



# Income Tax (Earnings and Pensions) Act 2003

## 2003 CHAPTER 1

### PART 1

#### OVERVIEW

#### 1 Overview of contents of this Act

- (1) This Act imposes charges to income tax on—
  - (a) employment income (see Parts 2 to 7),
  - (b) pension income (see Part 9), and
  - (c) social security income (see Part 10).
- (2) Those charges to tax have effect for the purposes of section 1(1) of ICTA (the general charge to income tax).
- (3) This Act also—
  - (a) confers certain reliefs in respect of liabilities of former employees (see Part 8),
  - (b) provides for the assessment, collection and recovery of income tax in respect of employment, pension or social security income that is PAYE income (see Part 11), and
  - (c) allows deductions to be made from such income in respect of payroll giving (see Part 12).

#### 2 Abbreviations and general index in Schedule 1

- (1) Schedule 1 (abbreviations and defined expressions) applies for the purposes of this Act.
- (2) In Schedule 1—
  - (a) Part 1 gives the meaning of the abbreviated references to Acts and instruments used in this Act, and

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- (b) Part 2 lists the places where expressions used in this Act are defined or otherwise explained.
- (3) Part 2 of Schedule 1 does not apply to expressions used in Chapters 6 to 9 of Part 7 (share incentive plans and other arrangements for acquiring shares): separate indexes relating to these Chapters appear at the end of Schedules 2 to 5.

## PART 2

### EMPLOYMENT INCOME: CHARGE TO TAX

#### CHAPTER 1

##### INTRODUCTION

### 3 Structure of employment income Parts

- (1) The structure of the employment income Parts is as follows—
- this Part imposes the charge to tax on employment income, and sets out—
- (a) how the amount charged to tax for a tax year is to be calculated, and
- (b) who is liable for the tax charged;
- Part 3 sets out what are earnings and provides for amounts to be treated as earnings;
- Part 4 deals with exemptions from the charge to tax under this Part (and, in some cases, from other charges to tax);
- Part 5 deals with deductions from taxable earnings;
- Part 6 deals with employment income other than earnings or share-related income; and
- Part 7 deals with [F1 income and exemptions relating to securities and securities options acquired in connection with an employment].
- (2) In this Act “the employment income Parts” means this Part and Parts 3 to 7.

#### Textual Amendments

- F1** Words in s. 3(1) substituted (16.4.2003 with effect in accordance with Sch. 22 para. 16(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 16\(1\)](#)

### 4 “Employment” for the purposes of the employment income Parts

- (1) In the employment income Parts “employment” includes in particular—
- (a) any employment under a contract of service,
- (b) any employment under a contract of apprenticeship, and
- (c) any employment in the service of the Crown.
- (2) In those Parts “employed”, “employee” and “employer” have corresponding meanings.

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## **5 Application to offices and office-holders**

- (1) The provisions of the employment income Parts that are expressed to apply to employments apply equally to offices, unless otherwise indicated.
- (2) In those provisions as they apply to an office—
  - (a) references to being employed are to being the holder of the office;
  - (b) “employee” means the office-holder;
  - (c) “employer” means the person under whom the office-holder holds office.
- (3) In the employment income Parts “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

## **CHAPTER 2**

### TAX ON EMPLOYMENT INCOME

## **6 Nature of charge to tax on employment income**

- (1) The charge to tax on employment income under this Part is a charge to tax on—
  - (a) general earnings, and
  - (b) specific employment income.

The meaning of “employment income”, “general earnings” and “specific employment income” is given in section 7.
- (2) The amount of general earnings or specific employment income which is charged to tax in a particular tax year is set out in section 9.
- (3) The rules in Chapters 4 and 5 of this Part, which are concerned with—
  - (a) the residence and domicile of an employee in a tax year, and
  - (b) the tax year in which amounts are received or remitted to the United Kingdom,apply for the purposes of the charge to tax on general earnings but not that on specific employment income.
- (4) The person who is liable for any tax charged on employment income is set out in section 13.
- (5) Employment income is not charged to tax under this Part if it is within the charge to tax under Case I of Schedule D by virtue of section 314(1) of ICTA (divers and diving supervisors).

## **7 Meaning of “employment income”, “general earnings” and “specific employment income”**

- (1) This section gives the meaning for the purposes of the Tax Acts of “employment income”, “general earnings” and “specific employment income”.
- (2) “Employment income” means—
  - (a) earnings within Chapter 1 of Part 3,
  - (b) any amount treated as earnings (see subsection (5)), or
  - (c) any amount which counts as employment income (see subsection (6)).

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- (3) “General earnings” means—
- (a) earnings within Chapter 1 of Part 3, or
  - (b) any amount treated as earnings (see subsection (5)),
- excluding in each case any exempt income.
- (4) “Specific employment income” means any amount which counts as employment income (see subsection (6)), excluding any exempt income.
- (5) Subsection (2)(b) or (3)(b) refers to any amount treated as earnings under—
- (a) Chapters 7 and 8 of this Part (application of provisions to agency workers and workers under arrangements made by intermediaries),
  - (b) Chapters 2 to 11 of Part 3 (the benefits code),
  - (c) Chapter 12 of Part 3 (payments treated as earnings), or
  - (d) section 262 of CAA 2001 (balancing charges to be given effect by treating them as earnings).
- (6) Subsection (2)(c) or (4) refers to any amount which counts as employment income by virtue of—
- (a) Part 6 (income which is not earnings or share-related),
  - (b) Part 7 [<sup>F2</sup>(income and exemptions relating to securities and securities options)], or
  - (c) any other enactment.

#### Textual Amendments

**F2** Words in s. 7(6)(b) substituted (16.4.2003 with effect in accordance with Sch. 22 para. 17(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 17\(1\)](#)

## 8 Meaning of “exempt income”

For the purposes of the employment income Parts, an amount of employment income within paragraph (a), (b) or (c) of section 7(2) is “exempt income” if, as a result of any exemption in Part 4 or elsewhere, no liability to income tax arises in respect of it as such an amount.

## CHAPTER 3

### OPERATION OF TAX CHARGE

## 9 Amount of employment income charged to tax

- (1) The amount of employment income which is charged to tax under this Part for a particular tax year is as follows.
- (2) In the case of general earnings, the amount charged is the net taxable earnings from an employment in the year.
- (3) That amount is calculated under section 11 by reference to any taxable earnings from the employment in the year (see section 10(2)).

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- (4) In the case of specific employment income, the amount charged is the net taxable specific income from an employment for the year.
- (5) That amount is calculated under section 12 by reference to any taxable specific income from the employment for the year (see section 10(3)).
- (6) Accordingly, no amount of employment income is charged to tax under this Part for a particular tax year unless—
  - (a) in the case of general earnings, they are taxable earnings from an employment in that year, or
  - (b) in the case of specific employment income, it is taxable specific income from an employment for that year.

## 10 Meaning of “taxable earnings” and “taxable specific income”

- (1) This section explains what is meant by “taxable earnings” and “taxable specific income” in the employment income Parts.
- (2) “Taxable earnings from an employment in a tax year are to be determined in accordance with—
  - (a) Chapter 4 of this Part (rules applying to employees resident, ordinarily resident and domiciled in the UK), or
  - (b) Chapter 5 of this Part (rules applying to employees resident, ordinarily resident or domiciled outside the UK).
- (3) “Taxable specific income from an employment for a tax year means the full amount of any specific employment income which, by virtue of Part 6 or 7 or any other enactment, counts as employment income for that year in respect of the employment.

## 11 Calculation of “net taxable earnings”

- (1) For the purposes of this Part the “net taxable earnings” from an employment in a tax year are given by the formula—

$$TE - DE$$

where—

TE means the total amount of any taxable earnings from the employment in the tax year, and

DE means the total amount of any deductions allowed from those earnings under provisions listed in section 327(3) to (5) (deductions from earnings: general).

- (2) If the amount calculated under subsection (1) is negative, the net taxable earnings from the employment in the year are to be taken to be nil instead.
- (3) Relief may be available under section 380(1) of ICTA (set-off against general income)
  - (a) where TE is negative, or
  - (b) in certain exceptional cases where the amount calculated under subsection (1) is negative.

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- (4) If a person has more than one employment in a tax year, the calculation under subsection (1) must be carried out in relation to each of the employments.

## 12 Calculation of “net taxable specific income”

- (1) For the purposes of this Part the “net taxable specific income” from an employment for a tax year is given by the formula—

### TSI- DSI

where—

TSI means the amount of any taxable specific income from the employment for the tax year, and

DSI means the total amount of any deductions allowed from that income under provisions of the Tax Acts not included in the lists in section 327 (3) and (4) (deductions from earnings: general).

- (2) If the amount calculated under subsection (1) is negative, the net taxable specific income from the employment for the year is to be taken to be nil instead.
- (3) If a person has more than one kind of specific employment income from an employment for a tax year, the calculation under subsection (1) must be carried out in relation to each of those kinds of specific employment income; and in such a case the “net taxable specific income” from the employment for that year is the total of all the amounts so calculated.

## 13 Person liable for tax

- (1) The person liable for any tax on employment income under this Part is the taxable person mentioned in subsection (2) or (3).

This is subject to subsection (4).

- (2) If the tax is on general earnings, “the taxable person” is the person to whose employment the earnings relate.
- (3) If the tax is on specific employment income, “the taxable person” is the person in relation to whom the income is, by virtue of Part 6 or 7 or any other enactment, to count as employment income.
- (4) If the tax is on general earnings received, or remitted to the United Kingdom, after the death of the person to whose employment the earnings relate, the person’s personal representatives are liable for the tax.
- (5) In that event the tax is accordingly to be assessed on the personal representatives and is a debt due from and payable out of the estate.

## CHAPTER 4

### TAXABLE EARNINGS: RULES APPLYING TO EMPLOYEE RESIDENT, ORDINARILY RESIDENT AND DOMICILED IN UK

#### *Taxable earnings*

#### **14 Taxable earnings under this Chapter: introduction**

- (1) This Chapter sets out for the purposes of this Part what are taxable earnings from an employment in a tax year in cases where section 15 (earnings for year when employee resident, ordinarily resident and domiciled in UK) applies to general earnings for a tax year.
- (2) In this Chapter—
  - (a) sections 16 and 17 deal with the year for which general earnings are earned, and
  - (b) sections 18 and 19 deal with the time when general earnings are received.
- (3) In the employment income Parts any reference to the charging provisions of this Chapter is a reference to section 15.

#### *Employees resident, ordinarily resident and domiciled in UK*

#### **15 Earnings for year when employee resident, ordinarily resident and domiciled in UK**

- (1) This section applies to general earnings for a tax year in which the employee is resident, ordinarily resident and domiciled in the United Kingdom.
- (2) The full amount of any general earnings within subsection (1) which are received in a tax year is an amount of “taxable earnings” from the employment in that year.
- (3) Subsection (2) applies—
  - (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are received.

#### *Year for which general earnings are earned*

#### **16 Meaning of earnings “for” a tax year**

- (1) This section applies for determining whether general earnings are general earnings “for” a particular tax year for the purposes of this Chapter.
- (2) General earnings that are earned in, or otherwise in respect of, a particular period are to be regarded as general earnings for that period.
- (3) If that period consists of the whole or part of a single tax year, the earnings are to be regarded as general earnings “for” that tax year.

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- (4) If that period consists of the whole or parts of two or more tax years, the part of the earnings that is to be regarded as general earnings “for” each of those tax years is to be determined on a just and reasonable apportionment.
- (5) This section does not apply to any amount which is required by a provision of Part 3 to be treated as earnings for a particular tax year.

## 17 Treatment of earnings for year in which employment not held

- (1) This section applies for the purposes of this Chapter in a case where general earnings from an employment would otherwise fall to be regarded as general earnings for a tax year in which the employee does not hold the employment.
- (2) If that year falls before the first tax year in which the employment is held, the earnings are to be treated as general earnings for that first tax year.
- (3) If that year falls after the last tax year in which the employment was held, the earnings are to be treated as general earnings for that last tax year.
- (4) This section does not apply in connection with determining the year for which amounts are to be treated as earnings under Chapters 2 to 11 of Part 3 (the benefits code).

*When general earnings are received*

## 18 Receipt of money earnings

- (1) General earnings consisting of money are to be treated for the purposes of this Chapter as received at the earliest of the following times—

### *Rule 1*

The time when payment is made of or on account of the earnings.

### *Rule 2*

The time when a person becomes entitled to payment of or on account of the earnings.

### *Rule 3*

If the employee is a director of a company and the earnings are from employment with the company (whether or not as director), whichever is the earliest of—

- (a) the time when sums on account of the earnings are credited in the company’s accounts or records (whether or not there is any restriction on the right to draw the sums);
  - (b) if the amount of the earnings for a period is determined by the end of the period, the time when the period ends;
  - (c) if the amount of the earnings for a period is not determined until after the period has ended, the time when the amount is determined.
- (2) Rule 3 applies if the employee is a director of the company at any time in the tax year in which the time mentioned falls.
  - (3) In this section “director” means—
    - (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that body,



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- (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
  - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,
- and includes any person in accordance with whose directions or instructions the directors of the company (as defined above) are accustomed to act.
- (4) For the purposes of subsection (3) a person is not to be regarded as a person in accordance with whose directions or instructions the directors of the company are accustomed to act merely because the directors act on advice given by that person in a professional capacity.
- (5) Where this section applies—
- (a) to a payment on account of general earnings, or
  - (b) to sums on account of general earnings,
- it so applies for the purpose of determining the time when an amount of general earnings corresponding to the amount of that payment or those sums is to be treated as received for the purposes of this Chapter.

## **19 Receipt of non-money earnings**

- (1) General earnings not consisting of money are to be treated for the purposes of this Chapter as received at the following times.
- (2) If an amount is treated as earnings for a particular tax year under any of the following provisions, the earnings are to be treated as received in that year—
- section 81 (taxable benefits: cash vouchers),
  - section 94 (taxable benefits: credit-tokens),
  - Chapter 5 of Part 3 (taxable benefits: living accommodation),
  - Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits),
  - Chapter 7 of Part 3 (taxable benefits: loans),
  - Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares),
  - Chapter 9 of Part 3 (taxable benefits: disposals of shares for more than market value),
  - Chapter 10 of Part 3 (taxable benefits: residual liability to charge),
  - section 222 (payments treated as earnings: payments on account of tax where deduction not possible),
  - section 223 (payments treated as earnings: payments on account of director's tax).
- (3) If an amount is treated as earnings under section 87 (taxable benefits: non-cash vouchers), the earnings are to be treated as received in the tax year mentioned in section 88.
- (4) If subsection (2) or (3) does not apply, the earnings are to be treated as received at the time when the benefit is provided.

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## CHAPTER 5

### TAXABLE EARNINGS: RULES APPLYING TO EMPLOYEE RESIDENT, ORDINARILY RESIDENT OR DOMICILED OUTSIDE UK

#### *Taxable earnings*

#### **20 Taxable earnings under this Chapter: introduction**

- (1) This Chapter sets out for the purposes of this Part what are taxable earnings from an employment in a tax year in cases where any of the following sections applies to general earnings for a tax year—
  - (a) section 21 (earnings for year when employee resident and ordinarily resident, but not domiciled, in UK, except chargeable overseas earnings),
  - (b) section 22 (chargeable overseas earnings for year when employee resident and ordinarily resident, but not domiciled, in UK),
  - (c) section 25 (UK-based earnings for year when employee resident, but not ordinarily resident, in UK),
  - (d) section 26 (foreign earnings for year when employee resident, but not ordinarily resident, in UK),
  - (e) section 27 (UK-based earnings for year when employee not resident in UK).
- (2) In this Chapter—
  - (a) sections 29 and 30 deal with the year for which general earnings are earned,
  - (b) sections 31 to 34 deal with the time when general earnings are received or remitted,
  - (c) sections 35 to 37 deal with relief for delayed remittances, and
  - (d) sections 38 to 41 deal with the place where the duties of an employment are performed.
- (3) In the employment income Parts any reference to the charging provisions of this Chapter is a reference to any of the sections listed in subsection (1).

#### *Employees resident and ordinarily resident in UK*

#### **21 Earnings for year when employee resident and ordinarily resident, but not domiciled, in UK, except chargeable overseas earnings**

- (1) This section applies to general earnings for a tax year in which the employee is resident and ordinarily resident, but not domiciled, in the United Kingdom except to the extent that they are chargeable overseas earnings for that year.
- (2) The full amount of any general earnings within subsection (1) which are received in a tax year is an amount of “taxable earnings” from the employment in that year.
- (3) Subsection (2) applies—
  - (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are received.

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- (4) Section 23 applies for calculating how much of an employee’s general earnings are “chargeable overseas earnings” for a tax year, and are therefore within section 22(1) rather than subsection (1) above.

## **22 Chargeable overseas earnings for year when employee resident and ordinarily resident, but not domiciled, in UK**

- (1) This section applies to general earnings for a tax year in which the employee is resident and ordinarily resident, but not domiciled, in the United Kingdom to the extent that the earnings are chargeable overseas earnings for that year.
- (2) The full amount of any general earnings within subsection (1) which are remitted to the United Kingdom in a tax year is an amount of “taxable earnings” from the employment in that year.
- (3) Subsection (2) applies—
- (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are remitted;
- but that subsection has effect subject to any relief given under section 35 (delayed remittances: claim for relief).
- (4) Section 23 applies for calculating how much of an employee’s general earnings are “chargeable overseas earnings” for a tax year, and are therefore within subsection (1) rather than section 21(1).
- (5) Where any chargeable overseas earnings are taxable earnings under subsection (2), any deduction taken into account under section 23(3) in calculating the amount of the chargeable overseas earnings—
- (a) cannot then be deducted under section 11 from those taxable earnings, but
  - (b) may be deducted under that section from any taxable earnings under section 21.

## **23 Calculation of “chargeable overseas earnings”**

- (1) This section applies for calculating how much of an employee’s general earnings for a tax year are “chargeable overseas earnings” for the purposes of sections 21 and 22.
- (2) General earnings for a tax year are “overseas earnings” for that year if—
- (a) in that year the employee is resident and ordinarily resident, but not domiciled, in the United Kingdom,
  - (b) the employment is with a foreign employer, and
  - (c) the duties of the employment are performed wholly outside the United Kingdom.
- (3) To calculate the amount of “chargeable overseas earnings” for a tax year—

### *Step 1*

Identify the full amount of the overseas earnings for that year under subsection (2).

### *Step 2*

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Subtract any amounts that would (assuming they were taxable earnings) be allowed to be deducted from those earnings under—

- (a) section 232 or Part 5 (deductions allowed from earnings),
- (b) section 592(7) of ICTA (contributions to exempt approved schemes),
- (c) section 594 of ICTA (contributions to exempt statutory schemes), or
- (d) section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions from earnings).

*Step 3*

Apply any limit imposed by section 24 (limit where duties of associated employment performed in UK).

The result is the chargeable overseas earnings for the tax year.

## **24 Limit on chargeable overseas earnings where duties of associated employment performed in UK**

- (1) This section imposes a limit on how much of an employee's general earnings are chargeable overseas earnings for a tax year under section 23 if—
  - (a) in that year the employee holds associated employments as well as the employment to which subsection (2) of that section applies (“the relevant employment”), and
  - (b) the duties of the associated employments are not performed wholly outside the United Kingdom.
- (2) The limit is the proportion of the aggregate earnings for that year from all the employments concerned that is reasonable having regard to—
  - (a) the nature of and time devoted to each of the following—
    - (i) the duties performed outside the United Kingdom, and
    - (ii) those performed in the United Kingdom, and
  - (b) all other relevant circumstances.
- (3) For the purposes of subsection (2) “the aggregate earnings for a year from all the employments concerned” means the amount produced by aggregating the full amount of earnings from each of those employments for the year mentioned in subsection (1) so far as remaining after subtracting any amounts of the kind mentioned in step 2 in section 23(3).
- (4) In this section—
  - (a) “the employments concerned” means the relevant employment and the associated employments;
  - (b) “associated employments” means employments with the same employer or with associated employers.
- (5) The following rules apply to determine whether employers are associated—

*Rule A*

An individual is associated with a partnership or company if that individual has control of the partnership or company.

*Rule B*

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A partnership is associated with another partnership or with a company if one has control of the other or both are under the control of the same person or persons.

*Rule C*

A company is associated with another company if one has control of the other or both are under the control of the same person or persons.

- (6) In subsection (5)—
- (a) in rules A and B “control” has the meaning given by section 840 of ICTA (in accordance with section 719 of this Act), and
  - (b) in rule C “control” means control within the meaning of section 416 of ICTA (meaning of expressions relating to close companies).
- (7) If an amount of chargeable overseas earnings is reduced under step 3 in section 23(3) as a result of applying any limit imposed by this section, the amount of general earnings corresponding to the reduction remains an amount of general earnings within section 21(1).

*Employees resident but not ordinarily resident in UK*

**25 UK-based earnings for year when employee resident, but not ordinarily resident, in UK**

- (1) This section applies to general earnings for a tax year in which the employee is resident but not ordinarily resident in the United Kingdom if they are—
- (a) general earnings in respect of duties performed in the United Kingdom, or
  - (b) general earnings from overseas Crown employment subject to United Kingdom tax.
- (2) The full amount of any general earnings within subsection (1) which are received in a tax year is an amount of “taxable earnings” from the employment in that year.
- (3) Subsection (2) applies—
- (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are received.
- (4) Section 28 explains what is meant by “general earnings from overseas Crown employment subject to United Kingdom tax”.

**26 Foreign earnings for year when employee resident, but not ordinarily resident, in UK**

- (1) This section applies to general earnings for a tax year in which the employee is resident, but not ordinarily resident, in the United Kingdom if they are neither—
- (a) general earnings in respect of duties performed in the United Kingdom, nor
  - (b) general earnings from overseas Crown employment subject to United Kingdom tax.
- (2) The full amount of any general earnings within subsection (1) which are remitted to the United Kingdom in a tax year is an amount of “taxable earnings” from the employment in that year.

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- (3) Subsection (2) applies—
- (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are remitted;
- but that subsection has effect subject to any relief given under section 35 (delayed remittances: claim for relief).
- (4) Section 28 explains what is meant by “general earnings from overseas Crown employment subject to United Kingdom tax”.

*Employees not resident in UK*

**27 UK-based earnings for year when employee not resident in UK**

- (1) This section applies to general earnings for a tax year in which the employee is not resident in the United Kingdom if they are—
- (a) general earnings in respect of duties performed in the United Kingdom, or
  - (b) general earnings from overseas Crown employment subject to United Kingdom tax.
- (2) The full amount of any general earnings within subsection (1) which are received in a tax year is an amount of “taxable earnings” from the employment in that year.
- (3) Subsection (2) applies—
- (a) whether the earnings are for that year or for some other tax year, and
  - (b) whether or not the employment is held at the time when the earnings are received.
- (4) Section 28 explains what is meant by “general earnings from overseas Crown employment subject to United Kingdom tax”.

*Special class of earnings for purposes of sections 25 to 27*

**28 Meaning of “general earnings from overseas Crown employment subject to UK tax”**

- (1) This section explains for the purposes of sections 25 to 27 what is meant by “general earnings from overseas Crown employment subject to United Kingdom tax”.
- (2) “Crown employment” means employment under the Crown—
- (a) which is of a public nature, and
  - (b) the earnings from which are payable out of the public revenue of the United Kingdom or of Northern Ireland.
- (3) “General earnings from overseas Crown employment” means general earnings from such employment in respect of duties performed outside the United Kingdom.
- (4) Such earnings are to be taken as being “subject to United Kingdom tax” unless they fall within any exception contained in an order under subsection (5).
- (5) The Board of Inland Revenue may make an order excepting from the operation of sections 25(2) and 27(2)—

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- (a) general earnings of any description of employee specified in the order;
  - (b) general earnings from any description of employment so specified.
- (6) The Board may make the order if they consider that such earnings should not be subject to those provisions having regard to the international obligations of Her Majesty's Government and such other matters as appear to them to be relevant.
- (7) An order may make provision by reference to all or any of the following—
- (a) the residence or nationality of the employee;
  - (b) whether the employee was engaged in or outside the United Kingdom;
  - (c) the nature of the post, the rate of remuneration and any other terms and conditions applying to it.
- (8) Subsection (7) does not affect the generality of the power to make provision by reference to such factors as the Board consider appropriate.

*Year for which general earnings are earned*

## **29 Meaning of earnings “for” a tax year**

- (1) This section applies for determining whether general earnings are general earnings “for” a particular tax year for the purposes of this Chapter.
- (2) General earnings that are earned in, or otherwise in respect of, a particular period are to be regarded as general earnings for that period.
- (3) If that period consists of the whole or part of a single tax year, the earnings are to be regarded as general earnings “for” that tax year.
- (4) If that period consists of the whole or parts of two or more tax years, the part of the earnings that is to be regarded as general earnings “for” each of those tax years is to be determined on a just and reasonable apportionment.
- (5) This section does not apply to any amount which is required by a provision of Part 3 to be treated as earnings for a particular tax year.

## **30 Treatment of earnings for year in which employment not held**

- (1) This section applies for the purposes of this Chapter in a case where general earnings from an employment would otherwise fall to be regarded as general earnings for a tax year in which the employee does not hold the employment.
- (2) If that year falls before the first tax year in which the employment is held, the earnings are to be treated as general earnings for that first tax year.
- (3) If that year falls after the last tax year in which the employment was held, the earnings are to be treated as general earnings for that last tax year.
- (4) This section does not apply in connection with determining the year for which amounts are to be treated as earnings under Chapters 2 to 11 of Part 3 (the benefits code).

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*When general earnings are received or remitted*

### **31 Receipt of money earnings**

- (1) General earnings consisting of money are to be treated for the purposes of this Chapter as received at the earliest of the following times—

*Rule 1*

The time when payment is made of or on account of the earnings.

*Rule 2*

The time when a person becomes entitled to payment of or on account of the earnings.

*Rule 3*

If the employee is a director of a company and the earnings are from employment with the company (whether or not as director), whichever is the earliest of—

- (a) the time when sums on account of the earnings are credited in the company's accounts or records (whether or not there is any restriction on the right to draw the sums);
- (b) if the amount of the earnings for a period is determined by the end of the period, the time when the period ends;
- (c) if the amount of the earnings for a period is not determined until after the period has ended, the time when the amount is determined.

- (2) Rule 3 applies if the employee is a director of the company at any time in the tax year in which the time mentioned falls.

- (3) In this section “director” means—

- (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that body,
- (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
- (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,

and includes any person in accordance with whose directions or instructions the directors of the company (as defined above) are accustomed to act.

- (4) For the purposes of subsection (3) a person is not to be regarded as a person in accordance with whose directions or instructions the directors of the company are accustomed to act merely because the directors act on advice given by that person in a professional capacity.

- (5) Where this section applies—

- (a) to a payment on account of general earnings, or
- (b) to sums on account of general earnings,

it so applies for the purpose of determining the time when an amount of general earnings corresponding to the amount of that payment or those sums is to be treated as received for the purposes of this Chapter.



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## **32 Receipt of non-money earnings**

- (1) General earnings not consisting of money are to be treated for the purposes of this Chapter as received at the following times.
- (2) If an amount is treated as earnings for a particular tax year under any of the following provisions, the earnings are to be treated as received in that year—
  - section 81 (taxable benefits: cash vouchers),
  - section 94 (taxable benefits: credit-tokens),
  - Chapter 5 of Part 3 (taxable benefits: living accommodation),
  - Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits),
  - Chapter 7 of Part 3 (taxable benefits: loans),
  - Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares),
  - Chapter 9 of Part 3 (taxable benefits: disposals of shares for more than market value),
  - Chapter 10 of Part 3 (taxable benefits: residual liability to charge),
  - section 222 (payments treated as earnings: payments on account of tax where deduction not possible),
  - section 223 (payments treated as earnings: payments on account of director's tax).
- (3) If an amount is treated as earnings under section 87 (taxable benefits: non-cash vouchers), the earnings are to be treated as received in the tax year mentioned in section 88.
- (4) If subsection (2) or (3) does not apply, the earnings are to be treated as received at the time when the benefit is provided.

## **33 Earnings remitted to UK**

- (1) This section explains what is meant for the purposes of this Chapter by general earnings being remitted to the United Kingdom.
- (2) If general earnings are—
  - (a) paid, used, or enjoyed in the United Kingdom, or
  - (b) transmitted or brought to the United Kingdom in any manner or form,they are to be treated as remitted to the United Kingdom at the time when they are so paid, used or enjoyed or dealt with as mentioned in paragraph (b).
- (3) If, in the case of an employee who is ordinarily resident in the United Kingdom, general earnings are used outside the United Kingdom to satisfy a UK-linked debt, they are to be treated as remitted to the United Kingdom at the time when they are so used.

This is subject to subsection (5)(b).

- (4) In subsection (3) “UK-linked debt, in relation to an employee, means—
  - (a) a debt for money lent to the employee in the United Kingdom, or for interest on money so lent, or
  - (b) a debt for money lent to the employee outside the United Kingdom and received in the United Kingdom, or
  - (c) a debt incurred for satisfying—

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- (i) a debt falling within paragraph (a) or (b), or
  - (ii) another debt falling within this paragraph.
- (5) In the case of a debt (within subsection (4)(b) or (c)) for money lent to the employee outside the United Kingdom—
- (a) it does not matter whether the money lent is received in the United Kingdom before or after the general earnings are used to satisfy the debt, but
  - (b) if the money lent is not received in the United Kingdom until after the general earnings are used to satisfy the debt, the general earnings are to be treated as remitted to the United Kingdom at the time when the money lent is received there (instead of at the time provided in subsection (3)).
- (6) In subsections (4) and (5) any reference to money lent being received in the United Kingdom includes a reference to its being brought there.
- (7) Section 34 (further provisions about UK-linked debts) applies for the purposes of subsections (3) to (5).

### **34 Earnings remitted to UK: further provisions about UK-linked debts**

- (1) This section applies for the purposes of the provisions of section 33 which relate to general earnings that are used to satisfy a UK-linked debt.
- (2) General earnings are to be treated as used to satisfy a debt for money lent to a person (“the borrower”) if conditions A and B are met.
- (3) Condition A is that the earnings are dealt with in such a way that the lender holds money or property representing the earnings on behalf of or on account of the borrower in such circumstances that it is available to the lender to satisfy or reduce the debt (by set-off or otherwise).
- (4) Condition B is that under an arrangement between the borrower and the lender—
- (a) the amount for the time being owed by the borrower to the lender, or
  - (b) the time at which the debt is to be wholly or partly repaid,
- depends in any respect, directly or indirectly, on the amount or value the lender holds on behalf of or on account of the borrower as mentioned in subsection (3).
- (5) If and to the extent that money lent is used to satisfy a debt, the debt for the money lent is to be treated as incurred for satisfying that other debt.
- (6) In this section “lender” includes, in relation to any money lent, any person for the time being entitled to repayment.
- (7) In this section and section 33 “satisfy”, in relation to a debt, means satisfy wholly or in part.

### *Relief for delayed remittances*

### **35 Relief for delayed remittances**

- (1) A person may make a claim for relief under this section for a tax year in respect of delayed remittances from an employment.
- (2) “Delayed remittances” are general earnings of the person which—

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- (a) were received in a country or territory outside the United Kingdom before the tax year for which relief is claimed,
  - (b) were not remitted to the United Kingdom until that tax year,
  - (c) could not have been transferred by the person to the United Kingdom before that tax year because of—
    - (i) the laws of the country or territory where they were received,
    - (ii) executive action of its government, or
    - (iii) the impossibility of obtaining there currency (other than the currency of that country or territory) that could be transferred to the United Kingdom, and
  - (d) constitute taxable earnings from the employment in that tax year under section 22(2) or 26(2) (general earnings which are taxable earnings if remitted to UK).
- (3) If a person claims relief for a tax year in respect of delayed remittances from an employment, the amount of the remittances—
- (a) is to be deducted from the person’s general earnings which constitute taxable earnings from the employment in that year under section 22(2) or 26(2); and
  - (b) is instead to constitute taxable earnings from the employment under that provision in one or more earlier tax years in accordance with—
    - (i) subsection (4), or
    - (ii) alternatively, section 36 where an election is made under that section.
- (4) Where this subsection applies—
- (a) the amount referred to in subsection (3)(b) is to be treated as taxable earnings from the employment in the tax year in which it was received, or
  - (b) if it consists of general earnings received in two or more tax years, so much of the amount as was received in each of those years is to be treated as taxable earnings from the employment in that year.

### **36 Election in respect of delayed remittances**

- (1) This section applies if—
- (a) a person (“the claimant”) claims relief under section 35 for a tax year in respect of delayed remittances from an employment, and
  - (b) at the end of that year the claimant had blocked earnings from that employment for one or more previous tax years.
- (2) General earnings are “blocked earnings” for a tax year if they—
- (a) were received in a country or territory outside the United Kingdom in that year,
  - (b) could not be transferred by the claimant to the United Kingdom in that year because of any of the things mentioned in section 35(2)(c), and
  - (c) would have constituted taxable earnings from the employment in that year under section 22(2) or 26(2) (general earnings which are taxable earnings if remitted to UK) if they had been so transferred.
- (3) The claimant may elect for the purposes of section 35(3)(b) to have the amount of the delayed remittances treated as taxable earnings from the employment in one or more tax years specified in the election.

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- (4) A claimant may only specify a particular tax year if—
  - (a) there were blocked earnings of the claimant for that year from the employment, and
  - (b) it is a year prior to the tax year for which relief is claimed.
- (5) If more than one year is specified, the election must indicate the amount which is to be treated as taxable earnings in each of those years.
- (6) However the amount of the delayed remittances which the claimant elects to be treated as taxable earnings in a particular tax year must not exceed—

## BE- PC

where—

BE is the amount of blocked earnings of the claimant for that year from the employment, and

PC is the amount of remittances treated as taxable earnings from the employment in that year as a result of a previous claim by the claimant under section 35.

- (7) An election under this section—
  - (a) must be made as part of the claim under section 35, and
  - (b) is irrevocable.
- (8) A person's personal representatives may make any election under this section which the person might have made.

### 37 Claims for relief on delayed remittances

- (1) A claim under section 35 must be made on or before the fifth anniversary of the normal self-assessment filing date for the tax year for which relief is claimed.
- (2) All adjustments (by way of repayment of tax, assessment or otherwise) are to be made which are necessary to give effect to section 35.
- (3) Those adjustments may be made at any time, despite anything to the contrary in the Income Tax Acts.
- (4) A person's personal representatives may make any claim under section 35 which the person might have made.
- (5) If a person dies—
  - (a) any tax paid by the person and repayable because of a claim under section 35 is to be repaid to the person's personal representatives, and
  - (b) the person's personal representatives are liable for any additional tax which arises because of a claim under that section.
- (6) Where subsection (5)(b) applies, the additional tax—
  - (a) is to be assessed on the personal representatives, and
  - (b) is a debt due from and payable out of the estate.

*Place of performance of duties of employment***38 Earnings for period of absence from employment**

- (1) This section applies if a person ordinarily performs the whole or part of the duties of an employment in the United Kingdom.
- (2) General earnings for a period of absence from the employment are to be treated for the purposes of this Chapter as general earnings for duties performed in the United Kingdom except in so far as they would, but for that absence, have been general earnings for duties performed outside the United Kingdom.

**39 Duties in UK merely incidental to duties outside UK**

- (1) This section applies if in a tax year an employment is in substance one whose duties fall to be performed outside the United Kingdom.
- (2) Duties of the employment performed in the United Kingdom whose performance is merely incidental to the performance of duties outside the United Kingdom are to be treated for the purposes of this Chapter as performed outside the United Kingdom.
- (3) This section does not affect any question as to—
  - (a) where any duties are performed, or
  - (b) whether a person is absent from the United Kingdom,for the purposes of section 378 (deduction from seafarers' earnings: eligibility), and section 383 (place of performance of incidental duties) applies instead.

**40 Duties on board vessel or aircraft**

- (1) Duties which a person performs on a vessel engaged on a voyage not extending to a port outside the United Kingdom are to be treated for the purposes of this Chapter as performed in the United Kingdom.
- (2) Duties which a person resident in the United Kingdom performs on a vessel or aircraft engaged—
  - (a) on a voyage or journey beginning or ending in the United Kingdom, or
  - (b) on a part beginning or ending in the United Kingdom of any other voyage or journey,are to be treated as performed in the United Kingdom for the purposes of this Chapter.
- (3) Subsection (2) does not, however, apply for the purposes of section 24(1)(b) (limit on chargeable overseas earnings under section 23 where duties of associated employment performed in UK) in relation to any duties of a person's employment if—
  - (a) the employment is as a seafarer, and
  - (b) the duties are performed on a ship.
- (4) Instead, any duties of the employment which are performed on a ship engaged—
  - (a) on a voyage beginning or ending outside the United Kingdom (but excluding any part of it beginning and ending there), or
  - (b) on a part beginning or ending outside the United Kingdom of any other voyage,

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are to be treated as performed outside the United Kingdom for the purposes of section 24(1)(b).

- (5) For the purposes of subsections (3) and (4)—
- (a) employment “as a seafarer” means an employment consisting of the performance of duties on a ship or of such duties and others incidental to them;
  - (b) “ship” does not include—
    - (i) any offshore installation within the meaning of the Mineral Workings (Offshore Installations) Act 1971 (c. 61), or
    - (ii) what would be such an installation if the references in that Act to controlled waters were to any waters;
  - (c) the areas designated under section 1(7) of the Continental Shelf Act 1964 (c. 29) are treated as part of the United Kingdom.

#### **41 Employment in UK sector of continental shelf**

- (1) General earnings in respect of duties performed in the UK sector of the continental shelf in connection with exploration or exploitation activities are to be treated for the purposes of this Chapter as general earnings in respect of duties performed in the United Kingdom.
- (2) In this section—
 

“the UK sector of the continental shelf” means the areas designated under section 1(7) of the Continental Shelf Act 1964, and

“exploration or exploitation activities” means activities carried on in connection with the exploration or exploitation of so much of the seabed and subsoil and their natural resources as is situated in the United Kingdom or the UK sector of the continental shelf.

## **CHAPTER 6**

### DISPUTES AS TO DOMICILE OR ORDINARY RESIDENCE

#### **42 Board to determine dispute as to domicile or ordinary residence**

- (1) This section applies if, in connection with any of the provisions listed in subsection (3), there is a dispute as to whether a person is or has been ordinarily resident or domiciled in the United Kingdom.
- (2) The question whether the person is or has been so resident or domiciled is to be referred to and decided by the Board of Inland Revenue.
- (3) The provisions referred to in subsection (1) are—
  - section 15 (earnings for year when employee resident, ordinarily resident and domiciled in UK);
  - section 21 (earnings for year when employee resident and ordinarily resident, but not domiciled, in UK, except chargeable overseas earnings);
  - section 22 (chargeable overseas earnings for year when employee resident and ordinarily resident, but not domiciled, in UK);
  - section 23 (calculation of “chargeable overseas earnings”);

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section 25 (UK-based earnings for year when employee resident, but not ordinarily resident, in UK);  
section 26 (foreign earnings for year when employee resident, but not ordinarily resident, in UK);  
section 341 (deduction for travel expenses at start or finish of overseas employment);  
section 342 (deduction for travel expenses between employments where duties performed abroad);  
section 355 (deduction for corresponding payments by non-domiciled employees with foreign employers);  
section 376 (deduction for foreign accommodation and subsistence costs etc. where overseas employment);  
section 390 (exception for payments to non-approved pension schemes if non-domiciled employees with foreign employers).

**Modifications etc. (not altering text)**

**C1** S. 42 applied by 1988 c. 1, s. 645(4C) (as inserted (6.4.2003 with effect in accordance with s. 723(1)(a)(b) of the amending Act) by Income Tax (Earnings and Pensions) Act 2003 (c. 1), s. 723, Sch. 6 para. 93(4) (with Sch. 7))

**43 Appeal against Board’s decision on domicile or ordinary residence**

- (1) A person who has been given notice of the Board’s decision on a question under section 42 may, if aggrieved by that decision, appeal to the Special Commissioners.
- (2) The notice of appeal must be given to the Board within 3 months after the date on which the person is given notice of the Board’s decision.

**Modifications etc. (not altering text)**

**C2** S. 43 applied by 1988 c. 1, s. 645(4C) (as inserted (6.4.2003 with effect in accordance with s. 723(1)(a)(b) of the amending Act) by Income Tax (Earnings and Pensions) Act 2003 (c. 1), s. 723, Sch. 6 para. 93(4) (with Sch. 7))

**CHAPTER 7**

APPLICATION OF PROVISIONS TO AGENCY WORKERS

*Agency workers*

**44 Treatment of workers supplied by agencies**

- (1) This section applies if—
  - (a) an individual (“the worker”) personally provides, or is under an obligation personally to provide, services (which are not excluded services) to another person (“the client”),

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- (b) the services are supplied by or through a third person (“the agency”) under the terms of an agency contract,
  - (c) the worker is subject to (or to the right of) supervision, direction or control as to the manner in which the services are provided, and
  - (d) remuneration receivable under or in consequence of the agency contract does not constitute employment income of the worker apart from this Chapter.
- (2) If this section applies—
- (a) the services which the worker provides, or is obliged to provide, to the client under the agency contract are to be treated for income tax purposes as duties of an employment held by the worker with the agency, and
  - (b) all remuneration receivable under or in consequence of the agency contract (including remuneration which the client pays or provides in relation to the services) is to be treated for income tax purposes as earnings from that employment.

#### **45 Arrangements with agencies**

If—

- (a) an individual (“the worker”), with a view to personally providing services (which are not excluded services) to another person (“the client”), enters into arrangements with a third person (“the agency”), and
- (b) the arrangements are such that the services (if and when they are provided) will be treated for income tax purposes under section 44 as duties of an employment held by the worker with the agency,

any remuneration receivable under or in consequence of the arrangements is to be treated for income tax purposes as earnings from that employment.

#### **46 Cases involving unincorporated bodies etc.**

- (1) Section 44 also applies—
- (a) if the worker personally provides, or is under an obligation to personally provide, the services in question as a partner in a firm or a member of an unincorporated body;
  - (b) if the agency in question is an unincorporated body of which the worker is a member.
- (2) In a case within subsection (1)(a), remuneration receivable under or in consequence of the agency contract is to be treated for income tax purposes as income of the worker and not as income of the firm or body.

*Supplementary*

#### **47 Interpretation of this Chapter**

- (1) In this Chapter “agency contract” means a contract made between the worker and the agency under the terms of which the worker is obliged to personally provide services to the client.
- (2) In this Chapter “excluded services” means—



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- (a) services as an actor, singer, musician or other entertainer or as a fashion, photographic or artist’s model, or
  - (b) services provided wholly—
    - (i) in the worker’s own home, or
    - (ii) at other premises which are neither controlled or managed by the client nor prescribed by the nature of the services.
- (3) For the purposes of this Chapter “remuneration”—
- (a) does not include anything that would not have constituted employment income of the worker if it had been receivable in connection with an employment apart from this Chapter, but
  - (b) subject to paragraph (a), includes every form of payment, gratuity, profit and benefit.

## CHAPTER 8

### APPLICATION OF PROVISIONS TO WORKERS UNDER ARRANGEMENTS MADE BY INTERMEDIARIES

#### *Application of this Chapter*

#### **48 Scope of this Chapter**

- (1) This Chapter has effect with respect to the provision of services through an intermediary.
- (2) Nothing in this Chapter—
  - (a) affects the operation of Chapter 7 of this Part, or
  - (b) applies to payments subject to deduction of tax under section 555 of ICTA (payments to non-resident entertainers and sportsmen).

#### **49 Engagements to which this Chapter applies**

- (1) This Chapter applies where—
  - (a) an individual (“the worker”) personally performs, or is under an obligation personally to perform, services for the purposes of a business carried on by another person (“the client”),
  - (b) the services are provided not under a contract directly between the client and the worker but under arrangements involving a third party (“the intermediary”), and
  - (c) the circumstances are such that, if the services were provided under a contract directly between the client and the worker, the worker would be regarded for income tax purposes as an employee of the client.
- (2) In subsection (1)(a) “business” includes any activity carried on—
  - (a) by a government or public or local authority (in the United Kingdom or elsewhere), or
  - (b) by a body corporate, unincorporated body or partnership.

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- (3) The reference in subsection (1)(b) to a “third party” includes a partnership or unincorporated body of which the worker is a member.
- (4) The circumstances referred to in subsection (1)(c) include the terms on which the services are provided, having regard to the terms of the contracts forming part of the arrangements under which the services are provided.
- (5) In this Chapter “engagement to which this Chapter applies” means any such provision of services as is mentioned in subsection (1).

## **50 Worker treated as receiving earnings from employment**

- (1) If, in the case of an engagement to which this Chapter applies, in any tax year—
  - (a) the conditions specified in section 51, 52 or 53 are met in relation to the intermediary, and
  - (b) the worker, or an associate of the worker—
    - (i) receives from the intermediary, directly or indirectly, a payment or benefit that is not employment income, or
    - (ii) has rights which entitle, or which in any circumstances would entitle, the worker or associate to receive from the intermediary, directly or indirectly, any such payment or benefit,

the intermediary is treated as making to the worker, and the worker is treated as receiving, in that year a payment which is to be treated as earnings from an employment (“the deemed employment payment”).
- (2) A single payment is treated as made in respect of all engagements in relation to which the intermediary is treated as making a payment to the worker in the tax year.
- (3) The deemed employment payment is treated as made at the end of the tax year, unless section 57 applies (earlier date of deemed payment in certain cases).
- (4) In this Chapter “the relevant engagements”, in relation to a deemed employment payment, means the engagements mentioned in subsection (2).

## **51 Conditions of liability where intermediary is a company**

- (1) Where the intermediary is a company the conditions are that the intermediary is not an associated company of the client that falls within subsection (2) and either—
  - (a) the worker has a material interest in the intermediary, or
  - (b) the payment or benefit mentioned in section 50(1)(b)—
    - (i) is received or receivable by the worker directly from the intermediary, and
    - (ii) can reasonably be taken to represent remuneration for services provided by the worker to the client.
- (2) An associated company of the client falls within this subsection if it is such a company by reason of the intermediary and the client being under the control—
  - (a) of the worker, or
  - (b) of the worker and other persons.
- (3) A worker is treated as having a material interest in a company if—
  - (a) the worker, alone or with one or more associates of the worker, or

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- (b) an associate of the worker, with or without other such associates, has a material interest in the company.
- (4) For this purpose a material interest means—
- (a) beneficial ownership of, or the ability to control, directly or through the medium of other companies or by any other indirect means, more than 5% of the ordinary share capital of the company; or
  - (b) possession of, or entitlement to acquire, rights entitling the holder to receive more than 5% of any distributions that may be made by the company; or
  - (c) where the company is a close company, possession of, or entitlement to acquire, rights that would in the event of the winding up of the company, or in any other circumstances, entitle the holder to receive more than 5% of the assets that would then be available for distribution among the participators.
- (5) In subsection (4)(c) “participator” has the meaning given by section 417(1) of ICTA.

## **52 Conditions of liability where intermediary is a partnership**

- (1) Where the intermediary is a partnership the conditions are as follows.
- (2) In relation to any payment or benefit received or receivable by the worker as a member of the partnership the conditions are—
- (a) that the worker, alone or with one or more relatives, is entitled to 60% or more of the profits of the partnership; or
  - (b) that most of the profits of the partnership concerned derive from the provision of services under engagements to which this Chapter applies—
    - (i) to a single client, or
    - (ii) to a single client together with associates of that client; or
  - (c) that under the profit sharing arrangements the income of any of the partners is based on the amount of income generated by that partner by the provision of services under engagements to which this Chapter applies.
- In paragraph (a) “relative” means husband or wife, parent or child or remoter relation in the direct line, or brother or sister.
- (3) In relation to any payment or benefit received or receivable by the worker otherwise than as a member of the partnership, the conditions are that the payment or benefit—
- (a) is received or receivable by the worker directly from the intermediary, and
  - (b) can reasonably be taken to represent remuneration for services provided by the worker to the client.

## **53 Conditions of liability where intermediary is an individual**

Where the intermediary is an individual the conditions are that the payment or benefit—

- (a) is received or receivable by the worker directly from the intermediary, and
- (b) can reasonably be taken to represent remuneration for services provided by the worker to the client.

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### *The deemed employment payment*

#### **54 Calculation of deemed employment payment**

- (1) The amount of the deemed employment payment for a tax year (“the year”) is the amount resulting from the following steps—

##### *Step 1*

Find (applying section 55) the total amount of all payments and benefits received by the intermediary in the year in respect of the relevant engagements, and reduce that amount by 5%.

##### *Step 2*

Add (applying that section) the amount of any payments and benefits received by the worker in the year in respect of the relevant engagements, otherwise than from the intermediary, that—

- (a) are not chargeable to income tax as employment income, and
- (b) would be so chargeable if the worker were employed by the client.

##### *Step 3*

Deduct (applying Chapters 1 to 5 of Part 5) the amount of any expenses met in the year by the intermediary that would have been deductible from the taxable earnings from the employment if—

- (a) the worker had been employed by the client, and
- (b) the expenses had been met by the worker out of those earnings.

If the result at this or any later point is nil or a negative amount, there is no deemed employment payment.

##### *Step 4*

Deduct the amount of any capital allowances in respect of expenditure incurred by the intermediary that could have been deducted from employment income under section 262 of CAA 2001 (employments and offices) if the worker had been employed by the client and had incurred the expenditure.

##### *Step 5*

Deduct any contributions made in the year for the benefit of the worker by the intermediary to a scheme approved under Chapter 1 or 4 of Part 14 of ICTA that if made by an employer for the benefit of an employee would not be chargeable to income tax as income of the employee.

This does not apply to excess contributions made and later repaid.

##### *Step 6*

Deduct the amount of any employer’s national insurance contributions paid by the intermediary for the year in respect of the worker.

##### *Step 7*

Deduct the amount of any payments and benefits received in the year by the worker from the intermediary—

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- (a) in respect of which the worker is chargeable to income tax as employment income, and
- (b) which do not represent items in respect of which a deduction was made under step 3.

*Step 8*

Assume that the result of step 7 represents an amount together with employer's national insurance contributions on it, and deduct what (on that assumption) would be the amount of those contributions.

The result is the deemed employment payment.

- (2) If section 559 of ICTA applies (sub-contractors in the construction industry: payments to be made under deduction), the intermediary is treated for the purposes of step 1 of subsection (1) as receiving the amount that would have been received had no deduction been made under that section.
- (3) In step 3 of subsection (1), the reference to expenses met by the intermediary includes—
  - (a) expenses met by the worker and reimbursed by the intermediary, and
  - (b) where the intermediary is a partnership and the worker is a member of the partnership, expenses met by the worker for and on behalf of the partnership.
- (4) In step 3 of subsection (1), the expenses deductible include the amount of any mileage allowance relief for the year which the worker would have been entitled to in respect of the use of a vehicle falling within subsection (5) if—
  - (a) the worker had been employed by the client, and
  - (b) the vehicle had not been a company vehicle (within the meaning of Chapter 2 of Part 4).
- (5) A vehicle falls within this subsection if—
  - (a) it is provided by the intermediary for the worker, or
  - (b) where the intermediary is a partnership and the worker is a member of the partnership, it is provided by the worker for the purposes of the business of the partnership.
- (6) Where, on the assumptions mentioned in paragraphs (a) and (b) of step 3 of subsection (1), the deductibility of the expenses is determined under sections 337 to 342 (travel expenses), the duties performed under the relevant engagements are treated as duties of a continuous employment with the intermediary.
- (7) In step 7 of subsection (1), the amounts deductible include any payments received in the year from the intermediary that—
  - (a) are exempt from income tax by virtue of section 229 or 233 (mileage allowance payments and passenger payments), and
  - (b) do not represent items in respect of which a deduction was made under step 3.
- (8) For the purposes of subsection (1) any necessary apportionment is to be made on a just and reasonable basis of amounts received by the intermediary that are referable—
  - (a) to the services of more than one worker, or
  - (b) partly to the services of the worker and partly to other matters.

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## **55 Application of rules relating to earnings from employment**

- (1) The following provisions apply in relation to the calculation of the deemed employment payment.
- (2) A “payment or benefit” means anything that, if received by an employee for performing the duties of an employment, would be earnings from the employment.
- (3) The amount of a payment or benefit is taken to be—
  - (a) in the case of a payment or cash benefit, the amount received, and
  - (b) in the case of a non-cash benefit, the cash equivalent of the benefit.
- (4) The cash equivalent of a non-cash benefit is taken to be—
  - (a) the amount that would be earnings if the benefit were earnings from an employment, or
  - (b) in the case of living accommodation, whichever is the greater of that amount and the cash equivalent determined in accordance with section 398(2).
- (5) A payment or benefit is treated as received—
  - (a) in the case of a payment or cash benefit, when payment is made of or on account of the payment or benefit;
  - (b) in the case of a non-cash benefit that is calculated by reference to a period within the tax year, at the end of that period;
  - (c) in the case of a non-cash benefit that is not so calculated, when it would have been treated as received for the purposes of Chapter 4 or 5 of this Part (see section 19 or 32) if—
    - (i) the worker had been an employee, and
    - (ii) the benefit had been provided by reason of the employment.

## **56 Application of Income Tax Acts in relation to deemed employment**

- (1) The Income Tax Acts (in particular, the PAYE provisions) apply in relation to the deemed employment payment as follows.
- (2) They apply as if—
  - (a) the worker were employed by the intermediary, and
  - (b) the relevant engagements were undertaken by the worker in the course of performing the duties of that employment.
- (3) The deemed employment payment is treated in particular—
  - (a) as taxable earnings from the employment for the purpose of securing that any deductions under Chapters 2 to 6 of Part 5 do not exceed the deemed employment payment; and
  - (b) as taxable earnings from the employment for the purposes of section 232.
- (4) The worker is not chargeable to tax in respect of the deemed employment payment if, or to the extent that, by reason of any combination of the factors mentioned in subsection (5), the worker would not be chargeable to tax if—
  - (a) the client employed the worker,
  - (b) the worker performed the services in the course of that employment, and
  - (c) the deemed employment payment were a payment by the client of earnings from that employment.

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- (5) The factors are—
- (a) the worker being resident, ordinarily resident or domiciled outside the United Kingdom,
  - (b) the client being resident or ordinarily resident outside the United Kingdom, and
  - (c) the services in question being provided outside the United Kingdom.
- (6) Where the intermediary is a partnership or unincorporated association, the deemed employment payment is treated as received by the worker in the worker's personal capacity and not as income of the partnership or association.
- (7) Where—
- (a) the worker is resident in the United Kingdom,
  - (b) the services in question are provided in the United Kingdom, and
  - (c) the client or employer carries on business in the United Kingdom,
- the intermediary is treated as having a place of business in the United Kingdom, whether or not it in fact does so.
- (8) The deemed employment payment is treated as relevant earnings of the worker for the purposes of section 644 of ICTA (relevant earnings for purposes of permissible pension contributions).

#### *Supplementary provisions*

### **57 Earlier date of deemed employment payment in certain cases**

- (1) If in any tax year—
- (a) a deemed employment payment is treated as made, and
  - (b) before the date on which the payment would be treated as made under section 50(2) any relevant event (as defined below) occurs in relation to the intermediary,
- the deemed employment payment for that year is treated as having been made immediately before that event or, if there is more than one, immediately before the first of them.
- (2) Where the intermediary is a company the following are relevant events—
- (a) the company ceasing to trade;
  - (b) where the worker is a member of the company, the worker ceasing to be such a member;
  - (c) where the worker holds an office with the company, the worker ceasing to hold such an office;
  - (d) where the worker is employed by the company, the worker ceasing to be so employed.
- (3) Where the intermediary is a partnership the following are relevant events—
- (a) the dissolution of the partnership or the partnership ceasing to trade or a partner ceasing to act as such;
  - (b) where the worker is employed by the partnership, the worker ceasing to be so employed.

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- (4) Where the intermediary is an individual and the worker is employed by the intermediary, it is a relevant event if the worker ceases to be so employed.
- (5) The fact that the deemed employment payment is treated as made before the end of the tax year does not affect what receipts and other matters are taken into account in calculating its amount.

## **58 Relief in case of distributions by intermediary**

- (1) A claim for relief may be made under this section where the intermediary—
  - (a) is a company,
  - (b) is treated as making a deemed employment payment in any tax year, and
  - (c) either in that tax year (whether before or after that payment is treated as made), or in a subsequent tax year, makes a distribution (a “relevant distribution”).
- (2) A claim for relief under this section must be made—
  - (a) by the intermediary by notice to the Inland Revenue, and
  - (b) within 5 years after the 31st January following the tax year in which the distribution is made.
- (3) If on a claim being made the Inland Revenue are satisfied that relief should be given in order to avoid a double charge to tax, they must direct the giving of such relief by way of amending any assessment, by discharge or repayment of tax, or otherwise, as appears to them appropriate.
- (4) Relief under this section is given by setting the amount of the deemed employment payment against the relevant distribution so as to reduce the distribution.
- (5) In the case of more than one relevant distribution, the Inland Revenue must exercise the power conferred by this section so as to secure that so far as practicable relief is given by setting the amount of a deemed employment payment—
  - (a) against relevant distributions of the same tax year before those of other years,
  - (b) against relevant distributions received by the worker before those received by another person, and
  - (c) against relevant distributions of earlier years before those of later years.
- (6) Where the amount of a relevant distribution is reduced under this section, the amount of any associated tax credit is reduced accordingly.

## **59 Provisions applicable to multiple intermediaries**

- (1) The provisions of this section apply where in the case of an engagement to which this Chapter applies the arrangements involve more than one relevant intermediary.
- (2) All relevant intermediaries in relation to the engagement are jointly and severally liable, subject to subsection (3), to account for any amount required under the PAYE provisions to be deducted from a deemed employment payment treated as made by any of them—
  - (a) in respect of that engagement, or
  - (b) in respect of that engagement together with other engagements.
- (3) An intermediary is not so liable if it has not received any payment or benefit in respect of that engagement or any such other engagement as is mentioned in subsection (2)(b).



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- (4) Subsection (5) applies where a payment or benefit has been made or provided, directly or indirectly, from one relevant intermediary to another in respect of the engagement.
- (5) In that case, the amount taken into account in relation to any intermediary in step 1 or step 2 of section 54(1) is reduced to such extent as is necessary to avoid double-counting having regard to the amount so taken into account in relation to any other intermediary.
- (6) Except as provided by subsections (2) to (5), the provisions of this Chapter apply separately in relation to each relevant intermediary.
- (7) In this section “relevant intermediary” means an intermediary in relation to which the conditions specified in section 51, 52 or 53 are met.

## 60 Meaning of “associate”

- (1) In this Chapter “associate”—
  - (a) in relation to an individual, has the meaning given by section 417(3) and (4) of ICTA, subject to the following provisions of this section;
  - (b) in relation to a company, means a person connected with the company; and
  - (c) in relation to a partnership, means any associate of a member of the partnership.
- (2) Where an individual has an interest in shares or obligations of the company as a beneficiary of an employee benefit trust, the trustees are not regarded as associates of the individual by reason only of that interest except in the following circumstances.
- (3) The exception is where—
  - (a) the individual, either alone or with any one or more associates of the individual, or
  - (b) any associate of the individual, with or without other such associates, has at any time on or after 14th March 1989 been the beneficial owner of, or able (directly or through the medium of other companies or by any other indirect means) to control more than 5% of the ordinary share capital of the company.
- (4) In subsection (3) “associate” does not include the trustees of an employee benefit trust as a result only of the individual’s having an interest in shares or obligations of the trust.
- (5) Sections 549 to 554 (attribution of interests in companies to beneficiaries of employee benefit trusts) apply for the purposes of subsection (3) as they apply for the purposes of the provisions listed in section 549(2).
- (6) In this section “employee benefit trust” has the meaning given by sections 550 and 551.

## 61 Interpretation

- (1) In this Chapter—
  - “associate” has the meaning given by section 60;
  - “associated company” has the meaning given by section 416 of ICTA;
  - “business” means any trade, profession or vocation and includes a Schedule A business;

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“company” means a body corporate or unincorporated association, and does not include a partnership;

“employer’s national insurance contributions” means secondary Class 1 or Class 1A national insurance contributions;

“engagement to which this Chapter applies” has the meaning given by section 49(5);

“national insurance contributions” means contributions under Part 1 of SSCBA 1992 or Part 1 of SSCB(NI)A 1992;

“PAYE provisions” means the provisions of Part 11 or PAYE regulations;

“the relevant engagements” has the meaning given by section 50(4).

- (2) References in this Chapter to payments or benefits received or receivable from a partnership or unincorporated association include payments or benefits to which a person is or may be entitled in the person’s capacity as a member of the partnership or association.
- (3) For the purposes of this Chapter—
- (a) anything done by or in relation to an associate of an intermediary is treated as done by or in relation to the intermediary, and
  - (b) a payment or other benefit provided to a member of an individual’s family or household is treated as provided to the individual.
- (4) For the purposes of this Chapter a man and a woman living together as husband and wife are treated as if they were married to each other.

### PART 3

#### EMPLOYMENT INCOME: EARNINGS AND BENEFITS ETC. TREATED AS EARNINGS

### CHAPTER 1

#### EARNINGS

## 62 Earnings

- (1) This section explains what is meant by “earnings” in the employment income Parts.
- (2) In those Parts “earnings”, in relation to an employment, means—
- (a) any salary, wages or fee,
  - (b) any gratuity or other profit or incidental benefit of any kind obtained by the employee if it is money or money’s worth, or
  - (c) anything else that constitutes an emolument of the employment.
- (3) For the purposes of subsection (2) “money’s worth” means something that is—
- (a) of direct monetary value to the employee, or
  - (b) capable of being converted into money or something of direct monetary value to the employee.
- (4) Subsection (1) does not affect the operation of statutory provisions that provide for amounts to be treated as earnings (and see section 721(7)).

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## CHAPTER 2

### TAXABLE BENEFITS: THE BENEFITS CODE

#### *The benefits code*

#### **63 The benefits code**

- (1) In the employment income Parts “the benefits code” means—
  - this Chapter,
  - Chapter 3 (expenses payments),
  - Chapter 4 (vouchers and credit-tokens),
  - Chapter 5 (living accommodation),
  - Chapter 6 (cars, vans and related benefits),
  - Chapter 7 (loans),
  - Chapter 8 (notional loans in respect of acquisitions of shares),
  - Chapter 9 (disposals of shares for more than market value),
  - Chapter 10 (residual liability to charge), and
  - Chapter 11 (exclusion of lower-paid employments from parts of benefits code).
- (2) If an employment is an excluded employment, the general effect of section 216(1) (provisions not applicable to lower-paid employments) is that only the following Chapters apply to the employment—
  - this Chapter,
  - Chapter 4 (vouchers and credit-tokens),
  - Chapter 5 (living accommodation), and
  - Chapter 11 (exclusion of lower-paid employments from parts of benefits code).
- (3) Section 216(5) and (6) explain and restrict the effect of section 216(1).
- (4) In the benefits code “excluded employment” means an employment to which the exclusion in section 216(1) applies.

#### **64 Relationship between earnings and benefits code**

- (1) This section applies if, apart from this section, the same benefit would give rise to two amounts (“A” and “B”)—
  - (a) A being an amount of earnings as defined in Chapter 1 of this Part, and
  - (b) B being an amount to be treated as earnings under the benefits code.
- (2) In such a case—
  - (a) A constitutes earnings as defined in Chapter 1 of this Part, and
  - (b) the amount (if any) by which B exceeds A is to be treated as earnings under the benefits code.
- (3) This section does not apply in connection with living accommodation to which Chapter 5 of this Part applies.
- (4) In that case section 109 applies to determine the relationship between that Chapter and Chapter 1 of this Part.

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- (5) This section does not apply if section 193 (notional loan where acquisition of shares made for less than market value) applies.
- (6) In that case sections 194 (amount of notional loan) and 196 (effects on other income tax charges) apply to determine the relationship between Chapters 1 and 8 of this Part.

