph (a) or (b) of subsection (3) above—

(a) shall be taken into account in computing profits of the corporate member for tax purposes; and

(b) shall be so taken into account under Case I of Schedule D (and not under any other Schedule or any other Case of Schedule D).

(4B) Section 231(1) of the Taxes Act 1988 (entitlement to tax credit) shall not apply where the distribution there mentioned is a distribution in respect of any asset of a corporate member's premiums trust fund.

(4C) In this section "UK distributions" means dividends or other distributions of a company resident in the United Kingdom."

(5) In section 20(1) of the Taxes Act 1988, as amended by section 24(10) below, in paragraph 2 of Schedule F (distribution in respect of which a person is entitled to a tax credit treated for the purposes of the Tax Acts, other than section 95(1), as representing income equal to the aggregate of the distribution and the tax credit) after "95(1)" there shall be inserted "of this Act and section 219(4A) of the Finance Act 1994".

(6) In section 231(1) of the Taxes Act 1988 (recipient of distribution made by UK resident company entitled to tax credit subject to sections 247 and 441A) after "441A," there shall be inserted "section 171(2B) of the Finance Act 1993 and section 219(4B) of the Finance Act 1994,".

(7) This section has effect in relation to distributions made on or after 2nd July 1997.

23 Insurance companies and friendly societies

Schedule 3 to this Act (which makes provision in relation to insurance companies and friendly societies) shall have effect.

Distributions, tax credits etc: avoidance

24 Taxation of dealers in respect of distributions etc

(1) Section 95 of the Taxes Act 1988 (taxation of dealers in respect of certain qualifying distributions etc) shall be amended in accordance with subsections (2) to (9) below.

(2) For subsection (1) (qualifying distributions to which Schedule 7 to the Finance Act 1997 applies which are received by a dealer, and payments made by a dealer which are representative of such distributions, to be taken into account in computing profits of the dealer) there shall be substituted—

"(1) Where a dealer—

(a) receives a relevant distribution, that is to say—

(i) any distribution which is made by a company resident in the United Kingdom ("a UK distribution"), or

(ii) any payment which is representative of a UK distribution, or

(b) makes any payment which is representative of a UK distribution,

the distribution or, as the case may be, the payment shall be taken into account in computing the profits of the dealer which are chargeable to tax in accordance with the provisions of this Act applicable to Case I or II of Schedule D."

(3) In subsection (1A) (provisions consequential on subsection (1) where dealer receives qualifying distribution to which Schedule 7 to the Finance Act 1997 applies)—

(a) in the words preceding paragraph (a), for "qualifying distribution to which Schedule 7 to the Finance Act 1997 applies" there shall be substituted "relevant distribution";

(b) paragraph (b) (distribution not to be treated for the purposes of sections 246D and 246F as a FID received by the dealer) shall cease to have effect;

(c) in paragraph (c), for "sections 208 and 234(1)" there shall be substituted "section 208";

(d) paragraph (d) (which disapplies paragraph 2A(2) of Schedule 23A to the Taxes Act 1988 which is repealed by this section) shall be omitted; and

(e) the following paragraph shall be inserted at the appropriate place—

"(e) section 11(2)(a) shall have effect in relation to that distribution with the omission of the words "(but so that this paragraph shall not include distributions received from companies resident in the United Kingdom)"."

(4) Subsection (1B) (which relates to the application of section 732 and which becomes unnecessary in consequence of the amendments made to that section by section 26 below) shall cease to have effect.

(5) In subsection (2) (meaning of "dealer")—

(a) the word "qualifying" shall be omitted in both places where it occurs; and

(b) in paragraph (a), after "shares" there shall be inserted "or stock".

(6) After subsection (2) there shall be inserted—

"(2A) The reference in subsection (2) above to the profits of a person does not include the profits of that person in respect of insurance business or any category of insurance business."

(7) Subsection (4) (which makes special provision in relation to preference shares) shall cease to have effect.

(8) Subsection (5) (definitions) shall be omitted.

(9) For the sidenote there shall be substituted "Taxation of dealers in respect of distributions etc."

(10) In section 20(1) of the Taxes Act 1988, in paragraph 2 of Schedule F (distribution in respect of which a person is entitled to a tax credit treated for the purposes of the Tax Acts as representing income equal to the aggregate of the distribution and the tax credit) after "purposes of the Tax Acts" there shall be inserted "(other than section 95(1))".

(11) In section 234 of the Taxes Act 1988 (information relating to distributions) in subsection (1), the words "but subject to section 95(1A)(c)" shall be omitted.

(12) In section 246D(1) of the Taxes Act 1988 (individuals entitled to FIDs treated as receiving grossed-up amount) after "that individual shall be treated" there shall be inserted "(except for the purposes of section 95(1))".

(13) In Schedule 23A to the Taxes Act 1988 (manufactured dividends and interest) paragraph 2A(2) (which provides that if the dividend manufacturer is a company not

resident in the UK no amount shall be deductible in the case of that company in respect of the manufactured dividend) shall be omitted (and accordingly paragraph 2(3)(c) of that Schedule has effect instead).

(14) In Schedule 7 to the Finance Act 1997 (special treatment for certain distributions) in paragraph 2 (distributions treated as FIDs) in sub-paragraph (3)—

(a) paragraph (a) (subjection to section 95(1A)(b)) shall be omitted; and

(b) in paragraph (b) (subjection to section 247(5B) to (5D)) for "of that Act" there shall be substituted "of the Taxes Act 1988".

(15) This section has effect in relation to—

(a) any distribution made on or after 2nd July 1997; and

(b) any payment which is representative of such a distribution.

25 Repeal of s.95(5) of the Taxes Act 1988: consequential amendments

(1) In section 246A(9) of the Taxes Act 1988 (which provides that "fixed-rate preference shares" shall be construed in accordance with section 95(5)) for "section 95(5)" there shall be substituted "paragraph 13(6) of Schedule 28B".

(2) In Schedule 28B to the Taxes Act 1988 (venture capital trusts) paragraph 13 (general interpretation) shall be amended in accordance with subsections (3) and (4) below.

(3) In sub-paragraph (5), paragraph (b) (which provides that "fixed-rate preference shares" has the same meaning as in section 95), and the word "and" immediately preceding that paragraph, shall be omitted.

(4) After sub-paragraph (5) there shall be inserted—

"(6) In this paragraph "fixed-rate preference shares" means shares which—

(a) were issued wholly for new consideration;

(b) do not carry any right either to conversion into shares or securities of any other description or to the acquisition of any additional shares or securities; and

(c) do not carry any right to dividends other than dividends which—

(i) are of a fixed amount or at a fixed rate per cent. of the nominal value of the shares, and

(ii) together with any sum paid on redemption, represent no more than a reasonable commercial return on the consideration for which the shares were issued;

and in paragraph (a) above "new consideration" has the meaning given by section 254."

(5) In Schedule 7 to the Finance Act 1997 (special treatment for certain distributions) paragraph 5 (fixed-rate preference shares) shall be amended in accordance with subsections (6) and (7) below.

(6) In sub-paragraph (2) (which defines "fixed-rate preference shares" by reference to section 95 of the Taxes Act 1988)—

(a) in paragraph (a) for "section 95 of" there shall be substituted "paragraph 13 of Schedule 28B to"; and

(b) in paragraph (b) for "section 95(5)(c)(i) of that Act" there shall be substituted "paragraph 13(6)(c)(i) of that Schedule".

(7) After sub-paragraph (2) there shall be inserted—

"(3) For the purposes of sub-paragraph (2) above, any reference in paragraph 13(6) of Schedule 28B to shares shall be taken as a reference to shares within the meaning of this Schedule."

(8) This section has effect on and after 2nd July 1997.

26 Purchase and sale of securities

(1) Section 732 of the Taxes Act 1988 (dealers in securities) shall Purchase and sale be amended as follows. of securities.

(2) After subsection (1) (dealers in securities: reduction for tax purposes of price paid by the appropriate amount in respect of interest) there shall be inserted—

"(1A) Subsection (1) above shall not apply if the interest receivable by the first buyer falls to be taken into account by virtue of section 95(1) in computing profits of his which are chargeable to tax in accordance with the provisions of this Act applicable to Case I or II of Schedule D."

