



# Finance Act 2005

## 2005 CHAPTER 7

### PART 2

#### INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

### CHAPTER 6

#### FILM RELIEF

##### *Tax relief for limited-budget films*

#### **58 Relief for production and acquisition expenditure on limited-budget films**

- (1) In section 48 of F(No.2)A 1997 (relief for production and acquisition expenditure on limited-budget films), in subsection (2)—
  - (a) in paragraph (a) for “before 2nd July 2005” substitute “, if it is expenditure to which section 42(3) of that Act applies, before 1st October 2007 ”,
  - (b) after that paragraph insert—
    - “(aa) the first day of principal photography in relation to the film concerned is before 1st April 2006;”, and
  - (c) in paragraph (c) after “1997” insert “ but before 1st January 2007 ”.
- (2) In section 139 of ITTOIA 2005 (certified master versions: production expenditure on limited-budget films), in subsection (1)—
  - (a) in paragraph (aa) (requirement that film is completed) (inserted by paragraph 30 of Schedule 3) after “period” insert “ and before 1st January 2007 ”, and
  - (b) for paragraph (b) (requirement that expenditure incurred before 2nd July 2005) substitute—
    - “(b) the first day of principal photography was before 1st April 2006;”.

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- (3) In section 140 of that Act (certified master versions: acquisition expenditure on limited-budget films), in subsection (1)—
  - (a) in paragraph (aa) (requirement that film is completed) (inserted by paragraph 30 of Schedule 3), after “period” insert “ and before 1st January 2007 ”,
  - (b) in paragraph (c) (requirement that expenditure incurred before 2nd July 2005) for “2nd July 2005” substitute “ 1st October 2007 ”, and
  - (c) after that paragraph insert—
    - “(ca) the first day of principal photography was before 1st April 2006,”.
- (4) The Treasury may by order amend any of the enactments amended by subsections (1) to (3), so as to substitute for a date inserted by or under this section a later date.
- (5) The amendments made by subsection (1) have effect in relation to claims made under section 42 of F(No.2)A 1992 on or after 2nd July 2005.
- (6) The amendments made by subsections (2) and (3) have effect in relation to deductions made under section 139 or 140 of ITTOIA 2005 on or after 2nd July 2005.

#### *Restrictions on relief*

### **59 Restrictions on relief for production and acquisition expenditure**

- (1) Schedule 3 (films: restrictions on relief for production and acquisition expenditure) has effect.
- (2) In that Schedule—
  - (a) Part 1 imposes restrictions on the circumstances in which relief may be obtained;
  - (b) Part 2 imposes restrictions on the amount of relief which may be obtained;
  - (c) Part 3 makes minor and consequential amendments;
  - (d) Part 4 contains interpretation provisions.

#### *Deferred income agreements*

### **60 Deferred income agreements which exist when relief claimed**

- (1) This section applies where—
  - (a) in relation to a trade or business (“the relevant trade”), a company (“C”) makes a claim on or after 2nd December 2004 under section 42 of F(No.2)A 1992 for a deduction for a relevant period in respect of expenditure relating to a film (“the claim”), and
  - (b) when the claim is made, one or more deferred income agreements in respect of the film exist to which C is or has been a party and which C entered into on or after 2nd December 2004.
- (2) C is to be treated for corporation tax purposes as receiving, in the relevant period in respect of which the claim is made, an amount of income from the relevant trade equal to the amount of excess relief.

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- (3) If, at the time immediately after the end of the 15 year period, C is carrying on the relevant trade, C is to be treated for the purposes of section 40B of F(No.2)A 1992 (allocation of expenditure to periods) as incurring at that time relevant film expenditure of an amount equal to the amount of excess relief.
- (4) The “amount of excess relief” is the amount given by the following formula—

$$D \times \left( 1 - \frac{T1}{T2} \right)$$

where—

D is the amount which C is entitled to deduct under section 42 of F(No.2)A 1992 by virtue of the claim;

T1 is the number of days in the 15 year period;

T2 is the number of days in the period which begins with the operative date and ends with the final deferral date.

