



Finance Act 1965

1965 CHAPTER 25

PART II

INCOME TAX.

General.

9 Surtax rates for 1964-65.

Income tax for the year 1964-65 shall be charged, in the case of an individual whose total income exceeded £2,000, at the same higher rates in respect of the excess as were charged for the year 1963-64.

10 Alterations in reliefs.

- (1) As respects the year 1965-66 and subsequent years of assessment, the Income Tax Acts shall be amended as shown in the following provisions of this section :

Provided that subsections (2), (4), (5) and (6) of this section shall not affect the amounts of tax deductible or repayable under section 157 (pay as you earn) of the Income Tax Act 1952 before 8th June 1965, but this provision shall not prevent any necessary corrections being made on or after that day by adjusting subsequent deductions or repayments under that section or, if need be, by an assessment.

- (2) In section 210 of the Income Tax Act 1952 (personal reliefs), as amended by section 12(1) of the Finance Act 1963, in paragraph (a) of subsection (1) (married) for the reference to £320 there shall be substituted a reference to £340, in paragraph (b) of that subsection (single) for the reference to £200 there shall be substituted a reference to £220, and in subsection (2) of the said section 210 (wife's earned income relief) for the reference to £200 (the maximum amount of that relief) there shall be substituted a reference to £220.

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- (3) The amounts of £255 and £180 (relating to the total income of the dependent relative) specified, for the purposes of section 216 of the said Act of 1952, by section 12(4) of the Finance Act 1963 shall each be increased by £30.
- (4) Section 377(2) of the said Act of 1952 and section 19 of the Finance Act 1960 (relief for National Insurance contributions) shall cease to have effect; and no relief or deduction shall be given or allowed under any other provision of the said Act of 1952 in respect of any contribution in respect of which relief could, but for this subsection, be given under the said section 377(2).
- (5) In section 15(2) of the Finance Act 1952 (relief for small incomes), as amended by section 12(6) of the Finance Act 1963, for the reference to £680 (income limit for marginal relief) there shall be substituted a reference to £705.
- (6) In section 13 of the Finance Act 1957 (relief for persons over 65 with small incomes), as amended by section 14 of the Finance Act 1964, for the references to £360 and to £575 (the income limits for exemption) there shall be substituted references to £390 and £625; and (as regards the marginal relief) for the reference to £130 (the addition to the income limit) there shall be substituted a reference to £160.
- (7) Where a person is a registered blind person within the meaning of section 9 of the Finance Act 1962 (relief for blind persons) during part only of the year of assessment, that person, or, as the case may be, that person's husband, shall be entitled to relief under subsection (1) or (2) of that section in any case in which he would have been entitled to such relief if that person had been such a registered blind person throughout the year, but the amount of relief granted by virtue of this subsection shall be calculated in accordance with subsection (8) below.
- (8) For the purpose of calculating the said amount, the said section 9 shall have effect as if—
 - (a) for references in subsections (1) and (2) of that section to the amounts of any tax-free disability payments receivable by a person in the year of assessment there were substituted references to the amounts of any such payments receivable by him in the part of the year during which he was a registered blind person within the meaning of that section; and
 - (b) for references in the said subsection (1) to £100 (relief for one blind person) there were substituted references to that proportion of £100 which the period in the year of assessment during which the person in question was such a registered blind person bears to one year; and
 - (c) for references in the said subsection (2) to £200 (relief for blind couple) there were substituted references to that proportion of £200 which the sum of the periods in the year of assessment during which each of the persons in question was such a registered blind person bears to two years.

11 George Cross.

Annuities paid to holders of the George Cross by virtue of holding that award shall be disregarded for all the purposes of the Income Tax Acts.

12 Surtax on income under certain settlements.

- (1) In subsection (1) of section 415 of the Income Tax Act 1952 (under which income arising under a settlement is treated for the purposes of surtax as the income of the

settlor unless the income falls into one of the paragraphs of that subsection) paragraphs (a), (h) and (c) (which relate to income payable to or applicable for the benefit of individuals) shall cease to have effect.