(3) Subsections (2) and (2A) (exceptions from subsection (1) for certain market makers, recognised clearing houses and members of recognised investment exchanges) shall cease to have effect.

(4) In subsection (4) (exception from subsection (1) for overseas securities bought on a stock exchange outside the United Kingdom if conditions as to computation of profits and non-allowance of credit for foreign tax are satisfied) the words "on a stock exchange outside the United Kingdom" shall be omitted.

(5) For the definition of "overseas securities" in subsection (4) there shall be substituted—

"In this subsection "overseas securities" means securities issued—

(a) by a government or public or local authority of a territory outside the United Kingdom; or

(b) by any other body of persons not resident in the United Kingdom."

(6) Subsections (5) and (5A) (exceptions from subsection (1) for Eurobonds bought by dealers and for rights in a unit trust scheme where first buyer sells as manager) shall cease to have effect.

(7) Subsections (6) and (7) (definitions for the purposes of subsections (2) and (2A)) shall cease to have effect.

(8) This section has effect where, for the purposes of section 731(2) of the Taxes Act 1988, the interest receivable by the first buyer is paid on or after 2nd July 1997.

27 Payments to companies under section 687 of the Taxes Act 1988

(1) After section 687 of the Taxes Act 1988 (payments under discretionary trusts) there shall be inserted—

"**687A Payments to companies under section 687**

(1) This section applies where—

(a) trustees make a payment to a company;
(b) section 687 applies to the payment; and
(c) the company is chargeable to corporation tax and does not fall within subsection (2) below.

(2) A company falls within this subsection if it is—
(a) a charity, as defined in section 506(1);
(b) a body mentioned in section 507 (heritage bodies); or
(c) an Association of a description specified in section 508 (scientific research organisations).

(3) Where this section applies—
(a) none of the following provisions, namely—
(i) section 7(2),
(ii) section 11(3),
(iii) paragraph 5(1) of Schedule 16,
shall apply in the case of the payment;
(b) the payment shall be left out of account in calculating the profits of the company for the purposes of corporation tax; and
(c) no repayment shall be made of the amount treated under section 687(2) as income tax paid by the company in the case of the payment.

(4) If the company is not resident in the United Kingdom, this section applies only in relation to so much (if any) of the payment as is comprised in the company's chargeable profits for the purposes of corporation tax."

(2) This section has effect in relation to payments made by trustees to companies on or after 2nd July 1997.

28 Arrangements to pass on value of tax credit

(1) After section 231A of the Taxes Act 1988 (which is inserted by section 19 of this Act) there shall be inserted—

"**231B Consequences of certain arrangements to pass on the value of a tax credit**

(1) This section applies in any case where—
(a) a person ("A") is entitled to a tax credit in respect of a qualifying distribution;
(b) arrangements subsist such that another person ("B") obtains, whether directly or indirectly, a payment representing any of the value of the tax credit;
(c) the arrangements (whether or not made directly between A and B) were entered into for an unallowable purpose; and
(d) the condition in subsection (2) below is satisfied.

(2) The condition is that if B had been the person entitled to the tax credit and the qualifying distribution to which it relates, and had received the distribution when it was made, then—

(a) B would not have been entitled to obtain any payment under section 231(2) or (3) in respect of the tax credit; and

(b) if B is a company, B could not have used the income consisting of the distribution to frank a distribution actually made in the accounting period in which it would have received the distribution to which the tax credit relates.

(3) This section does not apply if and to the extent that any other provision of the Tax Acts has the effect of cancelling or reducing the tax advantage which would otherwise be obtained by virtue of the arrangements.

(4) Where this section applies—

(a) no claim shall be made under section 231(2) for payment of the amount of the tax credit;

(b) no claim shall be made under section 231(3) or 441A(7) in respect of the tax credit;

(c) the income consisting of the distribution in respect of which A is entitled to the tax credit shall not be regarded for the purposes of section 241 as franked investment income; and

(d) no claim shall be made under section 35 of the Finance (No. 2) Act 1997 (transitional relief) for payment of an amount determined by reference to that distribution.

(5) For the purposes of this section, the question whether any arrangements were entered into for an "unallowable purpose" shall be determined in accordance with subsections (6) and (7) below.

(6) Arrangements are entered into for an unallowable purpose if the purposes for which at least one person is a party to the arrangements include a purpose which is not amongst the business or other commercial purposes of that person.

(7) Where one of the purposes for which a person enters into any arrangements is the purpose of securing that that person or another obtains a tax advantage, that purpose shall be regarded as a business or other commercial purpose of the person only if it is neither the main purpose, nor one of the main purposes, for which the person enters into the arrangements.

(8) Any reference in this section to a person obtaining a tax advantage includes a reference to a person obtaining a payment representing any of the value of a tax credit in circumstances where, had the person obtaining the payment been entitled to the tax credit and the qualifying distribution to which it relates, that person—

(a) would not have been entitled to obtain any payment under section 231(2) or (3) in respect of the tax credit; and

(b) if that person is a company, could not have used the income consisting of the distribution to frank a distribution actually made in the accounting period in which it would have received the distribution to which the tax credit relates.

(9) If an amount representing any of the value of a tax credit to which a person is entitled is applied at the direction of, or otherwise in favour of, some other person (whether by way of set off or otherwise), the case shall be treated for

the purposes of this section as one where that other person obtains a payment representing any of the value of the tax credit.

(10) In determining for the purposes of subsections (2)(b) and (8)(b) b above whether a company could have used the income consisting of the distribution in question to frank a distribution of the company, the company shall be taken to use its actual franked investment income to frank distributions before using the income consisting of the distribution in question.

(11) References in this section to using franked investment income to frank a distribution of a company have the same meaning as in Chapter V of Part VI.

(12) In this section—

"arrangements" means arrangements of any kind, whether in writing or not (and includes a series of arrangements, whether or not between the same parties);

"business or other commercial purposes" includes the efficient management of investments;

"franked investment income" has the same meaning as in Chapter V of Part VI and references to income consisting of a distribution shall be construed accordingly;

"tax advantage" has the same meaning as in Chapter I of Part XVII."

(2) This section has effect in relation to distributions made on or after 2nd July 1997.

29 Unauthorised unit trusts

(1) Where a qualifying distribution—

(a) is made on or after 2nd July 1997 but before 6th April 1999 by a company resident in the United Kingdom, and

(b) falls to be regarded by virtue of subsection (2) of section 469 of the Taxes Act 1988 (unit trusts other than authorised unit trusts) as income of the trustees of a unit trust scheme to which that section applies, and

(c) is not a foreign income dividend and does not fall to be regarded by virtue of any provision of the Tax Acts apart from this section as a foreign income dividend arising to the trustees,

the trustees shall be treated for all purposes of the Tax Acts (apart from this section) as if the qualifying distribution were a foreign income dividend.

(2) Subsection (1) above shall not apply—

(a) if the unit trust scheme is a common investment fund established under section 42 of the Administration of Justice Act 1982; or

(b) if, apart from section 469(2) of the Taxes Act 1988, the whole of the qualifying distribution would fall to be regarded as income of section 505 bodies.

(3) In this section—

"foreign income dividend" shall be construed in accordance with Chapter VA of Part VI of the Taxes Act 1988;

"section 505 body" means—

(a) a charity, as defined in section 506(1) of the Taxes Act 1988;

(b) a body mentioned in section 507 of that Act (heritage bodies); or

(c) an Association of a description specified in section 508 of that Act (scientific research organisations).

Distributions, tax credits etc in and after 1999-00

30 Tax credits

(1) Section 231 of the Taxes Act 1988 (tax credits for certain recipients of qualifying distributions) shall be amended in accordance with subsections (2) to (7) below.

(2) In subsection (1) (recipient of certain distributions to be entitled to tax credit equal to proportion of distribution corresponding to rate of ACT in force)—

(a) after "where" there shall be inserted ", in any year of assessment for which income tax is charged,"; and

(b) for "the rate of advance corporation tax in force for the financial year in which" there shall be substituted "the tax credit fraction in force when".

(3) After subsection (1) there shall be inserted—

"(1A) The tax credit fraction is one-ninth."

(4) Subsection (2) (payment of tax credit to company resident in UK) shall cease to have effect.