## **65 Dispensations relating to benefits within provisions not applicable to lower-paid employment**

- (1) This section applies for the purposes of the listed provisions where a person (“P”) supplies the Inland Revenue with a statement of the cases and circumstances in which—
  - (a) payments of a particular character are made to or for any employees, or
  - (b) benefits or facilities of a particular kind are provided for any employees, whether they are employees of P or some other person.
- (2) The listed provisions” are the provisions listed in section 216(4) (provisions of the benefits code which do not apply to lower-paid employments).
- (3) If the Inland Revenue are satisfied that no additional tax is payable by virtue of the listed provisions by reference to the payments, benefits or facilities mentioned in the statement, they must give P a dispensation under this section.
- (4) A “dispensation” is a notice stating that the Inland Revenue agree that no additional tax is payable by virtue of the listed provisions by reference to the payments, benefits or facilities mentioned in the statement supplied by P.
- (5) If a dispensation is given under this section, nothing in the listed provisions applies to the payments, or the provision of the benefits or facilities, covered by the dispensation or otherwise has the effect of imposing any additional liability to tax in respect of them.
- (6) If in their opinion there is reason to do so, the Inland Revenue may revoke a dispensation by giving a further notice to P.
- (7) That notice may revoke the dispensation from—
  - (a) the date when the dispensation was given, or
  - (b) a later date specified in the notice.
- (8) If the notice revokes the dispensation from the date when the dispensation was given—
  - (a) any liability to tax that would have arisen if the dispensation had never been given is to be treated as having arisen, and
  - (b) P and the employees in question must make all the returns which they would have had to make if the dispensation had never been given.
- (9) If the notice revokes the dispensation from a later date—
  - (a) any liability to tax that would have arisen if the dispensation had ceased to have effect on that date is to be treated as having arisen, and
  - (b) P and the employees in question must make all the returns which they would have had to make if the dispensation had ceased to have effect on that date.

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### *General definitions for benefits code*

#### **66 Meaning of “employment” and related expressions**

- (1) In the benefits code—
  - (a) “employment” means a taxable employment under Part 2, and
  - (b) “employed”, “employee” and “employer” have corresponding meanings.
- (2) Where a Chapter of the benefits code applies in relation to an employee—
  - (a) references in that Chapter to “the employment” are to the employment of that employee, and
  - (b) references in that Chapter to “the employer” are to the employer in respect of that employment.
- (3) For the purposes of the benefits code an employment is a “taxable employment under Part 2” in a tax year if the earnings from the employment for that year are (or would be if there were any) general earnings to which the charging provisions of Chapter 4 or 5 of Part 2 apply.
- (4) In subsection (3)—
  - (a) the reference to an employment includes employment as a director of a company, and
  - (b) “earnings” means earnings as defined in Chapter 1 of this Part.

#### **67 Meaning of “director” and “full-time working director”**

- (1) In the benefits code “director” means—
  - (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that body,
  - (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
  - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,and includes any person in accordance with whose directions or instructions the directors of the company (as defined above) are accustomed to act.
- (2) For the purposes of subsection (1) a person is not to be regarded as a person in accordance with whose directions or instructions the directors of the company are accustomed to act merely because the directors act on advice given by that person in a professional capacity.
- (3) In the benefits code “full-time working director” means a director who is required to devote substantially the whole of his time to the service of the company in a managerial or technical capacity.

#### **68 Meaning of “material interest” in a company**

- (1) For the purposes of the benefits code a person has a material interest in a company if condition A or B is met.
- (2) Condition A is that the person (with or without one or more associates) or any associate of that person (with or without one or more such associates) is—

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- (a) the beneficial owner of, or
  - (b) able to control, directly or through the medium of other companies or by any other indirect means,
- more than 5% of the ordinary share capital of the company.
- (3) Condition B is that, in the case of a close company, the person (with or without one or more associates) or any associate of that person (with or without one or more such associates), possesses or is entitled to acquire, such rights as would—
- (a) in the event of the winding-up of the company, or
  - (b) in any other circumstances,
- give an entitlement to receive more than 5% of the assets which would then be available for distribution among the participants.
- (4) In this section—
- “associate” has the meaning given by section 417(3) of ICTA except that, for this purpose, “relative” in section 417(3) has the meaning given by subsection (5) below, and
  - “participant” has the meaning given by section 417(1) of ICTA.
- (5) For the purposes of this section a person (“A”) is a relative of another (“B”) if A is—
- (a) B’s spouse,
  - (b) a parent, child or remoter relation in the direct line either of B or of B’s spouse,
  - (c) a brother or sister of B or of B’s spouse, or
  - (d) the spouse of a person falling within paragraph (b) or (c).

## **69 Extended meaning of “control”**

- (1) The definition of “control” in section 840 of ICTA (which is applied for the purposes of this Act by section 719) is extended as follows.
- (2) For the purposes of the benefits code that definition applies (with the necessary modifications) in relation to an unincorporated association as it applies in relation to a body corporate.

## **CHAPTER 3**

### TAXABLE BENEFITS: EXPENSES PAYMENTS

## **70 Sums in respect of expenses**

- (1) This Chapter applies to a sum paid to an employee in a tax year if the sum—
  - (a) is paid to the employee in respect of expenses, and
  - (b) is so paid by reason of the employment.
- (2) This Chapter applies to a sum paid away by an employee in a tax year if the sum—
  - (a) was put at the employee’s disposal in respect of expenses,
  - (b) was so put by reason of the employment, and
  - (c) is paid away by the employee in respect of expenses.

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- (3) For the purposes of this Chapter it does not matter whether the employment is held at the time when the sum is paid or paid away so long as it is held at some point in the tax year in which the sum is paid or paid away.
- (4) References in this Chapter to an employee accordingly include a prospective or former employee.
- (5) This Chapter does not apply to the extent that the sum constitutes earnings from the employment by virtue of any other provision.

## **71 Meaning of paid or put at disposal by reason of the employment**

- (1) If an employer pays a sum in respect of expenses to an employee it is to be treated as paid by reason of the employment unless—
  - (a) the employer is an individual, and
  - (b) the payment is made in the normal course of the employer's domestic, family or personal relationships.
- (2) If an employer puts a sum at an employee's disposal in respect of expenses it is to be treated as put at the employee's disposal by reason of the employment unless—
  - (a) the employer is an individual, and
  - (b) the sum is put at the employee's disposal in the normal course of the employer's domestic, family or personal relationships.

## **72 Sums in respect of expenses treated as earnings**

- (1) If this Chapter applies to a sum, the sum is to be treated as earnings from the employment for the tax year in which it is paid or paid away.
- (2) Subsection (1) does not prevent the making of a deduction allowed under any of the provisions listed in subsection (3).
- (3) The provisions are—
  - section 336 (deductions for expenses: the general rule);
  - section 337 (travel in performance of duties);
  - section 338 (travel for necessary attendance);
  - section 340 (travel between group employments);
  - section 341 (travel at start or finish of overseas employment);
  - section 342 (travel between employments where duties performed abroad);
  - section 343 (deduction for professional membership fees);
  - section 344 (deduction for annual subscriptions);
  - section 346 (deduction for employee liabilities);
  - section 351 (expenses of ministers of religion);
  - section 353 (deductions from earnings charged on remittance).

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## CHAPTER 4

### TAXABLE BENEFITS: VOUCHERS AND CREDIT-TOKENS

#### *Cash vouchers: introduction*

#### **73 Cash vouchers to which this Chapter applies**

- (1) This Chapter applies to a cash voucher provided for an employee by reason of the employment which is received by the employee.
- (2) A cash voucher provided for an employee by the employer is to be regarded as provided by reason of the employment unless—
  - (a) the employer is an individual, and
  - (b) the provision is made in the normal course of the employer’s domestic, family or personal relationships.
- (3) A cash voucher provided for an employee and appropriated to the employee—
  - (a) by attaching it to a card held for the employee, or
  - (b) in any other way,
 is to be treated for the purposes of this Chapter as having been received by the employee at the time when it is appropriated.

#### **74 Provision for, or receipt by, member of employee’s family**

For the purposes of this Chapter any reference to a cash voucher being provided for or received by an employee includes a reference to it being provided for or received by a member of the employee’s family.

#### *Meaning of “cash voucher”*

#### **75 Meaning of “cash voucher”**

- (1) In this Chapter “cash voucher” means a voucher, stamp or similar document capable of being exchanged for a sum of money which is—
  - (a) greater than,
  - (b) equal to, or
  - (c) not substantially less than,
 the expense incurred by the person at whose cost the voucher, stamp or similar document is provided.
- (2) For the purposes of subsection (1) it does not matter whether the document—
  - (a) is also capable of being exchanged for goods or services;
  - (b) is capable of being exchanged singly or together with other vouchers, stamps, or documents;
  - (c) is capable of being exchanged immediately or only after a time.
- (3) Subsection (1) is subject to section 76 (sickness benefits-related voucher).



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## 76 **Sickness benefits-related voucher**

- (1) This section applies where—
- (a) the expense incurred by the person at whose cost a voucher, stamp or similar document is provided (“the provision expense”) includes costs to that person of providing sickness benefits (“sickness benefits costs”),
  - (b) the voucher, stamp or document would be a cash voucher (apart from this section) but for the fact that the sum of money for which it is capable of being exchanged (“the exchange sum”) is substantially less than the provision expense, and
  - (c) the whole or part of the difference between the exchange sum and the provision expense represents the sickness benefits costs.
- (2) The voucher, stamp or document is a cash voucher within the meaning of this Chapter if—

$$E = PE - D$$

or

$$E \text{ is not substantially less than } PE - D$$

where—

E is the exchange sum,

PE is the provision expense, and

D is the amount of the difference between E and PE which represents the sickness benefits costs.

- (3) In this section “sickness benefits” mean benefits in connection with sickness, personal injury or death.

## 77 **Apportionment of cost of provision of voucher**

If a person incurs expense in or in connection with the provision of vouchers, stamps or similar documents for two or more employees as members of a group or class, the expense incurred in respect of one of them is to be such part of that expense as is just and reasonable.

*Cash vouchers: exceptions*

## 78 **Voucher made available to public generally**

This Chapter does not apply to a cash voucher if—

- (a) it is of a kind made available to the public generally, and
- (b) it is provided to the employee or a member of the employee’s family on no more favourable terms than to the public generally.

## 79 **Voucher issued under approved scheme**

- (1) This Chapter does not apply to a cash voucher received by an employee if—

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- (a) it is issued under a scheme, and
  - (b) at the time when it is received the scheme is a scheme approved by the Inland Revenue for the purposes of this section.
- (2) The Inland Revenue must not approve a scheme for the purposes of this section unless they are satisfied that it is practicable for income tax in respect of all payments made in exchange for vouchers issued under the scheme to be deducted in accordance with PAYE regulations.

## **80 Vouchers where payment of sums exempt from tax**

This Chapter does not apply to a cash voucher if it is—

- (a) a document intended to enable a person to obtain payment of a sum which would not have constituted employment income if paid to the person directly, or
- (b) a savings certificate where the accumulated interest payable in respect of it is exempt from tax (or would be so exempt if certain conditions were met).

*Benefit of cash voucher treated as earnings*

## **81 Benefit of cash voucher treated as earnings**

- (1) The cash equivalent of the benefit of a cash voucher to which this Chapter applies is to be treated as earnings from the employment for the tax year in which the voucher is received by the employee.
- (2) The cash equivalent is the sum of money for which the voucher is capable of being exchanged.

*Non-cash vouchers: introduction*

## **82 Non-cash vouchers to which this Chapter applies**

- (1) This Chapter applies to a non-cash voucher provided for an employee by reason of the employment which is received by the employee.
- (2) A non-cash voucher provided for an employee by the employer is to be regarded as provided by reason of the employment unless—
  - (a) the employer is an individual, and
  - (b) the provision is made in the normal course of the employer's domestic, family or personal relationships.
- (3) A non-cash voucher provided for an employee and appropriated to the employee—
  - (a) by attaching it to a card held for the employee, or
  - (b) in any other way,
 is to be treated for the purposes of this Chapter as having been received by the employee at the time when it is appropriated.

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### **83 Provision for, or receipt by, member of employee’s family**

For the purposes of this Chapter any reference to a non-cash voucher being provided for or received by an employee includes a reference to it being provided for or received by a member of the employee’s family.

*Meaning of “non-cash voucher”*

### **84 Meaning of “non-cash voucher”**

- (1) In this Chapter “non-cash voucher” means—
  - (a) a voucher, stamp or similar document or token which is capable of being exchanged for money, goods or services,
  - (b) a transport voucher, or
  - (c) a cheque voucher,but does not include a cash voucher.
- (2) For the purposes of subsection (1)(a) it does not matter whether the document or token is capable of being exchanged—
  - (a) singly or together with other vouchers, stamps, documents or tokens;
  - (b) immediately or only after a time.
- (3) In this Chapter “transport voucher” means a ticket, pass or other document or token intended to enable a person to obtain passenger transport services (whether or not in exchange for it).
- (4) In this Chapter “cheque voucher” means a cheque—
  - (a) provided for an employee, and
  - (b) intended for use by the employee wholly or mainly for payment for—
    - (i) particular goods or services, or
    - (ii) goods or services of one or more particular classes;and, in relation to a cheque voucher, references to a voucher being exchanged for goods or services are to be read accordingly.

*Non-cash voucher: exceptions*

### **85 Non-cash voucher made available to public generally**

This Chapter does not apply to a non-cash voucher if—

- (a) it is of a kind made available to the public generally, and
- (b) it is provided to the employee or a member of the employee’s family on no more favourable terms than to the public generally.

### **86 Transport vouchers under pre-26th March 1982 arrangements**

- (1) This Chapter does not apply to a transport voucher provided for an employee of a passenger transport undertaking under arrangements in operation on 25th March 1982 which meet the condition in subsection (2).
- (2) The condition is that the arrangements are intended to enable the employee or a member of the employee’s family to obtain passenger transport services provided by—

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- (a) the employer,
  - (b) a subsidiary of the employer,
  - (c) a body corporate of which the employer is a subsidiary, or
  - (d) another passenger transport undertaking.
- (3) In this section—
- “passenger transport undertaking” means an undertaking whose business consists wholly or mainly in the carriage of passengers or a subsidiary of such an undertaking, and
- “subsidiary” means a wholly-owned subsidiary within the meaning of section 736 of the Companies Act 1985 (c. 6).

*Benefit of non-cash voucher treated as earnings*

**87 Benefit of non-cash voucher treated as earnings**

- (1) The cash equivalent of the benefit of a non-cash voucher to which this Chapter applies is to be treated as earnings from the employment for the tax year in which the voucher is received by the employee.
- (2) The cash equivalent is the difference between—
- (a) the cost of provision, and
  - (b) any part of that cost made good by the employee to the person incurring it.
- (3) In this Chapter the “cost of provision” means, in relation to a non-cash voucher, the expense incurred in or in connection with the provision of—
- (a) the voucher, and
  - (b) the money, goods or services for which it is capable of being exchanged, by the person at whose cost they are provided.
- (4) In the case of a transport voucher, the reference in subsection (3)(b) to the services for which the voucher is capable of being exchanged is to the passenger transport services which may be obtained by using it.
- (5) If a person incurs expense in or in connection with the provision of non-cash vouchers for two or more employees as members of a group or class, the expense incurred in respect of one of them is to be such part of that expense as is just and reasonable.
- (6) This section is subject to section 89 (reduction for meal vouchers).

**88 Year in which earnings treated as received**

- (1) In the case of a non-cash voucher other than a cheque voucher, the amount treated as earnings under section 87 is to be treated as received—
- (a) in the tax year in which the cost of provision is incurred, or
  - (b) if later, in the tax year in which the voucher is received by the employee.
- (2) In the case of a cheque voucher, the amount treated as earnings under section 87 is to be treated as received in the tax year in which the voucher is handed over in exchange for money, goods or services.

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- (3) Where a cheque voucher is posted it is to be treated as handed over at the time of posting.

## **89 Reduction for meal vouchers**

- (1) This section applies where—
- (a) the non-cash voucher is a meal voucher,
  - (b) it is provided for an employee for use on a working day, and
  - (c) meal vouchers are made available to all employees (if any) employed by the same employer in lower-paid employment within the meaning of Chapter 11 of this Part (see section 217).
- (2) The total of the cash equivalents of the benefit of any meal vouchers so provided is to be reduced by 15p for each working day for which the vouchers are provided.
- (3) In this section—
- “meal voucher” means a non-cash voucher which—
    - (a) can only be used to obtain meals,
    - (b) is not transferable, and
    - (c) is not of the kind in respect of which no liability to income tax arises under section 266(3)(e) (subsidised meals), and
  - “working day” means a day on which the employee is at work.
- (4) Section 83 (references to provision for an employee include provision for a member of the employee’s family) does not apply to subsection (1)(b).

### *Credit-tokens: introduction*

## **90 Credit-tokens to which this Chapter applies**

- (1) This Chapter applies to a credit-token provided for an employee by reason of the employment which is used by the employee to obtain money, goods or services.
- (2) A credit-token provided for an employee by the employer is to be regarded as provided by reason of the employment unless—
- (a) the employer is an individual, and
  - (b) the provision is made in the normal course of the employer’s domestic, family or personal relationships.

## **91 Provision for, or use by, member of employee’s family**

For the purposes of this Chapter—

- (a) any reference to a credit-token being provided for an employee includes a reference to it being provided for a member of the employee’s family, and
- (b) use of a credit-token by a member of an employee’s family is to be treated as use of the token by the employee.

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### *Meaning of “credit-token”*

#### **92 Meaning of “credit-token”**

- (1) In this Chapter “credit-token” means a credit card, debit card or other card, a token, a document or other object given to a person by another person (“X”) who undertakes—
  - (a) on the production of it, to supply money, goods or services on credit, or
  - (b) if a third party (“Y”) supplies money, goods or services on its production, to pay Y for what is supplied.
- (2) A card, token, document or other object can be a credit-token even if—
  - (a) some other action is required in addition to its production in order for the money, goods or services to be supplied;
  - (b) X in paying Y may take a discount or commission.
- (3) For the purposes of this section—
  - (a) the use of an object given by X to operate a machine provided by X is to be treated as its production to X, and
  - (b) the use of an object given by X to operate a machine provided by Y is to be treated as its production to Y.
- (4) A “credit-token” does not include a cash voucher or a non-cash voucher.

#### *Credit-tokens: exception*

#### **93 Credit-token made available to public generally**

This Chapter does not apply to a credit-token if—

- (a) it is of a kind made available to the public generally, and
- (b) it is provided to the employee or a member of the employee’s family on no more favourable terms than to the public generally.

#### *Benefit of credit-token treated as earnings*

#### **94 Benefit of credit-token treated as earnings**

- (1) On each occasion on which a credit-token to which this Chapter applies is used by the employee in a tax year to obtain money, goods or services, the cash equivalent of the benefit of the token is to be treated as earnings from the employment for that year.
- (2) The cash equivalent is the difference between—
  - (a) the cost of provision, and
  - (b) any part of that cost made good by the employee to the person incurring it.
- (3) In this section the “cost of provision” means the expense incurred—
  - (a) in or in connection with the provision of the money, goods or services obtained on the occasion in question, and
  - (b) by the person at whose cost they are provided.

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- (4) If a person incurs expense in or in connection with the provision of credit-tokens for two or more employees as members of a group or class, the expense incurred in respect of one of them is to be such part of that expense as is just and reasonable.

### *General supplementary provisions*

## **95 Disregard for money, goods or services obtained**

- (1) This section applies if the cash equivalent of the benefit of a cash voucher, a non-cash voucher or a credit-token—
- (a) is to be treated as earnings from an employee’s employment under this Chapter, or
  - (b) would be so treated but for a dispensation given under section 96.
- (2) Money, goods or services obtained—
- (a) by the employee or another person in exchange for the cash voucher or non-cash voucher, or
  - (b) by the employee or a member of the employee’s family by use of the credit-token,
- are to be disregarded for the purposes of the Income Tax Acts.
- (3) But the goods or services are not to be disregarded for the purposes of applying sections 362 and 363 (deductions where non-cash voucher or credit-token provided).
- (4) In the case of a transport voucher, the reference in subsection (2)(a) to the services obtained in exchange for the voucher is to the passenger transport services obtained by using it.

## **96 Dispensations relating to vouchers or credit-tokens**

- (1) This section applies where a person (“P”) supplies the Inland Revenue with a statement of the cases and circumstances in which—
- (a) cash vouchers,
  - (b) non-cash vouchers, or
  - (c) credit-tokens,
- are provided for employees whether they are the employees of P or some other person.
- (2) If the Inland Revenue are satisfied that no additional tax is payable by virtue of this Chapter by reference to the vouchers or credit-tokens mentioned in the statement, they must give P a dispensation under this section.
- (3) A “dispensation” is a notice stating that the Inland Revenue agree that no additional tax is payable by virtue of this Chapter by reference to the vouchers or credit-tokens mentioned in the statement supplied by P.
- (4) If a dispensation is given under this section, nothing in this Chapter applies to the provision or use of the vouchers or credit-tokens covered by the dispensation.
- (5) If in their opinion there is reason to do so, the Inland Revenue may revoke a dispensation by giving a further notice to P.
- (6) That notice may revoke the dispensation from—

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- (a) the date when the dispensation was given, or
  - (b) a later date specified in the notice.
- (7) If the notice revokes the dispensation from the date when the dispensation was given—
- (a) any liability to tax that would have arisen if the dispensation had never been given is to be treated as having arisen, and
  - (b) P and the employees in question must make all the returns which they would have had to make if the dispensation had never been given.
- (8) If the notice revokes the dispensation from a later date—
- (a) any liability to tax that would have arisen if the dispensation had ceased to have effect on that date is to be treated as having arisen, and
  - (b) P and the employees in question must make all the returns which they would have had to make if the dispensation had ceased to have effect on that date.

## CHAPTER 5

### TAXABLE BENEFITS: LIVING ACCOMMODATION

#### *Living accommodation*

#### **97 Living accommodation to which this Chapter applies**

- (1) This Chapter applies to living accommodation provided for—
- (a) an employee, or
  - (b) a member of an employee's family or household,
- by reason of the employment.
- (2) Living accommodation provided for any of those persons by the employer is to be regarded as provided by reason of the employment unless—
- (a) the employer is an individual, and
  - (b) the provision is made in the normal course of the employer's domestic, family or personal relationships.

#### *Exceptions*

#### **98 Accommodation provided by local authority**

This Chapter does not apply to living accommodation provided for an employee if—

- (a) the employer is a local authority,
- (b) it is provided for the employee by the authority, and
- (c) the terms on which it is provided are no more favourable than those on which similar accommodation is provided by the authority for persons who are not their employees but whose circumstances are otherwise similar to those of the employee.



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## **99 Accommodation provided for performance of duties**

- (1) This Chapter does not apply to living accommodation provided for an employee if it is necessary for the proper performance of the employee's duties that the employee should reside in it.
- (2) This Chapter does not apply to living accommodation provided for an employee if—
  - (a) it is provided for the better performance of the duties of the employment, and
  - (b) the employment is one of the kinds of employment in the case of which it is customary for employers to provide living accommodation for employees.
- (3) But if the accommodation is provided by a company and the employee (“E”) is a director of the company or of an associated company, the exception in subsection (1) or (2) only applies if, in the case of each company of which E is a director—
  - (a) E has no material interest in the company, and
  - (b) either—
    - (i) E's employment is as a full-time working director, or
    - (ii) the company is non-profit-making or is established for charitable purposes only.
- (4) “Non-profit-making” means that the company does not carry on a trade and its functions do not consist wholly or mainly in the holding of investments or other property.
- (5) A company is “associated” with another if—
  - (a) one has control of the other, or
  - (b) both are under the control of the same person.

## **100 Accommodation provided as result of security threat**

- This Chapter does not apply to living accommodation provided for an employee if—
- (a) there is a special threat to the security of the employee,
  - (b) special security arrangements are in force, and
  - (c) the employee resides in the accommodation as part of those arrangements.

## **[<sup>F3</sup>100A Homes outside UK owned through company etc**

- (1) This Chapter does not apply to living accommodation outside the United Kingdom provided by a company for a director or other officer of the company (“D”) or a member of D's family or household if—
  - (a) the company is wholly owned by D or D and other individuals (and no interest in the company is partnership property), and
  - (b) the company has been the holding company of the property at all times after the relevant time.
- (2) The company is “the holding company of the property” when—
  - (a) it owns a relevant interest in the property,
  - (b) its main or only asset is that interest, and
  - (c) the only activities undertaken by it are ones that are incidental to its ownership of that interest.
- (3) The company is also “the holding company of the property” when—

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- (a) a company (“the subsidiary”) which is wholly owned by the company meets the conditions in paragraphs (a) to (c) of subsection (2),
  - (b) the company's main or only asset is its interest in the subsidiary, and
  - (c) the only activities undertaken by the company are ones that are incidental to its ownership of that interest.
- (4) “Relevant interest in the property” means an interest under the law of any territory that confers (or would but for any inferior interest confer) a right to exclusive possession of the property at all times or at certain times.
- (5) “The relevant time” is the time the company first owned a relevant interest in the property; but this is subject to subsection (6).
- (6) If—
- (a) none of D's interest in the company was acquired directly or indirectly from a person connected with D, and
  - (b) the company owned a relevant interest in the property at the time D first acquired an interest in the company,
- “the relevant time” is the time D first acquired such an interest.

#### **Textual Amendments**

**F3** Ss. 100A,100B inserted (retrospectively) by [Finance Act 2008 \(c. 9\), s. 45](#)

#### **100B Section 100A(1): exceptions**

- (1) Section 100A(1) does not apply if subsection (2), (3) or (4) applies.
- (2) This subsection applies if—
- (a) the company's interest in the property was acquired directly or indirectly from a connected company at an undervalue, or
  - (b) the company's interest in the property derives from an interest that was so acquired.
- (3) This subsection applies if, at any time after the relevant time—
- (a) expenditure in respect of the property has been incurred directly or indirectly by a connected company, or
  - (b) any borrowing of the company directly or indirectly from a connected company has been outstanding (but see subsection (7)).
- (4) This subsection applies if the living accommodation is provided in pursuance of an arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax or national insurance contributions.
- (5) In subsection (2) references to the acquisition of an interest include the grant of an interest.
- (6) For the purposes of that subsection, an interest is acquired at an undervalue if the total consideration for it is less than that which might reasonably have been expected to be obtained on a disposal of the interest on the open market; and “consideration” here means consideration provided at any time (and, for example, includes payments by way of rent).

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- (7) For the purposes of subsection (3)(b), no account is to be taken of—
- (a) any borrowing at a commercial rate, or
  - (b) any borrowing which results in D being treated under Chapter 7 (taxable benefits: loans) as receiving earnings.
- (8) In subsection (4) “arrangement” includes any scheme, agreement or understanding, whether or not enforceable.
- (9) In this section “connected company” means—
- (a) a company connected with D, with a member of D's family or with an employer of D, or
  - (b) a company connected with such a company.]

#### Textual Amendments

**F3** Ss. 100A, 100B inserted (retrospectively) by [Finance Act 2008 \(c. 9\), s. 45](#)

### 101 Chevening House

This Chapter does not apply to living accommodation provided for an employee if the accommodation is—

- (a) Chevening House, or
- (b) any other premises held on the trusts of the trust instrument set out in the Schedule to the Chevening Estate Act 1959 (c. 49),

and the employee is a person nominated in accordance with those trusts.

*Benefit of living accommodation treated as earnings*

### 102 Benefit of living accommodation treated as earnings

- (1) If living accommodation to which this Chapter applies is provided in any period—
- (a) which consists of the whole or part of a tax year, and
  - (b) throughout which the employee holds the employment,
- the cash equivalent of the benefit of the accommodation is to be treated as earnings from the employment for that year.
- (2) In this Chapter that period is referred to as “the taxable period”.
- (3) Section 103 indicates how the cash equivalent is calculated.

*Calculation of cash equivalent*

### 103 Method of calculating cash equivalent

- (1) The cash equivalent is calculated—
- (a) under section 105 if the cost of providing the living accommodation does not exceed £75,000; and
  - (b) under section 106 if the cost of providing the living accommodation exceeds £75,000.

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- (2) Section 104 (general rule) sets out how to calculate the cost of providing living accommodation for the purpose of determining whether or not it exceeds £75,000.
- (3) In this Chapter—  
“annual value”,  
“person involved in providing accommodation”, and  
“the property”,  
have the meaning given by sections 110 to 113, and “the taxable period” has the meaning given by section 102(2).

#### **104 General rule for calculating cost of providing accommodation**

For any tax year the cost of providing living accommodation is given by the formula—

$$A + I - P$$

where—

A is any expenditure incurred in acquiring the estate or interest in the property held by a person involved in providing the accommodation,

I is any expenditure incurred on improvements to the property which has been incurred before the tax year in question by a person involved in providing the accommodation, and

P is so much of any payment or payments made by the employee to a person involved in providing the accommodation as represents—

- (a) reimbursement of A or I, or
- (b) consideration for the grant to the employee of a tenancy or sub-tenancy of the property.

*Accommodation costing £75,000 or less*

#### **105 Cash equivalent: cost of accommodation not over £75,000**

- (1) The cash equivalent is to be calculated under this section if the cost of providing the living accommodation does not exceed £75,000.
- (2) The cash equivalent is the difference between—
  - (a) the rental value of the accommodation for the taxable period, and
  - (b) any sum made good by the employee to the person at whose cost the accommodation is provided that is properly attributable to its provision.
- (3) The “rental value of the accommodation” for the taxable period is the rent which would have been payable for that period if the property had been let to the employee at an annual rent equal to the annual value.
- (4) But if the person at whose cost the accommodation is provided pays rent for the whole or part of the taxable period at an annual rate greater than the annual value—
  - (a) subsection (3) does not apply to that period or (as the case may be) that part of it; and

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- (b) instead the “rental value of the accommodation” for that period or part is the rent payable for it by that person.
- (5) If the rental value of the accommodation for the taxable period does not exceed any sum made good by the employee as mentioned in subsection (2)(b), the cash equivalent is nil.

*Accommodation costing more than £75,000*

**106 Cash equivalent: cost of accommodation over £75,000**

- (1) The cash equivalent is calculated under this section if the cost of providing the living accommodation exceeds £75,000.
- (2) To calculate the cash equivalent—

*Step 1*

Calculate the amount that would be the cash equivalent if section 105 applied (cash equivalent: cost of accommodation not over £75,000).

*Step 2*

Calculate the following amount (“the additional yearly rent”)—

$$\text{ORI} \times (C - £75,000)$$

where—

ORI is the official rate of interest in force for the purposes of Chapter 7 of this Part (taxable benefits: loans) on 6th April in the tax year, and

C is the cost of providing the accommodation calculated—

- (a) in accordance with section 104 (general rule for calculating cost of accommodation), or
- (b) in a case where section 107 applies (special rule for calculating cost of providing accommodation), in accordance with that section instead.

*Step 3*

Calculate the rent which would have been payable for the taxable period if the property had been let to the employee at the additional yearly rent calculated under step 2.

*Step 4*

Calculate the cash equivalent by—

- (a) adding together the amounts calculated under steps 1 and 3, and
- (b) (if allowed by subsection (3)) subtracting from that total the excess rent paid by the employee.
- (3) In step 4—
- (a) paragraph (b) only applies if, in respect of the taxable period, the rent paid by the employee in respect of the accommodation to the person providing it exceeds the rental value of the accommodation for that period as set out in section 105(3) or (4)(b), as applicable, and

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- (b) “the excess rent” means the total amount of that excess.

### 107 Special rule for calculating cost of providing accommodation

- (1) This section contains a special rule for calculating the cost of providing living accommodation which—
- (a) operates for the purposes of step 2 of section 106(2) (calculating the additional yearly rent), and
  - (b) accordingly only operates where the cost of provision for the purposes of section 106(1) (as calculated under section 104) exceeds £75,000.
- (2) This section applies if, throughout the period of 6 years ending with the date when the employee first occupied the accommodation (“the initial date”), an estate or interest in the property was held by a person involved in providing the accommodation.

It does not matter whether it was the same estate, interest or person throughout.

- (3) For any tax year the cost of providing the living accommodation for the purposes mentioned in subsection (1)(a) is given by the formula—

$$MV + I - P$$

where—

MV is the price which the property might reasonably be expected to have fetched on a sale in the open market with vacant possession as at the initial date,

I is any expenditure incurred on improvements to the property which has been incurred during the period—

- (a) beginning with the initial date, and
- (b) ending with the day before the beginning of the tax year,

by a person involved in providing the accommodation, and

P is so much of any payment or payments made by the employee to a person involved in providing the accommodation as represents—

- (a) reimbursement (up to an amount not exceeding MV) of any expenditure incurred in acquiring the estate or interest in the property held on the initial date,
- (b) reimbursement of I, or
- (c) consideration for the grant to the employee of a tenancy or sub-tenancy of the property.

- (4) In estimating MV no reduction is to be made for an option in respect of the property held by—
- (a) the employee,
  - (b) a person connected with the employee, or
  - (c) a person involved in providing the accommodation.

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### *Apportionment of cash equivalent*

#### **108 Cash equivalent: accommodation provided for more than one employee**

- (1) If, for the whole or part of a tax year, the same living accommodation is provided for more than one employee at the same time, the total of the cash equivalents for all of the employees is to be limited to the amount that would be the cash equivalent if the accommodation was provided for one employee.
- (2) The cash equivalent for each of the employees is to be such part of that amount as is just and reasonable.

### *Other tax implications*

#### **109 Priority of this Chapter over Chapter 1 of this Part**

- (1) This section applies if—
  - (a) under this Chapter the cash equivalent of the benefit of living accommodation is to be treated as earnings from an employee's employment for a tax year, and
  - (b) under Chapter 1 of this Part an amount would, apart from this section, constitute earnings from the employment for the year in respect of the provision of the accommodation.
- (2) The full amount of the cash equivalent is to be treated as earnings from the employment for that year under this Chapter.
- (3) The amount mentioned in subsection (1)(b) is to constitute earnings from the employment for the year under Chapter 1 of this Part only to the extent that it exceeds the amount mentioned in subsection (2).

### *Supplementary*

#### **110 Meaning of “annual value”**

- (1) For the purposes of this Chapter the “annual value” of living accommodation is the rent which might reasonably be expected to be obtained on a letting from year to year if—
  - (a) the tenant undertook to pay all taxes, rates and charges usually paid by a tenant, and
  - (b) the landlord undertook to bear the costs of the repairs and insurance and the other expenses (if any) necessary for maintaining the property in a state to command that rent.
- (2) For the purposes of subsection (1) that rent—
  - (a) is to be taken to be the amount that might reasonably be expected to be so obtained in respect of the letting of the accommodation, and
  - (b) is to be calculated on the basis that the only amounts that may be deducted in respect of services provided by the landlord are amounts in respect of the cost to the landlord of providing any relevant services.
- (3) If living accommodation is of a kind that might reasonably be expected to be let on terms under which—
  - (a) the landlord is to provide any services which are either—

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- (i) relevant services, or
- (ii) the repair, insurance or maintenance of any premises which do not form part of the accommodation but belong to or are occupied by the landlord, and
- (b) amounts are payable in respect of the services in addition to the rent, the rent to be established under subsection (1) in respect of the accommodation is to be increased under subsection (4).
- (4) That rent is to include—
  - (a) where the services are relevant services, so much of the additional amounts as exceeds the cost to the landlord of providing the services;
  - (b) where the services are within subsection (3)(a)(ii), the whole of the additional amounts.
- (5) In this section “relevant service” means a service other than the repair, insurance or maintenance of the accommodation or of any other premises.

#### **111 Disputes as to annual value**

- (1) This section applies if there is a dispute as to the amount of the annual value of living accommodation for the purposes of this Chapter.
- (2) The question is to be determined by the General Commissioners.
- (3) The Commissioners must hear and determine the question in the same way as an appeal.

#### **112 Meaning of “person involved in providing the accommodation”**

For the purposes of this Chapter “person involved in providing the accommodation” means any of the following—

- (a) the person providing the accommodation;
- (b) the employee’s employer (if not within paragraph (a));
- (c) any person, other than the employee, who is connected with a person within paragraph (a) or (b).

#### **113 Meaning of “the property”**

For the purposes of this Chapter “the property”, in relation to living accommodation, means the property consisting of that accommodation.



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## CHAPTER 6

### TAXABLE BENEFITS: CARS, VANS AND RELATED BENEFITS

#### General

#### 114 Cars, vans and related benefits

- (1) This Chapter applies to a car or a van in relation to a particular tax year if in that year the car or van—
  - (a) is made available (without any transfer of the property in it) to an employee or a member of the employee's family or household,
  - (b) is so made available by reason of the employment (see section 117), and
  - (c) is available for the employee's or member's private use (see section 118).
- (2) Where this Chapter applies to a car or van—
  - (a) sections 120 to 148 provide for the cash equivalent of the benefit of the car to be treated as earnings,
  - (b) sections 149 to 153 provide for the cash equivalent of the benefit of any fuel provided for the car to be treated as earnings, and
  - (c) sections 154 to 166 provide for the cash equivalent of the benefit of the van to be treated as earnings.
- (3) This Chapter does not apply if an amount constitutes earnings from the employment in respect of the benefit of the car or van by virtue of any other provision (see section 119).
- (4) The following provisions of this Chapter provide for further exceptions—
  - section 167 (pooled cars);
  - section 168 (pooled vans);
  - section 169 (car available to more than one member of family or household employed by same employer).

#### 115 Meaning of “car” and “van”

- (1) In this Chapter—
  - “car” means a mechanically propelled road vehicle which is not—
    - (a) a goods vehicle,
    - (b) a motor cycle,
    - (c) an invalid carriage, or
    - (d) a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used;
  - “van” means a mechanically propelled road vehicle which—
    - (a) is a goods vehicle, and
    - (b) has a design weight not exceeding 3,500 kilograms,and which is not a motor cycle.
- (2) For the purposes of subsection (1)—
  - “design weight” means the weight which a vehicle is designed or adapted not to exceed when in normal use and travelling on a road laden;

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“goods vehicle” means a vehicle of a construction primarily suited for the conveyance of goods or burden of any description;

“invalid carriage” has the meaning given by section 185(1) of the Road Traffic Act 1988 (c. 52);

“motor cycle” has the meaning given by section 185(1) of the Road Traffic Act 1988.

## **116 Meaning of when car or van is available to employee**

- (1) For the purposes of this Chapter a car or van is available to an employee at a particular time if it is then made available, by reason of the employment and without any transfer of the property in it, to the employee or a member of the employee’s family or household.
- (2) References in this Chapter to—
  - (a) the time when a car is first made available to an employee are to the earliest time when the car is made available as mentioned in subsection (1), and
  - (b) the last day in a year on which a car is available to an employee are to the last day in the year on which the car is made available as mentioned in subsection (1).
- (3) This section does not apply to section 138 (automatic car for a disabled employee).

## **117 Meaning of car or van made available by reason of employment**

For the purposes of this Chapter a car or van made available by an employer to an employee or a member of the employee’s family or household is to be regarded as made available by reason of the employment unless—

- (a) the employer is an individual, and
- (b) it is so made available in the normal course of the employer’s domestic, family or personal relationships.

## **118 Availability for private use**

- (1) For the purposes of this Chapter a car or van made available in a tax year to an employee or a member of the employee’s family or household is to be treated as available for the employee’s or member’s private use unless in that year—
  - (a) the terms on which it is made available prohibit such use, and
  - (b) it is not so used.
- (2) In this Chapter “private use”, in relation to a car or van made available to an employee or a member of the employee’s family or household, means any use other than for the employee’s business travel (see section 171(1)).

## **119 Where alternative to benefit of car offered**

- (1) This section applies where in a tax year—
  - (a) a car is made available as mentioned in section 114(1), and
  - (b) an alternative to the benefit of the car is offered.
- (2) The mere fact that the alternative is offered does not result in an amount in respect of the benefit constituting earnings by virtue of Chapter 1 of this Part (earnings).

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### *Cars: benefit treated as earnings*

#### **120 Benefit of car treated as earnings**

- (1) If this Chapter applies to a car in relation to a particular tax year, the cash equivalent of the benefit of the car is to be treated as earnings from the employment for that year.
- (2) In such a case the employee is referred to in this Chapter as being chargeable to tax in respect of the car in that year.

#### **121 Method of calculating the cash equivalent of the benefit of a car**

- (1) The cash equivalent of the benefit of a car for a tax year is calculated as follows—

##### *Step 1*

Find the price of the car in accordance with sections 122 to 124.

##### *Step 2*

Add the price of any accessories which fall to be taken into account in accordance with sections 125 to 131.

##### *Step 3*

Make any deduction under section 132 for capital contributions made by the employee to the cost of the car or accessories.

##### *Step 4*

If the amount carried forward from step 3 exceeds £80,000, the interim sum is £80,000.

In any other case, the interim sum is the amount carried forward from step 3.

##### *Step 5*

Find the appropriate percentage for the car for the year in accordance with sections 133 to 142.

##### *Step 6*

Multiply the interim sum by the appropriate percentage for the car for the year.

##### *Step 7*

Make any deduction under section 143 for any periods when the car was unavailable.

The resulting amount is the provisional sum.

##### *Step 8*

Make any deduction from the provisional sum under section 144 in respect of payments by the employee for the private use of the car.

The result is the cash equivalent of the benefit of the car for the year.

- (2) The method of calculation set out in subsection (1) is modified in the special cases dealt with in—
  - section 146 (cars that run on road fuel gas), and

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section 147 (classic cars: 15 years of age or more).

(3) The cash equivalent may be reduced under section 148 where the car is shared.

### *Cars: the price of a car*

#### **122 The price of the car**

For the purposes of this Chapter the price of a car means—

- (a) its list price, if it has one, or
- (b) its notional price, if it has no list price.

#### **123 The list price of a car**

- (1) In this Chapter a car’s “list price” means the price published by the car’s manufacturer, importer or distributor (as the case may be) as the inclusive price appropriate for a car of that kind if sold—
- (a) in the United Kingdom,
  - (b) singly,
  - (c) in a retail sale,
  - (d) in the open market, and
  - (e) on the day immediately before the date of the car’s first registration.
- (2) The “inclusive price” means the price inclusive of—
- (a) any charge for delivery by the manufacturer, importer or distributor to the seller’s place of business, and
  - (b) any relevant taxes (see section 171(1)).

#### **124 The notional price of a car with no list price**

- (1) In this Chapter a car’s “notional price” means the price which might reasonably have been expected to be its list price if its manufacturer, importer or distributor (as the case may be) had published a price as the inclusive price appropriate for a sale of a car of the same kind sold—
- (a) in the United Kingdom,
  - (b) singly,
  - (c) in a retail sale,
  - (d) in the open market,
  - (e) on the day immediately before the date of the car’s first registration, and
  - (f) with accessories equivalent to the qualifying accessories (see section 125) available with the car at the time when it was first made available to the employee.
- (2) In this section “inclusive price” has the same meaning as in section 123.

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### *Cars: treatment of accessories*

#### **125 Meaning of “accessory” and related terms**

- (1) In this Chapter “qualifying accessory” means an accessory which—
  - (a) is made available for use with the car without any transfer of the property in the accessory,
  - (b) is made available by reason of the employment, and
  - (c) is attached to the car (whether permanently or not).
- (2) For the purposes of this Chapter “accessory” includes any kind of equipment but does not include—
  - (a) equipment necessarily provided for use in the performance of the duties of the employment;
  - (b) equipment by means of which a car is capable of running on road fuel gas;
  - (c) equipment to enable a disabled person to use a car (see section 172);
  - (d) a mobile telephone (within the meaning given in section 319(2)).
- (3) But subsection (2)(b) does not apply in relation to a car to which section 137 (different CO<sub>2</sub> emissions figure for bi-fuel cars) applies.
- (4) In this Chapter—
  - “standard accessory” means an accessory equivalent to an accessory assumed to be available with cars of the same kind as the car in question in arriving at the list price, and
  - “non-standard accessory” means any other accessory.

#### **126 Amounts taken into account in respect of accessories**

- (1) The price of the following accessories is to be taken into account under step 2 of section 121(1)—
  - (a) in the case of a car with a list price, the price of any initial extra accessory, and
  - (b) in the case of any car, the price of any later accessory.
- (2) In this Chapter an “initial extra accessory” means a qualifying accessory which—
  - (a) is a non-standard accessory,
  - (b) is available with the car at the time when it is first made available to the employee, and
  - (c) if it is an accessory in relation to which there is no published price of the manufacturer, importer or distributor of the car (see section 128), is available with the car in the tax year in question.
- (3) In this Chapter a “later accessory” means a qualifying accessory which—
  - (a) is available with the car in the tax year in question,
  - (b) was not available with the car at the time when it was first made available to the employee,
  - (c) was not made available with the car before 1st August 1993, and
  - (d) has a price of at least £100.
- (4) In this section references to the price of an accessory are to—
  - (a) its list price, if it has one, or

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(b) its notional price, if it has no list price.

(5) This section is subject to section 131 (replacement accessories).

### **127 The list price of an accessory**

- (1) For the purposes of this Chapter the list price of an initial extra accessory is—
- (a) the published price of the manufacturer, importer or distributor of the car (see section 128), or
  - (b) if there is no such price, the published price of the manufacturer, importer or distributor of the accessory (see section 129).
- (2) For the purposes of this Chapter the list price of a later accessory is the published price of the manufacturer, importer or distributor of the accessory (see section 129).

### **128 Accessory: published price of the car manufacturer etc.**

- (1) In this Chapter the “published price of the manufacturer, importer or distributor of the car” in relation to an accessory means the price published by the car’s manufacturer, importer or distributor (as the case may be) as the inclusive price appropriate for an equivalent accessory if sold with a car of the same kind—
- (a) in the United Kingdom,
  - (b) singly,
  - (c) in a retail sale,
  - (d) in the open market, and
  - (e) on the day immediately before the date of the car’s first registration.
- (2) The “inclusive price” means the price inclusive of—
- (a) any charge for delivery by the manufacturer, importer or distributor to the seller’s place of business,
  - (b) any relevant taxes other than car tax (see section 171(1)), and
  - (c) any charge for fitting the accessory.

### **129 Accessory: published price of the accessory manufacturer etc.**

- (1) In this Chapter the “published price of the manufacturer, importer or distributor of the accessory” in relation to an accessory means the price published by or on behalf of the manufacturer, importer or distributor of the accessory (as the case may be) as the inclusive price appropriate for such an accessory if sold—
- (a) in the United Kingdom,
  - (b) singly,
  - (c) in a retail sale,
  - (d) in the open market, and
  - (e) at the time immediately before the accessory concerned is first made available for use with the car.
- (2) The “inclusive price” means the price inclusive of—
- (a) any charge for delivery by the manufacturer, importer or distributor to the seller’s place of business,
  - (b) any relevant taxes other than car tax (see section 171(1)), and

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- (c) in the case of an accessory permanently attached to the car, the price which the seller would charge for attaching it.
- (3) In the case of an initial extra accessory, the time referred to in subsection (1)(e) may be a time before the car is first made available to the employee.

### **130 The notional price of an accessory**

- (1) In this Chapter the “notional price” of an accessory means the inclusive price which it might reasonably have been expected to fetch if sold—
  - (a) in the United Kingdom,
  - (b) singly,
  - (c) in a retail sale,
  - (d) in the open market, and
  - (e) at the time immediately before the accessory concerned is first made available for use with the car.
- (2) The “inclusive price” means the price inclusive of—
  - (a) any charge for delivery by the manufacturer, importer or distributor to the seller’s place of business,
  - (b) any relevant taxes other than car tax (see section 171(1)), and
  - (c) in the case of an accessory permanently attached to the car, the price which the seller would charge for attaching it.
- (3) In the case of an initial extra accessory, the time referred to in subsection (1)(e) may be a time before the car is first made available to the employee.

### **131 Replacement accessories**

- (1) This section applies where—
  - (a) a later accessory is available with the car in the tax year in question,
  - (b) that accessory (“the new accessory”) replaced another qualifying accessory (“the old accessory”) in that year or an earlier tax year, and
  - (c) the new accessory is of the same kind as the old accessory.
- (2) If the new accessory is not superior to the old accessory, the cash equivalent of the benefit of the car for the tax year is to be calculated under step 2 of section 121(1) as if—
  - (a) the replacement has not been made, and
  - (b) the new accessory is a continuation of the old accessory.
- (3) If the new accessory is superior to the old accessory and the conditions in subsection (4) are met, the cash equivalent of the benefit of the car for the tax year is to be calculated under step 2 of section 121(1)—
  - (a) as if the old accessory was not available with the car in that tax year, or
  - (b) where the price of the old accessory would (apart from this section) be added to the price of the car under step 2 of section 121(1) as an initial extra accessory, as if it was not available with the car at the time when the car was first made available to the employee.
- (4) The conditions mentioned in subsection (3) are that—
  - (a) the old accessory was a non-standard accessory, and

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- (b) both the old and the new accessory would (apart from this section) be taken into account under step 2 of section 121(1) in calculating the cash equivalent of the benefit of the car for the year.
- (5) For the purposes of this section a new accessory is superior to an old accessory if the price of the new accessory exceeds whichever is the greater of—
  - (a) the price of the old accessory, and
  - (b) the price of an accessory equivalent to the old accessory at the time immediately before the new accessory is first made available for use with the car.
- (6) In this section references to the price of an accessory are to—
  - (a) its list price, if it has one, or
  - (b) its notional price, if it has no list price.

*Cars: capital contributions by employee*

### **132 Capital contributions by employee**

- (1) This section applies if the employee contributes a capital sum to expenditure on the provision of—
  - (a) the car, or
  - (b) any qualifying accessory which is taken into account in calculating the cash equivalent of the benefit of the car.
- (2) A deduction is to be made from the amount carried forward from step 2 of section 121(1)—
  - (a) for the tax year in which the contribution is made, and
  - (b) for all subsequent years in which the employee is chargeable to tax in respect of the car by virtue of section 120.
- (3) The amount of the deduction allowed in any tax year is the lesser of—
  - (a) the total of the capital sums contributed by the employee in that year and any earlier years to expenditure on the provision of—
    - (i) the car, or
    - (ii) any qualifying accessory which is taken into account in calculating the cash equivalent of the benefit of the car for the tax year in question, and
  - (b) £5,000.

*Cars: the appropriate percentage*

### **133 How to determine the “appropriate percentage”**

- (1) The “appropriate percentage” for a car for a year depends upon when the car was first registered.
- (2) If the car was first registered on or after 1st January 1998, the “appropriate percentage” depends upon whether the car—
  - (a) is a car with a CO<sub>2</sub> emissions figure (see section 134(1)),
  - (b) is a car without a CO<sub>2</sub> emissions figure (see section 134(2)), or



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- (c) is a diesel car to which section 141 applies, and is determined under sections 139 to 141.
- (3) If the car was first registered before 1st January 1998, the “appropriate percentage” is determined under section 142.

### **134 Meaning of car with or without a CO<sub>2</sub> emissions figure**

- (1) In this Chapter a “car with a CO<sub>2</sub> emissions figure” means—
  - (a) a car first registered on or after 1st January 1998 but before 1st October 1999 to which section 135 applies,
  - (b) a car first registered on or after 1st October 1999 to which section 136 applies, or
  - (c) a car first registered on or after 1st January 2000 which is a car to which section 137 (bi-fuel cars) applies.
- (2) In this Chapter a “car without a CO<sub>2</sub> emissions figure” means any other car first registered on or after 1st January 1998.

*Cars: appropriate percentage: first registered on or after 1st January 1998*

### **135 Car with a CO<sub>2</sub> emissions figure: pre-October 1999 registration**

- (1) This section applies to a car first registered on or after 1st January 1998 but before 1st October 1999 if when it was so registered—
  - (a) it conformed to a vehicle type with an EC type-approval certificate (see section 171(1)), or
  - (b) it had a UK approval certificate (see section 171(1)), which specifies a CO<sub>2</sub> emissions figure in terms of grams per kilometre driven.
- (2) The car’s CO<sub>2</sub> emissions figure is that specified figure.
- (3) This is subject to section 138 (automatic car for a disabled employee).

### **136 Car with a CO<sub>2</sub> emissions figure: post-September 1999 registration**

- (1) This section applies to a car first registered on or after 1st October 1999 if it is so registered on the basis of—
  - (a) an EC certificate of conformity (see section 171(1)), or
  - (b) a UK approval certificate (see section 171(1)), which specifies a CO<sub>2</sub> emissions figure in terms of grams per kilometre driven.
- (2) The car’s CO<sub>2</sub> emissions figure is that specified figure unless more than one figure is specified, in which case the car’s CO<sub>2</sub> emissions figure is the figure specified as the CO<sub>2</sub> emissions (combined) figure.
- (3) This is subject to—
  - (a) section 137 (bi-fuel cars), and
  - (b) section 138 (automatic car for a disabled employee).

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### **137 Car with a CO<sub>2</sub> emissions figure: bi-fuel cars**

- (1) This section applies to a car first registered on or after 1st January 2000 if it is so registered on the basis of—
  - (a) an EC certificate of conformity (see section 171(1)), or
  - (b) a UK approval certificate (see section 171(1)),
 which specifies separate CO<sub>2</sub> emissions figures in terms of grams per kilometre driven for different fuels.
- (2) The car's CO<sub>2</sub> emissions figure is—
  - (a) the lowest figure specified, or
  - (b) if there is more than one figure specified in relation to each fuel, the lowest CO<sub>2</sub> emissions (combined) figure specified.
- (3) This is subject to section 138 (automatic car for a disabled employee).

### **138 Car with a CO<sub>2</sub> emissions figure: automatic car for a disabled employee**

- (1) This section applies where—
  - (a) a car with a CO<sub>2</sub> emissions figure has automatic transmission (“the automatic car”),
  - (b) at any time in the year when the automatic car is available to the employee (“E”), E holds a disabled person's badge, and
  - (c) by reason of E's disability, E must, in the event of wanting to drive a car, drive a car which has automatic transmission.
- (2) If, under sections 135 to 137, the automatic car's CO<sub>2</sub> emissions figure is more than it would have been if the automatic car had been an equivalent manual car, the CO<sub>2</sub> emissions figure for the automatic car is to be the CO<sub>2</sub> emissions figure for an equivalent manual car.
- (3) In subsection (2) “an equivalent manual car” means a car which—
  - (a) is first registered at or about the same time as the automatic car, and
  - (b) does not have automatic transmission, but otherwise is the closest variant available of the make and model of the automatic car.
- (4) For the purposes of this section a car has automatic transmission if—
  - (a) the driver of the car is not provided with any means by which the driver may vary the gear ratio between the engine and the road wheels independently of the accelerator and the brakes, or
  - (b) the driver is provided with such means, but they do not include—
    - (i) a clutch pedal, or
    - (ii) a lever which the driver may operate manually.
- (5) For the purposes of this section a car is available to an employee at a particular time if it is then made available, by reason of the employment and without any transfer of the property in it, to the employee.

### **139 Car with a CO<sub>2</sub> emissions figure: the appropriate percentage**

- (1) The appropriate percentage for a year for a car with a CO<sub>2</sub> emissions figure depends upon whether the car's CO<sub>2</sub> emissions figure exceeds the lower threshold for that year.

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- (2) If the car's CO<sub>2</sub> emissions figure does not exceed the lower threshold for the year, the appropriate percentage for the year is 15% ("the basic percentage").
- (3) If the car's CO<sub>2</sub> emissions figure does exceed the lower threshold for the year, the appropriate percentage for the year is whichever is the lesser of—
  - (a) the basic percentage increased by one percentage point for each 5 grams per kilometre by which the CO<sub>2</sub> emissions figure exceeds the lower threshold for the year, and
  - (b) 35%.
- (4) The lower threshold is—

TABLE

<i>Tax year</i>	<i>Lower threshold (in g/km)</i>
2003-04	155
2004-05 and subsequent tax years	145

- (5) If the car's CO<sub>2</sub> emissions figure is not a multiple of 5, it is to be rounded down to the nearest multiple of 5 for the purposes of this section.
- (6) This section is subject to—
  - (a) section 141 (diesel cars), and
  - (b) any regulations made by the Treasury under section 170(4) (power to reduce the appropriate percentage).

#### **140 Car without a CO<sub>2</sub> emissions figure: the appropriate percentage**

- (1) The appropriate percentage for a year for a car without a CO<sub>2</sub> emissions figure is determined under this section.
- (2) If the car has an internal combustion engine with one or more reciprocating pistons, the appropriate percentage for the year is—

TABLE

<i>Cylinder capacity of car in cubic centimetres</i>	<i>Appropriate percentage</i>
1,400 or less	15%
More than 1,400 but not more than 2,000	25%
More than 2,000	35%

For this purpose a car's cylinder capacity is the capacity of its engine as calculated for the purposes of VERA 1994.

- (3) If subsection (2) does not apply, the appropriate percentage for the year is—
  - (a) 15%, if the car is an electrically propelled vehicle, and
  - (b) 35%, in any other case.

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- (4) For the purposes of this section a vehicle is not an electrically propelled vehicle unless—
- (a) it is propelled solely by electrical power, and
  - (b) that power is derived from—
    - (i) a source external to the vehicle, or
    - (ii) an electrical storage battery which is not connected to any source of power when the vehicle is in motion.
- (5) This section is subject to—
- (a) section 141 (diesel cars), and
  - (b) any regulations made by the Treasury under section 170(4) (power to reduce the appropriate percentage).

#### **141 Diesel cars: the appropriate percentage**

- (1) This section applies to a diesel car first registered on or after 1st January 1998.
- (2) To determine the appropriate percentage for such a car for a year—

*Step 1*

Determine whether the car is a car with a CO<sub>2</sub> emissions figure or a car without a CO<sub>2</sub> emissions figure (see section 134).

*Step 2*

Take what would be the appropriate percentage for the car for the year under section 139 or 140 as appropriate.

*Step 3*

The appropriate percentage for the car for the year is whichever is the smaller of—

- (a) the figure resulting from the addition of 3 percentage points to the figure found under step 2, and
  - (b) 35%.
- (3) In this section “diesel car” means a car which is propelled solely by diesel.
  - (4) This section is subject to any regulations made by the Treasury under section 170(4) (power to reduce the appropriate percentage).

*Cars: appropriate percentage: first registered before 1st January 1998*

#### **142 Car first registered before 1st January 1998: the appropriate percentage**

- (1) The appropriate percentage for a car first registered before 1st January 1998 is determined under this section.
- (2) If the car has an internal combustion engine with one or more reciprocating pistons, the appropriate percentage for the year is—

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TABLE

<i>Cylinder capacity of car in cubic centimetres</i>	<i>Appropriate percentage</i>
1,400 or less	15%
More than 1,400 but not more than 2,000	22%
More than 2,000	32%

For this purpose a car's cylinder capacity is the capacity of its engine as calculated for the purposes of VERA 1994.

- (3) If subsection (2) does not apply, the appropriate percentage for the year is—
- (a) 15%, if the car is an electrically propelled vehicle, and
  - (b) 32%, in any other case.
- (4) For the purposes of this section a vehicle is not an electrically propelled vehicle unless—
- (a) it is propelled solely by electrical power, and
  - (b) that power is derived from—
    - (i) a source external to the vehicle, or
    - (ii) an electrical storage battery which is not connected to any source of power when the vehicle is in motion.

*Cars: unavailability or payments for private use*

#### 143 Deduction for periods when car unavailable

- (1) A deduction is to be made from the amount carried forward from step 6 of section 121(1) if the car has been unavailable on any day during the tax year in question.
- (2) For the purposes of this section a car is unavailable on any day if the day—
- (a) falls before the first day on which the car is available to the employee,
  - (b) falls after the last day on which the car is available to the employee, or
  - (c) falls within a period of 30 days or more throughout which the car is not available to the employee.
- (3) The amount of the deduction is given by the formula—

$$\frac{U}{Y} \times A$$

where—

U is the number of days in the year on which the car is unavailable,

Y is the number of days in that year, and

A is the amount carried forward from step 6.

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(4) This section is subject to section 145 (modification where car temporarily replaced).

#### **144 Deduction for payments for private use**

- (1) A deduction is to be made from the provisional sum calculated under step 7 of section 121(1) if, as a condition of the car being available for the employee's private use, the employee—
  - (a) is required in the tax year in question to pay (whether by way of deduction from earnings or otherwise) an amount of money for that use, and
  - (b) makes such payment.
- (2) If the amount paid by the employee in respect of that year is equal to or exceeds the provisional sum, the provisional sum is reduced so that the cash equivalent of the benefit of the car for that year is nil.
- (3) In any other case the amount paid by the employee in respect of the year is deducted from the provisional sum in order to give the cash equivalent of the benefit of the car for that year.
- (4) In this section the reference to the car being available for the employee's private use includes a reference to the car being available for the private use of a member of the employee's family or household.
- (5) This section is subject to section 145 (modification where car temporarily replaced).

#### **145 Modification of provisions where car temporarily replaced**

- (1) This section applies if—
  - (a) the car normally available to an employee ("the normal car") is not available to the employee for a period of less than 30 days,
  - (b) another car ("the replacement car") is made available to the employee in order to replace the normal car for the whole or part of that period,
  - (c) the employee is chargeable to tax in respect of both the normal car and the replacement car by virtue of section 120, and
  - (d) the replacement car meets condition A or B.
- (2) Condition A is met if the replacement car is not materially better than the normal car.
- (3) Condition B is met if the replacement car is not made available to the employee under an arrangement of which the main purpose, or one of the main purposes, is to provide the employee with the benefit of a car which is materially better than the normal car.
- (4) If this section applies—
  - (a) section 143 (deduction for periods when car unavailable) applies so that the replacement car is to be treated as unavailable on the days of the period during which it replaces the normal car, and
  - (b) section 144 (deduction for payments for private use) applies as if the replacement had not been made and the replacement car were a continuation of the normal car.
- (5) A replacement car is regarded as materially better than the normal car if—
  - (a) it is materially better in quality, or

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- (b) when calculating the cash equivalent of the benefit of the replacement car, the interim sum calculated under step 4 of section 121(1) is materially higher than the interim sum calculated in relation to the normal car.

#### *Cars: special cases*

### **146 Cars that run on road fuel gas**

- (1) This section applies if the car—
  - (a) has been manufactured so as to be capable of running on road fuel gas, and
  - (b) is not a car to which section 137 (different CO<sub>2</sub> emissions figure for bi-fuel cars) applies.
- (2) The price of the car found under step 1 of section 121(1) is to be reduced by so much of that price as it is reasonable to attribute to the car being manufactured in such a way as to be capable of running on road fuel gas rather than in such a way as to be capable of running only on petrol.

### **147 Classic cars: 15 years of age or more**

- (1) This section applies in calculating the cash equivalent of the benefit of a car for a tax year if—
  - (a) the age of the car at the end of the year is 15 years or more,
  - (b) the market value of the car for the year is £15,000 or more, and
  - (c) that market value exceeds the amount carried forward from step 3 of section 121(1).
- (2) For the amount carried forward from step 3 substitute the market value of the car for the tax year in question less any deductions under subsection (6).
- (3) The market value of a car for a tax year is the price which the car might reasonably have been expected to fetch on a sale in the open market on—
  - (a) the last day of that year, or
  - (b) the last day in that year on which the car is available to the employee if that is earlier.
- (4) It is assumed that any qualifying accessories available with the car on that day are included in the sale.
- (5) Subsection (6) applies if the employee contributes a capital sum to expenditure on the provision of—
  - (a) the car, or
  - (b) any qualifying accessory which is taken into account in determining the market value of the car.
- (6) A deduction is to be made from the market value of the car—
  - (a) for the tax year in which the contribution is made, and
  - (b) for all subsequent years in which the employee is chargeable to tax in respect of the car by virtue of section 120.
- (7) The amount of the deduction allowed in any tax year is the lesser of—

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- (a) the total of the capital sums contributed by the employee in that year and any earlier years to expenditure on the provision of—
  - (i) the car, or
  - (ii) any qualifying accessory which is taken into account in determining the market value of the car for the tax year in question, and
- (b) £5,000.

*Cars: reduction where shared car*

#### **148 Reduction of cash equivalent where car is shared**

- (1) This section applies if in a tax year a car—
  - (a) is available to more than one employee concurrently,
  - (b) is so made available by the same employer, and
  - (c) is available concurrently for each employee’s private use,
 and two or more of those employees are chargeable to tax in respect of the car in that year by virtue of section 120.
- (2) The cash equivalent of the benefit of the car to each of those employees for that year—
  - (a) is to be calculated separately under section 121, and
  - (b) is then to be reduced on a just and reasonable basis.
- (3) If the employment of any of the employees mentioned in subsection (1)(a) is an excluded employment, the availability of the car to that employee is to be disregarded for the purposes of subsection (2)(b).
- (4) In this section the reference to the car being available for each employee’s private use includes a reference to the car being available for the private use of a member of the employee’s family or household.

