Finance Act 1990

1990 CHAPTER 29

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

Income tax rates and allowances

17 Rates and main allowances

(1) Income tax shall be charged for the year 1990-91, and—

(a) the basic rate shall be 25 per cent.;

(b) the basic rate limit shall be £20,700;

(c) the higher rate shall be 40 per cent.; and

(d) section 1(4) of the Taxes Act 1988 (indexation of basic rate limit) shall not apply.

(2) In sections 1(5) and 257C(2) of the Taxes Act 1988, for the words from "between" to the end there shall be substituted the words "during the period beginning with 6th April and ending with 17th May in the year of assessment."

(3) In section 828 of that Act (orders and regulations), in subsection (4), for "257(11)" there shall be substituted "257C".

(4) Subsections (2) and (3) above shall have effect for the year 1990-91 and subsequent years of assessment.

18 Relief for blind persons

In section 265(1) of the Taxes Act 1988, for "£540" there shall be substituted "£1,080".

Corporation tax rates

19 Charge and rate of corporation tax for 1990

Corporation tax shall be charged for the financial year 1990 at the rate of 35 per cent.

20 Small companies

(1) For the financial year 1990—

(a) the small companies' rate shall be 25 per cent., and

(b) the fraction mentioned in section 13(2) of the Taxes Act 1988 (marginal relief for small companies) shall be one-fortieth.

(2) In section 13(3) of that Act (limits of marginal relief), in paragraphs (a) and (b)—

(a) for "£150,000" there shall be substituted "£200,000", and

(b) for "£750,000" there shall be substituted "£1,000,000".

(3) Subsection (2) above shall have effect for the financial year 1990 and subsequent financial years; and where by virtue of that subsection section 13 of the Taxes Act 1988 has effect with different relevant maximum amounts in relation to different parts of a company's accounting period, then for the purposes of that section those parts shall be treated as if they were separate accounting periods and the profits and basic profits of the company for that period shall be apportioned between those parts.

Benefits in kind

21 Care for children

(1) The following section shall be inserted after section 155 of the Taxes Act 1988—

"**155A Care for children**

(1) Where a benefit consists in the provision for the employee of care for a child, section 154 does not apply to the benefit to the extent that it is provided in qualifying circumstances.

(2) For the purposes of subsection (1) above the benefit is provided in qualifying circumstances if—

(a) the child falls within subsection (3) below,

(b) the care is provided on premises which are not domestic premises,

(c) the condition set out in subsection (4) below or the condition set out in subsection (5) below (or each of them) is fulfilled, and

(d) in a case where the registration requirement applies, it is met.

(3) The child falls within this subsection if—

(a) he is a child for whom the employee has parental responsibility,

(b) he is resident with the employee, or

(c) he is a child of the employee and maintained at his expense.

(4) The condition is that the care is provided on premises which are made available by the employer alone.

(5) The condition is that—

(a) the care is provided under arrangements made by persons who include the employer,

(b) the care is provided on premises which are made available by one or more of those persons, and

(c) under the arrangements the employer is wholly or partly responsible for financing and managing the provision of the care.

(6) The registration requirement applies where—

(a) the premises on which the care is provided are required to be registered under section 1 of the Nurseries and Child-Minders Regulation Act 1948 or section 11 of the Children and Young Persons Act (Northern Ireland) 1968, or

(b) any person providing the care is required to be registered under section 71 of the Children Act 1989 with respect to the premises on which it is provided;

and the requirement is met if the premises are so registered or (as the case may be) the person is so registered.

(7) In subsection (3)(c) above the reference to a child of the employee includes a reference to a stepchild of his.

(8) In this section—

"care" means any form of care or supervised activity, whether or not provided on a regular basis, but excluding supervised activity provided primarily for educational purposes;

"child" means a person under the age of eighteen;

"domestic premises" means any premises wholly or mainly used as a private dwelling;

"parental responsibility" has the meaning given in section 3(1) of the Children Act 1989."

(2) In section 154(2) of the Taxes Act 1988 for the words "section 155" there shall be substituted the words "sections 155 and 155A".

(3) This section applies for the year 1990-91 and subsequent years of assessment.

22 Car benefits

(1) In Schedule 6 to the Taxes Act 1988 (taxation of directors and others in respect of cars) for Part I (tables of flat rate cash equivalents) there shall be substituted—

"**PART I**

TABLES OF FLAT RATE CASH EQUIVALENTS

Table A

CARS WITH AN ORIGINAL MARKET VALUE UP TO £19,250 AND HAVING A CYLINDER CAPACITY

Cylinder capacity of car in cubic centimetres	*Age of car at end of relevant year of assessment*	
	Under 4 years	4 years or more
1400 or less	£1,700	£1,150
More than 1400 but not more than 2000	£2,200	£1,500
More than 2000	£3,550	£2,350

Table B

CARS WITH AN ORIGINAL MARKET VALUE UP TO £19,250 AND NOT HAVING A CYLINDER CAPACITY

Original market value of car	*Age of car at end of relevant year of assessment*	
	Under 4 years	4 years or more
Less than £6,000	£1,700	£1,150
£6,000 or more but less than £8,500	£2,200	£1,500
£8,500 or more but not more than £19,250	£3,550	£2,350

Table C

CARS WITH AN ORIGINAL MARKET VALUE OF MORE THAN £19,250

Original market value of car	*Age of car at end of relevant year of assessment*	
	Under 4 years	4 years or more
More than £19,250 but not more than £29,000	£4,600	£3,100
More than £29,000	£7,400	£4,900"

(2) This section shall have effect for the year 1990-91 and subsequent years of assessment.

Mileage allowances

23 Limit on chargeable mileage profit

Schedule 4 to this Act (which contains provisions about sums paid in respect of travelling expenses) shall have effect.

Charities

24 Payroll deduction scheme

(1) In section 202(7) of the Taxes Act 1988 (which limits to £480 the deductions attracting relief) for "£480" there shall be substituted "£600".

(2) This section shall have effect for the year 1990-91 and subsequent years of assessment.

25 Donations to charity by individuals

(1) For the purposes of this section, a gift to a charity by an individual ("the donor") is a qualifying donation if—

(a) it is made on or after 1st October 1990,

(b) it satisfies the requirements of subsection (2) below, and

(c) the donor gives an appropriate certificate in relation to it to the charity.

(2) A gift satisfies the requirements of this subsection if—

(a) it takes the form of a payment of a sum of money;

(b) it is not subject to a condition as to repayment;

(c) it is not a covenanted payment to charity;

(d) it does not constitute a sum falling within section 202(2) of the Taxes Act 1988 (payroll deduction scheme);

(e) neither the donor nor any person connected with him receives a benefit in consequence of making it or, where the donor or a person connected with him does receive a benefit in consequence of making it, the relevant value in relation to the gift does not exceed two and a half per cent. of the amount of the gift and the amount to be taken into account for the purposes of this paragraph in relation to the gift does not exceed £250;

(f) it is not conditional on or associated with, or part of an arrangement involving, the acquisition of property by the charity, otherwise than by way of gift, from the donor or a person connected with him;

(g) the sum paid is not less than £600;

(h) the sum paid does not, when aggregated with any other qualifying donations already made by the donor in the relevant year of assessment, exceed £5,000,000; and

(i) the donor is resident in the United Kingdom at the time the gift is made.

(3) The reference in subsection (1)(c) above to an appropriate certificate is a reference to a certificate which is in such form as the Board may prescribe and contains statements to the following effect—

(a) that the gift satisfies the requirements of subsection (2) above, and

(b) that, either directly or by deduction from profits or gains brought into charge to tax in the relevant year of assessment, the donor has paid or will pay to the Board income tax of an amount equal to income tax at the basic rate for the relevant year of assessment on the grossed up amount of the gift.

(4) For the purposes of subsections (2)(e) above and (5) below, the relevant value in relation to a gift is—

(a) where there is one benefit received in consequence of making it which is received by the donor or a person connected with him, the value of that benefit;

(b) where there is more than one benefit received in consequence of making it which is received by the donor or a person connected with him, the aggregate value of all the benefits received in consequence of making it which are received by the donor or a person connected with him.

(5) The amount to be taken into account for the purposes of subsection (2)(e) above in relation to a gift to a charity is an amount equal to the aggregate of—

(a) the relevant value in relation to the gift, and

(b) the relevant value in relation to each gift already made to the charity by the donor in the relevant year of assessment which is a qualifying donation for the purposes of this section.

(6) Where a gift is a qualifying donation, the Income Tax Acts, except Part IX of the Taxes Act 1988 (annual payments), shall have effect, in their application to the donor, as if the making of the gift were the making of a covenanted payment to charity of an amount equal to the grossed up amount of the gift, being a payment falling to be made at the time the gift is made.

(7) Where the payment which the donor is treated by virtue of subsection (6) above as making would, if in fact made, be payable wholly or partly out of profits or gains brought into charge to income tax, they shall be assessed and charged with income tax on the donor without distinguishing the payment and in respect of so much of them as is equal to the payment and may be deducted in computing his total income the donor shall be charged at the appropriate rate.

(8) Where the payment which the donor is treated by virtue of subsection (6) above as making would, if in fact made, not be payable or not be wholly payable out of profits or gains brought into charge to income tax, the donor shall be assessable and chargeable with income tax at the appropriate rate on the payment, or on so much of it as would not be payable out of profits or gains brought into charge to income tax.

(9) For the purposes of subsections (7) and (8) above the appropriate rate is the basic rate for the year of assessment in which, in accordance with subsection (6) above, the payment falls to be made.

(10) The receipt by a charity of a gift which is a qualifying donation shall be treated for the purposes of the Tax Acts, in their application to the charity, as the receipt, under deduction of income tax at the basic rate for the relevant year of assessment, of an annual payment of an amount equal to the grossed up amount of the gift.

(11) Section 839 of the Taxes Act 1988 applies for the purposes of subsections (2) and (4) above.

(12) For the purposes of this section—

(a) "charity" has the same meaning as in section 506 of the Taxes Act 1988 and includes each of the bodies mentioned in section 507 of that Act;

(b) "covenanted payment to charity" has the meaning given by section 660(3) of the Taxes Act 1988;

(c) "relevant year of assessment", in relation to a gift, means the year of assessment in which the gift is made;

(d) references, in relation to a gift, to the grossed up amount are to the amount which after deducting income tax at the basic rate for the relevant year of assessment leaves the amount of the gift; and

(e) references to profits or gains brought into charge to income tax are to profits or gains which are treated for the purposes of section 348 of the Taxes Act 1988 as brought into charge to income tax.

26 Company donations to charity

(1) Section 339 of the Taxes Act 1988 (charges on income: donations to charity) shall be amended as follows.

(2) In subsection (1) after the word "payment" there shall be inserted the words "of a sum of money".

(3) In subsection (2) the words "and is not a close company" shall be omitted.

(4) The following subsections shall be inserted after subsection (3)—

"(3A) A payment made by a close company is not a qualifying donation if it is of a sum which leaves less than £600 after deducting income tax under subsection (3) above.

(3B) A payment made by a close company is not a qualifying donation if—

(a) it is made subject to a condition as to repayment, or

(b) the company or a connected person receives a benefit in consequence of making it and either the relevant value in relation to the payment exceeds two and a half per cent. of the amount given after deducting tax under section 339(3) or the amount to be taken into account for the purposes of this paragraph in relation to the payment exceeds £250.

(3C) For the purposes of subsections (3B) above and (3D) below, the relevant value in relation to a payment to a charity is—

(a) where there is one benefit received in consequence of making it which is received by the company or a connected person, the value of that benefit;

(b) where there is more than one benefit received in consequence of making it which is received by the company or a connected person, the aggregate value of all the benefits received in consequence of making it which are received by the company or a connected person.

(3D) The amount to be taken into account for the purposes of subsection (3B)(b) above in relation to a payment to a charity is an amount equal to the aggregate of—

(a) the relevant value in relation to the payment, and

(b) the relevant value in relation to each payment already made to the charity by the company in the accounting period in which the payment is made which is a qualifying donation within the meaning of this section.

(3E) A payment made by a close company is not a qualifying donation if it is conditional on, or associated with, or part of an arrangement involving, the acquisition of property by the charity, otherwise than by way of gift, from the company or a connected person.

(3F) A payment made by a company is not a qualifying donation unless the company gives to the charity to which the payment is made a certificate in such form as the Board may prescribe and containing—

(a) in the case of any company, a statement to the effect that the payment is one out of which the company has deducted tax under subsection (3) above, and

(b) in the case of a close company, a statement to the effect that the payment satisfies the requirements of subsections (3A) to (3E) above.

(3G) A payment made by a company is not a qualifying donation if the company is itself a charity."

(5) The following subsection shall be inserted after subsection (7)—

"(7A) In subsections (3B) to (3E) above references to a connected person are to a person connected with—

(a) the company, or

(b) a person connected with the company;

and section 839 applies for the purposes of this subsection."

(6) This section applies in relation to payments made on or after 1st October 1990.

27 Maximum qualifying company donations

(1) In section 338 of the Taxes Act 1988 (allowance of charges on income and capital) in subsection (2) for the words "to section 339" there shall be substituted the words "to sections 339 and 339A".

(2) In section 339 of that Act (charges on income: donations to charity) subsection (5) shall be omitted and in subsection (9) for "(5)" there shall be substituted "(4)".

(3) The following section shall be inserted after section 339 of that Act—

"**339A Maximum qualifying donations**

(1) If in a particular accounting period of a company the company has no associated company, a qualifying donation made by the company in that period shall not be allowable under section 338 by virtue of subsection (2)(b) of that section to the extent that, when taken together with any qualifying donations already made by the company in that period, the amount given, after deducting income tax under section 339(3), exceeds £5 million.

(2) If in a particular accounting period of a company the company has one or more associated companies, a qualifying donation made by the company in that period shall not be allowable under section 338 by virtue of subsection (2)(b) of that section to the extent that, when taken together with any qualifying donations already made by the company in that period, the amount given, after deducting income tax under section 339(3), exceeds the appropriate fraction of £5 million.

(3) Subsection (1) or (2) above shall not apply where—

(a) the company concerned is not a close company in the accounting period concerned, and

(b) in that period the maximum amount allowable under section 338 by virtue of subsection (2)(b) of that section ("the allowable maximum") is (apart from this subsection) less than a sum equal to 3 per cent. of the dividends paid on the company's ordinary share capital in that period ("the relevant sum");

and in such a case the allowable maximum in that period shall be the relevant sum.

(4) For the purposes of subsection (2) above, the appropriate fraction is a fraction whose numerator is one and whose denominator is one plus the number of associated companies.

(5) In applying subsections (1) to (4) above to any accounting period of a company, an associated company shall be disregarded if—

(a) it has not carried on any trade or business at any time in that accounting period (or, if an associated company during part only of that accounting period, at any time in that part of that accounting period), or

(b) it is a charity throughout that accounting period (or, if an associated company during part only of that accounting period, throughout that part of that accounting period).

(6) In determining for the purposes of this section how many associated companies a company has got in an accounting period or whether a company has an associated company in an accounting period, an associated company shall be counted even if it was an associated company for part only of the period, and two or more associated companies shall be counted even if they were associated companies for different parts of the period.

(7) For an accounting period of less than 12 months the figure of £5 million specified in subsections (1) and (2) above shall be proportionately reduced.

(8) For the purposes of this section a company is an associated company of another at a particular time if at that time one of the two has control of the other or both are under the control of the same person or persons; and in this subsection "control" shall be construed in accordance with section 416."

(4) This section applies in relation to accounting periods ending on or after 1st October 1990.

Savings

28 Tax-exempt special savings accounts

(1) After section 326 of the Taxes Act 1988 there shall be inserted—

"**326A Tax-exempt special savings accounts**

(1) Subject to the provisions of section 326B, any interest or bonus payable on a deposit account in respect of a period when it is a tax-exempt special savings account shall not be regarded as income for any income tax purpose.