- (5) The “15 year period” means the period of 15 years which begins with the operative date.
- (6) The “operative date” means—
- (a) where the claim is only in respect of expenditure incurred on the acquisition of the original master version of the film, the date of that acquisition, and
  - (b) in any other case, the date upon which the film is completed.
- (7) The “final deferral date” means—
- (a) the last date of deferral in relation to the deferred income agreement mentioned in subsection (1)(b) (see section 61), or
  - (b) where there is more than one such agreement, the date which is the latest of the last dates of deferral in relation to those agreements.
- (8) “Relevant film expenditure” means expenditure of a revenue nature on the production or acquisition of the original master version of the film.
- (9) Any income received in a relevant period by virtue of this section is in addition to any other income received in that period.
- (10) This section is deemed to have come into force on 2nd December 2004.

## **61 Meaning of “deferred income agreement in respect of a film”**

- (1) For the purposes of section 60, a “deferred income agreement in respect of a film” means an agreement which satisfies condition A or condition B.
- (2) Condition A is that the agreement (whether or not it supplements or varies another agreement)—
- (a) guarantees to any person an amount of income arising from the exploitation of the film, and
  - (b) has the effect that the last date of deferral is a date after the end of the 15 year period.

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- (3) Condition B is that the agreement—
- (a) supplements or varies another agreement (“the earlier agreement”) which guarantees to any person an amount of income arising from the exploitation of the film, and
  - (b) has the effect that the last date of deferral is a date which is after the end of the 15 year period and after the last date of deferral (if any) in relation to the earlier agreement.
- (4) The “last date of deferral” means the last date upon which an amount of the guaranteed income will or may arise.
- (5) It does not matter whether any of the agreements mentioned in subsection (2) or (3) existed before 2nd December 2004.
- (6) For the purposes of this section—
- (a) “agreement” means an agreement or series of agreements, and
  - (b) an agreement “guarantees” an amount of income if the agreement, or any part of it, is designed to secure the receipt of that amount (or at least that amount) of income.
- (7) This section is deemed to have come into force on 2nd December 2004.

## 62 Deferred income agreements entered into after relief claimed

- (1) This section applies where—
- (a) on or after 2nd December 2004, a company (“C”) enters into a deferred income agreement in respect of a film in the course of carrying on a trade or business (“the relevant trade”), and
  - (b) before C entered into the agreement, a claim was made under section 42 of F(No.2)A 1992, in relation to the relevant trade, for a deduction for a relevant period in respect of expenditure relating to the film (“the claim”).
- (2) C is to be treated for corporation tax purposes as receiving, in the relevant period in which C entered into the deferred income agreement, an amount of income from the relevant trade equal to the net excess relief.
- (3) If, at the time immediately after the end of the 15 year period, C is carrying on the relevant trade, C is to be treated for the purposes of section 40B of F(No.2)A 1992 (allocation of expenditure to periods) as incurring at that time relevant film expenditure of an amount equal to the net excess relief.
- (4) The “net excess relief” is the amount of excess relief reduced (but not below nil) by the recovered amount (if any).
- (5) The “amount of excess relief” is the amount given by the following formula—

$$D \times \left( 1 - \frac{T1}{T2} \right)$$

where—

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D is the amount which there was an entitlement to deduct under section 42 of F(No.2)A 1992 by virtue of the claim;

T1 is the number of days in the 15 year period;

T2 is the number of days in the period which begins with the operative date and ends with the final deferral date.