*Car fuel: benefit treated as earnings*

#### **149 Benefit of car fuel treated as earnings**

- (1) If in a tax year—
  - (a) fuel is provided for a car by reason of an employee’s employment, and
  - (b) that person is chargeable to tax in respect of the car by virtue of section 120,
 the cash equivalent of the benefit of the fuel is to be treated as earnings from the employment for that year.
- (2) The cash equivalent of the benefit of the fuel is calculated in accordance with sections 150 to 153.
- (3) Fuel is to be treated as provided for a car, in addition to any other way in which it may be provided, if—
  - (a) any liability in respect of the provision of fuel for the car is discharged,
  - (b) a non-cash voucher or a credit-token is used to obtain fuel for the car,
  - (c) a non-cash voucher or a credit-token is used to obtain money which is spent on fuel for the car, or
  - (d) any sum is paid in respect of expenses incurred in providing fuel for the car.



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- (4) References in this section to fuel do not include any facility or means for supplying electrical energy for an electrically propelled vehicle.

### **150 Car fuel: calculating the cash equivalent**

- (1) The cash equivalent of the benefit of the fuel is the appropriate percentage of £14,400.
- (2) The “appropriate percentage” means the appropriate percentage determined in accordance with sections 133 to 142 for the purpose of calculating the cash equivalent of the benefit of the car for which the fuel is provided.
- (3) But the cash equivalent may be—
- (a) nil where either of the conditions in section 151 is met;
  - (b) proportionately reduced under section 152;
  - (c) reduced under section 153.

### **151 Car fuel: nil cash equivalent**

- (1) The cash equivalent of the benefit of the fuel is nil if condition A or B is met.
- (2) Condition A is met if in the tax year in question—
- (a) the employee is required to make good to the person providing the fuel the whole of the expense incurred by that person in connection with the provision of the fuel for the employee’s private use, and
  - (b) the employee does make good that expense.
- (3) Condition B is met if in the tax year in question the fuel is made available only for business travel (see section 171(1)).

### **152 Car fuel: proportionate reduction of cash equivalent**

- (1) The cash equivalent of the benefit of the fuel is to be proportionately reduced if for any part of the tax year in question the car for which the fuel is provided is unavailable (within the meaning of section 143 (deduction for periods when car unavailable)).
- (2) The cash equivalent of the benefit of the fuel is also to be proportionately reduced if for any part of the tax year in question—
- (a) the facility for the provision of fuel as mentioned in section 149(1) is not available,
  - (b) the fuel is made available only for business travel (see section 171(1)), or
  - (c) the employee is required to make good to the person providing the fuel the whole of the expense incurred by that person in connection with the provision of the fuel for the employee’s private use and the employee does make good that expense.
- (3) The fact that any of the conditions specified in subsection (2) is met for part of a tax year is to be disregarded if there is a time later in that year when none of those conditions is met.
- (4) Where the cash equivalent is to be proportionately reduced under subsection (1) or (2) (or under both those subsections), the reduced amount is given by the formula—

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$$CE \times \frac{Y-D}{Y}$$

where—

CE is the amount of the cash equivalent before any reduction,

Y is the number of days in the tax year in question, and

D is the total number of days in that year on which either the car is unavailable or one or more of the conditions in subsection (2) is met.

### **153 Car fuel: reduction of cash equivalent**

If a reduction of the cash equivalent of the benefit of the car for which the fuel is provided is made under section 148 (reduction of cash equivalent where car is shared), a corresponding reduction is to be made in relation to the cash equivalent of the benefit of the fuel.

*Vans: benefit treated as earnings*

### **154 Benefit of van treated as earnings**

If this Chapter applies to a van in relation to a particular tax year, the cash equivalent of the benefit of the van is to be treated as earnings from the employment for that year.

### **155 Method of calculating the cash equivalent of the benefit of a van**

- (1) The method of calculation of the cash equivalent of the benefit of a van for a tax year depends upon whether the van is a shared van for the whole or any part of that year.
- (2) If the van is not a shared van for the whole or any part of the year, the cash equivalent of the benefit of the van for the year is the value of exclusive availability calculated in accordance with section 157.
- (3) If the van is a shared van for the whole of the year, the cash equivalent of the benefit of the van for the year is the value of shared availability calculated in accordance with section 160.

This is subject to subsection (7) where more than one shared van is available to an employee.

- (4) If the van is a shared van for only part of the year the cash equivalent of the benefit of the van for the year is the total of—
  - (a) the value of exclusive availability calculated in accordance with section 157 (for the period when it is not a shared van), and
  - (b) the value of shared availability calculated in accordance with section 160 (for the period when it is a shared van).

This is subject to subsection (7) where more than one shared van is available to an employee.

- (5) The value of shared availability calculated in accordance with section 160 under section 161 (normal calculation) takes account of—
  - (a) the shared van, and

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- (b) where that van is made available by the employer, any other vans made available by the employer (whether or not to the employee or a member of the employee's family or household) which are shared vans for the whole or any part of the tax year in question.
- (6) The value of shared availability calculated in accordance with section 160 under section 164 (alternative calculation) takes account of—
- (a) the shared van, and
  - (b) where that van is made available by the employer, any other vans made available by the employer to the employee or a member of the employee's family or household which are shared vans for the whole or any part of the tax year in question.
- (7) Accordingly, if more than one shared van, which is made available by the same employer, is available to an employee in a tax year the total of the cash equivalents in respect of those vans is calculated by—
- (a) taking the value of shared availability calculated once in accordance with section 160, and
  - (b) if any of those vans is a shared van for only part of the year, adding the value of exclusive availability in respect of each of those vans calculated in accordance with section 157.
- (8) This section is subject to section 166 (limit of cash equivalent).

## **156 Meaning of “shared van”**

- (1) For the purposes of sections 155 to 165 a van is a shared van for a period if condition A or B is met.
- (2) Condition A is met if throughout the period the van is available concurrently to more than one employee of the same employer.
- (3) Condition B is met if—
- (a) the period is one throughout which the van is available to different employees of the same employer (a “shared period”), and
  - (b) the circumstances are such that the employee or employees to whom the van is available at any given time in the period are not necessarily the same as those to whom it is available at any other given time in the period.
- (4) But if the van is available to only one employee for a period exceeding 30 days (an “exclusive period”)—
- (a) the exclusive period does not count towards any period that would otherwise be a shared period,
  - (b) the shared period is to be treated as ending when the exclusive period begins, and
  - (c) a further shared period may begin after the end of the exclusive period.
- (5) If a van is a shared van for part of a day, it is to be treated for the purposes of this section as shared throughout that day.

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*Vans: value of exclusive availability*

**157 Value of exclusive availability**

The value of exclusive availability is calculated as follows— *Step 1*

Determine the age of the van.

*Step 2*

If the age of the van is less than 4 years at the end of the tax year in question, the basic value of the van for the year is £500.

In any other case, the basic value of the van for the year is £350.

*Step 3*

Make any deduction from the basic value of the van under section 158 for any periods when the van was unavailable or a shared van.

The resulting amount is the provisional sum.

*Step 4*

Make any deduction from the provisional sum under section 159 in respect of payments by the employee for the private use of the van.

The result is the value of exclusive availability.

**158 Deduction for periods of unavailability or shared use**

- (1) A deduction is to be made from the basic value of the van calculated under step 2 of section 157 if there are any excluded days during the tax year in question.
- (2) In this section an “excluded day” means a day on which—
  - (a) the van is unavailable (see subsection (4)), or
  - (b) the van is a shared van.
- (3) The amount of the deduction is given by the formula—

$$\frac{E}{Y} \times B$$

where—

E is the number of excluded days in the year,

Y is the number of days in the year, and

B is the basic value of the van calculated under step 2 of section 157.

- (4) For the purposes of this section a van is unavailable on any day if the day—
  - (a) falls before the first day on which the van is available to the employee,
  - (b) falls after the last day on which the van is available to the employee, or
  - (c) falls within a period of 30 days or more throughout which the van is not available to the employee.

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## **159 Deduction for payments for private use**

- (1) A deduction is to be made from the provisional sum calculated under step 3 of section 157 if, as a condition of the van being available for the employee's private use, the employee—
  - (a) is required in the tax year in question to pay (whether by way of deduction from earnings or otherwise) an amount of money for that use, and
  - (b) makes such payment.
- (2) If the amount paid by the employee in respect of that year is equal to or exceeds the provisional sum, the provisional sum is reduced so that the value of exclusive availability is nil.
- (3) In any other case the amount paid by the employee in respect of the year is deducted from the provisional sum in order to give the value of exclusive availability.
- (4) If the van is a shared van for any part of the tax year in question, the reference in subsection (1) to the employee's private use in that year is to be read as a reference to the employee's private use in that part of the year when the van is not a shared van.
- (5) In this section any reference to the van being available for the employee's private use includes a reference to the van being available for the private use of a member of the employee's family or household.

*Vans: value of shared availability*

## **160 Value of shared availability**

The value of shared availability is calculated under—

- (a) section 161, or
- (b) section 164 where the employee makes a claim for that section to apply.

## **161 Value of shared availability: normal calculation**

- (1) The value of shared availability is calculated as follows—

*Step 1*

Identify the van or vans involved in the calculation. They are—

- (a) the shared van, and
- (b) where that van is made available by the employer, any other vans made available (whether or not to the employee or a member of the employee's family or household) by the same employer which are shared vans for the whole or any part of the tax year in question.

*Step 2*

Determine whether the employee is a participating employee within the meaning of section 162.

If the employee is not, then the value of shared availability is nil.

*Step 3*

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Determine the total number of participating employees within the meaning of section 162.

*Step 4*

Find the basic value of the van for the year under section 163 or, where more than one van is involved, the basic value of each of those vans for the year under that section.

*Step 5*

Calculate the reckonable amount which is given by the formula—

$$\frac{BV}{PE}$$

where—

BV is the basic value of the van or, where more than one van is involved, the total of the basic values of each of those vans, and

PE is the total number of participating employees.

*Step 6*

If the reckonable amount exceeds £500, the provisional sum is £500.

In any other case, the provisional sum is the reckonable amount.

*Step 7*

Make any deduction from the provisional sum under section 165 in respect of payments by the employee for the private use of the van or vans involved.

The result is the value of shared availability.

- (2) The calculation is made under this section in relation to a participating employee regardless of—
- (a) the number of vans involved which are available to the particular employee,
  - (b) the fact that a particular van involved is or is not available to, or used by, the employee, or
  - (c) the extent to which a particular van involved is available to, or used by, the employee.

## **162 Shared van: meaning of “participating employee”**

- (1) If only one van is involved, an employee is a participating employee for the purposes of section 161 if—
- (a) the van is available to the employee for the employee’s private use while it is a shared van, and
  - (b) the employee makes private use of it at least once while it is a shared van.
- (2) If more than one van is involved, an employee is a participating employee for the purposes of section 161 if—
- (a) one of the vans is available to the employee for the employee’s private use while it is a shared van, or

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- (b) some or all of the vans are available to the employee for the employee’s private use while they are shared vans,  
and the employee makes private use of at least one of the vans involved while it is a shared van.
- (3) In this section—
- (a) any reference to a van being available for an employee’s private use includes a reference to the van being available for the private use of a member of the employee’s family or household, and
- (b) any reference to an employee making private use of a van includes a reference to a member of the employee’s family or household making private use of it.

### 163 Shared van: basic value

- (1) The basic value of a shared van is calculated as follows—

*Step 1*

Determine the age of the van.

*Step 2*

If the age of the van is less than 4 years at the end of the tax year in question, the interim value of the van is £500.

In any other case, the interim value of the van is £350.

*Step 3*

Make a deduction from the interim value if there are any excluded days during the tax year in question.

The amount of the deduction is given by the formula—

$$\frac{E}{Y} \times IV$$

where—

E is the number of excluded days in the year,

Y is the number of days in the year, and

IV is the interim value of the van.

The result is the basic value of the van for the year.

- (2) In this section an “excluded day” means a day on which—
- (a) the van is not a shared van, or
- (b) the van is incapable of use.
- (3) For the purposes of this section a van is to be treated as incapable of use on any day if the day falls within a period of 30 days or more throughout which the van is incapable of being used at all.

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## 164 Value of shared availability: alternative calculation

- (1) This section applies if the employee makes a claim for this section to apply instead of section 161.
- (2) The value of shared availability is calculated as follows—

### *Step 1*

Identify the van or vans involved in the calculation. They are—

- (a) the shared van, and
- (b) where that van is made available by the employer, any other vans made available by the same employer to the employee or a member of the employee's family or household which are shared vans for the whole or any part of the tax year in question.

### *Step 2*

Determine the number of relevant days for the van, or where more than one van is involved, for each of those vans.

### *Step 3*

Calculate the provisional sum which is given by the formula—

$$RD \times \pounds 5$$

where RD is the number of relevant days for the van or, where more than one van is involved, the total of the number of relevant days for each of those vans.

### *Step 4*

Make any deduction from the provisional sum under section 165 in respect of payments by the employee for the private use of the van or vans involved.

The result is the value of shared availability.

- (3) For the purposes of this section a relevant day is a day—
  - (a) which falls in the tax year in question, and
  - (b) during which (or during part of which) the employee or a member of the employee's family or household makes private use of the van concerned while it is a shared van.
- (4) For the purposes of section 95 of TMA 1970 (incorrect return etc.) a claim under this section is to be treated as a claim for relief.

## 165 Deduction for payments for private use

- (1) A deduction is to be made from the provisional sum calculated under step 6 of section 161(1) or step 3 of section 164(2) if, as a condition of the van or vans involved being available for the employee's private use, the employee—
  - (a) is required in the tax year in question to pay (whether by way of deduction from earnings or otherwise) an amount of money for that use, and
  - (b) makes such payment.



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- (2) If the relevant sum in respect of that year is equal to or exceeds the provisional sum, the provisional sum is reduced so that the value of shared availability is nil.
- (3) In any other case the relevant sum in respect of the year is deducted from the provisional sum in order to give the value of shared availability.
- (4) The relevant sum is found by—
  - (a) taking for any van involved the amount paid by the employee as a condition of it being available for the employee's private use in respect of the period when it is a shared van in the year concerned, and
  - (b) where more than one van is involved, adding together all the amounts found under paragraph (a).
- (5) In this section any reference to a van being available for the employee's private use includes a reference to the van being available for the private use of a member of the employee's family or household.

*Vans: limit of cash equivalent*

#### **166 Vans: limit of cash equivalent**

If—

- (a) the cash equivalent of the benefit of vans to an employee for a tax year would (apart from this section) total more than £500, and
- (b) no more than one of the vans is available to the employee for the employee's private use, or the private use of a member of the employee's family or household, at any one time in the year,

the cash equivalent of the benefit of the vans to the employee for the year is to be £500.

*Cars and vans: exceptions*

#### **167 Pooled cars**

- (1) This section applies to a car in relation to a particular tax year if for that year the car has been included in a car pool for the use of the employees of one or more employers.
- (2) For that tax year the car—
  - (a) is to be treated under section 114(1) (cars to which this Chapter applies) as not having been available for the private use of any of the employees concerned, and
  - (b) is not to be treated in relation to the employees concerned as an employment-related benefit within the meaning of Chapter 10 of this Part (taxable benefits: residual liability to charge) (see section 201).
- (3) In relation to a particular tax year, a car is included in a car pool for the use of the employees of one or more employers if in that year—
  - (a) the car was made available to, and actually used by, more than one of those employees,
  - (b) the car was made available, in the case of each of those employees, by reason of the employee's employment,

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- (c) the car was not ordinarily used by one of those employees to the exclusion of the others,
- (d) in the case of each of those employees, any private use of the car made by the employee was merely incidental to the employee's other use of the car in that year, and
- (e) the car was not normally kept overnight on or in the vicinity of any residential premises where any of the employees was residing, except while being kept overnight on premises occupied by the person making the car available to them.

### **168 Pooled vans**

- (1) This section applies to a van in relation to a particular tax year if for that year the van has been included in a van pool for the use of the employees of one or more employers.
- (2) For that tax year the van—
  - (a) is to be treated under section 114(1) (vans to which this Chapter applies) as not having been available for the private use of any of the employees concerned, and
  - (b) is not to be treated in relation to the employees concerned as an employment-related benefit within the meaning of Chapter 10 of this Part (taxable benefits: residual liability to charge) (see section 201).
- (3) In relation to a particular tax year, a van is included in a van pool for the use of the employees of one or more employers if in that year—
  - (a) the van was made available to, and actually used by, more than one of those employees,
  - (b) the van was made available, in the case of each of those employees, by reason of the employee's employment,
  - (c) the van was not ordinarily used by one of those employees to the exclusion of the others,
  - (d) in the case of each of those employees, any private use of the van made by the employee was merely incidental to the employee's other use of the van in that year, and
  - (e) the van was not normally kept overnight on or in the vicinity of any residential premises where any of the employees was residing, except while being kept overnight on premises occupied by the person making the van available to them.

### **169 Car available to more than one member of family or household employed by same employer**

- (1) This section applies where—
  - (a) an employee ("E") and a member of the employee's family or household ("M") are employed by the same employer, and
  - (b) as a result of a car being made available to M in a tax year, E would (apart from this section) be chargeable to tax in respect of the car in that year by virtue of section 120.
- (2) The cash equivalent of the benefit of the car and of any fuel provided for the car by reason of E's employment is not to be treated as E's earnings for that year if—

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- (a) M is chargeable to tax in respect of the car in that year by virtue of section 120, or
  - (b) where M's employment is an excluded employment, M had the benefit of the car in M's own right as an employee and condition A or B is met.
- (3) Condition A is met if equivalent cars are made available on the same terms to employees who—
- (a) are in similar employment to M with the same employer, and
  - (b) are not members of the family or household of employees of that employer who are employed in employment which is not an excluded employment.
- (4) Condition B is met if the making available of an equivalent car is in accordance with the normal commercial practice for an employment of the kind held by M.

### *Orders*

#### **170 Orders etc. relating to this Chapter**

- (1) The Treasury may by order substitute a greater amount for that for the time being specified in—
- (a) step 4 of section 121(1) (car: maximum interim sum),
  - (b) section 126(3)(d) (car: minimum price of later accessory),
  - (c) section 132(3)(b) (car: maximum contributions deduction),
  - (d) section 147(1)(b) (classic car: minimum value), or
  - (e) section 147(7)(b) (classic car: maximum contributions deduction).
- (2) An order under subsection (1) must specify the tax years to which it applies.
- (3) The Treasury may by order provide for a “lower threshold” different from that specified in the Table in section 139(4) (car with a CO<sub>2</sub> emissions figure) to apply for tax years beginning on or after 6th April 2005 or such later date as may be specified in the order.
- (4) The Treasury may by regulations provide for the value of the appropriate percentage as determined under sections 139 to 141 to be reduced—
- (a) by such amount,
  - (b) in such circumstances, and
  - (c) subject to such conditions,
- as may be prescribed in the regulations.
- (5) The Treasury may by order substitute a different amount for that specified in section 150(1) (car fuel: cash equivalent).
- (6) An order under subsection (5) must specify the tax years to which it applies, being tax years beginning after that in which it is made.

### *Supplementary*

#### **171 Minor definitions: general**

- (1) In this Chapter—

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“business travel”, in relation to any employee, means travelling the expenses of which, if incurred and paid by the employee, would (if Chapter 2 of Part 4 did not apply) be deductible under sections 337 to 342, section 353 or under Chapter 5 of Part 5 (other than section 377);

“diesel” means any diesel fuel within the definition in Article 2 of Directive 98/70/EC of the European Parliament and of the Council;

“EC certificate of conformity” means a certificate of conformity issued by a manufacturer under any provision of the law of a Member State implementing Article 6 of Council Directive 70/156/EEC, as amended;

“EC type-approval certificate” means a type-approval certificate issued under any provision of the law of a Member State implementing Council Directive 70/156/EEC, as amended;

“relevant taxes” means any car tax, any value added tax, any customs or excise duty and any tax chargeable as if it were a customs duty;

“road fuel gas” means any substance which is gaseous at a temperature of 15°C and under a pressure of 1013.25 millibars, and which is for use as fuel in road vehicles;

“UK approval certificate” means a certificate issued under—

- (a) section 58(1) or (4) of the Road Traffic Act 1988 (c. 52), or
- (b) Article 31A(4) or (5) of the Road Traffic (Northern Ireland) Order 1981 (S.I. 1981/154 (N.I. 1)).

- (2) In this Chapter references to the date of first registration in relation to a car or van are to the date on which the vehicle was first registered under VERA 1994 or under corresponding legislation of any country or territory.
- (3) In this Chapter references to the age of a car or a van at any time are to the interval between the date of first registration of the vehicle and that time.
- (4) In this Chapter “disabled person’s badge” means a badge—
  - (a) which is issued to a disabled person under section 21 of the Chronically Sick and Disabled Persons Act 1970 (c. 44) or section 14 of the Chronically Sick and Disabled Persons (Northern Ireland) Act 1978 (c. 53), or has effect as if it had been issued under one of those provisions, and
  - (b) which is not required to be returned to the issuing authority under or by virtue of the provision referred to in paragraph (a).

## **172 Minor definitions: equipment to enable a disabled person to use a car**

- (1) In section 125(2)(c) “equipment to enable a disabled person to use a car” means equipment—
  - (a) which is designed solely for use by a chronically sick or disabled person, or
  - (b) which is made available for use with the car because it enables a disabled employee to use the car in spite of the disability.
- (2) In this section—
  - “disabled employee” means an employee who, at the time when the car is first made available to the employee, holds a disabled person’s badge, and
  - “the disability” means the disability entitling the disabled employee to hold the disabled person’s badge.

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## CHAPTER 7

### TAXABLE BENEFITS: LOANS

#### *Introduction*

#### **173 Loans to which this Chapter applies**

- (1) This Chapter applies to a loan if it is an employment-related loan.
- (2) In this Chapter—
  - (a) “loan” includes any form of credit, and
  - (b) references to making a loan (and related expressions) include arranging, guaranteeing or in any way facilitating a loan.
- (3) Sections 288 and 289 make provision for exemption and relief for certain bridging loans connected with employment moves.

#### **174 Employment-related loans**

- (1) For the purposes of this Chapter an employment-related loan is a loan—
  - (a) made to an employee or a relative of an employee, and
  - (b) of a class described in subsection (2).
- (2) For the purposes of this Chapter the classes of employment-related loan are—
  - A*  
A loan made by the employee’s employer.
  - B*  
A loan made by a company or partnership over which the employee’s employer had control.
  - C*  
A loan made by a company or partnership by which the employer (being a company or partnership) was controlled.
  - D*  
A loan made by a company or partnership which was controlled by a person by whom the employer (being a company or partnership) was controlled.
  - E*  
A loan made by a person having a material interest in—
    - (a) a close company which was the employer, had control over the employer or was controlled by the employer, or
    - (b) a company or partnership controlling that close company.
- (3) In this section—
  - “employee” includes a prospective employee, and
  - “employer” includes a prospective employer.

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- (4) References in this section to a loan being made by a person extend to a person who—
- (a) assumes the rights and liabilities of the person who originally made the loan, or
  - (b) arranges, guarantees or in any way facilitates the continuation of a loan already in existence.
- (5) A loan is not an employment-related loan if—
- (a) it is made by an individual in the normal course of the individual’s domestic, family or personal relationships, or
  - (b) it is made to a relative of the employee and the employee derives no benefit from it.
- (6) For the purposes of this section a person (“X”) is a relative of another (“Y”) if X is—
- (a) Y’s spouse,
  - (b) a parent, child or remoter relation in the direct line either of Y or of Y’s spouse,
  - (c) a brother or sister of Y or of Y’s spouse, or
  - (d) the spouse of a person falling within paragraph (b) or (c).

*Benefit of taxable cheap loan treated as earnings*

**175 Benefit of taxable cheap loan treated as earnings**

- (1) The cash equivalent of the benefit of an employment-related loan is to be treated as earnings from the employee’s employment for a tax year if the loan is a taxable cheap loan in relation to that year.
- (2) For the purposes of this Chapter an employment-related loan is a “taxable cheap loan” in relation to a particular tax year if—
  - (a) there is a period consisting of the whole or part of that year during which the loan is outstanding and the employee holds the employment,
  - (b) no interest is paid on it for that year, or the amount of interest paid on it for that year is less than the interest that would have been payable at the official rate, and
  - (c) none of the exceptions in sections 176 to 179 apply.
- (3) The cash equivalent of the benefit of an employment-related loan for a tax year is the difference between—
  - (a) the amount of interest that would have been payable on the loan for that year at the official rate, and
  - (b) the amount of interest (if any) actually paid on the loan for that year.
- (4) If there are two or more employment-related loans, this section applies to each separately.
- (5) This section is subject to—
  - section 180 (threshold for benefit of loan to be treated as earnings);
  - section 186 (replacement loans).

**176 Exception for loans on ordinary commercial terms**

- (1) A loan on ordinary commercial terms is not a taxable cheap loan.

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*Status: Point in time view as at 16/04/2003.*

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- (2) In this section a “loan on ordinary commercial terms” means a loan—
- (a) made by a person (“the lender”) in the ordinary course of a business carried on by the lender which includes—
    - (i) the lending of money, or
    - (ii) the supplying of goods or services on credit, and
  - (b) in relation to which condition A, B or C is met.
- (3) Condition A is met if—
- (a) at the time the loan was made comparable loans were available to all those who might be expected to avail themselves of the services provided by the lender in the course of the lender’s business,
  - (b) a substantial proportion of the loans (consisting of the loan in question and the comparable loans) made by the lender at or about the time the loan in question was made were made to members of the public,
  - (c) the loan in question is held on the same terms as comparable loans generally made by the lender to members of the public at or about the time the loan in question was made, and
  - (d) where those terms differ from the terms applicable immediately after the loan in question was first made, they were imposed in the ordinary course of the lender’s business.
- (4) For the purposes of condition A a loan is comparable to another loan if it is made for the same or similar purposes and on the same terms and conditions.
- (5) Condition B is met if—
- (a) the loan has been varied before 6th April 2000,
  - (b) a substantial proportion of the relevant loans were made to members of the public,
  - (c) the loan in question is held on the same terms as relevant loans generally made by the lender to members of the public at or about the relevant time, and
  - (d) where those terms differ from the terms applicable immediately after the relevant time, they were imposed in the ordinary course of the lender’s business.
- (6) Condition C is met if—
- (a) the loan has been varied on or after 6th April 2000,
  - (b) a substantial proportion of the relevant loans were made to members of the public,
  - (c) at the relevant time members of the public who had loans from the lender for similar purposes had a right to vary their loans on the same terms and conditions as applied in relation to the variation of the loan in question,
  - (d) the loan in question as varied is held on the same terms as any existing loans so varied, and
  - (e) where those terms differ from the terms applicable immediately after the relevant time, they were imposed in the ordinary course of the lender’s business.
- (7) For the purposes of condition B and C—
- (a) the “relevant time” is the time of the variation of the loan in question, and
  - (b) the “relevant loans” are—

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- (i) the loan in question,
  - (ii) any existing loans which were varied at or about the relevant time so as to be held on the same terms as the loan in question after it was varied, and
  - (iii) any new loans which were made by the lender at or about that time and are held on those terms.
- (8) No account is to be taken of amounts which are incurred on fees, commission or other incidental expenses by the person to whom a loan is made for the purpose of obtaining the loan—
- (a) in determining for the purposes of condition A whether loans made by a lender before 1st June 1994 are made or held on the same terms or conditions, or
  - (b) in determining for the purposes of condition B or C whether rights to vary loans are exercisable on the same terms and conditions or loans are held on the same terms.
- (9) No account is to be taken of amounts which are incurred on penalties, interest or similar amounts by the person to whom a loan is made as a result of varying the loan in determining for the purposes of condition B or C whether rights to vary loans are exercisable on the same terms and conditions or loans are held on the same terms.
- (10) For the purposes of this section a “member of the public” means a member of the public at large with whom the lender deals at arm’s length.

### **177 Exceptions for loans at fixed rate of interest**

- (1) A fixed rate loan made on or after 6th April 1978 is not a taxable cheap loan by reason only of an increase in the official rate of interest since the year in which the loan was made if the condition in subsection (2) is met.
- (2) The condition in this subsection is met if the amount of interest paid on the loan for the tax year in which it was made was equal to or greater than the interest that would have been payable at the official rate for that year.
- (3) A fixed rate loan made before 6th April 1978 is not a taxable cheap loan if the condition in subsection (4) is met.
- (4) The condition in this subsection is met if the rate of interest for the loan is equal to or greater than the rate which could have been expected to apply to a loan made—
  - (a) at the same time as the loan in question,
  - (b) on the same terms (other than as to the rate of interest), and
  - (c) between persons not connected with each other dealing at arm’s length.
- (5) In this section a “fixed rate loan” means a loan—
  - (a) made for a fixed period which cannot be changed, and
  - (b) made at a fixed rate of interest which cannot be changed during that period.

### **178 Exception for loans where interest qualifies for tax relief**

A loan is not a taxable cheap loan in relation to a particular tax year if, assuming interest is paid on the loan for that year (whether or not it is in fact paid), the whole of that interest—



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- (a) is eligible for relief under section 353 of ICTA (general provision for relief for payments of interest, excluding MIRAS),
- (b) would be eligible for relief under that section but for the fact that it is a payment of relevant loan interest to which section 369 of ICTA applies (mortgage interest payable under deduction of tax),
- (c) is deductible in computing the amount of the profits to be charged under Case I or II of Schedule D in respect of a trade, profession or vocation carried on by the person to whom the loan is made, or
- (d) is deductible in computing the amount of the profits to be charged under Schedule A in respect of a Schedule A business carried on by that person.

### **179 Exception for certain advances for necessary expenses**

- (1) An advance by an employer to an employee for the purpose of paying for—
  - (a) necessary expenses, or
  - (b) incidental overnight expenses,is not a taxable cheap loan in relation to a particular tax year if the following conditions are met.
- (2) The conditions are—
  - (a) that at all times in the tax year in question the amount outstanding on such advances made by the employer to the employee does not exceed £1,000,
  - (b) that the advance is spent within 6 months after the date on which it is made, and
  - (c) that the employee accounts to the employer at regular intervals for the expenditure of the amount advanced.
- (3) If, on an application made by the employer, the Inland Revenue are satisfied that there is good reason to do so in the case of a particular advance, they may authorise that either or both of the following limits are increased in relation to that advance—
  - (a) the sum of money specified in subsection (2)(a);
  - (b) the time limit specified in subsection (2)(b).
- (4) An application under subsection (3)—
  - (a) must be in writing, and
  - (b) must contain such particulars and be supported by such evidence as the Inland Revenue may require.
- (5) In this section “necessary expenses” are expenses (including travel expenses) which—
  - (a) the employee is obliged to incur and pay as holder of the employment, and
  - (b) are necessarily incurred in the performance of the duties of the employment.
- (6) In this section “incidental overnight expenses” are expenses which—
  - (a) are incidental to the employee’s absence from the place where the employee normally lives,
  - (b) relate to a continuous period of such absence in relation to which the overnight stay conditions are met, and
  - (c) would not be deductible under Part 5 if the employee incurred and paid them and Chapter 2 of Part 4 (mileage allowances and passenger payments) did not apply.

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- (7) In subsection (6)(b) “the overnight stay conditions” has the same meaning as in section 240 (exemption for incidental overnight expenses) (see section 240(4)).

## **180 Threshold for benefit of loan to be treated as earnings**

- (1) The cash equivalent of the benefit of an employment-related loan is not to be treated as earnings of the employment for a tax year under section 175(1)—
  - (a) if the normal £5,000 threshold is not exceeded, or
  - (b) where the loan is a non-qualifying loan and that threshold is exceeded, if the £5,000 threshold for non-qualifying loans is not exceeded.
- (2) The normal £5,000 threshold is not exceeded if at all times in the year the amount outstanding on the loan (or, if two or more employment-related loans which are taxable cheap loans are outstanding in the year, the aggregate of the amount outstanding on them) does not exceed £5,000.
- (3) The £5,000 threshold for non-qualifying loans is not exceeded if at all times in the year the amount outstanding on the loan (or if two or more employment-related loans which are non-qualifying loans are outstanding in the year, the aggregate of the amounts outstanding on them) does not exceed £5,000.
- (4) In this section a “non-qualifying loan” means a taxable cheap loan which is not a qualifying loan.
- (5) For the purposes of this section a loan is a “qualifying loan” in relation to a particular tax year if, assuming interest is paid on the loan for that year (whether or not it is in fact paid), the whole or part of that interest—
  - (a) is eligible for relief under section 353 of ICTA (general provision for relief for payments of interest, excluding MIRAS),
  - (b) would be eligible for relief under that section but for the fact that it is a payment of relevant loan interest to which section 369 of ICTA applies (mortgage interest payable under deduction of tax),
  - (c) is deductible in computing the amount of the profits to be charged under Case I or II of Schedule D in respect of a trade, profession or vocation carried on by the person to whom the loan is made, or
  - (d) is deductible in computing the amount of the profits to be charged under Schedule A in respect of a Schedule A business carried on by that person.

### *Calculation of amount of interest at official rate*

## **181 The official rate of interest**

- (1) “The official rate of interest” for the purposes of this Chapter means the rate applicable under section 178 of FA 1989 (general power of Treasury to specify rates of interest).
- (2) Regulations under that section may make different provision in relation to a loan if—
  - (a) it was made in the currency of a country or territory outside the United Kingdom, and
  - (b) the employee normally lives in that country or territory, and has actually lived there at some time in the period of 6 years ending with the tax year in question.

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- (3) Subsection (2) does not affect the general power under section 178(3) of FA 1989 to make different provision for different purposes.

## 182 Normal method of calculation: averaging

The normal method of calculating for the purposes of this Chapter the amount of interest that would be payable on a loan for a tax year at the official rate is as follows.

### *Step 1*

Calculate the average amount of the loan outstanding during the tax year—

1. Find the maximum amount of the loan outstanding on 5th April preceding the tax year or, if the loan was made in the tax year, on the date it was made.
2. Find the maximum amount outstanding on 5th April of the tax year or, if the loan was discharged in the tax year, on the date of discharge.
3. Add these amounts together and divide the result by 2.

### *Step 2*

If the official rate of interest changed during the period in the tax year when the loan was outstanding, calculate the average official rate of interest for that period as follows—

1. Multiply each official rate of interest in force during the period by the number of days when it is in force.
2. Add these products together.
3. Divide the result by the number of days in the period.

### *Step 3*

Calculate the amount of interest that would be payable on the loan for the tax year at the official rate as follows—

$$A \times I \times \frac{M}{12}$$

where—

A is the average amount of the loan outstanding during the tax year obtained from step 1,

I is the official rate of interest in force during the period in the tax year when the loan was outstanding or, if the official rate changed, the average official rate of interest obtained from step 2, and

M is the number of whole months during which the loan was outstanding in the year.

For this purpose a month begins on the sixth day of the calendar month.

## 183 Alternative method of calculation

- (1) The alternative method of calculating for the purposes of this Chapter the amount of interest that would be payable on a loan for a tax year at the official rate applies for a tax year—

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- (a) if the Inland Revenue so require, by notice to the employee, or
  - (b) if the employee so elects, by notice to the Inland Revenue.
- (2) Notice may be given on or before the first anniversary of the normal self-assessment filing date for the tax year in relation to which the question arises whether the loan is a taxable cheap loan.
- (3) The alternative method is as follows—
- Step 1*
- Find for each day in the tax year in question the maximum amount of the loan outstanding on that day and multiply it by the official rate of interest in force on that day.
- Step 2*
- Add together each of the amounts obtained under step 1.
- Step 3*
- Divide the result by the number of days in the tax year.
- (4) Where in any tax year the cash equivalent of the benefit of the same taxable cheap loan is to be treated as earnings of two or more employees then, for the purposes of determining the cash equivalent of the benefit of the loan, the alternative method applies if—
- (a) the notice under subsection (1)(a) is given to all those employees, or
  - (b) the notice under subsection (1)(b) is given by all those employees.

*Supplementary provisions relating to taxable cheap loans*

**184 Interest treated as paid**

- (1) This section applies where the cash equivalent of the benefit of a taxable cheap loan is treated as earnings from an employee's employment for a tax year under section 175(1).
- (2) The employee is to be treated for the purposes of the Tax Acts as having paid interest on the loan in that year equal to the cash equivalent.
- (3) But the employee is not to be treated as having paid that interest for the purposes of this Chapter or of any of the other Chapters of this Part listed in section 216(4) (provisions of the benefits code which do not apply to lower-paid employment).
- (4) The interest is to be treated—
- (a) as accruing during the period in the tax year during which the employee holds the employment and the loan is outstanding, and
  - (b) as paid by the employee at the end of the period.
- (5) The interest is not to be treated—
- (a) as income of the person making the loan, or
  - (b) as relevant loan interest to which section 369 of ICTA applies (mortgage interest payable under deduction of tax).

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### **185 Apportionment of cash equivalent in case of joint loan etc.**

Where in any tax year the cash equivalent of the benefit of the same taxable cheap loan is to be treated as earnings of two or more employees—

- (a) the cash equivalent of the benefit of the loan (determined in accordance with the provisions of this Chapter) is to be apportioned between them in a just and reasonable manner, and
- (b) the portion allocated to each employee is to be treated as the cash equivalent of the benefit of the loan so far as that employee is concerned.

### **186 Replacement loans**

- (1) This section applies where an employment-related loan (“the original loan”) is replaced, directly or indirectly, by—
  - (a) a further employment-related loan, or
  - (b) a loan which is not an employment-related loan but which in turn is, in the same tax year or within 40 days after the end of the tax year, replaced, directly or indirectly, by a further employment-related loan.
- (2) In such a case, for the purposes of calculating the cash equivalent of the benefit of the original loan under section 175(3), section 182 (normal method of calculating interest at the official rate) applies as if the replacement loan, or each of the replacement loans, were the same loan as the original loan.
- (3) Where section 182 is applied as modified by subsection (2) then for the purposes of section 175(3)(b) the amount of interest actually paid on the loan for the tax year in question is the total of—
  - (a) the amount of interest actually paid on the original loan for that year, and
  - (b) the amount of interest actually paid on the replacement loan or on each of the replacement loans for that year.
- (4) In this section a “further employment-related loan” means a loan which is an employment-related loan made in relation to—
  - (a) the same or other employment with the person who is the employer in relation to the original loan, or
  - (b) employment with a person who is connected with that employer.

### **187 Aggregation of loans by close company to director**

- (1) This section applies where, in relation to any tax year, there are employment-related loans between the same lender and borrower which are aggregable with each other.
- (2) The lender may elect for aggregation to apply for that tax year in the case of the borrower.
- (3) The effect of the election is that all the aggregable loans are to be treated as a single loan for the purposes of—
  - section 175 (benefit of taxable cheap loan treated as earnings),
  - the provisions of this Chapter relating to the calculation of the cash equivalent of the benefit of a taxable cheap loan, and
  - section 184 (interest treated as paid).

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- (4) For this purpose loans are aggregable for any tax year if they are made in the same currency and all the following conditions are met in relation to each of them—
- (a) there is a time in the tax year when—
    - (i) the loan is outstanding,
    - (ii) the lender is a close company, and
    - (iii) the borrower is a director of that company;
  - (b) at all times in the tax year the rate of interest on the loan is less than the official rate applying at that time;
  - (c) the loan is not a qualifying loan within the meaning of section 180 (see section 180(5)).
- (5) An election under this section must be made by the lender in a notice given—
- (a) to the Inland Revenue, and
  - (b) before 7th July after the end of the tax year to which the election relates.

*Loan released or written off*

**188 Loan released or written off: amount treated as earnings**

- (1) If—
- (a) the whole or part of an employment-related loan is released or written off in a tax year, and
  - (b) at the time when it is released or written off the employee holds the employment in relation to which the loan is an employment-related loan (“employment E”),
- the amount released or written off is to be treated as earnings from the employment for that year.
- (2) But if the employment has terminated or become an excluded employment and there was a time when—
- (a) the whole or part of the loan was outstanding,
  - (b) the employee held the employment, and
  - (c) it was not an excluded employment,
- subsection (1) applies as if the employment had not terminated or become an excluded employment.
- (3) Where subsection (2) applies, any loan which replaces directly or indirectly the employment-related loan is to be treated as an employment-related loan in relation to employment E if—
- (a) it would, if employment E had not terminated or become excluded employment, have been an employment-related loan in relation to employment E, and
  - (b) it is not an employment-related loan in relation to other employment.
- (4) This section is subject to section 189 (exception where double charge).

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## **189 Exception where double charge**

- (1) Section 188 (loan released or written off: amount treated as earnings) does not apply if, by virtue of any other provision of the Income Tax Acts, the amount released or written off—
  - (a) is employment income of the employee, or
  - (b) is or is treated as income of the employee (or of the employee as a borrower) which is not employment income and upon which that person is liable to pay income tax.

This is subject to subsections (2) and (3).
- (2) If, as a result of subsection (1), Chapter 3 of Part 6 (payments and benefits on termination of employment etc.) would be the only provision by virtue of which the amount released or written off would be income of the employee—
  - (a) section 188 does apply, and
  - (b) accordingly Chapter 3 of Part 6 does not apply.
- (3) If—
  - (a) an amount is treated as the employee's income under section 677 of ICTA (sums paid to settlor otherwise than as income) in respect of a capital sum paid in relation to the release or writing-off of the loan, and
  - (b) the amount released or written off exceeds the amount so treated as income, section 188 does apply but only the amount of the excess is to be treated as earnings from the employment for the tax year in question under that section.

### *General supplementary provisions*

## **190 Exclusion of charge after death of employee**

- (1) On the employee's death a taxable cheap loan is to be treated—
  - (a) for the purposes of this Chapter as ceasing to be outstanding, and
  - (b) for the purposes of section 182 (normal method of calculating interest at the official rate) as being discharged on the date of death.
- (2) Section 188 (loan released or written off: amount treated as earnings) does not apply in relation to a release or writing off which takes effect on or after the death of the employee.

## **191 Claim for relief to take account of event after assessment**

- (1) A claim may be made for relief in the following cases.
- (2) The first case is where—
  - (a) the tax payable by an employee for a tax year in respect of a loan has been decided on the basis that, for the purposes of section 175 (benefit of taxable cheap loan treated as earnings), the whole or part of the interest payable on the loan for that year was not paid, and
  - (b) it is subsequently paid.
- (3) The second case is where—

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- (a) the tax payable by an employee for a tax year in respect of a loan has been decided on that basis that, for the purposes of section 188 (loan released or written off: amount treated as earnings), the loan has been released or written off in that year, and
  - (b) the whole or part of the loan is subsequently repaid.
- (4) The third case is where—
- (a) the tax payable by an employee for a tax year in respect of a loan has been decided on the basis that—
    - (i) section 288 (limited exemption of certain bridging loans connected with employment moves), and
    - (ii) section 289 (relief for certain bridging loans not qualifying for exemption under section 288),
 will not apply because the condition in section 288(1)(b) (which requires that the limit on the exemption under section 287(1) has not been reached) will not be met, and
  - (b) that condition is met.
- (5) Where a claim is made under this section the tax payable is to be adjusted accordingly.

## CHAPTER 8

### TAXABLE BENEFITS: NOTIONAL LOANS IN RESPECT OF ACQUISITIONS OF SHARES

#### *Introduction*

#### **192 Application of this Chapter**

- (1) This Chapter applies where—
- (a) shares in a company are, or an interest in shares in a company is, acquired by an employee or a person connected with an employee, and
  - (b) the right or opportunity to acquire the shares or interest in shares was available by reason of the employment.
- (2) The shares may be in the employer, or in another company.
- (3) A right or opportunity to acquire shares or an interest in shares which is made available by the employer is to be regarded as made available by reason of the employment unless—
- (a) the employer is an individual, and
  - (b) the right or opportunity is made available in the normal course of the employer's domestic, family or personal relationships.
- (4) In this Chapter—
- “the acquisition” means the acquisition of shares or an interest in shares mentioned in subsection (1), and
  - “the employment-related shares” means the shares or interest in shares acquired.



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### *Acquisition of shares for less than market value*

#### **193 Notional loan where acquisition for less than market value**

- (1) This section applies if—
  - (a) no payment is made for the employment-related shares at or before the time of the acquisition, or
  - (b) the payment made at or before that time is less than—
    - (i) the market value at that time of fully paid up shares of their class, or
    - (ii) if the employment-related shares consist of an interest in shares, the proportion of the market value at that time of fully paid up shares of the same class as those in which the interest subsists that corresponds to the size of the interest.
- (2) For the purposes of subsection (1), any obligation to make payment or further payment at some later time is to be disregarded.
- (3) The provisions listed in subsection (4) apply as if a loan (“the notional loan”) had been made to the employee by the employer at the time of the acquisition which—
  - (a) is an employment-related loan as defined in section 174, and
  - (b) is interest-free.
- (4) The provisions are—
  - section 175 (benefit of taxable cheap loan treated as earnings),
  - section 178 (exception for loans where interest qualifies for tax relief),
  - section 180 (threshold for benefit of loan to be treated as earnings),
  - section 182 (normal method of calculation: averaging),
  - section 183 (alternative method of calculation),
  - section 184 (interest treated as paid),
  - section 185 (apportionment of cash equivalent in case of joint loan etc.), and
  - section 187 (aggregation of loans by close company to director).
- (5) This section is subject to—
  - section 491 (approved SIPs: no charge on award of shares as taxable benefit),
  - section 519 (approved SAYE option schemes: no charge in respect of exercise of option),
  - section 524 (approved CSOP schemes: no charge in respect of exercise of option),
  - section 540 (enterprise management incentives: no charge on acquisition of shares as taxable benefit),
  - section 542 (exemption: offer made to public and employees), and
  - section 544 (exemption: different offers made to public and employees).

#### **194 The amount of the notional loan**

- (1) The amount of the notional loan initially outstanding is—

**MV - DA**

where—

MV is—

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- (a) the market value of fully paid up shares of the same class as the employment-related shares, or
- (b) if the employment-related shares consist of an interest in shares, the proportion of the market value of fully paid up shares of the same class as those in which the interest subsists that corresponds to the size of the interest, and

DA is the total of any deductible amounts.

- (2) For the purposes of subsection (1) each of the following is a “deductible amount”—
  - (a) any payment made for the employment-related shares at or before the time of the acquisition;
  - (b) any amount that constitutes earnings from the employee’s employment under Chapter 1 of this Part (earnings) in respect of the acquisition;
  - (c) if the acquisition results from the exercise of a share option—
    - (i) any amount that constitutes earnings from the employment under Chapter 1 of this Part (earnings) in respect of the receipt of the share option,
    - (ii) any amount that is treated as earnings from the employment under Chapter 10 of this Part (taxable benefits: residual liability to charge) in respect of its receipt, and
    - (iii) any amount that counts as employment income of the employee under section 476 or 477 (charge on employee on exercise etc. of option by employee or another person) in respect of the exercise; and
  - (d) if the acquisition results from the exercise of a share option and an amount counts as employment income of the employee under section 526 (approved CSOP schemes: charge where option granted at a discount) in respect of the share option, so much of that amount as is attributable to the employment-related shares.
- (3) The amount of the notional loan outstanding at any subsequent time is the difference between—
  - (a) the amount initially outstanding, and
  - (b) the amount of any payments or further payments made for the employment-related shares after the acquisition but before that time.

## **195 Discharge of notional loan: amount treated as earnings**

- (1) The notional loan is to be treated as discharged when the following occurs—
  - (a) payments or further payments for the employment-related shares equal to the amount initially outstanding have been made,
  - (b) if the employment-related shares were not fully paid up at the time of the acquisition, any outstanding or contingent obligation to pay for them ceases to bind the employee or any person connected with the employee,
  - (c) the employment-related shares are disposed of so that neither the employee nor any person connected with the employee any longer has a beneficial interest in them, or
  - (d) the employee dies.
- (2) If—
  - (a) a notional loan is discharged as a result of an event specified in subsection (1) (b) or (c), and

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- (b) at the time of that event the employee holds the employment by reason of which the right or opportunity to make the acquisition was available, the amount of the notional loan outstanding immediately before the occurrence of the event is to be treated as earnings from the employment for the tax year in which the event occurs.
- (3) But if the employment has terminated or become an excluded employment before that event and there was a time when—
- (a) the whole or part of the notional loan was outstanding,
  - (b) the employee held the employment, and
  - (c) it was not an excluded employment,
- subsection (2) applies as if the employment had not terminated or become an excluded employment.

#### *Supplementary provisions*

### **196 Effects on other income tax charges**

Nothing in this Chapter affects any liability to income tax arising in respect of the acquisition by virtue of—

- (a) Chapter 1 of this Part (earnings), or
- (b) section 476 or 477 (charge on employee on exercise etc. of option by employee or another person).

### **197 Minor definitions**

- (1) In this Chapter—
- “employee” includes a prospective employee;
  - “interest in shares” means an interest in shares less than full beneficial ownership and includes an interest in the proceeds of sale of part of the shares, but not a right to acquire shares;
  - “market value” has the same meaning as it has for the purposes of TCGA 1992 by virtue of Part 8 of that Act;
  - “shares” includes—
    - (a) stock, and
    - (b) any securities as defined in section 254(1) of ICTA.
- (2) In this Chapter references to the acquisition of shares or an interest in shares include receipt by way of allotment or assignment or in any other way.
- (3) In this Chapter references to payment for the employment-related shares include giving any consideration in money or money’s worth or making any subscription, whether in pursuance of a legal liability or not.
- (4) In this Chapter—
- “the acquisition”, and
  - “the employment-related shares”,
- have the meaning indicated in section 192(4).

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## CHAPTER 9

### TAXABLE BENEFITS: DISPOSALS OF SHARES FOR MORE THAN MARKET VALUE

#### 198 Shares to which this Chapter applies

- (1) This Chapter applies to shares in a company which have, or an interest in shares in a company which has, been acquired by an employee or a person connected with an employee, if the right or opportunity to acquire the shares or interest in shares was available by reason of the employment.
- (2) In this Chapter, “employment-related shares” means shares, or an interest in shares, acquired as mentioned in subsection (1).
- (3) The shares may be in the employer, or in another company.
- (4) A right or opportunity to acquire shares or an interest in shares which is made available by the employer is to be regarded as made available by reason of the employment unless—
  - (a) the employer is an individual, and
  - (b) the right or opportunity is made available in the normal course of the employer’s domestic, family or personal relationships.

#### 199 Disposal for more than market value: amount treated as earnings

- (1) This section applies if—
  - (a) employment-related shares are disposed of so that neither the employee nor any person connected with the employee any longer has a beneficial interest in them, and
  - (b) the disposal is for a consideration which exceeds the market value of the employment-related shares at the time of the disposal.
- (2) But this section does not apply if the disposal occurs after the death of the employee.
- (3) The amount given by the following formula is to be treated as earnings from the employee’s employment for the tax year in which the disposal occurs—

### CD- MV

where—

CD is the amount or value of the consideration for the disposal, and

MV is the market value of the employment-related shares at the time of the disposal.

- (4) But if—
  - (a) the employment has terminated or become an excluded employment before the disposal, and
  - (b) at the time of the acquisition of the employment-related shares the employee held, or was about to hold, the employment and it was not an excluded employment,

this section applies as if the employment had not terminated or become an excluded employment.

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- (5) If the employment-related shares consist of an interest in shares, the references in this section to the market value of the employment-related shares are to the proportion corresponding to the size of the interest of the market value of the shares in which the interest subsists.

## **200 Minor definitions**

- (1) In this Chapter—
- “employee” includes a prospective employee;
  - “interest in shares” means an interest in shares less than full beneficial ownership and includes an interest in the proceeds of sale of part of the shares, but not a right to acquire shares;
  - “market value” has the same meaning as it has for the purposes of TCGA 1992 by virtue of Part 8 of that Act;
  - “shares” includes—
    - (a) stock, and
    - (b) any securities as defined in section 254(1) of ICTA.
- (2) In this Chapter references to the acquisition of shares or an interest in shares include receipt by way of allotment or assignment or in any other way.
- (3) In this Chapter “employment-related shares” has the meaning indicated in section 198(2).

## **CHAPTER 10**

### TAXABLE BENEFITS: RESIDUAL LIABILITY TO CHARGE

#### *Introduction*

## **201 Employment-related benefits**

- (1) This Chapter applies to employment-related benefits.
- (2) In this Chapter—
- “benefit” means a benefit or facility of any kind;
  - “employment-related benefit” means a benefit, other than an excluded benefit, which is provided in a tax year—
    - (a) for an employee, or
    - (b) for a member of an employee’s family or household,by reason of the employment. For the definition of “excluded benefit” see section 202.
- (3) A benefit provided by an employer is to be regarded as provided by reason of the employment unless—
- (a) the employer is an individual, and
  - (b) the provision is made in the normal course of the employer’s domestic, family or personal relationships.

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- (4) For the purposes of this Chapter it does not matter whether the employment is held at the time when the benefit is provided so long as it is held at some point in the tax year in which the benefit is provided.
- (5) References in this Chapter to an employee accordingly include a prospective or former employee.

## **202 Excluded benefits**

- (1) A benefit is an “excluded benefit” for the purposes of this Chapter if—
  - (a) any of Chapters 3 to 9 of the benefits code applies to the benefit,
  - (b) any of those Chapters would apply to the benefit but for an exception, or
  - (c) the benefit consists in the right to receive, or the prospect of receiving, sums treated as earnings under section 221 (payments where employee absent because of sickness or disability).
- (2) In this section “exception”, in relation to the application of a Chapter of the benefits code to a benefit, means any enactment in the Chapter which provides that the Chapter does not apply to the benefit.

But for this purpose section 86 (transport vouchers under pre-26th March 1982 arrangements) is not an exception.

### *Cash equivalent of benefit treated as earnings*

## **203 Cash equivalent of benefit treated as earnings**

- (1) The cash equivalent of an employment-related benefit is to be treated as earnings from the employment for the tax year in which it is provided.
- (2) The cash equivalent of an employment-related benefit is the cost of the benefit less any part of that cost made good by the employee to the persons providing the benefit.
- (3) The cost of an employment-related benefit is determined in accordance with section 204 unless—
  - (a) section 205 provides that the cost is to be determined in accordance with that section, or
  - (b) section 206 provides that the cost is to be determined in accordance with that section.

### *Determination of the cost of the benefit*

## **204 Cost of the benefit: basic rule**

The cost of an employment-related benefit is the expense incurred in or in connection with provision of the benefit (including a proper proportion of any expense relating partly to provision of the benefit and partly to other matters).

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## **205 Cost of the benefit: asset made available without transfer**

- (1) The cost of an employment-related benefit (“the taxable benefit”) is determined in accordance with this section if—
  - (a) the benefit consists in—
    - (i) an asset being placed at the disposal of the employee, or at the disposal of a member of the employee’s family or household, for the employee’s or member’s use, or
    - (ii) an asset being used wholly or partly for the purposes of the employee or a member of the employee’s family or household, and
  - (b) there is no transfer of the property in the asset.
- (2) The cost of the taxable benefit is the higher of—
  - (a) the annual value of the use of the asset, and
  - (b) the annual amount of the sums, if any, paid by those providing the benefit by way of rent or hire charge for the asset,together with the amount of any additional expense.
- (3) For the purposes of subsection (2), the annual value of the use of an asset is—
  - (a) in the case of land, its annual rental value;
  - (b) in any other case, 20% of the market value of the asset at the time when those providing the taxable benefit first applied the asset in the provision of an employment-related benefit (whether or not the person provided with that benefit is also the person provided with the taxable benefit).

If those providing the taxable benefit first applied the asset in the provision of an employment-related benefit before 6th April 1980, paragraph (b) is to be read as if the reference to 20% were a reference to 10%.
- (4) In this section “additional expense” means the expense incurred in or in connection with provision of the taxable benefit (including a proper proportion of any expense relating partly to provision of the benefit and partly to other matters), other than—
  - (a) the expense of acquiring or producing the asset incurred by the person to whom the asset belongs, and
  - (b) any rent or hire charge payable for the asset by those providing the asset.

## **206 Cost of the benefit: transfer of used or depreciated asset**

- (1) The cost of an employment-related benefit is determined in accordance with this section if—
  - (a) the benefit consists in the transfer of an asset, and
  - (b) the asset has been used, or has depreciated, since the person transferring the asset (“the transferor”) acquired or produced it.
- (2) The cost of the benefit is the market value of the asset at the time of the transfer.
- (3) But the cost of the benefit (“the current benefit”) is the higher of the market value of the asset at the time of the transfer and the amount calculated in accordance with subsection (5) if—
  - (a) the asset is not a car (within the meaning of Chapter 6),

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- (b) the asset has previously been applied in the provision of a relevant employment-related benefit (whether or not the person provided with that benefit is also the transferee), and
- (c) the transferor first applied the asset in the provision of an employment-related benefit after 5th April 1980.

(4) In this section “relevant employment-related benefit” means an employment-related benefit the cost of which was to be determined in accordance with section 205.

(5) The amount referred to in subsection (3) is calculated in accordance with the following steps—

*Step 1*

Determine the tax years in which the asset was applied in the provision of a relevant employment-related benefit (including, if appropriate, the current tax year).

*Step 2*

Determine the cost of the benefit for each of those tax years in accordance with section 205.

*Step 3*

Calculate the total of the amounts determined under step 2.

*Step 4*

Calculate the market value of the asset at the time when the transferor first applied it in the provision of an employment-related benefit.

*Step 5*

Deduct the total calculated under step 3 from the market value calculated under step 4.

The result is the amount referred to in subsection (3).

*Supplementary provisions*

**207 Meaning of “annual rental value”**

(1) For the purposes of this Chapter the “annual rental value” of land is the rent which might reasonably be expected to be obtained on a letting from year to year if—

- (a) the tenant undertook to pay all taxes, rates and charges usually paid by a tenant, and
- (b) the landlord undertook to bear the costs of the repairs and insurance and other expenses (if any) necessary for maintaining the land in a state to command the rent.

(2) For the purposes of subsection (1) that rent—

- (a) is to be taken to be the amount that might reasonably be expected to be so obtained in respect of the letting, and
- (b) is to be calculated on the basis that the only amounts that may be deducted in respect of services provided by the landlord are amounts in respect of the cost to the landlord of providing any relevant services.



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- (3) If the land is of a kind that might reasonably be expected to be let on terms under which—
- (a) the landlord is to provide any services which are either—
    - (i) relevant services, or
    - (ii) the repair, insurance or maintenance of any premises which do not form part of the land but belong to or are occupied by the landlord, and
  - (b) amounts are payable in respect of the services in addition to the rent,
- the rent to be established under subsection (1) in respect of the land is to be increased under subsection (4).
- (4) That rent is to include—
- (a) where the services are relevant services, so much of the additional amounts as exceeds the cost to the landlord of providing the services;
  - (b) where the services are within subsection (3)(a)(ii), the whole of the additional amounts.
- (5) In this section “relevant service” means a service other than the repair, insurance or maintenance of the land or of any other land.

## **208 Meaning of “market value”**

For the purposes of this Chapter the market value of an asset at any time is the price which the asset might reasonably be expected to fetch on a sale in the open market at that time.

## **209 Meaning of “persons providing benefit”**

For the purposes of this Chapter the persons providing a benefit are the person or persons at whose cost the benefit is provided.

## **210 Power to exempt minor benefits**

- (1) The Treasury may make provision by regulations for exempting from the application of this Chapter such minor benefits as may be specified in the regulations.
- (2) An exemption conferred by such regulations is conditional on the benefit being made available to the employer’s employees generally on similar terms.

### *Special rules for scholarships*

## **211 Special rules for scholarships: introduction**

- (1) Sections 212 to 214 supplement the preceding provisions of this Chapter in the following ways—
  - section 212 provides for certain scholarships provided under arrangements entered into by an employer or a connected person to be regarded as provided by reason of an employment;
  - section 213 provides that this Chapter does not apply to certain scholarships provided under a trust fund or a scheme;

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section 214 provides a different method of determining the cost of an employment-related benefit if it consists in the provision of a scholarship from a trust fund.

- (2) Section 215 limits the extent to which section 331 of ICTA (exemption for scholarship income) applies to a scholarship whose provision constitutes an employment-related benefit.
- (3) In this section and sections 212 to 215 “scholarship” includes a bursary, exhibition or other similar educational endowment.

## **212 Scholarships provided under arrangements entered into by employer or connected person**

- (1) A scholarship which is provided for a member of an employee’s family or household is to be regarded for the purposes of this Chapter as provided by reason of the employment if it is provided under arrangements entered into by—
  - (a) the employer, or
  - (b) a person connected with the employer.
- (2) Subsection (1) applies whether or not the arrangements require the employer or the connected person to contribute directly or indirectly to the cost of providing the scholarship.
- (3) A scholarship is not to be regarded as provided by reason of an employment by virtue of subsection (1) if—
  - (a) the employer is an individual, and
  - (b) the arrangements are made in the normal course of the employer’s domestic, family or personal relationships.
- (4) This section is without prejudice to section 201(3).

## **213 Exception for certain scholarships under trusts or schemes**

- (1) This Chapter does not apply to an employment-related benefit consisting in the provision of a scholarship if conditions A, B, C and D are met.
- (2) Condition A is that the scholarship would not be regarded as provided by reason of the employment if section 201(3) and section 212 were disregarded.
- (3) Condition B is that the holder of the scholarship is a full-time student.
- (4) Condition C is that the scholarship is provided from a trust fund or under a scheme.
- (5) Condition D is that, in the tax year in which the scholarship is provided, not more than 25% of the total amount of relevant payments is attributable to scholarships provided by reason of a person’s employment.
- (6) For the purposes of conditions B and D “full-time student” means a person who is in full-time education at a university, college, school or other educational establishment.
- (7) For the purposes of condition D—
 

“employment” includes any employment within the meaning of the employment income Parts (see section 4), whether or not it is a taxable employment under Part 2;

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“relevant payments” means the payments made from the fund or scheme mentioned in condition C in respect of scholarships held by full-time students.

#### **214 Scholarships: cost of the benefit**

If an employment-related benefit consists in the provision of a scholarship from a trust fund—

- (a) section 204 does not apply, and
- (b) the cost of the benefit is the total of the payments made from the fund to the person holding the scholarship.

#### **215 Limitation of exemption for scholarship income in section 331 of ICTA**

If an employment-related benefit consists in the provision of a scholarship, section 331(1) of ICTA (exemption for scholarship income) applies only in relation to the holder of the scholarship.

### **CHAPTER 11**

#### **TAXABLE BENEFITS: EXCLUSION OF LOWER-PAID EMPLOYMENTS FROM PARTS OF BENEFITS CODE**

##### *Introduction*

#### **216 Provisions not applicable to lower-paid employments**

- (1) The Chapters of the benefits code listed in subsection (4) do not apply to an employment in relation to a tax year if—
  - (a) it is lower-paid employment in relation to that year (see section 217), and
  - (b) condition A or B is met.
- (2) Condition A is that the employee is not employed as a director of a company.
- (3) Condition B is that the employee is employed as a director of a company but has no material interest in the company and either—
  - (a) the employment is as a full-time working director, or
  - (b) the company is non-profit-making or is established for charitable purposes only.

“Non-profit-making” means that the company does not carry on a trade and its functions do not consist wholly or mainly in the holding of investments or other property.
- (4) The Chapters referred to in subsection (1) are—
  - Chapter 3 (taxable benefits: expenses payments);
  - Chapter 6 (taxable benefits: cars, vans and related benefits);
  - Chapter 7 (taxable benefits: loans);
  - Chapter 8 (taxable benefits: notional loans in respect of acquisitions of shares);
  - Chapter 9 (taxable benefits: disposals of shares for more than market value);
  - Chapter 10 (taxable benefits: residual liability to charge).

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(5) Subsection (1)—

- (a) means that in any of those Chapters a reference to an employee does not include an employee whose employment is within the exclusion in that subsection, if the context is such that the reference is to an employee in relation to whom the Chapter applies, but
- (b) does not restrict the meaning of references to employees in other contexts.

(6) Subsection (1) has effect subject to—

- section 188(2) (discharge of loan: where employment becomes lower-paid),
- section 195(3) (discharge of notional loan: where employment becomes lower-paid),
- section 199(4) (disposal for more than market value: where employment becomes lower-paid), and
- section 220 (employment in two or more related employments).

*What is lower-paid employment*

**217 Meaning of “lower-paid employment”**

- (1) For the purposes of this Chapter an employment is “lower-paid employment” in relation to a tax year if the earnings rate for the employment for the year (calculated under section 218) is less than £8,500.
- (2) Subsection (1) is subject to section 220 (employment in two or more related employments).