- (2) In subsection (2) of the said section 415 (which has the effect that income arising under a settlement is treated for the purposes of surtax as the income of the settlor if it is income from property and that property, or any property or income derived from it, is, or will or may become payable to him or applicable for his benefit) for the words " payable to him or applicable for his benefit", where they first occur, there shall be substituted the words " payable to or applicable for the benefit of the settlor or the wife or husband of the settlor ", and, where they next occur, there shall be substituted the words " payable or applicable as aforesaid ".
- (3) Notwithstanding subsection (1) of this section, subsection (1) of the said section 415 shall not apply to income consisting of annual payments made—
- (a) under a partnership agreement, by a member of a partnership to or for the benefit of a person, or, if he is dead, the widow or dependants of a person, who has ceased to be a member of the partnership by retirement or death ; or
 - (b) by any person, in connection with the acquisition by him of the whole or part of a business, to or for the benefit of the person from whom it is acquired or, if he is dead, his widow or dependants,

being, in either case, payments made under a liability incurred for full consideration; or to income arising under a settlement made by one party to a marriage by way of provision for the other after the dissolution or annulment of the marriage or while they are separated under an order of a court or under a separation agreement, being income payable to or applicable for the benefit of that other party.

- (4) This section applies to settlements made on or after 7th April 1965.

13 Withdrawal of initial allowances for cars.

- (1) Subject to subsection (2) of this section, no initial allowance under Chapter II of Part X of the Income Tax Act 1952 shall be made in respect of any expenditure incurred after 6th April 1965 on the provision of road vehicles unless they are of a type not commonly used as private vehicles and unsuitable to be so used or are provided wholly or mainly for hire to or for the carriage of members of the public in the ordinary course of a trade.
- (2) Subsection (1) of this section shall not affect initial allowances under the said Chapter II in respect of any expenditure in so far as it consists (and is stated in the claim for the allowance to consist) of sums payable under a contract entered into on a date (to be specified in the claim) not later than the said 6th April.
- (3) Subsection (2) of section 41 of the Finance Act 1963 (which limits the amount which may be allowed by way of initial allowance for a vehicle of the kind to which subsection (1) of this section applies) shall cease to have effect, and accordingly—
- (a) in subsection (1) of that section for the words " the six following subsections " there shall be substituted the words " the five following subsections ";
 - (b) in subsection (3)(b) of that section (and in section 291 of the Income Tax Act 1952 as amended by that subsection) for the words " subsections (2) and (3) " there shall be substituted the words " subsection (3) "; and
 - (c) in subsection (6) of the said section 41 for the words " for the references to six hundred pounds and to five hundred pounds there were substituted references

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to sums which bear " there shall be substituted the words " for the reference to five hundred pounds there were substituted a reference to a sum which bears "; but this subsection shall not affect initial allowances in respect of expenditure incurred before 7th April 1965 or such expenditure as is mentioned in subsection (2) of this section, nor other allowances, or charges, in respect of vehicles the expenditure on the provision of which was incurred before that date or is such expenditure as is mentioned in that subsection.

- (4) This section shall be construed as if contained in Chapter II of Part X of the said Act of 1952.

14 Annual allowances for new ships.

- (1) Subject to the following subsections, annual (or writing-down) allowances under Chapter II of Part X of the Income Tax Act 1952 in respect of capital expenditure incurred after the beginning of the year 1965-66 on the provision of a new ship shall be computed in accordance with section 281 of that Act (normal method of computation) as if, instead of requiring such an allowance for a year of assessment to be five-fourths of the percentage therein specified of the relevant capital amount, that section required it to be so much of that amount as is specified by the person to whom the allowance is to be made in making his claim for the allowance; and accordingly (but subject as aforesaid) neither section 282 or 285 of that Act (alternative method of computation, and adjustments for abnormal use) nor section 35 of the Finance Act 1963 (rules for determination of rates of allowances) shall apply in relation to such allowances.
- (2) Subsection (1) above shall not apply to allowances falling to be made to a person in respect of expenditure on the provision of a ship treated as incurred by him by virtue of section 299 of the Income Tax Act 1952 (allowances to lessees), unless the contract of letting provides that he shall or may become the owner of the ship on the performance of the contract; and where the contract so provides, but without becoming the owner of the ship he ceases to be entitled (otherwise than on his death) to the benefit of the contract so far as it relates to the ship, subsection (1) above shall be deemed not to have applied to allowances falling to be made to him in respect of the ship.
- (3) Where subsection (1) above is to be deemed not to have applied to allowances for any period, there shall be made all such additional assessments and adjustments of assessments as may be necessary.
- (4) For the purposes of this section—
- (a) " new " means unused and not secondhand, but a ship shall not be treated as secondhand in relation to a claimant for an allowance in respect of it by reason of the property in the ship or any part thereof having previously passed to a person other than the claimant, if the ship has not been taken over from the builder by any such person; and
 - (b) " relevant capital amount " means the amount specified in section 281(1)(a) of the Income Tax Act 1952 as the amount by reference to which an annual allowance is to be computed.
- (5) Expenditure shall not be treated for the purposes of this section as having been incurred after the beginning of the year 1965-66 by reason only of section 279(2) of the Income Tax Act 1952 (which relates to expenditure incurred by a person for the purposes of a trade before he begins to carry it on).