(5) In subsection (3) (which includes provision for payment of excess of tax credit over income tax liability to person not being a company resident in the UK)—

(a) for "Subject to section 231A," there shall be substituted "Subject to subsection (3AA) below,"; and

(b) the words "and subject to subsections (3A) and (3D) below where the credit exceeds that income tax, to have the excess paid to him" shall cease to have effect.

(6) After subsection (3) there shall be inserted—

"(3AA) For any year of assessment, the aggregate amount of the tax credits in respect of which claims are made under subsection (3) above by any person must not exceed the aggregate amount of the tax credits in respect of such qualifying distributions (if any) as are brought into charge to tax in the case of that person."

(7) In consequence of subsection (5) above, subsections (3A) to (3D) shall cease to have effect.

(8) Section 231A of the Taxes Act 1988 (which is superseded by the foregoing provisions of this section) shall cease to have effect.

(9) The amendments made by subsections (5) and (6) above do not affect the entitlement of a person who is not resident in the United Kingdom to payment in respect of a tax credit by virtue of arrangements having effect under section 788 of the Taxes Act 1988 (relief by agreement with other countries).

(10) Where—

(a) arrangements having effect by virtue of section 788 of the Taxes Act 1988 confer on a person not resident in the United Kingdom the right to a tax credit

under section 231 of the Taxes Act 1988 in respect of a dividend of a company resident in the United Kingdom, and

(b) the arrangements contain provision for permitting—

(i) tax to be charged or deducted, or

(ii) a reduction in the amount of the tax credit that is paid to be made,

by reference to the aggregate of the dividend and the tax credit, and

(c) the amount of that tax or that reduction exceeds the amount of the tax credit,

that provision shall only have the effect of reducing to nil the amount of the payment to which the person is entitled in respect of the tax credit.

(11) This section has effect in relation to distributions made on or after 6th April 1999.

31 Rates of tax applicable to Schedule F income etc

(1) Section 1A of the Taxes Act 1988 (application of lower rate to income from savings and distributions) shall be amended in accordance with subsections (2) to (4) below.

(2) In subsection (1) (certain savings and distribution income to be charged at the lower rate to the exclusion of basic rate) for "lower rate" there shall be substituted "rate applicable in accordance with subsection (1A) below".

(3) After subsection (1) there shall be inserted—

"(1A) The rate applicable in accordance with this subsection is—

(a) in the case of income chargeable under Schedule F, the Schedule F ordinary rate;

(b) in the case of equivalent foreign income falling within subsection (3)(b) below and chargeable under Case V of Schedule D, the Schedule F ordinary rate; and

(c) in the case of any other income, the lower rate."

(4) For subsection (5) (income to which section 1A applies to be treated as the highest part of a person's income) there shall be substituted—

"(5) For the purposes of subsection (1)(b) above and any other provisions of the Income Tax Acts—

(a) so much of any person's income as comprises income to which this section applies shall be treated as the highest part of his income; and

(b) so much of that part as consists of—

(i) income chargeable under Schedule F (if any), and

(ii) equivalent foreign income falling within subsection (3)(b) above and chargeable under Case V of Schedule D (if any),

shall be treated as the highest part of that part."

(5) After section 1A of the Taxes Act 1988 there shall be inserted—

"**1B Rates of tax applicable to Schedule F income etc**

(1) In the case of so much of an individual's income which consists of—

(a) income chargeable under Schedule F (if any), and

(b) equivalent foreign income falling within section 1A(3)(b) and chargeable under Case V of Schedule D (if any),

as is income falling within section 1(2)(b), income tax shall, by virtue of this subsection, be charged at the Schedule F upper rate, instead of at the rate otherwise applicable to it in accordance with section 1(2)(b).

(2) In relation to any year of assessment for which income tax is charged—

(a) the Schedule F ordinary rate is 10 per cent., and

(b) the Schedule F upper rate is 32.5 per cent.,

or, in either case, such other rate as Parliament may determine."

(6) This section has effect in relation to distributions made on or after 6th April 1999.

32 Trusts

(1) Section 686 of the Taxes Act 1988 (income arising to trustees which is to be chargeable at the rate applicable to trusts) shall be amended as follows.

(2) In subsection (1) (income to which the section applies to be chargeable at the rate applicable to trusts instead of at the basic rate or, in accordance with section 1A, the lower rate)—

(a) for "at the rate applicable to trusts" there shall be substituted "at the rate applicable in accordance with subsection (1AA) below"; and

(b) after "at the lower rate" there shall be inserted "or the Schedule F ordinary rate".

(3) After subsection (1) there shall be inserted—

"(1AA) The rate applicable in accordance with this subsection is—

(a) in the case of so much of any income to which this section applies as is Schedule F type income, the Schedule F trust rate; and

(b) in the case of any other income to which this section applies, the rate applicable to trusts."

(4) In subsection (1A) (the rate applicable to trusts etc) for the words from the beginning to "Parliament may determine" there shall be substituted—

"(1A) In relation to any year of assessment for which income tax is charged—

(a) the Schedule F trust rate shall be 25 per cent., and

(b) the rate applicable to trusts shall be 34 per cent.,

or, in either case, such other rate as Parliament may determine."

(5) In subsection (1A), so as to make the words following "as Parliament may determine" into a separate paragraph, for the words "and, for the purposes of assessments" there shall be substituted—

"For the purposes of assessments".

(6) In subsection (2AA) (income treated by s.689B as applied in defraying trustees' expenses to be taxed at the rate that would apply apart from s.686, instead of the rate applicable to trusts) after "instead of the rate applicable to trusts" there shall be inserted "or the Schedule F trust rate (as the case may be)".

(7) Before subsection (6) there shall be inserted—

"(5A) In this section "Schedule F type income", in relation to trustees, means—

(a) income chargeable under Schedule F;
(b) income to which section 1A applies by virtue of its being equivalent foreign income falling within subsection (3)(b) of that section and chargeable under Case V of Schedule D;
(c) a qualifying distribution whose amount or value is determined in accordance with section 233(1A);
(d) a non-qualifying distribution, within the meaning of section 233(1B);
(e) income treated as arising to the trustees by virtue of section 249(6)(b);
(f) income treated as received by the trustees by virtue of section 421(1)(a);
(g) any amount which, by virtue of section 686A, is treated for the purposes of the Tax Acts as if it were income to which this section applies."

(8) For the sidenote there shall be substituted "Accumulation and discretionary trusts: special rates of tax."

(9) After section 686 of the Taxes Act 1988 there shall be inserted—

"**686A Certain distributions to be treated as income to which section 686 applies**

(1) This section applies where—
(a) a qualifying distribution is made to trustees;
(b) the trustees are not the trustees of a unit trust scheme; and
(c) the qualifying distribution falls within subsection (2) below.

(2) A qualifying distribution falls within this subsection if it is a payment made by a company—
(a) on the redemption, repayment or purchase of its own shares; or
(b) on the purchase of rights to acquire its own shares.

(3) The relevant part of the distribution shall be treated for the purposes of the Tax Acts as if it were income to which section 686 applies.

(4) In subsection (3) above the reference to the relevant part of the distribution is a reference to so much (if any) of the distribution as—
(a) is not income falling within paragraph (a) of section 686(2);
(b) does not fall to be treated for the purposes of the Income Tax Acts as income of a settlor;
(c) is not income arising under a trust established for charitable purposes; and
(d) is not income from investments, deposits or other property held for any such purposes as are mentioned in sub-paragraph (i) or (ii) of section 686(2)(c).

(5) Subsection (6) of section 686 shall apply for the purposes of this section as it applies for the purposes of that section."

(10) The amendment made by subsection (5) above has effect on and after 6th April 1999.

(11) The other amendments made by this section have effect in relation to distributions made on or after 6th April 1999.

33 Estates of deceased persons in administration

(1) For section 698A of the Taxes Act 1988 (taxation at the lower rate of the income of beneficiaries) there shall be substituted—

"**698A Taxation of income of beneficiaries at lower rate or at rates applicable to Schedule F income**

(1) Subject to subsection (3) below, in so far as any income of any person is treated under this Part as having borne income tax at the lower rate, section 1A shall have effect as if that income were income to which that section applies otherwise than by virtue of the income being income chargeable under Schedule F.

(2) Subject to subsection (3) below, in so far as any income of any person is treated under this Part as having borne income tax at the Schedule F ordinary rate, that income shall be treated as if it were income chargeable under Schedule F.

