Finance Act 2000

2000 CHAPTER 17

PART III

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER II

OTHER PROVISIONS

Giving to charity

38 Payroll deduction scheme

(1) Where in accordance with a scheme approved under section 202 of the Taxes Act 1988 (donations to charity: payroll deduction scheme) an agent is to pay to a charity any sum which—

(a) is withheld by an employer from a payment which an employee is entitled to receive; and

(b) is paid by the employer to the agent,

the agent shall, within a period prescribed by regulations made by the Treasury, pay a supplement equal to 10% of that sum to the charity.

(2) On a claim made by an agent in such form as the Board may prescribe, the Board shall pay to the agent out of money provided by Parliament—

(a) such amounts as are required—

(i) to fund the payment of supplements falling to be paid by him; or

(ii) to reimburse him for supplements paid by him the payment of which has not been so funded; and

(b) in the case of an agent which is a charity, an amount which is equal to 10% of the aggregate of sums which—

(i) are withheld and paid as mentioned in paragraphs (a) and (b) of subsection (1) above; and

(ii) are sums to which the agent is itself entitled in its capacity as a charity.

(3) The Treasury may by regulations make provision—

(a) requiring agents to notify the Board of any failures of theirs to comply with subsection (1) above, and of the reasons for those failures;

(b) requiring agents to keep records of supplements paid by them under that subsection; and

(c) for the assessment and recovery under the Taxes Acts of amounts paid to agents under subsection (2) above which ought not to have been so paid.

The regulations may contain such supplementary and incidental provision as appears to the Treasury necessary or expedient.

(4) In this section—

"agent" means any such person or charity as is mentioned in subsection (4) of section 202 of the Taxes Act 1988;

"employee" and "employer" shall be construed in accordance with subsection (1) of that section;

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

"the Taxes Acts" has the same meaning as in the Taxes Management Act 1970.

(5) In section 202 of the Taxes Act 1988—

(a) in subsection (6), the words "must not be paid by the employee under a covenant" shall cease to have effect;

(b) subsection (7) shall cease to have effect; and

(c) in subsection (11), in the definition of "charity", after "section 506" there shall be inserted "and includes each of the bodies mentioned in section 507".

(6) Subsections (1) to (4) above shall have effect in relation to supplements or other amounts payable in respect of sums withheld on or after 6th April 2000 and before 6th April 2003; and no claim under subsection (2) above shall be entertained if made on or after 6th April 2004.

(7) Subsection (5) above shall have effect in relation to sums withheld on or after 6th April 2000.

39 Gift aid payments by individuals

(1) Section 25 of the Finance Act 1990 (donations to charity by individuals) shall be amended in accordance with subsections (2) to (7) below.

(2) In subsection (1)(c), for "an appropriate certificate" there shall be substituted "an appropriate declaration".

(3) In subsection (2)—

(a) paragraphs (c) and (g) shall cease to have effect;

(b) in paragraph (e), for "two and a half per cent of the amount of the gift" there shall be substituted "the limit imposed by subsection (5A) below"; and

(c) for paragraph (i) there shall be substituted—

"(i) either—

(i) at the time the gift is made, the donor is resident in the United Kingdom or performs duties which by virtue of section 132(4)(a) of the Taxes Act 1988 (Crown employees serving overseas) are treated as being performed in the United Kingdom; or

(ii) the grossed up amount of the gift would, if in fact made, be payable out of profits or gains brought into charge to income tax or capital gains tax.".

(4) For subsection (3) there shall be substituted—

"(3) The reference in subsection (1)(c) above to an appropriate declaration is a reference to a declaration which—

(a) is given in such manner as may be prescribed by regulations made by the Board; and

(b) contains such information and such statements as may be so prescribed.

(3A) Regulations made for the purposes of subsection (3) above may—

(a) provide for declarations to have effect, to cease to have effect or to be deemed never to have had effect in such circumstances and for such purposes as may be prescribed by the regulations;

(b) require charities to keep records with respect to declarations given to them by donors; and

(c) make different provision for declarations made in a different manner.".

(5) After subsection (5) there shall be inserted—

"(5A) The limit imposed by this subsection is—

(a) where the amount of the gift does not exceed £100, 25 per cent of the amount of the gift;

(b) where the amount of the gift exceeds £100 but does not exceed £1,000, £25;

(c) where the amount of the gift exceeds £1,000, 2.5 per cent of the amount of the gift.

(5B) Where a benefit received in consequence of making a gift—

(a) consists of the right to receive benefits at intervals over a period of less than twelve months;

(b) relates to a period of less than twelve months; or

(c) is one of a series of benefits received at intervals in consequence of making a series of gifts at intervals of less than twelve months,

the value of the benefit shall be adjusted for the purposes of subsection (4) above and the amount of the gift shall be adjusted for the purposes of subsection (5A) above.

(5C) Where a benefit, other than a benefit which is one of a series of benefits received at intervals, is received in consequence of making a gift which is one of a series of gifts made at intervals of less than twelve months, the amount of the gift shall be adjusted for the purposes of subsection (5A) above.

(5D) Where the value of a benefit, or the amount of a gift, falls to be adjusted under subsection (5B) or (5C) above, the value or amount shall be multiplied by 365 and the result shall be divided by—

(a) in a case falling within subsection (5B)(a) or (b) above, the number of days in the period of less than twelve months;

(b) in a case falling within subsection (5B)(c) or (5C) above, the average number of days in the intervals of less than twelve months;

and the reference in subsection (5B) above to subsection (4) above is a reference to that subsection as it applies for the purposes of subsection (2)(e) above.

(5E) In determining whether a gift to a charity falling within subsection (5F) below is a qualifying donation, there shall be disregarded the benefit of any right of admission received in consequence of the making of the gift—

(a) to view property the preservation of which is the sole or main purpose of the charity; or

(b) to observe wildlife the conservation of which is the sole or main purpose of the charity;

but this subsection shall not apply unless the opportunity to make gifts which attract such a right is available to members of the public.

(5F) A charity falls within this subsection if its sole or main purpose is the preservation of property, or the conservation of wildlife, for the public benefit.

(5G) In subsection (5E) above "right of admission" refers to admission of the person making the gift (or any member of his family who may be admitted because of the gift) either free of the charges normally payable for admission by members of the public, or on payment of a reduced charge.".

(6) For subsections (6) to (9) there shall be substituted—

"(6) Where any gift made by the donor in a year of assessment is a qualifying donation, then, for that year—

(a) the Income Tax Acts and the Taxation of Chargeable Gains Act 1992 shall have effect, in their application to him, as if—

(i) the gift had been made after deduction of income tax at the basic rate; and

(ii) the basic rate limit were increased by an amount equal to the grossed up amount of the gift;

(b) the provisions mentioned in subsection (7) below shall have effect, in their application to him, as if any reference to income tax which he is entitled to charge against any person included a reference to the tax treated as deducted from the gift; and

(c) to the extent, if any, necessary to ensure that he is charged to an amount of income tax and capital gains tax equal to the tax treated as deducted from the gift, he shall not be entitled to relief under Chapter I of Part VII of the Taxes Act 1988;

but paragraph (a)(ii) above shall not apply for the purposes of any computation under section 550(2)(a) or (b) of that Act (relief where gain charged at a higher rate).

(7) The provisions referred to in subsection (6)(b) above are—

(a) section 289A(5)(e) of the Taxes Act 1988 (relief under enterprise investment scheme);

(b) section 796(3) of that Act (credit for foreign tax); and

(c) paragraph 1(6)(f) of Schedule 15B to that Act (venture capital trusts).

(8) Where the tax treated as deducted from a gift by virtue of subsection (6) above exceeds the amount of income tax and capital gains tax with which the donor is charged for the year of assessment, the donor shall be assessable and chargeable with income tax at the basic rate on so much of the gift as is necessary to recover an amount of tax equal to the excess.

(9) In determining for the purposes of subsection (8) above the total amount of income tax and capital gains tax with which the donor is charged for the year of assessment, there shall be disregarded—

(a) any tax charged at the basic rate by virtue of—

(i) section 348 of the Taxes Act 1988 (read with section 3 of that Act); or

(ii) section 349 of that Act (read with section 350 of that Act);

(b) any tax treated as having been paid under—

(i) section 233(1)(a) of that Act (taxation of certain recipients of distributions);

(ii) section 249(4)(a) of that Act (stock dividends treated as income); or

(iii) section 547(5)(a) of that Act (method of charging life policy gain to tax);

(c) any relief to which section 256(2) of that Act applies (relief by way of income tax reduction);

(d) any relief under—

(i) section 347B of that Act (relief for maintenance payments);

(ii) section 788 of that Act (relief by agreement with other countries); or

(iii) section 790(1) of that Act (unilateral relief);

(e) any set off of tax deducted, or treated as deducted, from income other than—

(i) tax treated as deducted from income by virtue of section 421(1)(a) of that Act (taxation of borrower when loan released etc); or

(ii) tax treated as deducted from a relevant amount within the meaning of section 699A of that Act (untaxed sums comprised in the income of an estate) except to the extent that the relevant amount is or would be paid in respect of a distribution chargeable under Schedule F; and

(f) any set off of tax credits.

(9A) For the purposes of sections 257(5) and 257A(5) of the Taxes Act 1988 (age related allowances), the donor's total income shall be treated as reduced by the aggregate amount of gifts from which tax is treated as deducted by virtue of subsection (6) above.".

(7) In subsection (12), paragraphs (b) and (e) and the word "and" immediately preceding paragraph (e) shall cease to have effect.

(8) In subsections (1)(b) and (3)(b) of section 257BB of the Taxes Act 1988 (transfer of relief under section 257A where relief exceeds income), after "section 256(2)(b)" there shall be inserted "(read with section 25(6)(c) of the Finance Act 1990 where applicable)".

(9) In paragraph 4(1)(b) of Schedule 13B to that Act (children's tax credit), after "section 256(2)(b)" there shall be inserted "(read with section 25(6)(c) of the Finance Act 1990 where applicable)".

(10) This section has effect in relation to—

(a) gifts made on or after 6th April 2000 which are not covenanted payments; and

(b) covenanted payments falling to be made on or after that date;

and any regulations made under subsection (3) of section 25 of the Finance Act 1990 (as substituted by subsection (4) above) within three months of the passing of this Act may be so made as to apply to any payments in relation to which this section has effect.

40 Gift aid payments by companies

(1) Section 339 of the Taxes Act 1988 (charges on income: donations to charity) shall be amended in accordance with subsections (2) to (8) below.

(2) In subsection (1), for paragraph (a) there shall be substituted—

"(a) a payment which, by reason of any provision of the Taxes Acts (within the meaning of the Management Act) except section 209(4), is to be regarded as a distribution; and".

(3) Subsections (2), (3), (3A), (3F), (6), (7) and (8) shall cease to have effect.

(4) In subsection (3B)(b), for "two and a half per cent. of the amount given after deducting tax under section 339(3)" there shall be substituted "the limit imposed by subsection (3DA) below".

(5) After subsection (3D) there shall be inserted—

"(3DA) The limit imposed by this subsection is—

(a) where the amount of the payment does not exceed £100, 25 per cent of the amount of the payment;

(b) where the amount of the payment exceeds £100 but does not exceed £1,000, £25;

(c) where the amount of the payment exceeds £1,000, 2.5 per cent of the amount of the payment.

(3DB) Where a benefit received in consequence of making a payment—

(a) consists of the right to receive benefits at intervals over a period of less than twelve months;

(b) relates to a period of less than twelve months; or

(c) is one of a series of benefits received at intervals in consequence of making a series of payments at intervals of less than twelve months,

the value of the benefit shall be adjusted for the purposes of subsection (3C) above and the amount of the payment shall be adjusted for the purposes of subsection (3DA) above.

(3DC) Where a benefit, other than a benefit which is one of a series of benefits received at intervals, is received in consequence of making a payment which is one of a series of payments made at intervals of less than twelve months, the amount of the payment shall be adjusted for the purposes of subsection (3DA) above.

(3DD) Where the value of a benefit, or the amount of a payment, falls to be adjusted under subsection (3DB) or (3DC) above, the value or amount shall be multiplied by 365 and the result shall be divided by—

(a) in a case falling within subsection (3DB)(a) or (b) above, the number of days in the period of less than twelve months;

(b) in a case falling within subsection (3DB)(c) or (3DC) above, the average number of days in the intervals of less than twelve months;

and the reference in subsection (3DB) to subsection (3C) above is a reference to that subsection as it applies for the purposes of subsection (3B) above.".

(6) For subsection (4) there shall be substituted—

"(4) Where a company gives a sum of money to a charity, the gift shall in the hands of the charity be treated for the purposes of this Act as if it were an annual payment.".

(7) For subsection (7AA) there shall be substituted—

"(7AA) Where—

(a) a qualifying donation to a charity is made by a company which is wholly owned by a charity, and

(b) the company makes a claim for the donation, or any part of it, to be deemed for the purposes of section 338 to be a charge on income paid in an accounting period falling wholly or partly within the period of nine months ending with the date of the making of the donation,

the donation or part shall be deemed for those purposes to be a charge on income paid in that accounting period, and not in any later period.

A claim under this subsection must be made within the period of two years immediately following the accounting period in which the donation is made, or such longer period as the Board may allow.".

(8) In subsection (9), the words "in subsections (1) to (4) above includes" shall cease to have effect.

(9) In subsection (1) of section 209 of the Taxes Act 1988 (meaning of "distribution"), for "section 339(6) and any other express exceptions" there shall be substituted "any express exceptions".

(10) In subsection (2)(a) of section 338 of that Act (allowance of charges on income and capital), after "company" there shall be inserted "or payments falling within paragraph (b) below".

(11) This section has effect in relation to payments made on or after 1st April 2000; and—

(a) so much of an accounting period as falls before that date; and

(b) so much of it as falls after 31st March 2000,

shall be treated as separate accounting periods for the purposes of the amendment made by subsection (5) above.

41 Covenanted payments to charities

(1) In subsection (5)(b) of section 338 of the Taxes Act 1988 (allowances of charges on income and capital), for "a covenanted donation to charity" there shall be substituted "a qualifying donation".

(2) In section 347A of that Act (annual payments and interest: general rule), subsections (2)(b), (7) and (8) shall cease to have effect.

(3) In subsection (3) of section 348 of that Act (payments out of profits or gains brought into charge to income tax: deductions of tax), at the end there shall be inserted "or to any payment which is a qualifying donation for the purposes of section 25 of the Finance Act 1990".

(4) In subsection (1) of section 349 of that Act (payments not out of profits or gains brought into charge to income tax, and annual interest), at the end there shall be inserted "or to any payment which is a qualifying donation (within the meaning of section 339) or a qualifying donation for the purposes of section 25 of the Finance Act 1990".

(5) In subsection (6) of section 505 of that Act (charities: general), the words "and, for this purpose, all covenanted payments to charity (within the meaning of section 347A(7)) shall be treated as a single item" shall cease to have effect.

(6) In subsection (9) of section 660A of that Act (income arising under a settlement where settlor retains an interest), for paragraph (b) there shall be substituted—

"(b) qualifying donations for the purposes of section 25 of the Finance Act 1990.".

(7) Section 59 of the Finance Act 1989 (covenanted subscriptions) shall cease to have effect.

(8) Where a deed of covenant executed by an individual before 6th April 2000 provides for the payment of specified amounts, any amount payable under the deed on or after that date shall be determined as if the individual were entitled to deduct tax from that amount at the basic rate.

(9) This section shall have effect in relation to covenanted payments—

(a) falling to be made by individuals on or after 6th April 2000; or

(b) made by companies on or after 1st April 2000.

42 Millennium gift aid

(1) In section 48 of the Finance Act 1998 (gifts of money for relief in poor countries), subsections (3), (6) and (7) shall cease to have effect.

(2) In subsection (4) of that section—

(a) in paragraph (a), after "made" there shall be inserted "before 6th April 2000";

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

"(bb) the subsequent gift, or at least one of the subsequent gifts, is made on or after 6th April 2000;"; and

(c) in paragraph (c), for "appropriate certificate" there shall be substituted "appropriate declaration".

(3) In subsection (8) of that section, for the definition of "relevant gift" there shall be substituted—

""relevant gift" means a gift to which this section applies—

(a) which satisfies the requirements of subsection (2) of section 25 of the Finance Act 1990 (as amended by section 39 of the Finance Act 2000); or

(b) which would satisfy those requirements if paragraph (e) of that subsection were disregarded.".

43 Gifts of shares and securities to charities etc

(1) After section 587A of the Taxes Act 1988 there shall be inserted—

"**587B Gifts of shares and securities to charities etc**

(1) Subsections (2) and (3) below apply where, otherwise than by way of a bargain made at arm's length, an individual, or a company which is not itself a charity, disposes of the whole of the beneficial interest in a qualifying investment to a charity.