15 Business entertaining expenses.

- (1) Subject to the provisions of this section—
- (a) no deduction shall be made in computing profits or gains chargeable to tax under Schedule D for any expenses incurred in providing business entertainment, and such expenses shall not be included in computing any expenses of management in respect of which relief may be claimed under the Income Tax Acts ;
 - (b) no deduction for expenses so incurred shall be made from emoluments chargeable to tax under Schedule E ; and
 - (c) for the purposes of Chapter II of Part X of the Income Tax Act 1952 (capital allowances for machinery and plant) the use of any asset for providing business entertainment shall be treated as use otherwise than for the purposes of a trade.
- (2) Subsection (1) of this section shall not apply to expenses incurred in, or the use of an asset for, the provision by a person carrying on a trade in the United Kingdom (in this section referred to as a " United Kingdom trader "), or by a member of his staff, of entertainment for an overseas customer of that person, being entertainment of a kind and on a scale which is reasonable having regard to all the circumstances.
- (3) The expenses to which paragraph (a) of subsection (1) of this section applies include, in the case of any person, any sums paid by him to, or on behalf of, or placed by him at the disposal of, a member of his staff exclusively for the purpose of defraying expenses incurred or to be incurred by him in providing business entertainment, but where—
- (a) any such sum falls to be included in his emoluments chargeable to tax under Schedule E; and
 - (b) the deduction or inclusion of that sum as mentioned in that paragraph falls to be disallowed in whole or in part by virtue of this section;
- paragraph (b) of that subsection shall not preclude the deduction of any expenses defrayed out of that sum.
- (4) Where by virtue of subsection (2) of this section a person claims to deduct or include any expenses as mentioned in paragraph (a) or (b) of subsection (1) of this section or claims any allowance under the provisions mentioned in paragraph (c) of that subsection he shall, if the inspector so requires, furnish particulars of the entertainment in question and of the person for whom it was provided; and Part III of the Finance Act 1960 (penalties) shall have effect as if this subsection were included among the provisions specified in column 3 of Schedule 6 to that Act.
- (5) For the purposes of this section " business entertainment " means entertainment (including hospitality of any kind) provided by a person or by a member of his staff in connection with a trade carried on by that person, but does not include anything provided by him for bona fide members of his staff unless its provision for them is incidental to its provision also for others.
- (6) For the purposes of this section " overseas customer " means, in relation to any United Kingdom trader—
- (a) any person who is not ordinarily resident nor carrying on a trade in the United Kingdom and avails himself, or may be expected to avail himself, in the course of a trade carried on by him outside the United Kingdom, of any goods, services or facilities which it is the trade of the United Kingdom trader to provide; and