(3) Subsections (1) and (2) above shall not apply to income paid indirectly through a trustee and treated by virtue of section 698(3) as having borne income tax at the lower rate or the Schedule F ordinary rate; but, subject to section 686(1), section 1A shall have effect as if the payment made to the trustee were income of the trustee—

(a) to which section 1A applies by virtue of the income being chargeable under Schedule F, in the case of income treated as having borne tax at the Schedule F ordinary rate; and

(b) to which section 1A applies otherwise than by virtue of the income being chargeable under Schedule F, in any other case."

(2) Section 699A of the Taxes Act 1988 (untaxed sums comprised in the income of the estate) shall be amended in accordance with subsections (3) to (6) below.

(3) In subsection (1A) (which is inserted by section 21 of this Act and describes sums to which subsection (1)(a) and (b) of s.699A is deemed to apply) after "if it is a sum in respect of" there shall be inserted—

"(a) a distribution chargeable under Schedule F; or

(b)".

(4) In subsection (2) (determination whether any amount is a relevant amount) in paragraph (b) (application of the assumption in section 701(3A)(b)) for "assumption" there shall be substituted "assumptions".

(5) In subsection (4) (rate at which sums are assumed to bear tax) in paragraphs (a) and (c) for "lower rate" there shall be substituted "Schedule F ordinary rate".

(6) In subsection (6) (income represented by a relevant amount to be treated as not brought into charge to tax for the purposes of ss.348 and 349(1)) at the end there shall be added "except to the extent that the relevant amount is or would be paid out of sums in respect of a distribution chargeable under Schedule F".

(7) In section 701 of the Taxes Act 1988 (interpretation of Part XVI) subsection (3A) (which defines the "applicable rate" as basic rate or lower rate, according to the rate at which the income of the residue out of which the payment to the beneficiary is made bears tax) shall be amended in accordance with subsections (8) and (9) below.

(8) For the words "or the lower rate", in both places where they occur, there shall be substituted ", the lower rate or the Schedule F ordinary rate".

(9) In paragraph (b) (assumption that payments are made out of income bearing tax at the basic rate before income bearing tax at the lower rate)—

(a) after "it shall be assumed" there shall be inserted "(i)";

(b) after "lower rate" there shall be inserted "or the Schedule F ordinary rate"; and

(c) at the end of the paragraph there shall be added "; and

(ii) that payments are to be made out of income bearing tax at the lower rate before they are made out of income bearing tax at the Schedule F ordinary rate."

(10) The amendment made by subsection (3) above has effect in relation to distributions made on or after 6th April 1999.

(11) The amendments made by subsections (1) and (4) to (9) above have effect for the year 1999-00 and subsequent years of assessment.

34 Tax credits and taxation of distributions: miscellaneous provisions

Schedule 4 to this Act (which contains provisions relating to tax credits and the taxation of distributions) shall have effect.

35 Transitional relief for charities etc

(1) In any case where—

(a) a qualifying distribution is made on or after 6th April 1999 and before 6th April 2004 by a company resident in the United Kingdom, and

(b) the recipient of the distribution is a section 505 body, and

(c) if the section 505 body falls within neither paragraph (b) nor paragraph (c) of subsection (3) below, entitlement to exemption from tax by virtue of subsection (1)(c)(iii) of section 505 of the Taxes Act 1988 (charities) in respect of the distribution is not prevented by anything in that section,

the section 505 body, on a claim made under this section to the Board, shall be entitled to be paid by the Board out of money provided by Parliament an amount determined in accordance with subsection (2) below.

(2) The amount referred to in subsection (1) above is an amount equal to—

(a) 21 per cent of the amount or value of the distribution if the distribution is made on or after 6th April 1999 and before 6th April 2000;

(b) 17 per cent of that amount or value if the distribution is made on or after 6th April 2000 and before 6th April 2001;

(c) 13 per cent of that amount or value if the distribution is made on or after 6th April 2001 and before 6th April 2002;

(d) 8 per cent of that amount or value if the distribution is made on or after 6th April 2002 and before 6th April 2003;

(e) 4 per cent of that amount or value if the distribution is made on or after 6th April 2003 and before 6th April 2004.

(3) For the purposes of this section each of the following is a section 505 body—

(a) any charity (as defined in section 506(1) of the Taxes Act 1988);

(b) each of the bodies mentioned in section 507 of that Act (heritage bodies);

(c) any Association of a description specified in section 508 of that Act (scientific research organisations).

(4) Schedule 5 to this Act shall have effect to remove or restrict entitlement to payment under this section in certain circumstances.

(5) For the purposes of Chapter I of Part XVII of the Taxes Act 1988 (cancellation of tax advantages) payment of an amount under this section shall be treated as repayment of tax.

(6) Any entitlement of a section 505 body to a payment under subsection (1) above shall be subject to a power of the Board to determine (whether before or after any payment is made) that, having regard to the operation in relation to the distribution in question of section 703 of the Taxes Act 1988 (cancellation of tax advantages), that body is to be treated as if it had had no entitlement to that payment or to so much of it as they may determine.

(7) No claim may be made under this section later than two years after the end of the chargeable period of the section 505 body in which the distribution is made.

(8) An appeal may be brought against any decision of the Board under this section or under Schedule 5 to this Act by giving written notice to the Board within thirty days of receipt of written notice of the decision.

(9) An appeal under this section shall lie to the Special Commissioners, and the provisions of the Taxes Management Act 1970 relating to appeals under the Tax Acts shall apply to an appeal under this section as they apply to those appeals.

(10) Any payment of an amount under this section shall be treated for the purposes of section 252 of the Taxes Act 1988 (rectification of excessive set-off etc of ACT or tax credit) as a payment of tax credit.

36 Foreign income dividends

(1) No election shall be made under section 246A of the Taxes Act 1988 (election for dividend to be treated as foreign income dividend) in respect of any distributions made on or after 6th April 1999.

(2) No amount shall be shown as available for distribution as foreign income dividends in the distribution accounts of an authorised unit trust for a distribution period the distribution date for which falls on or after 6th April 1999.

(3) No distribution made on or after 6th April 1999 shall be treated as a foreign income dividend by virtue of paragraph 2(1) of Schedule 7 to the Finance Act 1997 (Tax Acts to have effect as if qualifying distributions to which Schedule 7 applies were foreign income dividends).

(4) Schedule 6 to this Act (which makes provision for and in connection with the repeal of provisions relating to foreign income dividends) shall have effect.

(5) In subsection (2) above, "distribution accounts", "distribution date" and "distribution period" shall be construed in accordance with section 468H of the Taxes Act 1988 (interpretation of sections 468I to 468R of that Act).

Gilt-edged securities

37 Interest to be paid gross

(1) The Taxes Act 1988 shall be amended as follows.

(2) In section 50 (Treasury direction for payment of public revenue dividends without deduction of tax), before subsection (1) there shall be inserted the following subsection—

"(A1) The interest on registered gilt-edged securities (whenever issued and whatever the terms on which they were issued) shall be paid without deduction of income tax."

(3) In that section—

(a) in subsection (1), after "following securities" there shall be inserted "in so far as they are not gilt-edged securities";

(b) in subsection (2), after "by virtue of" there shall be inserted "subsection (A1) above or of";

(c) in subsection (3), for "to which subsection (1) above applied" there shall be substituted "the interest on which is to be paid without deduction of income tax"; and

(d) in subsections (4) and (5), for the words "two months", in each place where they occur, there shall be substituted "one month".

(4) In subsection (7) of that section, after "requires" there shall be inserted the following definition—

""gilt-edged securities" means any securities which—

(a) are gilt-edged securities for the purposes of the 1992 Act; or

(b) will be such securities on the making of any order under paragraph 1 of Schedule 9 to that Act the making of which is anticipated in the prospectus under which they were issued,".

(5) Section 51A (interest on gilt-edged securities held under authorised arrangements to be paid without deduction of tax) shall cease to have effect.

(6) In section 51B (periodic accounting for tax on interest on gilt-edged securities), for subsection (5) there shall be substituted the following subsections—

"(5) In this section "relevant gilt-edged securities" means securities of one of the following descriptions—

(a) gilt-edged securities issued before 6th April 1998 other than those in relation to which a direction under section 50(1) was given before that date;

(b) gilt-edged securities issued on or after that date in relation to which the Treasury have given a direction that they may be subjected to periodic accounting;

and in this subsection "gilt-edged securities" has the same meaning as in section 50.