(2) An account is a "tax-exempt special savings account" for the purposes of this section if the conditions set out in subsections (3) to (9) below and any further conditions prescribed by regulations made by the Board are satisfied when the account is opened; and subject to section 326B it shall continue to be such an account until the end of the period of five years beginning with the day on which it is opened, or until the death of the account-holder if that happens earlier.

(3) The account must be opened on or after 1st January 1991 by an individual aged 18 or more.

(4) The account must be with a building society or an institution authorised under the Banking Act 1987.

(5) The account must be identified as a tax-exempt special savings account and the account-holder must not simultaneously hold any other such account (with the same or any other society or institution).

(6) The account must not be a joint account.

(7) The account must not be held on behalf of a person other than the account-holder.

(8) The account must not be connected with any other account held by the account-holder or any other person; and for this purpose an account is connected with another if—

(a) either was opened with reference to the other, or with a view to enabling the other to be opened on particular terms, or with a view to facilitating the opening of the other on particular terms, and

(b) the terms on which either was opened would have been significantly less favourable to the holder if the other had not been opened.

(9) There must not be in force a notice given by the Board to the society or institution prohibiting it from operating new tax-exempt special savings accounts.

326B Loss of exemption for special savings accounts

(1) A tax-exempt special savings account shall cease to be such an account if at any time after it is opened any of the conditions set out in subsections (4) to (8) of section 326A, or any further condition prescribed by regulations made by the Board, is not satisfied, or if any of the events mentioned in subsection (2) below occurs.

(2) The events referred to in subsection (1) above are—

(a) the deposit of more than £3,000 in the account during the period of 12 months beginning with the day on which it is opened, more than

£1,800 in any of the succeeding periods of 12 months, or more than £9,000 in total;

(b) a withdrawal from the account which causes the balance to fall below an amount equal to the aggregate of—

(i) all the sums deposited in the account before the time of the withdrawal, and

(ii) an amount equal to income tax at the basic rate on any interest or bonus paid on the account before that time (and for this purpose the basic rate in relation to any interest or bonus is the rate that was the basic rate when the interest or bonus was paid);

(c) the assignment of any rights of the account-holder in respect of the account, or the use of such rights as security for a loan.

(3) If at any time an account ceases to be a tax-exempt special savings account by virtue of subsection (1) above, the Income Tax Acts shall have effect as if immediately after that time the society or institution had credited to the account an amount of interest equal to the aggregate of any interest and bonus payable in respect of the period during which the account was a tax-exempt special savings account.

326C Tax-exempt special savings accounts: supplementary

(1) The Board may make regulations—

(a) prescribing conditions additional to those set out in section 326A which must be satisfied if an account is to be or remain a tax-exempt special savings account;

(b) making provision for the giving by the Board to building societies and other institutions of notices prohibiting them from operating new tax-exempt special savings accounts, including provision about appeals against the giving of notices;

(c) requiring building societies and other institutions operating or proposing to operate tax-exempt special savings accounts to give information or send documents to the Board or to make documents available for inspection;

(d) making provision as to the transfer of tax-exempt special savings accounts from one building society or institution to another;

(e) generally for supplementing the provisions of sections 326A and 326B.

(2) The reference in section 326A to a deposit account shall be taken to include a reference to a share account with a building society, and accordingly that section, section 326B and subsection (1) above shall apply to such an account with the necessary modifications."

(2) In the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to comply with notices etc), in each column, before "regulations under section 333" there shall be inserted—

"regulations under section 326C;".

(3) In section 149B of the Capital Gains Tax Act 1979, for subsection (4) there shall be substituted—

"(4) Any bonus to which section 326 (certified contractual savings schemes) or 326A (tax-exempt special savings accounts) of the Taxes Act 1988 applies shall be disregarded for all purposes of the enactments relating to capital gains tax."

29 Extension of SAYE

In section 326 of the Taxes Act 1988 (income tax relief for SAYE)—

(a) in subsection (1), after paragraph (b) there shall be inserted the words "or

(c) in respect of money paid to an institution authorised under the Banking Act 1987,";

(b) in that subsection, for the words "be disregarded" onwards there shall be substituted the words "not be regarded as income for any income tax purpose.";

(c) in subsection (2), after the words "building society" there shall be inserted the words "or an institution authorised under the Banking Act 1987"; and

(d) after subsection (3) there shall be inserted—

"(4) In this section "certified contractual savings scheme" means, in relation to an institution authorised under the Banking Act 1987, a scheme—

(a) providing for periodical contributions by individuals for a specified period, and

(b) certified by the Treasury as corresponding to a scheme certified under subsection (2) above, and as qualifying for exemption under this section."

30 Building societies and deposit takers

Schedule 5 to this Act (which contains provisions relating to building societies, deposit-takers and investors) shall have effect.

Employee share ownership trusts

31 Conditions for roll-over relief

(1) Relief is available under section 33(1) below where each of the seven conditions set out in subsections (2) to (8) below is fulfilled.

(2) The first condition is that a person (the claimant) makes a disposal of shares, or his interest in shares, to the trustees of a trust which—

(a) is a qualifying employee share ownership trust at the time of the disposal, and

(b) was established by a company (the founding company) which immediately after the disposal was a trading company or the holding company of a trading group.

(3) The second condition is that the shares—

(a) are shares in the founding company,

(b) form part of the ordinary share capital of the company,

(c) are fully paid up,

(d) are not redeemable, and

(e) are not subject to any restrictions other than restrictions which attach to all shares of the same class or a restriction authorised by paragraph 7(2) of Schedule 5 to the Finance Act 1989.

(4) The third condition is that, at any time in the entitlement period, the trustees—

(a) are beneficially entitled to not less than 10 per cent. of the ordinary share capital of the founding company,

(b) are beneficially entitled to not less than 10 per cent. of any profits available for distribution to equity holders of the founding company, and

(c) would be beneficially entitled to not less than 10 per cent. of any assets of the founding company available for distribution to its equity holders on a winding-up.

(5) The fourth condition is that the claimant obtains consideration for the disposal and, at any time in the acquisition period, all the amount or value of the consideration is applied by him in making an acquisition of assets or an interest in assets (replacement assets) which—

(a) are, immediately after the time of the acquisition, chargeable assets in relation to the claimant, and

(b) are not shares in, or debentures issued by, the founding company or a company which is (at the time of the acquisition) in the same group as the founding company;

but the preceding provisions of this subsection shall have effect without the words ", at any time in the acquisition period," if the acquisition is made pursuant to an unconditional contract entered into in the acquisition period.

(6) The fifth condition is that, at all times in the proscribed period, there are no unauthorised arrangements under which the claimant or a person connected with him may be entitled to acquire any of the shares, or an interest in or right deriving from any of the shares, which are the subject of the disposal by the claimant.

(7) The sixth condition is that no chargeable event occurs in relation to the trustees in—

(a) the chargeable period in which the claimant makes the disposal,

(b) the chargeable period in which the claimant makes the acquisition, or

(c) any chargeable period falling after that mentioned in paragraph (a) above and before that mentioned in paragraph (b) above;

and "chargeable period" here means a year of assessment or (if the claimant is a company) an accounting period of the claimant for purposes of corporation tax.

(8) The seventh condition is that the disposal is made on or after 20th March 1990.

32 Conditions for relief: supplementary

(1) This section applies for the purposes of section 31 above.

(2) The entitlement period is the period beginning with the disposal, and ending on the expiry of twelve months beginning with the date of the disposal.

(3) The acquisition period is the period beginning with the disposal, and ending on the expiry of six months beginning with—

(a) the date of the disposal, or

(b) if later, the date on which the third condition (set out in section 31(4) above) first becomes fulfilled.

(4) The proscribed period is the period beginning with the disposal, and ending on—

(a) the date of the acquisition, or

(b) if later, the date on which the third condition (set out in section 31(4) above) first becomes fulfilled.

(5) All arrangements are unauthorised unless—

(a) they arise wholly from a restriction authorised by paragraph 7(2) of Schedule 5 to the Finance Act 1989, or

(b) they only allow one or both of the following as regards shares, interests or rights, namely, acquisition by a beneficiary under the trust and appropriation under an approved profit sharing scheme.

(6) An asset is a chargeable asset in relation to the claimant at a particular time if—

(a) at that time he is resident or ordinarily resident in the United Kingdom, and

(b) were the asset to be disposed of at that time, a gain accruing to him would be a chargeable gain.

(7) An asset is also a chargeable asset in relation to the claimant at a particular time if, were it to be disposed of at that time, any gain accruing to him on the disposal would be a chargeable gain—

(a) in respect of which he would be chargeable to capital gains tax under section 12(1) of the Capital Gains Tax Act 1979 (non-resident with United Kingdom branch or agency), or

(b) which would form part of his chargeable profits for corporation tax purposes by virtue of section 11(2)(b) of the Taxes Act 1988 (non-resident companies).

(8) But an asset is not a chargeable asset in relation to the claimant at a particular time if, were he to dispose of the asset at that time, he would fall to be regarded for the purposes of any double taxation relief arrangements as not liable in the United Kingdom to tax on any gains accruing to him on the disposal; and "double taxation relief arrangements" means arrangements having effect by virtue of section 788 of the Taxes Act 1988 (as extended to capital gains tax by section 10 of the Capital Gains Tax Act 1979).

(9) The question whether a trust is at a particular time a qualifying employee share ownership trust shall be determined in accordance with Schedule 5 to the Finance Act 1989; and "chargeable event" in relation to trustees has the meaning given by section 69 of that Act.

(10) The expressions "holding company", "trading company" and "trading group" have the meanings given by paragraph 1 of Schedule 20 to the Finance Act 1985; and "group" (except in the expression "trading group") shall be construed in accordance with section 272 of the Taxes Act 1970.

(11) "Ordinary share capital" in relation to the founding company means all the issued share capital (by whatever name called) of the company, other than capital the holders of which have a right to a dividend at a fixed rate but have no other right to share in the profits of the company.

(12) Schedule 18 to the Taxes Act 1988 (group relief: equity holders and profits or assets available for distribution) shall apply for the purposes of section 31(4) above as if—

(a) the trustees were a company,

(b) the references to section 413(7) to (9) of that Act were references to section 31(4) above,

(c) the reference in paragraph 7(1)(a) to section 413(7) of that Act were a reference to section 31(4) above, and

(d) paragraph 7(1)(b) were omitted.

33 The relief

(1) In a case where relief is available under this subsection the claimant shall, on making a claim in the period of two years beginning with the acquisition, be treated for the purposes of the 1979 Act—

(a) as if the consideration for the disposal were (if otherwise of a greater amount or value) of such amount as would secure that on the disposal neither a gain nor a loss accrues to him, and

(b) as if the amount or value of the consideration for the acquisition were reduced by the excess of the amount or value of the actual consideration for the disposal over the amount of the consideration which the claimant is treated as receiving under paragraph (a) above.

(2) Relief is available under subsection (3) below where—

(a) relief would be available under subsection (1) above but for the fact that part only of the amount or value mentioned in section 31(5) above is applied as there mentioned, and

(b) all the amount or value so mentioned except for a part which is less than the amount of the gain (whether all chargeable gain or not) accruing on the disposal is so applied.

(3) In a case where relief is available under this subsection the claimant shall, on making a claim in the period of two years beginning with the acquisition, be treated for the purposes of the 1979 Act—

(a) as if the amount of the gain accruing on the disposal were reduced to the amount of the part mentioned in subsection (2)(b) above, and

(b) as if the amount or value of the consideration for the acquisition were reduced by the amount by which the gain is reduced under paragraph (a) above.

(4) Nothing in subsection (1) or (3) above shall affect the treatment for the purposes of the 1979 Act of the other party to the disposal or of the other party to the acquisition.

(5) The provisions of the 1979 Act fixing the amount of the consideration deemed to be given for a disposal or acquisition shall be applied before the preceding provisions of this section are applied.

(6) In this section "the 1979 Act" means the Capital Gains Tax Act 1979.

34 Dwelling-houses special provision

(1) Subsection (2) below applies where—

(a) a claim is made under section 33 above,

(b) immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,

(c) the asset is a dwelling-house or part of a dwelling-house or land, and

(d) there was a time in the period beginning with the acquisition and ending with the time when section 33(1) or (3) above falls to be applied such that, if the asset (or an interest in it) were disposed of at that time, it would be within section 101(1) of the Capital Gains Tax Act 1979 (relief on disposal of private residence) and the individual there mentioned would be the claimant or the claimant's spouse.

(2) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant.

(3) Subsection (4) below applies where—

(a) the provisions of section 33(1) or (3) above have been applied,

(b) any replacement asset which, immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, was a chargeable asset in relation to the claimant consists of a dwelling-house or part of a dwelling-house or land, and

(c) there is a time after section 33(1) or (3) above has been applied such that, if the asset (or an interest in it) were disposed of at that time, it would be within section 101(1) of the Capital Gains Tax Act 1979 and the individual there mentioned would be the claimant or the claimant's spouse.

(4) In such a case—

(a) the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly, but

(b) any gain treated as accruing in consequence of the application of paragraph (a) above shall be treated as accruing at the time mentioned in subsection (3)(c) above or, if there is more than one such time, at the earliest of them.

(5) Subsection (6) below applies where—

(a) a claim is made under section 33 above,

(b) immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,

(c) the asset was an option to acquire (or to acquire an interest in) a dwelling-house or part of a dwelling-house or land,

(d) the option has been exercised, and

(e) there was a time in the period beginning with the exercise of the option and ending with the time when section 33(1) or (3) above falls to be applied such that, if the asset acquired on exercise of the option were disposed of at that time, it would be within section 101(1) of the Capital Gains Tax Act 1979 and the individual there mentioned would be the claimant or the claimant's spouse.

(6) In such a case the option shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant.

(7) Subsection (8) below applies where—

(a) the provisions of section 33(1) or (3) above have been applied,

(b) any replacement asset which, immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, was a chargeable asset in relation to the claimant consisted of an option to acquire (or to acquire an interest in) a dwelling-house or part of a dwelling-house or land,

(c) the option has been exercised, and

(d) there is a time after section 33(1) or (3) above has been applied such that, if the asset acquired on exercise of the option were disposed of at that time, it would be within section 101(1) of the Capital Gains Tax Act 1979 and the individual there mentioned would be the claimant or the claimant's spouse.

(8) In such a case—

(a) the option shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly, but

(b) any gain treated as accruing in consequence of the application of paragraph (a) above shall be treated as accruing at the time mentioned in subsection (7)(d) above or, if there is more than one such time, at the earliest of them.

(9) References in this section to an individual include references to a person entitled to occupy under the terms of a settlement.

35 Shares: special provision

(1) Subsection (2) below applies where—

(a) a claim is made under section 33 above,

(b) immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, any replacement asset was a chargeable asset in relation to the claimant,

(c) the asset consists of shares, and

(d) in the period beginning with the acquisition and ending when section 33(1) or (3) above falls to be applied relief is claimed under Chapter III of Part VII of the Taxes Act 1988 (business expansion scheme) in respect of the asset.

(2) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant.

(3) Subsection (4) below applies where—

(a) the provisions of section 33(1) or (3) above have been applied,

(b) any replacement asset which, immediately after the time of the acquisition mentioned in section 31(5) above and apart from this section, was a chargeable asset in relation to the claimant consists of shares, and

(c) after section 33(1) or (3) above has been applied relief is claimed under Chapter III of Part VII of the Taxes Act 1988 in respect of the asset.

(4) In such a case the asset shall be treated as if, immediately after the time of the acquisition mentioned in section 31(5) above, it was not a chargeable asset in relation to the claimant and adjustments shall be made accordingly.