(2) On a claim made in that behalf to an officer of the Board—

(a) the relevant amount shall be allowed—

(i) in the case of a disposal by an individual, as a deduction in calculating his total income for the purposes of income tax for the year of assessment in which the disposal is made;

(ii) in the case of a disposal by a company, as a charge on income for the purposes of corporation tax for the accounting period in which the disposal is made; and

(b) no relief in respect of the disposal shall be given under section 83A or any other provision of the Income Tax Acts;

but paragraph (a)(i) above shall not apply for the purposes of any computation under section 550(2)(a) or (b).

(3) The consideration for which the charity's acquisition of the qualifying investment is treated by virtue of section 257(2) of the 1992 Act as having been made—

(a) shall be reduced by the relevant amount; or

(b) where that consideration is less than that amount, shall be reduced to nil.

(4) Subject to subsections (5) to (7) below, the relevant amount is an amount equal to—

(a) where the disposal is a gift, the market value of the qualifying investment at the time when the disposal is made;

(b) where the disposal is at an undervalue, the difference between that market value and the amount or value of the consideration for the disposal.

(5) Where there are one or more benefits received in consequence of making the disposal which are received by the person making the disposal or a person connected with him, the relevant amount shall be reduced by the value of

that benefit or, as the case may be, the aggregate value of those benefits; and section 839 applies for the purposes of this subsection.

(6) Where the disposal is a gift, the relevant amount shall be increased by the amount of the incidental costs of making the disposal to the person making it.

(7) Where the disposal is at an undervalue—

(a) to the extent that the consideration for the disposal is less than that for which the disposal is treated as made by virtue of section 257(2)(a) of the 1992 Act, the relevant amount shall be increased by the amount of the incidental costs of making the disposal to the person making it; and

(b) section 48 of that Act (consideration due after time of disposal) shall apply in relation to the computation of the relevant amount as it applies in relation to the computation of a gain.

(8) In the case of a disposal by a company which is carrying on life assurance business—

(a) if the company is charged to tax under Case I of Schedule D in respect of such business, subsections (2) and (3) above shall not apply;

(b) if the company is not so charged to tax in respect of such business—

(i) subsection (2)(a)(ii) above shall have effect as if for "a charge on income" there were substituted "an expense of management"; and

(ii) the relevant amount given by subsection (4) above shall be reduced by so much (if any) of that amount as is not referable to basic life assurance and general annuity business;

and for the purpose of determining how much (if any) of that amount is not so referable, section 432A shall have effect as if that amount were a gain accruing on the disposal of the qualifying investment to the company.

(9) In this section—

"authorised unit trust" and "open-ended investment company" have the meanings given by section 468;

"charity" has the same meaning as in section 506 and includes each of the bodies mentioned in section 507(1);

"the incidental costs of making the disposal to the person making it" shall be construed in accordance with section 38(2) of the 1992 Act;

"life assurance business" and related expressions have the same meaning as in Chapter I of Part XII;

"offshore fund" means a collective investment scheme (within the meaning of the Financial Services Act 1986) which is constituted by any company, unit trust scheme or other arrangement falling within paragraph (a), (b) or (c) of section 759(1);

"qualifying investment" means any of the following—

(a) shares or securities which are listed or dealt in on a recognised stock exchange;

(b) units in an authorised unit trust;

(c) shares in an open-ended investment company; and

(d) an interest in an offshore fund.

(10) Subject to subsection (11) below, the market value of any qualifying investment shall be determined for the purposes of this section as for the purposes of the 1992 Act.

(11) In the case of an interest in an offshore fund for which there are separate published buying and selling prices, section 272(5) of the 1992 Act (meaning of "market value" in relation to rights of unit holders in a unit trust scheme) shall apply with any necessary modifications for determining the market value of the interest for the purposes of this section.".

(2) In subsection (2) of section 338 of that Act (allowances of charges on income and capital), immediately before paragraph (a) there shall be inserted—

"(za) amounts allowed as charges on income under section 587B(2)(a)(ii);".

(3) This section has effect in relation to—

(a) disposals made by individuals on or after 6th April 2000; and

(b) disposals made by companies on or after 1st April 2000.

44 Gifts to charity from certain trusts

(1) Chapter IA of Part XV of the Taxes Act 1988 (liability of settlors) shall not apply to any qualifying income which arises under a trust the trustees of which are resident in the United Kingdom (a "UK trust") if—

(a) it is given by the trustees to a charity in the year of assessment in which it arises; or

(b) it is income to which a charity is entitled under the terms of the trust.

(2) Subject to subsection (3) below, where in any year of assessment qualifying income arising under a UK trust from different sources exceeds the amount of that income falling within subsection (1) above, that amount shall be rateably apportioned between those sources.

(3) Nothing in subsection (2) above shall affect the operation of any requirement that the whole, or any specified part, of the income from a particular source be given to a charity.

(4) Where in any year of assessment qualifying income arising under a UK trust exceeds the amount of that income falling within subsection (1) above, any management expenses for that year shall be rateably apportioned between—

(a) so much of that income as is equal to that amount; and

(b) so much of that income as exceeds that amount.

(5) In this section—

"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;

"qualifying income" means—

(i) income which is to be accumulated;

(ii) income which is payable at the discretion of the trustees or any other person (whether or not the trustees have power to accumulate it); or

(iii) income which (before being distributed) is income of any person other than the trustees;

"resident", in relation to the trustees of a trust, shall be construed in accordance with section 110 of the Finance Act 1989;

and the reference to Chapter IA of Part XV of the Taxes Act 1988 includes a reference to that Chapter as it has effect by virtue of section 660E of that Act (application to settlements by two or more settlors).

(6) This section has effect in relation to qualifying income arising to a UK trust on or after 6th April 2000.

45 Loans to charities

(1) In Chapter IA of Part XV of the Taxes Act 1988 "settlement" does not include any arrangement so far as it consists of a loan of money made by an individual to a charity either—

(a) for no consideration; or

(b) for a consideration which consists only of interest.

(2) In this section "charity" has the same meaning as in section 44 above.

(3) This section has effect in relation to income arising on or after 6th April 2000 on loans made before, as well as loans made on or after, that date.

46 Exemption for small trades etc

(1) Subject to subsection (2) below, exemption from tax under Case I or VI of Schedule D shall be granted, on a claim made in that behalf to the Board, in respect of any income of a charity if the requirements of subsection (3) below are satisfied with respect to the income.

(2) Exemption shall not be granted under subsection (1) above in respect of income which is chargeable to tax under Case VI of Schedule D by virtue of any of the following—

(a) section 30 of the Taxes Management Act 1970;

(b) sections 214, 412, 547(1)(b) and (6), 553(6), 660C, 677, 703, 776, 788, 790 and 804 of the Taxes Act 1988;

(c) paragraph 14 of Schedule 4 to the Finance (No. 2) Act 1997;

(d) paragraph 52(4) of Schedule 18, and paragraph 13(7) of Schedule 19, to the Finance Act 1998; and

(e) any other enactment specified in an order made by the Treasury.

(3) The requirements of this subsection are satisfied with respect to any income for a chargeable period if it is applied solely for the purposes of the charity and either—

(a) the charity's gross income for the chargeable period does not exceed the requisite limit; or

(b) the charity had, at the beginning of the period, a reasonable expectation that its gross income for the period would not exceed that limit.

(4) Subject to subsection (5) below, the requisite limit is whichever is the greater of—

(a) £5,000; and

(b) whichever is the lesser of £50,000 and 25% of all of the charity's incoming resources for the chargeable period.

(5) For a chargeable period of less than twelve months, the amounts of £5,000 and £50,000 specified in subsection (4) above shall be proportionally reduced.

(6) In this section—

"charity" means any body of persons or trust established for charitable purposes only;

"gross income", in relation to a charity, means income before deduction of any expenses;

"income", in relation to a charity, means any profits or gains or other income which is chargeable to tax under Case I or VI of Schedule D and which is not, apart this section, exempted from tax under that Case.

(7) This section applies for the year 2000-01 and subsequent years of assessment or, in the case of charities which are companies, for accounting periods beginning on or after 1st April 2000.

Employee share ownership

47 Employee share ownership plans

Schedule 8 to this Act (employee share ownership plans) shall have effect.

48 Relief for transfers to employee share ownership plans

(1) In the Taxation of Chargeable Gains Act 1992, after section 236 insert—

"Employee share ownership plans

236A Relief for transfers to employee share ownership plans

Schedule 7C (which makes provision for roll-over relief where shares are transferred to an approved employee share ownership plan) shall have effect.".

(2) After Schedule 7B to that Act insert the Schedule 7C set out in Schedule 9 to this Act.

49 Phasing out of approved profit sharing schemes

(1) The Board shall not approve a profit sharing scheme under Schedule 9 to the Taxes Act 1988 (approval of share option schemes and profit sharing schemes) unless the application for approval is received by the Board before 6th April 2001.

(2) For the purposes of subsection (1) an application for approval which is not accompanied by the particulars and evidence referred to in paragraph 1(2) of that Schedule is not regarded as received by the Board until the required particulars and evidence have been received by them.

(3) In section 186 of that Act (approved profit sharing schemes), in subsection (1) (under which the section applies to appropriations of shares made after 5th April 1979) after "5th April 1979" insert "and before 1st January 2003".

50 Phasing out of relief for payments to trustees of profit sharing schemes

(1) This section has effect to phase out deductions under section 85 of the Taxes Act 1988 (corporation tax relief for payments to trustees of approved profit sharing schemes).

(2) In the case of sums paid to the trustees on or after 21st March 2000 and before 6th April 2002 no deduction may be made by virtue of subsection (2)(a) of that section (sums applied in acquiring shares for appropriation) unless the trustees appropriate the shares acquired, by the application of the sum, as mentioned in that provision—

(a) before the end of the period of nine months beginning on the day following the end of the period of account in which payment to the trustees was made, and

(b) before 1st January 2003.

(3) No deduction may be made by virtue of subsection (2)(a) of that section in respect of any sum paid to the trustees on or after 6th April 2002.

(4) No deduction may be made by virtue of subsection (2)(b) of that section (sums to meet expenses of trustees in administering the scheme) in respect of any sum paid to the trustees more than three years after the date of the last appropriation of shares to individuals which was made—

(a) in accordance with the approved profit sharing scheme, and

(b) before 1st January 2003.

(5) For the purposes of this section references to a deduction under section 85 are to a deduction under subsection (1)(a) or by virtue of subsection (1)(b) of that section.

51 Approved profit sharing scheme: other awards of shares

(1) In Schedule 9 to the Taxes Act 1988 (approved share option schemes and profit sharing schemes), in paragraph 3(2) (grounds for withdrawing approval of profit sharing schemes), after "below" in paragraph (e) insert—

"; or

(f) the trustees appropriate shares to participants, one or more of whom have had free shares appropriated to them, at an earlier time in the same year of assessment, under a relevant share plan".

(2) After paragraph 3(3) of that Schedule insert—

"(4) For the purposes of sub-paragraph (2)(f) above the reference to persons having had free shares appropriated to them includes persons who would have had free shares appropriated to them but for their failure to obtain a performance allowance (within the meaning of paragraph 25 of Schedule 8 to the Finance Act 2000).

(5) In sub-paragraph (2)(f) and (4) above—

"free shares" has the same meaning as in Schedule 8 to the Finance Act 2000;

"relevant share plan", in relation to a profit sharing scheme, means an employee share ownership plan that—

(a) was established by the grantor or a connected company, and

(b) is approved under Schedule 8 to that Act.

(6) For the purposes of sub-paragraph (5) above "connected company" means—

(a) a company which controls or is controlled by the grantor or which is controlled by a company which also controls the grantor, or

(b) a company which is a member of a consortium owning the grantor or which is owned in part by the grantor as a member of a consortium.".

52 Approved profit sharing schemes: restriction on type of shares

(1) Schedule 9 to the Taxes Act 1988 (share option schemes and profit sharing schemes) is amended in accordance with subsections (2) to (4).

(2) In paragraph 9(1) (requirements to be satisfied by shares in share option schemes), after "below" insert "(disregarding paragraph 11A)".

(3) After paragraph 11 (requirements as to listing etc.) insert—

"11A (1) In the case of a profit sharing scheme, scheme shares must not be shares—

(a) in an employer company, or

(b) in a company that—

(i) has control of an employer company, and

(ii) is under the control of a person or persons within sub-paragraph (2)(b)(i) below in relation to an employer company.

(2) For the purposes of this paragraph a company is "an employer company" if—

(a) the business carried on by it consists substantially in the provision of the services of the persons employed by it, and

(b) the majority of those services are provided to—

(i) a person who has, or two or more persons who together have, control of the company, or

(ii) a company associated with the company.

(3) For the purposes of sub-paragraph (2)(b)(ii) above a company shall be treated as associated with another company if both companies are under the control of the same person or persons.

(4) For the purposes of sub-paragraphs (1) to (3) above—

(a) references to a person include a partnership, and

(b) where a partner, alone or together with others, has control of a company, the partnership shall be treated as having like control of that company.

(5) For the purposes of this paragraph the question whether a person controls a company shall be determined in accordance with section 416(2) to (6).".

(4) In paragraph 12—

(a) in sub-paragraph (1), in paragraph (c) for "other than" to the end of that paragraph there shall be substituted "other than those permitted by sub-paragraph (1A) below.", and

(b) after sub-paragraph (1) insert—

"(1A) Subject to sub-paragraph (1B) below, scheme shares may be subject to—

(a) restrictions which attach to all shares of the same class, or

(b) a restriction authorised by sub-paragraph (2) below.

(1B) In the case of a profit sharing scheme, scheme shares must not be subject to any restrictions affecting the rights attaching to those shares which relate to—

(a) dividends, or

(b) assets on a winding-up of the company,

other than restrictions which attach to all other ordinary shares in the same company.".

(5) Subsections (1) to (4) shall be deemed to have come into force on 21st March 2000.

(6) Subsections (3) and (4) do not have effect in relation to shares acquired before 21st March 2000 by the trustees of a profit sharing scheme approved under Schedule 9 to the Taxes Act 1988.

53 Approved profit sharing schemes: loan arrangements

(1) In paragraph 2 of Schedule 9 to the Taxes Act 1988 (conditions for approval of share option schemes and profit sharing schemes), after sub-paragraph (2) insert—

"(2A) The Board shall not approve a profit sharing scheme unless they are satisfied—

(a) that the arrangements for the scheme do not make any provision, and are not in any way associated with any provision made, for loans to some or all of the employees of—

(i) the company that established the scheme, or

(ii) in the case of a group scheme, any participating company, and

(b) that the operation of the scheme is not in any way associated with such loans.

(2B) For the purposes of sub-paragraph (2A) above "arrangements" includes any scheme, agreement or understanding, whether or not legally enforceable.".

(2) In paragraph 3(2) of that Schedule (withdrawal of approval of profit sharing schemes), before paragraph (d) insert—

"(ca) the Board—

(i) cease to be satisfied of the matters mentioned in paragraph 2(2A) above, or

(ii) in the case of a scheme approved before 21st March 2000, are not satisfied of those matters; or".

(3) This section shall be deemed to have come into force on 21st March 2000.

54 Employee share ownership trusts

No claim for relief under section 229(1) or (3) of the Taxation of Chargeable Gains Act 1992 (roll-over relief where disposal made to employee share ownership trust) may be made in relation to a disposal of shares, or an interest in shares, made on or after 6th April 2001.

55 Shares transferred from employee share ownership trust

(1) Section 69 of the Finance Act 1989 (chargeable events in relation to employee share ownership trusts) is amended in accordance with subsections (2) to (5).

(2) In subsection (1) (definition of "chargeable event"), after paragraph (d) insert—

"(e) where—

(i) the trustees make a qualifying transfer within subsection (3AA) below for a consideration, and

(ii) they do not, during the period specified in subsection (5A) below, expend a sum of not less than the amount of that consideration for one or more qualifying purposes,

the expiry of that period.".

(3) After subsection (3) insert—

"(3AA) For the purposes of subsection (1)(a) above a transfer is also a qualifying transfer if—

(a) it is a transfer of relevant shares made to the trustees of the plan trust of an employee share ownership plan,

(b) the plan is approved under Schedule 8 to the Finance Act 2000 when the transfer is made, and

(c) the consideration (if any) for which the transfer is made does not exceed the market value of the shares.

(3AB) For the purpose of determining whether a transfer by the trustees is a qualifying transfer within subsection (3AA) above, where on or after 21st March 2000—

(a) the trustees transfer or dispose of part of a holding of shares (whether by way of a qualifying transfer or otherwise), and

(b) the holding includes any relevant shares,

the relevant shares shall be treated as transferred or disposed of before any other shares included in that holding.

For this purpose "holding" means any number of shares of the same class held by the trustees, growing or diminishing as shares of that class are acquired or disposed of.