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- (b) any person who is not ordinarily resident in the United Kingdom and is acting, in relation to such goods, services or facilities, on behalf of an overseas customer within paragraph (a) of this subsection or on behalf of any government or public authority of a country outside the United Kingdom.
- (7) In this section any reference to expenses incurred in, or to the use of an asset for, providing entertainment includes a reference to expenses incurred in, or to the use of an asset for, providing anything incidental thereto; references to a trade include references to any business, profession or vocation; and references to the members of a person's staff are references to persons employed by that person, directors of a company or persons engaged in the management thereof being for this purpose deemed to be persons employed by it.
- (8) This section shall apply in relation to the provision of a gift as it applies in relation to the provision of entertainment, except that it shall not by virtue of this subsection apply in relation to the provision for any person of a gift consisting of an article incorporating a conspicuous advertisement for the donor, being an article—
- (a) which is not food, drink, tobacco or a token or voucher exchangeable for goods; and
 - (b) the cost of which to the donor, taken together with the cost to him of any other such articles given by him to that person in the same year, does not exceed £1.
- (9) Nothing in this section shall be taken as precluding the -deduction of expenses incurred in, or any claim for capital allowances in respect of the use of an asset for, the provision by any person of anything which it is his trade to provide, and which is provided by him in the ordinary course of that trade for payment or, with the object of advertising to the public generally, gratuitously.
- (10) Paragraphs (a) and (b) of subsection (1) of this section apply to expenses incurred after 6th April 1965, and paragraph (c) of that subsection applies to use after that date.

16 Cost of maintenance etc. of agricultural land: restriction of relief under Finance Act 1963.

- (1) Section 29(4) of the Finance Act 1963 (under which a deduction is allowable in computing profits or gains chargeable under Case I or II of Schedule D for the year 1963-64 of the excess of certain maintenance payments over relief available under sections 99 to 101 of the Income Tax Act 1952 (general maintenance relief)), and paragraph 11 of Schedule 4 to that Act (under which relief may be given by reference to the excess of certain maintenance payments over relief available under the said sections 99 to 101, or under section 176(1)(g) of the Income Tax Act 1952) shall be amended as follows.
- (2) References in the said section 29(4) and in sub-paragraph (4) of the said paragraph 11 to any amount of relief under the said section 101 shall include, and be deemed from the passing of the Finance Act 1963 to have included, any additional amount of relief which, on a claim in that behalf, could have been allowed under the said section 101 if the assessments on the land in question, as reduced for the purposes of collection, had been sufficient for the purpose, so far as the additional amount which could have been so allowed is, under section 313 of the Income Tax Act 1952 (cost of maintenance etc. of agricultural land) to be treated as if it were the amount of an allowance falling to be made under the said Act by way of discharge or repayment of tax.

Short term capital gains.

17 Amendments of Case VII of Schedule D.

- (1) In section 10(2) of the Finance Act 1962 (which excludes from charge to tax gains accruing on disposals of land more than three years after acquisition and disposals of other assets more than six months after acquisition) for the words

“where the disposal occurs more than three years after the acquisition in the case of a disposal of land, or where the disposal occurs more than six months after the acquisition in any other case”

there shall be substituted the words

“where the disposal occurs more than twelve months after the acquisition”,
and section 14 of the Finance Act 1962 (disposal of land effected indirectly) shall cease to have effect.

- (2) In section 11(1) of the Finance Act 1962 (exemption of tangible movable property from Case VII) the words " with the exception of tangible movable property " shall cease to have effect, but the charge to tax thereby imposed shall have effect subject to the provisions of this and the next following section.
- (3) A mechanically propelled road vehicle constructed or adapted for the carriage of passengers shall not be a chargeable asset except for a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used.
- (4) Currency of any description other than sterling shall be chargeable assets except in relation to an acquisition and disposal by an individual for the personal expenditure outside the United Kingdom of himself or his family or dependants (including expenditure on the provision or maintenance of any residence outside the United Kingdom).
- (5) A gain shall be exempt from tax chargeable under Case VII if accruing from the acquisition and disposal by any person of a decoration awarded for valour or gallant conduct which he acquired otherwise than for consideration in money or money's worth.
- (6) Where in the year 1965-66 or any subsequent year of assessment an individual disposes by way of gift of an asset the market value of which at the time of the gift does not exceed one hundred pounds there shall be exempt from tax chargeable under Case VII any gains accruing to the donor on the disposal but this subsection, taken together with section 27(2) of this Act, shall not apply to gifts made by the same individual in the same year of assessment the total market value of which exceeds one hundred pounds, taking the market value of any gift at the time of the gift.
- (7) If the adjusted sale price and adjusted purchase price to be taken into account in computing the amount of a gain accruing from an acquisition and disposal of securities of one of the descriptions in Schedule 9 to this Act are both within the exempt price range specified in that Schedule for those securities a gain accruing on that disposal shall be exempt from tax chargeable under Case VII (and a loss so accruing shall not be an allowable loss) and if the range between those prices overlaps that exempt price range a proportion of a gain so accruing shall be so exempt, which shall be the proportion which the part of the range between those prices which overlaps that exempt price range bears to the whole of the range between those prices (and correspondingly a part of a loss so accruing shall not be an allowable loss).