36 Chargeable event when replacement assets owned

(1) Subsection (3) below applies where—

(a) the provisions of section 33(1) or (3) above are applied,

(b) a chargeable event occurs in relation to the trustees on or after the date on which the disposal is made (and whether the event occurs before or after the provisions are applied or the passing of this Act),

(c) the claimant was neither an individual who died before the chargeable event occurs nor trustees of a settlement which ceased to exist before the chargeable event occurs, and

(d) the condition set out below is fulfilled.

(2) The condition is that, at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the replacement assets.

(3) In a case where this subsection applies, the claimant or connected person (as the case may be) shall be deemed for all purposes of the Capital Gains Tax Act 1979—

(a) to have disposed of all the replacement assets immediately before the time when the chargeable event occurs, and

(b) immediately to have reacquired them,

at the relevant value.

(4) The relevant value is such value as secures on the deemed disposal a chargeable gain equal to—

(a) the amount by which the amount or value of the consideration mentioned in section 33(1)(b) above was treated as reduced by virtue of that provision (where it applied), or

(b) the amount by which the amount or value of the consideration mentioned in section 33(3)(b) above was treated as reduced by virtue of that provision (where it applied).

(5) In a case where subsection (3) above would apply if "all" read "any of" in subsection (2) above, subsection (3) shall nevertheless apply, but as if—

(a) in subsection (3)(a) "all the replacement assets" read "the replacement assets concerned", and

(b) the relevant value were reduced to whatever value is just and reasonable.

(6) Subsection (7) below applies where—

(a) subsection (3) above applies (whether or not by virtue of subsection (5) above), and

(b) before the time when the chargeable event occurs anything has happened as regards any of the replacement assets such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 33(1) or (3) above.

(7) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—

(a) the relevant value were reduced (or further reduced) to whatever value is just and reasonable, or

(b) the relevant value were such value as secures that on the deemed disposal neither a gain nor a loss accrues (if that is just and reasonable);

but paragraph (a) above shall not apply so as to reduce the relevant value below that mentioned in paragraph (b) above.

(8) For the purposes of subsection (6)(b) above the gain carried forward by virtue of section 33(1) or (3) above is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (4)(a) or (b) above, as the case may be).

(9) In this section "chargeable event" in relation to trustees has the meaning given by section 69 of the Finance Act 1989.

37 Chargeable event when replacement property owned

(1) Subsection (3) below applies where—

(a) paragraphs (a) to (c) of section 36(1) above are fulfilled, and

(b) the condition set out below is fulfilled.

(2) The condition is that—

(a) before the time when the chargeable event occurs, all the gain carried forward by virtue of section 33(1) or (3) above was in turn carried forward from all the replacement assets to other property on a replacement of business assets, and

(b) at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the property.

(3) In a case where this subsection applies, the claimant or connected person (as the case may be) shall be deemed for all purposes of the 1979 Act—

(a) to have disposed of all the property immediately before the time when the chargeable event occurs, and

(b) immediately to have reacquired it,

at the relevant value.

(4) The relevant value is such value as secures on the deemed disposal a chargeable gain equal to—

(a) the amount by which the amount or value of the consideration mentioned in section 33(1)(b) above was treated as reduced by virtue of that provision (where it applied), or

(b) the amount by which the amount or value of the consideration mentioned in section 33(3)(b) above was treated as reduced by virtue of that provision (where it applied).

(5) In a case where subsection (3) above would apply if "all the" in subsection (2) above (in one or more places) read "any of the", subsection (3) shall nevertheless apply, but as if—

(a) in subsection (3)(a) "all the property" read "the property concerned", and

(b) the relevant value were reduced to whatever value is just and reasonable.

(6) Subsection (7) below applies where—

(a) subsection (3) above applies (whether or not by virtue of subsection (5) above), and

(b) before the time when the chargeable event occurs anything has happened as regards any of the replacement assets, or any other property, such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 33(1) or (3) above.

(7) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—

(a) the relevant value were reduced (or further reduced) to whatever value is just and reasonable, or

(b) the relevant value were such value as secures that on the deemed disposal neither a gain nor a loss accrues (if that is just and reasonable);

but paragraph (a) above shall not apply so as to reduce the relevant value below that mentioned in paragraph (b) above.

(8) For the purposes of subsections (2) and (6)(b) above the gain carried forward by virtue of section 33(1) or (3) above is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (4)(a) or (b) above, as the case may be).

(9) For the purposes of subsection (2) above a gain is carried forward from assets to other property on a replacement of business assets if, by one or more claims under sections 115 to 121 of the 1979 Act, the chargeable gain accruing on a disposal of the assets is reduced, and as a result an amount falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of the other property.

(10) In this section "the 1979 Act" means the Capital Gains Tax Act 1979.

38 Chargeable event when bonds owned

(1) Subsection (3) below applies where—

(a) paragraphs (a) to (c) of section 36(1) above are fulfilled, and

(b) the condition set out below is fulfilled.

(2) The condition is that—

(a) all the replacement assets were shares (new shares) in a company or companies,

(b) there has been a transaction to which paragraph 10(1) of Schedule 13 to the Finance Act 1984 applies and as regards which all the new shares constitute the old asset and qualifying corporate bonds constitute the new asset, and

(c) at the time the chargeable event occurs, the claimant or a person then connected with him is beneficially entitled to all the bonds.

(3) In a case where this subsection applies, a chargeable gain shall be deemed to have accrued to the claimant or connected person (as the case may be); and the gain shall be deemed to have accrued immediately before the time when the chargeable event occurs and to be of an amount equal to the relevant amount.

(4) The relevant amount is an amount equal to the lesser of—

(a) the first amount, and

(b) the second amount.

(5) The first amount is—

(a) the amount of the chargeable gain that would be deemed to accrue under paragraph 10(1)(b) of Schedule 13 to the Finance Act 1984 if there were a disposal of all the bonds at the time the chargeable event occurs, or

(b) nil, if an allowable loss would be so deemed to accrue if there were such a disposal.

(6) The second amount is an amount equal to—

(a) the amount by which the amount or value of the consideration mentioned in section 33(1)(b) above was treated as reduced by virtue of that provision (where it applied), or

(b) the amount by which the amount or value of the consideration mentioned in section 33(3)(b) above was treated as reduced by virtue of that provision (where it applied).

(7) In a case where subsection (3) above would apply if "all the" in subsection (2) above (in one or more places) read "any of the", subsection (3) shall nevertheless apply, but as if—

(a) in subsection (5) above "all the bonds" read "the bonds concerned",

(b) the second amount were reduced to whatever amount is just and reasonable, and

(c) the relevant amount were reduced accordingly.

(8) Subsection (9) below applies where—

(a) subsection (3) above applies (whether or not by virtue of subsection (7) above), and

(b) before the time when the chargeable event occurs anything has happened as regards any of the new shares, or any of the bonds, such that it can be said that a charge has accrued in respect of any of the gain carried forward by virtue of section 33(1) or (3) above.

(9) If in such a case it is just and reasonable for subsection (3) above to apply as follows, it shall apply as if—

(a) the second amount were reduced (or further reduced) to whatever amount is just and reasonable, and

(b) the relevant amount were reduced (or further reduced) accordingly (if the second amount is less than the first amount).

(10) But nothing in subsection (9) above shall have the effect of reducing the second amount below nil.

(11) For the purposes of subsection (8)(b) above the gain carried forward by virtue of section 33(1) or (3) above is the gain represented by the amount which by virtue of either of those provisions falls to be deducted from the expenditure allowable in computing a gain accruing on the disposal of replacement assets (that is, the amount found under subsection (6)(a) or (b) above, as the case may be).

39 Information

(1) An inspector may by notice in writing require a return to be made by the trustees of an employee share ownership trust in a case where—

(a) a disposal of shares, or an interest in shares, has at any time been made to them, and

(b) a claim is made under section 33(1) or (3) above.

(2) Where he requires such a return to be made the inspector shall specify the information to be contained in it.

(3) The information which may be specified is information the inspector needs for the purposes of sections 36 to 38 above, and may include information about—

(a) expenditure incurred by the trustees;

(b) assets acquired by them;

(c) transfers of assets made by them.

(4) The information which may be required under subsection (3)(a) above may include the purpose of the expenditure and the persons receiving any sums.

(5) The information which may be required under subsection (3)(b) above may include the persons from whom the assets were acquired and the consideration furnished by the trustees.

(6) The information which may be required under subsection (3)(c) above may include the persons to whom assets were transferred and the consideration furnished by them.

(7) In a case where section 33(1) or (3) above has been applied, the inspector shall send to the trustees of the employee share ownership trust concerned a certificate stating—

(a) that the provision concerned has been applied, and

(b) the effect of the provision on the consideration for the disposal or on the amount of the gain accruing on the disposal (as the case may be).

(8) For the purposes of this section, the question whether a trust is an employee share ownership trust shall be determined in accordance with Schedule 5 to the Finance Act 1989.

(9) In the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to comply with notices etc.) at the end of the first column there shall be inserted—

"Section 39 of the Finance Act 1990."

40 Other enactments

(1) Section 117 of the 1979 Act (roll-over relief: depreciating assets) shall be amended as mentioned in subsections (2) to (4) below.

(2) In subsection (1) after "116 above" there shall be inserted "and section 33 of the Finance Act 1990".

(3) The following subsection shall be inserted after subsection (2)—

"(2A) Where section 33 of the Finance Act 1990 has effect subject to the provisions of this section, subsection (2)(b) above shall have effect as if it read—

"(b) section 36(3) of the Finance Act 1990 applies as regards asset No.2 (whether or not by virtue of section 36(5)), or".

(4) In subsection (3) for "and so claims" there shall be substituted "and claims".

(5) Where a charge can be said to accrue by virtue of section 36 or 37 above in respect of any of the gain carried forward by virtue of section 33(1) or (3) above, so much of the gain charged shall not be capable of being carried forward (from assets to other property or from property to other property) under sections 115 to 121 of the 1979 Act on a replacement of business assets.

(6) For the purpose of construing subsection (5) above—

(a) what of the gain has been charged shall be found in accordance with what is just and reasonable;

(b) section 37(8) and (9) above shall apply.

(7) In a case where—

(a) section 38 above applies in the case of bonds,

(b) subsequently a disposal of the bonds occurs as mentioned in paragraph 10(1)(b) of Schedule 13 to the Finance Act 1984, and

(c) a chargeable gain is deemed to accrue under paragraph 10(1)(b),

the chargeable gain shall be reduced by the relevant amount found under section 38 above or (if the amount exceeds the gain) shall be reduced to nil.

(8) The relevant amount shall be apportioned where the subsequent disposal is of some of the bonds mentioned in subsection (7)(a) above; and subsection (7) shall apply accordingly.

(9) In this section "the 1979 Act" means the Capital Gains Tax Act 1979."

Insurance companies and friendly societies

41 Apportionment of income etc

Schedule 6 to this Act (which makes provision about the apportionment of income etc. and related provision) shall have effect.

42 Overseas life assurance business

Schedule 7 to this Act (which makes provision about the taxation of overseas life assurance business) shall have effect.

43 Deduction for policy holders' tax

(1) In section 82(1)(a) of the Finance Act 1989 (computation of profits on Case I basis), for the words ", in respect of the period, are allocated to or expended on behalf of policy holders or annuitants" there shall be substituted the words "are allocated to, and any amounts of tax or foreign tax which are expended on behalf of, policy holders or annuitants in respect of the period".

(2) In section 436(3) of the Taxes Act 1988 (modified application of section 82 in relation to computations of profits of general annuity business or pension business), the words "and of the words "tax or" in section 82(1)(a)" shall be added at the end of paragraph (a).

(3) The Finance Act 1989 shall be deemed always to have had effect with the amendment made by subsection (1) above, and the amendment made by subsection (2) above shall have the same effect as, by virtue of section 84(5)(b) of that Act, it would have had if it had been made by Schedule 8 to that Act.

44 Reinsurance commissions

(1) In section 85(2) of the Finance Act 1989 (receipts excluded from charge under Case VI of Schedule D), after paragraph (c) there shall be inserted—

"(ca) any reinsurance commission; or".

(2) In section 86 of the Finance Act 1989 (spreading of relief for expenses), at the end of subsection (1) there shall be added the words "and less any reinsurance commissions falling within section 76(1)(ca) of that Act".

(3) In section 76(1) of the Taxes Act 1988 (treatment of expenses of management), after paragraph (c) there shall be inserted—

"(ca) there shall also be deducted from the amount treated as the expenses of management for any accounting period any reinsurance commission earned in the period which is referable to basic life assurance business; and".

(4) Sections 85 and 86 of the Finance Act 1989 shall be deemed always to have had effect with the amendments made by subsections (1) and (2) above, and section 76 of the Taxes Act 1988 shall have effect as if the amendment made by subsection (3) above had been included among those made by section 87 of the Finance Act 1989.

(5) Nothing in subsection (2) above applies to commissions in respect of the reinsurance of liabilities assumed by the recipient company in respect of insurances made before 14th March 1989, but without prejudice to the application of that subsection to any reinsurance commission attributable to a variation on or after that date in a policy issued in respect of such an insurance; and for this purpose the exercise of any rights conferred by a policy shall be regarded as a variation of it.

45 Policy holders' share of profits etc

(1) In section 88 of the Finance Act 1989 (corporation tax: policy holders' fraction of profits), in subsection (1) for the words "the policy holders' fraction of its relevant profits for any accounting period shall" there shall be substituted the words—

"(a) the policy holders' share of the relevant profits for any accounting period, or

(b) where the business is mutual business, the whole of those profits

shall".

(2) In subsection (4) of that section, for the word "fraction" there shall be substituted the word "share", and after the words "that period" there shall be inserted the words ", or where the business is mutual business the whole of those profits,".

(3) For section 89 of that Act (which defines the shareholders' and policy holders' fractions) there shall be substituted—

"**89 Policy holders' share of profits**

(1) The references in section 88 above to the policy holders' share of the relevant profits for an accounting period of a company carrying on life assurance business are references to the amount arrived at by deducting from those profits the Case I profits of the company for the period in respect of the business, reduced in accordance with subsection (2) below.

(2) For the purposes of subsection (1) above, the Case I profits for a period shall be reduced by—

(a) the amount, so far as unrelieved, of any franked investment income arising in the period as respects which the company has made an election under section 438(6) of the Taxes Act 1988, and

(b) the shareholders' share of any other unrelieved franked investment income arising in the period from investments held in connection with the business.

(3) For the purposes of this section "the shareholders' share" in relation to any income is so much of the income as is represented by the fraction

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

where—

A is an amount equal to the Case I profits of the company for the period in question in respect of its life assurance business, and

B is an amount equal to the excess of the company's relevant non-premium income and relevant gains over its relevant expenses and relevant interest for the period.

(4) Where there is no such excess as is mentioned in subsection (3) above, or where the Case I profits are greater than any excess, the whole of the income shall be the shareholders' share; and (subject to that) where there are no Case I profits, none of the income shall be the shareholders' share.

(5) In subsection (3) above the references to the relevant non-premium income, relevant gains, relevant expenses and relevant interest of a company for an accounting period are references respectively to the following items as brought into account for the period, so far as referable to the company's life assurance business,—

(a) the company's investment income from the assets of its long-term business fund together with its other income, apart from premiums;

(b) any increase in the value (whether realised or not) of those assets;

(c) expenses payable by the company;

(d) interest payable by the company;

and if for any period there is a reduction in the value referred to in paragraph (b) above (as brought into account for the period), that reduction shall be taken into account as an expense of the period.

(6) Except in so far as regulations made by the Treasury otherwise provide, in this section "brought into account" means brought into account in the revenue account prepared for the purposes of the Insurance Companies Act 1982; and where the company's period of account does not coincide with the accounting period, any reference to an amount brought into account for the accounting period is a reference to the corresponding amount brought into account for the period of account in which the accounting period is comprised, proportionately reduced to reflect the length of the accounting period as compared with the length of the period of account.