(5A) Regulations under this section shall not apply to a payment of interest on any relevant gilt-edged securities if that payment is made at any time after the Treasury have given a direction that those securities are to be exempted from periodic accounting."

(7) In sections 722A(5) and 730C(9), and in paragraph 3A(2)(a) of Schedule 23A, (which all define "gilt-edged securities" by reference to section 51A of the Taxes Act 1988), for "51A" there shall be substituted, in each case, "50".

(8) Subject to subsections (9) to (13) below, this section has effect in relation to payments of interest falling due on or after 6th April 1998.

(9) Subsection (3)(d) above has effect in relation to applications made and notices given at any time on or after the day on which this Act is passed.

(10) Where—

(a) any person holds any gilt-edged securities in relation to which a direction was given under section 50(1) of the Taxes Act 1988 at any time before 6th April 1998, and

(b) that person at any time before that date made an application under section 50(2) of that Act with respect to those securities,

that application (unless withdrawn) shall have effect in relation to any interest on those securities to which section 50(A1) of that Act applies as it previously had effect in relation to any interest on those securities to which that direction applied.

(11) Sections 50, 51B and 118D(4) of the Taxes Act 1988 shall have effect in relation to any gilt-edged securities issued before 6th April 1998 which—

(a) are securities the interest on which, if paid immediately before that date, would have fallen to be paid after deduction of income tax, and

(b) are registered within the meaning of section 50 of that Act but are not securities in relation to which any direction under section 50 of that Act was given before that date,

as if the appropriate person had so made an application under section 50(2) of that Act as to enable that application to take effect in relation to payments of interest made on or after that date.

(12) In subsection (11) above "the appropriate person" means—

(a) in the case of securities transferred before 6th April 1998 but after the time when the balance was struck for a dividend on them falling due on or after that date, the person who held the securities at the time when the balance was so struck;

(b) in any other case, the person holding the securities in question immediately before 6th April 1998.

(13) Section 50(5) of the Taxes Act 1988 shall have effect in relation to an application treated as made by virtue of subsection (11) above as if a notice withdrawing that application was capable of being given at any time on or after the passing of this Act.

38 Paying and collecting agents

(1) Chapter VIIA of Part IV of the Taxes Act 1988 (paying and collecting agents) shall be amended as follows.

(2) Section 118A (interpretation of Chapter) shall become subsection (1) of that section and, in paragraph (k) of that subsection (meaning of "international organisation"), for "has the meaning given by section 51A(8)" there shall be substituted "means an organisation of which two or more sovereign powers, or the governments of two or more sovereign powers, are members".

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

"(2) If, in any proceedings, any question arises whether a person is an international organisation for the purposes of this Chapter, a certificate issued by or under the authority of the Secretary of State stating any fact relevant to that question shall be conclusive evidence of that fact."

(4) In section 118D(4) (payments of interest payable without deduction of tax not to be chargeable payments), after "by virtue of" there shall be inserted "section 50(A1) or of".

(5) In subsection (3) of section 118G (United Kingdom public revenue dividends excluded from being chargeable payments)—

(a) paragraphs (b) and (d) to (f) shall be omitted; and

(b) for paragraph (c) there shall be substituted the following paragraph—

"(ca) they are payable in respect of a FOTRA security (within the meaning of section 154 of the Finance Act 1996) which—

(i) is not registered (within the meaning of section 50 of this Act); and

(ii) is, for the time being, beneficially owned by a person who is not ordinarily resident in the United Kingdom."

(6) In section 118G(7), for paragraphs (a) and (b) there shall be substituted "foreign dividends on foreign holdings held by a nominee approved for the purposes of this subsection".

(7) Section 118G(8) and (10) shall cease to have effect.

(8) This section has effect in relation to payments falling due on or after 6th April 1998.

Relief for losses etc

39 Carry-back of trading losses

(1) Section 393A of the Taxes Act 1988 (set-off of trading losses against profits of previous three years) shall be amended in accordance with subsections (2) to (6) below.

(2) In subsection (2) (three year carry-back period), for "is the period of three years" there shall be substituted "is (subject to subsection (2A) below) the period of twelve months".

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

"(2A) This section shall have effect in relation to any loss to which this subsection applies as if, in subsection (2) above, the words "three years" were substituted for the words "twelve months".

(2B) Where a company ceases to carry on a trade at any time, subsection (2A) above applies to the following—

(a) the whole of any loss incurred in that trade by that company in an accounting period beginning twelve months or less before that time; and

(b) the part of any loss incurred in that trade by that company in an accounting period ending, but not beginning, in that twelve months which is proportionate to the part of that accounting period falling within those twelve months.

(2C) Where—

(a) a loss is incurred by a company in a ring fence trade carried on by that company, and

(b) the accounting period in which the loss is incurred is an accounting period for which an allowance under section 62A of the 1990 Act (demolition costs relating to offshore machinery or plant) is made to that company,

subsection (2A) above applies to so much of the amount of that loss not falling within subsection (2B) above as does not exceed the amount of that allowance."

(4) In subsection (7) (application of section 393(9))—

(a) at the beginning there shall be inserted "Subject to subsection (7A) below,"; and

(b) for "the accounting period in which the cessation occurs" there shall be substituted "an accounting period ending with the cessation, or ending at any time in the twelve months immediately preceding the cessation,".

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

"(7A) For the purposes of this section where—

(a) subsection (7) above has effect for computing the loss for any accounting period, and

(b) that accounting period is one beginning before the beginning of the twelve months mentioned in that subsection,

the part of that loss that is not the part falling within subsection (2B)(b) above shall be treated as reduced (without any corresponding increase in the part of the loss that does fall within subsection (2B)(b) above) by an amount equal to so much of the aggregate of the charges on income treated as expenses by virtue of subsection (7) above as is proportionate to the part of the accounting period that does not fall within those twelve months."

(6) After subsection (11) there shall be inserted the following subsection—

"(12) In this section "ring fence trade" has the same meaning as in section 62A of the 1990 Act."

(7) In section 343 of that Act (company reconstructions without a change of ownership), the following subsection shall be inserted after subsection (4)—

"(4A) Subsection (2A) of section 393A shall not apply to any loss which (but for this subsection) would fall within subsection (2B) of that section by virtue of the predecessor's ceasing to carry on the trade, and subsection (7) of that section shall not apply for the computation of any such loss."

(8) Subject to subsection (9) below, this section applies to any loss incurred in an accounting period ending on or after 2nd July 1997.

(9) Where a loss in any trade is incurred by a company in an accounting period ending on or after 2nd July 1997 but beginning before that date, section 393A of the Taxes Act 1988 shall have effect as if subsection (2A) of that section applied to the pre-commencement part of any amount of that loss to which that subsection would not apply apart from this subsection.

(10) In subsection (9) above "the pre-commencement part", in relation to the amount of the whole or any part of a loss in an accounting period, means the part of that amount which, on an apportionment in accordance with subsection (11) or, as the case may be, (12) below, is attributable to the part of that accounting period falling before 2nd July 1997.

(11) Except in a case where subsection (12) below applies, an apportionment for the purposes of subsection (10) above shall be made on a time basis according to the respective lengths of the part of the accounting period falling before 2nd July 1997 and the remainder of that accounting period.

(12) Where the circumstances of a particular case are such that the making of an apportionment on the time basis mentioned in subsection (11) above would work in a manner that would be unjust or unreasonable in relation to any person, the apportionment shall be made instead (to the extent only that is necessary in order to avoid injustice and unreasonableness) in such other manner as may be just and reasonable.

40 Carry-back of loan relationship deficits

(1) Chapter II of Part IV of the Finance Act 1996 (loan relationships) shall be amended as follows.

(2) In paragraph 3(7) of Schedule 8 (permitted period of three years for carry-back of deficits), for "three years" and "three year" there shall be substituted, in each case, "twelve months".

(3) In sub-paragraph (3) of paragraph 4 of Schedule 11 (carry-back of deficit by insurance companies)—

(a) for paragraph (a) there shall be substituted the following paragraph—

"(a) carried back to accounting periods falling wholly or partly within the period of twelve months immediately preceding the deficit period; and"; and

(b) in paragraph (b), for "those periods" there shall be substituted "up to three such periods".