- (6) The “recovered amount” means the total of—
- (a) the amount (if any) treated under section 60 as income received by C from the relevant trade as a result of any application of that section in relation to the claim as a result of C's entry into any deferred income agreement in respect of the film concerned, and
  - (b) the total of any amounts treated under this section as income received by C from the relevant trade as a result of any previous application of this section in relation to the claim as a result of C's entry into any previous relevant agreements.
- (7) The “15 year period” means the period of 15 years which begins with the operative date.
- (8) The “operative date” means—
- (a) where the claim is only in respect of expenditure incurred on the acquisition of the original master version of the film, the date of that acquisition, and
  - (b) in any other case, the date upon which the film is completed.
- (9) For the purposes of this section—
- (a) “deferred income agreement in respect of a film” has the same meaning as it has for the purposes of section 60,
  - (b) the “final deferral date” means the last date of deferral in relation to the deferred income agreement mentioned in subsection (1)(a) (see section 61),
  - (c) “previous relevant agreement” means a deferred income agreement in respect of the film concerned which was entered into by C after the claim was made and before the entry into the deferred income agreement mentioned in subsection (1)(a), and
  - (d) “relevant film expenditure” means expenditure of a revenue nature on the production or acquisition of the original master version of the film.
- (10) It does not matter for the purposes of subsection (1) whether the claim was made before, or on or after, 2nd December 2004.
- (11) Any income received in a relevant period by virtue of this section is in addition to any other income received in that period.
- (12) This section is deemed to have come into force on 2nd December 2004.

## **63 Sections 60 to 62: supplementary**

- (1) For the purposes of sections 60 to 62 a company is not to be regarded as entering into an agreement on or after 2nd December 2004 where the company entered into the agreement in pursuance of an obligation of the company which immediately before that date was an unconditional obligation.

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- (2) In determining, for the purposes of subsection (1), whether an obligation in pursuance of which a company entered into an agreement was an unconditional obligation immediately before 2nd December 2004, the obligation is not to be regarded as a conditional obligation at that time by reason only that it was contingent on a condition the fulfilment of which was outside the control of the company.
- (3) For the purposes of this section and sections 60 to 62—
  - “film” is to be construed in accordance with paragraph 1 of Schedule 1 to the Films Act 1985 (c. 21);
  - “original master version” is to be construed in accordance with section 43 of F(No.2)A 1992;
  - “relevant period” has the meaning given in section 40B of that Act.
- (4) For the purposes of sections 60 to 62 a film is completed when it is first in a form in which it can reasonably be regarded as ready for copies of it to be made and distributed for presentation to the general public.
- (5) This section is deemed to have come into force on 2nd December 2004.

#### **64 Transitional provision for years of assessment before the year 2005-06**

- (1) Section 60 has effect, for income tax purposes, for the year 2004-05 and earlier years of assessment as if—
  - (a) in paragraph (a) of subsection (1), for “company” there were substituted “person”, and
  - (b) in subsection (2) for “corporation tax” there were substituted “income tax”.
- (2) Section 62 has effect, for income tax purposes, for the year 2004-05 and earlier years of assessment as if—
  - (a) in paragraph (a) of subsection (1), for “company” there were substituted “person”, and
  - (b) in subsection (2) for “corporation tax” there were substituted “income tax”.
- (3) Section 63 has effect, for income tax purposes, for the year 2004-05 and earlier years of assessment as if, in subsections (1) and (2), for “company” there were substituted “person”.
- (4) This section is deemed to have come into force on 2nd December 2004.

#### **65 Corresponding provision in ITTOIA 2005**

- (1) After section 142 of ITTOIA 2005 (when expenditure is incurred) insert—

*“Deferred income agreements*

##### **142A Deferred income agreements which exist when deduction made**

- (1) This section applies where—
  - (a) in calculating the profits of a relevant period of a trade carried on by a person (“P”), a deduction is made under any of sections 138 to 140 in respect of expenditure relating to a film (“the relevant expenditure”), and

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- (b) when the deduction is made, one or more deferred income agreements in respect of the film exist to which P is or has been a party and which P entered into on or after 2nd December 2004.
- (2) An amount equal to the amount of excess relief is brought into account as a receipt in calculating the profits of the trade of the relevant period in respect of which the deduction was made.
- (3) If, at the time immediately after the end of the 15 year period, P is carrying on the trade, P is to be treated for the purposes of section 135 (normal rules for allocating expenditure to periods) as incurring at that time relevant film expenditure of an amount equal to the amount of excess relief.
- (4) The “amount of excess relief” is the amount given by the following formula—

$$D \times \left( 1 - \frac{T1}{T2} \right)$$

where—

D is the amount of the deduction allowed;

T1 is the number of days in the 15 year period;

T2 is the number of days in the period which begins with the operative date and ends with the final deferral date.