(3AC) For the purposes of subsections (3AA) and (3AB) above—

"market value" has the same meaning as in Schedule 8 to the Finance Act 2000; and

"relevant shares" means—

(i) shares that are held by the trustees of the employee share ownership trust at midnight on 20th March 2000, and

(ii) shares purchased by those trustees with original funds after that time.

(3AD) For the purposes of subsection (3AC) above—

(a) "original funds" means any money held by the trustees of the employee share ownership trust in a bank or building society account at midnight on 20th March 2000, and

(b) any payment made by the trustees after that time (whether to acquire shares or otherwise) shall be treated as made out of original funds (and not out of money received after that time) until those funds are exhausted.".

(4) In subsection (5) after "(1)(d)" insert "or (e)".

(5) After that subsection insert—

"(5A) The period referred to in paragraph (e) of subsection (1) above is the period—

(a) beginning with the qualifying transfer mentioned in that paragraph, and

(b) ending nine months after the end of the period of account in which that qualifying transfer took place.

For this purpose the period of account means the period of account of the company that established the employee share ownership trust.".

(6) In section 70 of the Finance Act 1989 (chargeable amounts), after subsection (3) insert—

"(4) If the chargeable event falls within section 69(1)(e) above the chargeable amount is an amount equal to—

(a) the amount of the consideration received for the qualifying transfer mentioned in section 69(1)(e) above, less

(b) the amount of any expenditure by the trustees for a qualifying purpose during the period mentioned in section 69(5A) above.".

56 Further provisions about share options

(1) In Chapter IV of Part V of the Taxes Act 1988 (provisions relating to the Schedule E charge: other exemptions and reliefs), after section 187 insert—

"Contributions in respect of share option gains

187A Relief for contributions in respect of share option gains

(1) Where a person ("the earner") is chargeable to tax under section 135 on a gain, relief is available under this section if—

(a) an agreement has been entered into allowing the secondary contributor to recover from the earner the whole or part of any secondary Class 1 contributions in respect of the gain, or

(b) an election is in force which has the effect of transferring to the earner the whole or part of the liability to pay secondary Class 1 contributions in respect of the gain.

(2) The amount of the relief is the total of—

(a) any amount that, in pursuance of any such agreement as is mentioned in subsection (1)(a), is recovered in respect of the gain by the secondary contributor not later than 60 days after the end of the year of assessment in which occurred the event giving rise to the charge to tax under section 135; and

(b) the amount of any liability in respect of that gain that, by virtue of any such election as is mentioned in subsection (1)(b), has become the earner's liability.

(3) Where notice of withdrawal of approval of any such election is given, relief under subsection (2)(b) is limited to so much of the earner's liability in respect of the gain as is met before the end of the 60th day after the end of the year of assessment in which occurred the event giving rise to the charge under section 135.

(4) Relief under this section shall be given by way of deduction from the amount of the gain on which the earner is chargeable to tax under section 135.

(5) Any such deduction does not affect the amount of the gain for the purposes of—

(a) section 120(4) of the Taxation of Chargeable Gains Act 1992 (amount treated as consideration for acquisition of shares), or

(b) section 4(4)(a) of the Contributions and Benefits Act (amount treated as remuneration for contributions purposes).

(6) The agreements and elections referred to in this section are those having effect under paragraph 3A or 3B of Schedule 1 to the Contributions and Benefits Act.

References to approval in relation to an election are to approval by the Inland Revenue under paragraph 3B of that Schedule.

(7) In this section—

"the Contributions and Benefits Act" means the Social Security Contributions and Benefits Act 1992 or the Social Security Contributions and Benefits (Northern Ireland) Act 1992; and

"secondary Class 1 contributions" and "secondary contributor" have the same meaning as in that Act.".

Section 187A inserted by this subsection applies to any agreement or election having effect as mentioned in subsection (6) of that section, whether made before or after the passing of this Act.

(2) Section 203FB of the Taxes Act 1988 (PAYE: gains from share options) is amended as follows—

(a) in subsections (2) and (3), for "subsection (7)" substitute "subsection (6A)";

(b) after subsection (6) insert—

"(6A) Where section 203F has effect in accordance with subsection (2) or (3) above, subsection (3) of section 203F shall apply as if the reference in that subsection to the amount of income likely to be chargeable to tax under Schedule E in respect of the provision of the asset were a reference to the amount on which tax is likely to be chargeable by

virtue of section 135 in respect of the event in question, reduced by the amount of any relief likely to be available under section 187A.";

(c) in subsection (7), for "any of the preceding provisions of this section" substitute "subsection (4) or (5) above" and for "section 135, 140A or 140D" substitute "section 140A or 140D".

These amendments apply where the event giving rise to the charge to tax occurs after the passing of this Act.

(3) In section 136(6) of the Taxes Act 1988 and section 85(1) of the Finance Act 1988 (duty to deliver particulars relating to share options, etc. within 30 days after end of year of assessment), for "30 days" substitute "92 days".

These amendments apply where the event giving rise to the duty to deliver particulars occurs on or after 6th April 2000.

(4) After section 136(6) of the Taxes Act 1988 add—

"(7) A body corporate is not obliged to deliver particulars under subsection (6) above which it has already given in a notice under paragraph 2 of Schedule 14 to the Finance Act 2000 (enterprise management incentives: notice required for option to be qualifying option).

In other respects the obligations imposed by that subsection and that paragraph are independent of each other.

(8) The duty of a body corporate under subsection (6) above to deliver particulars of any matter includes a duty to deliver particulars of any secondary Class 1 contributions payable in connection with that matter that—

(a) are recovered as mentioned in section 187A(2)(a), or

(b) are met as mentioned in section 187A(3).

In this subsection "secondary Class 1 contributions" has the same meaning as in section 187A.".

Section 136(8) inserted by this subsection applies to any amounts recovered or met as mentioned in section 187A(2)(a) or (3) of the Taxes Act 1988, whether before or after the passing of this Act.

Other provisions about employment

57 Benefits in kind: deregulatory amendments

(1) Chapter II of Part V of the Taxes Act 1988 (provisions relating to the Schedule E charge: benefits in kind, etc.) is amended in accordance with Schedule 10 to this Act.

(2) The amendments have effect for the year 2000-01 and subsequent years of assessment.

58 Education and Training

(1) After section 200D of the Taxes Act 1988 (work-related training) insert—

"**200E Education and training funded by employers**

(1) This section applies for the purposes of Schedule E where any person (in this section, and sections 200F and 200G, called "the employer") incurs expenditure—

(a) by making a payment to a person ("the provider") in respect of the costs of any qualifying education or training provided by the provider to a fundable employee of the employer (in this section, and sections 200F and 200G, called "the employee"), or

(b) in paying or reimbursing any related costs.

(2) Subject to sections 200F to 200H, the emoluments of the employee from the office or employment shall not be taken to include—

(a) any amount in respect of that expenditure, or

(b) any amount in respect of the benefit of the education or training provided by means of that expenditure.

(3) In subsection (1) above "related costs", in relation to any qualifying education or training provided to the employee, means—

(a) any costs that are incidental to the employee's undertaking the education or training and are incurred wholly and exclusively as a result of his doing so;

(b) any expenses incurred in connection with an assessment (whether by examination or otherwise) of what the employee has gained from the education or training; and

(c) the cost of obtaining for the employee any qualification, registration or award to which he has or may become entitled as a result of undertaking the education or training or of undergoing such an assessment.

(4) In this section "qualifying education or training" means education or training of a kind that qualifies for grants whose payment is authorised by—

(a) regulations under section 108 or 109 of the Learning and Skills Act 2000, or

(b) regulations under section 1 of the Education and Training (Scotland) Act 2000.

(5) For the purposes of this section, a person is a fundable employee of the employer if—

(a) he holds, or has at any time held, an office or employment under the employer, and

(b) he holds an account that qualifies under section 104 of the Learning and Skills Act 2000 or he is a party to qualifying arrangements.

(6) In subsection (5) above "qualifying arrangements" means arrangements which qualify under—

(a) section 105 or 106 of the Learning and Skills Act 2000, or

(b) section 2 of the Education and Training (Scotland) Act 2000.

200F Section 200E: exclusion of expenditure not directly related to training

(1) Section 200E shall not apply in the case of any expenditure to the extent that it is incurred in paying or reimbursing the cost of any facilities or other benefits provided or made available to the employee for either or both of the following purposes, that is to say—

(a) enabling the employee to enjoy the facilities or benefits for entertainment or recreational purposes;

(b) rewarding the employee for the performance of the duties of his office or employment under the employer, or for the manner in which he has performed them.

(2) Section 200E shall not apply in the case of any expenditure incurred in paying or reimbursing any expenses of travelling or subsistence, except to the extent that those expenses would be deductible under section 198 if the employee—

(a) undertook the education or training in question in the performance of the duties of—

(i) his office or employment under the employer, or

(ii) where the employee no longer holds an office or employment under the employer, the last office or employment that he did hold under the employer; and

(b) incurred those expenses out of the emoluments of that office or employment.

(3) Section 200E shall not apply in the case of any expenditure incurred in paying or reimbursing the cost of providing the employee with, or with the use of, any asset except where—

(a) the asset is provided or made available for use only in the course of the education or training;

(b) the asset is provided or made available for use in the course of the education or training and in the performance of the duties of the employee's office or employment but not to any significant extent for any other use;

(c) the asset consists in training materials provided in the course of the education or training; or

(d) the asset consists in something made by the employee in the course of the education or training or incorporated into something so made.

(4) In subsection (1) above the reference to enjoying facilities or benefits for entertainment or recreational purposes includes a reference to enjoying them in the course of any leisure activity.

(5) In this section—

"subsistence" includes food and drink and temporary living accommodation; and

"training materials" means stationery, books or other written material, audio or video tapes, compact disks or floppy disks.

200G Section 200E: exclusion of expenditure if contributions not generally available to staff

(1) Section 200E shall not apply to any expenditure incurred in respect of—

(a) the costs of any education or training provided to the employee, or

(b) any related costs,

unless the expenditure is incurred in giving effect to fair-opportunity arrangements that were in place at the time when the employer agreed to incur the expenditure.

In this subsection "related costs", in relation to any education or training provided to the employee, has the meaning given by section 200E(3).

(2) For the purposes of subsection (1) above "fair-opportunity arrangements" are in place at any time if at that time arrangements are in place that provide—

(a) for the making of contributions by the employer to costs arising from qualifying education or training being undertaken by persons who hold, or have held, an office or employment under the employer, and

(b) for such contributions to be generally available, on similar terms, to the persons who at that time hold an office or employment under the employer.

In this subsection "qualifying education or training" has the same meaning as in section 200E.

(3) The Treasury may by regulations make provision specifying the persons or other entities under whom Crown servants are to be treated for the purposes of this section as holding office or employment; and such regulations may—

(a) deem a description of Crown servants (or two or more such descriptions taken together) to be an entity for the purposes of the regulations;

(b) make different provision for different descriptions of Crown servants.

In this subsection "Crown servant" means a person holding an office or employment under the Crown.

200H Section 200E: exclusion of expenditure otherwise relieved

Section 200E does not apply to expenditure to the extent that—

(a) section 200B (expenditure on work-related training) applies to it, or

(b) section 588(1) (expenditure on retraining courses) has effect in respect of it.

200J Education or training funded by third parties

(1) This section applies where—

(a) any person ("the employee") who holds, or has at any time held, an office or employment under another ("the employer") is provided by reason of that office or employment with any benefit,

(b) that benefit consists in any qualifying education or training or is provided in connection with any such education or training, and

(c) the amount which (apart from this section and sections 200E to 200H) would be included in respect of that benefit in the emoluments of the employee ("the chargeable amount") is or includes an amount that does not represent expenditure incurred by the employer.

(2) For the purposes of Schedule E, the questions whether and to what extent those emoluments shall be taken to include an amount in respect of that benefit shall be determined in accordance with sections 200E to 200H as if the benefit had been provided by means of a payment by the employer of an amount equal to the whole of the chargeable amount.

(3) In this section "qualifying education or training" has the same meaning as in section 200E.".

(2) In section 200A(3)(b) of that Act (definition of a qualifying absence from home), at the end of sub-paragraph (iv) insert ", or

(v) expenses the amount of which, having been paid or reimbursed by the person under whom he holds that office or employment, is excluded from his emoluments in pursuance of section 200E, or

(vi) expenses the amount of which would be so excluded if it were so paid or reimbursed.".

(3) This section applies for the year 2000-01 and subsequent years of assessment.

59 Cars available for private use

Schedule 11 to this Act (which makes provision in relation to the taxation of cars available for private use) has effect for the year 2002-03 and subsequent years of assessment.

60 Provision of services through intermediary

Schedule 12 to this Act has effect with respect to the provision of services through an intermediary.

Pension schemes

61 Occupational and personal pension schemes

Schedule 13 to this Act (which makes provision in relation to occupational and personal pension schemes) has effect.

Enterprise incentives

62 Enterprise management incentives

Schedule 14 to this Act (enterprise management incentives) has effect in relation to any right to acquire shares granted after the passing of this Act.

63 Corporate venturing scheme

(1) Schedule 15 to this Act (which makes provision for the corporate venturing scheme) has effect.

(2) Schedule 16 to this Act (which makes consequential amendments) has effect.

(3) Paragraph 3(2)(a)(i) to (iii) and (3) of Schedule 16 (and paragraph 3(1) so far as it relates to those provisions) have effect—

(a) in relation to claims made under section 573 of the Taxes Act 1988, in respect of disposals on or after 1st April 2000, and

(b) in relation to claims made under section 574 of that Act, in respect of disposals on or after 6th April 2000.

(4) Subject to that, Schedules 15 and 16 apply in relation to shares issued on or after 1st April 2000 but before 1st April 2010.

64 Enterprise investment scheme: amendments

The provisions relating to the enterprise investment scheme are amended in accordance with Schedule 17 to this Act.

In that Schedule—

Part I makes amendments reducing various periods which apply in relation to the provisions which determine the reliefs under the scheme;

Part II makes amendments about qualifying companies;

Part III makes other minor amendments.

65 Venture capital trusts: amendments

The provisions relating to venture capital trusts are amended in accordance with Schedule 18 to this Act.

In that Schedule—

Part I makes amendments reducing various periods which apply in relation to the provisions which determine the reliefs; and

Part II makes amendments about qualifying holdings.

66 Taper relief: taper for business assets

(1) Section 2A of the Taxation of Chargeable Gains Act 1992 (taper relief) is amended as follows.

(2) In subsection (5), for the first two columns of the table (which relate to gains on disposals of business assets) substitute—

Gains on disposals of business assets	
Number of whole years in qualifying holding period	*Percentage of gain chargeable*
1	87.5
2	75

Gains on disposals of business assets	
Number of whole years in qualifying holding period	*Percentage of gain chargeable*
3	50
4 or more	25

(3) For subsections (8) and (9) substitute—

"(8) The qualifying holding period of an asset for the purposes of this section is—

(a) in the case of a business asset, the period after 5th April 1998 for which the asset had been held at the time of its disposal;

(b) in the case of a non-business asset where—

(i) the time which, for the purposes of paragraph 2 of Schedule A1, is the time when the asset is taken to have been acquired by the person making the disposal is a time before 17th March 1998, and

(ii) there is no period which by virtue of paragraph 11 or 12 of that Schedule does not count for the purposes of taper relief,

the period mentioned in paragraph (a) plus one year;

(c) in the case of any other non-business asset, the period mentioned in paragraph (a).

This subsection is subject to paragraph 2(4) of Schedule A1 and paragraph 3 of Schedule 5BA.".

(4) This section applies to disposals on or after 6th April 2000.

67 Taper relief: assets qualifying as business assets

(1) Schedule A1 to the Taxation of Chargeable Gains Act 1992 (application of taper relief) is amended as follows.

(2) In paragraph 4 (conditions for shares to qualify as business assets)—

(a) in sub-paragraph (4) (disposal by personal representatives), for the words following "if at that time" substitute "the relevant company was a qualifying company by reference to the personal representatives"; and

(b) in sub-paragraph (5) (disposal by legatee), for paragraph (b) substitute—

"(b) the relevant company was a qualifying company by reference to the personal representatives.".

(3) In paragraph 5 (conditions for other assets to qualify as business assets)—

(a) in sub-paragraph (2) (disposal by individual), for paragraphs (d) and (e) substitute—

"(d) the purposes of any office or employment held by that individual with a person carrying on a trade.";

and

(b) in sub-paragraph (3) (disposal by trustees of settlement), for paragraphs (e) and (f) substitute—

"(e) the purposes of any office or employment held by an eligible beneficiary with a person carrying on a trade.".

(4) For paragraph 6 (companies which are qualifying companies) substitute—

"6 (1) A company shall be taken to have been a qualifying company by reference to an individual at any time when—

(a) the company was a trading company or the holding company of a trading group, and

(b) one or more of the following conditions was met—

(i) the company was unlisted,

(ii) the individual was an officer or employee of the company, or of a company having a relevant connection with it, or

(iii) the voting rights in the company were exercisable, as to not less than 5%, by the individual.