(7) In this section "Case I profits" means profits computed in accordance with the provisions of the Taxes Act 1988 applicable to Case I of Schedule D.

(8) For the purposes of this section franked investment income is "unrelieved" if—

(a) it has not been excluded from charge to tax by virtue of any provision,
(b) no tax credit comprised in it has been paid, and
(c) no relief has been allowed against it by deduction or set-off."

(4) In subsection (3) of section 434 of the Taxes Act 1988 (franked investment income etc.)—
(a) for the words "policy holders' fraction" in both places where they occur there shall be substituted the words "policy holders' share";
(b) in paragraph (a), after the word "income" there shall be inserted the words "from investments held in connection with the company's life assurance business";
(c) in paragraph (b), for the words "only to the shareholders' fraction of that income" there shall be substituted the words "to that income excluding the amount within paragraph (a) above".

(5) In subsection (3A) of that section, for the word "fraction" there shall be substituted the word "share".

(6) In subsection (6) of that section, for the word "therefrom" onwards there shall be substituted the words "the policy holders' share of the relevant profits".

(7) After subsection (6) of that section there shall be inserted—

"(6A) For the purposes of this section—
(a) "the policy holders' share" of any franked investment income is so much of that income as is not the shareholders' share within the meaning of section 89 of the Finance Act 1989, and
(b) "the policy holders' share of the relevant profits" has the same meaning as in section 88 of that Act."

(8) In section 434A of the Taxes Act 1988—
(a) in subsection (1), for the word "fraction" there shall be substituted the word "share", and
(b) in subsection (2), for the words "the relevant profits" onwards there shall be substituted the words ""the policy holders' share of the relevant profits" has the same meaning as in section 88 of the Finance Act 1989".

(9) In section 438 of the Taxes Act 1988, in subsection (6) after the words "part of its" there shall be inserted the word "relevant", and after that subsection there shall be inserted—

"(6A) In subsection (6) above "relevant franked investment income" means the shareholders' share of franked investment income within subsection (1) above, and for this purpose "shareholders' share" has the same meaning as for the purposes of section 89 of the Finance Act 1989."

(10) The Finance Act 1989 shall be deemed always to have had effect with the amendments made by subsections (1) to (3) above, and the amendments made by subsections (4) to (9) above shall have the same effect as, by virtue of section 84(5)(b) of that Act, they would have had if they had been made by Schedule 8 to that Act.

(11) Paragraphs 1 and 3(3) of Schedule 8 to the Finance Act 1989 shall be deemed never to have had effect.

46 Annual deemed disposal of holdings of unit trusts etc

(1) Where at the end of an accounting period the assets of an insurance company's long term business fund include—

(a) rights under an authorised unit trust, or

(b) relevant interests in an offshore fund,

then, subject to the following provisions of this section and to section 47 below, the company shall be deemed for the purposes of corporation tax on capital gains to have disposed of and immediately re-acquired each of the assets concerned at its market value at that time.

(2) Subsection (1) above shall not apply to assets linked solely to pension business or to assets of the overseas life assurance fund, and in relation to other assets (apart from assets linked solely to basic life assurance business) shall apply only to the relevant chargeable fraction of each class of asset.

(3) For the purposes of subsection (2) above "the relevant chargeable fraction" in relation to linked assets is the fraction of which—

(a) the denominator is the mean of such of the opening and closing long term business liabilities as are liabilities in respect of benefits to be determined by reference to the value of linked assets, other than assets linked solely to basic life assurance business or pension business and assets of the overseas life assurance fund; and

(b) the numerator is the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of business the profits of which are not charged to tax under Case I or Case VI of Schedule D (disregarding section 85 of the Finance Act 1989).

(4) For the purposes of subsection (2) above "the relevant chargeable fraction" in relation to assets other than linked assets is the fraction of which—

(a) the denominator is the aggregate of—

(i) the mean of the opening and closing long term business liabilities, other than liabilities in respect of benefits to be determined by reference to the value of linked assets and liabilities of the overseas life assurance business, and

(ii) the mean of the opening and closing amounts of the investment reserve; and

(b) the numerator is the aggregate of—

(i) the mean of such of the opening and closing liabilities within paragraph (a) above as are liabilities of business the profits of which are not charged to tax under Case I or Case VI of Schedule D (disregarding section 85 of the Finance Act 1989), and

(ii) the mean of the appropriate parts of the opening and closing amounts of the investment reserve.

(5) For the purposes of this section an interest is a "relevant interest in an offshore fund" if—

(a) it is a material interest in an offshore fund for the purposes of Chapter V of Part XVII of the Taxes Act 1988, or

(b) it would be such an interest if the shares and interests excluded by subsections (6) and (8) of section 759 of that Act were limited to shares or interests in trading companies.

(6) For the purposes of this section the amount of an investment reserve and the "appropriate part" of it shall be determined in accordance with section 432A(8) and (9) of the Taxes Act 1988.

(7) In this section—

"authorised unit trust" has the same meaning as in section 468 of the Taxes Act 1988;

"market value" has the same meaning as in the Capital Gains Tax Act 1979;

"trading company" means a company—

(a) whose business consists of the carrying on of insurance business, or the carrying on of any other trade which does not consist to any extent of dealing in commodities, currency, securities, debts or other assets of a financial nature, or

(b) whose business consists wholly or mainly of the holding of shares or securities of trading companies which are its 90 per cent. subsidiaries;

and in this section and section 47 below other expressions have the same meanings as in Chapter I of Part XII of the Taxes Act 1988.

(8) Schedule 8 to this Act (which contains transitional provisions relating to the charge imposed by this section) shall have effect.

(9) Subject to the provisions of Schedule 8, this section shall have effect in relation to accounting periods beginning on or after 1st January 1991 or, where the Treasury by order appoint a later day, in relation to accounting periods beginning on or after that day (and not in relation to any earlier accounting period, even if the order is made after 1st January 1991 and the period has ended before it is made).

47 Spreading of gains and losses under section 46

(1) Any chargeable gains or allowable losses which would otherwise accrue on disposals deemed by virtue of section 46 above to have been made at the end of a company's accounting period shall be treated as not accruing to it, but instead—

(a) there shall be ascertained the difference ("the net amount") between the aggregate of those gains and the aggregate of those losses, and

(b) one seventh of the net amount shall be treated as a chargeable gain or, where it represents an excess of losses over gains, as an allowable loss accruing to the company at the end of the accounting period, and

(c) a further one seventh shall be treated as a chargeable gain or, as the case may be, as an allowable loss accruing at the end of each succeeding accounting period until the whole amount has been accounted for.

(2) For any accounting period of less than one year, the fraction of one seventh referred to in subsection (1)(c) above shall be proportionately reduced; and where this subsection has had effect in relation to any accounting period before the last for which subsection (1)(c) above applies, the fraction treated as accruing at the end of that last accounting period shall also be adjusted appropriately.

(3) Where—

(a) the net amount for an accounting period of an insurance company represents an excess of gains over losses,

(b) the net amount for one of the next six accounting periods (after taking account of any reductions made by virtue of this subsection) represents an excess of losses over gains,

(c) there is (after taking account of any such reductions) no net amount for any intervening accounting period, and

(d) within two years after the end of the later accounting period the company makes a claim for the purpose in respect of the whole or part of the net amount for that period,

the net amounts for both the earlier and the later period shall be reduced by the amount in respect of which the claim is made.

(4) Subject to subsection (5) below, where a company ceases to carry on long term business before the end of the last of the accounting periods for which subsection (1) (c) above would apply in relation to a net amount, the fraction of that amount that is treated as accruing at the end of the accounting period ending with the cessation shall be such as to secure that the whole of the net amount has been accounted for.

(5) Where there is a transfer of the whole or part of the long term business of an insurance company ("the transferor") to another company ("the transferee") in accordance with a scheme sanctioned by a court under section 49 of the Insurance Companies Act 1982, any chargeable gain or allowable loss which (assuming that the transferor had continued to carry on the business transferred) would have accrued to the transferor by virtue of subsection (1) above after the transfer shall instead be deemed to accrue to the transferee.

(6) Where subsection (5) above has effect, the amount of the gain or loss accruing at the end of the first accounting period of the transferee ending after the day when the transfer takes place shall be calculated as if that accounting period began with the day after the transfer.

(7) Where the transfer is of part only of the transferor's long term business, subsection (5) above shall apply only to such part of any amount to which it would otherwise apply as is appropriate.

(8) Any question arising as to the operation of subsection (7) above shall be determined by the Special Commissioners who shall determine the question in the same manner as they determine appeals; but both the transferor and transferee shall be entitled to appear and be heard or to make representations in writing.

48 Transfers of long term business

Schedule 9 to this Act (which makes provision about the tax consequences of certain transfers of long term business by insurance companies) shall have effect.

49 Friendly societies: increased tax exemption

(1) In subsection (2) of section 460 of the Taxes Act 1988 (exemption from tax for profits of friendly society arising from life or endowment business), in paragraph (c)—

(a) in sub-paragraph (i), for "£100" there shall be substituted "£150"; and

(b) after that sub-paragraph there shall be inserted—

"(ia) where the profits relate to contracts made after 31st August 1987 but before 1st September 1990, of the assurance of gross sums under contracts under

which the total premiums payable in any period of 12 months exceed £100;".

(2) In subsection (3) of that section, for the words "of subsection (2)(c)(i)" there shall be substituted the words "of subsection (2)(c)(i) or (ia)".

(3) In subsection (3) of section 464 of that Act (maximum benefits payable to members of friendly societies), for the words from "Kingdom)" to the end there shall be substituted the words "Kingdom)—

(a) contracts under which the total premiums payable in any period of 12 months exceed £150; or

(b) contracts made before 1st September 1990 under which the total premiums payable in any period of 12 months exceed £100,

unless all those contracts were made before 1st September 1987."

(4) In subsection (4) of that section, for the word "limit" there shall be substituted the word "limits".

(5) In paragraph 3(8)(b)(ii) of Schedule 15 to that Act (amount of premiums to be disregarded in determining whether a policy meets conditions for it to be a qualifying policy), after the word "premiums" there shall be inserted the words "or, where those premiums are payable otherwise than annually, an amount equal to 10 per cent. of those premiums if that is greater".

50 Friendly societies: application of enactments

(1) Section 463 of the Taxes Act 1988 (application to life or endowment business of friendly societies of Corporation Tax Acts as they apply to mutual life assurance business) shall be renumbered as subsection (1) of that section.

(2) After that provision as so renumbered there shall be added—

"(2) The provisions of the Corporation Tax Acts which apply on the transfer of the whole or part of the long term business of an insurance company to another company shall apply in the same way—

(a) on the transfer of the whole or part of the business of a friendly society to another friendly society (and on the amalgamation of friendly societies), and

(b) on the transfer of the whole or part of the business of a friendly society to a company which is not a friendly society (and on the conversion of a friendly society into such a company),

so however that the Treasury may by regulations provide that those provisions as so applied shall have effect subject to such modifications and exceptions as may be prescribed by the regulations.

(3) The Treasury may by regulations provide that the provisions of the Corporation Tax Acts which apply on the transfer of the whole or part of the long term business of an insurance company to another company shall have effect where the transferee is a friendly society subject to such modifications and exceptions as may be prescribed by the regulations.

(4) Regulations under this section may make different provision for different cases and may include provision having retrospective effect."

Unit and investment trusts etc.

51 Authorised unit trusts

The following sections shall be inserted immediately before section 469 of the Taxes Act 1988—

"**468E Authorised unit trusts: corporation tax**

(1) This section has effect as regards an accounting period of the trustees of an authorised unit trust ending after 31st December 1990.

(2) Subject to subsection (3) below, the rate of corporation tax for a financial year shall be deemed to be the rate at which income tax at the basic rate is charged for the year of assessment which begins on 6th April in the financial year concerned.

(3) Where the period begins before 1st January 1991, subsection (2) above shall only apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1991 and subsection (4) below shall apply for the purpose of computing corporation tax chargeable for so much of the period as falls in the financial year 1990.

(4) So much of the period as falls after 31st December 1990 and before 1st April 1991 shall be deemed to fall in a financial year for which the rate of corporation tax is the rate at which income tax at the basic rate is charged for the year 1990-91.

(5) Subsections (3) and (4) above shall not apply where the authorised unit trust concerned is a certified unit trust as respects the period.

(6) Where the period begins after 31st December 1990, section 338 shall have effect as if any reference to interest of any description were a reference to interest of that description on borrowing of a relevant description.

(7) Where the authorised unit trust concerned is a certified unit trust as respects the period, subsection (6) above shall have effect without the words preceding "section 338".

(8) For the purposes of subsection (6) above borrowing is of a relevant description if it is borrowing in respect of which there has been no breach during the accounting period of the duties imposed on the manager of the scheme by regulations under section 81 of the Financial Services Act 1986 with respect to borrowing by the trustees of the scheme.

(9) The Treasury may by regulations provide that for subsection (8) above (as it has effect for the time being) there shall be substituted a subsection containing a different definition of what constitutes borrowing of a relevant description for the purposes of subsection (6) above.

(10) Regulations under subsection (9) above may contain such supplementary, incidental, consequential or transitional provision as the Treasury think fit.

(11) In this section "certified unit trust" means, as respects an accounting period, a unit trust scheme in the case of which—

(a) an order under section 78 of the Financial Services Act 1986 is in force during the whole or part of that accounting period, and

(b) a certificate under section 78(8) of that Act, certifying that the scheme complies with the conditions necessary for it to enjoy the rights conferred by the UCITS directive, has been issued before or at any time during that accounting period.

(12) In this section—

"authorised unit trust" has the same meaning as in section 468,

"the UCITS directive" means the directive of the Council of the European Communities, dated 20th December 1985, on the co-ordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (no.85/611/EEC), and

"unit trust scheme" has the same meaning as in section 469.

468F Authorised unit trusts: distributions

(1) Subsection (2) below applies where—

(a) as regards a distribution period ending after 31st December 1990 a dividend is treated by virtue of section 468(2) as paid to a unit holder (whether or not income is in fact paid to the unit holder),

(b) the dividend is treated as paid by the trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period in which the distribution period falls, and

(c) on the date of payment the unit holder is within the charge to corporation tax and not a dual resident.

(2) For the purpose of computing corporation tax chargeable in the case of the unit holder the payment shall be deemed—

(a) to be an annual payment, and not a dividend or other distribution, and

(b) to have been received by the unit holder after deduction of income tax at the basic rate, for the year of assessment in which the date of payment falls, from a corresponding gross amount.

(3) Subsection (2) above shall have effect subject to the following provisions of this section and to section 468G.

(4) Subsection (2) above shall not apply where the rights in respect of which the dividend is treated as paid are held by the trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period (of that scheme) in which the date of payment falls.

(5) Where the unit holder is on the date of payment the manager of the scheme, subsection (2) above shall not apply in so far as the rights in respect of which the dividend is treated as paid are rights held by him in the ordinary course of his business as manager of the scheme.

(6) Subsection (2) above shall not apply to so much of the payment as is attributable to income of the trustees arising before 1st January 1991.

(7) Subsection (6) above shall not apply where—

(a) the payment is treated as made as regards a distribution period falling in an accounting period as respects which the authorised unit trust is a certified unit trust, or

(b) the authorised unit trust is on the date of payment a fund of funds.

(8) In this section—

"authorised unit trust" has the same meaning as in section 468,

"certified unit trust" has the same meaning as in section 468E,

"distribution period" has the same meaning as in section 468,

"dual resident" means a person who is resident in the United Kingdom and falls to be regarded for the purposes of any arrangements having effect by virtue of section 788 as resident in a territory outside the United Kingdom,

"fund of funds" means a unit trust scheme the sole object of which is to enable the unit holders to participate in or receive profits or income arising from the acquisition, holding, management or disposal of units in unit trust schemes, and

"unit trust scheme" has the same meaning as in section 469.