(4) In sub-paragraph (5) of that paragraph (mechanism for carry-back in the case of insurance companies), for "the three accounting periods preceding the deficit period" there shall be substituted "accounting periods falling wholly or partly within the period of twelve months mentioned in sub-paragraph (3)(a) above".

(5) In sub-paragraph (8) of that paragraph (which defines the set-off periods), in each of paragraphs (b) and (c), for "immediately preceding" there shall be substituted "(if any) which falls wholly or partly within the period of twelve months mentioned in sub-paragraph (3)(a) above and immediately precedes".

(6) In sub-paragraph (9) of that paragraph (adjusted amount of a company's eligible profit), after "is" there shall be inserted "(subject to sub-paragraph (9A) below)"; and after that sub-paragraph there shall be inserted the following sub-paragraph—

"(9A) Where a set-off period falls only partly within the period of twelve months mentioned in sub-paragraph (3)(a) above, the adjusted amount of a company's eligible profit for that period shall be taken to be confined to the part of the amount computed under sub-paragraph (9) above which is proportionate to the part of the set-off period that falls within that period of twelve months."

(7) Subject to subsection (8) below, this section has effect in relation to any deficit for a deficit period ending on or after 2nd July 1997.

(8) Paragraph 3 of Schedule 8 to the Finance Act 1996 shall have effect in relation to any deficit for a deficit period beginning before but ending on or after 2nd July 1997 as if the permitted period in relation to the pre-commencement part of the deficit were the period beginning with 1st April 1996 and ending immediately before the beginning of the deficit period.

(9) Where for the purposes of paragraph 23 of Schedule 15 to the Finance Act 1996 (transitional provision in connection with the carrying back of exchange losses) there is a relievable amount for an accounting period ending on or after 2nd July 1997, that paragraph shall have effect, except in relation to any pre-commencement part of that amount, as if, in section 131(10)(b) of the Finance Act 1993 (the permitted period) as applied by that paragraph, the words "twelve months" were substituted for the words "three years".

(10) In this section "pre-commencement part", in relation to the deficit for any deficit period or the relievable amount for any accounting period, means the part (if any) of that deficit or relievable amount which, on an apportionment in accordance with subsection (11) or, as the case may be, (12) below, is attributable to such part (if any) of that period as falls before 2nd July 1997.

(11) Except in a case where subsection (12) below applies, an apportionment for the purposes of subsection (10) above shall be made on a time basis according to the respective lengths of the part of the deficit period or, as the case may be, accounting period falling before 2nd July 1997 and the remainder of that period.

(12) Where the circumstances of a particular case are such that the making of an apportionment on the time basis mentioned in subsection (11) above would work in a manner that would be unjust or unreasonable in relation to any person, the apportionment shall be made instead (to the extent only that is necessary in order to avoid injustice and unreasonableness) in such other manner as may be just and reasonable.

41 Restrictions on group relief

Schedule 7 to this Act (which imposes new restrictions on the giving of group relief) shall have effect.

Capital allowances for small and medium-sized businesses

42 Temporary first-year allowances

(1) In subsection (1) of section 22 of the Capital Allowances Act 1990 (first-year allowances), after "40 per cent. of that expenditure" there shall be inserted ", in the case of expenditure to which this section applies by virtue only of subsection (3C) below, shall be of an amount equal to the percentage of that expenditure that is given by subsection (1AA) below".

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

"(1AA) In the case of expenditure to which this section applies by virtue only of subsection (3C) below, the percentage mentioned in subsection (1) above is—

(a) in the case of expenditure to which Chapter IVA applies, 12 per cent; and

(b) in the case of any other expenditure, 50 per cent."

(3) After subsection (3B) of that section there shall be inserted the following subsection—

"(3C) This section applies to—

(a) any expenditure which, disregarding any effect of section 83(2) on the time at which it is to be treated as incurred, is incurred by a small company or a small business in the period beginning with 2nd July 1997 and ending with 1st July 1998; and

(b) any additional VAT liability incurred in respect of expenditure to which this section applies by virtue of paragraph (a) above."

(4) In subsection (4) of that section, after "any expenditure" there shall be inserted "to which this section applies otherwise than by virtue only of subsection (3C) above".

(5) After subsection (6A) of that section there shall be inserted the following subsections—

"(6B) No first-year allowance shall be made in respect of any expenditure to which this section applies by virtue only of subsection (3C) above—

(a) if the chargeable period related to the incurring of the expenditure is also the chargeable period related to the permanent discontinuance of the trade;

(b) if the expenditure (whether or not it is expenditure to which Chapter IVA would apply but for the provisions of section 38B) is expenditure of the kind described in any of subsections (2) to (4) of section 38B;

(c) if the expenditure is expenditure to which Chapter IVA would apply but for the provisions of section 38H; or

(d) if the expenditure is expenditure on the provision of machinery or plant for leasing, whether in the course of a trade or otherwise;

and section 50(2) shall apply for the interpretation of paragraph (d) above as it applies for the interpretation of Chapter V of this Part.

(6C) No first-year allowance shall be made in respect of any expenditure incurred on the provision of machinery or plant to which this section applies by virtue only of subsection (3C) above if—

(a) the provision of the machinery or plant is connected with a change in the nature or conduct of a trade or business carried on by a person other than the person incurring the expenditure; and

(b) the obtaining of a first-year allowance is the main benefit, or one of the main benefits, which could reasonably be expected to arise from the making of the change."

(6) In sections 23(6), 42(9), 44(5), 46(8), 48(7) and 50(3) and (4A) of that Act (which contain provisions referring to the temporary first-year allowances under section 22(3B) of that Act), after the words "subsection (3B)", in each place where they occur, there shall be inserted the words "or (3C)".

(7) In section 39(2)(a) of that Act (definition of a qualifying purpose), for "subsections (2) to (3B)" there shall be substituted "subsections (2) to (3C)".

(8) In section 43 of that Act (provisions relating to joint lessees in cases involving new expenditure), after subsection (4) there shall be added the following subsection—

"(5) Any first-year allowance made in respect of expenditure to which section 22 applies by virtue only of subsection (3C) of that section shall be made on the same assumptions and subject to the same apportionments (if any) as it appears would, by virtue of subsection (3) above, be applicable in the case of a writing-down allowance."

(9) This section shall have effect in relation to every chargeable period ending on or after 2nd July 1997.

43 Expenditure of a small company or small business

(1) After section 22 of the Capital Allowances Act 1990 there shall be inserted the following section—

"**22A Expenditure of a small company or small business**

(1) For the purposes of section 22 capital expenditure incurred by a company is capital expenditure incurred by a small company if the company—

(a) qualifies as small or medium-sized in relation to the financial year of the company in which the expenditure is incurred; and

(b) is not a member of a large group at the time when the expenditure is incurred.

(2) For the purposes of section 22, capital expenditure is capital expenditure incurred by a small business if—

(a) it is incurred by a business for the purposes of a trade (the "first trade") carried on by that business; and

(b) were the first trade carried on by a company (the "hypothetical company") in the circumstances set out in subsection (3) below, that company would qualify as small or medium-sized in relation to the financial year of that company in which the expenditure would be treated as incurred.

(3) Those circumstances are—

(a) that every trade, profession or vocation carried on by the business concerned is carried on by the business as a part of the first trade;

(b) that the financial years of the hypothetical company coincide with the chargeable periods of the business concerned; and

(c) that accounts of the hypothetical company for any relevant chargeable period were prepared in accordance with the requirements of the Companies Act 1985 as if that period were a financial year of the company.

(4) Subject to subsection (5) below, a company is a member of a large group at the time when any expenditure is incurred if —

(a) it is at that time the parent company of a group which does not qualify as small or medium-sized in relation to the financial year of the parent company in which that time falls; or

(b) it is at that time a subsidiary undertaking in relation to the parent company of such a group.

(5) If, at the time when any expenditure is incurred by any company any arrangements exist which are such that, had effect been given to them immediately before that time, the company or a successor of the company would, at that time, have been a member of a large group, this section shall have effect as if the company concerned was a member of a large group at that time.