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In this and the next following subsection "adjusted sale price" means the amount of the consideration for the disposal and "adjusted purchase price" means the amount of the consideration for the acquisition (that is the acquisition by the person making the disposal), both adjusted, where the nominal amount of the securities being disposed of is not one hundred pounds, to represent a price for a nominal amount of one hundred pounds.

- (8) If in consequence of a conversion on their redemption date of securities of one of the descriptions in the said Schedule any securities of that description and a new holding of Government securities are, under paragraph 10(2) of Schedule 9 to the Finance Act 1962 as applied by paragraph 11 of that Schedule, to be treated as the same asset acquired as the converted securities were acquired, and the adjusted purchase price of the converted securities is less than one hundred pounds then, in computing the gain accruing on an acquisition and disposal of the new holding, or any part of the new holding, there shall be added to the amount of the expenditure which is allowable as a deduction the amount of the gain which would have been exempted by virtue of the last foregoing subsection if the converted securities, or as the case may be the corresponding part of them, had been disposed of at the time of their redemption for a consideration equal to their nominal value.
- (9) If a claim is made under subsection (1) or subsection (2) of section 33 of this Act—
- (a) that section shall apply as if references in those subsections to the purposes of Part III of this Act included references to the purposes of Chapter II of Part II of the Finance Act 1962 (Case VII),
 - (b) tax shall not be chargeable under Case VII on a gain accruing to the claimant from the acquisition and disposal of, or of the interest in, the new assets unless the period between the date when the claimant acquired the old assets, or the interest in the old assets, and the date when he disposed of the new assets, or the interest in the new assets, is twelve months or less.

This subsection shall not be taken as applying the said section 33 where the disposal of, or of the interest in, the old assets occurred before 7th April 1965.

- (10) At the end of section 12(4) of the Finance Act 1962 (amount or value of consideration to be equated to amount or value attributed for income tax purposes) for the words "for that purpose" there shall be substituted the words "or the interest or right in or over it for that purpose", in section 12(5) of that Act (persons acting as nominees, etc.) for the words "(or for two or more persons jointly so entitled)" there shall be substituted the words "or for another person who would be so entitled but for being an infant or other person under disability (or for two or more persons who are or would be jointly so entitled)" and in the proviso to section 12(6) of that Act (residence of trustees) for the words "body corporate" there shall be substituted the word "person".
- (11) Schedule 9 to the Finance Act 1962 shall be amended as follows—
- (a) paragraph 6(1) (transactions between husband and wife) shall not apply in relation to a disposal of an asset if until the disposal the asset formed part of trading stock of a trade carried on by the one making the disposal, or if the asset is acquired as trading stock for the purposes of a trade carried on by the one acquiring the asset,
 - (b) in paragraph 8(6)(a) (identification of shares) for the reference to six months there shall be substituted a reference to twelve months,