468G Dividends paid to investment trusts

(1) Section 468F(2) shall not apply in a case where—

(a) the first condition set out below is fulfilled, and

(b) if one or more of the second to fourth conditions set out below applies, the condition (or each of the conditions) which applies is fulfilled.

(2) The first condition is that—

(a) the unit holder is a company which is an investment trust as respects the accounting period of the company that includes 20th March 1990, and

(b) immediately before the end of 20th March 1990, not less than 90 per cent. by value of the company's investments consisted of units in a unit trust scheme which (or units in different unit trust schemes each of which) was an authorised unit trust on 20th March 1990.

(3) The second condition applies if the date of payment is included in an accounting period of the company which falls after the company's accounting period that includes 20th March 1990; and the condition is that the company is an investment trust as respects—

(a) the accounting period of the company that includes the date of payment, and

(b) each (if any) accounting period of the company which falls after the company's accounting period that includes 20th March 1990 and before the company's accounting period that includes the date of payment.

(4) The third condition applies if the company makes an investment after 20th March 1990, and on or before the date of payment, in units in a unit trust scheme which is an authorised unit trust on the date of payment; and the condition is that, immediately before the end of the date of payment, each unit held by the company in a unit trust scheme which is an authorised unit trust on that date is a unit in a unit trust scheme—

(a) in which the company held units immediately before the end of 20th March 1990, and

(b) which was an authorised unit trust on 20th March 1990.

(5) The fourth condition applies if—

(a) the third condition applies, and

(b) immediately before the end of 20th March 1990 the company held units in more than one unit trust scheme which was an authorised unit trust on that date;

and the condition is that the investments made by the company after 20th March 1990, and on or before the date of payment, were made in accordance with the requirements applicable to the investment of funds of the company on 20th March 1990.

(6) For the purposes of this section—

(a) "authorised unit trust" has the same meaning as in section 468,

(b) "unit trust scheme" has the same meaning as in section 469, and

(c) a unit trust scheme is an authorised unit trust on a particular date if it is an authorised unit trust as respects the accounting period of the scheme that includes that date."

52 Unit trusts: repeals

(1) The Taxes Act 1988 shall have effect subject to the following provisions of this section.

(2) In section 468 (authorised unit trusts) subsection (5) shall not apply as regards a distribution period beginning after 31st December 1990.

(3) Where a particular distribution period is by virtue of subsection (2) above the last distribution period as regards which section 468(5) applies in the case of a trust, the trustees' liability to income tax in respect of any source of income chargeable under Case III of Schedule D shall be assessed as if they had ceased to possess the source of income on the last day of that distribution period.

(4) But where section 67 of the Taxes Act 1988 applies by virtue of subsection (3) above, it shall apply with the omission from subsection (1)(b) of the words from "and shall" to "this provision".

(5) Section 468B (certified unit trusts: corporation tax) shall not apply as regards an accounting period ending after 31st December 1990.

(6) Section 468C (certified unit trusts: distributions) shall not apply as regards a distribution period ending after 31st December 1990.

(7) Section 468D (funds of funds: distributions) shall not apply as regards a distribution period ending after 31st December 1990.

(8) In this section "distribution period" has the same meaning as in section 468 of the Taxes Act 1988.

53 Unit trust managers: exemption from bond-washing provisions

(1) Section 732 of the Taxes Act 1988 (application of bond-washing provisions to dealers in securities) shall have effect, and be deemed always to have had effect, with the insertion of the following subsection after subsection (5)—

"(5A) Subsection (1) above shall not apply if the securities are rights in a unit trust scheme and the subsequent sale is carried out by the first buyer in the ordinary course of his business as manager of the scheme."

(2) Section 472 of the Taxes Act 1970 (corresponding provision of the old law) shall be deemed always to have had effect with the insertion after subsection (5) of the subsection set out in subsection (1) above.

54 Indexation: collective investment schemes

(1) The provisions specified in subsection (2) below (which provide for an indexation allowance on the disposal of assets) shall not apply in the case of a disposal if each of the three conditions set out below is fulfilled.

(2) The provisions are—

(a) in the Finance Act 1982, sections 86(4) and 87 and, in Schedule 13, paragraphs 1 to 7, 8(2)(c) and 10(3), and

(b) in the Finance Act 1985, section 68(4) to (8) and, in Schedule 19, paragraphs 1(3), 2, 5, 7(3), 8(1)(b) and (c), 11 to 15, 18, 22 and 23.

(3) The first condition is that the disposal is of rights in property to which collective investment arrangements relate; and—

(a) collective investment arrangements are arrangements which constitute a collective investment scheme;

(b) "collective investment scheme" has the same meaning as in the Financial Services Act 1986.

(4) Subject to subsection (5) below, the second condition is that, at some time in the relevant ownership period, not less than 90 per cent. of the market value (at that time) of the investment property then falling within the arrangements was represented by—

(a) non-chargeable assets,

(b) shares in a building society, or

(c) such assets and such shares.

(5) In a case where—

(a) the arrangements are ones under which the contributions of the participants, and the profits or income out of which payments are to be made to them, are pooled in relation to separate parts of the property in question, and

(b) the disposal is of rights in property falling within a separate part,

subsection (4) above shall have effect as if the reference to the arrangements were to the separate part.

(6) For the purposes of subsection (4) above the relevant ownership period is the period which begins with the later of—

(a) the earliest date on which any relevant consideration was given for the acquisition of the rights, and

(b) 1st April 1982,

and ends with the day on which the disposal is made.

(7) For the purposes of subsection (4) above investment property is all property other than cash awaiting investment.

(8) For the purposes of subsection (4) above an asset is a non-chargeable asset if, were it to be disposed of—

(a) at the time the rights are disposed of, and

(b) by a person resident in the United Kingdom,

any gain accruing on the disposal would not be a chargeable gain.

(9) In subsection (4)(b) above "shares" and "building society" have the same meanings as in the Building Societies Act 1986.

(10) For the purposes of subsection (6) above relevant consideration is consideration which, assuming the application of Chapter II of Part II of the Capital Gains Tax Act 1979 to the disposal of the rights, would fall to be taken into account in determining the amount of the gain or loss accruing on the disposal, whether that consideration was given by or on behalf of the person making the disposal or by or on behalf of a predecessor in title of his whose acquisition cost represents (directly or indirectly) the whole or any part of the acquisition cost of the person making the disposal.

(11) The third condition is that the disposal is made on or after 20th March 1990.

55 Investment trusts

(1) In section 842 of the Taxes Act 1988 (investment trusts) the following subsections shall be inserted after subsection (2)—

"(2A) Subsection (1)(e) above shall not apply as regards an accounting period if—

(a) the company is required to retain income in respect of the period by virtue of a restriction imposed by law, and

(b) the amount of income the company is so required to retain in respect of the period exceeds an amount equal to 15 per cent. of the income the company derives from shares and securities.

(2B) Subsection (2A) above shall not apply where—

(a) the amount of income the company retains in respect of the accounting period exceeds the amount of income it is required by virtue of a restriction imposed by law to retain in respect of the period, and

(b) the amount of the excess or, where the company distributes income in respect of the period, that amount together with the amount of income which the company so distributes is at least £10,000 or, where the period is less than 12 months, a proportionately reduced amount.

(2C) Paragraph (e) of subsection (1) above shall not apply as regards an accounting period if the amount which the company would be required to distribute in order to fall within that paragraph is less than £10,000 or, where the period is less than 12 months, a proportionately reduced amount."

(2) This section applies in relation to accounting periods ending on or after the day on which this Act is passed.

Securities

56 Convertible securities

Schedule 10 to this Act (convertible securities) shall have effect.

57 Deep gain securities

(1) In Schedule 11 to the Finance Act 1989 (deep gain securities) paragraph 1 (meaning of deep gain security) shall be amended as follows.

(2) The following sub-paragraph shall be inserted after sub-paragraph (3)—

"(3A) In the case of a security issued on or after 9th June 1989, for the purposes of sub-paragraph (2) above "redemption" does not include any redemption which may be made before maturity only if—

(a) the person who issued the security fails to comply with the duties imposed on him by the terms of issue,

(b) the person who issued the security becomes unable to pay his debts, or

(c) the security was issued by a company and a person gains control of the company in pursuance of the acceptance of an offer made by that person to acquire shares in the company."

(3) The amendment made by this section shall be deemed always to have had effect.

58 Qualifying indexed securities

(1) In Schedule 11 to the Finance Act 1989 (deep gain securities) paragraph 2 (qualifying indexed securities) shall be amended as follows.

(2) In sub-paragraph (2)(c) for the words from "the security" to "8th June 1989" there shall be substituted the words "the security was quoted in the official list of a recognised stock exchange at the time it was issued".

(3) The following sub-paragraphs shall be inserted after sub-paragraph (8)—

"(8A) If a security was issued before 9th June 1989, was not quoted in the official list of a recognised stock exchange at the time it was issued, but was quoted in such a list on 8th June 1989, for the purposes of sub-paragraph (2)(c) above it shall be deemed to have been quoted in that list at the time it was issued.

(8B) If a security was issued on or after 9th June 1989, and was quoted in the official list of a recognised stock exchange at a time after it was issued but before the end of the qualifying period, for the purposes of sub-paragraph (2)(c) above it shall be deemed to have been quoted in that list at the time it was issued; and the qualifying period is the period of one month beginning with the day on which the security was issued."

(4) The following sub-paragraph shall be inserted after sub-paragraph (11)—

"(11A) In a case where the terms of issue contain provision for the amount payable on redemption to be not less than a specified percentage of the issue price,

the provision shall not prevent the fourth condition being fulfilled if the specified percentage is not greater than 10."

(5) The following sub-paragraph shall be inserted after sub-paragraph (12)—

"(12A) In a case where—

(a) the terms of issue contain provision for the amount payable on redemption in any of the qualifying circumstances (set out in sub-paragraph (13) below) to be not more than the issue price, and

(b) the security was issued on or after 9th June 1989,

the provision shall not prevent the fourth condition being fulfilled."

(6) In sub-paragraph (13)—

(a) for the words "and (12)" there shall be substituted the words ", (12) and (12A)", and

(b) in paragraph (d) the words "before 9th June 1989" shall be omitted.

(7) The amendments made by this section shall be deemed always to have had effect.

59 Deep discount securities

(1) In Schedule 4 to the Taxes Act 1988 (deep discount securities) paragraph 1 (interpretation) shall be amended as follows.

(2) The following sub-paragraph shall be inserted after sub-paragraph (1A) (itself inserted by Schedule 10 to this Act)—

"(1B) Notwithstanding anything in sub-paragraph (1) above, for the purposes of this Schedule a security is not a deep discount security if—

(a) it was issued on or after 1st August 1990, and

(b) under the terms of issue, there is more than one date on which the holder will be entitled to require it to be redeemed by the company or the public body which issued it."

(3) This section shall come into force on 1st August 1990.

Oil industry

60 Allowance for abandonment expenditure related to offshore machinery or plant

In section 62 of the Capital Allowances Act 1990 (treatment of demolition costs) in subsection (1)(b) after the words "machinery or plant" there shall be inserted "then, subject to section 62A"; and after that section there shall be inserted the following sections—

"**62A Special allowance for demolition costs related to offshore machinery or plant**

(1) Subject to subsection (3) below, this section applies to expenditure which, apart from this section, would fall within section 62(1)(b) and which is incurred—

(a) by any person carrying on a ring fence trade; and

(b) for the purposes of or in connection with the closing down of, or of any part of, an oil field, within the meaning of Part I of the Oil Taxation Act 1975; and

(c) on the demolition of machinery or plant which has been brought into use for the purposes of that trade and which is or forms part of an offshore installation or a submarine pipe-line;

and in this section any such expenditure is referred to as "abandonment expenditure".

(2) In this section "ring fence trade" means activities which—

(a) fall within any of paragraphs (a) to (c) of subsection (1) of section 492 of the principal Act (treatment of oil extraction activities etc. for tax purposes); and

(b) constitute a separate trade (whether by virtue of that subsection or otherwise).

(3) In subsection (1)(c) above—

(a) the reference to demolition is a reference to demolition which is carried out, wholly or substantially, in order to comply with an abandonment programme, within the meaning of Part I of the Petroleum Act 1987, or with any condition to which the approval of such a programme is subject; and

(b) "offshore installation" and "submarine pipe-line" have the same meaning as in that Part.

(4) If the person incurring any abandonment expenditure so elects,—

(a) for the chargeable period related to the incurring of that expenditure there shall be made to that person an allowance equal to the excess of the abandonment expenditure to which the election relates over any moneys received for the remains of the machinery or plant concerned; and

(b) that excess shall not be taken into account to increase qualifying expenditure as mentioned in section 62(1)(b).

(5) An election under this section—

(a) shall specify the abandonment expenditure to which it relates and the amounts of any such moneys received as mentioned in subsection (4)(a) above;

(b) shall be made by notice in writing given to the inspector not later than two years after the end of the chargeable period related to the incurring of the abandonment expenditure; and

(c) shall be irrevocable.

(6) This section has effect where the chargeable period related to the incurring of the expenditure or its basis period ends after 30th June 199l.

62B Treatment of post-cessation abandonment expenditure related to offshore machinery or plant

(1) Subsection (2) below applies in any case where—

(a) a person (in this section referred to as "the former trader") ceases to carry on a ring fence trade; and

(b) after 30th June 1991 and within the period of three years immediately following the last day on which he carried on that trade, the former trader incurs expenditure (in this section referred to as "post-cessation expenditure") on the demolition of machinery or plant which falls within section 62A(1)(c); and

(c) the post-cessation expenditure would have been abandonment expenditure for the purposes of section 62A if the demolition had been carried out and the expenditure incurred before the cessation of the ring fence trade; and

(d) apart from this section, the post-cessation expenditure would not be deductible in computing the income of the former trader for any purpose of corporation tax or income tax.

(2) Where this subsection applies, the qualifying expenditure of the former trader for the chargeable period related to the cessation of his ring fence trade shall be treated for the purposes of sections 24 and 25 as increased by so much of the post-cessation expenditure as exceeds any moneys received in the three year period referred to in paragraph (b) of subsection (1) above for the remains of the machinery or plant referred to in that paragraph.

(3) Where subsection (2) above applies, any moneys received as mentioned in that subsection shall not constitute income of the former trader for any purpose of income tax or corporation tax.

(4) 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.

(5) In this section "ring fence trade" has the same meaning as in section 62A."

61 Carrying back of losses referable to allowance for abandonment expenditure

In section 393 of the Taxes Act 1988 (loss relief: losses other than terminal losses) after subsection (4) there shall be inserted the following subsections—

"(4A) Where a company carrying on a ring fence trade incurs a loss in that trade in an accounting period for which an allowance falls to be made to it under section 62A of the 1990 Act, subsections (2) and (3) above shall have effect in relation to so much of the loss as does not exceed that allowance as if the time specified in subsection (3) above were a period of three years ending immediately before the accounting period in which the loss is incurred.

(4B) In subsection (4A) above "ring fence trade" has the same meaning as in section 62A of the 1990 Act."

62 CT treatment of PRT repayment

(1) In section 500 of the Taxes Act 1988 (deduction of PRT in computing income for corporation tax purposes), in subsection (4) (reduction or extinguishment of deduction where PRT repaid)—

(a) at the beginning there shall be inserted the words "Subject to the following provisions of this section"; and

(b) for the words "accounting period" there shall be substituted "calendar year".