(6) In this section—

"arrangements" means arrangements of any kind, whether in writing or not, including arrangements that are not legally enforceable;

"business" means—

(a) an individual;

(b) a partnership of which all the members are individuals;

(c) a registered friendly society within the meaning of Chapter II of Part XII of the principal Act; or

(d) a body corporate which is not a company but is within the charge to corporation tax;

"company" means—

(a) a company, or an oversea company, within the meaning of the Companies Act 1985; or

(b) a company, or a Part XXIII company, within the meaning of the Companies (Northern Ireland) Order 1986;

"financial year", "group", "parent company" and "subsidiary undertaking"—

(a) except in relation to a company formed and registered in Northern Ireland, have the same meanings as in Part VII of the Companies Act 1985; and

(b) in relation to a company so formed and registered, have the same meanings as in Part VIII of the Companies (Northern Ireland) Order 1986.

(7) References in this section, in relation to a company, to its qualifying as small or medium-sized—

(a) except in the case of a company formed and registered in Northern Ireland, are references to its so qualifying, or being treated as so

qualifying, for the purposes of section 247 of the Companies Act 1985; and

(b) in the case of a company so formed and registered, are references to its so qualifying, or being treated as so qualifying, for the purposes of Article 255 of the Companies (Northern Ireland) Order 1986.

(8) In relation to a company with respect to which the question arises whether it is or would be a member of a large group, references to a group's qualifying as small or medium-sized—

(a) except in the case of a company formed and registered in Northern Ireland, are references to its so qualifying, or being treated as so qualifying, for the purposes of section 249 of the Companies Act 1985; and

(b) in the case of a company so formed and registered, are references to its so qualifying, or being treated as so qualifying, for the purposes of Article 257 of the Companies (Northern Ireland) Order 1986.

(9) For the purposes of this section a company is the successor of another if—

(a) it carries on a trade which, in whole or in part, the other company has ceased to carry on; and

(b) the circumstances are such that section 343 of the principal Act applies in relation to the two companies as the predecessor and the successor within the meaning of that section."

(2) This section shall have effect in relation to every chargeable period ending on or after 2nd July 1997.

Capital allowances and finance leases

44 Writing-down allowances for finance lessors

(1) Section 25 of the Capital Allowances Act 1990 (qualifying expenditure for writing-down allowances) shall be amended as follows.

(2) After subsection (5) there shall be inserted the following subsections—

"(5A) Subject to subsection (5B) below, capital expenditure incurred by any person in any chargeable period on the provision of machinery or plant for leasing under a finance lease shall not be brought into account so as to form part of that person's qualifying expenditure for that period except to the extent of the part of the expenditure which is proportionate to the part of the chargeable period falling after the time when the expenditure was incurred.

(5B) Subsection (5A) above does not apply where, in the chargeable period related to the incurring of the expenditure, the disposal value of the machinery or plant falls to be brought into account in accordance with section 24(6).

(5C) Where under subsection (5A) above only part of any capital expenditure on the provision of any machinery or plant may be included in a person's qualifying expenditure for any chargeable period, subsection (1)(a)(i) above shall not prevent the whole or any part of the remainder of that expenditure from being included in his qualifying expenditure for the next following chargeable period."

(3) In subsection (6) (disposal values brought into account on an assignment)—

(a) for the words "subsection (5) above", in the first place where they occur, there shall be substituted "subsection (5) or (5B) above"; and

(b) for ", as modified by subsection (5) above," there shall be substituted "(as modified, where subsection (5) above applies, by that subsection)".

(4) In subsection (8) (adjustments), after "subsections (5)" there shall be inserted ", (5B)".

(5) This section has effect for chargeable periods ending on or after 2nd July 1997 except in relation to—

(a) expenditure incurred before that date; and

(b) expenditure incurred in the twelve months beginning with that date in pursuance of a contract entered into before that date.

45 Hire-purchase by finance lessors

(1) In section 60 of the Capital Allowances Act 1990 (machinery and plant on hire-purchase), after subsection (2) there shall be inserted the following subsection—

"(2A) Subsections (1)(b) and (2)(b) above do not apply where the capital expenditure incurred by the person to whom the machinery or plant is treated as belonging under subsection (1)(a) was incurred on the provision of the machinery or plant for leasing under a finance lease."

(2) This section has effect for chargeable periods ending on or after 2nd July 1997 except in relation to—

(a) expenditure incurred before that date; and

(b) expenditure incurred in the twelve months beginning with that date in pursuance of a contract entered into before that date.

46 Sale and leaseback etc. using finance leases

(1) In the Capital Allowances Act 1990—

(a) in section 75(1), (2) and (3) (further restrictions on allowances), for the words "sections 76 and 77", in each place where they occur, there shall be substituted "sections 76, 76A and 77"; and

(b) in section 76, after subsection (6) there shall be inserted the following subsection—

"(7) This section has effect subject to the modifications made by section 76A in cases where there is a finance lease."

(2) After section 76 of that Act there shall be inserted the following section—

"**76A Special provision for finance lease cases**

(1) Where—

(a) any machinery or plant is used for the purposes of any non-trading activities carried on by any person, and

(b) it is directly or indirectly as a consequence of the machinery or plant having been leased under a finance lease that it is available for that use,

subsections (1), (2) and (3) of section 75 and subsection (1) of section 76 (except the words after "without") shall have effect as if the use for the purposes of those activities were a use for the purposes of a trade carried on by that person.

(2) Where—

(a) subsection (1), (2) or (3) of section 75 applies by virtue of paragraph (b) of that subsection, or is treated (under one or both of section 76(1) and subsection (1) above) as so applying,

(b) it is directly or indirectly as a consequence of the machinery or plant having been leased under a finance lease that it is available after—

(i) the date of the sale,

(ii) the date of the making of the contract, or

(iii) the date of the assignment,

for the use which is mentioned in that paragraph, or which is treated as if it were a use so mentioned, and

(c) apart from this subsection the disposal value to be brought into account under sections 24, 25 and 26 by reason of the sale, contract or assignment would be more than the amount ("the section 76(2) amount") which (if no disposal value fell to be brought into account) would be applicable instead in accordance with section 76(2) and subsection (5) below,

sections 24, 25 and 26 (and, accordingly, subsections (1) to (3) of section 75) shall have effect as if the disposal value to be so brought into account were equal to the section 76(2) amount.

(3) Where—

(a) a disposal value has fallen, in a case within sub-paragraphs (a) and (b) of subsection (2) above, to be brought into account under sections 24, 25 and 26 by reason of the sale, contract or assignment,

(b) the machinery or plant in question falls to be treated as belonging, at a time after the event by reason of which that disposal value fell to be brought into account, to any person in consequence of his incurring any capital expenditure,

(c) the allowances under this Part in respect of that capital expenditure are not restricted by subsection (1), (2) or (3) of section 75, and

(d) the amount of that expenditure ("the actual amount") exceeds the maximum allowable amount,

this Part shall have effect in relation to that expenditure as if it were expenditure of an amount equal to the maximum allowable amount.

(4) In subsection (3) above "the maximum allowable amount" means the sum of the following amounts—

(a) the disposal value falling to be brought into account as mentioned in subsection (3)(a) above, and

(b) so much of the actual amount of the expenditure as is equal to the amount included in that expenditure by virtue of section 66 (installation costs).

(5) In a case which—

(a) falls within paragraphs (a) and (b) of subsection (2) above, but

(b) is a case in which no disposal value falls to be brought into account as mentioned in the applicable subsection of section 75,

subsections (2) to (4) of section 76 shall have effect as if the amounts referred to in each of paragraphs (b) and (c) of section 76(2) were equal to the notional written-down value of the capital expenditure incurred by the person mentioned in that paragraph on the provision of the machinery or plant.

(6) Subsection (7) below applies where, in a case falling within paragraphs (a) and (b) of subsection (2) above—

(a) the finance lease, or

(b) any transaction or series of transactions of which it forms a part,

makes provision (otherwise than by means of guarantees from persons connected with the lessee) the effect of which (if the lessor and the persons connected with him are treated as the same person) is to remove the whole, or the greater part, of any non-compliance risk which (apart from that provision) would fall directly or indirectly on the lessor.

(7) Where this subsection applies—

(a) subsections (1), (2) and (3) of section 75 shall have effect as if (as well as excluding the making of a first-year allowance), they also required—

(i) the whole amount of the expenditure, and

(ii) any additional VAT liability incurred in respect of it,

to be left out of account in determining the amount for any period of a person's qualifying expenditure under section 25; and

(b) subsections (2), (3) and (5) above shall not apply.