- (5) The “15 year period” means the period of 15 years which begins with the operative date.
- (6) The “operative date” means—
  - (a) where the relevant expenditure is acquisition expenditure only, the date of the acquisition in question, and
  - (b) in any other case, the date upon which the film is completed.
- (7) The “final deferral date” means—
  - (a) the last date of deferral in relation to the deferred income agreement mentioned in subsection (1)(b) (see section 142B), or
  - (b) where there is more than one such agreement, the date which is the latest of the last dates of deferral in relation to those agreements.
- (8) “Relevant film expenditure” means production or acquisition expenditure relating to the original master version of the film.

#### **142B Meaning of “deferred income agreement in respect of a film”**

- (1) For the purposes of section 142A, a “deferred income agreement in respect of a film” means an agreement which satisfies condition A or condition B.
- (2) Condition A is that the agreement (whether or not it supplements or varies another agreement)—
  - (a) guarantees to any person an amount of income arising from the exploitation of the film, and

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- (b) has the effect that the last date of deferral is a date after the end of the 15 year period.
- (3) Condition B is that the agreement—
  - (a) supplements or varies another agreement (“the earlier agreement”) which guarantees to any person an amount of income arising from the exploitation of the film, and
  - (b) has the effect that the last date of deferral is a date which is after the end of the 15 year period and after the last date of deferral (if any) in relation to the earlier agreement.
- (4) The “last date of deferral” means the last date upon which an amount of the guaranteed income will or may arise.
- (5) It does not matter whether any of the agreements mentioned in subsection (2) or (3) existed before 2nd December 2004.
- (6) For the purposes of this section—
  - (a) “agreement” means an agreement or series of agreements, and
  - (b) an agreement “guarantees” an amount of income if the agreement, or any part of it, is designed to secure the receipt of that amount (or at least that amount) of income.

#### **142C Deferred income agreements entered into after deduction made**

- (1) This section applies where—
  - (a) on or after 2nd December 2004, a person (“P”) enters into a deferred income agreement in respect of a film in the course of carrying on a trade, and
  - (b) before P entered into the agreement, event A or event B occurred in relation to the trade in respect of expenditure relating to the film (“the relevant expenditure”).
- (2) Event A occurs in relation to a trade in respect of expenditure relating to a film when a deduction is made under any of sections 138 to 140 in respect of that expenditure in calculating the profits of the trade of a relevant period (“the deduction”).
- (3) Event B occurs in relation to a trade in respect of expenditure relating to a film when a claim is made under section 42 of F(No.2)A 1992, in relation to the trade, for a deduction for a relevant period in respect of that expenditure (“the claim”).

It does not matter whether the claim is made before, or on or after, 2nd December 2004.

- (4) An amount equal to the net excess relief is brought into account as a receipt in calculating the profits of the trade of the relevant period in which P entered into the deferred income agreement.
- (5) If, at the time immediately after the end of the 15 year period, P is carrying on the trade, P is to be treated for the purposes of section 135 (normal rules for allocating expenditure to periods) as incurring at that time relevant film expenditure of an amount equal to the net excess relief.



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- (6) The “15 year period” means the period of 15 years which begins with the operative date.
- (7) The “operative date” means—
  - (a) where the relevant expenditure is acquisition expenditure only, the date of the acquisition in question, and
  - (b) in any other case, the date upon which the film is completed.
- (8) “Deferred income agreement in respect of a film” has the same meaning as it has for the purposes of section 142A.
- (9) “Relevant film expenditure” means production or acquisition expenditure relating to the original master version of the film.

#### **142D Meaning of the “net excess relief”**

- (1) For the purposes of section 142C the “net excess relief” is the amount of excess relief reduced (but not below nil) by the recovered amount (if any).
- (2) The “amount of excess relief” is the amount given by the following formula—

$$D \times \left( 1 - \frac{T1}{T2} \right)$$

where—

D is—

- (a) in a case where event A has occurred, the amount of the deduction allowed, and
- (b) in a case where event B has occurred, the amount which there was an entitlement to deduct under section 42 of F(No.2)A 1992 by virtue of the claim;

T1 is the number of days in the 15 year period;

T2 is the number of days in the period which begins with the operative date and ends with the final deferral date.