(2) For subsection (5) of that section there shall be substituted the following subsections—

"(5) If, in a case where paragraph 17 of Schedule 2 to the 1975 Act applies, an amount of petroleum revenue tax in respect of which a deduction has been made under subsection (1) above is repaid by virtue of an assessment under that Schedule or an amendment of such an assessment, then, so far as concerns so much of that repayment as constitutes the appropriate repayment,—

(a) subsection (4) above shall not apply; and

(b) the following provisions of this section shall apply in relation to the company which is entitled to the repayment.

(6) In subsection (5) above and the following provisions of this section—

(a) "the appropriate repayment" has the meaning assigned by sub-paragraph (2) of paragraph 17 of Schedule 2 to the 1975 Act;

(b) in relation to the appropriate repayment, a "carried back loss" means an allowable loss which falls within sub-paragraph (1)(a) of that paragraph and which (alone or together with one or more other carried back losses) gives rise to the appropriate repayment;

(c) in relation to a carried back loss, "the operative chargeable period" means the chargeable period in which the loss accrued; and

(d) in relation to the company which is entitled to the appropriate repayment, "the relevant accounting period" means the accounting period in or at the end of which ends the operative chargeable period or, if the company's ring fence trade is permanently discontinued before the end of the operative chargeable period, the last accounting period of that trade.

(7) In computing for corporation tax the amount of the company's income arising in the relevant accounting period from oil extraction activities or oil rights there shall be added an amount equal to the appropriate repayment; but this subsection has effect subject to subsection (8) below in any case where—

(a) two or more carried back losses give rise to the appropriate repayment; and

(b) the operative chargeable period in relation to each of the carried back losses is not the same; and

(c) if subsection (6)(d) above were applied separately in relation to each of the carried back losses there would be more than one relevant accounting period.

(8) Where paragraphs (a) to (c) of subsection (7) above apply, the appropriate repayment shall be treated as apportioned between each of the relevant accounting periods referred to in paragraph (c) of that subsection in such manner as to secure that the amount added by virtue of that subsection in relation to each of those relevant accounting periods is what it would have been if—

(a) relief for each of the carried back losses for which there is a different operative chargeable period had been given by a separate assessment or amendment of an assessment under Schedule 2 to the 1975 Act; and

(b) relief for a carried back loss accruing in an earlier chargeable period had been so given before relief for a carried back loss accruing in a later chargeable period.

(9) Any additional assessment to corporation tax required in order to give effect to the addition of an amount by virtue of subsection (7) above may be made at any time not later than six years after the end of the calendar year in which is made the repayment of petroleum revenue tax comprising the appropriate repayment.

(10) In this section "allowable loss" and "chargeable period" have the same meaning as in Part I of the 1975 Act and "calendar year" means a period of twelve months beginning on 1st January."

(3) At the end of section 502(1) of the Taxes Act 1988 (defined expressions for Chapter V of Part XII) there shall be added "and

"ring fence trade" means activities which—

(a) fall within any of paragraphs (a) to (c) of subsection (1) of section 492; and

(b) constitute a separate trade (whether by virtue of that subsection or otherwise)".

63 Disposals of certain shares deriving value from exploration or exploitation assets or rights

(1) In Schedule 8 to the Finance Act 1988 (capital gains: assets held on 31st March 1982) in paragraph 12 (certain disposals excluded from elections under section 96(5) of that Act), in sub-paragraph (2) at the end of paragraph (c) there shall be inserted "or

(d) shares which, on 31st March 1982, were unquoted and derived their value, or the greater part of their value, directly or indirectly from oil exploration or exploitation assets situated in the United Kingdom or a designated area or from such assets and oil exploration or exploitation rights taken together".

(2) After the said sub-paragraph (2) there shall be inserted the following sub-paragraphs—

"(2A) For the purposes of sub-paragraph (2)(d) above,—

(a) "shares" includes stock and any security, as defined in section 254(1) of the Taxes Act 1988; and

(b) shares (as so defined) were unquoted on 31st March 1982 if, on that date, they were neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market;

but nothing in this paragraph affects the operation, in relation to such unquoted shares, of sections 77 to 81 of the Capital Gains Tax Act 1979 (under which, on a reorganisation etc., a new holding may fall to be treated as the same asset as the original shares).

(2B) In sub-paragraph (2)(d) above—

"designated area" means an area designated by Order in Council under section 1(7) of the Continental Shelf Act 1964;

"oil exploration or exploitation assets" shall be construed in accordance with sub-paragraphs (2C) and (2D) below; and

"oil exploration or exploitation rights" means rights to assets to be produced by oil exploration or exploitation activities (as defined

in sub-paragraph (2D) below) or to interests in or to the benefit of such assets.

(2C) For the purposes of sub-paragraph (2)(d) above an asset is an oil exploration or exploitation asset if either—

(a) it is not a mobile asset and is being or has at some time been used in connection with oil exploration or exploitation activities carried on in the United Kingdom or a designated area; or

(b) it is a mobile asset which has at some time been used in connection with oil exploration or exploitation activities so carried on and is dedicated to an oil field in which the company whose shares are disposed of by the disposal or a person connected with that company, within the meaning of section 839 of the Taxes Act 1988, is or has been a participator;

and, subject to sub-paragraph (2D) below, expressions used in paragraphs (a) and (b) above have the same meaning as if those paragraphs were included in Part I of the Oil Taxation Act 1975.

(2D) In the preceding provisions of this paragraph "oil exploration or exploitation activities" means activities carried on in connection with—

(a) the exploration of land (including the seabed and subsoil) in the United Kingdom or a designated area, as defined in sub-paragraph (2B) above, with a view to searching for or winning oil; or

(b) the exploitation of oil found in any such land;

and in this sub-paragraph "oil" has the same meaning as in Part I of the Oil Taxation Act 1975."

(3) The amendments made by subsections (1) and (2) above have effect with respect to disposals on or after 22nd January 1990.

(4) Notwithstanding that, apart from this subsection, an election under section 96(5) of the Finance Act 1988 is irrevocable, where—

(a) such an election has been made before 22nd January 1990, and

(b) apart from subsection (1) above, the assets to the disposal of which the election would apply include assets falling within paragraph 12(2)(d) of Schedule 8 to the Finance Act 1988 (as set out in subsection (1) above),

the election may be revoked by notice in writing given to the inspector before 1st January 1991 by the person by whom the election was made.

64 Limitation of losses on disposal of oil industry assets

(1) This section applies to a disposal of an oil industry asset where the following conditions are fulfilled—

(a) the disposal occurs on or after 22nd January 1990;

(b) the person making the disposal held the asset on 31st March 1982 or, by virtue of paragraph 1 of Schedule 8 to the Finance Act 1988 (previous no gain/no loss disposals), is treated as having held the asset on that date for the purposes of section 96 of that Act (rebasing to 1982 of assets held on 31st March 1982);

(c) disregarding the following provisions of this section, for the purposes of capital gains tax, a loss would accrue on the disposal; and

(d) in the application of section 96 of the Finance Act 1988 to the disposal, subsection (2) of that section (the rebasing to 1982 values) does not apply because of the operation of subsection (3)(b) of that section (a smaller loss accrues if subsection (2) does not apply).

(2) For the purposes of this section, the following are "oil industry assets"—

(a) a licence under the Petroleum (Production) Act 1934 or the Petroleum (Production) Act (Northern Ireland) 1964;

(b) shares falling within sub-paragraph (2)(d) of paragraph 12 of Schedule 8 to the Finance Act 1988 (exclusion of certain disposals from elections under section 96(5) of the Finance Act 1988);

(c) oil exploration or exploitation assets, which expression shall be construed, subject to subsection (3) below, in accordance with sub-paragraphs (2C) and (2D) of the said paragraph 12; and

(d) any interest in an asset falling within paragraphs (a) to (c) above.

(3) In the application of sub-paragraph (2C)(b) of paragraph 12 of Schedule 8 to the Finance Act 1988 for the purposes of subsection (2)(c) above, for the words from "the company whose shares" to "that company" there shall be substituted "the person making the disposal or a person connected with him".

(4) Where this section applies to a disposal, there shall be determined for the purposes of this section the loss or gain which would accrue on the disposal on the following assumptions—

(a) that subsection (2) of section 96 of the Finance Act 1988 continues not to apply on the disposal; and

(b) that, in calculating the indexation allowance on the disposal, subsection (4) of section 68 of the Finance Act 1985 (indexation based on 1982 values) does not apply;

and in the following provisions of this section the loss or gain (if any) on the disposal, determined on those assumptions, is referred to as the non-rebased loss or, as the case may be, the non-rebased gain.

(5) If there is a non-rebased loss on a disposal to which this section applies and that loss is less than the loss which accrues on the disposal as mentioned in subsection (1)(c) above, it shall be assumed for the purposes of capital gains tax that the loss which accrues on the disposal is the non-rebased loss.

(6) If there is a non-rebased gain on a disposal to which this section applies, it shall be assumed for the purposes of capital gains tax that the oil industry asset concerned was acquired by the person making the disposal for a consideration such that, on the disposal, neither a gain nor a loss accrues to him.

(7) If, on the determination referred to in subsection (4) above, there is neither a non-rebased loss nor a non-rebased gain on a disposal, subsection (6) above shall apply in relation to the disposal as if there were a non-rebased gain on the disposal.

International

65 Dual resident companies: capital gains

(1) In section 267 of the Taxes Act 1970 (company reconstructions etc.) after subsection (2) there shall be inserted—

"(2A) This section does not apply in relation to an asset if the company acquiring it, though resident in the United Kingdom,—

(a) is regarded for the purposes of any double taxation arrangements having effect by virtue of section 788 of the Taxes Act 1988 as resident in a territory outside the United Kingdom, and

(b) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after the acquisition."

(2) In section 273 of the Taxes Act 1970 (transfers within a group) in subsection (2), after paragraph (d) there shall be inserted "or

(e) a disposal to a company which, though resident in the United Kingdom,—

(i) is regarded for the purposes of any double taxation arrangements having effect by virtue of section 788 of the Taxes Act 1988 as resident in a territory outside the United Kingdom, and

(ii) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition."

(3) In section 276 of the Taxes Act 1970 (replacement of business assets by members of a group) in subsection (1A) for the words following "a dual resident investing company" there shall be substituted the words "or a company which, though resident in the United Kingdom,—

(a) is regarded for the purposes of any double taxation arrangements having effect by virtue of section 788 of the Taxes Act 1988 as resident in a territory outside the United Kingdom, and

(b) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of, or of the interest in, the new assets occurring immediately after the acquisition;

and in this subsection "the old assets" and "the new assets" have the same meanings as in section 115 of the Capital Gains Tax Act 1979, and "dual resident investing company" has the same meaning as in section 404 of the Taxes Act 1988."

(4) Subsections (1) and (2) above shall apply to disposals on or after 20th March 1990.

(5) Subject to subsection (6) below, subsection (3) above shall apply where the disposal of, or of the interest in, the old assets or the acquisition of, or of the interest in, the new assets (or both) takes place on or after 20th March 1990.

(6) Subsection (3) above shall not apply where the acquisition takes place before 20th March 1990 and the disposal takes place within the period of twelve months beginning with the date of the acquisition or such longer period as the Board may by notice in writing allow.

66 Dual resident companies: transfers of assets abroad

(1) In sections 742(8) and 745(4) of the Taxes Act 1988, after the words "incorporated outside the United Kingdom" there shall be inserted the words ", or regarded for the

purposes of any double taxation arrangements having effect by virtue of section 788 as resident in a territory outside the United Kingdom,".

(2) Subject to subsection (3) below, this section shall apply in relation to transfers of assets and associated operations on or after 20th March 1990.

(3) In so far as the amendment of subsection (4) of section 745 relates to subsections (3) (b) and (5) of that section, it shall come into force on that date.

67 Dual resident companies: controlled foreign companies

(1) In section 749 of the Taxes Act 1988, after subsection (4) there shall be inserted—

"(4A) For the purposes of this Chapter, any company which, though resident in the United Kingdom, is regarded for the purposes of any double taxation arrangements having effect by virtue of section 788 as resident in a territory outside the United Kingdom shall be treated as if it were resident outside the United Kingdom (and not resident in the United Kingdom)."

(2) In section 751(2) of that Act, after paragraph (b) there shall be inserted—

"(bb) the company becomes, or ceases to be, a company in relation to which section 749(4A) has effect; or".

(3) In Schedule 25 to that Act—

(a) paragraphs 2(1)(c) and 4(1)(c) shall be omitted,

(b) after paragraph 2(1) there shall be inserted—

"(1A) A payment of dividend to a company shall not fall within sub-paragraph (1)(d) above unless it is taken into account in computing the company's income for corporation tax.", and

(c) after paragraph 4(1) there shall be inserted—

"(1A) A payment to a company shall not be a subsequent dividend within the meaning of sub-paragraph (1)(b) above unless it is taken into account in computing the company's income for corporation tax."

(4) Subsections (1) and (2) above shall apply on and after 20th March 1990 and subsection (3) above shall apply to dividends paid on or after that date.

68 Movements of capital between residents of member States

(1) In section 765 of the Taxes Act 1988 (certain transactions unlawful unless carried out with Treasury consent), in subsection (1), after the words "Subject to the provisions of this section" there shall be inserted the words "and section 765A".

(2) After that section there shall be inserted—

"765A Movements of capital between residents of member States

(1) Section 765(1) shall not apply to a transaction which is a movement of capital to which Article 1 of the Directive of the Council of the European Communities dated 24th June 1988 No. 88/361/EEC applies.

(2) Where if that Article did not apply to it a transaction would be unlawful under section 765(1), the body corporate in question (that is to say, the body corporate resident in the United Kingdom) shall—

(a) give to the Board within six months of the carrying out of the transaction such information relating to the transaction, or to persons connected with the transaction, as regulations made by the Board may require, and

(b) where notice is given to the body corporate by the Board, give to the Board within such period as is prescribed by regulations made by the Board (or such longer period as the Board may in the case allow) such further particulars relating to the transaction, to related transactions, or to persons connected with the transaction or related transactions, as the Board may require."

(3) In section 98 of the Taxes Management Act 1970 (penalties for failure to furnish information and for false information)—

(a) in subsection (1), after the words "Subject to" there shall be inserted the words "the provisions of this section and";

(b) after subsection (4) there shall be inserted—

"(5) In the case of a failure to comply with section 765A(2)(a) or (b) of the principal Act, subsection (1) above shall have effect as if for "£300" there were substituted "£3,000" and as if for "£60" there were substituted "£600".";

(c) in the first column of the Table, after "section 755" there shall be inserted "section 765A(2)(b);"; and

(d) in the second column of the Table, after "section 639" there shall be inserted "section 765A(2)(a);".

(4) This section shall apply to transactions carried out on or after 1st July 1990.

69 European Economic Interest Groupings

Schedule 11 to this Act (which makes provision about the taxation of income and gains in the case of European Economic Interest Groupings) shall have effect.

70 Transfer of United Kingdom branch or agency

(1) After section 273 of the Taxes Act 1970 there shall be inserted—

"**273A Transfer of United Kingdom branch or agency**

(1) Subject to subsections (3) and (4) below, subsection (2) below applies for the purposes of corporation tax on chargeable gains where—

(a) there is a scheme for the transfer by a company ("company A")—

(i) which is not resident in the United Kingdom, but

(ii) which carries on a trade in the United Kingdom through a branch or agency,

of the whole or part of the trade to a company resident in the United Kingdom ("company B"),

(b) company A disposes of an asset to company B in accordance with the scheme at a time when the two companies are members of the same group, and

(c) a claim in relation to the asset is made by the two companies within two years after the end of the accounting period of company B during which the disposal is made.

(2) Where this subsection applies—

(a) company A and company B shall be treated as if the asset were acquired by company B for a consideration of such amount as would secure that neither a gain nor a loss would accrue to company A on the disposal, and

(b) section 127(3) of the Finance Act 1989 shall not apply to the asset by reason of the transfer.