**218 Calculation of earnings rate for a tax year**

- (1) For any tax year the earnings rate for an employment is to be calculated as follows—

*Step 1*

Find the total of the following amounts—

- (a) the total amount of the earnings from the employment for the year within Chapter 1 of this Part,
- (b) the total of any amounts that are treated as earnings from the employment for the year under the benefits code (see subsections (2) and (3)),
- (c) the total of any amounts that are treated as earnings from the employment for the year under Chapter 12 of this Part (payments treated as earnings), and
- (d) in the case of an employment within section 56(2) (deemed employment of worker by intermediary), the amount of the deemed employment payment for the year (see section 54),

excluding any exempt income.

*Step 2*

Add to that total any extra amount required to be added for the year by section 219 (extra amounts to be added in connection with a car).

*Step 3*

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Subtract the total amount of any authorised deductions (see subsection (4)) from the result of step 2.

*Step 4*

The earnings rate for the employment for the year is given by the formula—

$$R \times \frac{Y}{E}$$

where—

R is the result of step 3,

Y is the number of days in the year, and

E is the number of days in the year when the employment is held.

- (2) Section 216(1) (provisions not applicable to lower-paid employment) is to be disregarded for the purpose of determining any amount under step 1.
- (3) If the benefit of living accommodation is to be taken into account under step 1, the cash equivalent is to be calculated in accordance with section 105 (even if the cost of providing the accommodation exceeds £75,000).
- (4) For the purposes of step 3 “authorised deduction” means any deduction that would (assuming it was an amount of taxable earnings) be allowed from any amount within step 1 under—
  - section 346 (employee liabilities),
  - section 352 (agency fees paid by entertainers),
  - section 355 (corresponding payments by non-domiciled employees with foreign employers),
  - section 368 (fixed sum deductions from earnings payable out of public revenue),
  - section 370 (travel costs and expenses where duties performed abroad: employee’s travel),
  - section 371 (travel costs and expenses where duties performed abroad: visiting spouse’s or child’s travel),
  - section 373 (non-domiciled employee’s travel costs and expenses where duties performed in UK),
  - section 374 (non-domiciled employee’s spouse’s or child’s travel costs and expenses where duties performed in UK),
  - section 376 (foreign accommodation and subsistence costs and expenses (overseas employments)),
  - section 377 (costs and expenses in respect of personal security assets and services),
  - section 713 (payroll giving to charities),
  - section 592(7) of ICTA (contributions to exempt approved schemes),
  - section 594 of ICTA (contributions to exempt statutory schemes), or
  - section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions).

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## 219 Extra amounts to be added in connection with a car

- (1) The provisions of this section apply for the purposes of section 218(1) in the case of a tax year in which a car is made available as mentioned in section 114(1) (cars, vans and related benefits) by reason of the employment.
- (2) Subsection (3) applies if in the tax year—
  - (a) an alternative to the benefit of the car is offered, and
  - (b) the amount that would be earnings within Chapter 1 of this Part if the benefit of the car were to be determined by reference to the alternative offered exceeds the benefit code earnings (see subsection (4)).
- (3) The amount of the excess is an extra amount to be added under step 2 in section 218(1).
- (4) For the purposes of subsection (2) “the benefit code earnings” is the total for the year of—
  - (a) the cash equivalent of the benefit of the car (calculated in accordance with Chapter 6 of this Part), and
  - (b) the cash equivalent (calculated in accordance with that Chapter) of the benefit of any fuel provided for the car by reason of the employment.
- (5) Subsection (6) applies if in the tax year there would be an amount of general earnings consisting of—
  - (a) earnings within Chapter 1 of this Part, or
  - (b) an amount treated as earnings from the employment under Chapter 3 (expenses payments) or Chapter 4 (vouchers and credit-tokens) of this Part, if section 239 or 269 (exemptions in respect of payments or benefits connected with taxable cars etc.) did not apply to the discharge of a liability, or to a payment or benefit, in connection with the car.
- (6) The amount of general earnings mentioned in subsection (5) is an extra amount to be added under step 2 in section 218(1).
- (7) Section 216(1) (provisions not applicable to lower-paid employment) is to be disregarded for the purpose of determining any amount under this section.

### *Treatment of related employments*

## 220 Related employments

- (1) This section applies if a person is employed in two or more related employments.
- (2) None of the employments is to be regarded as lower-paid employment in relation to a tax year if—
  - (a) the total of the earnings rates for the employments for the year (calculated in each case under section 218) is £8,500 or more, or
  - (b) any of them is an employment falling outside the exclusion contained in section 216(1) (provisions not applicable to lower-paid employment).
- (3) For the purposes of this section two employments are “related” if—
  - (a) both are with the same employer, or
  - (b) one is with a body or partnership (“A”) and the other is either—
    - (i) with an individual, partnership or body that controls A (“B”), or

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- (ii) with another partnership or body also controlled by B.

## CHAPTER 12

### PAYMENTS TREATED AS EARNINGS

#### **221 Payments where employee absent because of sickness or disability**

- (1) This section applies if—
- (a) an employee is absent from work because of sickness or disability, and
  - (b) a qualifying sickness payment is made in respect of the employee's absence from work.
- (2) But this section does not apply if the qualifying sickness payment constitutes earnings from the employment by virtue of any other provision.
- (3) The qualifying sickness payment is to be treated as earnings from the employment in respect of the period of absence.
- (4) If the qualifying sickness payment is made from funds to which the employer and the employer's employees have made contributions, only the amount of the payment which it is just and reasonable to attribute to the employer's contributions is treated as earnings under this section.
- (5) In this section "qualifying sickness payment" means a payment which meets conditions A and B.
- (6) Condition A is that the payment is made—
- (a) to the employee or to a member of the employee's family,
  - (b) to the order of such a person, or
  - (c) to the benefit of such a person.
- (7) Condition B is that the payment is made—
- (a) by reason of the employment, and
  - (b) as a result of arrangements entered into by the employer.

#### **222 Payments by employer on account of tax where deduction not possible**

- (1) This section applies if—
- (a) an employer is treated by virtue of sections 687, 689 and 693 to 700 as having made a payment of income of an employee ("the notional payment"),
  - (b) the employer is required by virtue of section 710(4) to account to the Inland Revenue for an amount of income tax ("the due amount") in respect of the notional payment, and
  - (c) the employee does not, before the end of the period of 30 days beginning with the date on which the employer is treated as making the notional payment, make good the due amount to the employer.
- (2) The due amount is to be treated as earnings from the employment for the tax year in which the date mentioned in subsection (1)(c) falls.

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- (3) In this section “employer”, in relation to any provision of sections 687, 689, 693 to 700 or 710, means the person taken to be the employer for the purposes of that provision.

It also includes a person who is treated as making a payment of PAYE income by virtue of section 689(2) (payments by person for whom employee works but who is not the employer).

## **223 Payments on account of director’s tax other than by the director**

- (1) This section applies if in a tax year—
- (a) a person (“P”) makes a payment to another person who is employed as the director of a company,
  - (b) the payment is of, or on account of, earnings from the director’s employment,
  - (c) PAYE regulations require P to deduct an amount of income tax (“the deductible tax”),
  - (d) P deducts none, or only some, of the deductible tax, and
  - (e) either or both of the following occur—
    - (i) P accounts to the Board of Inland Revenue for some or all of the deductible tax (whether or not P has actually deducted the amount accounted for);
    - (ii) one or more persons other than P (apart from the director) account to the Board of Inland Revenue for some or all of the deductible tax.
- (2) For the purposes of this section it does not matter whether the director’s employment is held at the time when P makes the payment mentioned in subsection (1)(a) so long as it is held at some point in the tax year in which the payment is made.
- (3) References in this section to employment as a director accordingly include prospective or past employment as a director.
- (4) The deductible tax accounted for to the Board of Inland Revenue is to be treated as earnings of the director from the director’s employment for the tax year in which it is accounted for.
- (5) But if—
- (a) the deductible tax is accounted for after the director’s employment has ceased, and
  - (b) the employment ceased in a tax year before the one in which the deductible tax is accounted for,
- the deductible tax is treated as earnings for the tax year in which the director’s employment ceased.
- (6) The following rules apply to the calculation of the amount to be treated as earnings under this section—
- (a) any amount accounted for after the death of the director is to be disregarded;
  - (b) if P deducts some of the deductible tax, the amount treated as earnings is reduced by the amount deducted;
  - (c) if the director makes good to P or to another person some or all of the deductible tax which P or the other person accounts for, the amount treated as earnings is reduced by the amount made good.



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- (7) This section does not apply if the director has no material interest in the company and either—
- (a) the director is employed as a full-time working director of the company, or
  - (b) the company is—
    - (i) non-profit-making, or
    - (ii) established for charitable purposes only.
- (8) In this section—
- “director” has the same meaning as in the benefits code (see section 67);
  - “director’s employment”, in relation to a person who is employed as a director, means that employment;
  - “full-time working director” has the same meaning as in the benefits code (see section 67);
  - “material interest” has the same meaning as in the benefits code (see section 68);
  - “non-profit-making”, in relation to a company, means that—
    - (a) the company does not carry on a trade, and
    - (b) its functions do not consist wholly or mainly in the holding of investments or other property.

## **224 Payments to non-approved personal pension arrangements**

- (1) Contributions paid by an employer under non-approved personal pension arrangements made by the employee are to be treated as earnings from the employment for the tax year in which they are paid.
- (2) Subsection (1) does not apply if or to the extent that the contributions are chargeable to income tax as the employee’s income apart from this section.
- (3) For the purposes of this section—
- (a) “personal pension arrangements” has the meaning given by section 630(1) of ICTA, and
  - (b) arrangements are “non-approved” if they are not “approved” within the meaning of that section.

## **225 Payments for restrictive undertakings**

- (1) This section applies where—
- (a) an individual gives a restrictive undertaking in connection with the individual’s current, future or past employment, and
  - (b) a payment is made in respect of—
    - (i) the giving of the undertaking, or
    - (ii) the total or partial fulfilment of the undertaking.
- (2) It does not matter to whom the payment is made.
- (3) The payment is to be treated as earnings from the employment for the tax year in which it is made.
- (4) Subsection (3) does not apply if the payment constitutes earnings from the employment by virtue of any other provision.

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- (5) A payment made after the death of the individual who gave the undertaking is treated for the purposes of this section as having been made immediately before the death.
- (6) This section applies only where—
- (a) the earnings from the employment are general earnings to which any of the provisions mentioned in subsection (7) apply, or
  - (b) if there were general earnings from the employment they would be general earnings to which any of those provisions apply.
- (7) The provisions are—
- (a) section 15 (earnings of employee resident, ordinarily resident and domiciled in the UK),
  - (b) section 21 (earnings of employee resident and ordinarily resident, but not domiciled, in UK, except chargeable overseas earnings),
  - (c) section 25 (UK-based earnings of employee resident but not ordinarily resident in UK), and
  - (d) section 27 (UK-based earnings of employee not resident in UK).
- (8) In this section “restrictive undertaking” means an undertaking which restricts the individual’s conduct or activities.

For this purpose it does not matter whether or not the undertaking is legally enforceable or is qualified.

## **226 Valuable consideration given for restrictive undertakings**

- (1) In a case where—
- (a) an individual gives a restrictive undertaking in connection with the individual’s current, future or past employment, and
  - (b) valuable consideration that is not in the form of money is provided in respect of—
    - (i) the giving of the undertaking, or
    - (ii) the total or partial fulfilment of the undertaking,
 section 225 applies as it would if a payment of an amount equal to the value of the consideration had been made instead.
- (2) For this purpose—
- (a) merely assuming an obligation to make over or provide valuable property, rights or advantages is not valuable consideration, but
  - (b) wholly or partially discharging such an obligation is.

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## PART 4

### EMPLOYMENT INCOME: EXEMPTIONS

#### CHAPTER 1

##### EXEMPTIONS: GENERAL

### 227 Scope of Part 4

- (1) This Part contains—
  - (a) earnings-only exemptions, and
  - (b) employment income exemptions.
- (2) In this Act “earnings-only exemption” means an exemption from income tax which—
  - (a) prevents liability to tax arising in respect of earnings, either by virtue of one or more particular provisions (such as a Chapter of the benefits code) or at all, and
  - (b) does not prevent liability to tax arising in respect of other employment income.
- (3) In this Act “employment income exemption” means an exemption from income tax which prevents liability to tax arising in respect of employment income of any kind at all.
- (4) The following provisions in Part 7 also confer exemption from liability to income tax in respect of earnings—
  - <sup>F4</sup>(a) section 425 (restricted securities: no charge in respect of acquisition in certain circumstances),
  - (b) section 475 (no charge in respect of acquisition of securities option),]
  - (c) sections 489 to 493 and sections 496 to 499 (approved share incentive plans),
  - <sup>F5</sup>(d) .....
  - (e) section 519 (approved SAYE option schemes: no charge in respect of exercise of option),
  - <sup>F6</sup>(f) .....
  - (g) section 524 (approved CSOP schemes: no charge in respect of exercise of option),
  - <sup>F7</sup>(h) .....
  - (i) section 542 (priority share allocations: exemption where offer made to public and employees), and
  - (j) section 544 (priority share allocations: exemption where different offers made to public and employees).

#### Textual Amendments

- F4** S. 227(4)(a)(b) substituted (with effect in accordance with Sch. 22 para. 25(4) of the amending Act, and otherwise 1.9.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 25\(2\)](#); S.I. 2003/1997, [art. 2](#)
- F5** S. 227(4)(d) repealed (with effect in accordance with Sch. 22 para. 25(4) of the amending Act, and otherwise 1.9.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 25\(3\)](#), [Sch. 43 Pt. 3\(4\)](#); S.I. 2003/1997, [art. 2](#)

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- F6** S. 227(4)(f) repealed (with effect in accordance with Sch. 22 para. 25(4) of the amending Act, and otherwise 1.9.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 25\(3\)](#), [Sch. 43 Pt. 3\(4\)](#); S.I. 2003/1997, art. 2
- F7** S. 227(4)(h) repealed (with effect in accordance with Sch. 22 para. 25(4) of the amending Act, and otherwise 1.9.2003) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 25\(3\)](#), [Sch. 43 Pt. 3\(4\)](#); S.I. 2003/1997, art. 2

## 228 Effect of exemptions on liability under provisions outside Part 2

- (1) The exemptions conferred by the provisions specified in subsection (2) prevent liability to income tax arising under any enactment, but the other exemptions in this Part only affect liability to income tax under Part 2 of this Act.
- (2) The provisions referred to in subsection (1) are—
  - (a) section 245 (travelling and subsistence during public transport strikes),
  - (b) section 248 (transport home: late night working and failure of car-sharing arrangements),
  - (c) section 264 (annual parties and functions),
  - (d) Chapter 8 of this Part (exemptions for special kinds of employees) except for sections 290 and 291,
  - (e) section 323 (long service awards),
  - (f) section 324 (small gifts from third parties), and
  - (g) section 326 (expenses incidental to transfer of a kind not normally met by transferor).

## CHAPTER 2

### EXEMPTIONS: MILEAGE ALLOWANCES AND PASSENGER PAYMENTS

#### *Mileage allowances*

## 229 Mileage allowance payments

- (1) No liability to income tax arises in respect of approved mileage allowance payments for a vehicle to which this Chapter applies (see section 235).
- (2) Mileage allowance payments are amounts, other than passenger payments (see section 233), paid to an employee for expenses related to the employee's use of such a vehicle for business travel (see section 236(1)).
- (3) Mileage allowance payments are approved if, or to the extent that, for a tax year, the total amount of all such payments made to the employee for the kind of vehicle in question does not exceed the approved amount for such payments applicable to that kind of vehicle (see section 230).
- (4) Subsection (1) does not apply if—
  - (a) the employee is a passenger in the vehicle, or
  - (b) the vehicle is a company vehicle (see section 236(2)).

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## 230 The approved amount for mileage allowance payments

- (1) The approved amount for mileage allowance payments that is applicable to a kind of vehicle is—

$$M \times R$$

where—

M is the number of miles of business travel by the employee (other than as a passenger) using that kind of vehicle in the tax year in question;

R is the rate applicable to that kind of vehicle.

- (2) The rates applicable are as follows—

TABLE

<i>Kind of vehicle</i>	<i>Rate per mile</i>
Car or van	40p for the first 10,000 miles 25p after that
Motor cycle	24p
Cycle	20p

- (3) The reference in subsection (2) to “the first 10,000 miles” is to the total number of miles of business travel in relation to the employment, or any associated employment, by car or van in the tax year in question.
- (4) One employment is associated with another if—
- the employer is the same;
  - the employers are partnerships or bodies and an individual or another partnership or body has control over both of them; or
  - the employers are associated companies within the meaning of section 416 of ICTA.
- (5) In subsection (4)(b)—
- “control”, in relation to a body corporate or partnership, has the meaning given by section 840 of ICTA (in accordance with section 719 of this Act), and
  - the definition of “control” in that section of that Act applies (with the necessary modifications) in relation to an unincorporated association as it applies in relation to a body corporate.
- (6) The Treasury may by regulations amend subsection (2) so as to alter the rates or rate bands.

## 231 Mileage allowance relief

- (1) An employee is entitled to mileage allowance relief for a tax year—
- if the employee uses a vehicle to which this Chapter applies for business travel, and

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- (b) the total amount of all mileage allowance payments, if any, made to the employee for the kind of vehicle in question for the tax year is less than the approved amount for such payments applicable to that kind of vehicle.
- (2) The amount of mileage allowance relief to which an employee is entitled for a tax year is the difference between—
  - (a) the total amount of all mileage allowance payments, if any, made to the employee for the kind of vehicle in question, and
  - (b) the approved amount for such payments applicable to that kind of vehicle.
- (3) Subsection (1) does not apply if—
  - (a) the employee is a passenger in the vehicle, or
  - (b) the vehicle is a company vehicle.

### **232 Giving effect to mileage allowance relief**

- (1) A deduction is allowed for mileage allowance relief to which an employee is entitled for a tax year.
- (2) If any of the employee’s earnings—
  - (a) are taxable earnings in the tax year in which the employee receives them, and
  - (b) are not also taxable earnings in that year that fall within subsection (3),
 the relief is allowed as a deduction from those earnings in calculating net taxable earnings in the year.
- (3) If any of the employee’s earnings are taxable earnings in the tax year in which the employee remits them to the United Kingdom, there may be deducted from those earnings the amount of any mileage allowance relief—
  - (a) for that tax year, and
  - (b) for any earlier tax year in which the employee was resident in the United Kingdom,
 which, on the assumptions mentioned in subsection (4), would have been deductible under subsection (2).
- (4) The assumptions are—
  - (a) that subsection (2)(b) does not apply, and
  - (b) where applicable, that the earnings constitute taxable earnings in the tax year in which the employee receives them.
- (5) Subsection (3) applies only to the extent that the mileage allowance relief cannot be deducted under subsection (2).
- (6) A deduction shall not be made twice, whether under subsection (2) or (3), in respect of the same mileage allowance relief.
- (7) In this section “taxable earnings” or “net taxable earnings” means taxable earnings or net taxable earnings from the employment for the purposes of Part 2.

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### *Passenger payments*

#### **233 Passenger payments**

- (1) No liability to income tax arises in respect of approved passenger payments made to an employee for the use of a car or van (whether or not it is a company vehicle) if—
  - (a) the employee receives mileage allowance payments for the use of the car or van, and
  - (b) the cash equivalent of the benefit of the car or van is treated as earnings from the employment by virtue of section 120 or 154 (cars and vans as benefits).

This is subject to subsection (2).

- (2) The condition in subsection (1)(b) needs to be met only if the car or van is made available to the employee by reason of the employment.
- (3) Passenger payments are amounts paid to an employee because, while using a car or van for business travel, the employee carries in it one or more passengers who are also employees for whom the travel is business travel.
- (4) Passenger payments are approved if, or to the extent that, for a tax year, the total amount of all such payments made to the employee does not exceed the approved amount for such payments (see section 234).
- (5) Section 117 (when cars and vans are made available by reason of employment) applies for the purposes of subsection (2).

#### **234 The approved amount for passenger payments**

- (1) The approved amount for passenger payments is—

$$M \times R$$

where—

M is the number of miles of business travel by the employee by car or van—

- (a) for which the employee carries in the tax year in question one or more passengers who are also employees for whom the travel is business travel, and
- (b) in respect of which passenger payments are made;

R is a rate of 5p per mile.

- (2) If the employee carries for all or part of the tax year two or more passengers who are also employees for whom the travel is business travel, the approved amount for passenger payments is the total of the amounts calculated separately under subsection (1) in respect of each of those passengers.
- (3) The Treasury may by regulations amend subsection (1) so as to alter the rate.

### *Supplementary*

#### **235 Vehicles to which this Chapter applies**

- (1) This Chapter applies to cars, vans, motor cycles and cycles.

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- (2) “Car” means a mechanically propelled road vehicle which is not—
- (a) a goods vehicle,
  - (b) a motor cycle, or
  - (c) a vehicle of a type not commonly used as a private vehicle and unsuitable to be so used.
- (3) “Van” means a mechanically propelled road vehicle which—
- (a) is a goods vehicle, and
  - (b) has a design weight not exceeding 3,500 kilograms,
- and which is not a motor cycle.
- (4) “Motor cycle” has the meaning given by section 185(1) of the Road Traffic Act 1988 (c. 52).
- (5) “Cycle” has the meaning given by section 192(1) of that Act.
- (6) In this section—
- “design weight” means the weight which a vehicle is designed or adapted not to exceed when in normal use and travelling on a road laden;
- “goods vehicle” means a vehicle of a construction primarily suited for the conveyance of goods or burden of any description.

### **236 Interpretation of this Chapter**

- (1) In this Chapter—
- “business travel” means travelling the expenses of which, if incurred and paid by the employee in question, would (if this Chapter did not apply) be deductible under sections 337 to 342;
- “mileage allowance payments” has the meaning given by section 229(2);
- “passenger payments” has the meaning given by section 233(3).
- (2) For the purposes of this Chapter a vehicle is a “company vehicle” in a tax year if in that year—
- (a) the vehicle is made available to the employee by reason of the employment and is not available for the employee’s private use, or
  - (b) the cash equivalent of the benefit of the vehicle is to be treated as the employee’s earnings for the tax year by virtue of—
    - (i) section 120 (benefit of car treated as earnings),
    - (ii) section 154 (benefit of van treated as earnings), or
    - (iii) section 203 (residual liability to charge: benefit treated as earnings),
 or
  - (c) in the case of a car or van, the cash equivalent of the benefit of the car or van would be required to be so treated if sections 167 and 168 (exceptions for pooled cars and vans) did not apply, or
  - (d) in the case of a cycle, the cash equivalent of the benefit of the cycle would be required to be treated as the employee’s earnings for the tax year under Chapter 10 of Part 3 (taxable benefits: residual liability to charge) if section 244(1) (exception for cycles made available) did not apply.
- (3) Sections 117 and 118 (when cars and vans are made available by reason of employment and are made available for private use) apply for the purposes of subsection (2).



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## CHAPTER 3

### EXEMPTIONS: OTHER TRANSPORT, TRAVEL AND SUBSISTENCE

#### **237 Parking provision and expenses**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision of workplace parking for an employee.
- (2) No liability to income tax arises by virtue of the payment or reimbursement of expenses incurred in connection with the provision for or the use by an employee of workplace parking.
- (3) In this section “workplace parking” means—
  - (a) a car parking space,
  - (b) a motor cycle parking space, or
  - (c) facilities for parking a cycle other than a motor cycle, at or near the employee’s workplace.

#### **238 Modest private use of heavy goods vehicles**

- (1) No liability to income tax arises where a heavy goods vehicle is made available to an employee for the employee’s private use if conditions A and B are met.
- (2) Condition A is that there is no transfer of the property in the vehicle to the employee.
- (3) Condition B is that the employee’s use of the vehicle in the tax year is not wholly or mainly private use.
- (4) In this section—

“heavy goods vehicle” means a mechanically propelled road vehicle which—

  - (a) is of a construction primarily suited for the conveyance of goods or burden of any kind, and
  - (b) is designed or adapted to have a maximum weight exceeding 3,500 kilograms when in normal use and travelling on a road laden, and

“private use” means use other than for travel which the employee is necessarily obliged to do in the performance of the duties of the employment.

#### **239 Payments and benefits connected with taxable cars and vans and exempt heavy goods vehicles**

- (1) No liability to income tax arises in respect of the discharge of any liability of an employee in connection with a taxable car or van or an exempt heavy goods vehicle.
- (2) No liability to income tax arises in respect of a payment to an employee in respect of expenses incurred by the employee in connection with a taxable car or van or an exempt heavy goods vehicle.
- (3) Subsections (1) and (2) do not apply to liability arising by virtue of section 149 (benefit of car fuel treated as earnings).

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- (4) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of a benefit connected with a taxable car or van or an exempt heavy goods vehicle.
- (5) Subsection (4) does not apply to the provision of a driver.
- (6) For the purposes of this section a car or van is “taxable” if under Chapter 6 of Part 3 the cash equivalent of the benefit of it is to be treated as the employee’s earnings for the tax year.
- (7) For the purposes of this section—
  - (a) “heavy goods vehicle” has the same meaning as in section 238(4) (modest private use of heavy goods vehicles), and
  - (b) a heavy goods vehicle is “exempt” if it is made available in the tax year to the employee in such circumstances that section 238 applies.
- (8) For the purposes of subsections (1) and (2), a heavy goods vehicle is also “exempt” if it is so made available in such circumstances that section 238 would apply if the employee were not in excluded employment.
- (9) In this Part “excluded employment” means an excluded employment within the meaning of the benefits code (see section 63(4)).

#### **240 Incidental overnight expenses and benefits**

- (1) No liability to income tax arises in respect of a sum if or to the extent that it is paid wholly and exclusively for the purpose of paying or reimbursing expenses which—
  - (a) are incidental to the employee’s absence from the place where the employee normally lives,
  - (b) relate to a continuous period of such absence in relation to which the overnight stay conditions are met (a “qualifying period”), and
  - (c) would not be deductible under Part 5 if the employee incurred and paid them and Chapter 2 of this Part (mileage allowances and passenger payments) did not apply.
- (2) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of a benefit provided for an employee if—
  - (a) its provision is incidental to such an absence during a qualifying period, and
  - (b) no amount would be deductible in respect of it under Part 5.
- (3) Subsections (1) and (2) are subject to section 241 (incidental overnight expenses and benefits: overall exemption limit).
- (4) The overnight stay conditions are that—
  - (a) the employee is obliged to stay away from the place where the employee normally lives throughout the period,
  - (b) the period includes at least one overnight stay away from that place, and
  - (c) each such overnight stay during the period is at a place the expenses of travelling to which meet condition A or B.
- (5) Condition A is that the expenses are deductible under Part 5 (otherwise than under any of the excepted foreign travel provisions) or would be if the employee incurred and paid them and Chapter 2 of this Part did not apply.

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- (6) Condition B is that the expenses are within section 250 or 255 (exemption of work-related and individual learning account training provision) or would be if the employer paid or reimbursed them.
- (7) In this section “excepted foreign travel provisions” means—
- (a) section 371 (travel costs and expenses where duties performed abroad: visiting spouse’s or child’s travel),
  - (b) section 374 (non-domiciled employee’s spouse’s or child’s travel costs and expenses where duties performed in UK), and
  - (c) section 376 (foreign accommodation and subsistence costs and expenses (overseas employments)).

#### **241 Incidental overnight expenses and benefits: overall exemption limit**

- (1) Section 240(1) and (2) do not apply if the exemption provisions total in respect of the qualifying period in question exceeds the permitted amount.
- (2) In this section “the exemption provisions total”, in respect of a period, means the aggregate of—
- (a) the amounts that would be exempted under section 240(1) and (2) in respect of the period, apart from this section, and
  - (b) the amounts that would be exempted under section 268 (exemption of vouchers and tokens for incidental overnight expenses) in respect of the period, apart from the condition in section 268(5).
- (3) In this section “the permitted amount”, in respect of a period, means the aggregate of the following amounts—
- (a) £5 for each night during the period spent wholly in the United Kingdom, and
  - (b) £10 for each night during the period spent wholly or partly outside the United Kingdom.

#### **242 Works transport services**

- (1) No liability to income tax arises in respect of the provision for employees of a works transport service if—
- (a) the service is available generally to employees of the employer (or each employer) concerned,
  - (b) the main use of the service is for qualifying journeys by those employees, and
  - (c) the service—
    - (i) is used only by the employees for whom it is provided or their children, or
    - (ii) is substantially used only by those employees or children.
- (2) In this section—
- “children” includes stepchildren and illegitimate children but does not include children aged 18 or over, and
- “works transport service” means a service which is provided by means of a bus or a minibus for conveying employees of one or more employers on qualifying journeys.
- (3) For the purposes of this section—

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- (a) “bus” means a road passenger vehicle which has a seating capacity of 12 or more, and
  - (b) “minibus” means a vehicle constructed or adapted for the carriage of passengers which has a seating capacity of 9, 10 or 11.
- (4) But a vehicle which falls within the definition in subsection (3)(b) is not a minibus for the purposes of this section if—
- (a) it has one or more disqualified seats, and
  - (b) excluding the disqualified seats, it has a seating capacity of 8 or less.
- (5) For the purposes of subsections (3) and (4) the seating capacity of a vehicle is determined in the same way as for the purposes of Part 3 of Schedule 1 to VERA 1994 (vehicle excise duty on buses).

This applies whether or not the vehicle is a bus within the meaning of that Part of that Schedule.

- (6) For the purposes of subsection (4) a seat is disqualified if relevant construction and use requirements are not met in relation to it.

In this subsection “construction and use requirements” has the same meaning as in Part 2 of the Road Traffic Act 1988 (c. 52) or, in Northern Ireland, Part III of the Road Traffic (Northern Ireland) Order 1995 (S.I. 1995/2994 (N.I. 18)).

## **243 Support for public bus services**

- (1) No liability to income tax arises in respect of the provision of financial or other support for a public transport road service if—
- (a) in the case of a local bus service, conditions A and B are met, or
  - (b) in any other case, conditions A to C are met.
- (2) Condition A is that the service is used by employees of one or more employers for qualifying journeys.
- (3) Condition B is that the service is available generally to employees of the employer (or each employer) concerned.
- (4) Condition C is that the terms on which the service is available to the employees of the employer (or each employer) concerned are not more favourable than those available to other passengers.
- (5) In this section—
- “local bus service” means a local service (as defined in section 2 of the Transport Act 1985 (c. 67)), and
  - “public transport road service” means a public passenger transport service provided by means of a road vehicle.

## **244 Cycles and cyclist’s safety equipment**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision for an employee of a cycle or cyclist’s safety equipment if conditions A to C are met.

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- (2) Condition A is that there is no transfer of the property in the cycle or equipment in question.
- (3) Condition B is that the employee uses the cycle or equipment in question mainly for qualifying journeys.
- (4) Condition C is that cycles are available generally to employees of the employer concerned or, as the case may be, cyclist's safety equipment is so available to them.
- (5) In this section "cycle" has the meaning given by section 192(1) of the Road Traffic Act 1988 (c. 52), and "cyclist" has a corresponding meaning.

#### **245 Travelling and subsistence during public transport strikes**

- (1) No liability to income tax arises in respect of the following benefits and payments where a strike or other industrial action disrupts a public transport service normally used by an employee.
- (2) They are—
  - (a) the provision for the employee of overnight accommodation at or near the employee's permanent workplace,
  - (b) a payment to the employee in respect of expenses incurred by the employee in connection with such accommodation,
  - (c) the provision for the employee of transport for the purpose of ordinary commuting or travel between any two places that is for practical purposes substantially ordinary commuting, and
  - (d) a payment to the employee in respect of expenses incurred on such transport.

#### **246 Transport between work and home for disabled employees: general**

- (1) No liability to income tax arises in respect of—
  - (a) the provision of transport for a disabled employee, or
  - (b) the payment or reimbursement of expenses incurred on such transport,if the condition in subsection (2) is met.
- (2) The condition is that the transport is provided or the expenses are incurred for the purpose of ordinary commuting or travel between any two places that is for practical purposes substantially ordinary commuting.
- (3) Subsection (1) does not apply in a case where a car is made available to a disabled employee (but see section 247).
- (4) In this section "disabled employee" means an employee who has a physical or mental impairment with a substantial and long-term adverse effect on the employee's ability to carry out normal day to day activities.

#### **247 Provision of cars for disabled employees**

- (1) This section applies where a car is made available to a disabled employee without any transfer of the property in it.

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- (2) No liability to income tax arises by virtue of Chapter 6 or 10 of Part 3 (taxable benefits: cars, vans etc. and residual liability to charge) in respect of the benefit if conditions A to C are met.
- (3) No liability to income tax arises in respect of—
  - (a) the provision of fuel for the car, or
  - (b) the payment or reimbursement of expenses incurred in connection with it, if conditions A to C are met.
- (4) Condition A is that the car has been adapted for the employee’s special needs or, in the case of an employee who because of disability can only drive a car that has automatic transmission, it is such a car.
- (5) Condition B is that the car is made available on terms prohibiting its use otherwise than for—
  - (a) the employee’s business travel, or
  - (b) transport for the employee for the purpose of—
    - (i) ordinary commuting or travel between any two places that is for practical purposes substantially ordinary commuting, or
    - (ii) travel to a place the expenses of travelling to which would be within one of the training exemption provisions if the employer paid them.
- (6) Condition C is that in the tax year the car is only used in accordance with those terms.
- (7) In this section—
  - “business travel” has the same meaning as in Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits) (see section 171(1)),
  - “disabled employee” has the same meaning as in section 246 (see subsection (4)), and
  - “the training exemption provisions” means—
    - section 250 (exemption of work-related training provision),
    - section 255 (exemption for contributions to individual learning account training), and
    - section 311 (retraining courses).
- (8) Section 138(4) (when a car has automatic transmission) applies for the purposes of this section as it applies for the purposes of section 138.

## **248 Transport home: late night working and failure of car-sharing arrangements**

- (1) No liability to income tax arises in respect of the provision of transport or the payment or reimbursement of expenses incurred on transport if—
  - (a) the transport is for a journey from the employee’s workplace to the employee’s home,
  - (b) the late working conditions or the car-sharing failure conditions are met, and
  - (c) the number of previous occasions in the tax year on which the provision of transport within this section or the payment or reimbursement of expenses within this section has occurred is lower than 60.
- (2) The late working conditions are that—

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- (a) the journey is made on an occasion when the employee is required to work later than usual and until at least 9 p.m.,
  - (b) such occasions occur irregularly,
  - (c) by the time when the employee ceases work—
    - (i) public transport has ceased to be available for the journey, or
    - (ii) it would not be reasonable to expect the employee to use it, and
  - (d) the transport is by taxi or similar private road transport.
- (3) The car-sharing failure conditions are that—
- (a) the employee regularly travels to work in a car with one or more other employees of the employee’s employer under arrangements for the sharing of the car with them, and
  - (b) the journey is made on an occasion when the employee is unable to use the car because of unforeseen and exceptional circumstances.

## 249 Interpretation of this Chapter

In this Chapter—

“car” and “van” have the same meaning as in Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits) (see section 115), except that for the purposes of sections 246 and 247 (transport for the disabled) any adaptation of a car for the employee’s special needs is to be disregarded,

“ordinary commuting” has the same meaning as in section 338 (travel for necessary attendance) (see subsection (3)),

“qualifying journey”, in relation to an employee, means the whole or part of a journey—

- (a) between the employee’s home and workplace,
- (b) between one workplace and another,

in connection with the performance of the duties of the employment, and  
“workplace” and “permanent workplace” have the meaning given by section 339.

## CHAPTER 4

### EXEMPTIONS: EDUCATION AND TRAINING

#### *Work-related training*

## 250 Exemption of work-related training provision

- (1) No liability to income tax arises by virtue of—
- (a) the provision for an employee of work-related training or any benefit incidental to such training, or
  - (b) the payment or reimbursement to or in respect of an employee of—
    - (i) the cost of work-related training or of any benefit incidental to such training, or
    - (ii) any costs of a kind specified in subsection (2) in respect of such training.

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(2) The costs are—

- (a) costs which are incidental to the employee undertaking the training,
- (b) expenses incurred in connection with an examination or other assessment of what the employee has gained from the training, and
- (c) the cost of obtaining any qualification, registration or award to which the employee becomes or may become entitled as a result of the training or such an examination or other assessment.

## **251 Meaning of “work-related training”**

(1) In this Chapter “work-related training”, in relation to an employee, means a training course or other activity designed to impart, instil, improve or reinforce any knowledge, skills or personal qualities which—

- (a) are likely to prove useful to the employee when performing the duties of the employment or a related employment, or
- (b) will qualify or better qualify the employee—
  - (i) to perform those duties, or
  - (ii) to participate in any charitable or voluntary activities that are available to be performed in association with the employment or a related employment.

(2) For this purpose “related employment”, in relation to an employee, means another employment with the same employer, or with a person connected with the employer, which the employee—

- (a) is to hold,
- (b) has a serious opportunity of holding, or
- (c) can realistically expect to have a serious opportunity of holding in due course.

## **252 Exception for non-deductible travel expenses**

(1) Where travel or subsistence is provided or the costs of travel or subsistence are paid or reimbursed, section 250 does not apply except to the extent that the travel meets condition A or B or the subsistence meets condition B.

(2) Condition A is that, on the assumptions in subsection (4), mileage allowance relief under Chapter 2 of this Part would be available for the travel if no mileage allowance payments had been made.

(3) Condition B is that, on those assumptions, the expenses of the travel or subsistence would be deductible under Part 5.

(4) The assumptions are—

- (a) that the employee undertook the training as one of the duties of the employment, and
- (b) that the employee incurred and paid the expenses.

(5) In this section—

“mileage allowance payments” has the meaning given by section 229(2), and  
 “subsistence” includes food, drink and temporary living accommodation.



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### **253 Exception where provision for excluded purposes**

- (1) Section 250 does not apply if or to the extent that the facilities or other benefits that are provided or the costs of which are paid or reimbursed are provided to the employee for one or more of the following purposes.
- (2) They are—
  - (a) enabling the employee to enjoy the facilities or benefits for entertainment or recreational purposes which are unconnected,
  - (b) providing the employee with an unconnected inducement to remain in or accept an employment with the employer or a person connected with the employer, and
  - (c) rewarding the employee for performing duties of the employment or performing them in a particular way.
- (3) In subsection (2)(a) the reference to enjoying facilities or benefits for entertainment or recreational purposes includes a reference to enjoying them in the course of a leisure activity.
- (4) In subsection (2)(a) and (b) “unconnected” means unconnected with imparting, instilling, improving or reinforcing knowledge, skills or personal qualities within section 251(1).

### **254 Exception where unrelated assets are provided**

- (1) Section 250 does not apply if the benefit that is provided or the cost of which is paid or reimbursed is, or is the use of, an asset that is not a training-related asset.
- (2) “Training-related asset”, in relation to work-related training provided to an employee, means—
  - (a) an asset provided for use only—
    - (i) in the course of the training, or
    - (ii) in the course of the training and in the performance of the duties of the employee’s employment,
  - (b) training materials provided in the course of the training, or
  - (c) something made by the employee in the course of the training or incorporated into something so made.
- (3) For this purpose, “training materials” includes stationery, books or other written material, audio or video tapes, compact disks or floppy disks.

#### *Individual learning account training*

### **255 Exemption for contributions to individual learning account training**

- (1) No liability to income tax in respect of income from a current or former employment arises by virtue of—
  - (a) the provision to a person within subsection (2) (“the employee”) of individual learning account training that is given by a person who is not the employee’s employer or former employer,
  - (b) any payment to the person giving the training in respect of the cost of that provision,

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- (c) the provision to the employee of any benefit incidental to such training, or
  - (d) the payment or reimbursement of any costs in respect of such training of a kind specified in subsection (3).
- (2) A person is within this subsection if the person either—
- (a) holds an account that qualifies under section 104 of the Learning and Skills Act 2000 (c. 21), or
  - (b) is a party to arrangements that qualify under section 105 or 106 of that Act or section 2 of the Education and Training (Scotland) Act 2000 (asp. 8).
- (3) The costs are—
- (a) costs which are incidental to the employee undertaking the training,
  - (b) expenses incurred in connection with an examination or other assessment of what the employee has gained from the training, and
  - (c) the cost of obtaining any qualification, registration or award to which the employee becomes or may become entitled as a result of the training or such an examination or other assessment.

## **256 Meaning of “individual learning account training”**

In this Chapter “individual learning account training” means training or education of a kind that qualifies for grants authorised by—

- (a) regulations under section 108 or 109 of the Learning and Skills Act 2000 (c. 21), or
- (b) regulations under section 1 of the Education and Training (Scotland) Act 2000.

## **257 Exception for non-deductible travel expenses**

- (1) Where travel or subsistence is provided or the costs of travel or subsistence are paid or reimbursed, section 255 does not apply except to the extent that the travel meets condition A or B or the subsistence meets condition B.
- (2) Condition A is that, on the assumptions in subsection (4), mileage allowance relief under Chapter 2 of this Part would be available for the travel if no mileage allowance payments had been made.
- (3) Condition B is that, on those assumptions, the expenses of the travel or subsistence would be deductible under Part 5.
- (4) The assumptions are—
  - (a) that the employee undertook the training as one of the duties of the employment, and
  - (b) that the employee incurred and paid the expenses.
- (5) In this section—
  - “mileage allowance payments” has the meaning given by section 229(2), and
  - “subsistence” includes food, drink and temporary living accommodation.

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## **258 Exception where provision for excluded purposes**

- (1) Section 255 does not apply if or to the extent that the facilities or other benefits that are provided or made available, or the costs of which are paid or reimbursed, are provided or made available for either or both of the following purposes.
- (2) They are—
  - (a) enabling the employee or former employee to enjoy the facilities or benefits for entertainment or recreational purposes, and
  - (b) rewarding the employee or former employee for performing duties of the employment or former employment or performing them in a particular way.
- (3) In subsection (2)(a) the reference to enjoying facilities or benefits for entertainment or recreational purposes includes a reference to enjoying them in the course of a leisure activity.

## **259 Exception where unrelated assets are provided**

- (1) Section 255 does not apply if the benefit that is provided, or the use of which is provided, or the cost of which is paid or reimbursed is an asset that is not a training-related asset.
- (2) “Training-related asset”, in relation to individual learning account training provided to an employee or former employee, means—
  - (a) an asset provided—
    - (i) for use only in the course of the training, or
    - (ii) for use in the course of the training and in the performance of the duties of the employee’s employment, but not to any significant extent for any other use, or
  - (b) training materials provided in the course of the training, or
  - (c) something made by the employee or former employee in the course of the training or incorporated into something so made.
- (3) For this purpose “training materials” includes stationery, books or other written material, audio or video tapes, compact disks or floppy disks.

## **260 Exception where training not generally available to staff**

- (1) Section 255(1) only applies if any expenditure involved in making the provision, the payment or the reimbursement is incurred in giving effect to existing arrangements providing—
  - (a) for the person incurring it to contribute to costs arising from the undertaking of individual learning account training by the employer’s employees or former employees, and
  - (b) for such contributions to be generally available, on similar terms, to the employer’s employees at that time.
- (2) In subsection (1) “existing arrangements” means arrangements in place when the agreement to incur the expenditure was made.
- (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 employment.

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- (4) Such regulations may—
- (a) treat a description of Crown servants (or two or more such descriptions taken together) as an entity for the purposes of the regulations, and
  - (b) make different provision for different descriptions of Crown servants.
- (5) In this section “Crown servant” means a person holding an employment under the Crown.

## CHAPTER 5

### EXEMPTIONS: RECREATIONAL BENEFITS

#### *Recreational facilities*

#### **261 Exemption of recreational benefits**

- (1) No liability to income tax arises in respect of the provision to an employee or a member of an employee’s family or household of benefits within subsection (2).
- (2) The benefits are—
- (a) sporting or other recreational facilities which meet conditions A to C, and
  - (b) a right or opportunity to make use of such facilities.
- This is subject to section 262.
- (3) Condition A is that the facilities are available generally to the employees of the employer in question.
- (4) Condition B is that they are not available to members of the public generally.
- (5) Condition C is that they are used wholly or mainly by persons whose right or opportunity to use them is employment-related (whether or not by reference to the same employer).
- (6) A person’s right or opportunity to use facilities is “employment-related” if and only if—
- (a) it derives from the person being—
    - (i) an employee or former employee, or
    - (ii) a member or former member of the family or household of an employee or former employee,
 of a particular employer, and
  - (b) the facilities are provided so as to be available generally to that employer’s employees.

#### **262 Benefits not exempted by section 261**

- (1) Section 261 (exemption of recreational benefits) does not apply to the following benefits—
- (a) an interest in or the use of any of the following—
    - (i) a mechanically propelled vehicle,
    - (ii) holiday or other overnight accommodation, or

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- (iii) facilities which include, or are provided in association with, a right or opportunity to make use of holiday or overnight accommodation,
  - (b) facilities provided on domestic premises, or
  - (c) a right or opportunity to make use of facilities within paragraph (a) or (b).
- (2) In this section—
- “domestic premises” means—
    - (a) premises used wholly or mainly as a private dwelling, or
    - (b) land or other premises belonging to, or enjoyed with, premises so used, and
  - “vehicle” includes a ship, boat or other vessel, an aircraft and a hovercraft.

## **263 Power to alter benefits to which section 261 applies**

The Treasury may by regulations provide that section 261—

- (a) does not apply to a benefit specified in the regulations,
- (b) applies to a benefit so specified only where such conditions as the regulations specify are met in relation to the terms on which, and the persons to whom, it is provided, or
- (c) applies in such cases as are so specified to—
  - (i) facilities that do not meet the conditions in section 261(3) to (5), or
  - (ii) a benefit within section 262.

### *Annual parties and functions*

## **264 Annual parties and functions**

- (1) This section applies to an annual party or similar annual function provided for an employer’s employees and available to them generally or available generally to those at a particular location.
- (2) Where in the tax year only one annual party or similar annual function to which this section applies is provided for the employer’s employees, or the employees in question, no liability to income tax arises in respect of its provision if the cost per head of the party or function does not exceed £75.
- (3) Where in the tax year two or more such parties or functions are so provided, no liability to income tax arises in respect of the provision of one or more of them (“the exempt party or parties”) if the cost per head of the exempt party or parties does not exceed £75 or £75 in aggregate.
- (4) For the purposes of this section, the cost per head of a party or function is the total cost of providing—
  - (a) the party or function, and
  - (b) any transport or accommodation incidentally provided for persons attending it (whether or not they are the employer’s employees),divided by the number of those persons.
- (5) That total cost includes any value added tax on the expenses incurred in providing the party, function, transport or accommodation.

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## *Entertainment*

### **265 Third party entertainment**

- (1) No liability to income tax arises in respect of the provision of entertainment for an employee or a member of the employee's family or household if conditions A to C are met.
- (2) Condition A is that the person providing the entertainment is not the employer or a person connected with the employer.
- (3) Condition B is that neither the employer nor a person connected with the employer has directly or indirectly procured its provision.
- (4) Condition C is that it is not provided—
  - (a) in recognition of particular services performed by the employee in the course of the employment, or
  - (b) in anticipation of particular services to be so performed.
- (5) In this section “entertainment” includes hospitality of any kind.

## **CHAPTER 6**

### EXEMPTIONS: NON-CASH VOUCHERS AND CREDIT-TOKENS

#### *General exemptions: use for exempt benefits*

### **266 Exemption of non-cash vouchers for exempt benefits**

- (1) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher if or to the extent that the voucher is used to obtain anything the direct provision of which would fall within—
  - (a) section 237(1) (parking provision),
  - (b) section 246 (transport between home and work for disabled employees: general),
  - (c) section 247 (provision of cars for disabled employees),
  - (d) section 248 (transport home: late night working and failure of car-sharing arrangements), or
  - (e) section 265 (third party entertainment).
- (2) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher if the voucher evidences the employee's entitlement to use anything the direct provision of which would fall within—
  - (a) section 242 (works transport services),
  - (b) section 243 (support for public bus services), or
  - (c) section 244 (cycles and cyclist's safety equipment).
- (3) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher if the voucher can only be used to obtain anything the direct provision of which would fall within—

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- (a) section 245 (travelling and subsistence during public transport strikes),
  - (b) section 261 (exemption of recreational benefits),
  - (c) section 264 (annual parties and functions),
  - (d) section 296 (armed forces' leave travel facilities), or
  - (e) section 317 (subsidised meals).
- (4) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher if the voucher evidences the employee's entitlement to a benefit in respect of which no charge arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) because of regulations under section 210 (power to exempt minor benefits).
- (5) For the purposes of this section direct provision is taken to fall within a section if it would do so if the employee were not in excluded employment.

## **267 Exemption of credit-tokens used for exempt benefits**

- (1) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a credit-token if or to the extent that the token is used to obtain anything the direct provision of which—
- (a) would fall within one of the provisions specified in subsection (2), or
  - (b) would do so if the employee were not in excluded employment.
- (2) Those provisions are—
- (a) section 237(1) (parking provision),
  - (b) section 245 (travelling and subsistence during public transport strikes),
  - (c) section 246 (transport between home and work for disabled employees: general),
  - (d) section 247 (provision of cars for disabled employees),
  - (e) section 248 (transport home: late night working and failure of car-sharing arrangements), and
  - (f) section 265 (third party entertainment).

*Exemptions for particular non-cash vouchers and credit-tokens*

## **268 Exemption of vouchers and tokens for incidental overnight expenses**

- (1) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher or a credit-token if or to the extent that the voucher or token is used by an employee to obtain goods, services or money if conditions A to C are met.
- (2) In the case of goods or services, condition A is that—
- (a) obtaining them is incidental to the employee's absence from the place where the employee normally lives, and
  - (b) that absence is for a continuous period in relation to which the overnight stay conditions are met ("the qualifying period").
- (3) In the case of money, condition A is that—
- (a) it is obtained for the purpose of obtaining goods or services, and
  - (b) obtaining them is incidental to such an absence during such a period.

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- (4) Condition B is that an amount would not be deductible under section 362 or 363 (deductions where non-cash voucher or credit-token provided) in respect of the cost of obtaining the goods or services.
- (5) Condition C is that the exemption provisions total in respect of the qualifying period does not exceed the permitted amount.
- (6) In this section—
  - “the overnight stay conditions” has the same meaning as in section 240 (exemption of incidental overnight expenses and benefits) (see section 240(4)), and
  - “the exemption provisions total” and “the permitted amount” have the same meaning as in section 241 (incidental overnight expenses and benefits: overall exemption limit) (see section 241(2) and (3)).

**269 Exemption where benefits or money obtained in connection with taxable car or van or exempt heavy goods vehicle**

- (1) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher or a credit-token if or to the extent that the voucher or token is used by the employee or a member of the employee’s family for obtaining—
  - (a) goods or services in connection with a taxable car or van or an exempt heavy goods vehicle, or
  - (b) money which is spent on such goods or services.
- (2) Subsection (1) applies where the goods in question are fuel for a car, but see section 149(3) (by virtue of which such use of a voucher or token is treated as the provision of the fuel for the purposes of section 149 (benefit of car fuel treated as earnings)).
- (3) For the purposes of this section—
  - (a) “car” and “van” have the meaning given by section 115, and
  - (b) a car or van is “taxable” if the cash equivalent of the benefit of it is treated as the employee’s earnings for the tax year in which the voucher or token is used under Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits).
- (4) For the purposes of this section—
  - (a) “heavy goods vehicle” has the same meaning as in section 238 (modest private use of heavy goods vehicles), and
  - (b) a heavy goods vehicle is “exempt” if it is made available in the tax year to the employee in such circumstances that section 238 applies or would apply if the employee were not in excluded employment.

**270 Exemption for small gifts of vouchers and tokens from third parties**

- (1) No liability to income tax arises by virtue of Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) in respect of a non-cash voucher or a credit-token if conditions A to C are met.
- (2) Condition A is that the voucher or token is provided as a gift.
- (3) Condition B is that it is only capable of being used to obtain goods.



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- (4) Condition C is that it meets conditions A to C and E in section 324 (general exemption of small gifts from third parties).

## CHAPTER 7

### EXEMPTIONS: REMOVAL BENEFITS AND EXPENSES

#### *Exemption of removal benefits and expenses: general*

#### **271 Limited exemption of removal benefits and expenses: general**

- (1) No liability to income tax in respect of earnings arises by virtue of—
- (a) the provision of removal benefits to which this section applies, or
  - (b) the payment or reimbursement of removal expenses to which this section applies.
- (2) Subsection (1) does not apply if (disregarding this section) the earnings are general earnings to which either of the following sections applies—
- (a) section 22 (chargeable overseas earnings for year when employee resident and ordinarily resident, but not domiciled, in UK), or
  - (b) section 26 (foreign earnings for year when employee resident, but not ordinarily resident, in UK).
- (3) Subsection (1) is subject to section 287 (limit on exemption).

#### **272 Removal benefits and expenses to which section 271 applies**

- (1) Benefits are removal benefits to which section 271 applies if—
- (a) they are reasonably provided in connection with a change of the employee's residence which meets the conditions in section 273,
  - (b) they are provided on or before the limitation day (see section 274), and
  - (c) they are within subsection (2) or one of the following provisions—
    - (i) section 277 (acquisition benefits and expenses),
    - (ii) section 278 (abortive acquisition benefits and expenses),
    - (iii) section 279 (disposal benefits and expenses),
    - (iv) section 280 (transporting belongings),
    - (v) section 281 (travelling and subsistence),
    - (vi) section 285 (replacement of domestic goods).
- (2) A benefit is within this subsection if it is a non-cash voucher, cash voucher or credit-token used—
- (a) to obtain goods or services the direct provision of which would be a benefit within one of the provisions specified in subsection (1)(c)(i) to (vi), or
  - (b) to obtain money for the purpose of obtaining such goods or services or meeting expenses within one of those provisions or section 284 (bridging loan expenses).
- (3) Expenses are removal expenses to which section 271 applies if—

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- (a) they are reasonably incurred by the employee in connection with a change of the employee's residence which meets the conditions in section 273,
- (b) they are incurred on or before the limitation day, and
- (c) they are within one of the provisions referred to in subsection (1)(c)(i) to (vi) or within section 284 (bridging loan expenses).

### **273 Conditions applicable to change of residence**

- (1) The conditions referred to in section 272(1)(a) and (3)(a) which apply to the change of the employee's residence are conditions A to C.
- (2) Condition A is that the change of residence results from one of the following changes—
  - (a) the employee becoming employed,
  - (b) an alteration of the duties of the employment, or
  - (c) an alteration of the place where the employee is normally to perform those duties.
- (3) Condition B is that the change of residence is made wholly or mainly to allow the employee to reside within a reasonable daily travelling distance of the place where the employee normally performs or is normally to perform the duties of the employment after the employment change (see section 275).
- (4) Condition C is that the employee's former residence is not within a reasonable daily travelling distance of that place.

### **274 Meaning of “the limitation day”**

- (1) In this Chapter “the limitation day”, in relation to an employee's change of residence, means the last day of the tax year after that in which the employee begins to perform the duties of the employment after the employment change, but this is subject to any direction under subsection (2).
- (2) The Inland Revenue may direct that the last day of a later tax year is the limitation day in relation to any particular change of residence if it appears to them reasonable to do so having regard to all the circumstances of that change.

### **275 Meaning of “the employment change”**

In this Chapter “the employment change”, in relation to an employee's change of residence, means whichever of the changes specified in section 273(2) results in the change of residence.

### **276 Meaning of “residence”, “former residence” and “new residence” etc.**

- (1) If an employee has more than one residence, references in this Chapter to the employee's residence are references to the employee's main residence.
- (2) In this Chapter, in relation to a change of the employee's residence—
  - (a) references to the former residence are references to the employee's residence before the change, and

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- (b) references to the new residence are references to the employee’s residence after the change.
- (3) In this Chapter references to an interest in a residence are, in the case of a building, references to an estate or interest in the land concerned.

### *Benefits and expenses within this Chapter*

## **277 Acquisition benefits and expenses**

- (1) This section applies if an interest in the employee’s new residence is acquired by—
  - (a) the employee,
  - (b) one or more members of the employee’s family or household, or
  - (c) the employee and one or more members of the employee’s family or household.
- (2) The following benefits are within this section—
  - (a) legal services connected with the acquisition of the interest, including legal services connected with any loan raised by the employee to acquire it,
  - (b) the waiving of any procurement fees connected with any such loan,
  - (c) the waiving of any amount payable in respect of insurance effected to cover risks incurred by the maker of any such loan because the loan equals the whole, or a substantial part, of the value of the interest,
  - (d) any survey or inspection of the residence undertaken in connection with the acquisition, and
  - (e) the connection of any utility serving the new residence for use by the employee or by the employee and one or more members of the employee’s family or household.
- (3) The following expenses are within this section—
  - (a) sums paid for any services within subsection (2)(a), (d) or (e),
  - (b) any procurement fees connected with any loan raised by the employee to acquire the interest,
  - (c) the costs of any insurance within subsection (2)(c),
  - (d) fees payable to an appropriate registry or appropriate register in connection with the acquisition, and
  - (e) stamp duty charged on the acquisition.
- (4) In this section references to a loan raised by the employee include a loan raised by—
  - (a) one or more members of the employee’s family or household, or
  - (b) the employee and one or more members of the employee’s family or household.
- (5) In this section—
  - “appropriate registry” means—
    - (a) Her Majesty’s Land Registry,
    - (b) the Land Registry in Northern Ireland, or
    - (c) the Registry of Deeds for Northern Ireland, and
  - “appropriate register” means any register under the management and control of the Keeper of the Registers of Scotland.

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## **278 Abortive acquisition benefits and expenses**

Benefits or expenses are within this section if—

- (a) they are benefits provided or expenses incurred with a view to the acquisition of an interest in a residence,
- (b) the interest is not acquired—
  - (i) because of circumstances outside the control of the person seeking to acquire it, or
  - (ii) because that person reasonably declines to proceed, and
- (c) the benefits or expenses would have fallen within section 277 if the interest had been acquired.

## **279 Disposal benefits and expenses**

- (1) This section applies if the employee has an interest in the former residence and because of the change of residence it is disposed of or is intended to be disposed of.
- (2) The following benefits are within this section—
  - (a) legal services connected with the disposal or intended disposal, including legal services connected with the redemption of a related loan,
  - (b) the waiving of any penalty for redeeming a related loan for the purpose of the disposal or intended disposal,
  - (c) the services of an estate agent or auctioneer engaged in the disposal or intended disposal,
  - (d) services connected with the advertisement of the disposal or intended disposal,
  - (e) the disconnection, for the purpose of the disposal or intended disposal, of any utility serving the former residence, and
  - (f) services connected with maintaining, insuring, or preserving the security of, the former residence at any time when it is unoccupied pending the disposal or intended disposal.
- (3) The following expenses are within this section—
  - (a) sums paid for any services within subsection (2)(a), (c), (d) or (e),
  - (b) any penalty for redeeming a related loan for the purpose of the disposal or intended disposal,
  - (c) rent paid in respect of the former residence at any time when it is unoccupied pending the disposal or intended disposal, and
  - (d) expenses of maintaining, insuring, or preserving the security of the former residence at any time when it is unoccupied pending the disposal or intended disposal.
- (4) In this section references to the employee having an interest in a residence include—
  - (a) one or more members of the employee’s family or household having such an interest, or
  - (b) the employee and one or more members of the employee’s family or household having such an interest.
- (5) A loan is a “related loan” for this purpose if—
  - (a) it was raised to obtain an interest in the former residence, or
  - (b) it is secured on such an interest, or
  - (c) part of it was so raised and the rest of it is so secured.

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## 280 Transporting belongings

- (1) The following benefits are within this section—
  - (a) the transportation of domestic belongings from the employee’s former residence to the employee’s new residence, and
  - (b) the effecting of insurance to cover such transportation.
- (2) The following expenses are within this section—
  - (a) expenses connected with such transportation, and
  - (b) the costs of any such insurance.
- (3) In this section—

“domestic belongings” means belongings of the employee or of members of the employee’s family or household, and

“transportation” includes—

  - (a) packing and unpacking belongings,
  - (b) temporarily storing them, where there is not a direct move from the former to the new residence,
  - (c) detaching domestic fittings from the former residence, where they are to be taken to the new residence, and
  - (d) attaching domestic fittings to the new residence and adapting them, where they are brought from the former residence.

## 281 Travelling and subsistence

- (1) The following benefits are within this section—
  - (a) subsistence and facilities for travel provided for the employee and members of the employee’s family or household for temporary visits to the new area for purposes connected with the change of residence,
  - (b) any other subsistence provided for the employee,
  - (c) facilities provided for the employee for travel between the employee’s former residence and—
    - (i) the place where the employee’s new duties are normally performed, or
    - (ii) the new place where the duties of the employee’s employment are normally performed, or
    - (iii) temporary living accommodation of the employee,
  - (d) where the employment change is within section 273(2)(b) or (c) (change of duties or place of performance), facilities provided for the employee for travel before the change between the employee’s new residence and—
    - (i) the place where the employee normally performs the duties of the employment before the change, or
    - (ii) temporary living accommodation of the employee,
  - (e) facilities provided for the employee and members of the employee’s family or household for travel from the employee’s former residence to the employee’s new residence in connection with the change of residence,
  - (f) subsistence provided for a relevant child while the child stays in education-linked living accommodation,
  - (g) facilities provided for a relevant child for travel between education-linked living accommodation and the employee’s accommodation.

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- (2) For the purposes of this section, “education-linked living accommodation”, in relation to a relevant child, means living accommodation where the child stays for the purpose of securing continuity in education, being—
- (a) accommodation in the new area where the child stays before the employee’s change of residence,
  - (b) accommodation in the former area where the child stays after that change,
  - (c) accommodation in the new area where the child stays while the employee is living in temporary living accommodation in the former area, or
  - (d) accommodation in the former area where the child stays while the employee is living in temporary living accommodation in the new area.
- (3) For the purposes of subsection (1)(g) “the employee’s accommodation”, in relation to travel to or from education-linked accommodation, means—
- (a) if that accommodation is within subsection (2)(a), the employee’s former residence,
  - (b) if that accommodation is within subsection (2)(b), the employee’s new residence, and
  - (c) if that accommodation is within subsection (2)(c) or (d), the employee’s temporary accommodation.
- (4) The cost of providing subsistence or travel of a kind described in subsection (1) is an expense within this section.
- (5) Subsections (1) and (4) are subject to section 282 (exclusion from this section of benefits and expenses where deduction allowed), and subsection (1) is also subject to section 283 (exclusion from this section of taxable car and van facilities).
- (6) In this section—
- “new duties” means—
- (a) if the employment change is within section 273(2)(a) (change of employer), the duties of the employee’s new employment, and
  - (b) if the employment change is within section 273(2)(b) (change of duties), the new duties of the employment,
- “former area” means the area round or near the former residence of the employee,
- “new area” means—
- (a) if the employment change is within section 273(2)(a) or (b) (change of employer or duties), the area round or near the place where the employee’s new duties normally are or are to be performed, and
  - (b) if the employment change is within section 273(2)(c) (change of place of performance), the area round or near the new place where the duties of the employee’s employment normally are or are to be performed,
- “relevant child” means a person who is a member of the employee’s family or household and is aged under 19 at the beginning of the tax year in which the employment change occurs, and
- “subsistence” means food, drink and temporary living accommodation.

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## **282 Exclusion from section 281 of benefits and expenses where deduction allowed**

- (1) Benefits and expenses are excluded from section 281 (travelling and subsistence) if or to the extent that an amount is deductible in respect of the cost of the benefits or of the expenses under any of the following provisions.
- (2) They are—
  - (a) section 341 (travel at start or finish of overseas employment),
  - (b) section 342 (travel between employments where duties performed abroad), and
  - (c) Chapter 5 of Part 5 except section 376 (deductions for earnings representing benefits or reimbursed expenses in respect of certain foreign travel).
- (3) If an amount is so deductible in respect of part only of the cost of a benefit, the part of the benefit excluded by this section is to be determined on a just and reasonable basis.

## **283 Exclusion from section 281 of taxable car and van facilities**

- (1) A car or van is not treated as a facility for the purposes of section 281(1) if in the tax year in which it is provided it is also made available—
  - (a) to the employee or members of the employee's family or household for private use not falling within section 281(1),
  - (b) by reason of the employee's employment, and
  - (c) without any transfer of the property in it.
- (2) The following sections apply for the purposes of this section as they apply for the purposes of Chapter 6 of Part 3 (taxable benefits: cars, vans and related benefits)—
  - (a) section 115 (meaning of "car" and "van"),
  - (b) section 117 (meaning of car or van made available by reason of employment), and
  - (c) section 118 (availability for private use).