- (c) for the purposes of paragraph 9(1) shares acquired for transfer or delivery after the date of transfer or delivery of the shares sold shall be deemed to have been acquired after the disposal of the shares sold,
 - (d) in paragraph 10(3) proviso before the words " consisting of" there shall be inserted " any consideration ",
 - (e) in paragraph 10(4) (reorganisation of share capital, etc.) references to any capital distribution from the company shall include references to any consideration given by any person, other than the company, in respect of the original shares,
 - (f) at the beginning of paragraph 20(4) (definition of connected persons) there shall be inserted the words " Except in relation to acquisitions or disposals of partnership assets pursuant to bona fide commercial arrangements ".
- (12) In this section references to a disposal chargeable under Case VII are references to cases where income tax under Case VII is chargeable on the gain accruing on the acquisition and disposal, or where it would be so chargeable if there were a gain so accruing.
- (13) This and the next following section shall be construed as one with Chapter II of Part II of the Finance Act 1962.
- (14) The foregoing provisions of this section shall not have effect in relation to an acquisition and disposal if either the acquisition or the disposal occurred before 7th April 1965, and the repeal by this section of section 14 of the Finance Act 1962 shall not have effect where the relevant land of the land-owning company mentioned in that section was acquired by that company before 7th April 1965.
- (15) Income tax shall not be charged by virtue of section 10 of the Finance Act 1962 in respect of an acquisition and disposal of land where—
- (a) either the acquisition or the disposal, whichever is the earlier, occurs on or before 6th April 1965 but the disposal or acquisition, whichever is the later, occurs after 6th April 1965, and
 - (b) the disposal or acquisition, whichever is the later, occurs more than twelve months after the acquisition or disposal (but not more than three years after),
- but in the case of a gain of any amount exempted by the foregoing provisions of this subsection, the gain shall be treated for the purposes of Part III of this Act as if it were a chargeable gain, as denned in Part III of this Act, and any loss so accruing shall be brought into account accordingly; and for those purposes the question whether any, and if so what, gain or loss so accrues shall accordingly be determined in accordance with the provisions applicable to income tax chargeable under Case VII of Schedule D and not in accordance with the provisions of Part III of this Act.

This subsection shall apply to an option or other right to acquire or dispose of land as it applies to land.

18 Amendments of Case VII of Schedule D: chattels sold for £1,000 or less.

- (1) There shall be exempt from tax chargeable under Case VII a gain accruing from the acquisition and disposal of an asset which is tangible movable property if the amount or value of the consideration for the disposal does not exceed one thousand pounds, and the amount of income tax (including surtax) chargeable under Case VII in respect of a gain accruing from the acquisition and disposal of an asset which is tangible

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movable property for a consideration exceeding one thousand pounds shall not exceed half the difference between that consideration and one thousand pounds.

For the purposes of this subsection the amount of the gain on which income tax is so chargeable shall be deemed to be the highest part of the income of the person charged for the year of assessment in question.

- (2) Subsection (1) above shall not affect section 10(4) of the Finance Act 1962 (losses) but for the purposes of the said section 10(4) the consideration for the disposal of any asset which is tangible movable property shall, if less than one thousand pounds, be deemed to be one thousand pounds and losses allowable under that subsection shall be restricted accordingly.
- (3) If two or more assets which have formed part of a set of articles of any description all owned at one time by one person are disposed of by that person, and—
 - (a) to the same person, or
 - (b) to persons who are acting in concert or who are, in the terms of paragraph 21 of Schedule 7 to this Act, connected persons,whether on the same or different occasions, those assets shall be treated for the purposes of subsections (1) and (2) of this section as a single asset but with any necessary apportionments of the reductions in tax, and in allowable losses, under subsections (1) and (2) of this section.
- (4) In applying subsections (1) and (2) of this section in a case where the disposal is of a right or interest in or over tangible movable property—
 - (a) in the first instance those subsections shall be applied in relation to the asset as a whole, taking the consideration as including the market value of what remains undisposed of, in addition to the actual consideration,
 - (b) where the sum of the actual consideration and that market value exceeds one thousand pounds, the limitation on the amount of income tax (including surtax) in subsection (1) shall be to half the difference between that sum and one thousand pounds multiplied by the fraction equal to the actual consideration divided by the said sum, and
 - (c) where that sum is less than one thousand pounds any loss shall be restricted under subsection (2) of this section by deeming the actual consideration to be the actual consideration plus the said fraction of the difference between the said sum and one thousand pounds.
- (5) Subsections (1) and (2) of this section shall not apply—
 - (a) in relation to a disposal of commodities of any description by a person dealing on a terminal market or dealing with or through a person ordinarily engaged in dealing on a terminal market, or
 - (b) in relation to a disposal of currency of any description.
- (6) This section does not have effect in relation to a gain or loss accruing on the acquisition and disposal of an asset if either the acquisition or the disposal occurred before 7th April 1965.