(2) A company shall be taken to have been a qualifying company by reference to the trustees of a settlement at any time when—

(a) the company was a trading company or the holding company of a trading group, and

(b) one or more of the following conditions was met—

(i) the company was unlisted,

(ii) an eligible beneficiary was an officer or employee of the company, or of a company having a relevant connection with it, or

(iii) the voting rights in the company were exercisable, as to not less than 5%, by the trustees.

(3) A company shall be taken to have been a qualifying company by reference to an individual's personal representatives at any time when—

(a) the company was a trading company or the holding company of a trading group, and

(b) one or more of the following conditions was met—

(i) the company was unlisted, or

(ii) the voting rights in the company were exercisable, as to not less than 5%, by the personal representatives.".

(5) In paragraph 22(1) (interpretation), at the appropriate place insert—

""unlisted company" means a company—

(a) none of whose shares is listed on a recognised stock exchange, and

(b) which is not a 51 per cent subsidiary of a company whose shares, or any class of whose shares, is so listed;";

and omit the definitions of "full-time working officer or employee" and "qualifying office or employment".

(6) After paragraph 22 insert—

"Qualifying shareholdings in joint venture companies

23 (1) This Schedule has effect subject to the following provisions where a company ("the investing company") has a qualifying shareholding in a joint venture company.

(2) For the purposes of this paragraph a company is a "joint venture company" if, and only if—

(a) it is a trading company or the holding company of a trading group, and

(b) 75% or more of its ordinary share capital (in aggregate) is held by not more than five companies.

For the purposes of paragraph (b) above the shareholdings of members of a group of companies shall be treated as held by a single company.

(3) For the purposes of this paragraph a company has a "qualifying shareholding" in a joint venture company if—

(a) it holds more than 30% of the ordinary share capital of the joint venture company, or

(b) it is a member of a group of companies, it holds ordinary share capital of the joint venture company and the members of the group between them hold more than 30% of that share capital.

(4) For the purpose of determining whether the investing company is a trading company—

(a) any holding by it of shares in the joint venture company shall be disregarded, and

(b) it shall be treated as carrying on an appropriate proportion—

(i) of the activities of the joint venture company, or

(ii) where the joint venture company is the holding company of a trading group, of the activities of that group.

This sub-paragraph does not apply if the investing company is a holding company.

(5) For the purpose of determining whether the investing company is a holding company—

(a) any holding by it of shares in the joint venture company shall be disregarded, and

(b) it shall be treated as carrying on an appropriate proportion of the activities—

(i) of the joint venture company, or

(ii) where the joint venture company is the holding company of a trading group, of that group.

This sub-paragraph does not apply if the joint venture company is a 51 per cent subsidiary of the investing company.

(6) For the purpose of determining whether a group of companies is a trading group—

(a) every holding of shares in the joint venture company by a member of the group having a qualifying shareholding in that company shall be disregarded, and

(b) each member of the group having such a qualifying shareholding shall be treated as carrying on an appropriate proportion of the activities—

(i) of the joint venture company, or

(ii) where the joint venture company is the holding company of a trading group, of that group.

This sub-paragraph does not apply if the joint venture company is a member of the group.

(7) In sub-paragraphs (4)(b), (5)(b) and (6)(b) above "an appropriate proportion" means a proportion corresponding to the percentage of the ordinary share capital of the joint venture company held by the investing company or, as the case may be, by the group member concerned.

(8) The following shall be treated as having a relevant connection with each other—

(a) the investing company;

(b) the joint venture company;

(c) any company having a relevant connection with the investing company;

(d) any company having a relevant connection with the joint venture company by virtue of being—

(i) a 51 per cent subsidiary of that company, or

(ii) a member of the same commercial association of companies.

(9) The acquisition by the investing company of the qualifying shareholding shall not be treated as a relevant change of activity for the purposes of paragraph 11 above.

(10) For the purposes of this paragraph "ordinary share capital" has the meaning given by section 832(1) of the Taxes Act.".

(7) This section has effect for determining whether an asset is a business asset at any time on or after 6th April 2000.

It does not affect the determination on or after that date whether an asset was a business asset at a time before that date.

Research and development

68 Meaning of "research and development"

(1) Schedule 19 to this Act (meaning of "research and development") has effect.

In that Schedule—

Part I contains a new definition of "research and development" for the purposes of the Tax Acts, and

Part II contains consequential amendments.

(2) The amendments in Part II of that Schedule have effect—

(a) for the purposes of income tax and capital gains tax, in relation to the year 2000-01 and subsequent years of assessment, and

(b) for the purposes of corporation tax, for accounting periods ending on or after 1st April 2000.

69 Tax relief for expenditure on research and development

(1) Schedule 20 to this Act (tax relief for expenditure on research and development) has effect for accounting periods ending on or after 1st April 2000.

In that Schedule—

Part I provides for entitlement to relief,

Part II provides for the manner of giving effect to the relief, and

Part III contains supplementary provisions.

(2) Schedule 21 to this Act (which contains consequential amendments) has effect accordingly.

Capital allowances

70 First year allowances for small or medium-sized enterprises

(1) In section 22(3D) of the Capital Allowances Act 1990 (expenditure qualifying for 40% first year allowances), for "in the period beginning with 2nd July 1998 and ending with 1st July 2000" substitute "on or after 2nd July 1998".

(2) In that Act—

(a) in section 22(3C)(a), (3CA)(a) and (3D)(a), for "a small company or a small business" substitute "a small or medium-sized enterprise";

(b) in section 22A—

(i) in the sidenote, for "small company or small business",

(ii) in subsection (1) for "small company", and

(iii) in subsection (2) for "small business",

substitute "small or medium-sized enterprise".

The amendments in this subsection are of nomenclature only.

71 First year allowances for ICT expenditure by small enterprises

(1) In section 22 of the Capital Allowances Act 1990 (first-year allowances), after subsection (3D) insert—

"(3E) This section applies to—

(a) any expenditure on information and communications technology which, disregarding any effect of section 83(2) on the time at which it is to be treated as incurred, is incurred by a small enterprise in the period beginning with 1st April 2000 and ending with 31st March 2003; and

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

(3F) For the purposes of subsection (3E) above expenditure on information and communications technology means expenditure on items within any of the classes set out in subsection (3G) below.

(3G) The classes referred to in subsection (3F) above are as follows:

A. Computers and associated equipment

This class covers—

(a) computers,

(b) peripheral devices designed to be used by being connected to or inserted in a computer,

(c) equipment (including cabling) for use primarily to provide a data connection—

(i) between one computer and another, or

(ii) between a computer and a data communications network,

(d) dedicated electrical systems for computers.

For this purpose "computer" does not include computerised control or management systems or other systems that are part of a larger system whose principal function is not processing or storing information.

B. Other qualifying equipment

This class covers—

(a) wireless application protocol telephones,

(b) third generation mobile telephones,

(c) devices designed to be used by being connected to a television set that are capable of receiving and transmitting information from and to data networks, and

(d) other devices substantially similar to those within paragraphs (a), (b) and (c) that are capable of receiving and transmitting information from and to data networks.

This is subject to any order under subsection (3H) below.

C. Software

This class covers the right to use or otherwise deal with software for the purposes of any equipment within Class A or B above.

(3H) The Treasury may make provision by order—

(a) further defining the descriptions of equipment within Class B in subsection (3G), or

(b) adding further descriptions of equipment to that class.".

(2) In sections 22(4), (6B) and (6C), 23(6), 42(9) and 50(3) and (4A) of that Act, for "and (3D)" substitute ", (3D) and (3E)".

(3) In sections 43(5), 44(5), 46(8) and 48(7) of that Act, for "or (3D)" substitute ", (3D) or (3E)".

(4) In section 39(2)(a) of that Act for "to (3D)" substitute "to (3E)".

72 Expenditure of a small enterprise

After section 22A of the Capital Allowances Act 1990, insert—

"**22AA Expenditure of a small enterprise**

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

(a) qualifies as small in relation to the financial year of the company in which the expenditure is incurred, and

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

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

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

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

(3) Those circumstances are—

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

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

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

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

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

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

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

(6) In this section the following expressions have the same meaning as in section 22A above: "arrangements", "business", "company", "financial year", "group", "parent undertaking" and "subsidiary undertaking".

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

(a) except in the case of a company formed and registered in Northern Ireland, are references to its so qualifying, or being treated as so qualifying, for the purposes of section 247 of the Companies Act 1985; and

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

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

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

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

but for the purposes of this section each of those provisions shall be construed as if references, in relation to a group, to the parent company were references to the parent undertaking.

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

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

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

73 Repeal of notification requirements

(1) In section 118 of the Finance Act 1994 (notification requirements)—

(a) subsections (1) to (5) and (7) to (9) shall cease to have effect; and

(b) in subsection (6), for "the provisions mentioned in subsection (2) above" there shall be substituted—

"(a) section 25(1) of the Capital Allowances Act 1990 (meaning of qualifying expenditure for the purposes of writing-down allowances for expenditure on machinery or plant); and

(b) section 44(4) of the Finance Act 1971 (provision corresponding to section 25(1) applicable to earlier chargeable periods),".

(2) This section has effect for chargeable periods as respects which the period specified in subsection (3A) of that section ends on or after 1st April 2000.

74 Pool for certain leased assets and inexpensive cars

(1) In section 41 of the Capital Allowances Act 1990 (writing-down allowances etc for leased assets and inexpensive cars)—

(a) in subsection (1), paragraphs (b) and (c) and the word "or" at the end of paragraph (a); and

(b) in subsection (4), paragraph (a) and, in paragraph (b), the words from "or within (1)(b) or (c)" to "subsection (1)(c)" and the words "or subsection (1)(b) or (c)",

shall cease to have effect for chargeable periods ending on or after the relevant date.

(2) Subsection (3) below applies where—

(a) immediately before the end of the relevant chargeable period, a person was treated for the purposes of sections 24, 25 and 26 of the Capital Allowances Act 1990 as having incurred expenditure on the provision of machinery or plant wholly and exclusively for the purposes of a separate trade carried on by him;

(b) the expenditure fell within subsection (1)(b) or (c) of section 41 of that Act; and

(c) qualifying expenditure in respect of the separate trade for the relevant chargeable period exceeded any disposal value brought into account in respect of that trade for that period.

(3) The balance of the excess (after the deduction of any writing-down allowances made by reference to it) shall be treated for the purposes of sections 24, 25 and 26 of the Capital Allowances Act 1990 as capital expenditure which—

(a) was incurred by that person in the relevant chargeable period on the provision of the machinery or plant for the purposes of the trade which is the actual trade for the purposes of section 41 of that Act; and

(b) does not form part of his qualifying expenditure for that period.

(4) In this section—

"the relevant chargeable period" means the chargeable period immediately preceding that which begins on or before and ends on or after the relevant date;

"the relevant date" means, subject to subsection (5) below, 6th April 2000 for the purposes of income tax and 1st April 2000 for the purposes of corporation tax.

(5) A person may, by a notice given to an officer of the Board, elect that this section shall have effect in relation to any trade carried on by him as if the relevant date were 6th April 2001 or, as the case may be, 1st April 2001.

75 Machinery and plant allowances for non-residents etc

(1) In section 83 of the Capital Allowances Act 1990 (interpretation of Part II), after subsection (2) there shall be inserted—

"(2A) In this Part (except in Chapter V and sections 64A and 75 to 78), references—

(a) to a trade, or

(b) to activities falling in accordance with section 28A, 29 or 61 to be treated as a trade,

shall be construed as if activities were capable of being comprised in a trade, or of being treated as a trade, to the extent only that they are activities the profits or gains from which are, or (if there were any) would be, chargeable to income tax or corporation tax.".

(2) After section 79 of that Act there shall be inserted—

"**79A Reduction in qualifying use**

(1) This section applies where—

(a) any expenditure falls, for the purposes of making allowances or charges, to be treated in accordance with section 79 as incurred on the provision of machinery or plant for the purposes of a notional trade;

(b) there is such a change of circumstances as would make it appropriate for any reduction falling to be made under subsection (5) of that section—

(i) for the chargeable period in which the change takes place ("the relevant chargeable period"), or

(ii) for any subsequent chargeable period,

to represent a larger proportion of the amount reduced than would have been appropriate apart from the change;

(c) no disposal value in respect of the machinery or plant would, apart from this section, fall to be brought into account for the relevant chargeable period; and

(d) the open market value of the machinery or plant at the end of the relevant chargeable period exceeds the qualifying expenditure in respect of the notional trade for that period by more than £1 million.

(2) It shall be assumed that the notional trade is permanently discontinued immediately before the end of the relevant chargeable period.

(3) Section 79(3) shall have effect as if immediately after the beginning of the following chargeable period expenditure had been incurred on the provision of the machinery or plant of an amount equal to the disposal value brought into account by virtue of subsection (2) above.

(4) In this section "open market value" has the same meaning as in section 76.".

(3) In section 81 of that Act (effect of bringing an asset into use for the purposes of a trade after it has been used for a purpose that does not attract capital allowances), after subsection (2) there shall be inserted—

"(2AA) Where—

(a) a person is treated by virtue of subsection (1)(a) above as having incurred capital expenditure on the provision of machinery or plant, and

(b) the sum which (apart from this subsection) would be taken to be the amount of that expenditure is more than the amount of capital expenditure actually incurred by that person on the provision of the machinery or plant,

the amount of the capital expenditure treated by virtue of subsection (1)(a) above as incurred on the provision of the machinery or plant shall be deemed (subject to subsection (2AB) below) to be equal to the amount actually so incurred by that person.

(2AB) Where any of the amount of capital expenditure actually incurred on the provision of the machinery or plant by the person in question would have fallen by virtue of section 75, 76 or 76A to be disregarded for the purposes of sections 24, 25 and 26 had it been in consequence of that expenditure that the machinery or plant was provided for the purposes of a trade, the references in subsection (2AA) above to that amount shall be construed as references to only so much of that expenditure as would not have fallen to be so disregarded.".

(4) In Schedule 19AC to the Taxes Act 1988 (overseas life insurance companies), in paragraph 10B (modifications of section 440), after sub-paragraph (2) there shall be inserted—

"(2A) The following subsection shall be treated as inserted after subsection (4)—

(Section 81 of the 1990 Act (as it has effect by virtue of section 83(2A) of that Act) shall apply in relation to any case in which an asset or part of an asset held by an overseas life insurance company—

(a) ceases to be within the category set out in paragraph (h) of subsection (4) above; and

(b) at the same time comes within another of the categories set out in that subsection.".".

(5) In section 53 of the Capital Allowances Act 1990—

(a) in subsection (1), paragraph (bb) (which, for the purposes of making allowances in respect of machinery or plant subject to equipment leasing, requires the equipment lessee to be within the charge to tax) shall cease to have effect; and

(b) in subsection (1B)(b), for "paragraphs (bb) and" there shall be substituted "paragraph".

(6) In this section—

(a) subsections (1), (4) and (5) have effect for chargeable periods ending on or after 21st March 2000;

(b) subsection (2) has effect where the change of circumstances occurs on or after that date; and

(c) subsection (3) has effect where the condition mentioned in section 81(1)(a) of that Act is fulfilled on or after that date.

76 Production animals

(1) Section 82 of the Capital Allowances Act 1990 (capital expenditure to which Part II does not apply) shall be renumbered as subsection (1) of that section; and after that provision as so renumbered there shall be inserted—

"(2) This Part shall not apply to capital expenditure—

(a) on animals or other creatures to which Schedule 5 to the principal Act (treatment of farm animals etc for purposes of Case I of Schedule D) applies; or

(b) on shares in such animals or creatures.".

(2) In paragraph 9(4) of Schedule 5 to the Taxes Act 1988 (treatment of farm animals etc for purposes of Case I of Schedule D), for the words from "in relation to animals" to the end there shall be substituted—

"(a) in relation to animals or other creatures kept singly as they apply in relation to herds; and

(b) in relation to shares in animals or other creatures as they apply in relation to animals or other creatures themselves.".

(3) The enactments amended by subsections (1) and (2) above shall be deemed always to have had effect with the amendments made by those subsections.

77 Sale and leaseback

(1) After section 76A of the Capital Allowances Act 1990 insert—

"**76B Special provision for sale and leaseback cases**

(1) This section applies where—

(a) subsection (1), (2) or (3) of section 75 applies by virtue of paragraph (b) (and not by virtue of paragraph (a) or (c)) of that subsection, or is treated (under one or both of sections 76(1) and 76A(1)) as so applying;

(b) the conditions set out in subsection (2) below are fulfilled; and

(c) the seller and the buyer elect that this section should apply.