## **284 Bridging loan expenses**

- (1) Expenses are within this section if—
  - (a) the employee has an interest in the former residence and disposes of it because of the change of residence,
  - (b) the employee acquires an interest in the new residence, and
  - (c) the expenses are interest payable by the employee in respect of a loan raised by the employee wholly or partly because expenditure is incurred in connection with that acquisition before the proceeds of that disposal become available.

This is subject to subsections (2) and (3).

- (2) Interest is only within this section if or to the extent that the loan is used—
  - (a) for acquiring the employee's interest in the new residence, or
  - (b) for redeeming a loan—
    - (i) which was raised by the employee to obtain an interest in the former residence,
    - (ii) which is secured on such an interest, or
    - (iii) which was partly so raised and the rest of which is so secured.

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- (3) If the loan exceeds the market value of the employee's interest in the former residence at the time of acquisition of the new residence, the interest on the excess is not within this section.
- (4) If subsection (3) applies in a case where the loan is used partly for purposes within subsection (2) and partly for other purposes, the amount of the interest within this section is the appropriate fraction of the total interest.
- (5) The appropriate fraction is—

$$\frac{MV}{L}$$

or, if it is smaller—

$$\frac{PL}{L}$$

where—

MV is the market value of the employee's interest in the former residence at the time of acquisition of the new residence,

PL is the part of the loan used for purposes within subsection (2), and

L is the amount of the loan.

- (6) In this section—
- (a) references to a loan raised by the employee include a loan raised by—
- (i) one or more members of the employee's family or household, or
  - (ii) the employee and one or more members of the employee's family or household, and
- (b) references to the employee having, disposing of or acquiring an interest in a residence include—
- (i) one or more members of the employee's family or household having, disposing of or acquiring such an interest, or
  - (ii) the employee and one or more members of the employee's family or household having, disposing of or acquiring such an interest.

## **285 Replacement of domestic goods**

- (1) Benefits and expenses are within this section if—
- (a) the employee has an interest in the former residence and disposes of it because of the change of residence,
  - (b) the employee acquires an interest in the new residence,
  - (c) in the case of benefits, they are domestic goods provided to replace goods used at the former residence which are unsuitable for use at the new residence, and
  - (d) in the case of expenses, they are incurred on the purchase of domestic goods intended for such replacement.
- (2) In this section references to the employee having, disposing of or acquiring an interest in a residence include—



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- (a) one or more members of the employee's family or household having, disposing of or acquiring such an interest, or
- (b) the employee and one or more members of the employee's family or household having, disposing of or acquiring such an interest.

## **286 Power to amend sections 279 to 285**

- (1) The Treasury may by regulations amend sections 279 to 285 so as to secure that benefits or expenses which would not otherwise fall within any of those sections do so.
- (2) The regulations may include such supplementary, incidental or consequential provisions as appear to the Treasury to be necessary or expedient.
- (3) Those provisions may be made by amending this Chapter or otherwise.
- (4) The regulations apply to a change of an employee's residence resulting from an employment change occurring on or after the day specified in the regulations for this purpose.

### *Limit on exemption*

## **287 Limit on exemption**

- (1) If in the case of any change of residence the value of the exemption exceeds £8,000, section 271 (exemption of removal benefits and expenses) does not apply to the excess.
- (2) The value of the exemption is an amount equal to the sum of—
  - (a) the section 62 earnings, and
  - (b) the benefits code earnings (after taking account of section 64(2)(b) where otherwise an amount that falls within paragraph (a) would be included).
- (3) In this section “the section 62 earnings” means all earnings within section 62 (earnings) in respect of which section 271 would prevent liability to income tax from arising if this section were disregarded.
- (4) In this section “the benefits code earnings” means all earnings—
  - (a) which are treated as such under the benefits code (except earnings so treated under Chapter 7 of Part 3 (taxable benefits: loans)), and
  - (b) in respect of which section 271 would prevent liability to income tax from arising if this section were disregarded.
- (5) In the case of living accommodation, the amount that would be so treated is to be taken to be equal to—

### **CE- D**

where—

CE is the cash equivalent of the accommodation under Chapter 5 of Part 3 (taxable benefits: living accommodation) for the period in which the accommodation is provided (calculated as mentioned in section 103), and

D is any amount deductible under section 364 (deductions where living accommodation provided).

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### *Special exemption and relief for bridging loans*

#### **288 Limited exemption of certain bridging loans connected with employment moves**

- (1) No liability to income tax arises by virtue of Chapter 7 of Part 3 (taxable benefits: loans) in respect of a loan if—
- (a) it is a removal benefit (see subsection (2)),
  - (b) the unused removal benefit exemption condition is met (see subsection (3)), and
  - (c) the loan is discharged before the end of the exempted loan discharge period (see subsection (4)).
- (2) For the purposes of this section and section 289, a loan is a removal benefit if—
- (a) it is raised by the employee in connection with a change of residence meeting the conditions in section 273 (conditions applicable to change of residence),
  - (b) the employee has an interest in the former residence and disposes of it in consequence of the change of residence,
  - (c) the employee acquires an interest in the new residence,
  - (d) the loan is raised wholly or partly because expenditure is incurred in connection with that acquisition before the proceeds of that disposal become available, and
  - (e) the loan is made before the limitation day.
- (3) For the purposes of this section and section 289 the unused removal benefit exemption condition is that, in the case of the particular change of residence—
- (a) the sum specified in section 287(1) (limit on exemption), exceeds
  - (b) the amount referred to in section 287(2) (the value of the exemption);
- and for those purposes that excess is “the unused exemption”.
- (4) In this section and section 289 “the exempted loan discharge period”, in relation to a loan, means the period of N days beginning with the day on which it is made, taking N as the number obtained by applying the following formula and, if that does not give a whole number, rounding up the result to the nearest whole number—

$$\frac{A}{B \times C} \times 365$$

where—

A is the unused exemption,

B is the maximum amount of the loan outstanding in the period beginning with the time when the loan is made and ending with the limitation day, and

C is the official rate of interest in force when the loan is made (expressed as a percentage).

- (5) In this section—
- (a) references to a loan raised by the employee include a loan raised by—
    - (i) one or more members of the employee’s family or household, or
    - (ii) the employee and one or more members of the employee’s family or household, and

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- (b) references to the employee having, disposing of or acquiring an interest in a residence include—
  - (i) one or more members of the employee’s family or household having, disposing of or acquiring such an interest, or
  - (ii) the employee and one or more members of the employee’s family or household having, disposing of or acquiring such an interest.
- (6) The tax payable in respect of a loan for a tax year ending before the limitation day may be decided on the basis that the unused removal benefit exemption condition will not be met.

## **289 Relief for certain bridging loans not qualifying for exemption under section 288**

- (1) This subsection applies to a loan if—
  - (a) it is a removal benefit (see section 288(2)),
  - (b) the unused removal benefit exemption condition is met (see section 288(3)), and
  - (c) the loan is not discharged before the end of the exempted loan discharge period (see section 288(4)).
- (2) A loan to which subsection (1) applies is to be treated for the purposes of Chapter 7 of Part 3 (taxable benefits: loans) as if it was made on the day after the last day of the exempted loan discharge period.
- (3) Subsection (2) does not apply for the purposes of sections 176, 177, 180, 189 and 190.
- (4) The tax payable in respect of a loan for a tax year ending before the limitation day may be decided on the basis that subsections (1) and (2) will not apply because the unused removal benefit exemption condition will not be met.

## **CHAPTER 8**

### **EXEMPTIONS: SPECIAL KINDS OF EMPLOYEES**

#### *Ministers of religion*

## **290 Accommodation benefits of ministers of religion**

- (1) No liability to income tax in respect of a person employed as a full-time minister arises by virtue of—
  - (a) the payment or reimbursement of a statutory amount payable in connection with qualifying premises, or
  - (b) the reimbursement of a statutory deduction made in connection with qualifying premises.
- (2) No liability to income tax in respect of a person employed as a full-time minister arises by virtue of the payment or reimbursement of expenses incurred in connection with providing living accommodation in qualifying premises if the employment is excluded employment.
- (3) Subsection (1) does not apply if or to the extent that the amount or deduction is properly attributable to a part of the premises for which the minister receives rent.

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- (4) Premises are qualifying premises in relation to a person employed as a minister if—
- (a) an interest in them belongs to a charity or an ecclesiastical corporation, and
  - (b) because of that interest and by reason of holding the employment, the minister has a residence in them from which to perform the duties of the employment.
- (5) In this section—
- “charity” means a body of persons or trust established for charitable purposes only,
- “full-time minister” means a person in full-time employment as a minister of a religious denomination,
- “statutory amount” means an amount paid in pursuance of a provision in, or having the force of, an Act, and
- “statutory deduction” means a deduction made in pursuance of such a provision.

*MPs, government ministers etc.*

## **291 Termination payments to MPs and others ceasing to hold office**

- (1) No liability to income tax in respect of earnings arises by virtue of any grant or payment to which this section applies (but see Chapter 3 of Part 6: payments and benefits on termination of employment etc.).
- (2) This section applies to grants and payments—
- (a) made in accordance with a resolution of the House of Commons to a person ceasing to be a Member of that House on a dissolution of Parliament,
  - (b) made under section 4 of the Ministerial and other Pensions and Salaries Act 1991 (c. 5) (grants to persons ceasing to hold certain ministerial and other offices),
  - (c) made under section 3 of the European Parliament (Pay and Pensions) Act 1979 (c. 50) (resettlement grants for persons ceasing to be Representatives),
  - (d) made under section 81(3) of the Scotland Act 1998 (c. 46) to a person—
    - (i) ceasing to be a member of the Scottish Parliament on its dissolution, or
    - (ii) ceasing to hold an office corresponding to a relevant office,
  - (e) made under section 18(1) of the Government of Wales Act 1998 (c. 38) to a person ceasing to be a member of the National Assembly for Wales on the expiry of the member’s term of office, or
  - (f) made under section 48(1) of the Northern Ireland Act 1998 (c. 47) to a person—
    - (i) ceasing to be a member of the Northern Ireland Assembly on its dissolution, or
    - (ii) ceasing to hold an office corresponding to a relevant office.
- (3) In this section “a relevant office” has the same meaning as in section 4 of the Ministerial and other Pensions and Salaries Act 1991.

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## **292 Overnight expenses allowances of MPs**

- (1) No liability to income tax arises in respect of an overnight expenses allowance paid to a Member of the House of Commons in accordance with a resolution of that House.
- (2) “Overnight expenses allowance” means an allowance expressed to be in respect of additional expenses necessarily incurred by the Member in staying overnight away from the Member’s only or main residence, for the purpose of performing parliamentary duties—
  - (a) in the London area, as defined in such a resolution, or
  - (b) in the Member’s constituency.

## **293 Overnight expenses of other elected representatives**

- (1) No liability to income tax arises in respect of a payment to which this section applies if it is expressed to be made in respect of a member’s necessary overnight expenses.
- (2) This section applies to payments—
  - (a) made to members of the Scottish Parliament under section 81(2) of the Scotland Act 1998 (c. 46),
  - (b) made to members of the National Assembly for Wales under section 16(2) of the Government of Wales Act 1998 (c. 38), or
  - (c) made to members of the Northern Ireland Assembly under section 47(2) of the Northern Ireland Act 1998 (c. 47).
- (3) In this section “a member’s necessary overnight expenses” means additional expenses necessarily incurred by a member for the purpose of performing duties as a member in staying overnight away from the member’s only or main residence—
  - (a) in the area in which the Parliament or Assembly to which the member belongs sits, or
  - (b) in the constituency or region which the member represents.

## **294 EU travel expenses of MPs and other representatives**

- (1) No liability to income tax arises in respect of a sum that is—
  - (a) paid to a Member of the House of Commons in accordance with a resolution of that House providing for Members of that House to be reimbursed EU travel expenses, or
  - (b) paid to a member of—
    - (i) the Scottish Parliament under section 81(2) of the Scotland Act 1998,
    - (ii) the National Assembly for Wales under section 16(2) of the Government of Wales Act 1998, or
    - (iii) the Northern Ireland Assembly under section 47(2) of the Northern Ireland Act 1998,and expressed to be made in respect of EU travel expenses.
- (2) “EU travel expenses” means the cost of, and any additional expenses incurred in, travelling between the United Kingdom and—
  - (a) a European Union institution in Brussels, Luxembourg or Strasbourg, or
  - (b) the national parliament of another member State or of a candidate country.

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- (3) In subsection (2) “candidate country” means Bulgaria, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia or Turkey.
- (4) The Treasury shall by order make such amendments of the definition in subsection (3) as are necessary to secure that the countries listed are those that are from time to time candidates for membership of the European Union.

## **295 Transport and subsistence for Government ministers etc.**

- (1) No liability to income tax arises in respect of the provision of transport or subsistence provided or made available by or on behalf of the Crown to—
  - (a) the holder of a ministerial office, or
  - (b) a member of the family or household of the holder of a ministerial office.
- (2) No liability to income tax arises in respect of payments and reimbursements by or on behalf of the Crown of expenses incurred in connection with the provision of transport or subsistence to a person within subsection (1).
- (3) “Ministerial office” means—
  - (a) an office in Her Majesty’s Government in the United Kingdom,
  - (b) any other office which is one of the offices and positions in respect of which salaries are payable under section 1 of the Ministerial and other Salaries Act 1975 (c. 27), and
  - (c) an office under one of the following Acts which corresponds to an office within paragraph (a) or (b)—
    - (i) the Scotland Act 1998 (c. 46),
    - (ii) the Government of Wales Act 1998 (c. 38), or
    - (iii) the Northern Ireland Act 1998 (c. 47).
- (4) In determining whether a particular person holds an office within subsection (3)(b), it is irrelevant whether or not a salary is paid or payable to that person under the Ministerial and other Salaries Act 1975.
- (5) In this section references to the provision of transport to a person include references to—
  - (a) the provision or making available to that person of a vehicle with or without a driver,
  - (b) the provision of fuel for a vehicle provided or made available to that person, and
  - (c) the provision of any other benefit in connection with such a vehicle.
- (6) In this section—
  - (a) “subsistence” includes food and drink and temporary living accommodation, and
  - (b) “vehicle” means a mechanically propelled road vehicle.

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### *Armed forces*

#### **296 Armed forces' leave travel facilities**

- (1) No liability to income tax arises in respect of—
  - (a) the provision of travel facilities for a member of the armed forces of the Crown going on or returning from leave, or
  - (b) a payment made in respect of such travel.
- (2) In subsection (1) “travel facilities” does not include a vehicle.

#### **297 Armed forces' food, drink and mess allowances**

- (1) No liability to income tax arises in respect of allowances if—
  - (a) they are payable out of the public revenue to any description of members of the armed forces of the Crown, and
  - (b) the Treasury certifies that they are payable to them instead of food or drink normally supplied to members of the armed forces.
- (2) No liability to income tax arises in respect of allowances if—
  - (a) they are payable out of the public revenue in respect of any description of members of the armed forces of the Crown, and
  - (b) the Treasury certifies that they are so payable as a contribution to the expenses of a mess.

#### **298 Reserve and auxiliary forces' training allowances**

No liability to income tax arises in respect of the following sums if they are payable out of the public revenue to members of the reserve and auxiliary forces of the Crown—

- (a) training expenses allowances, and
- (b) bounties payable in consideration of the members undertaking certain training and attaining a particular standard of efficiency.

### *Crown employees*

#### **299 Crown employees' foreign service allowances**

- (1) No liability to income tax arises in respect of an allowance paid to a person in employment under the Crown if it is certified to represent compensation for the extra cost of being obliged to live outside the United Kingdom in order to perform the duties of the employment.
- (2) A certificate under subsection (1) may only be given by—
  - (a) the Treasury,
  - (b) the Secretary of State,
  - (c) the Lord Chancellor,
  - (d) the Chancellor of the Exchequer,
  - (e) the Minister for the Civil Service,
  - (f) the Lord President of the Council,
  - (g) the Lord Privy Seal, or

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(h) the Attorney General.

*Consuls, foreign agents etc.*

### **300 Consuls**

- (1) No liability to income tax arises in respect of income arising from the office of a consul in the United Kingdom in the service of a foreign state.
- (2) Such income is also to be disregarded in estimating the amount of income for any income tax purposes.
- (3) In this section “consul” means a person recognised by Her Majesty as being a consul-general, consul, vice-consul or consular agent.

### **301 Official agents**

- (1) No liability to income tax arises in respect of income arising from employment as an official agent in the United Kingdom for a foreign state if conditions A and B are met.
- (2) Condition A is that the employee is neither—
  - (a) a Commonwealth citizen, nor
  - (b) a citizen of the Republic of Ireland.
- (3) Condition B is that the functions of the employment are not exercised in connection with a trade, business or other undertaking carried on for the purposes of profit.
- (4) Such income is also to be disregarded in estimating the amount of income for any income tax purposes.
- (5) In this section “official agent” means a person who is not a consul (as defined in section 300) but is employed on the staff of—
  - (a) a consulate, or
  - (b) an official department or agency of a foreign state.
- (6) Subsection (5)(b) does not apply to a department or agency which carries on a trade, business or other undertaking for the purposes of profit.

### **302 Consular employees**

- (1) No liability to income tax arises in respect of income arising from employment in the United Kingdom as a consular employee for a foreign state if—
  - (a) Her Majesty by Order in Council directs that this section applies to the foreign state for the purpose of giving effect to a reciprocal arrangement with that state, and
  - (b) condition A or B is met.
- (2) Condition A is that the employee is a national of the foreign state.
- (3) Condition B is that the employee is not a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen.
- (4) In this section—



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“consular employee” includes any person employed for the purposes of the official business of a consular officer at—

- (a) any consulate,
- (b) any consular establishment, or
- (c) any other premises used for those purposes, and

“reciprocal arrangement” means a consular convention or other arrangement with a foreign state, making similar provision to that made by this section and section 322 of ICTA in the case of Her Majesty’s consular officers or employees in that state.

- (5) An Order in Council under subsection (1) may limit the operation of this section in relation to a state in any way appearing to Her Majesty necessary or expedient having regard to the arrangement with the state.
- (6) Such an Order—
  - (a) may be made so as to have effect from a date earlier than that on which it is made, but not earlier than the arrangement in question comes into force, and
  - (b) may contain such transitional provisions as appear to Her Majesty necessary or expedient.
- (7) A statutory instrument containing such an Order is subject to annulment in pursuance of a resolution of the House of Commons.
- (8) This section does not affect section 301 (official agents).

#### *Visiting forces and staff of designated allied headquarters*

### **303 Visiting forces and staff of designated allied headquarters**

- (1) No liability to income tax arises in respect of earnings if—
  - (a) they are paid by the government of a designated country to a member of a visiting force of that country or of a civilian component of such a force, and
  - (b) that person is not a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen.
- (2) For the purposes of subsection (1)—
  - (a) members of the armed forces of a designated country who are attached to a designated allied headquarters are treated as a visiting force of that country, and
  - (b) whether a person is a member of a civilian component of such a force is to be determined accordingly.
- (3) No liability to income tax arises in respect of earnings if they are paid by a designated allied headquarters to an employee of a category for the time being agreed between Her Majesty’s government in the United Kingdom and the other members of the North Atlantic Council.
- (4) But where the employee is a British citizen, a British overseas territories citizen, a British National (Overseas) or a British Overseas citizen, subsection (3) only applies if it is necessary for it to do so to give effect to an agreement between parties to the North Atlantic Treaty.
- (5) Subsections (1) and (2) are to be interpreted as if—

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- (a) they were in Part 1 of the Visiting Forces Act 1952 (c. 67), and
  - (b) references in that Act to a country to which a provision of that Act applies were references to a designated country.
- (6) In this section—
- “allied headquarters” means an international military headquarters established under the North Atlantic Treaty, and
  - “designated” means designated for the purpose in question by or under an Order in Council made for giving effect to an international agreement.

*Detached national experts*

**304 Experts seconded to European Commission**

- (1) No liability to income tax arises in respect of daily subsistence allowances paid by the European Commission to persons whose services are made available to the Commission by their employers under the detached national experts scheme.
- (2) “The detached national experts scheme” means—
- (a) the scheme relating to national experts seconded to the European Commission which was established by the Commission on 26th July 1988, as it has effect for the time being, or
  - (b) any scheme having effect for the time being which replaces that scheme.

*Offshore oil and gas workers*

**305 Offshore oil and gas workers: mainland transfers**

- (1) No liability to income tax arises in respect of—
- (a) the provision for an employee who has a permanent workplace at an offshore installation of—
    - (i) transfer transport,
    - (ii) related accommodation and subsistence, or
    - (iii) local transport, or
  - (b) the payment or reimbursement of reasonable expenses incurred by such an employee on such transport or accommodation and subsistence.
- (2) Subsection (1)(a)(ii) only applies if the related accommodation and subsistence is provided at reasonable cost.
- (3) In this section “transfer transport” means transport by sea or air between the mainland of Great Britain or Northern Ireland and the offshore installation, which meets conditions A and B.
- (4) Condition A is that the place of arrival or departure on the mainland is one to or from which transport between the mainland and the offshore installation is provided for employees generally.
- (5) Condition B is that the cost of the transport would not be deductible under Part 5 if the employee incurred and paid it.
- (6) In this section—

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“related accommodation and subsistence” means overnight accommodation and subsistence in the vicinity of the place of departure or arrival on the mainland, which is necessary because of the time at which transfer transport is to be taken,

“local transport” means transport between a place where the employee is provided with related accommodation and subsistence and the place of departure or arrival on the mainland,

“offshore installation” means anything falling within section 40(5)(b)(i) or (ii), and

“workplace” and “permanent workplace” have the meaning given by section 339.

*Miners etc.*

### **306 Miners etc: coal and allowances in lieu of coal**

- (1) No liability to income tax arises in respect of the provision of coal or smokeless fuel or an allowance paid in lieu of such provision if the employee is a colliery worker and the condition in subsection (2) is met.
- (2) That condition is that the amount of coal or fuel provided or in respect of which the allowance is paid does not substantially exceed the amount reasonably required for personal use.
- (3) That condition is assumed to be met unless the contrary is shown.
- (4) In this section “colliery worker” means a coal miner or any other person employed at or about a colliery otherwise than in clerical, administrative or technical work.

## **CHAPTER 9**

### **EXEMPTIONS: PENSION PROVISION**

### **307 Death or retirement benefit provision**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of provision made by an employee’s employer for a retirement or death benefit.
- (2) In subsection (1) “retirement or death benefit” means a pension, annuity, lump sum, gratuity or other similar benefit which will be paid or given to the employee or a member of the employee’s family or household in the event of the employee’s retirement or death.

### **308 Exemption of contributions to approved personal pension arrangements**

- (1) No liability to income tax arises in respect of earnings where an employer makes contributions under approved personal pension arrangements made by an employee.
- (2) In this section “approved” and “personal pension arrangements” have the meaning given by section 630(1) of ICTA.

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## CHAPTER 10

### EXEMPTIONS: TERMINATION OF EMPLOYMENT

#### *Redundancy payments*

#### **309 Limited exemptions for statutory redundancy payments**

- (1) No liability to income tax in respect of earnings arises by virtue of a redundancy payment or an approved contractual payment, except where subsection (2) applies.
- (2) Where an approved contractual payment exceeds the amount which would have been due if a redundancy payment had been payable, the excess is liable to income tax.
- (3) No liability to income tax in respect of employment income other than earnings arises by virtue of a redundancy payment or an approved contractual payment, except where it does so by virtue of Chapter 3 of Part 6 (payments and benefits on termination of employment etc.).
- (4) For the purposes of this section—
  - (a) a statutory payment in respect of a redundancy payment is to be treated as paid on account of the redundancy payment, and
  - (b) a statutory payment in respect of an approved contractual payment is to be treated as paid on account of the approved contractual payment.
- (5) In this section—
 

“approved contractual payment” means a payment to a person on the termination of the person’s employment under an agreement in respect of which an order is in force under section 157 of ERA 1996 or Article 192 of ER(NI)O 1996,

“redundancy payment” means a redundancy payment under Part 11 of ERA 1996 or Part 12 of ER(NI)O 1996, and

“statutory payment” means a payment under section 167(1) of ERA 1996 or Article 202(1) of ER(NI)O 1996.
- (6) In subsection (5) “employment”, in relation to a person, has the meaning given in section 230(5) of ERA 1996 or Article 3(5) of ER(NI)O 1996.

#### *Outplacement benefits*

#### **310 Counselling and other outplacement services**

- (1) No liability to income tax arises in respect of—
  - (a) the provision of services to a person in connection with the cessation of the person’s employment, or
  - (b) the payment or reimbursement of—
    - (i) fees for such provision, or
    - (ii) travelling expenses incurred in connection with such provision,
 if conditions A to D and, in the case of travel expenses, condition E are met.
- (2) Condition A is that the only or main purpose of the provision of the services is to enable the person to do either or both of the following—

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- (a) to adjust to the cessation of the employment, or
  - (b) to find other gainful employment (including self-employment).
- (3) Condition B is that the services consist wholly of any or all of the following—
- (a) giving advice and guidance,
  - (b) imparting or improving skills,
  - (c) providing or making available the use of office equipment or similar facilities.
- (4) Condition C is that the person has been employed full-time in the employment which is ceasing throughout the period of 2 years ending—
- (a) at the time when the services begin to be provided, or
  - (b) if earlier, at the time when the employment ceases.
- (5) Condition D is that the opportunity to receive the services, on similar terms as to payment or reimbursement of any expenses incurred in connection with their provision, is available—
- (a) generally to employees or former employees of the person’s employer in that employment, or
  - (b) to a particular class or classes of them.
- (6) Condition E is that the travel expenses are expenses—
- (a) in respect of which, on the assumptions in subsection (7), mileage allowance relief under Chapter 2 of this Part would be available if no mileage allowance payments had been made, or
  - (b) which, on those assumptions, would be deductible under Part 5.
- (7) The assumptions are—
- (a) that receiving the services is one of the duties of the employee’s employment,
  - (b) that the employee incurs and pays the expenses, and
  - (c) if the employment has in fact ceased, that it continues.
- (8) In this section “mileage allowance payments” has the meaning given by section 229(2).

### **311 Retraining courses**

- (1) No liability to income tax arises in respect of the payment or reimbursement of retraining course expenses by a person (“the employer”) if the course conditions, the employment conditions and, in the case of travel expenses, the conditions in subsection (5) are met.
- (2) In subsection (1) “retraining course expenses” means—
- (a) fees for the attendance of another person (“the employee”) at a training course,
  - (b) travelling expenses incurred in connection with it,
  - (c) fees for an examination taken during or at the end of it, or
  - (d) the cost of any books which are essential for a person attending it.
- (3) The course conditions are that—
- (a) the course provides training designed to impart or improve skills or knowledge relevant to, and intended to be used in the course of, gainful employment (including self-employment) of any description,

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- (b) it is entirely devoted to the teaching or practical application (or both) of the skills or knowledge,
  - (c) it lasts no more than one year, and
  - (d) the employee attends it on a full-time or substantially full-time basis.
- (4) The employment conditions are that—
- (a) the employee begins the course while employed by the employer or within the period of one year after the employment ceases,
  - (b) the employee ceases to be employed by the employer before the end of the period of 2 years beginning at the end of the course and is not re-employed by the employer within the period of 2 years after so ceasing,
  - (c) the employee is employed full-time in the employment which is ceasing throughout the period of 2 years ending—
    - (i) when the employee begins the course, or
    - (ii) if earlier, when the employment ceases, and
  - (d) the opportunity to undertake the course, on similar terms as to payment or reimbursement of amounts within subsection (1), is available—
    - (i) generally to the employee’s fellow employees or former fellow employees in that employment, or
    - (ii) to a particular class or classes of them.
- (5) The travel expenses must be—
- (a) expenses in respect of which, on the assumptions in subsection (6), mileage allowance relief under Chapter 2 of this Part would be available if no mileage allowance payments had been made, or
  - (b) expenses which, on those assumptions, would be deductible under Part 5.
- (6) The assumptions are—
- (a) that attendance at the course is one of the duties of the employee’s employment,
  - (b) that the employee incurs and pays the expenses, and
  - (c) if the employee has in fact ceased to be employed by the employer, that the employee continues to be employed by the employer.
- (7) In this section “mileage allowance payments” has the meaning given by section 229(2).

### **312 Recovery of tax**

- (1) This section applies if—
- (a) a person’s liability to tax for a tax year has been determined on the assumption that section 311(1) applies, and
  - (b) subsequently—
    - (i) the condition in section 311(4)(a) is not met because of the person’s failure to begin the course within the period of one year after ceasing to be employed, or
    - (ii) the condition in section 311(4)(b) is not met because of the person’s continued employment or re-employment.
- (2) An assessment of an amount or further amount of tax due as a result of the condition not being met may be made under section 29(1) of TMA 1970.

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- (3) Such an assessment must be made before the end of the period of 6 years immediately following the end of the tax year in which subsection (1) first applies.
- (4) If subsection (1)(b)(i) or (ii) applies, the person's employer or former employer must give the Inland Revenue a notice containing particulars of the person's failure to begin the course or continued employment or re-employment within 60 days of coming to know of it.
- (5) If the Inland Revenue have reason to believe that a person has failed to give such a notice, they may by notice require the person to provide such information as they may reasonably require for the purposes of this section about—
  - (a) the failure to begin the course,
  - (b) the continued employment, or
  - (c) the re-employment.
- (6) A notice under subsection (5) may specify a time (not less than 60 days) within which the required information must be provided.

## CHAPTER 11

### MISCELLANEOUS EXEMPTIONS

#### *Living accommodation*

#### **313 Repairs and alterations to living accommodation**

- (1) This section applies where living accommodation is provided by reason of a person's employment.
- (2) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of—
  - (a) alterations and additions to the premises which are of a structural nature, or
  - (b) landlord's repairs to the premises.
- (3) In this section "landlord's repairs" means repairs of a kind which are the obligation of the lessor under the covenants implied by section 11(1) of the Landlord and Tenant Act 1985 (c. 70) (lessor's repairing obligations in short leases) where premises are let under a lease to which that section applies.

#### **314 Council tax etc. paid for certain living accommodation**

- (1) This section applies if living accommodation provided for an employee falls within the exception in one of the following provisions—
  - section 99(1) (accommodation necessary for proper performance of duties),
  - section 99(2) (accommodation provided for better performance of duties), or
  - section 100 (accommodation provided as a result of security threat).
- (2) No liability to income tax arises by virtue of—
  - (a) any payment to, for or on behalf of the employee, or
  - (b) any reimbursement of any payment by the employee,

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in respect of council tax or rates, or water or sewerage charges, in respect of the accommodation.

### **315 Limited exemption for expenses connected with certain living accommodation**

- (1) This section applies if—
  - (a) living accommodation is provided for an employee in a tax year, and
  - (b) conditions A and B are met.
- (2) Condition A is that the accommodation falls within the exception in one of the following provisions—
  - section 99(1) (accommodation necessary for proper performance of duties),
  - section 99(2) (accommodation provided for better performance of duties), or
  - section 100 (accommodation provided as a result of security threat).
- (3) Condition B is that there is an amount of earnings from the employment in the tax year by virtue of expenditure, or the reimbursement to the employee of expenditure, on—
  - (a) heating, lighting or cleaning the premises,
  - (b) repairs to the premises, their maintenance or decoration, or
  - (c) the provision in the premises of furniture, equipment or other items which are normal for domestic occupation.
- (4) If this section applies, no liability to income tax arises in respect of the earnings mentioned in subsection (3) to the extent that they exceed—

$$\left(10\% \times NE \times \frac{DA}{DE}\right) - \text{SMG}$$

where—

DA is the number of reckonable days in the tax year (a “reckonable day” being a day on which—

- (a) the accommodation is provided, and
- (b) the employment is held by the employee),

DE is—

- (a) the number of days in that year, or
- (b) if the employment is held for only part of that year, the number of days in that part,

NE is the net amount of the earnings from the employment in the tax year (see subsection (5)),

SMG is, where the expenses are incurred by a person other than the employee, so much of any sum made good by the employee to that other person as is properly attributable to the expenses.

- (5) To calculate the net amount of the earnings from the employment—

#### *Step 1*

Take the earnings from the employment, leaving out of account the expenses in question.



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### *Step 2*

Add, in the case of employment by a company, the earnings from any employment by an associated company.

A company is “associated” with another for this purpose if one has control of the other or both are under the control of the same person.

### *Step 3*

Deduct any deductions allowable under—

- (a) section 232 (giving effect to mileage allowance relief) or Part 5 of this Act,
- (b) section 592(7), 594 or 619(1)(a) of ICTA, or
- (c) section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions from earnings).

*Work accommodation, supplies etc.*

## **316 Accommodation, supplies and services used in employment duties**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision for an employee of accommodation, supplies or services used by the employee in performing duties of the employment if conditions A and B are met.
- (2) Condition A is that any use of the accommodation, supplies or services for private purposes by the employee or members of the employee’s family or household is not significant.
- (3) For this purpose, use “for private purposes” means—
  - (a) use that is not use in performing the duties of the employee’s employment, and
  - (b) use that is at the same time both use in performing the duties of an employee’s employment and other use.
- (4) Condition B is that where the provision is otherwise than on premises occupied by the person making it—
  - (a) its sole purpose is to enable the employee to perform the duties of the employee’s employment, and
  - (b) what is provided is not an excluded benefit.
- (5) The following are excluded benefits unless regulations under subsection (6) provide otherwise—
  - (a) a motor vehicle, boat or aircraft, and
  - (b) a benefit that involves—
    - (i) the extension, conversion or alteration of living accommodation, or
    - (ii) the construction, extension, conversion or alteration of a building or other structure on land adjacent to and enjoyed with such accommodation.
- (6) The Treasury may make provision by regulations as to what is an excluded benefit for the purposes of subsection (4)(b).

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- (7) The regulations may provide that a benefit is an excluded benefit only if such conditions as may be prescribed are met as to the terms on which, and persons to whom, it is provided.

### *Workplace meals*

#### **317 Subsidised meals**

- (1) No liability to income tax arises in respect of the provision for an employee by the employer of free or subsidised meals if—
- (a) they are provided in a canteen where meals are provided for the employer's employees generally or generally to those at a particular location, or
  - (b) they are provided on the employer's business premises and conditions A to C are met.
- (2) Condition A is that the meals are provided on a reasonable scale.
- (3) Condition B is that all the employer's employees or all of them at a particular location may obtain one or both of the following—
- (a) a free or subsidised meal, or
  - (b) a free or subsidised meal voucher or token.
- (4) Condition C is that if the meals are provided in the restaurant or dining room of a hotel or a catering or similar business at a time when meals are being served to the public—
- (a) part of the restaurant or dining room is designated for the use of employees only, and
  - (b) the meals are taken in that part.
- (5) In this section “free or subsidised meal voucher or token” means a voucher, ticket, pass or other document or token which—
- (a) is intended to enable a person to obtain a meal, and
  - (b) is provided to the employee free of charge or for less than the cost of the meals to be obtained by it.
- (6) In this section “meals” includes light refreshments.

### *Childcare*

#### **318 Care for children**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision for an employee of care for a child if conditions A to C are met.
- (2) If those conditions are met only as respects part of the provision, no such liability arises in respect of that part.
- (3) Condition A is that the child is under 18 and—
- (a) is a child of the employee maintained at the employee's expense,
  - (b) is resident with the employee, or

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- (c) is a child in respect of whom the employee has all the rights, duties, powers, responsibilities and authority which by law a parent of a child has in relation to the child and the child's property.

In paragraph (a) "child" includes stepchild.

- (4) Condition B is that—
  - (a) the premises on which the care is provided are not used wholly or mainly as a private dwelling, and
  - (b) any applicable registration requirement is met with respect to the premises.
- (5) In subsection (4), "registration requirement" means a requirement that a person providing the care is registered under—
  - (a) section 71 or Part 10A of the Children Act 1989 (c. 41), or
  - (b) Article 118 of the Children (Northern Ireland) Order 1995 (S.I.1995/755 (N.I. 2)),with respect to premises.
- (6) Condition C is that—
  - (a) the premises on which the care is provided are made available by the employer alone, or
  - (b) the care requirements are met.
- (7) The care requirements are that—
  - (a) the care is provided under arrangements made by persons who include the employer,
  - (b) the premises on which it is provided are made available by one or more of those persons, and
  - (c) under the arrangements the employer is wholly or partly responsible for financing and managing the provision of the care.
- (8) In this section "care" means—
  - (a) any form of care, and
  - (b) any form of supervised activity which is not provided primarily for education purposes.

#### *Telephones and computer equipment*

### **319 Mobile telephones**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision for an employee or a member of the employee's family or household of a mobile telephone without any transfer of property in it.
- (2) In this section "mobile telephone" means telephone apparatus which—
  - (a) is not physically connected to a land-line, and
  - (b) is not a cordless telephone or a telepoint telephone.
- (3) For the purposes of subsection (2)—

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“cordless telephone” means telephone apparatus designed or adapted to provide a wireless extension to a telephone and used only as such an extension to a telephone which is physically connected to a land-line,

“telephone apparatus” means wireless telegraphy apparatus designed or adapted for the purpose of transmitting and receiving spoken messages and connected to a public telecommunication system (as defined in section 9(1) of the Telecommunications Act 1984 (c. 12)), and

“telepoint telephone” means telephone apparatus used for the purpose of a short-range radio communications service at frequencies between 864 and 868 megahertz (inclusive).

### **320 Limited exemption for computer equipment**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of the provision of computer equipment if conditions A to C are met.
- (2) Condition A is that the equipment is made available to the employee or to a member of the employee’s family or household without any transfer of property in it.
- (3) Condition B is that the arrangements under which computer equipment is made available to employees of the employer, or to members of their families or households, do not favour directors (see subsection (6)).
- (4) Condition C is that the aggregate cash equivalent of the benefit of the provision of such equipment in the tax year does not exceed £500.
- (5) If conditions A and B are met, but condition C is not, the employee is only liable to income tax in the tax year by virtue of Chapter 10 of Part 3 on so much of that aggregate cash equivalent as exceeds £500.
- (6) The arrangements referred to in condition B are only taken to favour directors if—
  - (a) the only such arrangements are arrangements under which the employee is required to be a director of a company, or
  - (b) taking all such arrangements together, the terms on which the equipment is made available are more favourable in some or all cases where the employee is a director than in one or more cases where the employee is not.
- (7) In this section—
  - (a) “computer equipment” includes printers, scanners, modems, discs and other peripheral devices designed to be used by being connected to or inserted in a computer,
  - (b) “director” has the meaning given by section 67(1),
  - (c) references to making computer equipment available—
    - (i) include references to the provision, together with any computer equipment made available, of a right to use computer software, but
    - (ii) do not include references to the provision of access to, or the use of, any public telecommunication system, and
  - (d) “public telecommunication system” has the same meaning as in the Telecommunications Act 1984 (see section 9(1)).

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## *Awards and gifts*

### **321 Suggestion awards**

- (1) This section applies where an employer establishes a scheme for the making of suggestions that is open on the same terms—
  - (a) to employees of the employer generally, or
  - (b) to a particular description of them.
- (2) No liability to income tax arises in respect of an encouragement award or financial benefit award made under the scheme for a suggestion which meets conditions A to C if, or to the extent that, it does not exceed the permitted maximum for the award under section 322.
- (3) Condition A is that the suggestion relates to the activities carried on by the employer.
- (4) Condition B is that the suggestion is made by an employee who could not reasonably be expected to make it in the course of the duties of the employment, having regard to the employee's experience.
- (5) Condition C is that the suggestion is not made at a meeting held for the purpose of proposing suggestions.
- (6) In this section and section 322—

“encouragement award” means an award, other than a financial benefit award, made for a suggestion with intrinsic merit or showing special effort, and

“financial benefit award” means an award for a suggestion relating to an improvement in efficiency or effectiveness which the employer has decided to adopt and reasonably expects will result in a financial benefit.

### **322 Suggestion awards: “the permitted maximum”**

- (1) The permitted maximum for an encouragement award for the purposes of section 321 (suggestion awards) is £25.
- (2) The permitted maximum for a financial benefit award where no such award for the suggestion has been made before is—
  - (a) if only one such award is made for the suggestion, the suggestion maximum, and
  - (b) if two or more such awards are made on the same occasion to different persons for the suggestion, the appropriate proportion of the suggestion maximum.
- (3) If on a later occasion or occasions one or more further such awards are made for the same suggestion, the permitted maximum for each is—
  - (a) if only one such award is made for the suggestion on that occasion, the residue of the suggestion maximum, and
  - (b) if two or more such awards are made on the same occasion to different persons for the suggestion, the appropriate proportion of that residue.
- (4) The suggestion maximum for a financial benefit award is the financial benefit share or £5000 if that is less.
- (5) In subsection (4) “the financial benefit share” means the greater of—

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- (a) half the financial benefit reasonably expected to result from the adoption of the suggestion for the first year after its adoption, and
  - (b) one-tenth of the financial benefit reasonably expected to result from its adoption for the first 5 years after its adoption.
- (6) In this section—
- “the appropriate proportion” means such proportion as the award bears to the total of the financial benefit awards made on the same occasion for the suggestion,
  - “the residue of the suggestion maximum” means the suggestion maximum less the total previous exemption, and
  - “the total previous exemption” means the total of the amounts exempted from income tax under section 321 in respect of financial benefit awards for the suggestion made on previous occasions.

### **323 Long service awards**

- (1) No liability to income tax arises in respect of a long service award which meets the condition in subsection (3) if or to the extent that the chargeable amount does not exceed the permitted maximum.
- (2) In subsection (1)—
  - “chargeable amount” means the amount of employment income which would be charged to tax in respect of the award apart from subsection (1),
  - “long service award” means an award made to an employee to mark not less than 20 years' service with the same employer, and
  - “permitted maximum” means £20 for each year of service in respect of which the award is made.
- (3) The condition is that the award must take the form of—
  - (a) tangible moveable property,
  - (b) shares in a company which is, or belongs to the same group as, the employer, or
  - (c) the provision of any other benefit except—
    - (i) a payment,
    - (ii) a cash voucher,
    - (iii) a credit-token,
    - (iv) securities,
    - (v) shares not within paragraph (b), or
    - (vi) an interest in or rights over securities or shares.
- (4) Subsection (1) does not apply to an award (“the later award”) if another award to mark a particular period of service with the same employer has been made to the employee in the period of 10 years ending with the date on which the later award is made.
- (5) For the purposes of this section, service is treated as being with the same employer if it is with two or more employers—
  - (a) each of whom is a successor or predecessor of the others, or
  - (b) one of whom is a company which belongs or has belonged to the same group as the others or a predecessor or successor of the others.

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(6) In this section “group” means a body corporate and its 51% subsidiaries.

### **324 Small gifts from third parties**

- (1) No liability to income tax arises in respect of a gift provided for an employee or a member of the employee’s family or household if conditions A to E are met.
- (2) Condition A is that the gift is not provided by the employer or a person connected with the employer.
- (3) Condition B is that neither the employer nor a person connected with the employer has directly or indirectly procured the gift.
- (4) Condition C is that the gift is not made in recognition of particular services performed by the employee in the course of the employment or in anticipation of such services.
- (5) Condition D is that the gift is not cash or securities or the use of a service.
- (6) Condition E is that the total cost to the donor of all the eligible gifts in respect of the employee in question during the tax year does not exceed £150.
- (7) For the purposes of condition E, the total cost to the donor includes any value added tax payable on the supply of the gifts to the donor, whether or not the donor is entitled to a credit or repayment in respect of that tax.
- (8) In this section “eligible gifts” means all gifts which—
  - (a) meet conditions A to D, or
  - (b) are non-cash vouchers or credit-tokens and meet—
    - (i) conditions A to C, and
    - (ii) conditions A and B in section 270 (exemption for small gifts of vouchers and tokens from third parties).
- (9) Subsection (1) does not apply to non-cash vouchers and credit-tokens (but see section 270 which makes provision for a corresponding exemption for them).

#### *Overseas medical treatment*

### **325 Overseas medical treatment**

- (1) No liability to income tax arises by virtue of Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of—
  - (a) providing an employee with medical treatment outside the United Kingdom where the need for it arises while the employee is outside the United Kingdom for the purpose of performing the duties of the employment, or
  - (b) providing an employee with insurance against the cost of providing such treatment.
- (2) For the purposes of this section—
  - (a) “medical treatment” includes all procedures for diagnosing or treating any physical or mental illness, infirmity or defect, and
  - (b) providing a person with medical treatment includes providing for the person to be an in-patient so that such treatment can be given.

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*Expenses incidental to sale etc. of asset*

**326 Expenses incidental to transfer of a kind not normally met by transferor**

- (1) No liability to income tax arises by virtue of the payment or reimbursement of expenses which—
  - (a) are incidental to, and incurred wholly and exclusively as a result of, an employment-related asset transfer, and
  - (b) are of a kind not normally met by the transferor.
- (2) There is an “employment-related asset transfer” if—
  - (a) an asset or the beneficial interest in an asset is transferred to an employee’s employer or a person nominated by the employer, and
  - (b) the right or opportunity to make the transfer arose by reason of the employment.
- (3) In this section references to a transfer are to a sale or any other kind of disposal.

**PART 5**

EMPLOYMENT INCOME: DEDUCTIONS ALLOWED FROM EARNINGS

**CHAPTER 1**

DEDUCTIONS ALLOWED FROM EARNINGS: GENERAL RULES

*Introduction*

**327 Deductions from earnings: general**

- (1) This Part provides for deductions that are allowed from the taxable earnings from an employment in a tax year in calculating the net taxable earnings from the employment in the tax year for the purposes of Part 2 (see section 11(1)).
- (2) In this Part, unless otherwise indicated by the context—
  - (a) references to the earnings from which deductions are allowed are references to the taxable earnings mentioned in subsection (1), and
  - (b) references to the tax year are references to the tax year mentioned there.
- (3) The deductions for which this Part provides are those allowed under—
  - Chapter 2 (deductions for employee’s expenses),
  - Chapter 3 (deductions from benefits code earnings),
  - Chapter 4 (fixed allowances for employee’s expenses),
  - Chapter 5 (deductions for earnings representing benefits or reimbursed expenses),
  - and
  - Chapter 6 (deductions from seafarers' earnings).
- (4) Further provision about deductions from earnings is made in—
  - section 232 (giving effect to mileage allowance relief),



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section 619 of ICTA (contributions under retirement annuity contracts), and section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions from earnings).

- (5) Further provision about deductions from income including earnings is made in—  
Part 12 (payroll giving),  
section 592(7) of ICTA (contributions to exempt approved schemes), and  
section 594(1) of ICTA (contributions to exempt statutory schemes).

### *General rules*

## **328 The income from which deductions may be made**

- (1) The general rule is that deductions under this Part are allowed—  
(a) from any earnings from the employment in question, and  
(b) not from earnings from any other employment.

This is subject to subsections (2) to (4).

- (2) Deductions under section 351 (expenses of ministers of religion) are allowed from earnings from any employment as a minister of a religious denomination.
- (3) Deductions under section 368 (fixed sum deductions from earnings payable out of public revenue) are allowed only from earnings payable out of the public revenue.
- (4) Deductions limited to specified earnings (see subsection (5)) are allowed—  
(a) only from earnings from the employment that are taxable earnings under certain of the charging provisions of Chapters 4 and 5 of Part 2, and  
(b) not from other earnings from it.
- (5) “Deductions limited to specified earnings” are deductions under—  
sections 336 to 342 (deductions from earnings charged on receipt: see sections 335(2) and 354),  
section 353 (deductions from earnings charged on remittance),  
sections 370 to 374 (travel deductions from earnings charged on receipt), and  
Chapter 6 of this Part (deductions from seafarers' earnings: see section 378(1)(a)).

## **329 Deductions from earnings not to exceed earnings**

- (1) The amount of a deduction allowed under this Part may not exceed the earnings from which it is deductible.
- (2) If two or more deductions allowed under this Part are deductible from the same earnings, the amounts deductible may not in aggregate exceed those earnings.
- (3) If deductions allowed otherwise than under this Part fall to be allowed from the same earnings as amounts deductible under this Part, the amounts deductible under this Part may not exceed the earnings remaining after the other deductions.
- (4) Subsections (1) and (2) do not apply to a deduction under section 351 (expenses of ministers of religion), and subsection (3) applies as if such a deduction were allowed otherwise than under this Part.

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- (5) This section is to be disregarded for the purposes of the deductibility provisions (see section 332).
- (6) See also section 380 of ICTA (which provides that where a loss in an employment is sustained, relief may be given against other income).

### **330 Prevention of double deductions**

- (1) A deduction from earnings under this Part is not allowed more than once in respect of the same costs or expenses.
- (2) If apart from this subsection—
  - (a) a deduction would be allowed under Chapter 4 of this Part (fixed allowances for employee’s expenses) for a sum fixed by reference to any kind of expenses, and
  - (b) the employee would be entitled under another provision to a deduction for an amount paid in respect of the same kind of expenses,
 only one of those deductions is allowed.

### **331 Order for making deductions**

- (1) This Part needs to be read with section 835(3) and (4) of ICTA (general rule that deductions are to be allowed in the order resulting in the greatest reduction of liability to income tax).
- (2) In the case of deductions under this Part, the general rule in that section is subject to—
  - (a) section 23(3) (which requires certain deductions to be made in order to establish “chargeable overseas earnings”), and
  - (b) section 381 (which requires deductions under other provisions to be taken into account before deductions under Chapter 6 of this Part (seafarers)).

### **332 Meaning of “the deductibility provisions”**

For the purposes of this Part, “the deductibility provisions” means the following provisions (which refer to amounts or expenses that would be deductible if they were incurred and paid by an employee)—

- the definition of “business travel” in section 171(1) (definitions for Chapter 6 of Part 3),
- section 179(6) (exception for certain advances for necessary expenses),
- the definition of “business travel” in section 236(1) (definitions for Chapter 2 of Part 4),
- section 240(1)(c) and (5) (exemption of incidental overnight expenses and benefits),
- section 252(3) (exception from exemption of work-related training provision for non-deductible travel expenses),
- section 257(3) (exception from exemption for individual learning account training provision for non-deductible travel expenses),
- section 305(5) (offshore oil and gas workers: mainland transfers),
- section 310(6)(b) (counselling and other outplacement services),
- section 311(5)(b) (retraining courses),

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section 361(b) (scope of Chapter 3 of this Part: cost of benefits deductible as if paid by employee),  
section 362(1)(c) and (2)(b) (deductions where non-cash voucher provided),  
section 363(1)(b) and (2)(b) (deductions where credit-token provided),  
section 364(1)(b) and (2) (deductions where living accommodation provided),  
section 365(1)(b) and (2) (deductions where employment-related benefit provided).

## CHAPTER 2

### DEDUCTIONS FOR EMPLOYEE'S EXPENSES

#### *Introduction*

#### **333 Scope of this Chapter: expenses paid by the employee**

- (1) A deduction from a person's earnings for an amount is allowed under the following provisions of this Chapter only if the amount—
  - (a) is paid by the person, or
  - (b) is paid on the person's behalf by someone else and is included in the earnings.
- (2) In the following provisions of this Chapter, in relation to a deduction from a person's earnings, references to the person paying an amount include references to the amount being paid on the person's behalf by someone else if or to the extent that the amount is included in the earnings.
- (3) Subsection (1)(b) does not apply to the deductions under—
  - (a) section 351(2) and (3) (expenses of ministers of religion), and
  - (b) section 355 (deductions for corresponding payments by non-domiciled employees with foreign employers),and subsection (2) does not apply in the case of those deductions.
- (4) Chapter 3 of this Part provides for deductions where—
  - (a) a person's earnings include an amount treated as earnings under Chapter 4, 5 or 10 of Part 3 (taxable benefits: vouchers etc., living accommodation and residual liability to charge), and
  - (b) an amount in respect of the benefit in question would be deductible under this Chapter if the person had incurred and paid it.

#### **334 Effect of reimbursement etc.**

- (1) For the purposes of this Chapter, a person may be regarded as paying an amount despite—
  - (a) its reimbursement, or
  - (b) any other payment from another person in respect of the amount.
- (2) But where a reimbursement or such other payment is made in respect of an amount, a deduction for the amount is allowed under the following provisions of this Chapter only if or to the extent that—
  - (a) the reimbursement, or

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- (b) so much of the other payment as relates to the amount, is included in the person's earnings.
- (3) This section does not apply to a deduction allowed under section 351 (expenses of ministers of religion).
- (4) This section is to be disregarded for the purposes of the deductibility provisions.

### **335 Application of deductions provisions: “earnings charged on receipt” and “earnings charged on remittance”**

- (1) The availability of certain deductions under this Chapter depends on whether the earnings are earnings charged on receipt or earnings charged on remittance.
- (2) Sections 336 to 342—
  - (a) only apply if the earnings from which the deduction is to be made are earnings charged on receipt, and
  - (b) apply subject to section 354(1) if the earnings from the employment also include other earnings.
- (3) Section 353 (which provides for a deduction for expenses of the kind to which sections 336 to 342 apply)—
  - (a) only applies if the earnings from which the deduction is to be made are earnings charged on remittance, and
  - (b) applies subject to section 354(2) if the earnings from the employment also include other earnings.
- (4) In this Part—
  - “earnings charged on receipt” means earnings which are taxable earnings under section 15, 21, 25 or 27, and
  - “earnings charged on remittance” means earnings which are taxable earnings under section 22 or 26.

#### *General rule for deduction of employee's expenses*

### **336 Deductions for expenses: the general rule**

- (1) The general rule is that a deduction from earnings is allowed for an amount if—
  - (a) the employee is obliged to incur and pay it as holder of the employment, and
  - (b) the amount is incurred wholly, exclusively and necessarily in the performance of the duties of the employment.
- (2) The following provisions of this Chapter contain additional rules allowing deductions for particular kinds of expenses and rules preventing particular kinds of deductions.
- (3) No deduction is allowed under this section for an amount that is deductible under sections 337 to 342 (travel expenses).

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## *Travel expenses*

### **337 Travel in performance of duties**

- (1) A deduction from earnings is allowed for travel expenses if—
  - (a) the employee is obliged to incur and pay them as holder of the employment, and
  - (b) the expenses are necessarily incurred on travelling in the performance of the duties of the employment.
- (2) This section needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### **338 Travel for necessary attendance**

- (1) A deduction from earnings is allowed for travel expenses if—
  - (a) the employee is obliged to incur and pay them as holder of the employment, and
  - (b) the expenses are attributable to the employee’s necessary attendance at any place in the performance of the duties of the employment.
- (2) Subsection (1) does not apply to the expenses of ordinary commuting or travel between any two places that is for practical purposes substantially ordinary commuting.
- (3) In this section “ordinary commuting” means travel between—
  - (a) the employee’s home and a permanent workplace, or
  - (b) a place that is not a workplace and a permanent workplace.
- (4) Subsection (1) does not apply to the expenses of private travel or travel between any two places that is for practical purposes substantially private travel.
- (5) In subsection (4) “private travel” means travel between—
  - (a) the employee’s home and a place that is not a workplace, or
  - (b) two places neither of which is a workplace.
- (6) This section needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### **339 Meaning of “workplace” and “permanent workplace”**

- (1) In this Part “workplace”, in relation to an employment, means a place at which the employee’s attendance is necessary in the performance of the duties of the employment.
- (2) In this Part “permanent workplace”, in relation to an employment, means a place which—
  - (a) the employee regularly attends in the performance of the duties of the employment, and
  - (b) is not a temporary workplace.

This is subject to subsections (4) and (8).

- (3) In subsection (2) “temporary workplace”, in relation to an employment, means a place which the employee attends in the performance of the duties of the employment—

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- (a) for the purpose of performing a task of limited duration, or
- (b) for some other temporary purpose.

This is subject to subsections (4) and (5).

- (4) A place which the employee regularly attends in the performance of the duties of the employment is treated as a permanent workplace and not a temporary workplace if—
  - (a) it forms the base from which those duties are performed, or
  - (b) the tasks to be carried out in the performance of those duties are allocated there.
- (5) A place is not regarded as a temporary workplace if the employee's attendance is—
  - (a) in the course of a period of continuous work at that place—
    - (i) lasting more than 24 months, or
    - (ii) comprising all or almost all of the period for which the employee is likely to hold the employment, or
  - (b) at a time when it is reasonable to assume that it will be in the course of such a period.
- (6) For the purposes of subsection (5), a period is a period of continuous work at a place if over the period the duties of the employment are performed to a significant extent at the place.
- (7) An actual or contemplated modification of the place at which duties are performed is to be disregarded for the purposes of subsections (5) and (6) if it does not, or would not, have any substantial effect on the employee's journey, or expenses of travelling, to and from the place where they are performed.
- (8) An employee is treated as having a permanent workplace consisting of an area if—
  - (a) the duties of the employment are defined by reference to an area (whether or not they also require attendance at places outside it),
  - (b) in the performance of those duties the employee attends different places within the area,
  - (c) none of the places the employee attends in the performance of those duties is a permanent workplace, and
  - (d) the area would be a permanent workplace if subsections (2), (3), (5), (6) and (7) referred to the area where they refer to a place.

### **340 Travel between group employments**

- (1) A deduction from earnings from an employment is allowed for travel expenses if conditions A to D are met.
- (2) Condition A is that the employee is obliged to incur and pay the expenses.
- (3) Condition B is that the travel is for the purpose of performing duties of the employment at the destination.
- (4) Condition C is that the employee has performed duties of another employment at the place of departure.
- (5) Condition D is that the employments are with companies in the same group.
- (6) In this section "group" means a company and its 51% subsidiaries.

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- (7) For the purposes of sections 353 and 354 (special rules for earnings with a foreign element), the expenses are treated as incurred in the performance of the duties to be performed at the destination.
- (8) This section needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### **341 Travel at start or finish of overseas employment**

- (1) A deduction from earnings from an employment is allowed for starting travel expenses and finishing travel expenses if conditions A to C are met.
- (2) Condition A is that the duties of the employment are performed wholly outside the United Kingdom.
- (3) Condition B is that the employee is resident and ordinarily resident in the United Kingdom.
- (4) Condition C is that in a case where the employer is a foreign employer, the employee is domiciled in the United Kingdom.
- (5) If the travel is only partly attributable to the taking up or termination of the employment, this section applies only to the part of the expenses properly so attributable.
- (6) Subsection (7) applies if in the tax year the employment is in substance one whose duties fall to be performed outside the United Kingdom.
- (7) Duties of the employment performed in the United Kingdom, whose performance is merely incidental to the performance of duties outside the United Kingdom, are to be treated for the purposes of subsection (2) as performed outside the United Kingdom.
- (8) In this section—
  - “starting travel expenses” means expenses incurred by the employee in travelling from a place in the United Kingdom to take up the employment,
  - “finishing travel expenses” means expenses incurred by the employee in travelling to a place in the United Kingdom on the termination of the employment, and
  - “employee” includes a person who is to be, or has ceased to be, an employee.
- (9) This section needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### **342 Travel between employments where duties performed abroad**

- (1) A deduction from earnings from an employment is allowed for travel expenses incurred by the employee if conditions A to F are met.
- (2) Condition A is that the travel is for the purpose of performing duties of the employment at the destination.
- (3) Condition B is that the employee has performed duties of another employment at the place of departure.

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- (4) Condition C is that the place of departure or the destination or both are outside the United Kingdom.
- (5) Condition D is that the duties of one or both of the employments are performed wholly or partly outside the United Kingdom.
- (6) Condition E is that the employee is resident and ordinarily resident in the United Kingdom.
- (7) Condition F is that in a case where the employer is a foreign employer, the employee is domiciled in the United Kingdom.
- (8) If the travel is only partly attributable to the purpose of performing duties of the employment at the destination, this section applies only to the part of the expenses properly so attributable.
- (9) This section needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### *Fees and subscriptions*

#### **343 Deduction for professional membership fees**

- (1) A deduction from earnings from an employment is allowed for an amount paid in respect of a professional fee if—
  - (a) the duties of the employment involve the practice of the profession to which the fee relates, and
  - (b) the registration, certification, licensing or other matter in respect of which the fee is payable is a condition, or one of alternative conditions, which must be met if that profession is to be practised in the performance of those duties.
- (2) In this section “professional fee” means a fee mentioned in the following Table.

#### *Table*

##### Health professionals

1. Fee payable for entry or retention of a name in any of the following—
  - (a) the Register of Chartered Psychologists,
  - (b) the register maintained by the Registrar of Chiropractors,
  - (c) a roll or record kept for a class of dental auxiliaries,
  - (d) the dentists register,
  - (e) the register of dispensing opticians,
  - (f) the register maintained by the Health Professions Council,
  - (g) the register maintained by the registrar appointed by the Hearing Aid Council,
  - (h) the register of medical practitioners,
  - (i) the register maintained by the Nursing and Midwifery Council,
  - (j) either of the registers of ophthalmic opticians,
  - (k) the register maintained by the Registrar of Osteopaths,
  - (l) the Register of Pharmaceutical Chemists.
2. Fee payable by a chartered psychologist on the issue of a practising certificate.



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#### Animal health professionals

3. Fee payable for entry or retention of a name in any of the following—
  - (a) the register maintained by the registrar appointed by the Farriers Registration Council,
  - (b) the supplementary veterinary register,
  - (c) the register of veterinary surgeons.

#### Legal professionals

4. Fee payable to the Council for Licensed Conveyancers on the issue of a licence to practise as a licensed conveyancer.
5. Fee and contribution to the compensation fund or Guarantee Fund payable on the issue of a solicitor's practising certificate.

#### Architects

6. Fee payable for entry or retention of a name in the Register of Architects.

#### Teachers

7. Fee payable for entry or retention of a name in any of the following—
  - (a) the register maintained by the General Teaching Council for England,
  - (b) the register maintained by the General Teaching Council for Scotland,
  - (c) the register maintained by the General Teaching Council for Wales.

#### Patent agents and trade mark agents

8. Registration fee payable by—
  - (a) a registered patent agent,
  - (b) a registered trade mark agent.
9. Practising fee payable by—
  - (a) a registered patent agent,
  - (b) a registered trade mark agent.

#### Occupations in the transport sector

10. Fee payable by a driving instructor for entry or retention of a name in the register of approved instructors or on the issue or renewal of a licence authorising its holder to give paid instruction in the driving of a motor car.
11. Fee (including any related medical or technical examination fee) payable, on the issue or renewal of a licence by the Civil Aviation Authority, by—
  - (a) an aircraft maintenance engineer,
  - (b) an air traffic controller or student air traffic controller,
  - (c) a member of the flight crew of an aircraft registered in the United Kingdom,
  - (d) a flight information service officer.
12. Fee (including any related medical examination fee) payable—
  - (a) on the issue or renewal of a licence authorising its holder to drive a large goods vehicle or a passenger-carrying vehicle,

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- (b) by an officer or other seaman on the issue, renewal or endorsement of a certificate, licence or other document which is required as evidence of his qualification or competence to serve in a ship.

13. Fee payable by a seafarer employed in a sea-going United Kingdom ship on the issue or renewal of a medical fitness certificate.

- (3) The Board of Inland Revenue may make an order adding such fee as is specified in the order to the Table of fees mentioned in subsection (2).
- (4) The Board may make an order if they consider that such fee is payable in respect of any registration, certification, licensing or other matter if it is required as a condition, or one of alternative conditions, of the practice of a profession.

### **344 Deduction for annual subscriptions**

- (1) A deduction from earnings from an employment is allowed for an amount paid in respect of an annual subscription if—
  - (a) it is paid to a body of persons approved under this section, and
  - (b) the activities of the body which are directed to one or more of the objects within subsection (2) are of direct benefit to, or concern the profession practised in, the performance of the duties of the employment.
- (2) The objects are—
  - (a) the advancement or dissemination of knowledge (whether generally or among persons belonging to the same or similar professions or occupying the same or similar positions),
  - (b) the maintenance or improvement of standards of conduct and competence among the members of a profession,
  - (c) the provision of indemnity or protection to members of a profession against claims in respect of liabilities incurred by them in the exercise of their profession.
- (3) The Inland Revenue may approve a body of persons under this section if, on an application by the body, they are satisfied that—
  - (a) the body is not of a mainly local character,
  - (b) its activities are carried on otherwise than for profit, and
  - (c) its activities are wholly or mainly directed to objects within subsection (2).
- (4) The Inland Revenue must give notice to the body of their decision on the application.
- (5) If the activities of the body are to a significant extent directed to objects other than objects within subsection (2), the Inland Revenue may—
  - (a) determine the proportion of the activities directed to objects within subsection (2), and
  - (b) determine that only such corresponding part of the subscription as is specified by the Inland Revenue is allowable under this section.
- (6) In determining that part, the Inland Revenue must have regard to the proportion of expenditure of the body attributable to objects other than objects within subsection (2) and all other relevant circumstances.
- (7) If a body applies for approval under this section and is approved, a subscription paid to it—

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- (a) before it has applied but in the same tax year as the application, or
  - (b) after it has applied but before it is approved,
- is treated for the purposes of this section as having been paid to an approved body.