(3) Subsection (2) above does not apply where—

(a) company B, though resident in the United Kingdom,—

(i) is regarded for the purposes of any double taxation arrangements having effect by virtue of section 788 of the Taxes Act 1988 as resident in a territory outside the United Kingdom, and

(ii) by virtue of the arrangements would not be liable in the United Kingdom to tax on a gain arising on a disposal of the asset occurring immediately after its acquisition, or

(b) company B is—

(i) a dual resident investing company, within the meaning of section 404 of the Taxes Act 1988, or

(ii) an investment trust, within the meaning of section 842 of that Act.

(4) Subsection (2) above shall not apply unless any gain accruing to company A—

(a) on the disposal of the asset in accordance with the scheme, or

(b) where that disposal occurs after the transfer has taken place, on a disposal of the asset immediately before the transfer,

would be a chargeable gain and would, by virtue of section 11(2)(b) of the Taxes Act 1988, form part of its profits for corporation tax purposes.

(5) In this section "company" and "group" have the meanings which would be given by section 272 above if subsections (1)(a) and (2) of that section were omitted."

(2) In section 272(1) of the Taxes Act 1970—

(a) for the word "For" there shall be substituted the words "Except as otherwise provided, for", and

(b) the words ", subject to section 280(7) below," shall be omitted.

(3) In section 275 of that Act for subsection (1) there shall be substituted—

"(1) Where there is a disposal of an asset acquired in relevant circumstances, section 34 of the Capital Gains Tax Act 1979 (restriction of losses by reference to capital allowances) shall apply in relation to capital allowances made to the person from which it was acquired (so far as not taken into account in

relation to a disposal of the asset by that person), and so on as respects previous transfers of the asset in relevant circumstances.

(1A) In subsection (1) above "relevant circumstances" means circumstances in which section 273 or 273A above applied or in which section 273 above would have applied but for subsection (2) of that section.

(1B) Subsection (1) above shall not be taken as affecting the consideration for which an asset is deemed under section 273 or 273A to be acquired."

(4) In section 281(2) of that Act, after the words "section 273" there shall be inserted the words "or 273A".

(5) In section 126C(4) of the Capital Gains Tax Act 1979—

(a) after the words "section 273" there shall be inserted the words "or 273A",

(b) for the words "that section applies" there shall be substituted the words "either of those sections applies", and

(c) for the words "that section does not apply" there shall be substituted the words "neither of those sections applies".

(6) In paragraph 10(2)(c) of Schedule 13 to the Finance Act 1984, after the words "section 273(1)" there shall be inserted the words "or 273A".

(7) In—

(a) section 68(7A)(b) of the Finance Act 1985, and

(b) paragraph 1(3)(b) of Schedule 8 to the Finance Act 1988,

after "273," there shall be inserted "273A,".

(8) In paragraph 5 of Schedule 11 to the Finance Act 1988—

(a) for the words "of the Taxes Act 1970 (which treats" there shall be substituted the words "or 273A of the Taxes Act 1970 (which treat", and

(b) for the words "section 273(1)", in the second place where they occur, there shall be substituted the words "either of those sections".

(9) This section shall apply to disposals on or after 20th March 1990.

Miscellaneous

71 Relief for interest

For the year 1990-91 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.

72 Capital gains: annual exempt amount for 1990-91

For the year 1990-91 section 5 of the Capital Gains Tax Act 1979 (annual exempt amount) shall have effect as if the amount specified in subsection (1A) were £5,000; and accordingly subsection (1B) of that section (indexation) shall not apply for that year.

73 Business expansion scheme: abolition of "locality rule"

(1) In Schedule 4 to the Finance Act 1988 (business expansion scheme: private rented housing), in paragraph 13 (exclusion of expensive dwelling-houses)—

(a) in sub-paragraph (2) (assumptions to be made in arriving at value at the relevant date), for paragraph (a) there shall be substituted—

"(a) on the assumption that the dwelling-house was in the same state as at the valuation date;"; and

(b) sub-paragraph (3) (which includes the assumption that the locality was in the same state as at the valuation date) shall be omitted.

(2) This section shall apply where the valuation date is on or after 20th March 1990.

74 Debts of overseas governments etc

After section 88 of the Taxes Act 1988 there shall be inserted—

"**88A Debts of overseas governments etc**

(1) For any period of account of a company ending on or after 20th March 1990, section 88B shall have effect for the purpose of restricting the extent to which a debt to which subsection (2) below applies may be estimated to be bad for the purposes of section 74(j); and—

(a) any deduction which may fall to be made in computing the company's profits or gains for the period, and

(b) any addition which may fall to be so made (for example because the relevant percentage of the debt for the period is smaller than the amount estimated to be bad for an earlier period),

shall be determined accordingly.

(2) Subject to subsection (3) below, this subsection applies to any debt—

(a) which is owed by an overseas State authority, or

(b) payment of which is guaranteed by an overseas State authority, or

(c) which is estimated to be bad for the purposes of section 74(j) wholly or mainly because due payment is or may be prevented, restricted or subjected to conditions—

(i) by virtue of any law of a State or other territory outside the United Kingdom or any act of an overseas State authority, or

(ii) under any agreement entered into in consequence or anticipation of such a law or act.

(3) Subsection (2) above does not apply to interest on a debt or to a debt which represents the consideration for the provision of goods or services.

(4) In this section "overseas State authority" means—

(a) a State or other territory outside the United Kingdom,

(b) the government of such a State or territory,

(c) the central bank or other monetary authority of such a State or territory,

(d) a public or local authority in such a State or territory, or

(e) a body controlled by such a State, territory, government, bank or authority;

and for this purpose "controlled" shall be construed in accordance with section 840.

88B Section 88A debts: restriction on deductions under section 74(j)

(1) Where this section has effect in relation to a debt, no more than the relevant percentage of the debt shall be estimated to be bad for the purposes of section 74(j).

(2) The relevant percentage of a debt for any period of account of the company is such percentage (which may be zero) as may be determined in accordance with regulations by reference to the position at the end of that period.

(3) Subsection (2) above has effect subject to the following provisions of this section, and in those provisions—

(a) "the base period" means the last period of account of the company ending before 20th March 1990, and

(b) "the base percentage", in relation to a debt, means such percentage (which may be zero) as may be determined in accordance with regulations by reference to the position at the end of the base period.

(4) If for any period of account of the company which ends less than two years after the base period the percentage provided for in subsection (2) above in relation to a debt is greater than the base percentage, the base percentage shall be the relevant percentage for the first-mentioned period.

(5) If for any later period of account of the company the percentage provided for in subsection (2) above in relation to a debt is greater than the base percentage increased by five percentage points for each complete year (except the first) that has elapsed between—

(a) the end of the base period, and

(b) the end of the later period in question,

then the base percentage as so increased shall be the relevant percentage for the later period.

(6) In relation to a company which had no periods of account ending before 20th March 1990, the relevant percentage in relation to a debt shall be the same as it would have been on the assumption that the company had had such periods of account (and that any notional periods of account before its first actual period of account had been of one year each).

(7) In this section "regulations" means regulations made by the Treasury; but the Treasury shall not make any regulations under this section unless a draft of them has been laid before and approved by a resolution of the House of Commons.

88C Section 88A debts: restriction on other deductions

(1) Where—

(a) on or after 20th March 1990 a company incurs in respect of a debt a loss which would be allowed as a deduction in computing the amount of the company's profits or gains under Case I or Case II of Schedule D,

(b) section 88A(2) applies to the debt,

(c) either—

(i) a deduction is made in respect of the debt in accordance with section 74(j) for any period of account of the company before that in which the loss is incurred, or

(ii) the debt was acquired by the company on or after 20th March 1990 for a consideration greater than the price which it might reasonably have been expected to fetch on a sale in the open market at the time of acquisition, and

(d) the amount of the loss is greater than 5 per cent. of the debt,

then, subject to subsection (3) below, only such part of the loss as equals 5 per cent. of the debt shall be allowed as a deduction for the period of account in which the loss is incurred; but further parts calculated in accordance with subsection (2) below may be allowed for subsequent periods until the loss is exhausted.

(2) The part of the loss allowed as a deduction for any period of account after that in which the loss is incurred shall not exceed such amount as, together with any parts allowed under this section for earlier periods, is equal to 5 per cent. of the debt for each complete year that has elapsed between—

(a) the beginning of the period in which the loss was incurred, and

(b) the end of the period in question.

(3) Subsections (1) and (2) above shall not apply to a loss incurred on a disposal of the debt to an overseas State authority if the State or territory by reference to which it is an overseas State authority is the same as that by reference to which section 88A(2) applies to the debt.

(4) References in subsections (1) and (2) above to the incurring of a loss in respect of a debt include references to the making of a deduction, otherwise than in accordance with section 74(j), in respect of a reduction in the value of a debt; and for the purposes of those subsections such a deduction shall be treated as made immediately before the end of the period of account for which it is made."

75 Local enterprise agencies

In section 79(11) of the Taxes Act 1988 (contributions to local enterprise agencies made before 1st April 1992 to be deductible as expenses), for "1992" there shall be substituted "1995".

76 Training and enterprise councils and local enterprise companies

After section 79 of the Taxes Act 1988 there shall be inserted—

"**79A Contributions to training and enterprise councils and local enterprise companies**

(1) Notwithstanding anything in section 74, but subject to the provisions of this section, where a person carrying on a trade, profession or vocation makes any contribution (whether in cash or in kind) to a training and enterprise council or a local enterprise company, any expenditure incurred by him in making the contribution may be deducted as an expense in computing the profits or gains of the trade, profession or vocation for the purposes of tax if it would not otherwise be so deductible.

(2) Where any such contribution is made by an investment company any expenditure allowable as a deduction under subsection (1) above shall for the purposes of section 75 be treated as expenses of management.

(3) Subsection (1) above does not apply in relation to a contribution made by any person if either he or any person connected with him receives or is entitled to receive a benefit of any kind whatsoever for or in connection with the making of that contribution, whether from the council or company concerned or from any other person.

(4) In any case where—

(a) relief has been given under subsection (1) above in respect of a contribution, and

(b) any benefit received in any chargeable period by the contributor or any person connected with him is in any way attributable to that contribution,

the contributor shall in respect of that chargeable period be charged to tax under Case I or Case II of Schedule D, or if he is not chargeable to tax under either of those Cases for that period under Case VI of Schedule D, on an amount equal to the value of that benefit.

(5) In this section—

(a) "training and enterprise council" means a body with which the Secretary of State has made an agreement (not being one which has terminated) under which it is agreed that the body shall carry out the functions of a training and enterprise council, and

(b) "local enterprise company" means a company with which an agreement (not being one which has terminated) under which it is agreed that the company shall carry out the functions of a local enterprise company has been made by the Scottish Development Agency, the Highlands and Islands Development Board, Scottish Enterprise or Highlands and Islands Enterprise.

(6) Section 839 applies for the purposes of subsections (3) and (4) above.

(7) This section applies to contributions made on or after 1st April 1990 and before 1st April 1995."

77 Expenses of entertainers

The following section shall be inserted after section 201 of the Taxes Act 1988—

"**201A Expenses of entertainers**

(1) Where emoluments of an employment to which this section applies fall to be charged to tax for a year of assessment for which this section applies, there may be deducted from the emoluments of the employment to be charged to tax for the year—

(a) fees falling within subsection (2) below, and

(b) any additional amount paid by the employee in respect of value added tax charged by reference to those fees.

(2) Fees fall within this subsection if—

(a) they are paid by the employee to another person,

(b) they are paid under a contract made between the employee and the other person, who agrees under the contract to act as an agent of the employee in connection with the employment,

(c) at each time any of the fees are paid the other person carries on an employment agency with a view to profit and holds a current licence for the agency,

(d) they are calculated as a percentage of the emoluments of the employment or as a percentage of part of those emoluments, and

(e) they are defrayed out of the emoluments of the employment falling to be charged to tax for the year concerned.

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

(a) "employment agency" means an employment agency within the meaning given by section 13(2) of the Employment Agencies Act 1973, and

(b) a person holds a current licence for an employment agency if he holds a current licence under that Act authorising him to carry on the agency.

(4) The amount which may be deducted by virtue of this section shall not exceed 17.5 per cent. of the emoluments of the employment falling to be charged to tax for the year concerned.

(5) This section applies to employment as an actor, singer, musician, dancer or theatrical artist.

(6) This section applies for the year 1990–91 and subsequent years of assessment."

78 Waste disposal

The following sections shall be inserted after section 91 of the Taxes Act 1988—

"**91A Waste disposal: restoration payments**

(1) This section applies where on or after 6th April 1989 a person makes a site restoration payment in the course of carrying on a trade.

(2) Subject to subsection (3) below, for the purposes of income tax or corporation tax the payment shall be allowed as a deduction in computing the profits or gains of the trade for the period of account in which the payment is made.

(3) Subsection (2) above shall not apply to so much of the payment as—

(a) represents expenditure which has been allowed as a deduction in computing the profits or gains of the trade for any period of account preceding the period of account in which the payment is made, or

(b) represents capital expenditure in respect of which an allowance has been, or may be, made under the enactments relating to capital allowances.

(4) For the purposes of this section a site restoration payment is a payment made—

(a) in connection with the restoration of a site or part of a site, and

(b) in order to comply with any condition of a relevant licence, or any condition imposed on the grant of planning permission to use the site

for the carrying out of waste disposal activities, or any term of a relevant agreement.

(5) For the purposes of this section waste disposal activities are the collection, treatment, conversion and final depositing of waste materials, or any of those activities.

(6) For the purposes of this section a relevant licence is—

(a) a disposal licence under Part I of the Control of Pollution Act 1974 or Part II of the Pollution Control and Local Government (Northern Ireland) Order 1978, or

(b) a waste management licence under Part II of the Environmental Protection Act 1990 or any corresponding provision for the time being in force in Northern Ireland.

(7) For the purposes of this section a relevant agreement is an agreement made under section 52 of the Town and Country Planning Act 1971, section 50 of the Town and Country Planning (Scotland) Act 1972 or section 106 of the Town and Country Planning Act 1990 (all of which relate to agreements regulating the development or use of land) or under any provision corresponding to section 106 of the Town and Country Planning Act 1990 and for the time being in force in Northern Ireland.

(8) For the purposes of this section a period of account is a period for which an account is made up.

91B Waste disposal: preparation expenditure

(1) This section applies where a person—

(a) incurs, in the course of carrying on a trade, site preparation expenditure in relation to a waste disposal site (the site in question),

(b) holds, at the time the person first deposits waste materials on the site in question, a relevant licence which is then in force,

(c) makes a claim for relief under this section in such form as the Board may direct, and

(d) submits such plans and other documents (if any) as the Board may require;

and it is immaterial whether the expenditure is incurred before or after the coming into force of this section.

(2) In computing the profits or gains of the trade for a period of account ending after 5th April 1989, the allowable amount shall be allowed as a deduction for the purposes of income tax or corporation tax.

(3) In relation to a period of account (the period in question) the allowable amount shall be determined in accordance with the formula—

$$(A - B) \times \frac{C}{C + D}$$

(4) A is the site preparation expenditure incurred by the person at any time before the beginning of, or during, the period in question—

(a) in relation to the site in question, and

(b) in the course of carrying on the trade;

but this subsection is subject to subsections (5) and (9) below.

(5) A does not include any expenditure—

(a) which has been allowed as a deduction in computing the profits or gains of the trade for any period of account preceding the period in question, or

(b) which constitutes capital expenditure in respect of which an allowance has been, or may be, made under the enactments relating to capital allowances.