- (3) The “final deferral date” means the last date of deferral in relation to the deferred income agreement mentioned in section 142C(1)(a) (see section 142B).
- (4) In a case where event A has occurred, the “recovered amount” means the total of—
  - (a) the amount (if any) treated under section 142A as a receipt of the trade as a result of any application of that section in relation to the deduction as a result of P's entry into any deferred income agreement in respect of the film concerned, and
  - (b) the total of any amounts treated under section 142C as receipts of the trade as a result of any previous application of that section in relation to the deduction as a result of P's entry into any previous relevant agreements.

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- (5) In a case where event B has occurred, the “recovered amount” means the total of—
- (a) the amount (if any) treated under section 60 of the Finance Act 2005 as a receipt of the trade as a result of any application of that section in relation to the claim as a result of P's entry into any deferred income agreement in respect of the film concerned,
  - (b) the total of any amounts treated under section 62 of the Finance Act 2005 as receipts of the trade as a result of any application of that section in relation to the claim as a result of P's entry into any previous relevant agreements, and
  - (c) the total of any amounts treated under section 142C as receipts of the trade as a result of any previous application of that section in relation to the claim as a result of P's entry into any previous relevant agreements.
- (6) “Previous relevant agreement” means a deferred income agreement in respect of the film concerned which was entered into by P—
- (a) in the case of event A, after the deduction was made and before the entry into the deferred income agreement mentioned in section 142C(1)(a), and
  - (b) in the case of event B, after the claim was made and before the entry into that deferred income agreement.

#### **142E Sections 142A to 142D: time of entry into an agreement**

- (1) For the purposes of sections 142A to 142D a person is not to be regarded as entering into an agreement on or after 2nd December 2004 where the person entered into the agreement in pursuance of an obligation of the person which immediately before that date was an unconditional obligation.
  - (2) In determining, for the purposes of subsection (1), whether an obligation in pursuance of which a person entered into an agreement was an unconditional obligation immediately before 2nd December 2004, the obligation is not to be regarded as a conditional obligation at that time by reason only that it was contingent on a condition the fulfilment of which was outside the control of the person.”
- (2) The amendment made by this section has effect for the year 2005-06 and subsequent years of assessment.

#### *Companies benefited by film relief: exit charges*

### **66 When a chargeable event occurs**

- (1) A chargeable event occurs in relation to a company (“C”) where an exit event occurs in relation to C and the following conditions are satisfied—
  - (a) C was a film rights company immediately before the time of the exit event, and
  - (b) C or another company—
    - (i) had made a relevant claim for a deduction under section 42 of F(No.2)A 1992 (relief for production or acquisition expenditure on a film) before that time, or

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- (ii) first makes such a claim at or after that time.
- (2) C is a “film rights company” at a particular time if, at that time, it—
- (a) is party to an agreement which guarantees it an amount of income arising from the exploitation of a film (“the film”),
  - (b) carries on a trade or business which consists of or includes the exploitation of films or the receipt of income derived from films (“the relevant trade”), and
  - (c) is a 75% subsidiary of the principal company of a group of companies (“the principal company”).
- (3) An agreement “guarantees” C an amount of income if the agreement, or any part of it, is designed to secure the receipt by C of that amount (or at least that amount) of income.
- (4) An “exit event” occurs in relation to C on each occasion, on or after 2nd December 2004, when one of the following happens—
- (a) C ceases to be a 75% subsidiary of the principal company (“exit event X”);
  - (b) C ceases to be within the charge to corporation tax (“exit event Y”);
  - (c) there is a relevant disposal by C at an undervalue within the meaning given by section 68 (“exit event Z”).
- (5) A “relevant claim” means a claim in respect of expenditure relating to the film and, for the purposes of subsection (1)(b)(i), it does not matter whether the claim was made before, or on or after, 2nd December 2004.
- (6) For the purposes of sections 67 to 71—
- “the guaranteed income agreement” means the agreement mentioned in subsection (2)(a),
  - “the guaranteed income” means the income arising from the exploitation of the film—
    - (a) whose receipt by C that agreement, or any part of it, is designed to secure, and
    - (b) which would, if it were received by C at a time when it is carrying on the relevant trade, be income from that trade,  - and references to expressions which are defined in this section are to be construed in accordance with this section.
- (7) For the purposes of this section—
- “agreement” means an agreement or series of agreements; and
  - “film” is to be construed in accordance with paragraph 1 of Schedule 1 to the Films Act 1985 (c. 21),
  - and an agreement, or part of an agreement, is to be regarded as designed to secure the receipt by C of an amount (or at least an amount) if it was designed to secure the receipt of that amount (or at least that amount) by another person and C is that person's successor under the agreement.
- (8) This section is deemed to have come into force on 2nd December 2004.