(2) The conditions are—

(a) that the seller incurred capital expenditure on the provision of the machinery or plant;

(b) that the machinery or plant was new at or after the time when it was acquired by the seller;

(c) that the machinery or plant was acquired by the seller otherwise than as a result of a transaction to which section 75(1), (2) or (3) applies, or is treated (under one or both of sections 76(1) and 76A(1)) as applying;

(d) that the sale is effected not more than four months after the first occasion on which the machinery or plant is brought into use by any person for any purpose;

(e) that the seller has not—

(i) made a claim for an allowance in respect of capital expenditure incurred on the provision of the machinery or plant;

(ii) made a return in which such expenditure is taken into account in determining his qualifying expenditure for the purposes of section 24; or

(iii) given notice of any such amendment of a return as provides for such expenditure to be so taken into account.

(3) In a case where this section applies—

(a) no allowance shall be made to the seller under this Act in respect of the capital expenditure incurred on the provision of the machinery or plant, or any additional VAT liability incurred in respect of it;

(b) the whole amount of that expenditure, and any such liability, shall be left out of account in determining the amount for any period of the seller's qualifying expenditure under section 25;

(c) section 76(2) shall have effect as if paragraph (a) were omitted; and

(d) section 76A shall have effect as if subsection (5) were omitted.

(4) An election under this section shall be made by notice to an officer of the Board not more than two years after the time of the sale.

(5) An election under this section shall be irrevocable once made; and nothing in—

(a) section 42 of, or Schedule 1A to, the Taxes Management Act 1970 (claims and elections for income tax purposes); or

(b) paragraphs 54 to 60 of Schedule 18 to the Finance Act 1998 (claims and elections for corporation tax purposes),

shall apply to such an election.

(6) In this section, in a case where section 75(2) applies or is treated as applying, "the seller" means the owner of the machinery or plant, "the buyer" means the person entering into the contract and "the sale" means the making of the contract.

(7) In this section, in a case where section 75(3) applies or is treated as applying—

(a) "the seller" means the assignor, "the buyer" means the assignee and "the sale" means the assignment; and

(b) references to the machinery or plant being acquired by the seller shall be construed as references to the contract being entered into by the assignor.

(8) In this section "return" means any return required to be made under the Taxes Management Act 1970 for income tax or corporation tax purposes.".

(2) In subsections (1), (2) and (3) of section 75 of that Act, after "76A" there shall be inserted ", 76B".

78 Meaning of "fixture"

(1) Section 51 of the Capital Allowances Act 1990 (application and interpretation of Chapter VI: plant and machinery: fixtures) is amended as follows.

(2) In subsection (1) for the words from the beginning to "other land" substitute—

"(1) This Chapter applies to determine entitlement to allowances under this Part in respect of expenditure on the provision of machinery or plant that is, or becomes, a fixture;".

(3) In subsection (2) (definitions), for the definition of "fixture" substitute—

""fixture", subject to subsection (2A) below, means machinery or plant that is so installed or otherwise fixed in or to a building or other description of land as to become, in law, part of that building or other land;".

(4) After subsection (2), insert—

"(2A) In this Chapter—

"fixture" includes any boiler, or water-filled radiator, installed in a building as part of a space or water heating system; and

"relevant land", in relation to such a fixture, means the building in which it is so installed.".

(5) For subsection (8) substitute—

"(8) Nothing in this Chapter affects the entitlement of any person to an allowance by virtue of section 154 (allowances in respect of contributions to capital expenditure).".

(6) The amendments in this section shall be deemed always to have had effect.

79 Leased assets under the Affordable Warmth Programme

(1) In section 53 of the Capital Allowances Act 1990 (fixtures: expenditure incurred by equipment lessor), after subsection (1C) insert—

"(1D) Where the conditions in subsection (1E) below are satisfied in any case, subsection (1) above shall have effect as if the following were omitted, that is to say—

(a) in paragraph (b), the words from "for the purposes of" to "by the equipment lessee", and

(b) paragraphs (ba), (bb) and (d).

(1E) Those conditions are—

(a) that the machinery or plant consists of a boiler, heat exchanger, radiator or heating control that is installed in a building as part of a space or water heating system; and

(b) that the agreement for the lease is approved for the purposes of this section as entered into as part of the Affordable Warmth Programme.

(1F) The approval mentioned in subsection (1E)(b) above may be given, with the consent of the Treasury—

(a) by the Secretary of State;

(b) in the case of buildings in Scotland, by the Scottish Ministers;

(c) in the case of buildings in Wales, by the National Assembly for Wales;

(d) in the case of buildings in Northern Ireland, by the Department for Social Development in Northern Ireland.

(1G) Where any such approval is withdrawn—

(a) the approval shall be treated for the purposes of subsection (1E)(b) above as never having had effect, and

(b) all such assessments and adjustments of assessments shall be made as are necessary in consequence of the withdrawal of the approval.

(1H) Where a person who has made a return becomes aware that anything contained in the return has, after being made, become incorrect by reason of the withdrawal of any such approval, he shall, within three months of first becoming so aware, give notice to an officer of the Board of the amendments required to his return in consequence of the withdrawal of approval.".

(2) In the second column of the table in section 98 of the Taxes Management Act 1970 (penalty for failure to provide information etc.), in the entry relating to requirements imposed by provisions of the Capital Allowances Act 1990, for "and 51(6A)" substitute "51(6A) and 53(1H)".

(3) This section has effect in relation to expenditure incurred after the passing of this Act and before 1st January 2008.

80 Fixtures and machinery and plant on hire-purchase etc

(1) In section 60 of the Capital Allowances Act 1990 (machinery and plant on hire-purchase etc.), after subsection (3) insert—

"(4) This section has effect subject to section 60A below.".

(2) After that section insert—

"**60A Machinery and plant on hire-purchase etc.: fixtures**

(1) Section 60 does not—

(a) apply to expenditure incurred on machinery or plant that is a fixture, or

(b) prevent Chapter VI of this Part (fixtures) applying in relation to expenditure on machinery or plant incurred under such a contract as is mentioned in subsection (1) of that section.

(2) If machinery or plant that is treated as belonging to a person under section 60 becomes a fixture, then, unless it is treated under Chapter VI of this Part as belonging to that person, it shall be treated for the purposes of this Part as ceasing to belong to him at the time when it becomes a fixture.

(3) In this section "fixture" has the same meaning as in Chapter VI of this Part.".

(3) In section 60A of that Act (as inserted by subsection (2) above)—

(a) subsection (1) shall be deemed always to have had effect, and

(b) subsection (2) does not apply where the machinery or plant concerned became a fixture (within the meaning of that section) before the passing of this Act.

81 Production sharing contracts

(1) After section 64 of the Capital Allowances Act 1990 insert—

"**64A Production sharing contracts**

(1) Subsection (2) below applies where—

(a) a person ("the contractor") is entitled to an interest in a contract made with, or with the authorised representative of, the government of a country or territory in which oil is or may be produced;

(b) the contract provides (among other things) that any machinery or plant of a description specified in the contract which—

(i) is provided by the contractor; and

(ii) is used for qualifying purposes under the contract,

shall (whether immediately or at some later time) be transferred to the government or representative;

(c) the contractor incurs capital expenditure on the provision of machinery or plant of a description so specified which, for the purposes of a trade of oil extraction carried on by him, is to be used for qualifying purposes under the contract;

(d) the amount of that expenditure is commensurate with the value of the contractor's interest under the contract; and

(e) in accordance with the provision mentioned in paragraph (b) above, the machinery or plant is transferred to the government or representative.

(2) The machinery or plant shall, notwithstanding the transfer and subject to subsection (6) below, be deemed for the purposes of this Part to belong to the contractor (and not to any other person) until such time as it—

(a) ceases to belong to the government or representative; or

(b) ceases to be used, or held for use, by any person under the contract.

(3) Subsection (4) below applies where, in a case falling within subsection (1)(a) and (b) above—

(a) a person ("the participator") acquires an interest in the contract, whether from the contractor or from another person who has acquired it (directly or indirectly) from the contractor;

(b) the participator incurs capital expenditure on the provision of machinery or plant which, for the purposes of a trade of oil extraction carried on by him, is to be used for qualifying purposes under the contract;

(c) the amount of that expenditure is commensurate with the value of the participator's interest under the contract; and

(d) in accordance with the provision mentioned in subsection (1)(b) above, the machinery or plant is transferred to the government or representative.

(4) The machinery or plant shall, notwithstanding the transfer and subject to subsection (6) below, be deemed for the purposes of this Part to belong to the participator (and not to any other person) until such time as it—

(a) ceases to belong to the government or representative; or

(b) ceases to be used, or held for use, by any person under the contract.

(5) Subsections (6) to (9) below apply where, in a case falling within subsection (1)(a) and (b) above—

(a) a person ("the participator") acquires an interest in the contract, whether from the contractor or from another person who has acquired it (directly or indirectly) from the contractor; and

(b) some of the expenditure incurred by the participator to acquire his interest in the contract is attributable to machinery or plant which—

(i) is deemed by subsection (2) above to belong to the contractor; or

(ii) is deemed by subsection (4) above or subsection (6) below to belong to another person ("the other participator").

(6) The machinery or plant shall, subject to any subsequent application of this subsection, be deemed for the purposes of this Part to belong to the participator (and not to any other person) until such time as it—

(a) ceases to belong to the government or representative; or

(b) ceases to be used, or held for use, by any person under the contract.

(7) The contractor or, as the case may be, the other participator shall be deemed for the purposes of this Part to have disposed of the machinery or plant for a consideration equal to the expenditure attributable as mentioned in subsection (5)(b) above.

(8) The participator shall be deemed for the purposes of this Part to have incurred, on the provision of the machinery or plant, capital expenditure of

an amount which, subject to subsection (9) below, is equal to the expenditure so attributable.

(9) There shall be disregarded for the purposes of this Part so much (if any) of the expenditure deemed to be incurred by the participator on the provision of the machinery or plant as exceeds any disposal value which falls to be brought into account by the contractor or, as the case may be, the other participator by reason of his deemed disposal of the machinery or plant.

(10) In determining for the purposes of this Part the expenditure which is attributable as mentioned in subsection (5)(b) above, regard shall be had to what is just and reasonable in all the circumstances.

(11) For the purposes of this section machinery or plant is used for qualifying purposes if it is used—

(a) to explore for, win access to or extract oil;

(b) for the initial storage or treatment of oil; or

(c) for other purposes ancillary to the extraction of oil.

(12) In this section "oil" has the same meaning as in section 196 of the Taxation of Chargeable Gains Act 1992.".

(2) In section 26(1) of the Capital Allowances Act 1990 (disposal value), for the word "and" at the end of paragraph (ee) there shall be substituted—

"(ef) if that event is a deemed disposal of the machinery or plant which arises solely by virtue of subsection (2), (4) or (6) of section 64A and capital compensation is received by the contractor or participator (within the meaning of that subsection), equals the amount of that compensation;

(eg) if that event is such a deemed disposal and no such compensation is so received, equals nil; and".

(3) This section has effect where the capital expenditure—

(a) is incurred on or after 21st March 2000; or

(b) is treated as incurred by virtue of section 81(1)(a) of the Capital Allowances Act 1990 and the condition mentioned in that provision is fulfilled on or after that date.

Tonnage tax

82 Tonnage tax

Schedule 22 to this Act (tonnage tax) has effect.

Other relieving provisions

83 Relief for interest on loans to buy annuities

(1) In section 365(3) of the Taxes Act 1988 (loans to buy annuities)—

(a) for the words "the qualifying maximum for the year of assessment", in the first place where they occur, there shall be substituted the words "the sum of £30,000"; and

(b) for those words, in the second place where they occur, there shall be substituted the words "that sum".

(2) In section 353(1G) of that Act (percentage of interest eligible for relief), for the words from "the percentage" to the end there shall be substituted "23 per cent.".

(3) In section 369(1A) of that Act (deductible percentage where interest payable under deduction of tax), for the words from "the percentage" to the end there shall be substituted "23 per cent.".

(4) This section has effect in relation to payments of interest made on or after 6th April 2000.

84 Exemption of payments under New Deal 50plus

(1) This section applies to—

(a) the scheme under section 2(2) of the Employment and Training Act 1973 known as "New Deal 50plus", and

(b) the corresponding scheme under section 1 of the Employment and Training Act (Northern Ireland) 1950.

(2) A payment to a person as a participant in the scheme by way of an employment credit or training grant under the scheme is exempt from income tax and, accordingly, shall be disregarded in computing the amount of any receipts brought into account for income tax purposes.

(3) This section applies to any such payment made on or after 25th October 1999.

85 Exemption of payments under Employment Zones programme

(1) A payment to a person as a participant in an employment zone programme is exempt from income tax and, accordingly, shall be disregarded in computing the amount of any receipts brought into account for income tax purposes.

(2) An "employment zone programme" means an employment zone programme established for an area or areas designated under section 60 of the Welfare Reform and Pensions Act 1999.

(3) This section applies to any such payment made on or after 6th April 2000.

86 Loan where return bears inverse relationship to results

(1) In section 209 of the Taxes Act 1988 (meaning of "distribution"), after subsection (3A) insert—

"(3B) For the purposes of subsection (2)(e)(iii) above the consideration given by the company for the use of the principal secured shall not be treated as being to any extent dependent on the results of the company's business or any part of it by reason only of the fact that the terms of the security provide—

(a) for the consideration to be reduced in the event of the results improving, or

(b) for the consideration to be increased in the event of the results deteriorating.".

This subsection applies to payments made on or after 21st March 2000.

(2) In Schedule 18 to the Taxes Act 1988 (group relief: equity holders and profits available for distribution), in paragraph 1(5E)—

(a) in paragraph (a), after "improving" insert ", or for the rate of interest to be increased in the event of the results of the company's business or any part of it deteriorating"; and

(b) in paragraph (b), after "increasing" insert ", or for the rate of interest to be increased in the event of the value of any of the company's assets diminishing".

This subsection applies for the purposes of determining whether, at any time on or after 21st March 2000, a loan is a normal commercial loan for the purposes of paragraph 1(1)(b) of Schedule 18 to the Taxes Act 1988.

87 Tax treatment of acquisition, disposal or revaluation of certain rights

Schedule 23 to this Act has effect with respect to the treatment of amounts relating to the acquisition, disposal or revaluation of—

(a) licences granted under section 1 of the Wireless Telegraphy Act 1949 in accordance with regulations made under section 3 of the Wireless Telegraphy Act 1998 (bidding for licences),

(b) indefeasible rights to use a telecommunications cable system, or

(c) rights derived, directly or indirectly, from a right within paragraph (a) or (b).

88 Contributions to local enterprise agencies, etc

In sections 79(11) and 79A(7) of the Taxes Act 1988 (relief for contributions to local enterprise agencies, business links and similar organisations: time limits), the words "and before 1st April 2000" shall cease to have effect.

89 Waste disposal: entitlement of successor to allowances

In Chapter V of Part IV of the Taxes Act 1988 (provisions relating to the Schedule D charge: deductions), after section 91B (waste disposal: site preparation), insert—

"**91BA Waste disposal: entitlement of successor to allowances**

(1) This section applies where—

(a) site preparation expenditure has been incurred in relation to a waste disposal site,

(b) that expenditure was incurred by a person in the course of carrying on a trade, and

(c) on or after 21st March 2000—

(i) that person ("the predecessor") ceases to carry on that trade, or ceases to carry it on so far as it relates to that site, and

(ii) another person ("the successor") begins to carry on that trade, or to carry on in the course of a trade the activities formerly carried on by the predecessor in relation to that site.

(2) If the conditions specified in the following provisions of this section are met, then, for the purposes of section 91B above—

(a) the trade carried on by the successor shall be treated as the same trade as that carried on by the predecessor, and

(b) allowances shall be made to the successor (and not to the predecessor) as if everything done to or by the predecessor had been done to or by the successor.

(3) The first condition is that the whole of the site in question is transferred to the successor.

Provided the successor holds an estate or interest in the whole of the site, it need not be the same as that held by the predecessor.

(4) The second condition is that the successor, at the time he first deposits waste material at the site, holds a relevant licence in respect of the site which is then in force.

(5) Expressions used in this section have the same meaning as in section 91B.".

Capital gains tax: gifts and trusts

90 Restriction of gifts relief

(1) In section 165(1) of the Taxation of Chargeable Gains Act 1992 (relief for gifts of business assets), in the closing words (which list the provisions restricting relief), for "sections 166 and 167" substitute "sections 166, 167 and 169".

(2) In section 260(1) of that Act (gifts on which inheritance tax is chargeable etc.), in the closing words (which list the provisions restricting relief), for "section 261" substitute "sections 169 and 261".

(3) In section 165(2)(b)(i) of, and paragraph 2(2)(b)(i) of Schedule 7 to, that Act (shares or securities in respect of which gifts relief may be claimed), for "neither listed on a recognised stock exchange nor dealt in on the Unlisted Securities Market" substitute "not listed on a recognised stock exchange".