### **345 Decisions of the Inland Revenue under section 344**

- (1) The Inland Revenue may by notice to the body in question—
  - (a) withdraw an approval given under section 344, and
  - (b) withdraw or vary a determination made under that section, to take account of any change in circumstances.
- (2) A body aggrieved by a decision of the Inland Revenue under section 344 or subsection (1) may appeal to the Special Commissioners.
- (3) The notice of appeal must be given to the Inland Revenue within 30 days after the date on which notice of their decision was given to the body.

#### *Employee liabilities and indemnity insurance*

### **346 Deduction for employee liabilities**

- (1) A deduction from earnings from an employment is allowed for any or all of the following—
  - A. Payment in or towards the discharge of a liability related to the employment.
  - B. Payment of any costs or expenses incurred in connection with—
    - (a) a claim that the employee is subject to a liability related to the employment, or
    - (b) proceedings relating to or arising out of a claim that the employee is subject to a liability related to the employment.
  - C. Payment of a premium under a qualifying insurance contract, but only to the extent that the premium relates to—
    - (a) provision in the contract for the employee to be indemnified against a payment falling within paragraph A, or
    - (b) provision in the contract for the payment of any costs or expenses falling within paragraph B.
- (2) But a deduction is not allowed for a payment which falls within paragraph A or B if it would be unlawful for the employer to enter into a contract of insurance in respect of the liability, or costs or expenses, in question.
- (3) In this Chapter—
  - (a) “premium”, in relation to a qualifying insurance contract, means an amount payable to the insurer under the contract, and
  - (b) where a qualifying insurance contract relates to more than one person, employment or risk, the part of the premium to be treated as relating to each of them is to be determined by apportionment on a just and reasonable basis.

### **347 Payments made after leaving the employment**

- (1) A deduction for a payment is not allowed under section 346 if—

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- (a) the employee has ceased to hold the employment, and
  - (b) the payment is made after the day on which the employee ceased to hold the employment.
- (2) If subsection (1) applies, see section 555 (former employee entitled to deduction from total income).

### **348 Liabilities related to the employment**

For the purposes of this Chapter each of the following kinds of liability is related to the employment— A. Liability imposed upon the employee because he did an act, or failed to do an act—

- (a) in his capacity as holder of the employment, or
- (b) in any other capacity in which he acted in the performance of the duties of the employment.

B. Liability imposed upon the employee in connection with any proceedings relating to, or arising from, a claim that he is subject to a liability because he did an act, or failed to do an act—

- (a) in his capacity as holder of the employment, or
- (b) in any other capacity in which he acted in the performance of the duties of the employment.

### **349 Meaning of “qualifying insurance contract”**

- (1) In section 346 “qualifying insurance contract” means a contract of insurance which meets conditions A, B, C and D.
- (2) Condition A is that, so far as the risks insured against are concerned, the contract only relates to one or more of the following—
- (a) the indemnification of an employee against a liability related to the employment,
  - (b) the indemnification of a person against vicarious liability in respect of a liability related to another person’s employment,
  - (c) the payment of costs or expenses incurred—
    - (i) in connection with a claim that a person is subject to a liability to which the insurance relates, or
    - (ii) in connection with any proceedings relating to or arising out of a claim that a person is subject to a liability to which the insurance relates,
  - (d) the indemnification of an employer against loss from a payment made by the employer to an employee in respect of—
    - (i) a liability related to the employment, or
    - (ii) any costs or expenses incurred as mentioned in paragraph (c).
- (3) Condition B is that—
- (a) the period of insurance under the contract does not exceed 2 years or, if it does, it does so only because of one or more renewals, each for a period of 2 years or less, and
  - (b) the insured is not required to renew the contract for any period.
- (4) Condition C is—

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- (a) that the insured is not entitled under the contract to receive any payment or other benefit in addition to—
    - (i) cover for the risks insured against, and
    - (ii) any right to renew the contract, or
  - (b) if the insured is so entitled, that the part of the premium reasonably attributable to the entitlement is not a significant part of the whole premium.
- (5) Condition D is that the contract is not connected with another contract.

### **350 Connected contracts**

- (1) An insurance contract is connected with another contract for the purposes of section 349 if conditions E and F are met—
  - (a) at the time when both contracts are first in force, or
  - (b) at any time after that time.
- (2) Condition E is that one of the contracts was entered into—
  - (a) by reference to the other, or
  - (b) with a view to enabling or facilitating entry into the other on particular terms.
- (3) Condition F is that the terms on which one of the contracts was entered into are significantly different from what they would have been if—
  - (a) it had not been entered into in anticipation of the other being entered into, or
  - (b) the other had not also been entered into.
- (4) If—
  - (a) there is only one such significant difference in terms, and
  - (b) the contracts meet conditions A, B and C specified in section 349,the difference may be disregarded in the following cases.
- (5) The first case is where the difference is a reduction in premiums under the contract that is reasonably attributable only to the contract—
  - (a) containing a right to renew, or
  - (b) being entered into by way of renewal.
- (6) The second case is where—
  - (a) two or more contracts have been entered into as part of a single transaction, and
  - (b) the difference is reductions in their premiums that are reasonably attributable only to the premium under each of them having been fixed by reference to the appropriate proportion of the combined premium.
- (7) In subsection (6) “the combined premium” means the amount that would have been the total premium under a single contract relating to all the risks covered by the contracts.

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### *Expenses of ministers of religion*

#### **351 Expenses of ministers of religion**

- (1) A deduction is allowed from any earnings from any employment as a minister of a religious denomination for amounts incurred by the minister wholly, exclusively and necessarily in the performance of duties of such an employment.
- (2) If a minister of a religious denomination pays rent in respect of a dwelling-house, part of which is used mainly and substantially for the purposes of such duties, a deduction is allowed from the minister's earnings from any employment as such a minister for—
  - (a) one quarter of the rent, or
  - (b) if less, the part of the rent that, on a just and reasonable apportionment, is attributable to that part of the dwelling-house.
- (3) If—
  - (a) an interest in premises belongs to a charity or an ecclesiastical corporation, and
  - (b) because of that interest and by reason of holding an employment as a minister of a religious denomination, the minister has a residence in the premises from which to perform the duties of the employment,
 a deduction is allowed from the minister's earnings from any such employment for part of any expenses borne by the minister on the maintenance, repair, insurance or management of the premises.
- (4) The amount of the deduction is—

$$\frac{A}{4} - B$$

where—

A is the amount of the expenses borne by the minister on the maintenance, repair, insurance or management of the premises, and

B is the amount of those expenses that are allowed under subsection (1).

- (5) In this section “charity” means a body of persons or trust established for charitable purposes only.
- (6) Subsection (1) needs to be read with section 359 (disallowance of travel expenses: mileage allowances and reliefs).

### *Agency fees paid by entertainers*

#### **352 Limited deduction for agency fees paid by entertainers**

- (1) A deduction is allowed from earnings from an employment as an entertainer for agency fees (and any value added tax on them) if the fees are calculated as a percentage of the whole or part of the earnings from the employment.

This is subject to the limit in subsection (2).

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- (2) Amounts may be deducted under this section in calculating the net taxable earnings from an employment in a tax year only to the extent that, in aggregate, they do not exceed 17.5% of the taxable earnings from the employment in the tax year.
- (3) Subsections (4) and (5) apply for the purposes of this section.
- (4) “Entertainer” means an actor, dancer, musician, singer or theatrical artist.
- (5) “Agency fees”, in relation to an employment, means—
  - (a) fees paid under a contract between the employee and another person, to whom the fees are paid, who—
    - (i) agrees under the contract to act as an agent of the employee in connection with the employment, and
    - (ii) at the time the fees are paid is carrying on an employment agency with a view to profit, and
  - (b) fees paid under an arrangement under which a co-operative society or the members of such a society agree to act as the employee’s agent in connection with the employment.
- (6) For the purposes of subsection (5)—

“co-operative society” does not include a society which carries on or intends to carry on business with the object of making profits mainly for the payment of interest, dividends or bonuses on money invested or deposited with or lent to the society or any other person, and

“employment agency” has the meaning given by section 13(2) of the Employment Agencies Act 1973 (c. 35).

*Special rules for earnings with a foreign element*

**353 Deductions from earnings charged on remittance**

- (1) A deduction is allowed from earnings charged on remittance for expenses within subsection (2) if the condition in subsection (3) is met.
- (2) The expenses are—
  - (a) any expenses—
    - (i) paid by the employee out of the earnings, or
    - (ii) paid on the employee’s behalf by another person and included in the earnings, and
  - (b) any other expenses paid in the United Kingdom in the tax year or an earlier tax year in which the employee has been resident in the United Kingdom.
- (3) The condition is that the expenses would have been deductible under sections 336 to 342 if the earnings had been earnings charged on receipt in the tax year in which the expenses were incurred.
- (4) Where—
  - (a) any of the deductibility provisions refers to amounts or expenses that would be deductible from earnings if they were paid by a person, and
  - (b) the earnings in question are earnings charged on remittance,it is assumed for the purposes of those provisions that the person pays the amounts or expenses out of those earnings.

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### **354 Disallowance of expenses relating to earnings taxed on different basis or untaxed**

- (1) If the earnings from an employment for a tax year include both earnings charged on receipt and other earnings (except earnings charged under section 22), no deduction is allowed under sections 336 to 342 from the earnings charged on receipt for an amount paid in respect of duties of the employment to which the other earnings relate.
- (2) If the earnings from an employment for a tax year include both earnings charged on remittance under section 26 and other earnings, no deduction is allowed under section 353 from the earnings charged on remittance for an amount paid in respect of duties of the employment to which the other earnings relate.
- (3) This section is to be disregarded for the purposes of the deductibility provisions.

### **355 Deductions for corresponding payments by non-domiciled employees with foreign employers**

- (1) An employee may make a claim to the Board of Inland Revenue under this section if conditions A to D are met.
- (2) Condition A is that the employee is not domiciled in the United Kingdom.
- (3) Condition B is that the employment is with a foreign employer.
- (4) Condition C is that the employee has made a payment out of earnings from the employment.
- (5) Condition D is that the payment does not reduce the employee's liability to United Kingdom income tax, but was made in circumstances corresponding to those in which it would do so.
- (6) If the Board are satisfied that conditions A to D are met, they may allow the payment as a deduction under this Chapter.

#### *Disallowance of business entertainment and gifts expenses*

### **356 Disallowance of business entertainment and gifts expenses**

- (1) No deduction from earnings is allowed under this Part for expenses incurred in providing entertainment or a gift in connection with the employer's trade, business, profession or vocation.
- (2) Subsection (1) is subject to the exceptions in—
  - (a) section 357 (exception where employer's expenses disallowed), and
  - (b) section 358 (other exceptions).
- (3) For the purposes of this section and those sections—
  - (a) "entertainment" includes hospitality of any kind, and
  - (b) expenses incurred in providing entertainment or a gift include expenses incurred in providing anything incidental to the provision of entertainment or a gift.



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### **357 Business entertainment and gifts: exception where employer’s expenses disallowed**

- (1) The prohibition in section 356 on deducting expenses does not apply if—
  - (a) the earnings include an amount in respect of the expenses,
  - (b) the employer—
    - (i) paid the amount to, or on behalf of, the employee, or
    - (ii) put it at the employee’s disposal,exclusively for meeting expenses incurred or to be incurred by the employee in providing the entertainment or gift, and
  - (c) condition A, B or C is met.
- (2) Condition A is that the deduction of the amount falls to be disallowed under section 577 of ICTA in calculating the employer’s profits from the trade, profession or vocation in question for the purposes of the Tax Acts (or it would do so apart from the exemption in section 505(1)(e) of ICTA or any relief applying in respect of those profits).
- (3) Condition B is that the inclusion of the amount falls to be disallowed under that section in calculating the employer’s expenses of management for the purposes of giving relief under the Tax Acts (or it would do so apart from another relief applying to the employer).
- (4) Condition C is that—
  - (a) the employer is a tonnage tax company during the whole or part of the tax year, and
  - (b) apart from the tonnage tax election, the deduction of the amount included in the employee’s earnings would fall to be disallowed in calculating the employer’s relevant shipping profits.
- (5) In subsection (4) “tonnage tax company”, “tonnage tax election” and “relevant shipping profits” have the same meaning as in Schedule 22 to FA 2000.

### **358 Business entertainment and gifts: other exceptions**

- (1) The prohibition in section 356 on deducting expenses does not apply if the expenses are incurred in providing entertainment or gifts for the employer’s employees unless—
  - (a) they are also provided for others, and
  - (b) their provision for the employees is incidental to their provision for the others.
- (2) For this purpose directors and persons engaged in the management of a company are regarded as employed by it.
- (3) The prohibition in section 356 on deducting expenses does not apply if the expenses are incurred in providing a gift which incorporates a conspicuous advertisement for the employer or, if the employer is a company, another company which belongs to the same group as the employer, unless—
  - (a) the gift is food, drink, tobacco or a token or voucher exchangeable for goods, or
  - (b) the cost of the gift to the donor, together with any other gifts (except food, drink, tobacco or tokens or vouchers exchangeable for goods) given to the same person in the same tax year, is more than £50.

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- (4) In subsection (3) “group” means a body corporate and its 51% subsidiaries.

*Other rules preventing deductions of particular kinds*

**359 Disallowance of travel expenses: mileage allowances and reliefs**

- (1) No deduction may be made under the travel deductions provisions in respect of travel expenses incurred in connection with the use by the employee of a vehicle that is not a company vehicle if condition A or B is met.
- (2) Condition A is that mileage allowance payments are made to the employee in respect of the use of the vehicle.
- (3) Condition B is that mileage allowance relief is available in respect of the use of the vehicle by the employee (see section 231).
- (4) In this section—
  - “company vehicle” has the meaning given by section 236(2),
  - “mileage allowance payments” has the meaning given by section 229(2), and
  - “the travel deductions provisions” means sections 337 to 342, 370, 371, 373 and 374 (travel expenses) and section 351 (expenses of ministers of religion).

**360 Disallowance of certain accommodation expenses of MPs and other representatives**

- (1) No deduction from earnings is allowed under this Chapter or section 373 (non-domiciled employee’s travel costs and expenses where duties performed in UK) for accommodation expenses incurred by a member of—
  - (a) the House of Commons,
  - (b) the Scottish Parliament,
  - (c) the National Assembly for Wales, or
  - (d) the Northern Ireland Assembly.
- (2) In this section “accommodation expenses” means expenses incurred in, or in connection with, the provision or use of residential or overnight accommodation to enable the member to perform duties as a member of the Parliament or Assembly in or about—
  - (a) the place where it sits, or
  - (b) the constituency or region which the member represents.

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## CHAPTER 3

### DEDUCTIONS FROM BENEFITS CODE EARNINGS

#### *Introduction*

#### **361 Scope of this Chapter: cost of benefits deductible as if paid by employee**

A deduction from a person's earnings is allowed under the following provisions of this Chapter where—

- (a) the earnings include an amount treated as earnings under—
  - (i) Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens),
  - (ii) Chapter 5 of Part 3 (taxable benefits: living accommodation), or
  - (iii) Chapter 10 of Part 3 (taxable benefits: residual liability to charge), and
- (b) an amount in respect of the benefit in question would be deductible under Chapter 2 or 5 of this Part if the person had incurred and paid it.

*Deductions where amounts treated as earnings under the benefits code*

#### **362 Deductions where non-cash voucher provided**

- (1) A deduction from earnings is allowed if—
  - (a) the earnings include an amount treated as earnings under section 87(1) (cash equivalent of benefit of non-cash voucher treated as earnings),
  - (b) the voucher is exchanged for goods or services (whether in the tax year or a later year), and
  - (c) had the employee incurred and paid the cost of the goods or services in the tax year, the whole or part of the amount paid would have been deductible from the earnings under Chapter 2 or 5 of this Part.
- (2) The deduction is equal to the lesser of—
  - (a) the amount treated as earnings, and
  - (b) the amount that would have been so deductible.

#### **363 Deductions where credit-token provided**

- (1) A deduction from earnings is allowed if—
  - (a) the earnings include an amount treated as earnings under section 94(1) (cash equivalent of benefit of credit-token treated as earnings), and
  - (b) had the employee incurred and paid the cost of the goods or services obtained by using the token, the whole or part of the amount paid would have been deductible from the earnings under Chapter 2 or 5 of this Part.
- (2) The deduction is equal to the lesser of—
  - (a) the amount treated as earnings, and
  - (b) the amount that would have been so deductible.

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### **364 Deductions where living accommodation provided**

- (1) A deduction from earnings is allowed if—
  - (a) the earnings include an amount treated as earnings under Chapter 5 of Part 3 (taxable benefits: living accommodation), and
  - (b) had the employee incurred and paid an amount equal to that amount for the accommodation in the tax year, the whole or part of the amount paid would have been deductible under Chapter 2 or 5 of this Part.
- (2) The deduction is equal to the amount that would have been so deductible.

### **365 Deductions where employment-related benefit provided**

- (1) A deduction from earnings is allowed if—
  - (a) the earnings include an amount treated as earnings under Chapter 10 of Part 3 (taxable benefits: residual liability to charge) in respect of a benefit, and
  - (b) had the employee incurred and paid the cost of the benefit, the whole or part of the amount paid would have been deductible under Chapter 2 or 5 of this Part.
- (2) The deduction is equal to the amount that would have been so deductible.
- (3) For the purposes of this section, the cost of the benefit is determined in accordance with sections 204 to 206.

## **CHAPTER 4**

### FIXED ALLOWANCES FOR EMPLOYEE'S EXPENSES

#### *Introduction*

### **366 Scope of this Chapter: amounts fixed by Treasury**

A deduction from an employee's earnings for an amount is allowed under this Chapter where the amount has been fixed by the Treasury by reference to the employee's employment.

#### *Fixed sum deductions*

### **367 Fixed sum deductions for repairing and maintaining work equipment**

- (1) A deduction is allowed for the sum, if any, fixed by the Treasury as in their opinion representing the average annual expenses incurred by employees of the class to which the employee belongs in respect of the repair and maintenance of work equipment.
- (2) The Treasury may only fix such a sum for a class of employees if they are satisfied that—
  - (a) the employees are generally responsible for the whole or part of the expense of repairing and maintaining the work equipment, and
  - (b) the expenses for which they are generally responsible would be deductible from the employees' earnings under section 336 if paid by them.

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- (3) No deduction is allowed under this section if the employer pays or reimburses the expenses in respect of which the sum is fixed or would do so if requested.
- (4) If the employer pays or reimburses part of those expenses or would do so if requested, the amount of the deduction is reduced by the amount which is or would be paid or reimbursed.
- (5) In this section “work equipment” means tools or special clothing.
- (6) This section needs to be read with section 330(2) (prevention of double deductions).

### **368 Fixed sum deductions from earnings payable out of public revenue**

- (1) A deduction is allowed from earnings payable out of the public revenue for the employee’s fixed sum expenses in respect of the duties to which the earnings relate.
- (2) “Fixed sum expenses” means the sum, if any, fixed by the Treasury as in their opinion representing the average annual expenses which employees of the employee’s description are obliged to pay wholly, exclusively and necessarily in the performance of duties to which such earnings relate.
- (3) This section needs to be read with section 330(2) (prevention of double deductions).

## **CHAPTER 5**

### **DEDUCTIONS FOR EARNINGS REPRESENTING BENEFITS OR REIMBURSED EXPENSES**

#### *Introduction*

### **369 Scope of this Chapter: earnings representing benefits or reimbursed expenses**

- (1) A deduction from a person’s earnings for an amount is allowed under the following provisions of this Chapter where the amount is included in the earnings in respect of—
  - (a) provision made for the person, or
  - (b) expenses reimbursed by another person.
- (2) In this Chapter references to “the included amount” are references to the amount so included.
- (3) If the included amount is an amount treated as earnings under—
  - (a) Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens),
  - (b) Chapter 5 of Part 3 (taxable benefits: living accommodation), or
  - (c) Chapter 10 of Part 3 (taxable benefits: residual liability to charge),a deduction may be allowed instead in respect of the benefit in question under Chapter 3 of this Part (deductions from benefits code earnings).

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*Travel costs and expenses where duties performed abroad*

**370 Travel costs and expenses where duties performed abroad: employee's travel**

- (1) A deduction is allowed from earnings which are taxable earnings under section 15 or 21 (earnings for year when employee resident and ordinarily resident in UK) if—
  - (a) the earnings include an amount in respect of—
    - (i) the provision of travel facilities for a journey made by the employee, or
    - (ii) the reimbursement of expenses incurred by the employee on such a journey, and
  - (b) the circumstances fall within Case A, B or C.
- (2) The deduction is equal to the included amount.
- (3) Case A is where—
  - (a) the employee is absent from the United Kingdom wholly and exclusively for the purpose of performing the duties of one or more employments,
  - (b) the duties concerned can only be performed outside the United Kingdom, and
  - (c) the journey is—
    - (i) a journey from a place outside the United Kingdom where such duties are performed to a place in the United Kingdom, or
    - (ii) a return journey following such a journey.
- (4) Case B is where—
  - (a) the duties of the employment are performed partly outside the United Kingdom,
  - (b) those duties are not performed on a vessel,
  - (c) the journey is between a place in the United Kingdom and a place outside the United Kingdom where duties of the employment are performed,
  - (d) the duties performed outside the United Kingdom can only be performed there, and
  - (e) the journey is made wholly and exclusively for the purpose of performing them or returning after performing them.
- (5) Case C is where—
  - (a) the duties of the employment are performed partly outside the United Kingdom,
  - (b) those duties are performed on a vessel,
  - (c) the journey is between a place in the United Kingdom and a place outside the United Kingdom where duties of the employment are performed,
  - (d) the duties performed outside the United Kingdom can only be performed there, and
  - (e) the journey is made wholly and exclusively for the purpose of performing those duties, or those duties and other duties of the employment, or returning after performing them.

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### **371 Travel costs and expenses where duties performed abroad: visiting spouse's or child's travel**

- (1) A deduction is allowed from earnings which are taxable earnings under section 15 or 21 (earnings for year when employee resident and ordinarily resident in UK) if—
  - (a) the earnings include an amount in respect of—
    - (i) the provision of travel facilities for a journey made by the employee's spouse or child, or
    - (ii) the reimbursement of expenses incurred by the employee on such a journey, and
  - (b) conditions A to C are met.
- (2) The deduction is equal to the included amount.
- (3) Condition A is that the employee is absent from the United Kingdom for a continuous period of at least 60 days for the purpose of performing the duties of one or more employments.
- (4) Condition B is that the journey is between a place in the United Kingdom and a place outside the United Kingdom where such duties are performed.
- (5) Condition C is that the employee's spouse or child is—
  - (a) accompanying the employee at the beginning of the period of absence,
  - (b) visiting the employee during that period, or
  - (c) returning to a place in the United Kingdom after so accompanying or visiting the employee.
- (6) A deduction is not allowed under this section for more than two outward and two return journeys by the same person in a tax year.
- (7) In this section "child" includes a stepchild and an illegitimate child, but not a person who is 18 or over at the beginning of the outward journey.

### **372 Where seafarers' duties are performed**

For the purposes of—

- (a) section 370 (employee's travel costs and expenses where duties performed abroad), and
- (b) section 371 (visiting spouse's or child's travel costs and expenses where duties performed abroad),

whether duties performed on a vessel are performed in or outside the United Kingdom is determined without regard to section 40(2) (certain duties treated as performed in UK).

*Travel costs and expenses of non-domiciled employees where duties performed in UK*

### **373 Non-domiciled employee's travel costs and expenses where duties performed in UK**

- (1) This section applies if a person ("the employee") who is not domiciled in the United Kingdom—

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- (a) receives earnings from an employment for duties performed in the United Kingdom, and
  - (b) an amount is included in the earnings in respect of—
    - (i) the provision of travel facilities for a journey made by the employee, or
    - (ii) the reimbursement of expenses incurred by the employee on such a journey.
- (2) A deduction is allowed from earnings from the employment which are earnings charged on receipt if the journey meets conditions A and B.
- (3) Condition A is that the journey ends on, or during the period of 5 years beginning with, a date that is a qualifying arrival date in relation to the employee (see section 375).
- (4) Condition B is that the journey is made—
- (a) from the country outside the United Kingdom in which the employee normally lives to a place in the United Kingdom in order to perform duties of the employment, or
  - (b) to that country from a place in the United Kingdom in order to return to that country after performing such duties.
- (5) If the journey is wholly for a purpose specified in subsection (4), the deduction is equal to the included amount.
- (6) If the journey is only partly for such a purpose, the deduction is equal to so much of the included amount as is properly attributable to that purpose.

### **374 Non-domiciled employee's spouse's or child's travel costs and expenses where duties performed in UK**

- (1) This section applies if a person (“the employee”) who is not domiciled in the United Kingdom—
- (a) receives earnings from an employment for duties performed in the United Kingdom, and
  - (b) an amount is included in the earnings in respect of—
    - (i) the provision of travel facilities for a journey made by the employee's spouse or child, or
    - (ii) the reimbursement of expenses incurred by the employee on such a journey.
- (2) A deduction is allowed from earnings from the employment which are earnings charged on receipt if conditions A to C are met.
- (3) Condition A is that the journey—
- (a) is made between the country outside the United Kingdom in which the employee normally lives and a place in the United Kingdom, and
  - (b) ends on, or during the period of 5 years beginning with, a date that is a qualifying arrival date in relation to the employee (see section 375).
- (4) Condition B is that the employee is in the United Kingdom for a continuous period of at least 60 days for the purpose of performing the duties of one or more employments from which the employee receives earnings for duties performed in the United Kingdom.



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- (5) Condition C is that the employee’s spouse or child is—
  - (a) accompanying the employee at the beginning of that period,
  - (b) visiting the employee during that period, or
  - (c) returning to the country outside the United Kingdom in which the employee normally lives, after so accompanying or visiting the employee.
- (6) If the journey is wholly for the purpose of so accompanying or visiting the employee or so returning, the deduction is equal to the included amount.
- (7) If the journey is only partly for that purpose, the deduction is equal to so much of the included amount as is properly attributable to that purpose.
- (8) A deduction is not allowed under this section for more than two inward journeys and two return journeys by the same person in a tax year.
- (9) In this section “child” includes a stepchild and an illegitimate child, but not a person who is 18 or over at the beginning of the inward journey.

### **375 Meaning of “qualifying arrival date”**

- (1) For the purposes of sections 373(3) and 374(3), a date is a qualifying arrival date in relation to a person if—
  - (a) it is a date on which the person arrives in the United Kingdom to perform duties of an employment from which the person receives earnings for duties performed in the United Kingdom, and
  - (b) condition A or B is met.
- (2) Condition A is that the person has not been in the United Kingdom for any purpose during the period of 2 years ending with the day before the date.
- (3) Condition B is that the person was not resident in the United Kingdom in either of the 2 tax years preceding the tax year in which the date falls.
- (4) If, in a case where condition B applies, there are 2 or more dates in the tax year on which the person arrives in the United Kingdom to perform duties of an employment from which the person receives earnings for duties performed in the United Kingdom, the qualifying arrival date is the earliest of them.

### *Foreign accommodation and subsistence costs and expenses*

### **376 Foreign accommodation and subsistence costs and expenses (overseas employments)**

- (1) A deduction from earnings from an employment is allowed if—
  - (a) the duties of the employment are performed wholly outside the United Kingdom,
  - (b) the employee is resident and ordinarily resident in the United Kingdom,
  - (c) in a case where the employer is a foreign employer, the employee is domiciled in the United Kingdom, and
  - (d) the earnings include an amount in respect of—

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- (i) the provision of accommodation or subsistence outside the United Kingdom for the employee for the purpose of enabling the employee to perform the duties of the employment, or
  - (ii) the reimbursement of expenses incurred by the employee on such accommodation or subsistence for that purpose.
- (2) If the accommodation or subsistence is wholly for that purpose, the deduction is equal to the included amount.
- (3) If the accommodation or subsistence is only partly for that purpose, the deduction is equal to so much of the included amount as is properly attributable to that purpose.
- (4) Subsection (5) applies if in the tax year the employment is in substance one whose duties fall to be performed outside the United Kingdom.
- (5) Duties of the employment performed in the United Kingdom, whose performance is merely incidental to the performance of duties outside the United Kingdom, are to be treated for the purposes of subsection (1)(a) as performed outside the United Kingdom.

*Personal security assets and services*

**377 Costs and expenses in respect of personal security assets and services**

- (1) This section applies if—
- (a) there is a special threat to an employee’s personal physical security which arises wholly or mainly because of the employee’s employment,
  - (b) an asset or service which improves personal security is provided for or used by the employee to meet the threat,
  - (c) the employee’s earnings include an amount in respect of—
    - (i) the provision or use, or
    - (ii) expenses connected with it,
 because the whole or part of the cost of the provision or use is borne, or the expenses are reimbursed to the employee, by or on behalf of another person (“the provider”), and
  - (d) the provider’s sole object in bearing the whole or part of the cost or reimbursing the expenses is meeting the threat.
- (2) In the case of such an asset, if the provider intends it to be used solely for the purpose of improving personal physical security, a deduction equal to the included amount is allowed.
- (3) If the provider intends the asset to be used solely to improve personal physical security, any use of the asset incidental to that purpose is ignored.
- (4) If the provider intends the asset to be used only partly to improve personal physical security, a deduction equal to the proportion of the included amount attributable to the intended use for that purpose is allowed.
- (5) In determining whether or not this section applies in relation to an asset, it does not matter if—
- (a) the asset becomes fixed to land (even a dwelling or grounds), or
  - (b) the employee is or becomes entitled—
    - (i) to the property in the asset, or

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- (ii) if the asset is a fixture, to any estate or interest in the land concerned.
- (6) In the case of a service within subsection (1), if the benefit resulting to the employee consists wholly or mainly of an improvement of the employee's personal physical security, a deduction equal to the included amount is allowed.
- (7) The fact that an asset or a service improves the personal physical security of a member of the employee's family or household, as well as that of the employee, does not prevent a deduction being allowed.
- (8) In this section—  
“asset” includes equipment or a structure (such as a wall), but not a car, ship or aircraft or a dwelling or grounds appurtenant to a dwelling, and  
“service” does not include a dwelling or grounds appurtenant to a dwelling.

## CHAPTER 6

### DEDUCTIONS FROM SEAFARERS' EARNINGS

#### **378 Deduction from seafarers' earnings: eligibility**

- (1) A deduction is allowed from earnings from an employment as a seafarer if—
- the earnings are taxable earnings under section 15 or 21 (earnings for year when employee resident and ordinarily resident in UK),
  - the duties of the employment are performed wholly or partly outside the United Kingdom, and
  - any of those duties are performed in the course of an eligible period.
- (2) In this Chapter “eligible period” means a period consisting of at least 365 days which is either—
- a period of consecutive days of absence from the United Kingdom, or
  - a combined period.
- (3) A combined period is a period—
- at least half of the days in which are days of absence from the United Kingdom, and
  - which consists of 3 consecutive periods, A, B and C, where—  
A is a period of consecutive days of absence from the United Kingdom or a period which is itself a combined period,  
B is a period of not more than 183 days, and  
C is a period of consecutive days of absence from the United Kingdom.
- (4) For this purpose a person is only regarded as being absent from the United Kingdom on any day if absent at the end of the day.

#### **379 Calculating the deduction**

- (1) The deduction under section 378—
- is allowed from the amount of the earnings from the employment attributable to the eligible period, and
  - is equal to that amount.

*Status: Point in time view as at 16/04/2003.*

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- (2) Earnings from the employment for a period of leave immediately after the eligible period are to be regarded as earnings attributable to the eligible period if or to the extent that they are earnings for the tax year in which the eligible period ends.
- (3) This section is subject to section 380 (limit on deduction where UK duties etc. make amount unreasonable).

### **380 Limit on deduction where UK duties etc. make amount unreasonable**

- (1) If—
  - (a) section 378 (deduction from seafarers' earnings: eligibility) applies to earnings for a tax year, and
  - (b) in the tax year the employee performs some of the duties of the employment as a seafarer or of any associated employments in the United Kingdom,
 the amount of earnings in respect of which the deduction under this Chapter is allowed is subject to the following limitation.
- (2) The amount is restricted to the proportion of the aggregate earnings for that year from the employment as a seafarer and all associated employments that is reasonable having regard to—
  - (a) the nature of and time devoted to the duties performed outside and in the United Kingdom, and
  - (b) all other relevant circumstances.
- (3) In this section “associated employments” means employments with the same employer or with associated employers.
- (4) The same rules for determining whether employers are associated apply for the purposes of this section as apply for section 24(4) (limit on chargeable overseas earnings where duties of associated employment performed in UK) (see section 24(5)).

### **381 Taking account of other deductions**

For the purposes of sections 379 and 380, the amount of the earnings from an employment for a tax year is the amount remaining after any deductions under—

- (a) section 232 (giving effect to mileage allowance relief),
- (b) Chapter 2, 3, 4 or 5 of this Part,
- (c) section 592(7) of ICTA (contributions to exempt approved schemes),
- (d) section 594(1) of ICTA (contributions to exempt statutory schemes), and
- (e) section 262 of CAA 2001 (capital allowances to be given effect by treating them as deductions from earnings).

### **382 Duties on board ship**

- (1) Duties which a person performs on a ship engaged—
  - (a) on a voyage beginning or ending outside the United Kingdom (but excluding any part of it beginning and ending in the United Kingdom), or
  - (b) on a part beginning or ending outside the United Kingdom of any other voyage,
 are treated as performed outside the United Kingdom for the purposes of this Chapter.

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- (2) Duties which a person performs on a vessel engaged on a voyage not extending to a port outside the United Kingdom are treated for the purposes of this Chapter as performed in the United Kingdom.
- (3) For the purposes of subsection (1) the areas designated under section 1(7) of the Continental Shelf Act 1964 (c. 29) are treated as part of the United Kingdom.
- (4) Subsection (1) applies despite anything to the contrary in section 40 (duties on board vessel or aircraft).

### **383 Place of performance of incidental duties**

- (1) For the purposes of section 378(1)(b) (deduction from seafarers' earnings: eligibility), duties of an employment as a seafarer which are performed outside the United Kingdom are treated as performed in the United Kingdom if conditions A and B are met.
- (2) Condition A is that in the tax year in which the duties are performed the employment is in substance one whose duties fall to be performed in the United Kingdom.
- (3) Condition B is that the performance of the duties performed outside the United Kingdom is merely incidental to the performance of duties in the United Kingdom.
- (4) Section 39 (duties in UK merely incidental to duties outside UK) does not affect the question—
  - (a) where any duties are performed, or
  - (b) whether a person is absent from the United Kingdom,for the purposes of section 378(1) to (3).

### **384 Meaning of employment “as a seafarer”**

- (1) In this Chapter employment “as a seafarer” means an employment (other than Crown employment) consisting of the performance of duties on a ship or of such duties and others incidental to them.
- (2) In this section “Crown employment” means employment under the Crown—
  - (a) which is of a public nature, and
  - (b) the earnings from which are payable out of the public revenue of the United Kingdom or of Northern Ireland.

### **385 Meaning of “ship”**

In this Chapter “ship” does not include—

- (a) any offshore installation within the meaning of the Mineral Workings (Offshore Installations) Act 1971 (c. 61), or
- (b) what would be such an installation if the references in that Act to controlled waters were to any waters.

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## PART 6

### EMPLOYMENT INCOME: INCOME WHICH IS NOT EARNINGS OR SHARE-RELATED

#### CHAPTER 1

##### PAYMENTS TO NON-APPROVED PENSION SCHEMES

### **386 Charge on payments to non-approved retirement benefits schemes**

- (1) A sum paid by an employer—
  - (a) in accordance with a non-approved retirement benefits scheme, and
  - (b) with a view to the provision of relevant benefits for or in respect of an employee of the employer,
 counts as employment income of the employee for the relevant tax year.
- (2) The “relevant tax year” is the tax year in which the sum is paid.
- (3) Subsection (1) does not apply if or to the extent that the sum is chargeable to income tax as the employee’s income apart from this section.
- (4) But if, apart from this section, the payment of the sum would be a payment to which Chapter 3 of this Part (payments and benefits on termination of employment etc.) would apply, subsection (1) applies to the sum (and accordingly that Chapter does not apply to it).
- (5) In this Chapter—
  - (a) “employee” includes a person who is to be or has been an employee,
  - (b) section 5(1) (application to offices) does not apply, but “employee”, in relation to a company, includes any officer or director of the company and any other person taking part in the management of the affairs of the company,
  - (c) “employer” and “employment” have meanings corresponding to the meaning of “employee” given by paragraphs (a) and (b),
  - (d) “director” has the meaning given by section 612(1) of ICTA, and
  - (e) “relevant benefits” has the meaning given by that section, and section 612(2) of ICTA applies to references in this Chapter to the provision of relevant benefits as it applies to such references in Chapter 1 of Part 14 of ICTA.
- (6) For the purposes of this Chapter benefits are provided in respect of an employee if they are provided for the employee’s spouse, widow or widower, children, dependants or personal representatives.
- (7) Any liability to tax arising by virtue of this section is subject to the reliefs given under—
  - (a) section 392 (relief where no benefits are paid or payable), and
  - (b) section 266A of ICTA (life assurance premiums paid by employer).

### **387 Meaning of “non-approved retirement benefits scheme”**

- (1) In this Chapter “retirement benefits scheme” has the meaning given by section 611 of ICTA.

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- (2) For the purposes of this Chapter, a retirement benefits scheme is “non-approved” unless it is—
- an approved scheme,
  - a relevant statutory scheme, or
  - a scheme set up by a government outside the United Kingdom for the benefit of its employees or primarily for their benefit.
- (3) In this section—
- “approved scheme” has the meaning given by section 612(1) of ICTA, and
- “relevant statutory scheme” has the meaning given by section 611A of ICTA.

### **388 Apportionment of payments in respect of more than one employee**

- (1) If a sum within section 386 is paid for or in respect of two or more employees, part of it is treated as paid in respect of each of them.
- (2) The amount treated as paid in respect of each employee is—

$$A \times \frac{B}{C}$$

where—

A is the sum paid,

B is the amount which would have had to be paid to secure the benefits to be provided in respect of the employee in question, and

C is the total amount which would have had to be paid to secure the benefits to be provided in respect of all the employees if separate payments had been made in the case of each of them.

#### **Modifications etc. (not altering text)**

- C3** S. 388 applied by [1988 c. 1, s. 266A\(5\)](#) (as inserted (6.4.2003 with effect in accordance with [s. 723\(1\)\(a\)\(b\)](#) of the amending Act) by [Income Tax \(Earnings and Pensions\) Act 2003 \(c. 1\), s. 723, Sch. 6 para. 36](#) (with [Sch. 7](#)))

### **389 Exception: employments where earnings charged on remittance**

- (1) Section 386 does not apply if in the tax year in which the sum is paid the earnings from the employment are earnings charged on remittance (or would be if there were any earnings).
- (2) In subsection (1) “earnings charged on remittance” means earnings which are taxable earnings under—
- section 22 (chargeable overseas earnings for year when employee resident and ordinarily resident, but not domiciled, in UK), or
  - section 26 (foreign earnings for year when employee resident, but not ordinarily resident, in UK).

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### **390 Exception: non-domiciled employees with foreign employers**

Section 386 does not apply if—

- (a) the employee is not domiciled in the United Kingdom in the tax year in which the sum is paid,
- (b) the employment is with a foreign employer, and
- (c) on a claim made by the employee the Board of Inland Revenue are satisfied that the scheme corresponds to a scheme within section 387(2)(a), (b) or (c).

### **391 Exception: seafarers with overseas earnings**

Section 386 does not apply if—

- (a) the sum is paid in a period that is an eligible period in relation to the employee's employment for the purposes of Chapter 6 of Part 5 (deductions from seafarers' earnings) (see section 378(2)), and
- (b) a deduction is allowed under section 378 from the employee's earnings that are attributable to that period.

### **392 Relief where no benefits are paid or payable**

- (1) An application for relief may be made to the Inland Revenue if—
  - (a) a sum is charged to tax by virtue of section 386 in respect of the provision of any benefits,
  - (b) no payment in respect of, or in substitution for, the benefits has been made, and
  - (c) an event occurs by reason of which no such payment will be made.
- (2) The application must be made within 6 years from the time when the event occurs.
- (3) The application must be made by the employee or, if the employee has died, the employee's personal representatives.
- (4) If the Inland Revenue are satisfied that the conditions in subsection (1) are met in relation to the whole sum, they must give relief in respect of tax on it by repayment or otherwise as appropriate, unless subsection (6) applies.
- (5) If the Inland Revenue are satisfied that the conditions in subsection (1) are met in relation to part of the sum, they may give such relief in respect of tax on it as is just and reasonable, unless subsection (6) applies.
- (6) This subsection applies if—
  - (a) the reason why no payment has been made in respect of, or in substitution for, the benefits, or
  - (b) the event by reason of which there will be no such payment,
 is a reduction or cancellation of the employee's rights in respect of the benefits, or part of the benefits, as a consequence of a pension sharing order or provision.
- (7) In subsection (6) "pension sharing order or provision" means any such order or provision as is mentioned in—
  - (a) section 28(1) of WRPA 1999 (rights under pension sharing arrangements), or
  - (b) Article 25(1) of WRP(NI)O 1999 (provision for Northern Ireland corresponding to section 28(1) of WRPA 1999).



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## CHAPTER 2

### BENEFITS FROM NON-APPROVED PENSION SCHEMES

#### *Benefits treated as employment income*

#### **393 Application of this Chapter**

- (1) This Chapter applies to any benefit provided under a non-approved retirement benefits scheme.
- (2) But this Chapter does not apply to a benefit which is charged to tax under Part 9 (pension income).

#### **394 Charge on benefit to which this Chapter applies**

- (1) If a benefit to which this Chapter applies is received by an individual, the amount of the benefit counts as employment income of the individual for the relevant tax year.
- (2) If a benefit to which this Chapter applies is received by a person who is not an individual, the administrator of the scheme under which the benefit is provided is chargeable to tax under Case VI of Schedule D on the amount of the benefit for the relevant tax year.
- (3) In subsections (1) and (2) the “relevant tax year” is the tax year in which the benefit is received.
- (4) For the purposes of subsection (2), the rate of tax is 40% or such other rate as may for the time being be specified by the Treasury by order.
- (5) No liability to income tax arises by virtue of any other provision of this Act in respect of a benefit to which this Chapter applies.

#### **395 Application of sections 396 and 397: general rules**

- (1) Section 394 is subject to—
  - (a) section 396 (which provides that certain lump sums are not taxed by virtue of section 394), and
  - (b) section 397 (which provides for the calculation of the amount taxed by virtue of section 394 in relation to certain lump sums).
- (2) Section 396 applies in relation to a lump sum only if the condition in subsection (4) below is met.
- (3) Section 397 applies in relation to a lump sum only if—
  - (a) the condition in subsection (4) below is met, or
  - (b) an employee has paid any sum or sums with a view to the provision of any relevant benefits under the scheme under which the lump sum is provided.
- (4) The condition mentioned in subsections (2) and (3)(a) is that—
  - (a) an employer has paid any sum or sums with a view to the provision of any relevant benefits under the scheme under which the lump sum is provided, and
  - (b) an employee has been assessed to tax in respect of the sum or sums so paid—

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- (i) by virtue of section 595(1) of ICTA, or
- (ii) by virtue of the sum or sums counting as employment income of the employee under section 386(1) of this Act.

- (5) For the purposes of this section it must be assumed that, unless the contrary is shown—
- (a) no sums have been paid with a view to the provision of relevant benefits, and
  - (b) an employee has not been assessed in respect of a sum or sums as mentioned in subsection (4)(b).

### **396 Certain lump sums not taxed by virtue of section 394**

- (1) Section 394 does not apply to a lump sum if—
- (a) all of the income and gains accruing to the scheme under which the lump sum is provided are brought into charge to tax, and
  - (b) the lump sum is provided to—
    - (i) the employee mentioned in section 395(4)(b),
    - (ii) a relative of that employee,
    - (iii) the personal representatives of that employee,
    - (iv) an ex-spouse of that employee, or
    - (v) any other individual designated by that employee.
- (2) For the purposes of this section it must be assumed that, unless the contrary is shown, the income and gains accruing to the scheme are not brought into charge to tax.

### **397 Certain lump sums: calculation of amount taxed by virtue of section 394**

- (1) In a case where—
- (a) section 394 applies to a lump sum, and
  - (b) any of the income or gains accruing to the scheme under which the lump sum is provided is not brought into charge to tax,
- the amount which by virtue of that section counts as employment income, or is chargeable to tax under Case VI of Schedule D, is determined in accordance with this section.
- (2) That amount is the amount of the lump sum reduced by the deduction applicable under subsection (3) or (4).
- (3) Subject to subsection (4), the deduction applicable is the aggregate of—
- (a) the sum or sums mentioned in section 395(3)(b) (if any), and
  - (b) the sum or sums mentioned in section 395(4)(b) (if any),
- which in either case were paid by way of contribution to the provision of the lump sum.
- (4) The deduction applicable is calculated in accordance with the formula in subsection (6) if—
- (a) the lump sum is provided under the scheme on the disposal of a part of any asset or the surrender of any part of or share in any rights in any asset, and
  - (b) a person falling within subsection (5) has a right to receive, or any expectation of receiving, a further lump sum or further lump sums under the scheme on a further disposal of any part of the asset or a further surrender of any part of or share in any rights in the asset.

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- (5) The persons referred to in subsection (4)(b) are—
- (a) the employee,
  - (b) a relative of that employee,
  - (c) the personal representatives of that employee, or
  - (d) any person connected with that employee.
- (6) The formula referred to in subsection (4) is—

$$D = S \times \frac{LS}{MVA}$$

where—

D is the deduction applicable;

S is the aggregate amount of any sum or sums of a description mentioned in paragraphs (a) and (b) of subsection (3);

LS is the amount of the lump sum received in relation to which the deduction applicable falls to be determined;

MVA is the market value of the asset in relation to which the disposal or surrender occurred, on the assumption that the valuation is made immediately before the disposal or surrender.

- (7) An individual may not claim that a deduction is applicable in relation to a lump sum more than once.
- (8) For the purposes of this section it must be assumed that, unless the contrary is shown—
- (a) the income and gains accruing to the scheme are not brought into charge to tax, and
  - (b) no deduction is applicable under subsection (3) or (4).
- (9) For the purposes of this section income and gains accruing to the scheme are not to be regarded as brought into charge to tax merely because tax is charged in relation to the scheme in accordance with section 591C of ICTA.
- (10) In this section “market value” is to be construed in accordance with sections 272 and 273 of TCGA 1992.

*Valuation of benefits etc.*

### **398 Valuation of benefits**

- (1) In the case of a cash benefit, for the purposes of this Chapter the amount of a benefit is taken to be the amount received.
- (2) In the case of a non-cash benefit, for the purposes of this Chapter the amount of a benefit is taken to be the greater of—
- (a) the amount of earnings (as defined in Chapter 1 of Part 3) that the benefit would give rise to if it were received for performance of the duties of an employment (money’s worth), and
  - (b) the cash equivalent of the benefit under the benefits code if it were so received and the code applied to it.

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- (3) For the purposes of subsection (2) the benefits code has effect with the modifications in subsections (4) to (6).
- (4) References in the benefits code to the employee are to be taken as references to the person by whom the benefit is received.
- (5) References in the benefits code to the employer are to be taken as including references to the former employer.
- (6) Where—
  - (a) section 106 (cash equivalent: cost of accommodation over £75,000) applies, and
  - (b) the amount referred to in section 105(2)(b) (the sum made good) exceeds the amount referred to in section 105(2)(a) (the rental value),
 the amount to be subtracted under paragraph (b) of step 4 of the calculation in section 106(2) is that excess (and not only the excess rent referred to there).

### **399 Employment-related loans: interest treated as paid**

- (1) This section applies if—
  - (a) an amount consisting of, or including, an amount representing the benefit of a loan (“a taxable amount”) counts as employment income of an individual in a tax year under section 394(1), or
  - (b) the administrator of a scheme is charged to tax on a taxable amount under Case VI of Schedule D under section 394(2).
- (2) The individual or the administrator is to be treated for all purposes of the Tax Acts (other than this Chapter) as having paid interest on the loan in the tax year equal to the amount representing the cash equivalent of the loan.
- (3) The interest is to be treated—
  - (a) as accruing during the period in the tax year during which the loan is outstanding, and
  - (b) as paid at the end of the period.
- (4) The interest is not to be treated—
  - (a) as income of the person making the loan, or
  - (b) as relevant loan interest to which section 369 of ICTA applies (mortgage interest payable under deduction of tax).

### *Interpretation*

### **400 Interpretation**

- (1) In this Chapter—
  - “administrator”, in relation to a scheme, has the same meaning as in section 611AA of ICTA;
  - “employee” has the same meaning as in Chapter 1 of Part 14 of ICTA (see section 612(1) of ICTA);

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“ex-spouse” means a party to a marriage that has been dissolved or annulled and, in relation to any person, means the other party to a marriage with that person that has been dissolved or annulled;

“non-approved retirement benefits scheme” has the same meaning as in Chapter 1 of this Part (see section 387);

“relative”, in relation to an individual, means—

- (a) the wife or husband of the individual,
- (b) the widow or widower of the individual,
- (c) a child of the individual, and
- (d) a dependant of the individual;

“relevant benefits” has the same meaning as in section 612(1) of ICTA.

- (2) Section 612(2) of ICTA applies to the references in this Chapter to the provision of relevant benefits as it applies to such references in Chapter 1 of Part 14 of ICTA.

### CHAPTER 3

#### PAYMENTS AND BENEFITS ON TERMINATION OF EMPLOYMENT ETC.

##### *Preliminary*

#### **401 Application of this Chapter**

- (1) This Chapter applies to payments and other benefits which are received directly or indirectly in consideration or in consequence of, or otherwise in connection with—
- (a) the termination of a person’s employment,
  - (b) a change in the duties of a person’s employment, or
  - (c) a change in the earnings from a person’s employment,
- by the person, or the person’s spouse, blood relative, dependant or personal representatives.
- (2) Subsection (1) is subject to subsection (3) and sections 405 to 413 (exceptions for certain payments and benefits).
- (3) This Chapter does not apply to any payment or other benefit chargeable to income tax apart from this Chapter.
- (4) For the purposes of this Chapter—
- (a) a payment or other benefit which is provided on behalf of, or to the order of, the employee or former employee is treated as received by the employee or former employee, and
  - (b) in relation to a payment or other benefit—
    - (i) any reference to the employee or former employee is to the person mentioned in subsection (1), and
    - (ii) any reference to the employer or former employer is to be read accordingly.

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## 402 Meaning of “benefit”

- (1) In this Chapter “benefit” includes anything in respect of which, were it received for performance of the duties of the employment, an amount—
- (a) would be taxable earnings from the employment, or
  - (b) would be such earnings apart from an earnings-only exemption.

This is subject to subsections (2) to (4).

- (2) In this Chapter “benefit” does not include a benefit received in connection with the termination of a person’s employment that is a benefit which, were it received for performance of the duties of the employment, would fall within—
- (a) section 239(4) (exemption of benefits connected with taxable cars and vans and exempt heavy goods vehicles), so far as that section applies to a benefit connected with a car or van,
  - (b) section 269 (exemption where benefits or money obtained in connection with taxable car or van or exempt heavy goods vehicle),
  - (c) section 319 (mobile telephones), or
  - (d) section 320 (limited exemption for computer equipment).
- (3) In this Chapter “benefit” does not include a benefit received in connection with any change in the duties of, or earnings from, a person’s employment to the extent that it is a benefit which, were it received for performance of the duties of the employment, would fall within section 271(1) (limited exemption of removal benefits and expenses).
- (4) The right to receive a payment or benefit is not itself a benefit for the purposes of this Chapter.

*Payments and benefits treated as employment income*

## 403 Charge on payment or other benefit

- (1) The amount of a payment or benefit to which this Chapter applies counts as employment income of the employee or former employee for the relevant tax year if and to the extent that it exceeds the £30,000 threshold.
- (2) In this section “the relevant tax year” means the tax year in which the payment or other benefit is received.
- (3) For the purposes of this Chapter—
- (a) a cash benefit is treated as received—
    - (i) when it is paid or a payment is made on account of it, or
    - (ii) when the recipient becomes entitled to require payment of or on account of it, and
  - (b) a non-cash benefit is treated as received when it is used or enjoyed.
- (4) For the purposes of this Chapter the amount of a payment or benefit in respect of an employee or former employee exceeds the £30,000 threshold if and to the extent that, when it is aggregated with other such payments or benefits to which this Chapter applies, it exceeds £30,000 according to the rules in section 404 (how the £30,000 threshold applies).

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- (5) If it is received after the death of the employee or former employee—
- (a) the amount of a payment or benefit to which this Chapter applies counts as the employment income of the personal representatives for the relevant year if or to the extent that it exceeds £30,000 according to the rules in section 404, and
  - (b) the tax is accordingly to be assessed and charged on them and is a debt due from and payable out of the estate.
- (6) In this Chapter references to the taxable person are to the person in relation to whom subsection (1) or (5) provides for an amount to count as employment income.

#### **404 How the £30,000 threshold applies**

- (1) For the purpose of the £30,000 threshold in section 403(4) and (5), the payments and other benefits provided in respect of an employee or former employee which are to be aggregated are those provided—
- (a) in respect of the same employment,
  - (b) in respect of different employments with the same employer, and
  - (c) in respect of employments with employers who are associated.
- (2) For this purpose employers are “associated” if on a termination or change date—
- (a) one of them is under the control of the other, or
  - (b) one of them is under the control of a third person who on that termination or change date or another such date controls or is under the control of the other.
- (3) In subsection (2)—
- (a) references to an employer, or to a person controlling or controlled by an employer, include the successors of the employer or person, and
  - (b) “termination or change date” means a date on which a termination or change occurs in connection with which a payment or other benefit to which this Chapter applies is received in respect of the employee or former employee.
- (4) If payments and other benefits are received in different tax years, the £30,000 is set against the amount of payments and other benefits received in earlier years before those received in later years.
- (5) If more than one payment or other benefit is received in a tax year in which the threshold is exceeded—
- (a) the £30,000 (or the balance of it) is set against the amounts of cash benefits as they are received, and
  - (b) any balance at the end of the year is set against the aggregate amount of non-cash benefits received in the year.

#### *Exceptions and reductions*

#### **405 Exception for certain payments exempted when received as earnings**

- (1) This Chapter does not apply to any payment received in connection with the termination of a person’s employment which, were it received for the performance of the duties of the employment, would fall within section 308 (exemption of contributions to approved personal pension arrangements).

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- (2) This Chapter does not apply to any payment received in connection with any change in the duties of, or earnings from, a person's employment to the extent that, were it received for the performance of the duties of the employment, it would fall within section 271(1) (limited exemption of removal benefits and expenses).

#### **406 Exception for death or disability payments and benefits**

This Chapter does not apply to a payment or other benefit provided—

- (a) in connection with the termination of employment by the death of an employee, or
- (b) on account of injury to, or disability of, an employee.

#### **407 Exception for payments and benefits under tax-exempt pension schemes**

- (1) This Chapter does not apply to a payment or other benefit provided under a tax-exempt pension scheme if—

- (a) the payment or other benefit is by way of compensation—
  - (i) for loss of employment, or
  - (ii) for loss or diminution of earnings, and the loss or diminution is due to ill-health, or
- (b) the payment or other benefit is properly regarded as earned by past service.

- (2) For this purpose “tax-exempt pension scheme” means—

- (a) a retirement benefits scheme which is—
  - (i) an approved scheme,
  - (ii) a relevant statutory scheme, or
  - (iii) a scheme set up by a government outside the United Kingdom for the benefit of its employees or primarily for their benefit, or
- (b) any such scheme or fund as was described in section 221(1) and (2) of ICTA 1970 (schemes to which payments could be made without charge to tax under section 220 of ICTA 1970).

- (3) In this section—

“approved scheme” has the meaning given by section 612(1) of ICTA,  
 “relevant statutory scheme” has the meaning given by section 611A of ICTA,  
 and  
 “retirement benefits scheme” has the meaning given by section 611 of ICTA.

#### **408 Exception for contributions to tax-exempt pension schemes**

- (1) This Chapter does not apply to a contribution to a tax-exempt pension scheme or approved personal pension arrangements if the contribution is made—

- (a) as part of an arrangement relating to the termination of a person's employment, and
- (b) in order to provide benefits for the person in accordance with the terms of the scheme or approved personal pension arrangements.

- (2) For this purpose—

“tax-exempt pension scheme” has the same meaning as in section 407(2),  
 and



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“approved” and “personal pension arrangements” have the meaning given by section 630(1) of ICTA.

**409 Exception for payments and benefits in respect of employee liabilities and indemnity insurance**

- (1) This Chapter does not apply to a payment or other benefit received by an individual if or to the extent that—
  - (a) in the case of a cash benefit, it is provided for meeting the cost of a deductible amount, or
  - (b) in the case of a non-cash benefit, it is or represents a benefit equivalent to the cost of paying a deductible amount.
- (2) For the purposes of this section “deductible amount” means an amount which meets conditions A to C.
- (3) Condition A is that the amount is paid by the individual.
- (4) Condition B is that a deduction for the amount would have been allowed under section 346 from earnings from the relevant employment, if the individual still held the employment when the amount was paid.
- (5) Condition C is that the amount is paid at a time which falls within the run-off period.
- (6) In this section and section 410—
  - “relevant employment” means the employment mentioned in section 401(1);
  - “run-off period” means the period which—
    - (a) starts with the day on which the relevant employment terminated, and
    - (b) ends with the last day of the sixth tax year following the tax year in which the period started.

**410 Exception for payments and benefits in respect of employee liabilities and indemnity insurance: individual deceased**

- (1) This Chapter does not apply to a payment or other benefit received by an individual’s personal representatives if or to the extent that—
  - (a) in the case of a cash benefit, it is provided for meeting the cost of a deductible amount, or
  - (b) in the case of a non-cash benefit, it is or represents a benefit equivalent to the cost of paying a deductible amount.
- (2) For the purposes of this section “deductible amount” means an amount which meets conditions A to C.
- (3) Condition A is that the amount is paid by the individual’s personal representatives.
- (4) Condition B is that a deduction for the amount would have been allowed under section 346 from earnings from the relevant employment, if—
  - (a) the individual had not died,
  - (b) the amount had been paid by the individual, and
  - (c) the individual still held the employment when the amount was paid.
- (5) Condition C is that the amount is paid at a time which falls within the run-off period.

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#### **411 Exception for payments and benefits for forces**

This Chapter does not apply to a payment or other benefit provided—

- (a) under a Royal Warrant, Queen’s Order or Order in Council relating to members of Her Majesty’s forces, or
- (b) by way of payment in commutation of annual or other periodical payments authorised by any such Warrant or Order.

#### **412 Exception for payments and benefits provided by foreign governments etc.**

(1) This Chapter does not apply to—

- (a) a benefit provided under a pension scheme administered by the government of an overseas territory within the Commonwealth, or
- (b) a payment of compensation for loss of career, interruption of service or disturbance made—
  - (i) in connection with any change in the constitution of any such overseas territory, and
  - (ii) to a person who was employed in the public service of the territory before the change.

(2) References in subsection (1) to—

- (a) an overseas territory,
- (b) the government of such a territory, and
- (c) employment in the public service of such a territory,

have the meanings given in section 615 of ICTA.

#### **413 Exception in certain cases of foreign service**

(1) This Chapter does not apply if the service of the employee or former employee in the employment in respect of which the payment or other benefit is received included foreign service comprising—

- (a) three-quarters or more of the whole period of service ending with the date of the termination or change in question, or
- (b) if the period of service ending with that date exceeded 10 years, the whole of the last 10 years, or
- (c) if the period of service ending with that date exceeded 20 years, one-half or more of that period, including any 10 of the last 20 years.

(2) In subsection (1) “foreign service” means service to which subsection (3), (4) or (6) applies.

(3) This subsection applies to service in or after the tax year 2003-04 such that—

- (a) the earnings from the employment were not general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in UK), or would not have been had there been any, or
- (b) a deduction equal to the whole amount of the earnings from the employment was or would have been allowable under Chapter 6 of Part 5 (deductions from seafarers’ earnings).

(4) This subsection applies to service before the tax year 2003-04 and after the tax year 1973-74 such that—

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- (a) the emoluments from the employment were not chargeable under Case I of Schedule E, or would not have been so chargeable had there been any, or
  - (b) a deduction equal to the whole amount of the emoluments from the employment was or would have been allowable under a foreign earnings deduction provision.
- (5) In subsection (4) “foreign earnings deduction provision” means—
- (a) paragraph 1 of Schedule 2 to FA 1974,
  - (b) paragraph 1 of Schedule 7 to FA 1977, or
  - (c) section 192A or 193(1) of ICTA.
- (6) This subsection applies to service before the tax year 1974-75 such that tax was not chargeable in respect of the emoluments of the employment—
- (a) in the tax year 1956-57 or later, under Case I of Schedule E, or
  - (b) in earlier tax years, under Schedule E,
- or it would not have been so chargeable had there been any such emoluments.

#### **414 Reduction in other cases of foreign service**

- (1) This section applies if—
- (a) the service of the employee or former employee in the employment in respect of which the payment or other benefit is received includes foreign service, and
  - (b) section 413 (exception in certain cases of foreign service) does not apply.
- (2) The taxable person may claim relief in the form of a proportionate reduction of the amount that would otherwise count as employment income under this Chapter.
- (3) The proportion is that which the length of the foreign service bears to the whole length of service in the employment before the date of the termination or change in question.
- (4) A person’s entitlement to relief under this section is limited as mentioned in subsection (5) if the person is entitled—
- (a) to deduct, retain or satisfy income tax out of a payment which the person is liable to make, or
  - (b) to charge any income tax against another person.
- (5) The relief must not reduce the amount of income tax for which the person is liable below the amount the person is entitled so to deduct, retain, satisfy or charge.
- (6) In this section “foreign service” has the same meaning as in section 413(2).

#### *General and supplementary provisions*

#### **415 Valuation of benefits**

- (1) In the case of a cash benefit, for the purposes of this Chapter the amount of a payment or other benefit is taken to be the amount received.
- (2) In the case of a non-cash benefit, for the purposes of this Chapter the amount of a payment or other benefit is taken to be the greater of—

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- (a) the amount of earnings (as defined in Chapter 1 of Part 3) that the benefit would give rise to if it were received by an employee within section 15 for performance of the duties of an employment (money's worth), and
  - (b) the cash equivalent of the benefit under the benefits code if it were so received and the code applied to it.
- (3) For the purposes of subsection (2), the benefits code has effect with the modifications in subsections (4), (6) and (7).
- (4) References in the benefits code to the employee are to be taken as references to the taxable person and any other person by whom the benefit is received.
- (5) For the purposes of subsection (4), section 401(4)(a) is to be disregarded.
- (6) References in the benefits code to the employer are to be taken as including references to the former employer.
- (7) Where—
- (a) section 106 (cash equivalent: cost of accommodation over £75,000) applies, and
  - (b) the sum referred to in section 105(2)(b) (the sum made good) exceeds the amount referred to in section 105(2)(a) (the rental value),
- the amount to be subtracted under paragraph (b) of step 4 of the calculation in section 106(2) is that excess (and not only the excess rent referred to there).

#### **416 Notional interest treated as paid if amount charged for beneficial loan**

- (1) This section applies if an amount (“the taxable amount”) consisting of, or including, an amount representing the benefit of a loan counts as a person’s employment income in a tax year under section 403.
- (2) That person is to be treated for the purposes of the Tax Acts (other than this Chapter) as having paid interest on the loan in the tax year equal to the lesser of—
- (a) the amount representing the cash equivalent of the loan, and
  - (b) the taxable amount.
- (3) The interest is to be treated—
- (a) as accruing during the period in the tax year during which the loan is outstanding, and
  - (b) as paid at the end of the period.
- (4) The interest is not to be treated—
- (a) as income of the person making the loan, or
  - (b) as relevant loan interest to which section 369 of ICTA applies (mortgage interest payable under deduction of tax).