## **67 Consequences of a chargeable event: exit event X or Y**

- (1) This section applies where a chargeable event occurs in relation to C by virtue of section 66 and the exit event in question is exit event X or Y.

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- (2) C is to be treated for corporation tax purposes as receiving, immediately before the exit event, an amount of income from the relevant trade equal to the chargeable amount.
- (3) Where the exit event is exit event X, an amount equal to the chargeable amount is to be treated for corporation tax purposes as a loss of the relevant trade brought forward under section 393 of ICTA (relief of trading losses against future trading profits) to the exit accounting period.
- (4) But that loss may only be set off against income which—
  - (a) derives directly from the rights to guaranteed income under the guaranteed income agreement, and
  - (b) is brought into account by C for the relevant trade after the exit event,and, in particular, may not be set off against the income which C is treated as receiving under subsection (2) by virtue of the exit event.
- (5) The “chargeable amount” is the value immediately before the exit event of the rights to guaranteed income under the guaranteed income agreement calculated in accordance with section 70.
- (6) Any income received in, or losses brought forward to, an accounting period by virtue of this section are in addition to any other income received in, or losses brought forward to, that period.
- (7) In this section “exit accounting period” means the accounting period of C in which the exit event occurs.
- (8) This section is deemed to have come into force on 2nd December 2004.

## **68 Exit event Z: a relevant disposal at an undervalue**

- (1) This section applies for the purposes of—
  - section 66(4)(c) (definition of exit event Z),
  - section 69 (consequences of a chargeable event: exit event Z), and
  - section 70 (valuation of the “disposed rights”).
- (2) A “relevant disposal” means a disposal by C directly or indirectly to a third party (“TP”) of rights to guaranteed income under the guaranteed income agreement.
- (3) The “disposed rights” are the rights to guaranteed income under the guaranteed income agreement which are the object of the relevant disposal.
- (4) A relevant disposal is at an undervalue where the amount of the disposal consideration (“V1”) is less than the value of the disposed rights immediately before the disposal calculated in accordance with section 70 (“V2”).
- (5) It does not matter whether the disposed rights are disposed of alone or as part of a larger disposal.
- (6) Where the disposed rights are disposed of as part of a larger disposal, the amount of the disposal consideration for the larger disposal which is attributable to the relevant disposal is to be determined on such basis as is just and reasonable.
- (7) In this section—

“disposal” means any surrender, giving up, assignment or other disposal;

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“disposal consideration”, in relation to a disposal, means the amount of the consideration for the disposal brought into account as income of the relevant trade by C at the date of that disposal;

“third party” means a person who is not the principal company or a 75% subsidiary of the principal company.

(8) This section is deemed to have come into force on 2nd December 2004.

## **69 Consequences of a chargeable event: exit event Z**

(1) This section applies where a chargeable event occurs in relation to C by virtue of section 66 and the exit event in question is exit event Z.

(2) C is to be treated for corporation tax purposes as receiving, immediately before the exit event, an amount of income from the relevant trade equal to the chargeable amount.

(3) Where TP is within the charge to corporation tax, an amount equal to the chargeable amount is to be treated for corporation tax purposes as a loss of TP's trade brought forward under section 393 of ICTA (relief of trading losses against future trading profits) to the accounting period in which TP acquires the disposed rights.