(4) In section 165(3)(b) of that Act (disposals of shares or securities excepted from gifts relief), after "shares or securities," insert "the transferee is a company or".

(5) This section has effect in relation to disposals made on or after 9th November 1999.

91 Disposal of interest in settled property: deemed disposal of underlying assets

(1) After section 76 of the Taxation of Chargeable Gains Act 1992, insert—

"**76A Disposal of interest in settled property: deemed disposal of underlying assets**

Schedule 4A to this Act has effect with respect to disposals for consideration of an interest in settled property.".

(2) After Schedule 4 to that Act insert the Schedule 4A set out in Schedule 24 to this Act.

(3) This section applies to any disposal of an interest in settled property made, or the effective completion of which falls, on or after 21st March 2000.

Expressions used in this subsection have the same meaning as in Schedule 4A to the Taxation of Chargeable Gains Act 1992.

92 Transfers of value by trustees linked with trustee borrowing

(1) After section 76A of the Taxation of Chargeable Gains Act 1992 (inserted by section 91(1) above), insert—

"**76B Transfers of value by trustees linked with trustee borrowing**

Schedule 4B to this Act has effect with respect to transfers of value by trustees that are, in accordance with the Schedule, treated as linked with trustee borrowing.".

(2) After Schedule 4A to that Act (inserted by section 91(2) above), insert the Schedule 4B set out in Schedule 25 to this Act.

(3) After section 85 of that Act, insert—

"**85A Transfers of value: attribution of gains to beneficiaries**

Schedule 4C to this Act has effect with respect to the attribution to beneficiaries of gains accruing under Schedule 4B.".

(4) After Schedule 4B to the Taxation of Chargeable Gains Act 1992 (inserted by subsection (2) above), insert the Schedule 4C set out in Part I of Schedule 26 to this Act.

The consequential amendments in Part II of Schedule 26 to this Act have effect.

(5) The provisions of this section have effect in relation to any transfer of value in relation to which the material time is on or after 21st March 2000.

The expressions "transfer of value" and "material time" have the same meaning in this subsection as in Schedule 4B to the Taxation of Chargeable Gains Act 1992.

93 Restriction on set-off of trust losses

(1) After section 79 of the Taxation of Chargeable Gains Act 1992, insert—

"**79A Restriction on set-off of trust losses**

(1) This section applies to a chargeable gain accruing to the trustees of a settlement where—

(a) in computing the gain, the allowable expenditure is reduced in consequence, directly or indirectly, of a claim to gifts relief in relation to an earlier disposal to the trustees;

(b) the transferor on that earlier disposal, or any person connected with the transferor, has at any time—

(i) acquired an interest in the settled property, or

(ii) entered into an arrangement to acquire such an interest; and

(c) in connection with that acquisition or arrangement any person has at any time received, or become entitled to receive, any consideration.

(2) Where this section applies to a chargeable gain, no allowable losses accruing to the trustees (in the year in which the gain accrues or any earlier year) may be set against the gain.

This applies to the whole of the chargeable gain (and not just the element deferred as a result of the claim to gifts relief).

(3) In this section—

(a) "gifts relief" means relief under section 165 or 260; and

(b) references to losses not being allowed to be set against a chargeable gain are to the losses not being allowed as a deduction against chargeable gains to the extent that they include that gain.

(4) The references in subsection (1)(b) above to an interest in settled property have the same meaning as in Schedule 4A.".

(2) This section applies to gains accruing on or after 21st March 2000.

94 Attribution to trustees of gains of non-resident companies

(1) After section 79A of the Taxation of Chargeable Gains Act 1992 (inserted by section 93 above), insert—

"**79B Attribution to trustees of gains of non-resident companies**

(1) This section applies where trustees of a settlement are participators—

(a) in a close company, or

(b) in a company that is not resident in the United Kingdom but would be a close company if it were resident in the United Kingdom.

For this purpose "participator" has the same meaning as in section 13.

(2) Where this section applies, nothing in any double taxation relief arrangements shall be read as preventing a charge to tax arising by virtue of the attribution to the trustees under section 13, by reason of their participation in the company mentioned in subsection (1) above, of any part of a chargeable gain accruing to a company that is not resident in the United Kingdom.

(3) Where this section applies and—

(a) a chargeable gain accrues to a company that is not resident in the United Kingdom but would be a close company if it were resident in the United Kingdom, and

(b) all or part of the chargeable gain is treated under section 13(2) as accruing to a close company which is not chargeable to corporation tax in respect of the gain by reason of double taxation relief arrangements, and

(c) had the company mentioned in paragraph (b) (and any other relevant company) not been resident in the United Kingdom, all or part of the chargeable gain would have been attributed to the trustees by reason

of their participation in the company mentioned in subsection (1) above,

section 13(9) shall apply as if the company mentioned in paragraph (b) above (and any other relevant company) were not resident in the United Kingdom.

(4) The references in subsection (3) above to "any other relevant company" are to any other company which if it were not resident in the United Kingdom would be a company in relation to which section 13(9) applied with the result that all or part of the chargeable gain was attributed to the trustees as mentioned in that subsection.".

(2) This section applies where a chargeable gain accrues on or after 21st March 2000 to a company that is not resident in the United Kingdom.

95 Disposal of interest in non-resident settlement

(1) Section 85 of the Taxation of Chargeable Gains Act 1992 (disposal of interest in non-resident settlements) is amended as follows.

(2) In subsection (2) (market value uplift for interest where trustees become non-resident) for "Subject to subsections (4) and (9) below," substitute "Subject to subsections (4), (9) and (10) below,".

(3) In subsection (5) (market value uplift for interest where trustees become treaty non-resident), at the beginning insert "Subject to subsection (10) below,".

(4) After subsection (9) add—

"(10) Subsection (3) or (7) above does not apply to the disposal of an interest created by or arising under a settlement which has relevant offshore gains at the material time.

The material time is—

(a) in relation to subsection (3) above, the relevant time within the meaning of section 80;

(b) in relation to subsection (7) above, the time found under subsection (8) above.

(11) For the purposes of subsection (10) above, a settlement has relevant offshore gains at any time if, were the year of assessment to end at that time, there would be an amount of trust gains which by virtue of section 89(2) or paragraph 8(3) of Schedule 4C would be available to be treated as chargeable gains accruing to any beneficiaries of the settlement receiving capital payments in the following year of assessment.".

(5) This section applies where the material time (within the meaning of section 85(10) of the Taxation of Chargeable Gains Act 1992, inserted by subsection (4) above) falls on or after 21st March 2000.

96 Payments by trustees to non-resident companies

(1) In section 96(5) of the Taxation of Chargeable Gains Act 1992 (capital payments by trustees to non-resident company), in the opening words (which refer to the persons by whom the company is controlled), omit "and each of them is then resident or ordinarily resident in the United Kingdom".

(2) This section applies to payments received on or after 21st March 2000.

Groups and group relief

97 Group relief for non-resident companies etc

Schedule 27 to this Act has effect.

In that Schedule—

Part I makes amendments of Chapter IV of Part X of the Taxes Act 1988 (group relief), and

Part II contains consequential amendments.

98 Recovery of tax payable by non-resident company

(1) Schedule 28 to this Act has effect with respect to the recovery of unpaid corporation tax payable by a company not resident in the United Kingdom.

(2) The provisions of that Schedule have effect in relation to corporation tax for accounting periods ending on or after 1st April 2000.

99 Joint arrangements for claims

In paragraph 77 of Schedule 18 to the Finance Act 1998 (power to make provision by regulations about joint arrangements for group relief), in sub-paragraph (1)(a) (arrangements permitting claim for relief without copy of notice of consent to surrender), after "the surrendering company" insert ", provided authority for the claim being so made is given by a company which is authorised in relation to the claimant company as mentioned in paragraph (b)".

100 Limit on amount of group relief in case of consortium claim

(1) For section 403C of the Taxes Act 1988 (special rules for consortium cases) substitute—

"**403C Amount of relief in consortium cases**

(1) In the case of a consortium claim the amount that may be set off against the total profits of the claimant company is limited by this section.

(2) Where the claimant company is a member of the consortium, the amount that may be set off against the total profits of that company for the overlapping period is limited to the relevant fraction of the surrenderable amount.

That fraction is whichever is the lowest in that period of the following percentages—

(a) the percentage of the ordinary share capital of the surrendering company that is beneficially owned by the claimant company;

(b) the percentage to which the claimant company is beneficially entitled of any profits available for distribution to equity holders of the surrendering company; and

(c) the percentage to which the claimant company would be beneficially entitled of any assets of the surrendering company available for distribution to its equity holders on a winding-up.

If any of those percentages have fluctuated in that period, the average percentage over the period shall be taken.

(3) Where the surrendering company is a member of the consortium, the amount that may be set off against the total profits of the claimant company for the overlapping period is limited to the relevant fraction of the claimant company's total profits for the overlapping period.

That fraction is whichever is the lowest in that period of the following percentages—

(a) the percentage of the ordinary share capital of the claimant company that is beneficially owned by the surrendering company;

(b) the percentage to which the surrendering company is beneficially entitled of any profits available for distribution to equity holders of the claimant company; and

(c) the percentage to which the surrendering company would be beneficially entitled of any assets of the claimant company available for distribution to its equity holders on a winding-up.

If any of those percentages have fluctuated in that period, the average percentage over the period shall be taken.

(4) In any case where the claimant or surrendering company is a subsidiary of a holding company which is owned by a consortium, for the references in subsection (2) or (3) above to the claimant or surrendering company there shall be substituted references to the holding company.

(5) Expressions used in this section and in section 403A have the same meanings in this section as in that section.

(6) Schedule 18 has effect for supplementing this section.".

(2) In section 406(6) of the Taxes Act 1988 (claims relating to losses etc. of consortium company or group member), for "accounting period in respect of which the member's share in the consortium" substitute "overlapping period in respect of which the relevant fraction".

(3) The following provisions shall cease to have effect—

(a) in section 402(4) of the Taxes Act 1988, the words from "if the share in the consortium" to "is nil or"; and

(b) in section 413 of that Act, subsections (8) and (9).

(4) In Schedule 18 to the Taxes Act 1988—

(a) in paragraphs 1(1), 2(1), 3(1), 4(3) and (4), 5A(3) and (4), 5C(3) and (4), 5D(3) and (4), 5E(3) and (4) and 6, for "section 413(7) to (9)" substitute "sections 403C and 413(7)"; and

(b) in paragraph 7(1)(b), for "subsection (8) of that section" substitute "section 403C".

(5) The amendments in this section shall be deemed always to have had effect.

101 Notional transfers within groups of companies

(1) After section 171 of the Taxation of Chargeable Gains Act 1992 insert—

"**171A Notional transfers within a group**

(1) This section applies where—

(a) two companies ("A" and "B") are members of a group of companies; and

(b) A disposes of an asset to a person who is not a member of the group ("C").

(2) Subject to subsections (3) and (4) below, A and B may, by notice in writing to an officer of the Board, jointly elect that, for the purposes of corporation tax on chargeable gains—

(a) the asset, or any part of it, shall be deemed to have been transferred by A to B immediately before the disposal to C;

(b) section 171(1) shall be deemed to have applied to that transfer; and

(c) the disposal of the asset or part to C shall be deemed to have been made by B.

(3) No election may be made under subsection (2) above unless section 171(1) would have applied to an actual transfer of the asset or part from A to B.

(4) An election under that subsection must be made before the second anniversary of the end of the accounting period of A in which the disposal to C was made.

(5) Any payment by A to B, or by B to A, in pursuance of an agreement between them in connection with the election—

(a) shall not be taken into account in computing profits or losses of either company for corporation tax purposes, and

(b) shall not for any purposes of the Corporation Tax Acts be regarded as a distribution or a charge on income,

provided it does not exceed the amount of the chargeable gain or allowable loss that is treated, as a result of the disposal, as accruing to B.".

(2) This section has effect in relation to disposals made on or after 1st April 2000.

102 Chargeable gains: non-resident companies and groups etc

Schedule 29 to this Act has effect.

In that Schedule—

Part I makes provision with respect to the application of the Taxation of Chargeable Gains Act 1992 to companies not resident in the United Kingdom and groups of companies etc,

Part II contains minor and consequential amendments, and

Part III contains transitional provisions.

International matters

103 Double taxation relief

Schedule 30 to this Act (double taxation relief) shall have effect.

104 Controlled foreign companies

Schedule 31 to this Act (which makes provision in relation to controlled foreign companies) shall have effect.

105 Corporation tax: use of currencies other than sterling

(1) For sections 92 to 95 of the Finance Act 1993 there shall be substituted—

"**92 The basic rule: sterling to be used**

(1) Where a company carries on a business, the profits or losses of the business for an accounting period shall for the purposes of corporation tax be computed and expressed in sterling; but this is subject to section 93 below.

(2) In this section—

"losses" includes management expenses and any allowances falling to be made under section 28 or 61(1) of the Capital Allowances Act 1990;

"profits" includes gains, income and any charges falling to be made under section 28 or 61(1) of that Act.

93 Use of currency other than sterling

(1) This section applies where in an accounting period a company carries on a business and either the first condition or the second condition is fulfilled.

(2) The first condition is that—

(a) the accounts of the company as a whole are prepared in a currency other than sterling in accordance with normal accounting practice; and

(b) in the case of a company which is not resident in the United Kingdom, the company makes a return of accounts for its branch in the United Kingdom prepared in such a currency in accordance with such practice.

(3) The second condition is that—

(a) the accounts of the company as a whole are prepared in sterling but, so far as relating to the business, they are prepared, using the closing rate/net investment method, from financial statements prepared in a currency other than sterling; or

(b) in the case of a company which is not resident in the United Kingdom, the company makes a return of accounts for its branch in the United Kingdom prepared in sterling but, so far as relating to the business, it is prepared, using that method, from financial statements prepared in such a currency.

(4) The profits or losses of the business for an accounting period shall for the purposes of corporation tax be found by—

(a) taking the amount of all the profits and losses of the business for the period computed and expressed in the relevant foreign currency;

(b) taking account of any of the following which are so computed and expressed—

(i) any management expenses brought forward under section 75(3) of the Taxes Act 1988 from an earlier accounting period;

(ii) any losses of the business brought forward under section 392B or 393 of that Act from such a period; and

(iii) any non-trading deficits on loan relationships brought forward under section 83 of the Finance Act 1996 from the previous accounting period; and

(c) taking the sterling equivalent of the amount found by applying paragraphs (a) and (b) above.

(5) In the application of section 22B, 34, 35, 38C, 38D or 79A of the Capital Allowances Act 1990 for the purposes of subsection (4)(a) or (b) above, it shall be assumed that any sterling amount mentioned in any of those sections is its equivalent expressed in the relevant foreign currency.

(6) Where in an accounting period—

(a) a company carries on different parts of a business through different branches (whether within or outside the United Kingdom); and

(b) this section would apply differently in relation to different parts if they were separate businesses,

those parts shall be treated for the purposes of this section as if they were separate businesses for that period.

(7) In this section, unless the context otherwise requires—

"accounts", in relation to a company, means—

(a) the annual accounts of the company prepared in accordance with Part VII of the Companies Act 1985 or Part VIII of the Companies (Northern Ireland) Order 1986; or

(b) if the company is not required to prepare such accounts, the accounts which it is required to keep under the law of its home State; or

(c) if the company is not so required to keep accounts, such of its accounts as most closely correspond to accounts which it would have been required to prepare if the provisions of that Part applied to it;

"branch" includes any collection of assets and liabilities;

"the closing rate/net investment method" means the method so called as described under the title "Foreign currency translation" in the Statement of Standard Accounting Practice issued in April 1983 by the Institute of Chartered Accountants in England and Wales;

"home State", in relation to a company, means the country or territory under whose laws the company is incorporated;

"losses" has the same meaning as in section 92 above except that it does not include allowable losses within the meaning of the Taxation of Chargeable Gains Act 1992;

"profits" has the same meaning as in section 92 above except that it does not include chargeable gains within the meaning of that Act;

"the relevant foreign currency" means the currency other than sterling or, where the first condition is fulfilled and two different such currencies are involved, the currency in which the return of accounts is prepared;

"return of accounts", in relation to a branch in the United Kingdom, means a return of such accounts of the branch as may be required by the Inland Revenue under paragraph 3 of Schedule 18 to the Finance Act 1998 (company tax returns, assessments and related matters).

94 Rules for ascertaining currency equivalents

(1) Any receipt or expense which is to be taken into account in making a computation under subsection (1) of section 92 above for an accounting period, and is denominated in a currency other than sterling, shall be translated into its sterling equivalent—

(a) if either of the conditions mentioned in subsection (2) below is fulfilled, by reference to the rate used in the preparation of the accounts of the company as a whole for that period;

(b) if neither of those conditions is fulfilled, by reference to the London closing exchange rate for the relevant day.