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## PART 7

### [<sup>F8</sup>EMPLOYMENT INCOME: INCOME AND EXEMPTIONS RELATING TO SECURITIES]

#### Textual Amendments

- F8** Pt. 7 heading substituted (with effect in accordance with Sch. 22 para. 2(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 2\(1\)](#)

## [<sup>F9</sup>CHAPTER 1

### INTRODUCTION

#### Textual Amendments

- F9** Pt. 7 Ch. 1 substituted (with effect in accordance with Sch. 22 para. 2(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 2\(1\)](#)

### *General*

#### **417 Scope of Part 7**

- (1) This Part contains special rules about cases where securities, interests in securities or securities options are acquired in connection with an employment.
- (2) The rules are contained in—
  - Chapter 2 (restricted securities),
  - Chapter 3 (convertible securities),
  - Chapter 3A (securities with artificially depressed market value),
  - Chapter 3B (securities with artificially enhanced market value),
  - Chapter 3C (securities acquired for less than market value),
  - Chapter 3D (securities disposed of for more than market value),
  - Chapter 4 (post-acquisition benefits from securities),
  - Chapter 5 (securities options),
  - Chapter 6 (approved share incentive plans),
  - Chapter 7 (approved SAYE option schemes),
  - Chapter 8 (approved CSOP schemes),
  - Chapter 9 (enterprise management incentives), and
  - Chapter 10 (priority share allocations).
- (3) The following make provision for amounts to count as employment income—
  - Chapters 2 to 6, and
  - Chapter 8.
- (4) The following make provision for exemptions and reliefs from income tax—
  - Chapters 2 and 3, and
  - Chapters 5 to 10.

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- (5) Chapter 11 contains supplementary provisions relating to employee benefit trusts.
- (6) Section 5(1) (application of employment income Parts to office-holders generally) does not apply to Chapters 6 to 10; and section 549(5) makes provision about its application to Chapter 11.

#### **418 Other related provisions**

- (1) In Part 3—
  - Chapter 1 (earnings), and
  - Chapter 10 (taxable benefits: residual liability to charge),
 may also have effect in relation to securities and interests in securities (but not securities options).
- (2) Part 7 of Schedule 7 (transitional provisions relating to securities and securities options) may also be relevant.
- (3) In view of section 49 of FA 2000 (phasing out of APS schemes) the following are not rewritten in this Act and continue in force unaffected by the repeals made by this Act—
  - section 186 of ICTA (APS schemes) and section 187 of that Act (interpretation) so far as relating to APS schemes, and
  - Schedule 9 to ICTA (approval of share schemes) so far as relating to APS schemes and Schedule 10 to that Act (further provisions about APS schemes).
 “APS schemes” means profit sharing schemes approved under Schedule 9 to ICTA.
- (4) Sections 138 to 140 of ICTA (share acquisitions by directors and employees) continue to apply in relation to shares or interests in shares acquired before 26th October 1987 (see paragraph 57 of Schedule 7).

#### **419 Negative amounts treated as nil**

If the result given by any formula under any provision of this Part would otherwise be a negative amount, the result is to be taken to be nil instead.

#### *Interpretation of Chapters 1 to 5*

#### **420 Meaning of “securities” etc**

- (1) Subject to subsections (5) and (6), for the purposes of this Chapter and Chapters 2 to 5 the following are “securities”—
  - (a) shares in any body corporate (wherever incorporated) or in any unincorporated body constituted under the law of a country or territory outside the United Kingdom,
  - (b) debentures, debenture stock, loan stock, bonds, certificates of deposit and other instruments creating or acknowledging indebtedness,
  - (c) warrants and other instruments entitling their holders to subscribe for securities (whether or not in existence or identifiable),

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- (d) certificates and other instruments conferring rights in respect of securities held by persons other than the persons on whom the rights are conferred and the transfer of which may be effected without the consent of those persons,
  - (e) units in a collective investment scheme,
  - (f) futures, and
  - (g) rights under contracts for differences or contracts similar to contracts for differences.
- (2) In subsection (1)(e) “collective investment scheme” means arrangements—
- (a) which are made with respect to property of any description, including money, and
  - (b) the purpose or effect of which is to enable persons taking part in the arrangements (whether by becoming owners of the property or any part of it or otherwise) to participate in or receive profits or income arising from the acquisition, holding, management or disposal of the property or sums paid out of such profits or income.
- (3) In subsection (1)(f) “futures” means rights under a contract for the sale of a commodity or other property under which delivery is to be made at a future date at a price agreed when the contract is made; and for this purpose a price is to be taken to be agreed when the contract is made—
- (a) if it is left to be determined by reference to the price at which a contract is to be entered into on a market or exchange or could be entered into at a time and place specified in the contract, and
  - (b) in a case where the contract is expressed to be by reference to a standard lot and quality, even if provision is made for a variation in the price to take account of any variation in quantity or quality on delivery.
- (4) For the purposes of subsection (1)(g) a contract similar to a contract for differences is a contract—
- (a) which is not a contract for differences, but
  - (b) the purpose or pretended purpose of which is to secure a profit or avoid a loss by reference to fluctuations in the value or price of property or an index or other factor designated in the contract.
- (5) The following are not “securities” for the purposes of this Chapter or Chapters 2 to 5—
- (a) cheques and other bills of exchange, bankers' drafts and letters of credit (other than bills of exchange accepted by a banker),
  - (b) money and statements showing balances on a current, deposit or savings account,
  - (c) leases and other dispositions of property and heritable securities,
  - (d) rights under contracts of insurance (within the meaning of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001), and
  - (e) options.
- (6) The Treasury may by order amend subsections (1) to (5).
- (7) An order under subsection (6) may include any appropriate consequential provision (including provision amending any enactment).
- (8) In this Chapter and Chapters 2 to 5—

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“interest”, in relation to securities (or shares), means an interest in them less than full beneficial ownership and includes an interest in proceeds of their sale, but does not include a right to acquire them,

“securities option” means a right to acquire securities, and

“shares” includes stock.

#### **421 Meaning of “market value” etc**

- (1) In this Chapter and Chapters 2 to 5 “market value” has the same meaning as it has for the purposes of TCGA 1992 by virtue of Part 8 of that Act.
- (2) Where consideration for anything is given in the form of an asset (as opposed to a payment), any reference in this Chapter or any of Chapters 2 to 5 to the amount of the consideration is to the market value of the asset.

#### **421A Meaning of “consideration”**

- (1) This section applies for determining for the purposes of Chapters 2 to 5 the amount of the consideration given for anything.
- (2) If any consideration is given partly in respect of one thing and partly in respect of another, the amount given in respect of the different things is to be determined on a just and reasonable apportionment.
- (3) The consideration which is taken to be given wholly or partly for anything does not include the performance of any duties of, or in connection with, an employment.
- (4) No amount is to be counted more than once in calculating the amount of any consideration.

#### *Application of Chapters 2 to 4*

#### **421B Application of Chapters 2 to 4**

- (1) Subject as follows (and to any provision contained in Chapters 2 to 4) those Chapters apply to securities, or an interest in securities, acquired by a person where the right or opportunity to acquire the securities or interest is available by reason of an employment of that person or any other person.
- (2) For the purposes of subsection (1)—
  - (a) securities are, or an interest in securities is, acquired at the time when the person acquiring the securities or interest becomes beneficially entitled to those securities or that interest (and not, if different, the time when the securities are, or interest is, conveyed or transferred), and
  - (b) “employment” includes a former or prospective employment.
- (3) A right or opportunity to acquire securities or an interest in securities made available by a person’s employer, or by a person connected with a person’s employer, is to be regarded for the purposes of subsection (1) as available by reason of an employment of that person unless—
  - (a) the person by whom the right or opportunity is made available is an individual, and



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- (b) the right or opportunity is made available in the normal course of the domestic, family or personal relationships of that person.
- (4) Chapters 2 to 4 cease to apply to securities, or an interest in securities, when subsection (5), (6) or (7) is satisfied.
- (5) This subsection is satisfied immediately after the securities are, or the interest in securities is, disposed of otherwise than to an associated person.
- (6) This subsection is satisfied immediately before the death of the employee.
- (7) This subsection is satisfied 7 years after the first date after the acquisition on which the employee is an employee of none of the following—
  - (a) the employer,
  - (b) (if the securities are, or the interest in securities is an interest in, securities issued by a company) the company by which they are issued, or
  - (c) a person connected with a person within paragraph (a) or (b).
- (8) In this Chapter and Chapters 2 to 4—
  - “the acquisition”, in relation to employment-related securities, means the acquisition of the employment-related securities pursuant to the right or opportunity available by reason of the employment,
  - “the employment”, in relation to employment-related securities, means the employment by reason of which the right or opportunity to acquire the employment-related securities is available (“the employee” and “the employer” being construed accordingly unless otherwise indicated), and
  - “employment-related securities” means securities or an interest in securities to which Chapters 2 to 4 apply (ignoring any provision of any of those Chapters which limits the application of the Chapter to a particular description or descriptions of employment-related securities).

#### **421C Associated persons**

- (1) For the purposes of this Chapter and Chapters 2 to 4 the following are “associated persons” in relation to employment-related securities—
  - (a) the person who acquired the employment-related securities on the acquisition,
  - (b) (if different) the employee, and
  - (c) any relevant linked person.
- (2) A person is a relevant linked person if—
  - (a) that person (on the one hand), and
  - (b) either the person who acquired the employment-related securities on the acquisition or the employee (on the other),are connected or, although not connected, are members of the same household.
- (3) But a company which would otherwise be a relevant linked person is not if it is—
  - (a) the employer,
  - (b) the person from whom the employment-related securities were acquired,
  - (c) the person by whom the right or opportunity to acquire the employment-related securities was made available, or
  - (d) the person by whom the employment-related securities (or the securities in which they are an interest) were issued.

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#### **421D Replacement and additional securities and changes in interests**

- (1) Subsections (2) and (3) apply where an associated person is entitled to employment-related securities (the “original securities”) and either—
  - (a) as a result of the conversion of the original securities (or the securities in which they are an interest), or of any other transaction or series of transactions, that person ceases to be entitled to the original securities but that person or another associated person acquires securities or an interest in securities (the “replacement securities”), or
  - (b) by virtue of that person being entitled to the original securities, that person or another associated person acquires other securities or an interest in other securities (the “additional securities”).
- (2) The replacement securities or the additional securities are to be regarded for the purposes of section 421B(1) (securities acquired pursuant to a right or opportunity available by reason of an employment) as acquired pursuant to the same right or opportunity as the original securities.
- (3) Where the market value of the original securities is reduced by reason of the issue of, or of securities including, the replacement securities or the additional securities (or the securities in which they are an interest), the amount of that reduction is to be treated for the purposes of Chapters 2 and 3 as consideration or additional consideration given for the acquisition of the replacement securities or the additional securities.
- (4) Subsections (2) and (3) apply whether or not the replacement securities, or the additional securities, were acquired for consideration.
- (5) Where Chapters 2 to 4 apply to an interest in securities, an increase of that interest is to be treated for the purposes of section 421B(1) (securities acquired pursuant to a right or opportunity available by reason of an employment) as a separate interest acquired pursuant to the same right or opportunity as the original interest.
- (6) Where Chapters 2 to 4 apply to an interest in securities, a reduction of that interest (otherwise than by a disposal to an associated person) is to be treated for the purposes of those Chapters as the disposal otherwise than to an associated person of a separate interest proportionate to the reduction.

#### **421E Exclusions: residence etc**

- (1) Chapters 2, 3 and 4 do not apply in relation to employment-related securities if, at the time of the acquisition, the earnings from the employment were not (or would not have been if there had been any) general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in the UK).
- (2) Chapters 3A to 3D do not apply in relation to employment-related securities if, at the time of the acquisition, the earnings from the employment were not (or would not have been if there had been any) general earnings to which any of the charging provisions of Chapter 4 or 5 of Part 2 apply.
- (3) Chapters 2 to 4 do not apply in the case of a former employment if they would not apply if the acquisition had taken place in the last tax year in which the employment was held.

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- (4) Chapters 2 to 4 do not apply in the case of a prospective employment if they would not apply if the acquisition had taken place in the first tax year in which the employment is held.
- (5) Where the employment-related securities are replacement securities or additional securities (within the meaning of section 421D), the references in this section to the acquisition are to the acquisition of the original securities (within the meaning of that section).

#### **421F Exclusions: public offers**

- (1) Chapters 2 to 4 do not apply in relation to employment-related securities that are shares acquired under the terms of an offer to the public or an interest in shares so acquired.
- (2) In a case within subsection (1) of section 544 (exemption for priority share allocations where offer to employees separate from public offer), any acquisition made under the terms of either the public offer or the employee offer within the meaning of that subsection is to be treated for the purposes of this section as made under the terms of an offer to the public.
- (3) Subsection (2) applies whether or not there is any benefit within section 544(2) (benefit derived from entitlement to priority allocation exempt from income tax).

#### **421G Exclusions: approved plan or scheme securities**

Chapters 2 to 4 do not apply to—

- (a) shares awarded or acquired under an approved share incentive plan (within the meaning of Chapter 6 of this Part),
- (b) shares acquired by the exercise of a share option granted under an approved SAYE option scheme (within the meaning of Chapter 7 of this Part), or
- (c) shares acquired by the exercise of a share option granted under an approved CSOP scheme (within the meaning of Chapter 8 of this Part).

#### **421H Meaning of “employee-controlled” etc**

- (1) For the purposes of Chapters 2 to 4 a company is “employee-controlled” by virtue of shares of a class if—
  - (a) the majority of the company’s shares of that class (other than any held by or for the benefit of an associated company) are held by or for the benefit of employees of the company or a company controlled by the company, and
  - (b) those employees are together able as holders of the shares to control the company.

In this subsection “employee” includes a person who is to be or has been an employee.

- (2) In this section and Chapters 2 to 4 “associated company” has the same meaning as, by virtue of section 416 of ICTA, it has for the purposes of Part 11 of ICTA.

#### **421I Consideration for acquisition of employment-related securities**

- (1) This section applies for determining for the purposes of Chapters 2 to 3A the amount of the consideration given for the acquisition of employment-related securities.

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- (2) References to consideration given for the acquisition of the employment-related securities are to consideration given by—
  - (a) the employee, or
  - (b) (if not the employee) the person by whom the employment-related securities were acquired.
- (3) The amount of the consideration given by a person for the acquisition of the employment-related securities includes the amount of any consideration given for a right to acquire the employment-related securities.
- (4) If the right to acquire the employment-related securities (“the new option”) is the whole or part of the consideration for the assignment or release of another right to acquire them (“the old option”), the amount of the consideration given for the new option is to be treated as being the sum of—
  - (a) the amount by which the amount of the consideration given for the old option exceeds the amount of any consideration for the assignment or release of the old option, apart from the new option, and
  - (b) any valuable consideration given for the new option, apart from the old option.
- (5) Two or more transactions are to be treated for the purposes of subsection (4) as a single transaction by which a right to acquire the employment-related securities is assigned for a consideration which consists of or includes another right to acquire the employment-related securities if—
  - (a) the transactions result in a person ceasing to hold a right to acquire the employment-related securities and that person or a connected person coming to hold another right to acquire them, and
  - (b) one or more of the transactions is effected under arrangements to which two or more persons who hold rights to acquire the employment-related securities, in respect of which there may be a liability to tax under Chapter 5 of this Part (securities options), are parties.
- (6) Subsection (5) applies regardless of the order in which the assignment and the acquisition occur.
- (7) In this section “release”, in relation to a right to acquire the employment-related securities, includes agreeing to the restriction of the exercise of the right.

### *Information*

#### **421J Duty to provide information**

- (1) This section applies in relation to reportable events.
- (2) Section 421K explains what are reportable events for the purposes of this section.
- (3) Each person who is a responsible person in relation to a reportable event must provide the Inland Revenue with particulars in writing of the reportable event before 7th July in the tax year following that in which the reportable event takes place.
- (4) The Inland Revenue may by notice require any person to provide them with such particulars of any reportable events—
  - (a) which take place in a period specified in the notice, and
  - (b) in relation to which that person is a responsible person,

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as are required by the notice or, if no reportable event in relation to which that person is a responsible person has taken place in that period, to state that fact.

- (5) A notice under subsection (4) must specify a date by which it must be complied with.
- (6) That date must not be less than 30 days after the date when the notice is given.
- (7) Once one person complies with the duty imposed by subsection (3) in relation to a reportable event, that subsection ceases to impose a duty on any other person in relation to the reportable event.
- (8) Once a person complies with the duty imposed by a notice under subsection (4) by providing the required particulars of a reportable event, subsection (3) ceases to impose a duty on that person or any other person in relation to that reportable event.
- (9) Section 421L explains who are the responsible persons in relation to a reportable event.
- (10) The particulars required by, or by a notice under, this section must be provided in a form specified by the Board of Inland Revenue.
- (11) A person need not provide particulars required by, or by a notice under, this section if they have been given in a notice under paragraph 44 of Schedule 5 (enterprise management incentives: notice of option to be given to Inland Revenue).

In other respects the obligations imposed by, or by a notice under, this section and by that paragraph are independent of each other.

- (12) Paragraph 52 of that Schedule contains a duty to deliver annual returns where a company's shares are subject to a qualifying option within the meaning of that Schedule.

#### **421K Reportable events**

- (1) This section applies for the purposes of section 421J (duty to provide information).
- (2) Each of the events mentioned in subsection (3) is a reportable event.
- (3) The events are—
  - (a) an acquisition (or an event treated as an acquisition) of securities, an interest in securities or a securities option pursuant to a right or opportunity available by reason of the employment of the person who acquires the securities, interest in securities or securities option or of any other person,
  - (b) an event which is a chargeable event in relation to securities, or an interest in securities, for the purposes of section 426 (chargeable events in relation to restricted securities and restricted interests in securities),
  - (c) an event which is a chargeable event in relation to securities, or an interest in securities, for the purposes of section 438 (chargeable events in relation to convertible securities and interests in convertible securities),
  - (d) the doing of anything which gives rise to a taxable amount counting as employment income under section 446L (artificial enhancement of market value of securities),
  - (e) an event which discharges a notional loan relating to securities, or an interest in securities, under section 446U (securities and interests in securities acquired for less than market value),

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- (f) a disposal of securities, or an interest in securities, by virtue of which Chapter 3D of this Part applies (securities and interests in securities disposed of for more than market value),
- (g) the receipt of a benefit which gives rise to a taxable amount counting as employment income under section 447 (charge on benefit from securities or interest in securities),
- (h) the assignment or release of a securities option acquired pursuant to a right or opportunity available by reason of the employment of the person who acquires the securities option or any other person, and
- (i) the receipt of a benefit in money or money's worth which is (or by virtue of section 477(6) is to be regarded as being) received in connection with such a securities option.

#### **421L Persons to whom section 421J applies**

- (1) This section applies for the purposes of section 421J (duty to provide information).
- (2) Each of the following persons is a responsible person in relation to a reportable event.
- (3) The persons are—
  - (a) the employer in question,
  - (b) any host employer of the employee in question,
  - (c) the person from whom the securities in question were, or interest or option in question was, acquired, and
  - (d) in relation to a reportable event concerning securities or an interest in securities which are not excluded securities, the person by whom the securities were issued.
- (4) In subsection (3)(b) “host employer” means a person other than the employer in question—
  - (a) for whom the employee in question works at the time of the reportable event, and
  - (b) who would, by virtue of subsection (2) of section 689 (employees of non-UK employers working for a person other than the employer), be treated for the purposes of PAYE regulations as making a payment of PAYE income of the employee in question if a payment to which subsection (5) would apply were made by the employer in question in respect of the period during which the employee works for the other person.
- (5) For the purposes of subsection (4)(b) this subsection would apply to a payment if—
  - (a) it were a payment of PAYE income of the employee, and
  - (b) the conditions in subsection (1)(c) and (d) of section 689 were satisfied in relation to the payment.
- (6) For the purposes of subsection (3)(d) securities are excluded securities in relation to a reportable event if they are—
  - (a) loan stock, bonds or other instruments creating or acknowledging indebtedness issued by or on behalf of any national or regional government or local authority (in the United Kingdom or elsewhere) or any body whose members consists of states, national or regional governments or local authorities, or

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- (b) securities which are issued by a person who, at the time of the reportable event, is not connected with the employer in question and which are listed or dealt in on a recognised stock exchange.]

## CHAPTER 2

### CONDITIONAL INTERESTS IN SHARES

#### *Introduction*

#### **422 Application of this Chapter**

- (1) This Chapter applies where—
  - (a) a person (“the employee”) acquires a beneficial interest in shares in a company as a director or employee of that or another company, and
  - (b) the interest is acquired on terms that make it only conditional.
- (2) In this Chapter—
  - “the employee’s interest” means the beneficial interest in shares acquired by the employee as mentioned in subsection (1);
  - “the employer company” means the company as a director or employee of which the employee’s interest is acquired;
  - “the shares” means the shares mentioned in subsection (1)(a);
  - and “director” and “employee” have the extended meaning given by section 434(1).

#### **423 Interests in shares acquired “as a director or employee”**

- (1) For the purposes of this Chapter a person (“E”) acquires an interest in shares “as a director or employee” of a company if E acquires the interest in pursuance of—
  - (a) a right conferred on, or opportunity offered to, E by reason of E’s office or employment as a director or employee of the company;
  - (b) a right or opportunity assigned to E, having been conferred on or offered to some other person by reason of E’s office or employment as a director or employee of the company; or
  - (c) an assignment, the interest having been acquired by some other person by reason of E’s office or employment as a director or employee of the company.
- (2) The references in subsection (1) to a right or opportunity conferred or offered by reason of E’s office or employment include—
  - (a) one so conferred or offered after E has ceased to hold the office or employment, and
  - (b) one that arises from the fact that shares—
    - (i) which E acquired as a director or employee (or is treated as so acquiring by virtue of this paragraph), or
    - (ii) in which E so acquired an interest,were convertible shares.
- (3) A person who—

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- (a) has acquired an interest in shares which is only conditional, convertible shares or an interest in convertible shares,
  - (b) acquired that interest or those shares as a director or employee of a company, or is treated by virtue of this subsection as having done so, and
  - (c) as a result of any two or more transactions—
    - (i) ceases to be entitled to that interest or those shares, and
    - (ii) becomes entitled to another interest in shares which is only conditional or to any convertible shares or to an interest in convertible shares,
 is to be treated for the purposes of this Chapter as if the interest or shares mentioned in paragraph (c)(ii) were also acquired as a director or employee of the company.
- (4) Subsection (3) also applies where the interest or shares mentioned in subsection (3) (c)(ii) were acquired by a person connected with the first-mentioned person.
- (5) Nothing in subsection (3) or (4) affects the rights or opportunities included by virtue of subsection (2)(b).
- (6) In this section “convertible shares” has the same meaning as in Chapter 3 of this Part (convertible shares) (see section 435(2) and the definition of shares in section 446(1)).

#### **424 Meaning of interest being “only conditional”**

- (1) For the purposes of this Chapter an interest in shares is “only conditional” for so long as the terms on which the person is entitled to it—
- (a) provide that if certain circumstances arise, or do not arise, there will be a transfer, reversion or forfeiture as a result of which that person will cease to be entitled to any beneficial interest in the shares, and
  - (b) are not such that, on the transfer, reversion or forfeiture, that person will be entitled to receive in respect of the interest an amount that is equal to or more than its market value at that time.
- (2) But a person is not to be regarded as having an interest in shares which is only conditional by reason only that one or more of the following is the case—
- (a) the shares are unpaid or partly paid and may be forfeited for non-payment of calls, in a case where there is no restriction on the meeting of calls by that person;
  - (b) the articles of association of the company require the shares to be offered for sale or transferred, if that person ceases to hold a relevant office or employment;
  - (c) that person may be required to offer the shares for sale or transfer them on ceasing, as a result of misconduct, to hold a relevant office or employment;
  - (d) in the case of an interest in a security, the security may be redeemed on payment of any amount.
- (3) In subsection (1)(a) the references, in relation to the terms of a person’s entitlement, to circumstances arising include references to—
- (a) the expiry of a period specified in or determined under those terms,
  - (b) the death of that or any other person, and
  - (c) the exercise by any person of a power conferred on that person by or under those terms.



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- (4) For the purposes of subsection (1)(b) the market value of the interest is to be determined as if there were no provision for transfer, reversion or forfeiture.
- (5) In subsection (2)(b) “articles of association” includes, in the case of a company incorporated under the law of a country outside the United Kingdom, any equivalent document relating to the company.
- (6) The references in subsection (2)(b) and (c) to a person ceasing to hold a relevant office or employment are to that person ceasing to be an officer or employee of the company in question, or of one or more group companies or of any group company.
- (7) For the purposes of subsection (6)—
  - (a) a company is a “group company” in relation to another company if they are members of the same group, and
  - (b) companies are taken to be members of the same group if, and only if, one is a 51% subsidiary of the other or both are 51% subsidiaries of a third company.

#### **425 Cases where this Chapter does not apply**

- (1) This Chapter does not apply where a person acquires a beneficial interest in shares as a director or employee of a company if the earnings from the office or employment in question were not (or would not have been if there had been any) general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in the UK).
- (2) This Chapter does not apply by virtue of section 423(2)(a) (right or opportunity conferred or offered after person has ceased to hold office or employment) if it would not apply if the right or opportunity had been conferred or offered in the last tax year in which the office or employment was held.

#### *Tax exemption*

#### **426 No charge in respect of acquisition of employee’s interest in certain circumstances**

- (1) Subsection (2) applies if the terms on which the employee acquires the employee’s interest are such that the interest will cease to be only conditional within 5 years after its acquisition.
- (2) No liability to income tax arises in respect of the acquisition of the employee’s interest, except as provided by—
  - (a) Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares), or
  - (b) section 476 (charge on exercise of share option by employee).

#### *Tax charge*

#### **427 Charge on interest in shares ceasing to be only conditional or on disposal**

- (1) This section applies if—

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- (a) the shares cease, without the employee ceasing to have a beneficial interest in them, to be shares in which the employee's interest is only conditional, or
  - (b) in a case where the shares have not so ceased, the employee sells or otherwise disposes of the employee's interest or any other beneficial interest in the shares.
- (2) The taxable amount determined under section 428 counts as employment income of the employee for the relevant tax year.
- (3) The "relevant tax year" is the tax year in which the shares cease to be shares in which the employee's interest is only conditional, or in which the sale or other disposal takes place.
- (4) Subsection (2) is subject to section 494 (approved SIPs: no charge on removal of restrictions).

#### **428 Amount of charge**

- (1) The taxable amount for the purposes of section 427 (charge on interest in shares ceasing to be only conditional or on disposal) is—

**MV - DA**

where—

MV is the market value of the employee's interest immediately after it ceases to be only conditional or, as the case may be, at the time of the sale or other disposal, and

DA is the total of any deductible amounts.

- (2) For the purposes of subsection (1) each of the following is a "deductible amount"—
- (a) the amount or value of any consideration given for the employee's interest;
  - (b) any amount that constitutes earnings from the employee's employment under Chapter 1 of Part 3 (earnings) in respect of the acquisition of the employee's interest;
  - (c) any amount that is treated as earnings from the employee's employment under Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares) in respect of the acquisition; and
  - (d) if the employee's interest was acquired by the exercise of a share option, any amount that counts as employment income of the employee under section 476 (charge on employee on exercise etc. of option) in respect of the exercise.
- (3) If, not later than the event referred to in section 427(1)(a) or (b) occurred in relation to the employee's interest, a different event occurred in respect of the shares by virtue of which an amount counts as employment income of the employee under—
- (a) section 449 (charge on occurrence of chargeable event), or
  - (b) section 453 (charge on increase in value of shares of dependent subsidiary),
- that amount is a "deductible amount" for the purposes of subsection (1).
- (4) The references in subsection (3) to an event include the expiry of a period.
- (5) Section 541(2) (effects of the EMI code on other income tax charges) also provides that an amount is to be regarded as a "deductible amount" for the purposes of subsection (1).

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### *Supplementary provisions*

#### **429 Amount or value of consideration given for employee's interest**

- (1) This section applies for the purposes of section 428 (amount of charge) in determining the amount or value of the consideration given for the employee's interest.
- (2) Subject to the following provisions of this section, that consideration is any given in respect of the acquisition of an interest in the shares by—
  - (a) the employee, or
  - (b) if section 423(1)(c) applies, the person by whom the interest in the shares was acquired.
- (3) The amount or value of the consideration given by a person for an interest in the shares includes the amount or value of any consideration given—
  - (a) for a right to acquire the shares, and
  - (b) for anything by virtue of which the employee's interest in the shares ceases to be only conditional.
- (4) If any consideration is given partly in respect of one thing and partly in respect of another, the amount given in respect of the different things is to be determined on a just and reasonable apportionment.
- (5) The consideration which for the purposes of this section is taken to be given wholly or partly for anything does not include the performance of any duties of, or in connection with, the office or employment by reference to which the interest in the shares in question has been acquired by a person as a director or employee of a company.
- (6) No amount is to be counted more than once in calculating the amount or value of any consideration.

#### **430 Amount or value of consideration given for right to acquire shares**

- (1) This section applies for the purposes of section 429(3)(a) in determining the amount or value of any consideration given for a right to acquire shares.
- (2) Subsection (3) applies if the right to acquire shares ("the new option") is the whole or part of the consideration for the assignment or release of another right to acquire shares ("the old option").
- (3) The amount or value of the consideration given for the new option is to be treated as being the sum of—
  - (a) the amount by which the amount or value of the consideration given for the grant of the old option exceeds the amount or value of any consideration for the assignment or release of the old option, apart from the new option, and
  - (b) any valuable consideration given for the grant of the new option, apart from the old option.
- (4) Two or more transactions are to be treated for the purposes of subsection (2) as a single transaction by which a right to acquire shares is assigned for a consideration which consists of or includes another right to acquire shares if—
  - (a) the transactions result in—
    - (i) a person ceasing to hold a right to acquire shares, and

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- (ii) that person or a connected person coming to hold another right to acquire shares, and
  - (b) one or more of the transactions is effected under arrangements to which two or more persons who hold rights to acquire shares, in respect of which there may be a liability to tax under Chapter 5 of this Part (share options), are parties.
- (5) Subsection (4) applies regardless of the order in which the assignment and the acquisition occur.
- (6) In this section “release” includes agreeing to the restriction of the exercise of the right.

#### **431 Application of this Chapter where employee dies**

- (1) If the employee dies holding the employee’s interest, this Chapter applies as if the employee had disposed of the interest immediately before dying.
- (2) The market value of the interest at the time of that disposal is to be determined for the purposes of section 428 (amount of charge) on the basis—
- (a) that it is known that the disposal is being made immediately before the employee’s death, and
  - (b) that any restriction on disposal is to be disregarded in so far as it is a restriction terminating on the employee’s death.

#### **432 Duty to notify provision of conditional interests in shares**

- (1) Subsection (2) applies if—
- (a) a person provides an individual with an interest in shares which is only conditional, and
  - (b) the circumstances are such that subsequent events may result in an amount counting as employment income of that individual under section 427 (charge on interest in shares ceasing to be only conditional or on disposal).
- (2) Each of the following persons—
- (a) the person providing the interest in shares, and
  - (b) the employer company,
- must provide the Inland Revenue with particulars in writing of the interest and its provision.
- (3) The particulars must be provided before 7th July in the tax year following that in which the interest is provided.

#### **433 Duty to notify events resulting in charges under section 427**

- (1) Subsection (2) applies if—
- (a) a person has an interest in shares which is only conditional,
  - (b) either—
    - (i) the shares cease to be shares in which that person’s interest is only conditional,
    - (ii) the shares are disposed of, or
    - (iii) that person dies, and

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- (c) by virtue of that event an amount counts as employment income under section 427 (charge on interest in shares ceasing to be only conditional or on disposal).
- (2) Each of the following persons—
  - (a) the person who provided the interest in shares, and
  - (b) the employer company,must provide the Inland Revenue with particulars in writing of the interest and the event.
- (3) The particulars must be provided before 7th July in the tax year following that in which the event occurs.

#### **434 Minor definitions**

- (1) In this Chapter—
  - “director”—
    - (a) in the case of a company whose affairs are managed by a board of directors or similar body, means a member of that board or similar body,
    - (b) in the case of a company whose affairs are managed by a single director or similar person, means that director or person,
    - (c) in the case of a company whose affairs are managed by its members, means a member,
  - and includes any person who is to be or has been a director;
  - “employee” includes—
    - (a) in relation to a company, a person taking part in the management of the affairs of the company who is not a director, and
    - (b) a person who is to be or has been an employee;
  - “market value”, in relation to an interest in shares, means the amount that might reasonably be expected to be obtained from a sale of the interest in the open market;
  - “shares” (except in section 423 in the expression “convertible shares”) includes—
    - (a) stock,
    - (b) securities issued by a company, and
    - (c) any other interest of a member of a company;
  - “terms” on which a person is entitled to an interest in shares means terms imposed by contract or arrangement or in any other way.
- (2) In this Chapter—
  - “the employee”,
  - “the employee’s interest”,
  - “the employer company”, and
  - “the shares”,have the meaning indicated in section 422(1) and (2).

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## CHAPTER 3

### CONVERTIBLE SHARES

#### *Introduction*

#### **435 Application of this Chapter**

- (1) This Chapter applies where a person (“the employee”)—
  - (a) has acquired convertible shares or an interest in such shares in a company, and
  - (b) did so as a director or employee of that or another company.
- (2) For the purposes of this Chapter shares are “convertible” if—
  - (a) they confer on the holder an immediate or conditional entitlement to convert them into shares of a different class, or
  - (b) they are held on terms that authorise or require the grant of such an entitlement to the holder if certain circumstances arise, or do not arise.
- (3) The references, in relation to the terms of a person’s entitlement, to circumstances arising include references to—
  - (a) the expiry of a period specified in or determined under those terms,
  - (b) the death of that or any other person, and
  - (c) the exercise by any person of a power conferred on that person by or under those terms.
- (4) In this Chapter—
 

“the employer company” means the company as a director or employee of which the employee acquired the convertible shares or the interest in them, and

“the shares” means the shares mentioned in subsection (1)(a);

and “director” and “employee” have the extended meaning given by section 446(1).

#### **436 Shares acquired “as a director or employee”**

- (1) For the purposes of this Chapter a person (“E”) acquires shares or an interest in shares “as a director or employee” of a company if E acquires the shares or interest in pursuance of—
  - (a) a right conferred on, or opportunity offered to, E by reason of E’s office or employment as a director or employee of the company;
  - (b) a right or opportunity assigned to E, having been conferred on or offered to some other person by reason of E’s office or employment as a director or employee of the company; or
  - (c) an assignment, the shares or interest having been acquired by some other person by reason of E’s office or employment as a director or employee of the company.
- (2) The references in subsection (1) to a right or opportunity conferred or offered by reason of E’s office or employment include—
  - (a) one so conferred or offered after E has ceased to hold the office or employment, and
  - (b) one that arises from the fact that shares—

*Status: Point in time view as at 16/04/2003.*

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- (i) which E acquired as a director or employee (or is treated as so acquiring by virtue of this paragraph), or
  - (ii) in which E so acquired an interest,were convertible shares.
- (3) A person who—
  - (a) has acquired an interest in shares which is only conditional, convertible shares or an interest in convertible shares,
  - (b) acquired that interest or those shares as a director or employee of a company, or is treated by virtue of this subsection as having done so, and
  - (c) as a result of any two or more transactions—
    - (i) ceases to be entitled to that interest or those shares, and
    - (ii) becomes entitled to another interest in shares which is only conditional or to any convertible shares or to an interest in convertible shares,is to be treated for the purposes of this Chapter as if the interest or shares mentioned in paragraph (c)(ii) were also acquired as a director or employee of the company.
- (4) Subsection (3) also applies where the interest or shares mentioned in subsection (3)(c)(ii) were acquired by a person connected with the first-mentioned person.
- (5) Nothing in subsection (3) or (4) affects the rights or opportunities included by virtue of subsection (2)(b).
- (6) In this section “an interest in shares which is only conditional” has the same meaning as in Chapter 2 of this Part (conditional interests in shares) (see section 424 and the definition of shares in section 434(1)).

#### **437 Cases where this Chapter does not apply**

- (1) This Chapter does not apply where a person has acquired convertible shares or an interest in such shares as a director or employee of a company if the earnings from the office or employment in question were not (or would not have been if there had been any) general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in the UK).
- (2) This Chapter does not apply by virtue of section 436(2)(a) (right or opportunity conferred or offered after person has ceased to hold office or employment) if it would not apply if the right or opportunity had been conferred or offered in the last tax year in which the office or employment was held.

#### *Tax charge*

#### **438 Charge on conversion of shares**

- (1) This section applies if, at a time when the employee has a beneficial interest in them, the shares are converted into shares of a different class in pursuance of an entitlement to convert them which has been conferred on the holder.
- (2) The taxable amount determined under section 439 counts as employment income of the employee for the relevant tax year.

*Status: Point in time view as at 16/04/2003.*

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- (3) The “relevant tax year” is the tax year in which the conversion occurs.
- (4) This section is subject to—  
 section 440 (case outside charge under this section: conversion of entire class), and  
 section 441 (case outside charge under this section: acquisition of conditional interest).

### **439 Amount of charge**

- (1) The taxable amount for the purposes of section 438 (charge on conversion of shares) is—

**MV - DA**

where—

MV is the market value of the shares into which the convertible shares are converted at the time of the conversion, and

DA is the total of any deductible amounts.

- (2) For the purposes of subsection (1) each of the following is a “deductible amount”—
- (a) the amount or value of any consideration given for the convertible shares or for the interest in them;
  - (b) the amount or value of any consideration given for the conversion;
  - (c) any amount that constitutes earnings from the employee’s employment under Chapter 1 of Part 3 (earnings) in respect of the acquisition of the convertible shares or the interest in them;
  - (d) any amount that is treated as earnings from the employee’s employment under Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares) in respect of the acquisition;
  - (e) if the convertible shares were, or the interest in them was, acquired by the exercise of a share option, any amount that counts as employment income of the employee under section 476 (charge on employee on exercise etc. of option) in respect of the exercise; and
  - (f) if the convertible shares were, or the interest in them was, acquired through a series of conversions each of which was a taxable conversion, the taxable amount for each conversion, so far as not falling within paragraph (c), (d) or (e).
- (3) If, not later than the conversion, an event occurred in respect of the shares by virtue of which an amount counts as employment income of the employee under—
- (a) section 449 (charge on occurrence of chargeable event), or
  - (b) section 453 (charge on increase in value of shares of dependent subsidiary),
- that amount is a “deductible amount” for the purposes of subsection (1).
- (4) Section 541(2) (effects of the EMI code on other income tax charges) also provides that an amount is to be regarded as a “deductible amount” for the purposes of subsection (1).



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- (5) For the purposes of subsection (1) the “market value” of shares means the amount that might reasonably be expected to be obtained from a sale of the shares in the open market.
- (6) In subsection (2) “taxable conversion” means a conversion which—
  - (a) resulted in an amount counting as employment income under section 438, or
  - (b) would have done so but for the fact that the market value of the shares at the time of the conversion did not exceed the sum of the deductible amounts.
- (7) The reference in subsection (3) to an event includes the expiry of a period.

#### **440 Case outside charge under section 438: conversion of entire class**

- (1) Section 438 (charge on conversion of shares) does not apply if—
  - (a) the conversion is a conversion of shares of one class only (“the original class”) into shares of one other class only (“the new class”), and
  - (b) all shares of the original class are converted into shares of the new class, and
  - (c) condition A or B is met.
- (2) Condition A is that immediately before the conversion the majority of the company’s shares of the original class are not held by or for the benefit of—
  - (a) directors or employees of the company,
  - (b) an associated company of the company, or
  - (c) directors or employees of such an associated company.
- (3) Condition B is that immediately before the conversion the company is employee-controlled by virtue of holdings of shares of the original class.
- (4) A company is “employee-controlled” by virtue of holdings of shares of a class if—
  - (a) the majority of the company’s shares of that class (other than any held by or for the benefit of an associated company) are held by or for the benefit of employees or directors of the company or a company controlled by the company, and
  - (b) those directors and employees are together able as holders of the shares to control the company.
- (5) In this section “associated company” has the meaning given by section 416 of ICTA.

#### **441 Case outside charge under section 438: acquisition of conditional interest**

- (1) Section 438 (charge on conversion of shares) does not apply if the interest which the employee acquires in the shares into which the convertible shares are converted is an interest which is only conditional.
- (2) “Only conditional” has the same meaning as in Chapter 2 of this Part (see section 424).

*Status: Point in time view as at 16/04/2003.*

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### *Supplementary provisions*

#### **442 Amount or value of consideration given for shares or conversion**

- (1) This section applies for the purposes of section 439 (amount of charge) in determining the amount or value of the consideration given for the convertible shares, or for the interest in them, or for the conversion.
- (2) Subject to the following provisions of this section, the consideration given for the convertible shares, or for the interest in them, is any consideration given in respect of the acquisition by—
  - (a) the employee, or
  - (b) if section 436(1)(c) applies, the person by whom the shares were, or interest was, acquired.
- (3) The amount or value of the consideration given by a person for shares, or an interest in shares, includes the amount or value of any consideration given for a right to acquire the shares or interest.
- (4) If any consideration is given partly in respect of one thing and partly in respect of another, the amount given in respect of the different things is to be determined on a just and reasonable apportionment.
- (5) The consideration which for the purposes of this section is taken to be given wholly or partly for anything does not include the performance of any duties of, or in connection with, the office or employment by reference to which the shares or interest in question have been acquired by a person as a director or employee of a company.
- (6) No amount is to be counted more than once in calculating the amount or value of any consideration.

#### **443 Amount or value of consideration given for right to acquire shares**

- (1) This section applies for the purposes of section 442(3) in determining the amount or value of any consideration given for a right to acquire shares.
- (2) Subsection (3) applies if the right to acquire shares (“the new option”) is the whole or part of the consideration for the assignment or release of another right to acquire shares (“the old option”).
- (3) The amount or value of the consideration given for the new option is to be treated as being the sum of—
  - (a) the amount by which the amount or value of the consideration given for the grant of the old option exceeds the amount or value of any consideration for the assignment or release of the old option, apart from the new option, and
  - (b) any valuable consideration given for the grant of the new option, apart from the old option.
- (4) Two or more transactions are to be treated for the purposes of subsection (2) as a single transaction by which a right to acquire shares is assigned for a consideration which consists of or includes another right to acquire shares if—
  - (a) the transactions result in—
    - (i) a person ceasing to hold a right to acquire shares, and

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- (ii) that person or a connected person coming to hold another right to acquire shares, and
  - (b) one or more of the transactions is effected under arrangements to which two or more persons who hold rights to acquire shares, in respect of which there may be liability to tax under Chapter 5 of this Part (share options), are parties.
- (5) Subsection (4) applies regardless of the order in which the assignment and the acquisition occur.
- (6) In this section “release” includes agreeing to the restriction of the exercise of the right.

#### **444 Conversion in consequence of employee’s death**

- (1) Subsection (2) applies if—
- (a) the employee dies holding an interest in convertible shares,
  - (b) those shares are converted into shares of a different class either on, or within 12 months after, the death, and
  - (c) the conversion takes place wholly or partly as a consequence of the death.
- (2) This Chapter applies as if the conversion had taken place immediately before the death and had been in pursuance of an entitlement to convert conferred on the deceased.

#### **445 Duty to notify conversions of shares**

- (1) Subsection (2) applies if—
- (a) a person has provided an individual with convertible shares in a company, or an interest in such shares,
  - (b) those shares are subsequently converted into shares of a different class, and
  - (c) the circumstances are such that the conversion results or may result in an amount counting as employment income of that individual under section 438 (charge on conversion of shares).
- (2) Each of the following persons—
- (a) the person who provided the shares or interest, and
  - (b) the employer company,
- must provide the Inland Revenue with particulars in writing of the shares and their conversion.
- (3) The particulars must be provided before 7th July in the tax year following that in which the conversion takes place.

#### **446 Minor definitions**

- (1) In this Chapter—
- “director”—
- (a) in the case of a company whose affairs are managed by a board of directors or similar body, means a member of that board or similar body,
  - (b) in the case of a company whose affairs are managed by a single director or similar person, means that director or person,
  - (c) in the case of a company whose affairs are managed by its members, means a member,

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and includes any person who is to be or has been a director;

“employee” includes—

(a) in relation to a company, a person taking part in the management of the affairs of the company who is not a director, and

(b) a person who is to be or has been an employee;

“shares” (except in section 436 in the expression “an interest in shares which is only conditional”) includes stock and any other interest of a member of a company;

“terms” on which a person holds shares or an interest in shares means terms imposed by contract or arrangement or in any other way.

(2) In this Chapter—

“the employee”,

“the employer company”, and

“the shares”,

have the meaning indicated in section 435(1) and (4).

## [<sup>F10</sup>CHAPTER 3A

### SECURITIES WITH ARTIFICIALLY DEPRESSED MARKET VALUE

#### Textual Amendments

**F10** Pt. 7 Ch. 3A inserted (16.4.2003 with effect in accordance with Sch. 22 para. 5(2)-(4) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 5\(1\)](#)

#### *Introduction*

#### **446A Application of this Chapter**

(1) This Chapter applies in certain cases where the market value of employment-related securities (or other relevant securities or interests in securities) is reduced by things done otherwise than for genuine commercial purposes.

(2) The following are among the things that are, for the purposes of this Chapter, done otherwise than for genuine commercial purposes—

(a) anything done as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax or national insurance contributions, and

(b) any transaction between companies which are members of the same group on terms which are not such as might be expected to be agreed between persons acting at arm’s length (other than a payment for group relief).

(3) In subsection (2)(b)—

(a) “group” means a company and its 51% subsidiaries, and

(b) “group relief” has the same meaning as in section 402(6) of ICTA.

*Status: Point in time view as at 16/04/2003.*

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### *Tax charge on acquisition*

#### **446B Charge on acquisition**

- (1) This section applies where the market value of employment-related securities at the time of the acquisition has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period of 7 years ending with the acquisition.
- (2) The taxable amount determined under section 446C counts as employment income of the employee for the tax year in which the acquisition occurs.
- (3) But this section does not apply if section 425(2) (no charge on acquisition of certain restricted securities or restricted interests in securities) applies in relation to the employment-related securities.
- (4) This section does not affect any liability to income tax arising in respect of the acquisition of the employment-related securities under—
  - (a) Chapter 1 of Part 3 (earnings),
  - (b) Chapter 10 of Part 3 (taxable benefits: residual liability to charge),
  - (c) Chapter 3 of this Part (acquisition by conversion),
  - (d) Chapter 3C of this Part (acquisition for less than market value), or
  - (e) Chapter 5 of this Part (acquisition pursuant to securities option).

#### **446C Amount of charge**

- (1) The taxable amount for the purposes of section 446B (charge on acquisition) is—

FMVMV
- (2) FMV is what would be the market value of the employment-related securities at the time of the acquisition if the things mentioned in section 446B(1) had not been done.
- (3) MV is the actual market value of the employment-related securities at the time of the acquisition.
- (4) But where what would be MV is less than the amount of any consideration given for the acquisition of the employment-related securities, MV is the amount of that consideration.
- (5) This section is subject to section 446D (restricted securities and convertible securities).

#### **446D Restricted securities and convertible securities**

- (1) Where the employment-related securities are restricted securities or a restricted interest in securities, FMV (but not MV) is to be determined as if the employment-related securities were not restricted securities or a restricted interest in securities; and, accordingly, sections 426 to 431 (post-acquisition charges on restricted securities) do not apply to the employment-related securities.
- (2) Where the employment-related securities are convertible securities or an interest in convertible securities, FMV and MV are to be determined as if they were not.

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### *Other tax charges*

#### **446E Charge on restricted securities**

- (1) This section applies where the market value of employment-related securities which are restricted securities or a restricted interest in securities is artificially low—
  - (a) immediately after an event which is a chargeable event in relation to the employment-related securities for the purposes of section 426 (charge on restricted securities), or
  - (b) on 5th April in any year.
- (2) The market value of the employment-related securities is artificially low where it has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the relevant period.
- (3) The reference in subsection (2) of section 428 (amount of charge on restricted securities) to what would be the market value of the employment-related securities is, so far as it relates to subsection (1) of that section, a reference to what would be the market value but for the reduction as a result of the things done as mentioned in subsection (2) (and but for any restrictions).
- (4) In a case within subsection (1)(b), there shall be treated as occurring on the 5th April concerned a chargeable event within section 427(3)(a) (lifting of restrictions) in relation to the employment-related securities.
- (5) “The relevant period” is the period of 7 years ending with—
  - (a) in a case within subsection (1)(a), the chargeable event concerned, or
  - (b) in a case within subsection (1)(b), the 5th April concerned.
- (6) But if section 425(2) (no charge on acquisition of certain restricted securities or restricted interests in securities) applied in relation to the employment-related securities, the relevant period is the period beginning 7 years before the acquisition.

#### **446F Adjustment of market value: conditional interests**

- (1) This section applies where the market value of an employee’s interest in shares which is only conditional is artificially low immediately after a chargeable event relating to the shares under section 427 as originally enacted.
- (2) The market value of the shares is artificially low where it has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period beginning—
  - (a) 7 years before the chargeable event, or
  - (b) with 16th April 2003,whichever is later.
- (3) There is a chargeable event in relation to shares if section 427 (as originally enacted) applies in relation to them.
- (4) The reference in the definition of MV in section 428(1) (as originally enacted) to the market value of the employee’s interest is to what would be the market value but for the reduction as a result of the things done as mentioned in subsection (2).

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- (5) Expressions used in this section and in Chapter 2 of this Part as originally enacted have the same meaning in this section as in that Chapter.

#### **446G Adjustment of market value: consideration for entitlement to convert**

- (1) This section applies where the market value of employment-related securities which are convertible securities or an interest in convertible securities (determined as if they were not) has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period of 7 years ending with the acquisition.
- (2) The reference to the market value of the employment-related securities in the definition of NCMV in section 442(5) (value of convertible securities at time of acquisition) is to what would be the market value but for the reduction as a result of the things done as mentioned in subsection (1) (and but for the fact that they are convertible securities or an interest in convertible securities).

#### **446H Adjustment of market value: charge on conversion**

- (1) This section applies where the market value of securities (“the converted securities”) into which employment-related securities (or securities in which employment-related securities are an interest) are converted is artificially low at the time of an event which is a chargeable event in relation to the employment-related securities by virtue of section 439(3)(a) (conversion).
- (2) The market value of the converted securities is artificially low where it has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period of 7 years ending with the chargeable event.
- (3) The references to the market value of the converted securities in the definition of CMVCS in section 441(6) (amount of gain realised by conversion) are to what would be the market value but for the reduction as a result of the things done as mentioned in subsection (2).

#### **446I Adjustment of consideration or benefit received**

- (1) This section applies where any consideration or benefit mentioned in—
- (a) section 428(9) (consideration on disposal of restricted securities),
  - (b) section 441(4), (5) or (9) (consideration for disposal of convertible securities or release of entitlement to convert or benefit received in respect of entitlement to convert),
  - (c) section 446C(4) (securities with artificially depressed market value: MV to be amount of consideration),
  - (d) sections 446X and 446Y(3) (consideration for disposal of securities exceeding market value), or
  - (e) section 448 (securities benefit not otherwise subject to tax),
- consists (in whole or in part) in the provision of securities or an interest in securities the market value of which is artificially low.
- (2) The market value of any securities or interest in securities is artificially low where it has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period of 7 years ending with the receipt of the consideration or benefit.

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- (3) The market value of the consideration or benefit consisting in the provision of the securities or interest in securities is for the purposes of the provision or provisions concerned to be taken to be what it would be but for the reduction as a result of the things done as mentioned in subsection (2).

### *Supplementary*

#### **446J Definitions**

- (1) In this Chapter—  
“interest”, in relation to securities, and  
“securities”,  
have the meaning indicated in section 420.
- (2) In this Chapter “market value” has the meaning indicated in section 421(1).
- (3) For the purposes of this Chapter sections 421(2) and 421A apply for determining the amount of the consideration given for anything and section 421I applies for determining the amount of the consideration given for the acquisition of employment-related securities.
- (4) In this Chapter—  
“the acquisition”,  
“the employee”, and  
“employment-related securities”,  
have the meaning indicated in section 421B(8).
- (5) In this Chapter—  
“restricted interest in securities”, and  
“restricted securities”,  
have the same meaning as in Chapter 2 of this Part (see sections 423 and 424).
- (6) In this Chapter “restriction” has the same meaning as in Chapter 2 of this Part (see section 432(8)).
- (7) In this Chapter “convertible securities” has the same meaning as in Chapter 3 of this Part (see section 436).]

## [<sup>F11</sup>CHAPTER 3B

### SECURITIES WITH ARTIFICIALLY ENHANCED MARKET VALUE

#### **Textual Amendments**

**F11** Pt. 7 Ch. 3B inserted (16.4.2003 with effect in accordance with Sch. 22 para. 6(2)-(4) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 6\(1\)](#)



*Status:* Point in time view as at 16/04/2003.

*Changes to legislation:* Income Tax (Earnings and Pensions) Act 2003 is up to date with all changes known to be in force on or before 11 June 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)

## Introduction

### 446K Application of this Chapter

- (1) This Chapter applies in certain cases where the market value of employment-related securities is increased by things done otherwise than for genuine commercial purposes.
- (2) The following are among the things that are, for the purposes of this Chapter, done otherwise than for genuine commercial purposes—
  - (a) anything done as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax or national insurance contributions, and
  - (b) any transaction between companies which are members of the same group on terms which are not such as might be expected to be agreed between persons acting at arm's length (other than a payment for group relief).
- (3) In subsection (2)(b)—
  - (a) “group” means a company and its 51% subsidiaries, and
  - (b) “group relief” has the same meaning as in section 402(6) of ICTA.
- (4) In this Chapter, in relation to the market value of the employment-related securities—
  - “non-commercial increase” means an increase in the market value as a result of anything done otherwise than for genuine commercial purposes, and
  - “non-commercial reduction” means a reduction in the market value as a result of anything done otherwise than for genuine commercial purposes.

### *Charge on non-commercial increases*

### 446L Charge on non-commercial increases

- (1) This section applies in relation to employment-related securities where on a date that is the valuation date in relation to a relevant period IMV is at least 10% greater than MV.
- (2) The taxable amount determined under subsection (4) counts as employment income of the employee for the relevant tax year (but subject to sections 446M and 446N).
- (3) The “relevant tax year” is the tax year in which the valuation date falls.
- (4) The taxable amount is—

IMVMV
- (5) IMV is the market value of the employment-related securities on the valuation date.
- (6) MV is the amount that would be the market value of the employment-related securities on the valuation date if any non-commercial increases during the relevant period were disregarded.
- (7) For the purposes of subsections (5) and (6)—
  - (a) any restrictions having effect in relation to the employment-related securities on the valuation date, and
  - (b) any non-commercial reductions during the relevant period, are to be disregarded.

*Status: Point in time view as at 16/04/2003.*

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#### **446M Securities subject to restriction on valuation date**

- (1) This section applies where on the valuation date the employment-related securities are relevant restricted securities.
- (2) The amount determined under section 446L(4) is to be multiplied by CP.
- (3) CP is—
  - IOP

where OP is the amount that would be determined under section 428(5) (amount of charge on chargeable event in relation to restricted securities) on the valuation date if there were on that date a chargeable event (resulting in no tax charge).
- (4) For the purposes of this section the employment-related securities are relevant restricted securities if they are restricted securities or a restricted interest in securities but are not subject to—
  - (a) an election under section 430 (election to ignore outstanding restrictions) in relation to a chargeable event which occurred before the valuation date, or
  - (b) an election under section 431(1) (election to treat securities as not subject to restrictions).
- (5) If sections 425 to 430 apply to the employment-related securities in accordance with section 431(2) (election to treat securities as not subject to specified restrictions), the reference in subsection (3) to the amount that would be determined under section 428(5) is to the amount that would be so determined in accordance with section 431(2).

#### **446N Securities subject to restriction during relevant period**

- (1) This section applies where the employment-related securities have been restricted securities or a restricted interest in securities at any time during the relevant period.
- (2) DA is to be deducted from the amount determined under section 446L(4) (or, where section 446M applies, the amount determined under sections 446L(4) and 446M).
- (3) DA is the aggregate of the amounts arrived at under subsection (4) in relation to each event occurring during the relevant period that is a chargeable event in relation to the employment-related securities.
- (4) The amount is—
  - TAARTA
- (5) TA is the taxable amount actually determined under section 428 in relation to the chargeable event.
- (6) ARTA is the taxable amount which would have been determined under section 428 in relation to the chargeable event if any non-commercial increases during the period—
  - (a) beginning at the same time as the relevant period, and
  - (b) ending immediately before the chargeable event,

had been disregarded.

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### Supplementary

#### 446O “Relevant period” and “valuation date”

- (1) This section explains what is meant by “relevant period” and “valuation date” in this Chapter.
- (2) The first relevant period in relation to employment-related securities is the period beginning with the date of the acquisition and ending with the following 5th April.
- (3) After the first relevant period, each period beginning with 6th April and ending with the following 5th April is a relevant period in relation to the employment-related securities.
- (4) But if this Chapter ceases to apply to the employment-related securities during a relevant period, the relevant period ends with the date on which this Chapter ceases to apply to them.
- (5) And if this Chapter ceases to apply to an interest in the employment-related securities during a relevant period, the relevant period ends in relation to that interest with the date on which this Chapter ceases to apply to that interest.
- (6) In a case where subsection (5) applies, this Chapter has effect separately in relation to that interest and the remainder of the employment-related securities.
- (7) In this Chapter “valuation date”, in relation to a relevant period, means the date with which the relevant period ends.

#### 446P Definitions

- (1) In this Chapter “interest”, in relation to securities, has the meaning indicated in section 420.
- (2) In this Chapter “market value” has the meaning indicated in section 421(1).
- (3) In this Chapter—
  - “the acquisition”,
  - “the employee”, and
  - “employment-related securities”,have the meaning indicated in section 421B(8).
- (4) In this Chapter—
  - “restricted interest in securities”, and
  - “restricted securities”,have the same meaning as in Chapter 2 of this Part (see sections 423 and 424).
- (5) In this Chapter “chargeable event” means an event which is a chargeable event for the purposes of section 426.
- (6) In this Chapter “restriction” has the same meaning as in Chapter 2 of this Part (see section 432(8)).
- (7) In this Chapter—
  - “non-commercial increase”, and

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“non-commercial reduction”,  
 have the meaning indicated in section 446K(4).

(8) In this Chapter—

“relevant period”, and  
 “valuation date”,  
 have the meaning indicated in section 446O.]

## [<sup>F12</sup>CHAPTER 4

### POST-ACQUISITION BENEFITS FROM SECURITIES

#### Textual Amendments

**F12** Pt. 7 Ch. 4 (ss. 447-450) substituted for Pt. 7 Ch. 4 (ss. 447-470) (16.4.2003 with effect in accordance with Sch. 22 para. 9(2)-(4) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 9\(1\)](#)

#### **447 Charge on other chargeable benefits from securities**

- (1) This Chapter applies if an associated person receives a benefit by virtue of the ownership of employment-related securities by that person or another associated person.
- (2) The taxable amount determined under section 448 counts as employment income of the employee for the relevant tax year.
- (3) The “relevant tax year” is the tax year in which the benefit is received.
- (4) This section does not apply if the benefit is otherwise chargeable to income tax.
- (5) This section is subject to section 449 (case outside this Chapter).

#### **448 Amount of charge**

The taxable amount for the purposes of section 447 (charge on other chargeable benefits) is the amount or market value of the benefit.

#### **449 Case outside this Chapter**

- (1) This Chapter does not apply if—
  - (a) the employment-related securities are shares (or an interest in shares) in a company of a class,
  - (b) a similar benefit is received by the owners of all the company’s shares of the class, and
  - (c) subsection (2) or (3) is satisfied.
- (2) This subsection is satisfied if, immediately before the receipt of the benefit, the company is employee-controlled by virtue of holdings of shares of the class.

*Status: Point in time view as at 16/04/2003.*

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- (3) This subsection is satisfied if, immediately before the receipt of the benefit, the majority of the company's shares of the class are not held by or for the benefit of any of the following—
- (a) employees of the company,
  - (b) persons who are related to an employee of the company,
  - (c) associated companies of the company,
  - (d) employees of any associated company of the company, or
  - (e) persons who are related to an employee of any such associated company.
- (4) For the purposes of subsection (3) a person is related to an employee if—
- (a) the person acquired the shares pursuant to a right or opportunity available by reason of the employee's employment, or
  - (b) the person is connected with a person who so acquired the shares or with the employee and acquired the shares otherwise than by or under a disposal made by way of a bargain at arm's length from the employee or another person who is related to the employee.

#### **450 Definitions**

- (1) In this Chapter—  
“interest”, in relation to shares, and  
“shares”,  
have the meaning indicated in section 420(8).
- (2) In this Chapter “market value” has the meaning indicated in section 421(1).
- (3) In this Chapter—  
“the employee” (except in section 449), and  
“employment-related securities”,  
have the meaning indicated in section 421B(8).
- (4) In this Chapter “associated person” has the meaning indicated in section 421C.
- (5) In this Chapter—  
“associated company”, and  
“employee-controlled”,  
have the meaning indicated in section 421H.]

#### *Tax charge where restrictions or rights varied*

#### **<sup>F12</sup>451 Amount of charge**

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#### **<sup>F12</sup>452 Cases outside charge under section 449**

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*Status: Point in time view as at 16/04/2003.*

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*Tax charge on increase in value of shares of dependent subsidiaries*

**F12 453 Charge on increase in value of shares of dependent subsidiary**

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**F12 454 Chargeable increases**

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**F12 455 Amount of charge**

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**F12 456 Cases outside charge under section 453**

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*Tax charge on other benefits from shares*

**F12 457 Charge on other chargeable benefits from shares**

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**F12 458 Chargeable benefits**

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**F12 459 Amount of charge**

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**F12 460 Cases outside charge under section 457**

.....

*Supplementary provisions*

**F12 461 Related acquisitions of additional shares**

.....

**F12 462 Company reorganisations etc.**

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**F12 463 Disposals of shares to connected persons etc. ignored**

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**<sup>F12</sup>464 Application to interests in shares**

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**<sup>F12</sup>465 Duty to notify acquisitions of shares or interests in shares**

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**<sup>F12</sup>466 Duty to notify chargeable events and chargeable benefits**

.....

*Interpretation*

**<sup>F12</sup>467 Meaning of “dependent subsidiary”**

.....

**<sup>F12</sup>468 Meaning of “employee-controlled”**

.....

**<sup>F12</sup>469 Shares “held by outside shareholders”**

.....

**<sup>F12</sup>470 Minor definitions**

.....

**[<sup>F13</sup>CHAPTER 5**

**SECURITIES OPTIONS**

**Textual Amendments**

**F13** Pt. 7 Ch. 5 substituted (16.4.2003 for specified purposes and otherwise 1.9.2003 with effect in accordance with Sch. 22 para. 10(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 10\(1\)](#); S.I. 2003/1997, art. 2

*Introduction*

**471 Options to which this Chapter applies**

- (1) This Chapter applies to a securities option acquired by a person where the right or opportunity to acquire the securities option is available by reason of an employment of that person or any other person.

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- (2) For the purposes of subsection (1) “employment” includes a former or prospective employment.
- (3) A right or opportunity to acquire a securities option made available by a person’s employer, or a person connected with a person’s employer, is to be regarded for the purposes of subsection (1) as available by reason of an employment of that person unless—
  - (a) the person by whom the right or opportunity is made available is an individual, and
  - (b) the right or opportunity is made available in the normal course of the domestic, family or personal relationships of that person.
- (4) A right or opportunity to acquire a securities option available by reason of holding employment-related securities is to be regarded for the purposes of subsection (1) as available by reason of the same employment as that by reason of which the right or opportunity to acquire the employment-related securities was available.
- (5) In this Chapter—
 

“the acquisition”, in relation to an employment-related securities option, means the acquisition of the employment-related securities option pursuant to the right or opportunity available by reason of the employment,

“the employment” means the employment by reason of which the right or opportunity to acquire the employment-related securities option is available (“the employee” and “the employer” being construed accordingly), and

“employment-related securities option” means a securities option to which this Chapter applies.

## **472 Associated persons**

- (1) For the purposes of this Chapter the following are “associated persons” in relation to an employment-related securities option—
  - (a) the person who acquired the employment-related securities option on the acquisition,
  - (b) (if different) the employee, and
  - (c) any relevant linked person.
- (2) A person is a relevant linked person if—
  - (a) that person (on the one hand), and
  - (b) either the person who acquired the employment-related securities option on the acquisition or the employee (on the other),
 are connected or, although not connected, are members of the same household.
- (3) But a company which would otherwise be a relevant linked person is not if it is—
  - (a) the employer,
  - (b) the person from whom the employment-related securities option was acquired, or
  - (c) the person by whom the right or opportunity to acquire the employment-related securities option was made available.