(8) Where subsection (7) above applies in a case where the buyer, person entering into the contract or assignee is different from the lessor—

(a) any capital expenditure incurred on the provision of the machinery or plant by the lessor, and

(b) any additional VAT liability incurred in respect of it,

shall also be disregarded both for the purposes of determining the amount for any period of the lessor's qualifying expenditure under section 25 and for the purposes of any claim by the lessor to a first-year allowance.

(9) In this section "the notional written-down value", in relation to any expenditure incurred by a person on the provision of any machinery or plant, means the amount which, if—

(a) the sale, contract or assignment were an event by reason of which a disposal value of that machinery or plant fell to be brought into account in that person's case, and

(b) the further assumptions set out in subsection (10) below were made in relation to that expenditure,

would give rise to neither a balancing allowance nor a balancing charge for the chargeable period for which that disposal value would be brought into account in that person's case.

(10) Those assumptions are—

(a) that the person in question incurred the expenditure on the provision of the machinery or plant wholly and exclusively for the purposes of

a trade carried on by him (until its deemed discontinuance) separately from any other trade or other activities carried on or assumed to be carried on by him;

(b) that that person was within the charge to tax in respect of that separate trade;

(c) that the expenditure was the only capital expenditure ever taken into account in respect of that trade in determining qualifying expenditure for the purposes of section 24;

(d) that the expenditure is to be treated in relation to that person as expenditure to which Chapter IVA of this Part applies if, but only if, it is expenditure falling in fact to be so treated apart from the preceding assumptions; and

(e) that there had been made to that person the full amount of every allowance to which, on the assumptions specified in paragraphs (a) to (c) above, that person was entitled in respect of that expenditure.

(11) This section and sections 75 and 76 shall have effect in relation to machinery or plant where—

(a) it is directly or indirectly as a consequence of the machinery or plant having been leased under a finance lease that it is available for any use to which it is put, and

(b) the machinery or plant has at any time been acquired by one public authority from another otherwise than by purchase,

as if the public authority from whom it was acquired were connected with the public authority that acquired it and with every person connected with the acquiring authority.

(12) In this section—

"deemed discontinuance", in relation to the trade assumed under subsection (10) above in a case in which section 75(1), (2) or (3) applies or is treated as applying, means a permanent discontinuance of that trade at the time of the sale, of the performance of the contract or, as the case may be, of the assignment;

"non-compliance risk", in relation to a finance lease, means a risk that a loss will be sustained by any person if payments under the lease are not made in accordance with its terms;

"non-trading activities" means any activities that do not constitute a trade; and

"public authority" includes the Crown or any government or local authority;

and (subject to subsection (11) above) references in this section to persons connected with each other shall be construed in accordance with section 839 of the principal Act."

(3) This section has effect for chargeable periods ending on or after 2nd July 1997 except in relation to expenditure incurred before 2nd July 1998 in a case in which—

(a) the sale referred to in subsection (1) of section 75 of that Act is a sale under a contract entered into before 2nd July 1997;

(b) the contract referred to in subsection (2) of that section is itself a contract entered into before 2nd July 1997; or

(c) the assignment referred to in subsection (3) of that section is an assignment made before 2nd July 1997 or in pursuance of a contract entered into before that date.

47 Meaning of "finance lease"

(1) After section 82 of the Capital Allowances Act 1990 there shall be inserted the following section—

"**82A Meaning of "finance lease"**

(1) In this Part "finance lease" means any arrangements which—

(a) provide for machinery or plant to be leased or otherwise made available by a person ("the lessor") to another ("the lessee"); and

(b) are such that, in cases where the lessor and persons connected with the lessor are all UK companies—

(i) the arrangements, or

(ii) arrangements in which they are comprised,

fall, in accordance with normal accountancy practice, to be treated in the accounts of one or more of those companies as a finance lease or as a loan.

(2) In this section—

"accounts", in relation to a company, includes any consolidated group accounts relating to two or more companies of which that company is one;

"consolidated group accounts" means accounts prepared in accordance with—

(a) section 227 of the Companies Act 1985, or

(b) Article 235 of the Companies (Northern Ireland) Order 1986;

and

"UK company" means a company incorporated in a part of the United Kingdom;

and references in this section to persons connected with each other shall be construed in accordance with section 839 of the principal Act."

(2) This section has effect in relation to any case in relation to which the Capital Allowances Act 1990 has effect as amended by any of sections 44 to 46 above.

Films

48 Relief for expenditure on production and acquisition

(1) Subject to subsection (4) below, section 42 of the Finance (No. 2) Act 1992 shall have effect in relation to any expenditure to which this section applies as if the following subsection were substituted for subsections (4) and (5) (which for any period limit relief for film production and acquisition expenditure to a third, or a proportionately reduced fraction, of the relievable expenditure)—

"(4) The amount deducted for a relevant period under subsection (1) above shall not exceed so much of the total expenditure incurred by the claimant on—

(a) the production of the film concerned, or

(b) the acquisition of the master negative or any master tape or master disc of it,

as has not already been deducted by virtue of section 68(3) to (6) of the 1990 Act, section 41 above or this section."

(2) Subject to subsection (3) below, this section applies to so much of any expenditure falling within paragraphs (a) and (b) of section 42(1) of the Finance (No. 2) Act 1992 as is expenditure in relation to which each of the following conditions is satisfied, that is to say—

(a) the expenditure is expenditure incurred on or after 2nd July 1997 and before 2nd July 2000;

(b) the film concerned is a film with a total production expenditure of £15 million or less; and

(c) the film concerned is a film completed on or after 2nd July 1997.

(3) This section does not apply to so much of any expenditure falling within section 42(3) of the Finance (No. 2) Act 1992 (acquisition expenditure) as exceeds the amount of the total production expenditure on the film concerned.

(4) Where this section applies to only part of any expenditure to which subsection (2) or (3) of section 42 of the Finance (No. 2) Act 1992 applies in the case of any film, the amount deducted by virtue of subsection (1) of that section for a relevant period shall not exceed the sum of the following amounts—

(a) the maximum amount of expenditure to which this section applies that is deductible for that period in accordance with subsection (1) above; and

(b) the maximum amount specified in subsection (5) below.

(5) The amount mentioned in subsection (4) above is the maximum amount which would be deductible for the relevant period in accordance with subsection (4) of section 42 of the Finance (No. 2) Act 1992 if—

(a) in paragraphs (a) and (b) of that subsection (but not in paragraph (c)) the references to expenditure incurred by the claimant did not include references to any expenditure to which this section applies; and

(b) the maximum amount mentioned in subsection (4)(a) above had already been deducted by virtue of that section.

(6) In this section "total production expenditure", in relation to any claim for relief under section 42 of the Finance (No. 2) Act 1992 in the case of any film, means (subject to subsection (7) below) the total of all expenditure on the production of the film, whenever incurred and whether or not incurred by the claimant.

(7) For the purposes of this section where—

(a) any part of the expenditure incurred by any person on the production of a film is incurred under or by virtue of any transaction directly or indirectly between that person and a person connected with him, and

(b) that part of that expenditure might have been expected to have been of a greater amount ("the arm's length amount") if the transaction had been between independent persons dealing at arm's length,

that part of that expenditure shall be deemed, for the purpose of determining the amount of the total production expenditure on the film, to have been expenditure of an amount equal to the arm's length amount.

(8) Subsection (3) of section 43 of the Finance (No. 2) Act 1992 (time of completion of a film) shall apply for the purposes of this section as it applies for the purposes of sections 41 and 42 of that Act, but with the omission of paragraph (b) (completion on incurring acquisition expenditure) and the word "or" immediately preceding it.

(9) Subsections (3) to (6) of section 159 of the Capital Allowances Act 1990 (time when expenditure incurred) shall apply for determining when for the purposes of this section any expenditure is incurred as they apply for determining when for the purposes of that Act any capital expenditure is incurred, but as if, in subsection (6) of that section, the words "at a time" were substituted for the words "in a chargeable period".

(10) Section 839 of the Taxes Act 1988 (meaning of "connected person") applies for the purposes of this section.

(11) This section applies for the making of a deduction for any relevant period ending on or after 2nd July 1997.