(2) The conditions are—

(a) that the rate is an arm's length exchange rate for the relevant day;

(b) that the rate is an average arm's length exchange rate for a period ending with that day, or for a period not exceeding three months which includes that day, and the arm's length exchange rate for any day in that period (except the first) is not significantly different from that for the preceding day.

(3) Subject to subsections (5) and (7) below, any amount found by applying paragraphs (a) and (b) of subsection (4) of section 93 above shall be translated into its sterling equivalent by reference to the London closing exchange rate for the relevant day.

(4) The following—

(a) any receipt or expense which is to be taken into account in making a calculation for the purposes of subsection (4)(a) or (b) of section 93 above, and is denominated in a currency other than the relevant foreign currency; and

(b) any such sterling amount as is referred to in subsection (5) of that section,

shall be translated into its equivalent expressed in the relevant foreign currency by reference to the London closing exchange rate for the relevant day.

(5) Where section 93 above applies by virtue of the first condition mentioned in that section, then, as regards the business or part of the business, the company—

(a) may elect, by a notice given to an officer of the Board, that as from the first day of the accounting period in which the notice is given, an average arm's length exchange rate shall be used for the purposes of subsection (3) above instead of the rate there mentioned; and

(b) may withdraw such an election, by a notice so given, as from the first day of the first accounting period beginning on or after the date of the notice.

(6) Where an election under subsection (5) above is withdrawn, no further election may be made under that subsection so as to take effect before the third anniversary of the day on which the withdrawal takes effect.

(7) Where—

(a) section 93 above applies by virtue of the second condition mentioned in that section; and

(b) the accounts of the company, so far as relating to the business or part of the business, are prepared by reference to an average arm's length exchange rate,

that exchange rate shall be used for the purposes of subsection (3) above instead of the rate there mentioned.

(8) In this section—

"accounts" has the same meaning as in section 93 above;

"arm's length exchange rate" means such exchange rate as might reasonably be expected to be agreed between persons dealing at arm's length;

"average arm's length exchange rate", in relation to a period, means the rate which represents an appropriate average of arm's length exchange rates for the period;

"the relevant day" means—

(a) for the purposes of subsections (1), (2) and (4)(a) above, the day on which the company becomes entitled to the receipt or incurs (or is treated as incurring) the expense;

(b) for the purposes of subsection (3) above, the last day of the accounting period in question;

(c) for the purposes of subsection (4)(b) above, the day on which the company incurs the capital expenditure.

(9) Nothing in this section affects the operation of Chapter IV of Part VII of the Taxes Act 1988 (controlled foreign companies) or Chapter II of this Part.

(10) Nothing in paragraph 88 of Schedule 18 to the Finance Act 1998 (company tax returns, assessments and related matters) shall be taken to prevent any amount which is taken to be conclusively determined for the purposes of the Corporation Tax Acts from being translated under this section by reference to an exchange rate which was not used to determine the amount which can no longer be altered.".

(2) Where any of the items referred to in section 93(4)(b) of the Finance Act 1993 (as substituted by subsection (1) above) fall to be taken into account in the first accounting period in relation to which this section has effect, the amounts of those items shall be computed and expressed in the relevant currency by reference to the London closing exchange rate for the last day of the immediately preceding accounting period.

(3) Where any of the items referred to in section 25(1) of the Capital Allowances Act 1990 which fall to be taken into account for the first accounting period in relation to which this section has effect relate to expenditure which was incurred before the beginning of that period, the amounts of those items shall be computed and expressed in the relevant currency by reference to the London closing exchange rate for the last day of the immediately preceding accounting period.

(4) Subject to subsection (5) below, this section has effect for accounting periods beginning on or after 1st January 2000 and ending on or after 21st March 2000.

(5) Any company which did not, for the accounting period immediately preceding the first accounting period falling within subsection (4) above, make an election in respect of a trade or part of a trade under the Local Currency Elections Regulations 1994 may, by notice given to an officer of the Board on or before 31st August 2000, elect that this section shall not have effect in relation to it until the first accounting period beginning on or after 1st July 2000.

106 Foreign exchange gains and losses: use of local currency

(1) In subsection (2) of section 149 of the Finance Act 1993 (local currency to be used)—

(a) for "trade or trades", in both places where they occur, there shall be substituted "business or businesses"; and

(b) for "any such trade" there shall be substituted "any such business".

(2) In subsection (4) of that section—

(a) the words "the asset or contract was held, or the liability was owed, by the company solely for trading purposes and" shall cease to have effect; and

(b) for "sections 125 to 128" there shall be substituted "sections 125 to 129".

(3) In subsection (5) of that section—

(a) the words "the asset or contract was held, or the liability was owed, by the company solely for trading purposes and" shall cease to have effect;

(b) for "sections 125 to 128" there shall be substituted "sections 125 to 129"; and

(c) for "trade", in both places where it occurs, there shall be substituted "business".

(4) For subsection (6) of that section there shall be substituted—

"(6) In any other case—

(a) sections 125 to 129 above shall be applied by reference to sterling;

(b) those sections shall then be applied separately by reference to each local currency involved (other than sterling); and

(c) any exchange gain or loss of a business or part shall be ignored unless found in the currency which is the local currency of the business or part for the relevant accounting period (whether sterling or otherwise).".

(5) For subsection (7) of that section there shall be substituted—

"(7) For the purposes of this section a part of a business is any part of a business which is treated for the purposes of section 93 above as if it were a separate business for the relevant accounting period.".

(6) For subsection (9) of section 128 of the Finance Act 1993 (trading gains and losses) there shall be substituted—

"(9) For the purposes of this section a part of a trade is any part of a trade which is treated for the purposes of section 93 above as if it were a separate business for the relevant accounting period; and the relevant accounting period is the accounting period which constitutes the accrual period concerned or in which that accrual period falls.".

(7) After section 135 of that Act there shall be inserted—

"**135A Sterling used if avoidance of gain is the main benefit**

(1) This section applies where, as regards qualifying assets and liabilities of a company—

(a) a currency other than sterling would (apart from this section) be the local currency for the purposes of sections 125 to 129 above; and

(b) the main benefit that might be expected to accrue from that currency being the local currency is that no net exchange gain would accrue to the company for those purposes.

(2) If a net exchange gain would accrue to the company if sterling were the local currency for the purposes of sections 125 to 129 above, then, as regards the assets and liabilities concerned, sterling shall be the local currency for those purposes.

(3) For the purposes of this section a net exchange gain accrues to a company if its initial exchange gains (as determined in accordance with this Chapter) exceed its initial exchange losses (as so determined).".

(8) For subsection (12) of section 140 of that Act (deferral of unrealised gains) there shall be substituted—

"(12) For the purposes of this section a part of a trade is any part of a trade which is treated for the purposes of section 93 above as if it were a separate business for the relevant accounting period; and the relevant accounting period is the accounting period which constitutes the second accrual period or in which that accrual period falls.".

(9) For subsection (2) of section 142 of that Act (deferral non-sterling trades) there shall be substituted—

"(2) For the purposes of subsection (1) above the sterling equivalent of an amount is the sterling equivalent calculated by reference to such rate of exchange as applies by virtue of section 94 above in the case of the profits or losses for the accounting period concerned of the business or part of which the gain or loss is a gain or loss (or would be apart from section 139 above).".

(10) In subsections (3) and (5) of that section, for "trade", in each place where it occurs, there shall be substituted "business".

(11) For subsection (4) of that section there shall be substituted—

"(4) The amount the company is treated as receiving under section 128(4) or 129(2) above in respect of the accounting period and by virtue of the gain (as reduced) shall be the amount computed and expressed in that currency.".

(12) In subsection (1) of section 163 of that Act (local currency of a trade), for "trade" there shall be substituted "business".

(13) For subsections (2) and (3) of that section there shall be substituted—

"(2) Where by virtue of section 93 above the profits or losses of a business or part of a business for an accounting period are to be computed and expressed in a currency other than sterling for the purposes of corporation tax, that other currency is the local currency of the business or part for that period.".

(14) In section 164 of that Act (interpretation: miscellaneous), subsections (6) and (7) shall cease to have effect.

(15) In section 167 of that Act (orders and regulations)—

(a) in subsection (5A), for "the provisions of Chapter II of Part IV of the Finance Act 1996 (loan relationships)" there shall be substituted—

"(a) the provisions of Chapter II of Part IV of the Finance Act 1996 (loan relationships); or

(b) the provisions of sections 105 and 106 of the Finance Act 2000 (use of local currency).";

(b) in subsection (5B), for "subsection (5A)" there shall be substituted "subsection (5A)(a)"; and

(c) after that subsection there shall be inserted—

"(5C) The power to make any such modifications as are mentioned in subsection (5A)(b) above shall be exercisable so as to apply those modifications in relation to any accounting period of a company beginning on or after 1st January 2000.".

(16) In subsection (4)(b) of section 110 of the Finance Act 1998 (determinations requiring the sanction of the Board), after "section 135," there shall be inserted "135A,".

(17) This section has effect for accounting periods beginning on or after 1st January 2000 and ending on or after 21st March 2000.

Insurance

107 General insurance reserves

(1) Where an amount representing the whole or any part of the technical provisions which are made by a general insurer for a period of account is taken into account in computing for tax purposes the profits of his trade for that period—

(a) subsection (2) below applies if it becomes apparent in a later period of account that the amount taken into account was excessive; and

(b) subsection (3) below applies if it becomes apparent in such a period that that amount was insufficient.

(2) For the purpose of making good to the Exchequer the loss occasioned by the excess, an amount calculated by applying, for a prescribed period, a prescribed rate of interest to the amount of the excess shall be treated as a receipt of the general insurer's trade in computing for tax purposes the profits of that trade for the later period of account.

(3) For the purpose of making good to the general insurer the loss occasioned by the deficiency, an amount calculated by applying, for a prescribed period, a prescribed rate of interest to the amount of the deficiency shall be treated as an expense of the general insurer's trade in computing for tax purposes the profits of that trade for the later period of account.

(4) A general insurer may, before the end of a prescribed period, elect that any part of the technical provisions made by him for a period of account shall not be taken into account in computing for tax purposes the profits of his trade for that period; and where he does so, the profits of his trade for the next period of account shall be adjusted accordingly for the purposes of any computation for tax purposes.

(5) The Board may by regulations make provision for giving effect to subsections (1) to (4) above.

(6) The regulations may, in particular—

(a) exclude from the operation of subsections (1) to (4) above such descriptions of general insurer as may be prescribed;

(b) make such provision as appears to the Board to be appropriate for determining for the purposes of subsections (1) to (3) above whether any amount taken into account was excessive or insufficient and, if so, the amount of the excess or deficiency, including—

(i) provision requiring discounting at a prescribed rate; and

(ii) provision allowing a prescribed margin for error;

(c) make provision for applying subsections (1) to (3) above, to such extent and with such modifications as appear to the Board to be appropriate, to cases where it becomes apparent—

(i) that any amount taken into account was or has become insufficient; or

(ii) that any amount treated as a receipt or expense of a trade was excessive;

(d) make such provision as appears to the Board to be appropriate for dealing with cases where a general insurer transfers his general business to, or enters into a qualifying contract with, another person; and

(e) in the event of any changes in the rules or practice of Lloyd's, make such amendments of this section as appear to the Board to be expedient having regard to those changes.

(7) In this section—

"closing year", in relation to a syndicate, has the same meaning as in Chapter III of Part II of the Finance Act 1993 or Chapter V of Part IV of the Finance Act 1994;

"general business" has the same meaning as in the Insurance Companies Act 1982;

"general insurer" means any of the following which carries on general business—

(a) a company to which Part II of the Insurance Companies Act 1982 applies;

(b) an EC company (within the meaning of section 6(2) of that Act) which carries on general business through a branch or agency in the United Kingdom;

(c) a controlled foreign company within the meaning of Chapter IV of Part XVII of the Taxes Act 1988; and

(d) an underwriting member of Lloyd's ("an underwriting member");

"period of account"—

(a) except in relation to an underwriting member, means a period for which an account is made up;

(b) in relation to such a member, means an underwriting year in which profits or losses are declared for an earlier underwriting year;

"prescribed" means prescribed by regulations under this section;

"qualifying contract", in relation to a general insurer, means a contract for reinsuring the liabilities to which any technical provisions of his relate;

"reinsurance to close contract" means a contract where, in accordance with the rules or practice of Lloyd's and in consideration of the payment of a premium, one underwriting member agrees with another to meet liabilities arising from the latter's underwriting business for an underwriting year so that the accounts of the business for that year may be closed;

"syndicate" means a syndicate of underwriting members of Lloyd's formed for an underwriting year;

"technical provisions", except in relation to an underwriting member, means any of the following—

(a) provisions for claims outstanding;

(b) provisions for unearned premiums;

(c) provisions for unexpired risks;

and in this definition expressions which are used in Schedule 9A to the Companies Act 1985 have the same meanings as in that Schedule;

"technical provisions", in relation to an underwriting member, means—

(a) so much of the premiums paid, or treated (in accordance with the rules or practice of Lloyd's) as paid, by him under reinsurance to close contracts; and

(b) so much of any provisions made for the unpaid liabilities of an open syndicate of which he is a member,

as may be determined by or under regulations made by the Board;

"underwriting year" means the calendar year;

and for the purposes of this section a syndicate is an open syndicate at any time after the end of its closing year if, at that time, the accounts of its business for the underwriting year for which it was formed have not been closed.

(8) Regulations under this section may—

(a) make different provision for different cases or descriptions of case, including different provision for different entitlements to participate in the general business carried on by syndicates; and

(b) make such supplementary, incidental, consequential and transitional provision as appears to the Board to be appropriate.

(9) An amount which under subsection (2) or (3) above is treated as a receipt or expense of an underwriting member's trade—

(a) shall not be included in the aggregate amount mentioned in paragraph 1 of Schedule 19 to the Finance Act 1993; but

(b) shall be regarded as arising directly from his membership of one or more syndicates for the purposes of section 172(1)(a) of the Finance Act 1993 or section 220(2)(a) of the Finance Act 1994.

(10) Nothing in paragraph 7 of Schedule 19 to the Finance Act 1993 shall be taken to affect the operation of subsection (2) or (3) above or the exercise of the power conferred by subsection (4) above.

(11) Section 177 of the Finance Act 1993 and section 224 of the Finance Act 1994 (which are superseded by this section) shall cease to have effect.

(12) In this section—

(a) subsections (1) to (3), subsections (5) to (8) and (10) so far as relating to those subsections and subsection (9) have effect where—

(i) the first period of account mentioned in subsection (1) begins on or after 1st January 2000; and

(ii) the later period of account mentioned in that subsection begins on or after 1st January 2001;

(b) subsection (4), and subsections (5) to (8) and (10) so far as relating to that subsection, have effect in relation to periods of account beginning on or after 1st January 2000;

(c) subsection (11) has effect in relation to profits of underwriting members' trades which are declared in periods of account beginning on or after that date.

108 Overseas life assurance business

(1) In subsection (1) of section 431D of the Taxes Act 1988 (meaning of "overseas life assurance business"), for "or life reinsurance business" there shall be substituted ", life reinsurance business or business of any description excluded from this section by regulations made by the Board".

(2) For subsections (2) to (8) of that section there shall be substituted—

"(2) Regulations under subsection (1) above may describe the excluded business by reference to any circumstances appearing to the Board to be relevant.

(3) The Board may by regulations—

(a) make provision as to the circumstances in which a trustee who is a policy holder or annuitant residing in the United Kingdom is to be treated for the purposes of this section as not so residing; and

(b) provide that nothing in Chapter II of Part XIII shall apply to a policy or contract which constitutes overseas life assurance business by virtue of any such provision as is mentioned in paragraph (a) above.

(4) Regulations under subsection (1) or (3) above may contain such supplementary, incidental, consequential or transitional provision as appears to the Board to be appropriate.".

(3) Where the policy or contract for any life assurance business was made before such day as the Treasury may by order appoint, the amendments made by this section (and any regulations made under them) shall not have effect for determining whether the business is overseas life assurance business.

109 Insurance business: apportionment rules

(1) In subsection (4)(b) of section 432ZA of the Taxes Act 1988 (linked assets), for the words from "the proportion which" to the end there shall be substituted—

"the proportion A/B where—

A is the total of the linked liabilities of the company which are liabilities of the internal linked fund in which the asset is held and are referable to that category of business;

B is the total of the linked liabilities of the company which are liabilities of that fund.".

(2) For subsection (6) of that section there shall be substituted—

"(6) In this section—

"internal linked fund", in relation to an insurance company, means an account—

(a) to which linked assets are appropriated by the company; and

(b) which may be divided into units the value of which is determined by the company by reference to the value of those assets;

"linked liabilities" means liabilities in respect of benefits to be determined by reference to the value of linked assets.".