(6) B is an amount equal to any amount allowed as a deduction under this section, if allowed—

(a) in computing the profits or gains of the trade for any period of account preceding the period in question, and

(b) as regards expenditure incurred in relation to the site in question;

and if different amounts have been so allowed as regards different periods, B is the aggregate of them.

(7) C is the volume of waste materials deposited on the site in question during the period in question; but if the period is one beginning before 6th April 1989 C shall be reduced by the volume of any waste materials deposited on the site during the period but before that date.

(8) D is the capacity of the site in question not used up for the deposit of waste materials, looking at the state of affairs at the end of the period in question.

(9) Where any of the expenditure which would be included in A (apart from this subsection) was incurred before 6th April 1989, A shall be reduced by an amount determined in accordance with the formula—

$$E \times \frac{F}{F + G}$$

(10) For the purposes of subsection (9) above—

(a) E is so much of the initial expenditure (that is, the expenditure which would be included in A apart from subsection (9) above) as was incurred before 6th April 1989,

(b) F is the volume of waste materials deposited on the site in question before 6th April 1989, and

(c) G is the capacity of the site in question not used up for the deposit of waste materials, looking at the state of affairs immediately before 6th April 1989.

(11) For the purposes of this section—

(a) a waste disposal site is a site used (or to be used) for the disposal of waste materials by their deposit on the site,

(b) in relation to such a site, site preparation expenditure is expenditure on preparing the site for the deposit of waste materials (and may include expenditure on earthworks),

(c) in relation to such a site, "capacity" means capacity expressed in volume,

(d) "relevant licence" has the same meaning as in section 91A, and

(e) a period of account is a period for which an account is made up."

79 Priority share allocations for employees etc

(1) In section 68 of the Finance Act 1988 (which provides for the benefits derived from priority rights in share offers to be disregarded in certain circumstances), after subsection (3) there shall be inserted—

"(3A) The fact that the allocations of shares in the company to which persons who are not directors or employees of the company are entitled are smaller than those to which directors or employees of the company are entitled shall not be regarded for the purposes of subsection (2)(b) above as meaning that they are not entitled on similar terms if—

(a) each of the first-mentioned persons is also entitled, by reason of his office or employment and in priority to members of the public, to an allocation of shares in another company or companies which are offered to the public (at a fixed price or by tender) at the same time as the shares in the company, and

(b) in the case of each of those persons the aggregate value (measured by reference to the fixed price or the lowest price successfully tendered) of all the shares included in the allocations to which he is entitled is the same, or as nearly the same as is reasonably practicable, as that of the shares in the company included in the entitlement of a comparable director or employee of the company."

(2) This section applies to offers made on or after the day on which this Act is passed.

80 Broadcasting: transfer of undertakings of Independent Broadcasting Authority and Cable Authority

Schedule 12 to this Act shall have effect.

81 Futures and options: exemptions

(1) The following section shall be inserted after section 468 of the Taxes Act 1988—

"**468AA Authorised unit trusts: futures and options**

(1) Trustees shall be exempt from tax under Case I of Schedule D in respect of income if—

(a) the income is derived from transactions relating to futures contracts or options contracts, and

(b) the trustees are trustees of a unit trust scheme which is an authorised unit trust as respects the accounting period in which the income is derived.

(2) For the purposes of subsection (1) above a contract is not prevented from being a futures contract or an options contract by the fact that any party is or may be entitled to receive or liable to make, or entitled to receive and liable to make, only a payment of a sum (as opposed to a transfer of assets other than money) in full settlement of all obligations.

(3) In this section—

"authorised unit trust" has the same meaning as in section 468, and

"unit trust scheme" has the same meaning as in section 469."

(2) The following section shall be inserted at the end of Part XIV of the Taxes Act 1988 (pension schemes etc.)—

"**659A Futures and options**

(1) For the purposes of sections 592(2), 608(2)(a), 613(4), 614(3) and (4), 620(6) and 643(2)—

(a) "investments" (or "investment") includes futures contracts and options contracts, and

(b) income derived from transactions relating to such contracts shall be regarded as income derived from (or income from) such contracts,

and paragraph 7(3)(a) of Schedule 22 to this Act shall be construed accordingly.

(2) For the purposes of subsection (1) above a contract is not prevented from being a futures contract or an options contract by the fact that any party is or may be entitled to receive or liable to make, or entitled to receive and liable to make, only a payment of a sum (as opposed to a transfer of assets other than money) in full settlement of all obligations."

(3) In section 149B of the Capital Gains Tax Act 1979 (miscellaneous exemptions) the following subsections shall be inserted after subsection (9)—

"(10) In subsections (1)(g) and (h) and (2) above "investments" includes futures contracts and options contracts; and paragraph 7(3)(d) of Schedule 22 to the Taxes Act 1988 shall be construed accordingly.

(11) For the purposes of subsection (10) above a contract is not prevented from being a futures contract or an options contract by the fact that any party is or may be entitled to receive or liable to make, or entitled to receive and liable to make, only a payment of a sum (as opposed to a transfer of assets other than money) in full settlement of all obligations."

(4) Section 659 of the Taxes Act 1988 (financial futures and traded options) shall cease to have effect.

(5) Subsections (1) and (2) above apply in relation to income derived after the day on which this Act is passed.

(6) Subsection (3) above applies in relation to disposals made after the day on which this Act is passed.

(7) Insofar as section 659 of the Taxes Act 1988 relates to provisions of that Act, subsection (4) above applies in relation to income derived after the day on which this Act is passed.

(8) Insofar as section 659 of the Taxes Act 1988 relates to section 149B of the Capital Gains Tax Act 1979, subsection (4) above applies in relation to disposals made after the day on which this Act is passed.

82 Settlements: child's income

(1) In section 663 of the Taxes Act 1988 (child's income treated as settlor's) in subsection (4) (exception for income not exceeding £5) for "£5" there shall be substituted "£100".

(2) This section shall have effect for the year 1991-92 and subsequent years of assessment.

83 Loans to traders

(1) Section 136 of the Capital Gains Tax Act 1979 (relief in respect of loans to traders) shall be amended as follows.

(2) The following subsections shall be inserted after subsection (5)—

"(5A) Where—

(a) an allowable loss has been treated under subsection (4) above as accruing to any person, and

(b) the whole or any part of the amount of the payment mentioned in subsection (4)(b) is at any time recovered by him,

this Act shall have effect as if there had accrued to him at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

(5B) Where—

(a) an allowable loss has been treated under subsection (3) above as accruing to a company (the first company), and

(b) the whole or any part of the outstanding amount mentioned in subsection (3)(a) is at any time recovered by a company (the second company) in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

(5C) Where—

(a) an allowable loss has been treated under subsection (4) above as accruing to a company (the first company), and

(b) the whole or any part of the outstanding amount mentioned in subsection (4)(a), or the whole or any part of the amount of the payment mentioned in subsection (4)(b), is at any time recovered by a company (the second company) in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered."

(3) In subsection (6) for "subsection (5)" there shall be substituted "subsections (5) to (5C)".

(4) The following subsection shall be inserted after subsection (9)—

"(9A) For the purposes of subsections (5B) and (5C) above two companies are in the same group if they were in the same group when the loan was made or have been in the same group at any subsequent time."

(5) This section applies where an amount is recovered on or after 20th March 1990.

84 Qualifying corporate bonds: relief

The following sections shall be inserted after section 136 of the Capital Gains Tax Act 1979—

"**136A Relief for qualifying corporate bonds**

(1) In this section "a qualifying loan" means a loan in the case of which—

(a) the borrower's debt is a debt on a security as defined in section 82 above,

(b) but for that fact, the loan would be a qualifying loan within the meaning of section 136 above, and

(c) the security is a qualifying corporate bond.

(2) If, on a claim by a person who has made a qualifying loan, the inspector is satisfied that one of the following three conditions is fulfilled, this Act shall have effect as if an allowable loss equal to the allowable amount had accrued to the claimant when the claim was made.

(3) The first condition is that—

(a) the value of the security has become negligible,

(b) the claimant has not assigned his right to recover any outstanding amount of the principal of the loan, and

(c) the claimant and the borrower are not companies which have been in the same group at any time after the loan was made.

(4) The second condition is that—

(a) the security's redemption date has passed,

(b) all the outstanding amount of the principal of the loan was irrecoverable (taking the facts existing on that date) or proved to be irrecoverable (taking the facts existing on a later date), and

(c) subsection (3)(b) and (c) above are fulfilled.

(5) The third condition is that—

(a) the security's redemption date has passed,

(b) part of the outstanding amount of the principal of the loan was irrecoverable (taking the facts existing on that date) or proved to be irrecoverable (taking the facts existing on a later date), and

(c) subsection (3)(b) and (c) above are fulfilled.

(6) In a case where the inspector is satisfied that the first or second condition is fulfilled, the allowable amount is the lesser of—

(a) the outstanding amount of the principal of the loan;

(b) the amount of the security's acquisition cost;

and if any amount of the principal of the loan has been recovered the amount of the security's acquisition cost shall for this purpose be treated as reduced (but not beyond nil) by the amount recovered.

(7) In a case where the inspector is satisfied that the third condition is fulfilled, then—

(a) if the security's acquisition cost exceeds the relevant amount, the allowable amount is an amount equal to the excess;

(b) if the security's acquisition cost is equal to or less than the relevant amount, the allowable amount is nil.

(8) For the purposes of subsection (7) above the relevant amount is the aggregate of—

(a) the amount (if any) of the principal of the loan which has been recovered, and

(b) the amount (if any) of the principal of the loan which has not been recovered but which in the inspector's opinion is recoverable.

(9) Where an allowable loss has been treated under subsection (2) above as accruing to any person and the whole or any part of the relevant outstanding amount is at any time recovered by him, this Act shall have effect as if there had accrued to him at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

(10) Where—

(a) an allowable loss has been treated under subsection (2) above as accruing to a company (the first company), and

(b) the whole or any part of the relevant outstanding amount is at any time recovered by a company (the second company) in the same group as the first company,

this Act shall have effect as if there had accrued to the second company at that time a chargeable gain equal to so much of the allowable loss as corresponds to the amount recovered.

(11) In subsections (9) and (10) above "the relevant outstanding amount" means—

(a) the amount of the principal of the loan outstanding when the claim was allowed, in a case where the inspector was satisfied that the first or second condition was fulfilled;

(b) the amount of the part (or the greater or greatest part) arrived at by the inspector under subsection (5)(b) above, in a case where he was satisfied that the third condition was fulfilled.

(12) This section applies if the security was—

(a) issued on or after 15th March 1989, or

(b) issued before 15th March 1989 but held on 15th March 1989 by the person who made the loan.

136B Section 136A: supplementary

(1) In section 136A above "qualifying corporate bond" has the same meaning as in section 64 of the Finance Act 1984.

(2) For the purposes of section 136A above a security's redemption date is the latest date on which, under the terms on which the security was issued, the company or body which issued it can be required to redeem it.

(3) For the purposes of section 136A above a security's acquisition cost is the amount or value of the consideration in money or money's worth given, by or on behalf of the person who made the loan, wholly and exclusively for the acquisition of the security, together with the incidental costs to him of the acquisition.

(4) For the purposes of section 136A(10) above two companies are in the same group if they have been in the same group at any time after the loan was made.

(5) Section 136(6) above shall apply for the purposes of section 136A(6) and (8) to (10) above as it applies for the purposes of section 136(5) above.

(6) Section 136(7), (9) and (10)(c) above shall apply for the purposes of section 136A above and of this section as they apply for the purposes of section 136, ignoring for this purpose the words following "lender" in section 136(9)."

85 Qualifying corporate bonds: reorganisations etc

(1) In Part II of Schedule 13 to the Finance Act 1984 (qualifying corporate bonds: reorganisations etc.) the following paragraph shall be inserted after paragraph 11—

"12 (1) This paragraph applies in a case where—

(a) the new asset mentioned in paragraph 10 above is a qualifying corporate bond in respect of which an allowable loss is treated as accruing under section 136A(2) of the principal Act, and

(b) the loss is treated as accruing at a time falling after the relevant transaction but before any actual disposal of the new asset subsequent to the relevant transaction.

(2) For the purposes of paragraph 10 above, a subsequent disposal of the new asset shall be treated as occurring at (and only at) the time the loss is treated as accruing."

(2) This section applies whether the relevant transaction occurs before or on or after the day on which this Act is passed.

86 Groups of companies

(1) In subsection (1F) of section 272 of the Taxes Act 1970 (application of Schedule 18 to Taxes Act 1988 for determining membership of groups for capital gains purposes), for the words "paragraph 7(1)(b) were omitted" there shall be substituted the words "paragraphs 5(3) and 7(1)(b) were omitted".

(2) Subject to subsection (3) below, the amendment made by subsection (1) above shall be deemed always to have had effect.

(3) If a company which (apart from this subsection) is the principal company of a group (within the meaning of section 272) at any time during the period beginning with 14th March 1989 and ending with 25th January 1990 so elects, in determining whether a company is a member of the group at any time during that period subsection (1F) of that section shall apply as if the amendment made by subsection (1) above did not have effect.

(4) An election under subsection (3) above shall be irrevocable and shall be made by notice in writing to the inspector at any time within two years after the end of the first accounting period of the principal company ending after 31st January 1990.

(5) There may be made any such adjustment, whether by way of discharge or repayment of tax, the making of an assessment or otherwise, as is appropriate in consequence of an election under subsection (3) above.

87 Capital allowances: vehicles provided by employees

(1) In section 27 of the Capital Allowances Act 1990 (professions, employments, vocations etc.) in subsection (1) for the words "and (3)"there shall be substituted the words "to (3)".

(2) The following subsections shall be inserted after subsection (2) of that section—

"(2A) In the case of machinery to which this subsection applies, subsection (2)(a) above shall have effect with the omission of the word "necessarily".

(2B) Subsection (2A) above applies to machinery if—

(a) it consists of a mechanically propelled road vehicle, and

(b) capital expenditure incurred on its provision is incurred partly for the purposes of the office or employment and partly for other purposes.

(2C) Section 24 in its application in accordance with this section to an office or employment shall have effect, where a person's qualifying expenditure consists of expenditure incurred on the provision of machinery to which subsection (2A) above applies, with the modifications set out in subsections (2D) and (2E) below.

(2D) In subsection (2)(b) for the word "whole" there shall be substituted the words "appropriate fraction".

(2E) The following subsection shall be inserted after subsection (2)—

"(2A) For the purposes of subsection (2)(b) above the appropriate fraction is—

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

where—

A is the number of chargeable periods in the case of which—

(a) the person has carried on the trade,

(b) the machinery or plant has belonged to him, and

(c) he has claimed an allowance falling to be made to him under this section by reference to expenditure incurred on the provision of the machinery or plant; and

B is the number of chargeable periods in the case of which—

(a) the person has carried on the trade,

(b) the machinery or plant has belonged to him, and

(c) an allowance falls to be made to him under this section by reference to expenditure incurred on the provision of the machinery or plant.””

(3) Where—

(a) at the beginning of the year 1990-91 machinery consisting of a mechanically propelled road vehicle is provided by a person for use in the performance of the duties of an office or employment held by him, and

(b) the machinery was also provided by him at the end of the year 1989-90 for use in the performance of the duties of that office or employment but without that provision being necessary,

Part II of the Capital Allowances Act 1990 shall have effect as if he had incurred capital expenditure on the provision of the machinery for the purposes of the office or employment in the year 1990-91, the amount of that expenditure being taken as the price which the machinery would have fetched if sold in the open market on 6th April 1990, and the machinery being treated as belonging to him in consequence of his having incurred that expenditure.

(4) This section shall apply for the year 1990-91 and subsequent years of assessment.

88 Capital allowances: miscellaneous amendments

Schedule 13 to this Act shall have effect.

89 Correction of errors in Taxes Act 1988

Schedule 14 to this Act shall have effect.