(4) Where TP is within the charge to income tax, an amount equal to the chargeable amount is to be treated for income tax purposes as a loss of TP's trade brought forward under section 385 of ICTA (carry-forward against subsequent profits) to the year of assessment in which TP acquires the disposed rights.

(5) But a loss brought forward under subsection (3) or (4) may only be set off against income which derives directly from the disposed rights.

(6) The “chargeable amount” is the difference between V1 and V2.

(7) Any income received in, or losses brought forward to, an accounting period by virtue of this section are in addition to any other income received in, or losses brought forward to, that period.

(8) This section is deemed to have come into force on 2nd December 2004.

## **70 Valuation of the “rights to guaranteed income” and “disposed rights”**

(1) For the purposes of section 67, the value immediately before the exit event of the rights to guaranteed income under the guaranteed income agreement is calculated as follows—

### *Step 1*

Find the amount of each payment of income which at that time the guaranteed income agreement is designed to secure is received by C but which at that time has not been brought into account for the relevant trade by C (“RI”).

### *Step 2*

For each payment find the day for payment which the agreement is designed to secure (“the payment day”).

### *Step 3*

For each payment find the number of days in the period (“P”) which—

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 for the Finance Act 2005, Chapter 6. (See end of Document for details)

- (a) begins with the day on which the exit event occurs, and
- (b) ends with the payment day.

*Step 4*

Calculate the net present value of each payment (“NPVRI”) by applying the following formula—

$$\frac{RI}{(1 + T)^i}$$

where—

T is the temporal discount rate, and

i is the number of days in P divided by 365.

*Step 5*

Add together each amount of NPVRI determined under step 4.

- (2) For the purposes of section 68, in relation to a relevant disposal, the value of the disposed rights immediately before the disposal is calculated as follows—

*Step 1*

Find the amount of each payment of income which at that time the guaranteed income agreement is designed to secure is received by C by virtue of the disposed rights but which at that time has not been brought into account for the relevant trade by C (“DI”).

*Step 2*

For each payment find the day for payment which the agreement is designed to secure (“the payment day”).

*Step 3*

For each payment find the number of days in the period (“P”) which—

- (a) begins with the day on which the relevant disposal occurs, and
- (b) ends with the payment day.

*Step 4*

Calculate the net present value of each payment (“NPVDI”) by applying the following formula—

$$\frac{DI}{(1 + T)^i}$$

where—

T is the temporal discount rate, and

i is the number of days in P divided by 365.

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### *Step 5*

Add together each amount of NPVDI determined under step 4.

- (3) For the purposes of this section the “temporal discount rate” is 3.5% or such other rate as may be specified by regulations made by the Treasury.
- (4) Regulations under subsection (3) may make such provision as is mentioned in subsection (3)(b) to (f) of section 178 of FA 1989 (power of Treasury to set rates of interest).
- (5) Subsection (5) of that section (power of Inland Revenue to specify rate by order in certain circumstances) applies in relation to regulations under subsection (3) as it applies in relation to regulations under that section.
- (6) This section is deemed to have come into force on 2nd December 2004.

## **71 Meaning of “company” and related terms**

- (1) For the purposes of sections 66 to 70, two companies are deemed to be members of a group of companies if—
  - (a) one is the 75% subsidiary of the other, or
  - (b) both are 75% subsidiaries of a third company.
- (2) For those purposes, the “principal company” of a group of companies means a company—
  - (a) which is not a 75% subsidiary of another company to whom group relief would be available under section 402 of ICTA if it were to make a group claim under that section in respect of any trading losses surrendered by C, and
  - (b) to whom group relief would be available under section 402 of ICTA if it were to make a group claim under that section in respect of any trading losses surrendered by C.
- (3) For the purposes of sections 66 to 70 and this section—
  - (a) a company is to be treated as a 75% subsidiary of another company if it would be such a subsidiary of that company for the purposes of section 402 of ICTA (surrender of relief between members of group), and
  - (b) “company” has the same meaning as it has for the purposes of that section.
- (4) This section is deemed to have come into force on 2nd December 2004.

**Status:**

Point in time view as at 07/04/2005.

**Changes to legislation:**

There are currently no known outstanding effects for the Finance Act 2005, Chapter 6.