(3) In the subsections mentioned in subsection (4) below—

(a) in paragraph (a), after "reduced" there shall be inserted "(but not below nil)" and for "values" there shall be substituted "net values"; and

(b) for paragraph (b) there shall be substituted—

"(b) the denominator is the aggregate of—

(i) the numerator given by paragraph (a) above; and

(ii) the numerators given by that paragraph in relation to the other categories of business.".

(4) The subsections are—

(a) subsection (6) of section 432A of the Taxes Act 1988 (apportionment of income and gains);

(b) subsection (4) of section 432C of that Act (section 432B apportionment: income of non-participating funds); and

(c) subsection (3) of section 432D of that Act (section 432B apportionment: value of non-participating funds).

(5) For subsection (8) of section 432A there shall be substituted—

"(8) In subsection (6) above "appropriate part", in relation to the investment reserve, means—

(a) where none (or none but an insignificant proportion) of the liabilities of the long term business are with-profits liabilities, the part of that reserve which bears to the whole the proportion A/B where—

A is the amount of the liabilities of the category of business in question;

B is the whole amount of the liabilities of the long term business; and

(b) in any other case, the part of that reserve which bears to the whole the proportion C/D where—

C is the amount of the with-profits liabilities of the category of business in question;

D is the whole amount of the with-profits liabilities of the long term business.".

(6) After subsection (9) of that section there shall be inserted—

"(9A) In this section and sections 432C and 432D "net value", in relation to any assets, means the excess of the value of the assets over any liabilities which—

(a) represent a money debt; and

(b) are liabilities of an internal linked fund in which the assets are held;

and in this subsection "internal linked fund" has the same meaning as in section 432ZA.

(9B) In this section—

"investment reserve", in relation to an insurance company, means the excess of the value of the assets of the company's long term business over the aggregate of—

(a) the liabilities of that business; and

(b) any liabilities of the long term business fund which represent a money debt;

"money debt" has the same meaning as in Chapter II of Part IV of the Finance Act 1996.".

(7) In subsection (5)(b) of section 432C, after "subsection (1)" there shall be inserted "or (2)".

(8) In Schedule 11 to the Finance Act 1996 (loan relationships: special provisions for insurers), after paragraph 3 there shall be inserted—

"3A (1) This paragraph applies where—

(a) any money debt of an insurance company is represented by a liability which is a liability of the long term business fund of the company; and

(b) any question arises for the purposes of the Corporation Tax Acts as to the extent to which any debits or credits given for the purposes of this Chapter in respect of that debt or liability are referable to any category of the company's long term business.

(2) If any debits relate to interest payable in respect of the late payment of any benefits, they are referable to the category of long term business which comprises the effecting and carrying out of the policies or contracts under which the benefits are payable.

(3) If the liability is a liability of an internal linked fund of the company, any debits or credits are referable—

(a) to the category of long term business to which the fund relates; or

(b) where the fund relates to two or more categories of such business, to those categories in the same proportion as the linked assets in the fund are apportioned to them under section 432ZA(4) of the Taxes Act 1988 (linked assets).

(4) In any case not falling within sub-paragraph (2) or (3) above, there shall be referable to any category of long term business the relevant fraction of any debits or credits.

(5) For the purpose of determining that fraction, subsections (6) and (8) of section 432A of the Taxes Act 1988 (apportionment of income and gains) shall have effect as if—

(a) the debits or credits were income not directly referable to any category of business;

(b) the reference in subsection (6)(a) to assets directly referable to a category of business were a reference to assets linked to that category of business; and

(c) subsection (9) of that section were omitted.

(6) In this paragraph "internal linked fund" has the same meaning as in section 432ZA of the Taxes Act 1988 (linked assets).".

(9) In consequence of the preceding provisions of this section—

(a) in section 431(2) of the Taxes Act 1988 (interpretative provisions in relation to insurance companies), the definition of "investment reserve" shall cease to have effect;

(b) in paragraph 4(2) of Schedule 19AA to that Act (overseas life assurance fund), after "investment reserve" there shall be inserted "(within the meaning of section 432A)"; and

(c) in paragraph 7(3) of Schedule 19AC to that Act (modification of Act in relation to overseas life insurance companies)—

(i) in paragraph (b), for "value" there shall be substituted "net value"; and

(ii) paragraph (c) shall cease to have effect.

(10) This section shall have effect in relation to accounting periods beginning on or after 1st January 2000 and ending on or after 21st March 2000.

Miscellaneous

110 Rent factoring

(1) At the end of Part II of the Taxes Act 1988 (provisions relating to the Schedule A charge) insert—

"Rent factoring

43A Finance agreement: interpretation

(1) A transaction is a finance agreement for the purposes of sections 43B to 43F if in accordance with normal accounting practice the accounts of a company which receives money under the transaction would record a financial obligation (whether in respect of a lease creditor or otherwise) in relation to that receipt.

(2) In subsection (1) "normal accounting practice" in relation to a company means normal accounting practice for a company incorporated in a part of the United Kingdom (irrespective of where the company is in fact incorporated).

(3) The reference to a company's accounts in subsection (1) shall be taken to include a reference to the consolidated group accounts of a group of companies of which it is a member; and—

(a) "group of companies" means a set of companies which, if each were incorporated in Great Britain, would form a group within the meaning given by section 262(1) of the Companies Act 1985, and

(b) "consolidated group accounts" means accounts of a kind which would satisfy the requirements of section 227 of the Companies Act 1985.

(4) For the purposes of subsection (1) a company shall be treated as receiving any money which—

(a) falls to be taken into account as a receipt for the purpose of calculating the company's liability to corporation tax, or

(b) would fall to be taken into account as a receipt for that purpose if the company were resident in the United Kingdom.

43B Transfer of rent

(1) This section applies to a finance agreement if it transfers a right to receive rent in respect of land in the United Kingdom from one person to another, otherwise than by means of the grant of a lease of land in the United Kingdom.

(2) A person who receives a finance amount shall be treated for the purposes of the Tax Acts as receiving it—

(a) by way of rent,

(b) in the course of a business falling within paragraph 1(1) of Schedule A, and

(c) in the chargeable period in which the agreement is made;

and the finance amount shall be taken into account in computing the profits of the Schedule A business for the chargeable period in which the agreement is made.

(3) In subsection (2) "finance amount" means a receipt in respect of which section 43A(1) is satisfied.

43C Transfer of rent: exceptions, &c

(1) Section 43B shall not apply to a finance agreement if the term over which the financial obligation is to be reduced exceeds 15 years.

(2) Section 43B shall not apply to a finance agreement if—

(a) the arrangements for the reduction of the financial obligation substantially depend on a person's entitlement to an allowance under the Capital Allowances Acts, and

(b) that person is not connected to the person from whom the right to receive rent is transferred.

(3) Section 43B shall not apply to a finance agreement if—

(a) section 36(1) applies (without reference to section 36(3)), or

(b) section 36(1) would apply (without reference to section 36(3)) if the price at which an estate or interest is sold were to exceed the price at which it is to be reconveyed.

(4) If—

(a) section 36(1) would apply in relation to a finance agreement by virtue only of section 36(3), and

(b) section 43B applies in relation to the agreement,

section 36(1) shall not apply.

(5) Section 43B shall not apply to a finance agreement if section 780 applies.

(6) Section 43B(2) shall not apply to a finance amount which is brought into account in computing the profits of a trade for the purposes of Case I of Schedule D (otherwise than by virtue of section 83 of the Finance Act 1989 (life assurance)).

43D Interposed lease

(1) This section applies to a finance agreement under which—

(a) a lease is granted in respect of land in the United Kingdom,

(b) a premium is payable in respect of the lease, and

(c) section 43A(1) is satisfied by reference to the receipt of the premium.

(2) Where this section applies, the person to whom the premium is payable shall be treated for the purposes of the Tax Acts as receiving it—

(a) by way of rent,

(b) in the course of a business falling within paragraph 1(1) of Schedule A, and

(c) in the chargeable period in which the agreement is made;

and the premium shall be taken into account in computing the profits of the Schedule A business for the chargeable period in which the agreement is made.

43E Interposed lease: exceptions, &c

(1) Section 43D shall not apply to a finance agreement if—

(a) the term over which the financial obligation is to be reduced exceeds 15 years, or

(b) the length of the lease does not exceed 15 years, or

(c) the length of the lease is not significantly different from the term over which the financial obligation is to be reduced.

(2) For the purpose of subsection (1) the length of a lease shall be calculated in accordance with section 38.

(3) Section 43D shall not apply to a finance agreement if—

(a) the arrangements for the reduction of the financial obligation substantially depend on a person's entitlement to an allowance under the Capital Allowances Acts, and

(b) that person is not connected to the person who grants the lease in respect of which the premium is payable.

(4) Section 43D(2) shall not apply where all or part of the premium is brought into account in computing the profits of a trade for the purposes of Case I of Schedule D (otherwise than by virtue of section 83 of the Finance Act 1989 (life assurance)).

(5) Section 34 shall not apply in relation to a premium to which section 43D(2) applies.

43F Insurance business

(1) In the application of sections 43A to 43E to companies carrying on insurance business a reference to accounts does not include a reference to accounts required to be prepared under Part II of the Insurance Companies Act 1982.

(2) Neither section 43B(2) nor section 43D(2) shall require any amount to be brought into account in a computation of profits of life assurance business, or any category of life assurance business, carried on by a company where the computation is made in accordance with the provisions of this Act applicable to Case I of Schedule D.

(3) Section 432A shall have effect in relation to any sum which is or would be treated as received by virtue of section 43B(2) or 43D(2) of this Act.

(4) Expressions used in this section and in Chapter I of Part XII have the same meaning in this section as in that Chapter.

43G Interpretation

(1) This section applies for the purposes of sections 43A to 43F.

(2) In those sections—

"connected" in relation to persons has the meaning given by section 839,

"rent" includes any sum which is chargeable to tax under Schedule A,

"lease" includes an underlease, sublease, tenancy or licence and an agreement for any of those things, but does not include a mortgage or heritable security,

"premium" has the meaning given by section 24(1) (and, in relation to Scotland, section 24(5)), and subsections (4) and (5) of section 34 shall have effect in relation to sections 43A to 43F as they have effect in relation to section 34, and

"sum" has the meaning given by section 24(4).

(3) A reference to a transfer of a right to receive rent from one person to another includes a reference to any arrangement under which rent ceases to form part of the receipts taken into account for the purposes of calculating a company's liability to corporation tax or income tax.

(4) In calculating the term over which a financial obligation is to be reduced no account shall be taken of any period during which the arrangements for reduction differ from the arrangements which apply in a previous period if—

(a) the period begins after the financial obligation has been substantially reduced, and

(b) the different arrangements for reduction are not the result of a provision for periodic review, on commercial terms, of rent under a lease.".

(2) The provisions inserted by subsection (1) have effect in relation to transactions entered into on or after 21st March 2000.

111 Payments under deduction of tax

(1) Chapter VIIA of Part IV of the Taxes Act 1988 (paying and collecting agents) shall cease to have effect.

(2) In section 349 of the Taxes Act 1988 (payments under deduction of tax)—

(a) in subsections (3)(c) and (3B) (payments excepted from deduction of tax), for "payment to which section 124 applies" substitute "payment of interest on a quoted Eurobond"; and

(b) in subsection (4), after the definition of "qualifying deposit right" insert—

""quoted Eurobond" means any security that—

(i) is issued by a company,

(ii) is listed on a recognised stock exchange, and

(iii) carries a right to interest;";

and accordingly section 124 of that Act (interest on quoted Eurobonds) shall cease to have effect.

(3) In section 482 of the Taxes Act 1988 (supplementary provisions with respect to deposit-takers etc)—

(a) after subsection (2) insert—

"(2A) A declaration under section 481(5)(k)(i) must contain—

(a) in a case falling within section 481(4)(a), the name and principal residential address of the individual who is beneficially entitled to the interest or, where two or more individuals are so entitled, of each of them;

(b) in a case falling within section 481(4)(b), the name and principal residential address of each of the partners."; and

(b) subsection (11)(a) shall cease to have effect.

(4) In section 477A of the Taxes Act 1988 (building societies: regulations for deduction of tax), after subsection (2) insert—

"(2A) Without prejudice to the generality of subsection (2)(a) above, regulations under subsection (1) above may make provision with respect to the furnishing of information to or by building societies corresponding to any provision that is made by, or may be made under, section 482 with respect to the furnishing of information to or by deposit-takers.".

(5) In section 37(11) of the Finance (No.2) Act 1997 (interest to be paid gross), for "Sections 50 and 118D(4)" substitute "Section 50".

(6) In this section—

(a) subsections (1) and (5) apply to relevant payments or receipts in relation to which the chargeable date for the purposes of Chapter VIIA of Part IV is on or after 1st April 2001;

(b) subsection (2) applies in relation to payments of interest made on or after that date;

(c) subsection (3) applies in relation to declarations under section 481(5)(k)(i) of the Taxes Act 1988 made on or after 6th April 2001.

112 UK public revenue dividends: deduction of tax

(1) In subsection (A1) of section 50 of the Taxes Act 1988 (Treasury directions for payment of public revenue dividends without deduction of tax), for "registered gilt-edged securities" substitute "gilt-edged securities".

(2) After subsection (3B) of section 349 of that Act (payments not out of profits or gains brought into charge to income tax, and annual interest) insert—

"(3C) Subject to any provision to the contrary in the Income Tax Acts, where any UK public revenue dividend is paid, the person by or through whom the payment is made shall, on making the payment, deduct out of it a sum representing the amount of income tax on it for the year in which the payment is made.".

(3) At the end of subsection (4) of that section insert—

""UK public revenue dividend" means any income from securities which is paid out of the public revenue of the United Kingdom or Northern Ireland, but does not include interest on local authority stock.".

(4) After section 350 of that Act insert—

"**350A UK public revenue dividends: deduction of tax**

(1) The Board may by regulations—

(a) make provision as to the time and manner in which persons who under section 349(3C) deduct sums representing income tax out of payments of UK public revenue dividends are to account for and pay those sums; and

(b) otherwise modify the provisions of sections 349 and 350 in their application to such dividends;

and in this section "UK public revenue dividend" has the same meaning as in section 349.

(2) Regulations under this section may—

(a) make different provision for different descriptions of UK public revenue dividend and for different circumstances;

(b) make special provision for UK public revenue dividends which—

(i) are payable to the Bank of Ireland out of the public revenue of the United Kingdom, or

(ii) are entrusted to the Bank of Ireland for payment and distribution and are not payable by that Bank out of its principal office in Belfast;

(c) include such transitional and other supplementary provisions as appear to the Board to be necessary or expedient.

(3) No regulations under this section shall be made unless a draft of them has been laid before and approved by a resolution of the House of Commons.".

(5) This section applies to payments made on or after 1st April 2001.

113 Tax treatment of expenditure on production or acquisition of films

(1) In section 68 of the of the Capital Allowances Act 1990 (expenditure relating to films, tapes and discs), for subsection (1) substitute—

"(1) Expenditure incurred on the production or acquisition of a film, tape or disc shall be regarded for the purposes of the Tax Acts as expenditure of a revenue nature, subject to any election under subsection (9) below.".

(2) For subsection (2) of that section substitute—

"(2) In this section any reference to a film, tape or disc is to the master negative, master tape or master audio disc of a film as defined in section 43 of the Finance (No.2) Act 1992.

Any such reference includes a reference to any rights in the film (or its soundtrack) that are held or acquired with the master negative, master tape or master audio disc.".

(3) In section 42 of the Finance (No.2) Act 1992 (relief for production or acquisition expenditure), for subsection (9) substitute—

"(9) This section has effect in relation to expenditure incurred—

(a) on the production of a film completed on or after 10th March 1992, or

(b) on the acquisition of the master negative, master tape or master disc of a film completed on or after that date.".

(4) In section 43 of that Act (interpretation)—

(a) in subsection (2)(b) (treatment of acquisition of rights in film), for "any description of rights in it" substitute "any rights in the film (or its soundtrack) that are held or acquired with the master negative, master tape or master audio disc"; and

(b) in subsection (3), omit paragraph (b) and the word "or" preceding it.

(5) This section applies to expenditure on the production of a film—

(a) if the first day of principal photography is on or after 21st March 2000, or

(b) if the first day of principal photography is before that date but—

(i) the film is completed on or after that date, and

(ii) the person incurring the expenditure elects that the provisions of this section should apply.

For this purpose a film is completed at the time when it is first in a form in which it can reasonably be regarded as ready for copies of it to be made and distributed for presentation to the general public.

Any election under paragraph (b)(ii) above, once made, is irrevocable.

(6) This section applies to expenditure incurred on the acquisition of a master negative, master tape or master audio disc of a film (as defined in section 43 of the Finance (No.2) Act 1992) on or after 6th April 2000.