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### **473 Introduction to taxation of securities options**

- (1) The starting-point is that section 475 contains an exemption from the liability to tax that might otherwise arise under—
  - (a) Chapter 1 of Part 3 (earnings), or
  - (b) Chapter 10 of that Part (taxable benefits: residual liability to charge),when an employment-related securities option is acquired.
- (2) Liability to tax may arise, when securities are acquired pursuant to the employment-related securities option, under—
  - (a) section 446B (charge on acquisition where market value of securities or interest artificially depressed),
  - (b) Chapter 3C of this Part (acquisition of securities for less than market value), or
  - (c) section 476 (acquisition of securities pursuant to securities option).
- (3) Liability to tax may also arise by virtue of section 476 when—
  - (a) the employment-related securities option is assigned or released, or
  - (b) a benefit is received in connection with the employment-related securities option.
- (4) There are special rules relating to share options acquired under—
  - (a) approved SAYE option schemes (see Chapter 7 of this Part),
  - (b) approved CSOP schemes (see Chapter 8 of this Part), or
  - (c) enterprise management incentives (see Chapter 9 of this Part).

### **474 Cases where this Chapter does not apply**

- (1) This Chapter (apart from sections 473 and 483) does not apply in relation to an employment-related securities option if, at the time of the acquisition, the earnings from the employment were not (or would not have been if there had been any) general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in the UK).
- (2) This Chapter (apart from sections 473 and 483) does not apply in the case of a former employment if it would not apply if the acquisition had taken place in the last tax year in which the employment was held.
- (3) This Chapter (apart from sections 473 and 483) does not apply in the case of a prospective employment if it would not apply if the acquisition had taken place in the first tax year in which the employment is held.
- (4) Where the employment-related securities option is a new option (within the meaning of section 483), the references in this section to the acquisition are to the acquisition of the old option (within the meaning of that section).

#### *Tax relief on acquisition of option*

### **475 No charge in respect of acquisition of option**

- (1) No liability to income tax arises in respect of the acquisition of an employment-related securities option.

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- (2) Subsection (1) is subject to section 526 (approved CSOP schemes: charge where share option granted at a discount).

*Tax charge on post-acquisition chargeable events*

**476 Charge on occurrence of chargeable event**

- (1) This section applies if a chargeable event occurs in relation to an employment-related securities option.
- (2) The taxable amount determined under section 478 counts as employment income of the employee for the relevant tax year (but subject to subsection (5)).
- (3) The “relevant tax year” is the tax year in which the chargeable event occurs.
- (4) Section 477 explains what are chargeable events for the purposes of this section.
- (5) If the employee has been divested of the employment-related securities option by operation of law, the person who is the relevant person in relation to the chargeable event (see section 477(7)) is chargeable to tax under Case VI of Schedule D on the amount determined under section 478.
- (6) This section is subject to—
  - section 519 (approved SAYE option schemes: no charge in respect of exercise of share option by employee),
  - section 524 (approved CSOP schemes: no charge in respect of exercise of share option by employee), and
  - section 530 (enterprise management incentives: no charge on exercise by employee of option to acquire shares at market value).

**477 Chargeable events**

- (1) This section applies for the purposes of section 476 (charge on occurrence of chargeable event).
- (2) Any of the events mentioned in subsection (3) is a “chargeable event” in relation to the employment-related securities option unless it occurs on or after the death of the employee.
- (3) The events are—
  - (a) the acquisition of securities pursuant to the employment-related securities option by an associated person,
  - (b) the assignment for consideration of the employment-related securities option by an associated person otherwise than to another associated person or the release for consideration of the employment-related securities option by an associated person, or
  - (c) the receipt by an associated person of a benefit in money or money’s worth in connection with the employment-related securities option (other than securities acquired pursuant to the employment-related securities option or consideration for its assignment or release).

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- (4) For the purposes of subsection (3)(a) securities are acquired at the time when a beneficial interest is acquired (and not, if different, the time when the securities are conveyed or transferred).
- (5) A benefit received on account of any disability (within the meaning of the Disability Discrimination Act 1995) of the employee is to be disregarded for the purposes of subsection (3)(c).
- (6) A benefit in money or money's worth received in consideration for or otherwise in connection with—
  - (a) failing or undertaking not to acquire securities pursuant to the employment-related securities option, or
  - (b) granting or undertaking to grant to another person a right to acquire securities which are subject to the employment-related securities option or any interest in them,is to be regarded for the purposes of subsection (3)(c) as received in connection with the employment-related securities option.
- (7) For the purposes of section 476(5) (charge under Case VI of Schedule D) the relevant person in relation to a chargeable event is—
  - (a) in the case of an event that is a chargeable event by virtue of subsection (3)(a), the person by whom the securities are acquired, and
  - (b) in the case of an event that is a chargeable event by virtue of subsection (3)(b) or (c), the person by whom the consideration or benefit is received.

#### **478 Amount of charge**

- (1) The taxable amount for the purposes of section 476 (charge on occurrence of chargeable event) is—

AGDA

where—

AG is the amount of any gain realised on the occurrence of the chargeable event, and

DA is the total of any deductible amounts.

- (2) Section 479 explains what is the amount of any gain realised on the occurrence of a chargeable event.
- (3) Section 480 specifies what are deductible amounts.

#### **479 Amount of gain realised on occurrence of chargeable event**

- (1) This section applies for the purposes of section 478 (amount of charge on occurrence of chargeable event).
- (2) The amount of the gain realised on the occurrence of an event that is a chargeable event by virtue of section 477(3)(a) (acquisition of securities) is (subject to subsection (4))—

MVC

- (3) In subsection (2)—

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MV is the market value of the securities that are acquired at the time when they are acquired, and

C is the amount of any consideration given for the securities that are acquired.

- (4) But the amount of the gain realised on the occurrence of an event that is a chargeable event by virtue of section 477(3)(a) (acquisition of securities) is calculated—
- (a) if section 531 (enterprise management incentives: limitation of charge on exercise of option to acquire shares below market value) applies, in accordance with that section, and
  - (b) if section 532 (enterprise management incentives: modified tax consequences following disqualifying events) applies, in accordance with that section.
- (5) The amount of the gain realised on the occurrence of an event that is a chargeable event by virtue of section 477(3)(b) (assignment or release of option) is the amount of the consideration given for the assignment or release.
- (6) The amount of the gain realised on the occurrence of an event that is a chargeable event by virtue of section 477(3)(c) (receipt of benefit in connection with option) is the amount or market value of the benefit.
- (7) But if—
- (a) the consideration mentioned in subsection (5), or
  - (b) the benefit mentioned in subsection (6),
- consists (in whole or in part) in the provision of securities or an interest in securities the market value of which has been reduced by at least 10% as a result of things done otherwise than for genuine commercial purposes within the period of 7 years ending with the receipt of the consideration or benefit, its market value is to be taken to be what it would be but for the reduction.
- (8) The following are among the things that are, for the purposes of subsection (7), done otherwise than for genuine commercial purposes—
- (a) anything done as part of a scheme or arrangement the main purpose, or one of the main purposes, of which is the avoidance of tax or national insurance contributions, and
  - (b) any transaction between companies which are members of the same group on terms which are not such as might be expected to be agreed between persons acting at arm's length (other than a payment for group relief).
- (9) In subsection (8)(b)—
- (a) “group” means a company and its 51% subsidiaries, and
  - (b) “group relief” has the same meaning as in section 402(6) of ICTA.

#### **480 Deductible amounts**

- (1) This section applies for the purposes of section 478 (amount of charge on occurrence of chargeable event).
- (2) The amount of—
- (a) any consideration given for the acquisition of the employment-related securities option, and
  - (b) the amount of any expenses incurred in connection with the acquisition of securities, assignment, release or receipt which constitutes the chargeable event,

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is a deductible amount.

- (3) Where in consequence of—
- (a) the acquisition of the employment-related securities option,
  - (b) the acquisition of securities pursuant to the employment-related securities option, or
  - (c) a transaction of which the acquisition of the employment-related securities option or the acquisition of securities pursuant to the employment-related securities option forms part,
- there is a reduction in the market value of any employment-related securities to which an associated person is beneficially entitled, the amount of the reduction is to be treated for the purposes of subsection (2) as consideration (or additional consideration) given for the acquisition of the employment-related securities option.
- (4) If an amount counts as employment income of the employee under section 526 (approved CSOP schemes: charge where option granted at a discount) in respect of the employment-related securities option, so much of that amount as is attributable to the shares in question is a deductible amount.
- (5) The following are also deductible amounts—
- (a) any amount that constituted earnings from the employment under Chapter 1 of Part 3 (earnings) in respect of the acquisition of the employment-related securities option,
  - (b) any amount that was treated as earnings from the employment under Chapter 10 of that Part (taxable benefits: residual liability to charge) in respect of the acquisition of the employment-related securities option, and
  - (c) the amount of any gain by a previous holder on an assignment of the employment-related securities option which would have been a deductible cost by virtue of subsection (2)(c) of section 479 (as originally enacted) on an exercise of the option at a time when that section was in force.
- (6) If there has been a previous chargeable event in relation to the employment-related securities option (or if section 476 or 477 as originally enacted applied to the option by virtue of an earlier event), so much of any deductible amount as was deducted in calculating the taxable amount on the occasion of that event is to be regarded as not being a deductible amount.
- (7) Sections 481 and 482 (deductible amounts in respect of secondary Class 1 contributions or special contribution met by the employee) specify further deductible amounts.

#### **481 Deductible amount in respect of secondary Class 1 contributions met by employee**

- (1) The amount calculated under subsection (2) is a deductible amount if—
- (a) an agreement having effect under paragraph 3A of Schedule 1 to the Contributions and Benefits Act has been entered into allowing the secondary contributor to recover from the employee the whole or part of any secondary Class 1 contributions in respect of the gain, or
  - (b) an election having effect under paragraph 3B of Schedule 1 to that Act is in force which has the effect of transferring to the employee the whole or part of the liability to pay secondary Class 1 contributions in respect of the gain.

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- (2) The amount is the sum of—
- (a) any amount that under the agreement referred to in subsection (1)(a) is recovered in respect of the gain by the secondary contributor before 5th June in the tax year following that in which the gain is realised, and
  - (b) the amount of any liability in respect of the gain that, by virtue of the election referred to in subsection (1)(b), has become the employee's liability.
- (3) If notice of withdrawal of approval of the election is given, the amount of any liability in respect of the gain for the purposes of subsection (2)(b) is limited to the amount of the liability met before 5th June in the tax year following that in which the gain is realised.
- (4) Subsection (1) does not apply in respect of a liability to pay Class 1 contributions which is prevented from arising by virtue of section 2(1)(a) of the Social Security Contributions (Share Options) Act 2001 (liability to pay Class 1 contributions in respect of gains replaced by liability to pay special contribution).
- (5) In this section—
- “approval”, in relation to an election, means approval by the Board of Inland Revenue under paragraph 3B of Schedule 1 to the Contributions and Benefits Act, and
- “secondary contributor” has the same meaning as in that Act (see section 7).

#### **482 Deductible amount in respect of special contribution met by employee**

- (1) The amount of the liability referred to in subsection (4) is a deductible amount if conditions A to D are met.
- (2) Condition A is that a notice in respect the employment-related securities option was given to the Board of Inland Revenue in accordance with section 1 of the Social Security Contributions (Share Options) Act 2001 before 11th August 2001.
- (3) Condition B is that the person, or one of the persons, who gave that notice is a person who (apart from that Act) was liable, or would have become liable, by virtue of an election under paragraph 3B of Schedule 1 to the Contributions and Benefits Act, to pay secondary Class 1 contributions in respect of an event which is a chargeable event for the purposes of section 476.
- (4) Condition C is that that person became liable to pay a special contribution under section 2 of the Social Security Contributions (Share Options) Act 2001 in respect of the employment-related securities option.
- (5) Condition D is that that person met that liability before 11th August 2001 or before the end of such further period as the Board of Inland Revenue directed under section 2(5) of that Act.

#### *Supplementary provisions*

#### **483 Application of this Chapter where option exchanged for another**

- (1) This section applies if—
  - (a) the employment-related securities option (the “old option”) is assigned or released, and

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- (b) the whole or part of the consideration for the assignment or release consists of or includes another securities option (the “new option”).
- (2) For the purposes of section 479(5) (amount of gain realised by assigning or releasing option) the new option is not to be treated as consideration given for the assignment or release of the old option.
- (3) This Chapter applies to the new option as it applies to the old option.
- (4) For the purposes of section 480(2) (consideration for acquisition of option) the amount of the consideration given for the acquisition of the new option is to be treated as being the sum of—
  - (a) the amount by which the amount of the consideration given for the acquisition of the old option exceeds the amount of any consideration given for the assignment or release of the old option, apart from the new option, and
  - (b) any valuable consideration given for the acquisition of the new option, apart from the old option.
- (5) Two or more transactions are to be treated for the purposes of subsection (1) as a single transaction by which one option is assigned for a consideration which consists of or includes another option if—
  - (a) the transactions result in—
    - (i) a person ceasing to hold an option, and
    - (ii) that person or a connected person coming to hold another option, and
  - (b) one or more of the transactions is effected under arrangements to which two or more persons holding options, in respect of which there may be liability to tax under this Chapter, are parties.
- (6) Subsection (5) applies regardless of the order in which the assignments and the acquisition occur.

#### **484 Definitions**

- (1) In this Chapter—
  - “securities”, and
  - “securities option”,have the meaning indicated in section 420.
- (2) In this Chapter “market value” has the meaning indicated in section 421(1).
- (3) For the purposes of this Chapter sections 421(2) and 421A apply for determining the amount of consideration given for anything.
- (4) In this Chapter “employment-related securities” has the same meaning as in Chapter 1 of this Part (see section 421B(8)).
- (5) In this Chapter—
  - “the acquisition”,
  - “the employee”,
  - “the employer”,
  - “the employment”, and
  - “employment-related securities option”,have the meaning indicated in section 471(5).

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- (6) In this Chapter “associated person” has the meaning indicated in section 472.
- (7) In this Chapter—
- “secondary Class 1 contributions” has the same meaning as in the Contributions and Benefits Act (see section 1 of that Act), and
- “the Contributions and Benefits Act” means SSCBA 1992 or SSCB(NI)A 1992.]

### *Supplementary provisions*

<sup>F13</sup>**485 Application of this Chapter where share option exchanged for another**

.....

<sup>F13</sup>**486 Duty to notify matters relating to share options**

.....

<sup>F13</sup>**487 Minor definitions**

.....

## CHAPTER 6

### APPROVED SHARE INCENTIVE PLANS

#### *Introduction*

**488 Approved share incentive plans (SIPs)**

- (1) This Chapter provides—
- (a) for the approval of share incentive plans (“SIPs”) by the Inland Revenue,
  - (b) for exemptions from income tax in connection with shares obtained under those plans,
  - (c) for amounts to count as employment income in certain circumstances in connection with such plans, and
  - (d) for the making of PAYE deductions in connection with such amounts.
- (2) Schedule 2 contains the requirements that have to be met for a SIP to be approved, together with—
- (a) the approval procedure, and
  - (b) provisions relating to the administration and operation of a SIP.
- (3) The provisions of—
- (a) this and the following sections of this Chapter,
  - (b) Schedule 2, and
  - (c) the provisions mentioned in section 515 (tax advantages and charges under other Acts),



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together constitute “the SIP code”.

(4) In the SIP code—

“approved” means approved by the Inland Revenue under Schedule 2, and “approval” has a corresponding meaning;

“PAYE deduction” means a deduction required by PAYE regulations;

a “share incentive plan” (or “SIP” for short) means a plan established by a company providing—

(a) for shares to be appropriated to employees without payment (“free shares”), or

(b) for shares to be acquired on behalf of employees out of sums deducted from their salary (“partnership shares”).

(5) Other expressions used in the SIP code and contained in the index at the end of Schedule 2 have the meaning indicated by the index.

#### *Scope of tax advantages*

### **489 Operation of tax advantages in connection with approved SIP**

(1) Sections 490 to 499 apply for income tax purposes in connection with shares awarded under an approved SIP.

(2) But those sections do not apply to an individual if, at the time of the award of shares in question, the earnings from the eligible employment are not (or would not be if there were any) general earnings to which any of the charging provisions of Chapter 4 or 5 of Part 2 apply.

(3) “The eligible employment” means the employment which results in the individual meeting the employment requirement in relation to the plan.

#### *Tax advantages connected with award of shares*

### **490 No charge on award or acquisition of shares: general**

(1) This section applies—

(a) on the award to an employee of free, matching or partnership shares under the plan, or

(b) on the acquisition on behalf of an employee of dividend shares under the plan.

(2) The employee is not liable to income tax on the value of the beneficial interest in the shares that passes to the employee at the time of the award or acquisition.

### **491 No charge on award of shares as taxable benefit**

An employee is not liable to income tax by virtue of Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares) in respect of an award of shares to the employee under the plan.

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#### **492 No charge on partnership share money deducted from salary**

- (1) An employee is not liable to income tax under Part 2 on any amount of the employee's salary which is deducted as partnership share money under a partnership share agreement.
- (2) But the deduction of partnership share money is to be disregarded for the purpose of ascertaining—
  - (a) the amount of the employee's remuneration for the purposes of Chapter 1 of Part 14 of ICTA (retirement benefit schemes), or
  - (b) the amount of the employee's relevant earnings for the purposes of Chapter 3 or 4 of that Part of that Act (retirement annuities or personal pension schemes).

#### **493 No charge on acquisition of dividend shares**

- (1) A participant is not liable to income tax on the amount applied by the trustees in acquiring dividend shares on behalf of the participant.
- (2) The participant has no entitlement to a tax credit in respect of the amount so applied.
- (3) Section 234A(4) of ICTA (information relating to distributions to be provided by nominee) does not apply to any amount applied by the trustees in acquiring dividend shares on behalf of a participant.
- (4) Subsections (1) and (2) do not affect—
  - (a) any charge under section 68B(2) or 251C(1) of ICTA (charge under Case V of Schedule D or Schedule F on dividend shares ceasing to be subject to plan), or
  - (b) any entitlement to a tax credit in respect of the amount so charged.
- (5) Subsection (3) is subject to paragraph 80(4)(c) of Schedule 2 (information required where dividend shares cease to be subject to plan).

*Tax advantages connected with holding of shares*

#### **494 No charge on removal of restrictions applying to shares**

- (1) Subsection (2) applies where a participant's plan shares are subject to a provision for forfeiture in accordance with paragraph 32(1) of Schedule 2 (permitted restrictions: provision for forfeiture).
- (2) The participant is not liable to income tax by virtue of—
  - (a) section 427 (charge on interest in shares ceasing to be only conditional or on disposal), or
  - (b) section 449 (charge on removal of restriction applying to shares),
 when the provision for forfeiture is varied or removed.
- (3) A participant is also not liable to income tax by virtue of section 449 if the event which, under section 450, is a chargeable event for the purposes of that section is the ending of the holding period in relation to free, matching or dividend shares held by the participant.

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**F14 495 No charge on increase in value of shares of dependent subsidiary**

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**Textual Amendments**

**F14** S. 495 repealed (16.4.2003 with effect in accordance with Sch. 22 para. 28(2) of the amending Act) by Finance Act 2003 (c. 14), Sch. 22 para. 28(1), **Sch. 43 Pt. 3(4)**

**496 No charge on cash dividend retained for reinvestment**

- (1) A participant is not liable to income tax in respect of an amount retained under paragraph 68(2) of Schedule 2 (amount of cash dividend not reinvested).
- (2) The participant has no entitlement to a tax credit in respect of an amount so retained.
- (3) This section does not affect any charge under—
  - (a) section 68B(1) or 251B(1) of ICTA (charge under Case V of Schedule D or Schedule F where cash dividend retained and then later paid out), or
  - (b) section 68B(2) or 251C(1) of ICTA (charge under Case V of Schedule D or Schedule F on dividend shares ceasing to be subject to plan),or affect any tax credit in respect of an amount so charged.

*Tax advantages connected with shares ceasing to be subject to plan*

**497 Limitations on charges on shares ceasing to be subject to plan**

- (1) No liability to income tax arises on free or matching shares ceasing to be subject to the plan, except as provided by—
  - (a) section 505 (charge on free or matching shares ceasing to be subject to plan), or
  - (b) section 507 (charge on disposal of beneficial interest during holding period).
- (2) No liability to income tax arises on partnership shares ceasing to be subject to the plan, except as provided by section 506 (charge on partnership shares ceasing to be subject to plan).
- (3) No liability to income tax arises on dividend shares ceasing to be subject to the plan, except as provided by section 68B(2) or 251C(1) of ICTA (charge under Case V of Schedule D or Schedule F on dividend shares ceasing to be subject to plan).

**498 No charge on shares ceasing to be subject to plan in certain circumstances**

- (1) A participant is not liable to income tax on shares ceasing to be subject to the plan if—
  - (a) they cease to be so subject on the participant ceasing to be in relevant employment, and
  - (b) subsection (2) applies.
- (2) This subsection applies if the participant ceases to be in relevant employment—
  - (a) because of injury or disability,
  - (b) on being dismissed by reason of redundancy,

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- (c) by reason of a transfer to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 (S.I. 1981/1794) apply,
- (d) if the relevant employment is employment by an associated company (see paragraph 95(2) of Schedule 2), by reason of a change of control or other circumstances ending that company's status as an associated company,
- (e) by reason of the participant's retirement on or after reaching the specified retirement age (see paragraph 98 of Schedule 2), or
- (f) on the participant's death.

*Tax advantages: supplementary*

#### **499 No charge in respect of incidental expenditure**

An employee is not liable to income tax in respect of incidental expenditure of—

- (a) the trustees,
- (b) the company which established the plan, or
- (c) (if different) the employer,

in operating the plan.

*Scope of tax charges*

#### **500 Operation of tax charges in connection with approved SIP**

- (1) Sections 501 to 508 apply for income tax purposes in connection with shares awarded under an approved SIP.
- (2) But those sections do not apply to an individual if, at the time of the award of shares in question, the earnings from the eligible employment are not (or would not be if there were any) general earnings to which any of the charging provisions of Chapter 4 or 5 of Part 2 apply.
- (3) "The eligible employment" means the employment which results in the individual meeting the employment requirement in relation to the plan.

*Charges connected with holding of shares*

#### **501 Charge on capital receipts in respect of plan shares**

- (1) This section applies if conditions A and B are met.
- (2) Condition A is that a capital receipt is received by a participant in respect of, or by reference to, any of the participant's plan shares.
- (3) Condition B is that the plan shares in respect of, or by reference to, which the capital receipt is received are—
  - (a) free, matching or partnership shares that were awarded to the participant less than 5 years before the participant received the capital receipt, or
  - (b) dividend shares that were acquired on behalf of the participant less than 3 years before the participant received the capital receipt.

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- (4) If this section applies, the amount or value of the capital receipt counts as employment income of the participant for the relevant tax year.
- (5) The “relevant tax year” is the tax year in which the participant receives the capital receipt.
- (6) This section does not apply if the capital receipt is received by the participant’s personal representatives after the death of the participant.
- (7) Section 502 explains what is meant by a “capital receipt”.

### **502 Meaning of “capital receipt” in section 501**

- (1) This section applies for determining whether any money or money’s worth is a “capital receipt” for the purposes of section 501.
- (2) The general rule is that any money or money’s worth is a “capital receipt” for the purposes of section 501.
- (3) The general rule is subject to the following exceptions.
- (4) Money or money’s worth is not a capital receipt for the purposes of section 501 to the extent that—
  - (a) it constitutes income in the hands of the recipient for the purposes of income tax or would do so but for sections 489 to 498 (SIPs: tax advantages),
  - (b) it consists of the proceeds of disposal of the plan shares mentioned in section 501, or
  - (c) it consists of new shares within the meaning of paragraph 87 of Schedule 2 (company reconstructions).
- (5) If, as a result of a direction given by or on behalf of the participant for the purposes of paragraph 77 of Schedule 2 (power of trustees to raise funds to subscribe for rights issues), the trustees—
  - (a) dispose of some of the rights under a rights issue, and
  - (b) use the proceeds of that disposal to exercise other such rights,the money or money’s worth constituting the proceeds of that disposal is not a capital receipt for the purposes of section 501.

### **503 Charge on partnership share money paid over to employee**

- (1) Any amount paid over to an individual under any of the provisions of Schedule 2 mentioned in subsection (2) counts as employment income of the individual for the relevant tax year.
- (2) The provisions are—
  - paragraph 46(5) (deductions in excess of permitted maximum amount),
  - paragraph 50(5)(b) or paragraph 52(6)(b) (surplus partnership share money remaining after acquisition of shares),
  - paragraph 52(7) (partnership share money paid over on individual ceasing to be in relevant employment),
  - paragraph 52(8) (partnership share money paid over where accumulation period brought to an end by event specified in plan),

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paragraph 55(3) (partnership share money paid over on withdrawal from partnership share agreement), or  
 paragraph 56 (partnership share money paid over on withdrawal of plan approval or termination of plan).

- (3) The “relevant tax year” is the tax year in which the amount is paid over.

#### **504 Charge on cancellation payments in respect of partnership share agreement**

- (1) This section applies if an individual who has entered into a partnership share agreement receives any money or money’s worth in respect of the cancellation of the agreement.
- (2) The amount of the money or the value of the money’s worth counts as employment income of the individual for the relevant tax year.
- (3) The “relevant tax year” is the tax year in which the individual receives the money or money’s worth.

*Charges connected with shares ceasing to be subject to plan*

#### **505 Charge on free or matching shares ceasing to be subject to plan**

- (1) When free or matching shares cease to be subject to the plan, there may be an amount that counts as employment income of the participant depending on the period that has elapsed between—
- (a) the date when the shares were awarded to the participant (“the award date”), and
  - (b) the date when they cease to be subject to the plan (“the exit date”).
- (2) If the period is less than 3 years, the market value of the shares at the exit date counts as employment income of the participant for the relevant tax year (see subsection (5)).
- (3) If the period is 3 years or more but less than 5 years, whichever is the lesser of—
- (a) the market value of the shares at the award date, and
  - (b) the market value of the shares at the exit date,
- counts as employment income of the participant for the relevant tax year (see subsection (5)).
- (4) Where—
- (a) subsection (3) applies, and
  - (b) the applicable amount is the market value of the shares at the award date,
- the tax due is reduced by the amount or aggregate amount of any tax paid by virtue of section 501 (charge on capital receipts in respect of plan shares) on any capital receipts in respect of the shares.
- (5) The “relevant tax year” is the tax year in which the exit date falls.
- (6) No liability to tax arises by virtue of this section—
- (a) on the forfeiture of free or matching shares,
  - (b) if section 498 (no charge on shares ceasing to be subject to plan in certain circumstances) applies, or

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- (c) if section 507 (charge on disposal of beneficial interest in holding period) applies.

#### **506 Charge on partnership shares ceasing to be subject to plan**

- (1) When partnership shares cease to be subject to the plan, there may be an amount that counts as employment income of the participant depending on the period that has elapsed between—
  - (a) the acquisition date in respect of those shares (as defined by paragraph 50(4) or, as the case may be, paragraph 52(5) of Schedule 2), and
  - (b) the date when they cease to be subject to the plan (“the exit date”).
- (2) If the period is less than 3 years, the market value of the shares at the exit date counts as employment income of the participant for the relevant tax year (see subsection (5)).
- (3) If the period is 3 years or more but less than 5 years, whichever is the lesser of—
  - (a) the amount of partnership share money used to acquire the shares, and
  - (b) the market value of the shares at the exit date,counts as employment income of the participant for the relevant tax year (see subsection (5)).
- (4) Where—
  - (a) subsection (3) applies, and
  - (b) the applicable amount is the amount of partnership share money used to acquire the shares,the tax due is reduced by the amount or aggregate amount of any tax paid by virtue of section 501 (charge on capital receipts in respect of plan shares) on any capital receipts in respect of the shares.
- (5) The “relevant tax year” is the tax year in which the exit date falls.
- (6) No liability to income tax arises by virtue of this section if section 498 (no charge on shares ceasing to be subject to plan in certain circumstances) applies.

#### **507 Charge on disposal of beneficial interest during holding period**

- (1) This section applies if—
  - (a) free or matching shares cease to be subject to the plan at any time during the holding period for those shares, and
  - (b) this occurs as a result of the participant assigning, charging or otherwise disposing of the participant’s beneficial interest in the shares in breach of obligations under paragraph 36(1)(b) of Schedule 2 (restrictions relating to disposals within holding period).
- (2) The market value of the shares at the date when they cease to be subject to the plan counts as employment income of the participant for the relevant tax year.
- (3) The “relevant tax year” is the tax year in which that date falls.

#### **508 Identification of shares ceasing to be subject to plan**

- (1) For the purpose of determining any liability to tax arising by virtue of the SIP code in respect of any of a participant’s shares ceasing to be subject to the plan—

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- (a) shares are to be taken as ceasing to be subject to the plan in the order in which they were awarded to the participant under the plan, and
  - (b) where shares are awarded to the participant on the same day, the shares are to be treated as ceasing to be subject to the plan in the order which gives rise to the lowest charge to income tax on the participant.
- (2) For the purposes of subsection (1) dividend shares are “awarded” to a participant when the trustees acquire them on behalf of, or appropriate them to, the participant.

### PAYE

#### **509 Modification of section 696 where charge on shares ceasing to be subject to plan**

- (1) Where—
- (a) as a result of shares ceasing to be subject to an approved SIP, there is an amount that counts as employment income of a participant by virtue of the SIP code, and
  - (b) the shares are readily convertible assets,
- section 696 (readily convertible assets) applies as follows.
- (2) Section 696 applies as if the participant (“P”) were being provided with PAYE income in the form of those shares—
- (a) at the time when the shares cease to be subject to the plan, and
  - (b) in respect of the relevant employment in which P is employed at that time (or, if P is not then employed in relevant employment, the relevant employment in which P was last employed before that time).
- (3) In addition, subsection (2) of section 696 applies as if the reference in that subsection to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to the amount which is likely to count as employment income by virtue of the SIP code as a result of the shares ceasing to be subject to the plan.
- (4) In this section “readily convertible asset” has the same meaning as in section 696 (see sections 701 and 702), but this is subject to subsection (5).
- (5) In determining for the purposes of this section (and of section 696 in its application in accordance with this section) whether the shares are readily convertible assets, any market for the shares which—
- (a) is created by virtue of the trustees acquiring shares for the purposes of the plan, and
  - (b) exists solely for the purposes of the plan,
- is to be disregarded.

#### **510 Payments by trustees to employer company on shares ceasing to be subject to plan**

- (1) This section applies if, as a result of any shares (“the relevant shares”) ceasing to be subject to an approved SIP—
- (a) there is an amount that counts as employment income of a participant by virtue of the SIP code, and
  - (b) an obligation to make a PAYE deduction arises in respect of that amount.



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- (2) The trustees must pay to the employer company a sum which is sufficient to enable the employer company to discharge that obligation.
- (3) Subsection (2) is subject to—
  - (a) subsection (4), and
  - (b) section 511 (PAYE deductions to be made by trustees on shares ceasing to be subject to plan).
- (4) Subsection (2) only applies if, or to the extent that, the plan does not require the participant to pay the employer company a sum which is sufficient to discharge the obligation mentioned in subsection (1)(b).
- (5) Section 710(1) (notional payments: accounting for tax) has effect as if it required the deduction of income tax to be made from any sum or sums received by the employer company—
  - (a) from the trustees under subsection (2), or
  - (b) from the participant in accordance with a requirement of the plan, as mentioned in subsection (4).
- (6) After making the necessary PAYE deduction from the sum or sums received as mentioned in subsection (5), the employer company must pay any remaining amount to the participant.
- (7) In this section “the employer company” means—
  - (a) the company which employs the participant in relevant employment at the time when the relevant shares cease to be subject to the plan, or
  - (b) if the participant is not then employed in relevant employment, the company which last employed the participant in relevant employment before that time, so long as that company is one to which PAYE regulations apply at that time.

## **511 PAYE deductions to be made by trustees on shares ceasing to be subject to plan**

- (1) This section applies if, as a result of any shares ceasing to be subject to an approved SIP—
  - (a) there is an amount that counts as employment income of a participant by virtue of the SIP code, and
  - (b) condition A or B is met.
- (2) Condition A is that the Inland Revenue—
  - (a) are of the opinion that it is impracticable for the employer company (within the meaning of section 510) to make a PAYE deduction, and
  - (b) accordingly direct that this section is to apply.
- (3) Condition B is that there is no company that qualifies as the employer company (within the meaning of that section).
- (4) If this section applies—
  - (a) section 510(2) does not apply, and
  - (b) the trustees must make a PAYE deduction in respect of the taxable equivalent as if the participant were a former employee of the trustees.
- (5) The “taxable equivalent” means an amount equal to that mentioned in subsection (1).

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(6) If this section applies, section 689 (employee of non-UK employer) does not apply.

## **512 Disposal of beneficial interest by participant**

- (1) This section applies if—
- (a) a participant (“P”) disposes of P’s beneficial interest in any of P’s plan shares to the trustees, and
  - (b) the trustees are, as a result of paragraph 6 of Schedule 7D to TCGA 1992 (deemed disposal by trustees on disposal of beneficial interest), treated as having disposed of the shares in question.
- (2) If this section applies, sections 510 and 511 apply as if the consideration payable by the trustees to the participant on the disposal had been received by the trustees as the proceeds of disposal of plan shares.

## **513 Capital receipts: payments by trustees to employer company**

- (1) This section applies if the trustees receive a sum of money which constitutes (or forms part of) a capital receipt which, by virtue of the SIP code, counts as employment income of a participant when it is received by the participant.
- (2) Out of that sum of money the trustees must pay to the employer company an amount equal to the amount of employment income.
- (3) The employer company must then pay over that amount to the participant, but when doing so must make a PAYE deduction.
- (4) This section is subject to section 514 (capital receipts: deductions to be made by trustees).
- (5) In this section “the employer company” means—
- (a) the company which employs the participant in relevant employment at the time when the trustees receive the sum mentioned in subsection (1), or
  - (b) if the participant is not then employed in relevant employment, the company which last employed the participant in relevant employment before that time, so long as that company is one to which PAYE regulations apply at that time.

## **514 Capital receipts: PAYE deductions to be made by trustees**

- (1) This section applies if—
- (a) the trustees receive a sum of money which constitutes (or forms part of) a capital receipt which, by virtue of the SIP code, counts as employment income of a participant when it is received by the participant, and
  - (b) either condition A or B is met.
- (2) Condition A is that the Inland Revenue—
- (a) are of the opinion that it is impracticable for the employer company (within the meaning of section 513) to make a PAYE deduction, and
  - (b) accordingly direct that this section is to apply.
- (3) Condition B is that there is no company that qualifies as the employer company (within the meaning of that section).

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- (4) If this section applies, the trustees must, when paying the capital receipt over to the participant, make a PAYE deduction in respect of the taxable equivalent as if the participant were a former employee of the trustees.
- (5) The “taxable equivalent” means an amount equal to the amount which counts as employment income as mentioned in subsection (1)(a).
- (6) If this section applies, section 689 (employee of non-UK employer) does not apply.

#### *Other tax consequences*

### **515 Tax advantages and charges under other Acts**

- (1) The following provisions of ICTA relate to SIPs—
  - (a) sections 68A to 68C and 251A to 251D (which provide for amounts to be charged to income tax under Schedule D Case V or Schedule F where—
    - (i) dividends are paid out to participants under an approved SIP, or
    - (ii) dividend shares cease to be subject to the plan in certain circumstances),
  - (b) sections 686B and 686C (which provide for section 686 of that Act (accumulation and discretionary trusts: special rates of tax) not to apply to income of the trustees of an approved SIP in certain circumstances), and
  - (c) Schedule 4AA (which makes provision about deductions allowed in calculating trade profits for corporation tax purposes in respect of certain of a company’s expenses relating to—
    - (i) providing shares for the purposes of an approved SIP, or
    - (ii) the establishment or operation of the plan).
- (2) SIPs are also dealt with in—
  - (a) Part 1 of Schedule 7D to TCGA 1992 (which provides for relief from capital gains tax for the trustees and for participants in relation to an approved SIP in certain circumstances, including where shares cease to be subject to the plan), and
  - (b) section 95 of FA 2001 (which contains relief from stamp duty and stamp duty reserve tax for transfers of partnership or dividend shares).
- (3) The references in this section to ICTA, TCGA 1992 and FA 2001 are to those Acts as amended by Schedule 6 to this Act.

## **CHAPTER 7**

### **APPROVED SAYE OPTION SCHEMES**

#### *Introduction*

### **516 Approved SAYE option schemes**

- (1) This Chapter provides—
  - (a) for the approval of SAYE option schemes by the Inland Revenue, and

*Status: Point in time view as at 16/04/2003.*

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- (b) for exemptions from income tax in connection with share options granted under those schemes.
- (2) Schedule 3 contains the requirements that have to be met for an SAYE option scheme to be approved, together with the approval procedure.
- (3) The provisions of—
  - (a) this and the following sections of this Chapter,
  - (b) Schedule 3, and
  - (c) Part 2 of Schedule 7D to TCGA 1992 (approved SAYE option schemes: amount of consideration on exercise of option),
 together constitute “the SAYE code”.
- (4) In the SAYE code—
  - “approved” means approved by the Inland Revenue under Schedule 3 (see paragraph 1 of the Schedule);
  - “SAYE option scheme” means a scheme (commonly referred to as an SAYE share option scheme) which is established by a company and provides—
    - (a) for share options to be granted to employees and directors, and
    - (b) for the shares acquired by the exercise of the share options to be paid for in the way mentioned in paragraph 24 of Schedule 3 (payments for shares to be linked to approved savings schemes);
  - “share option” means a right to acquire shares in a company;
  - “shares” includes stock.
- (5) Other expressions used in the SAYE code and contained in the index at the end of Schedule 3 have the meaning indicated by the index.

### **517 Share options to which this Chapter applies**

- (1) This Chapter applies to a share option granted to an individual—
  - (a) in accordance with the provisions of an approved SAYE option scheme, and
  - (b) by reason of the individual’s office or employment as a director or employee of a company.
- (2) The individual may be a director or employee of the company whose shares are the subject of the share option, or of some other company.

### *Tax advantages*

### **518 No charge in respect of receipt of option**

No liability to income tax arises in respect of the receipt of the share option.

### **519 No charge in respect of exercise of option**

- (1) No liability to income tax arises in respect of the exercise of the share option if—
  - (a) the individual exercises it in accordance with the provisions of the SAYE option scheme at a time when the scheme is approved, and
  - (b) condition A or B is met.

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- (2) Condition A is that the option is exercised on or after the third anniversary of the date on which it was granted.
- (3) Condition B is that the option—
  - (a) is exercised before the third anniversary of the date on which it was granted, and
  - (b) is so exercised otherwise than by virtue of a provision included in the scheme under—
    - paragraph 34(5) of Schedule 3 (exercise of option where scheme-related employment ends), or
    - paragraph 37 of that Schedule (exercise of option where certain company events occur).
- (4) This section does not affect the operation of section 477(4) (no charge on exercise of option by personal representatives etc.).
- (5) In Schedule 3—
  - (a) paragraph 32 provides for the exercise of an option where the holder has died, and
  - (b) paragraph 42(3) provides for an SAYE option scheme to be treated as approved at the time when an option is exercised even though approval of the scheme has been previously withdrawn.

**F15 520 No charge in respect of post-acquisition benefits**

.....

**Textual Amendments**

**F15** S. 520 repealed (16.4.2003 with effect in accordance with Sch. 22 para. 31(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 31\(1\)](#), [Sch. 43 Pt. 3\(4\)](#)

**CHAPTER 8**

APPROVED CSOP SCHEMES

*Introduction*

**521 Approved CSOP schemes**

- (1) This Chapter provides—
  - (a) for the approval of CSOP schemes by the Inland Revenue,
  - (b) for exemptions from income tax in connection with share options granted under those schemes, and
  - (c) for amounts to count as employment income in certain circumstances in connection with such options.
- (2) Schedule 4 contains the requirements that have to be met for a CSOP scheme to be approved, together with the approval procedure.

*Status: Point in time view as at 16/04/2003.*

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- (3) The provisions of—
- (a) this and the following sections of this Chapter,
  - (b) Schedule 4, and
  - (c) Part 3 of Schedule 7D to TCGA 1992 (approved CSOP schemes: amount of consideration on exercise of option),
- together constitute “the CSOP code”.
- (4) In the CSOP code—
- “approved” means approved by the Inland Revenue under Schedule 4 (see paragraph 1 of the Schedule);
- “CSOP scheme” means a scheme (commonly referred to as a company share option plan) which—
- (a) is established by a company,
  - (b) provides for share options to be granted to employees and directors, and
  - (c) is not an SAYE option scheme (within the meaning of the SAYE code: see section 516(4));
- “share option” means a right to acquire shares in a company;
- “shares” includes stock.
- (5) Other expressions used in the CSOP code and contained in the index at the end of Schedule 4 have the meaning indicated by the index.

## **522 Share options to which this Chapter applies**

- (1) This Chapter applies to a share option granted to an individual—
- (a) in accordance with the provisions of an approved CSOP scheme, and
  - (b) by reason of the individual’s office or employment as a director or employee of a company.
- (2) The individual may be a director or employee of the company whose shares are the subject of the share option, or of some other company.

### *Tax advantages*

## **523 No charge in respect of receipt of option**

- (1) No liability to income tax arises in respect of the receipt of the share option.
- (2) But this is subject to section 526 (charge where option granted at a discount).

## **524 No charge in respect of receipt of option**

- (1) No liability to income tax arises in respect of the exercise of the share option if—
- (a) the individual exercises it in accordance with the provisions of the CSOP scheme at a time when the scheme is approved, and
  - [<sup>F16</sup>(b) Condition A or B is met.]
- [<sup>F17</sup>(2) Condition A is that the option is exercised—
- (a) on or after the third anniversary of the date on which it was granted, but
  - (b) not later than the tenth anniversary of that date.

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(2A) Condition B is that the option—

- (a) is exercised before the third anniversary of the date on which it was granted, and
- (b) is so exercised by virtue of a provision included in the scheme under paragraph 24 of Schedule 4 (exercise of options after ceasing to be director or employee) in circumstances in which subsection (2B) applies.

(2B) This subsection applies if the individual exercising the option—

- (a) has ceased to be a full-time director or qualifying employee of the scheme organiser (or, in the case of a group scheme, a constituent company) because of injury, disability, redundancy or retirement, and
- (b) exercises the option within 6 months of the day on which he ceases to be such a director or employee.

(2C) In subsection (2B)—

“redundancy” means redundancy within the meaning of ERA 1996 or ER(NI)O 1996, and

“retirement” means retirement on or after reaching a retirement age specified in the scheme.]

<sup>F17</sup>(3) . . . . .

(4) This section does not affect the operation of section 477(4) (no charge on exercise of option by personal representatives etc.).

(5) Paragraph 25 of Schedule 4 provides for the exercise of an option where the holder has died.

**Textual Amendments**

**F16** S. 524(1)(b) substituted (with effect in accordance with Sch. 21 para. 14(5) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 21 para. 14\(2\)](#)

**F17** S. 524(2)-(2C) substituted for s. 524(2)(3) (with effect in accordance with Sch. 21 para. 14(5) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 21 para. 14\(3\)](#)

<sup>F18</sup>**525 No charge in respect of post-acquisition benefits**

. . . . .

**Textual Amendments**

**F18** S. 525 repealed (16.4.2003 with effect in accordance with Sch. 22 para. 34(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 22 para. 34\(1\)](#), [Sch. 43 Pt. 3\(4\)](#)

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### *Tax charge*

#### **526 Charge where option granted at a discount**

- (1) This section applies if, at the time when the share option is granted to the individual, the aggregate of—
  - (a) the amount or value of any consideration given by the individual for the grant of the option, and
  - (b) the amount payable by the individual, on exercising the option, in order to acquire the maximum number of shares that may be acquired under it, is less than the market value of the same quantity of issued shares of the same class.
- (2) The amount of the difference counts as employment income of the individual for the relevant tax year.
- (3) The “relevant tax year” is the tax year in which the option is granted to the individual.
- (4) The following provisions, namely—
  - (a) section 194 (amount of notional loan in respect of acquisition of shares for less than market value), and
  - (b) sections 479 and 480 (amount of gain realised by exercising, assigning or releasing option),
 provide for deductions to be made to take account of amounts that count as employment income under this section.

## **CHAPTER 9**

### ENTERPRISE MANAGEMENT INCENTIVES

#### *Introduction*

#### **527 Enterprise management incentives: qualifying options**

- (1) This Chapter provides—
  - (a) for share options notified to the Inland Revenue to be qualifying options for the purposes of the EMI code, and
  - (b) for exemptions and reliefs from income tax in connection with qualifying options.
- (2) Schedule 5 contains the requirements that have to be met for a share option to be a qualifying option, together with the notification procedure.
- (3) The provisions of—
  - (a) this and the following sections of this Chapter,
  - (b) Schedule 5, and
  - (c) Part 4 of Schedule 7D to TCGA 1992 (enterprise management incentives: capital gains tax consequences of exercise of qualifying option),
 together constitute “the EMI code”.
- (4) In the EMI code—
 

“qualifying option” means a share option—



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- (a) in relation to which the requirements of Schedule 5 are met at the time when the option is granted, and
  - (b) which is notified to the Inland Revenue in accordance with Part 7 of that Schedule;  
“replacement option” means an option within paragraph 41(4) of that Schedule (grant of replacement option in connection with company reorganisations);  
“share option” means a right to acquire shares in a company;  
and any reference to the requirements of Schedule 5 is to the requirements set out in paragraph 1(3) of that Schedule.
- (5) Other expressions used in the EMI code and contained in the index at the end of Schedule 5 have the meaning indicated by the index.

*Tax advantages: receipt of option*

#### **528 No charge on receipt of qualifying option**

No liability to income tax arises in respect of the receipt of a qualifying option.

*Tax advantages: exercise of option*

#### **529 Scope of tax advantages: option must be exercised within 10 years**

- (1) Sections 530 to 540 apply in connection with the exercise of a qualifying option.
- (2) But those sections only apply in cases where the option is exercised on or before the tenth anniversary of—
  - (a) the date of the grant of the option, or
  - (b) if it is a replacement option, the date of the grant of the original option.
- (3) In the EMI code “the original option” means—
  - (a) where there has been one replacement option, the option that that option replaced, or
  - (b) where there have been two or more replacement options, the option that the first of them replaced.

#### **530 No charge on exercise of option to acquire shares at market value**

- (1) This section applies if the option is to acquire shares at not less than their market value—
  - (a) at the time when the option is granted, or
  - (b) if it is a replacement option, at the time when the original option was granted.
- (2) If this section applies, no liability to income tax arises by virtue of section 476 (charge on exercise etc. of option by employee) in respect of the exercise of the option.
- (3) This section has effect subject to section 532 (modified tax consequences following disqualifying events).

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### **531 Limitation of charge on exercise of option to acquire shares below market value**

- (1) This section applies if the option is to acquire shares at less than their market value—
- (a) at the time when the option is granted, or
  - (b) if it is a replacement option, at the time when the original option was granted, or at nil cost.
- (2) If this section applies, the section 476 gain is—

$$CMV - (ACO + ACS)$$

where—

CMV is the chargeable market value,

ACO is the amount or value of the consideration given for the grant of the option, and

ACS is the amount, if any, for which the shares are acquired.

- (3) “The chargeable market value” means—
- (a) the market value of the shares—
    - (i) at the time when the option was granted, or
    - (ii) if it is a replacement option, at the time when the original option was granted, or
  - (b) the market value of the shares at the time when the option is exercised, whichever is lower.
- (4) In this section “the section 476 gain” means the amount which is to be regarded for the purposes of section 476 (charge on exercise etc. of option by employee) as the amount of the gain realised by exercising the option.
- (5) This section has effect subject to section 532 (modified tax consequences following disqualifying events).

*Tax advantages where disqualifying events*

### **532 Modified tax consequences following disqualifying events**

- (1) This section applies where—
- (a) a disqualifying event (see section 533) occurs in relation to a qualifying option before the option is exercised, and
  - (b) the option is exercised later than 40 days after the day on which the event occurred.
- (2) If the option is within section 530(1) (option to acquire shares at market value), the section 476 gain is—

$$PEG - ACO$$

(see subsection (4)).

- (3) If the option is within section 531(1) (option to acquire shares at less than market value), the section 476 gain is—

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## $(CMV + PEG) - (ACO + ACS)$

(see subsection (4)).

- (4) For the purposes of subsections (2) and (3)—
- ACO is the amount or value of the consideration given for the grant of the option, ACS is the amount, if any, for which the shares are acquired, CMV is the chargeable market value (as defined by section 531(3)), and PEG is the post-event gain, that is the amount (if any) by which the market value of the shares at the time when the option is exercised exceeds their market value immediately before the disqualifying event.
- (5) In those subsections “the section 476 gain” means the amount which is to be regarded for the purposes of section 476 (charge on exercise etc. of option by employee) as the amount of the gain realised by exercising the option.
- (6) Nothing in the following provisions—
- subsections (2) and (3) above, or
  - sections 530 and 531,
- applies if the amount that counts as employment income by virtue of section 476 in respect of the exercise of the option would, in the absence of those provisions, be less than the amount that counts as such income as a result of those provisions.

### **533 Disqualifying events**

- (1) The following provisions deal with the events that are (or are to be treated as) disqualifying events in relation to a qualifying option—
- section 534 (events relating to the relevant company),
  - section 535 (events relating to the employee), and
  - section 536 (other disqualifying events), read with sections 537 to 539 (which contain supplementary provisions).
- (2) In the provisions mentioned in subsection (1) “the employee” means the person holding the qualifying option and “the relevant company” means the company whose shares are the subject of the option (see paragraph 1(3) of Schedule 5).

### **534 Disqualifying events relating to relevant company**

- (1) The following events relating to the relevant company are disqualifying events in relation to a qualifying option—
- when the relevant company becomes a 51% subsidiary of another company;
  - when the relevant company comes under the control of—
    - another company, or
    - another company and any other person connected with that other company,without becoming a 51% subsidiary of that other company;
  - when the relevant company ceases to meet the trading activities requirement (see paragraphs 13 to 23 of Schedule 5).

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- (2) But where a replacement option has been granted, an event within subsection (1)(a) or (b) is not a disqualifying event in relation to the old option (see paragraph 41(2) of Schedule 5) if the event occurs at any time during the period—
  - (a) beginning at the same time as the period within which the replacement option had to be granted (see paragraph 42 of Schedule 5), and
  - (b) ending with the release of the rights under the old option.
- (3) A disqualifying event is to be treated as occurring in relation to a qualifying option if the circumstances mentioned in subsection (4) arise.
- (4) The circumstances are that—
  - (a) the relevant company was a qualifying company at the time when the option was granted as a result only of preparations to carry on a qualifying trade; and
  - (b) either—
    - (i) the preparations cease to be carried on, or
    - (ii) the initial period comes to an end,
 without the relevant company (or, if it is a parent company, any member of the group) beginning to carry on that qualifying trade.
- (5) “The initial period” means the period of two years after the date when the option was granted.
- (6) Paragraph 41(5)(b) of Schedule 5 has the effect that a replacement option is to be treated as granted on the date when the original option was granted.

### **535 Disqualifying events relating to employee**

- (1) The following events relating to the employee are disqualifying events in relation to a qualifying option—
  - (a) when the employee ceases to be an eligible employee in relation to the relevant company as a result of ceasing to meet the requirement in paragraph 25 of Schedule 5 (the employment requirement);
  - (b) when the employee ceases to be such an employee as a result of ceasing to meet the requirement in paragraph 26 of that Schedule (the requirement as to commitment of working time).
- (2) In addition, a disqualifying event is to be treated as occurring in relation to a qualifying option at the end of any tax year if, during that year, the average amount per week of the employee’s reckonable time in relevant employment was less than the statutory threshold.
- (3) An employee’s “reckonable time in relevant employment” means the time which the employee in fact spent, as an employee in relevant employment—
  - (a) on the business of the relevant company, or
  - (b) if that company is a parent company, on the business of the group,
 together with any time which the employee would, as such an employee, have spent on that business but for any of the reasons set out in paragraph 26(3)(a) to (d) of Schedule 5 (requirement as to commitment of working time).
- (4) The “statutory threshold” means—
  - (a) 25 hours, or
  - (b) if less, 75% of the employee’s working time.

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- (5) For the purpose of applying subsection (2) to the tax year in which the option was granted, any part of that year which preceded the date on which it was granted is to be disregarded in calculating the average amount mentioned in that subsection.
- (6) In this section—
- (a) “relevant employment” means employment—
    - (i) by the relevant company, or
    - (ii) if that company is a parent company, by any member of the group;
  - (b) “working time” has the meaning given by paragraph 27 of Schedule 5 (meaning of “working time”).

### **536 Other disqualifying events**

- (1) The following are also disqualifying events in relation to a qualifying option—
- (a) any variation of the terms of the option whose effect is either—
    - (i) to increase the market value of the shares that are the subject of the option, or
    - (ii) that the requirements of Schedule 5 would no longer be met in relation to the option;
  - (b) any alteration to the share capital of the relevant company—
    - (i) to which subsection (2) (share values affected by alteration of rights or restrictions) of section 537 applies, and
    - (ii) whose effect is that the requirements of Schedule 5 would no longer be met in relation to the option;
  - (c) any alteration to the share capital of the relevant company to which—
    - (i) subsection (2) (share values affected by alteration of rights or restrictions), and
    - (ii) subsection (3) (alteration designed to increase share values),of section 537 apply;
  - (d) a conversion of any of the shares to which the option relates into shares of a different class, except in a case within section 538(2); and
  - (e) the grant to the employee of a relevant CSOP option, if immediately after it is granted the employee holds unexercised employee options in respect of shares with a total value of more than £100,000.
- (2) In subsection (1)(e)—
- “relevant CSOP option”, and
  - “employee option”,
- have the meaning given by section 539 (CSOP and other options relevant for purposes of this section); and sub-paragraphs (6) to (8) of paragraph 5 of Schedule 5 (determination of value of shares) apply for the purposes of subsection (1)(e) as they apply for the purposes of paragraph 5.

### **537 Alterations of share capital for purposes of section 536**

- (1) This section has effect for the purposes of section 536(1)(b) and (c) (other disqualifying events: alterations of share capital of relevant company).
- (2) This subsection applies to an alteration of the share capital of the relevant company if—

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- (a) the alteration affects (or but for the occurrence of some other event would affect) the value of the shares to which the option relates; and
  - (b) it consists of or includes—
    - (i) the creation, variation or removal of a right relating to any shares in the relevant company,
    - (ii) the imposition of a restriction relating to any such shares, or
    - (iii) the variation or removal of a restriction to which any such shares are subject.
- (3) This subsection applies to an alteration of the share capital of the relevant company if the effect of the alteration is to increase the market value of the shares to which the option relates and either—
- (a) it is not made by the relevant company for commercial reasons, or
  - (b) the main purpose (or one of the main purposes) for making it is to increase the market value of those shares.
- (4) In this section any reference to—
- (a) a restriction relating to shares or to which shares are subject, or
  - (b) a right relating to shares,
- is a reference to such a restriction imposed or right conferred by any contract or arrangement or in any other way.

### **538 Share conversions excluded for purposes of section 536**

- (1) This section has effect for the purposes of section 536(1)(d) (other disqualifying events: share conversions).
- (2) A conversion of shares is not a disqualifying event if—
- (a) it is a conversion of shares of one class only (“the original class”) into shares of one other class only (“the new class”);
  - (b) all the shares of the original class are converted into shares of the new class; and
  - (c) one of the conditions in subsection (3) is met.
- (3) The conditions are—
- (a) that immediately before the conversion the majority of the relevant company’s shares of the original class are held otherwise than by or for the benefit of—
    - (i) directors or employees of the relevant company,
    - (ii) an associated company of the relevant company, or
    - (iii) directors or employees of such an associated company;
  - (b) that immediately before the conversion the relevant company is employee-controlled as a result of holdings of shares of the original class.
- (4) In this section “associated company”, “director”, “employee” and “employee-controlled” have the same meaning as in section 440 (exception from tax charge where conversion of entire class of shares).

### **539 CSOP and other options relevant for purposes of section 536**

- (1) This section has effect for the purposes of section 536(1)(e) (other disqualifying events: grant of CSOP option).

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- (2) A “relevant CSOP option” means a CSOP option granted to the employee by reason of the employee’s employment—
  - (a) with the employer company, or
  - (b) if it is a member of a group of companies, with any member of that group.
- (3) A share option is an “employee option” if it is—
  - (a) the qualifying option mentioned in section 536(1), or
  - (b) another qualifying option granted to the employee by reason of the employee’s employment as mentioned in subsection (2)(a) or (b) above, or
  - (c) a relevant CSOP option.
- (4) In this section a “CSOP option” means an option to acquire shares under a scheme approved under Schedule 4 (CSOP schemes).

*Tax advantages: taxable benefits*

#### **540 No charge on acquisition of shares as taxable benefit**

- (1) In its application in relation to a UK resident employee, Chapter 8 of Part 3 (taxable benefits: notional loans in respect of acquisitions of shares) does not apply in relation to the acquisition of shares by the exercise of a qualifying option.
- (2) An employee is a “UK resident employee” if—
  - (a) at the time when the option is granted, or
  - (b) at the time when it is exercised,the earnings from the employment are (or would be if there were any) general earnings to which section 15 or 21 applies (earnings for year when employee resident and ordinarily resident in the United Kingdom).

*Other income tax consequences*

#### **541 Effects on other income tax charges**

- [<sup>F19</sup>(1) Nothing in the EMI code affects—
- (a) the operation of Chapters 2 to 4 of this Part in relation to shares acquired under a qualifying option, or
  - (b) the operation of Chapter 5 of this Part otherwise than in relation to the acquisition of shares under a qualifying option.
- (2) But in calculating the taxable amount for the purposes of section 426 (post-acquisition charge on restricted securities) in respect of shares acquired under a qualifying option, the amount of relief on the exercise of the option is to be regarded as a deductible amount for the purposes of section 428 (amount of charge).]
- (3) “The amount of relief on the exercise of the option” means the difference between—
    - (a) the amount that would have counted as employment income by virtue of section 476 in respect of the exercise of the option apart from the EMI code, and
    - (b) the amount (if any) that in fact counts as such income in accordance with the EMI code.

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### Textual Amendments

- F19** S. 541(1)(2) substituted (1.9.2003 with effect in accordance with Sch. 22 para. 41(2) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), **Sch. 22 para. 41(1)**; S.I. 2003/1997, art. 2

## CHAPTER 10

### PRIORITY SHARE ALLOCATIONS

#### *Exemption where offer made to both public and employees*

#### **542 Exemption: offer made to public and employees**

- (1) This section applies if—
  - (a) there is a genuine offer to the public of shares in a company at a fixed price or by tender,
  - (b) a director or employee of the company, or of another company or person, is entitled by reason of the office or employment to an allocation of the shares in priority to members of the public, and
  - (c) conditions A to C are met.
- (2) No liability to income tax in respect of earnings arises by virtue of any benefit derived by the director or employee from the entitlement.
- (3) Condition A is that the aggregate number of shares subject to the offer that may be allocated as mentioned in subsection (1)(b) (“priority shares”) does not exceed—
  - (a) if the offer is part of arrangements which include one or more other offers to the public of shares of the same class, either of the limits in subsection (4), or
  - (b) in any other case, 10% of the shares subject to the offer (including the priority shares).
- (4) The limits referred to in subsection (3)(a) are—
  - (a) 40% of the shares subject to the offer (including the priority shares), and
  - (b) 10% of all the shares of the class in question that are subject to any of the offers forming part of the arrangements (including the priority shares).
- (5) Condition B is that all the persons entitled to an allocation of priority shares are entitled to it on similar terms (see section 546).
- (6) Condition C is that those persons are not restricted wholly or mainly to directors or to those whose remuneration exceeds a particular level.
- (7) This section has effect subject to section 543 (discount not covered by exemption in this section).

#### **543 Discount not covered by exemption in section 542**

- (1) This section applies if the total of—
  - (a) the price payable by the director or employee for the shares of the company allocated to the director or employee under the offer, and



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- (b) the amount or value of any registrant discount made to the director or employee in respect of the shares,  
is less than the fixed price or the lowest price successfully tendered.
- (2) Section 542(2) (exemption: offer made to public and employees) does not apply to the benefit (if any) represented by the difference.

*Exemption where different offers made to public and employees*

#### **544 Exemption: different offers made to public and employees**

- (1) This section applies if—
  - (a) there is a genuine offer to the public of a combination of shares in two or more companies at a fixed price or by tender (“the public offer”),
  - (b) there is at the same time an offer (“the employee offer”) of shares, or of a combination of shares, in one or more, but not all, of those companies—
    - (i) to directors or employees of any of those companies, or of any other company or person, or
    - (ii) to those directors or employees and to other persons,
  - (c) any of those directors or employees is entitled by reason of the office or employment to an allocation of shares under the employee offer in priority to any allocation to members of the public under the public offer, and
  - (d) conditions A to C are met.
- (2) No liability to income tax in respect of earnings arises by virtue of any benefit derived by the director or employee from the entitlement.
- (3) Condition A is that for each company whose shares are subject to the employee offer, the aggregate number of shares subject to that offer that may be allocated as mentioned in subsection (1)(c) (“priority shares”) does not exceed—
  - (a) if the public offer and the employee offer are part of arrangements which include one or more other offers to the public of shares in the company of the same class, either of the limits in subsection (4), or
  - (b) in any other case, 10% of the shares in the company that are subject to the public offer or the employee offer (including the priority shares).
- (4) The limits referred to in subsection (3)(a) are—
  - (a) 40% of the shares in the company that are subject to the public offer or the employee offer (including the priority shares), and
  - (b) 10% of all the shares in the company of the class in question that are subject to any of the offers forming part of the arrangements (including the priority shares).
- (5) Condition B is that all the persons entitled to an allocation of priority shares are entitled to it on similar terms (see section 546).
- (6) Condition C is that those persons are not restricted wholly or mainly to directors or to those whose remuneration exceeds a particular level.
- (7) This section has effect subject to section 545 (discount not covered by exemption in this section).

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#### **545 Discount not covered by exemption in section 544**

- (1) This section applies if the total of—
- (a) the price payable by the director or employee for the shares of a company allocated to the director or employee under the employee offer, and
  - (b) the amount or value of any registrant discount made to the director or employee in respect of the shares,
- is not the same as, or as near as reasonably practicable to, the appropriate notional price for the shares of the company.
- (2) Section 544(2) (exemption: different offers made to public and employees) does not apply to the benefit (if any) represented by the amount by which the appropriate notional price exceeds the total referred to in subsection (1).
- (3) The “appropriate notional price” for the shares of a company is—
- (a) if subsection (4) applies, the amount given by the formula in subsection (6), and
  - (b) in any other case, the notional price.
- (4) This subsection applies if shares of the company are subject to the public offer and there is a difference between CP and AFP—
- (a) CP being the price for the combination of shares subject to the public offer determined by aggregating the notional prices for each one of the shares comprised in the combination, and
  - (b) AFP being the actual fixed price or (as the case may be) the lowest successfully tendered price for that combination of shares.
- (5) The “notional price” for the shares of a company is the price that might reasonably have been expected to be the fixed price for the shares of the company under a separate offer of those shares if—
- (a) the shares of the company, and of each of the other companies had, instead of being subject to the public offer and the employee offer, been subject to separate offers to the public in respect of each company at fixed prices, and
  - (b) those separate offers had been made at the time at which the public offer was in fact made.
- (6) The formula referred to in subsection (3)(a) is—

$$NP \times \frac{AFP}{CP}$$

where—

NP is the notional price for the shares of the company, and

AFP and CP have the same meanings as in subsection (4).

#### *Supplementary provisions*

#### **546 Meaning of being entitled “on similar terms”**

- (1) This section applies for the purposes of sections 542(5) and 544(5) (condition that entitlements to allocation of priority shares must be on similar terms).

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- (2) The fact that different provision is made for persons according to—
  - (a) the levels of their remuneration,
  - (b) the length of their service, or
  - (c) similar factors,does not mean that they are not entitled to an allocation on similar terms.
- (3) The fact that the allocations of shares in a company to which non-company employees are entitled are smaller than those to which company employees are entitled does not mean that they are not entitled on similar terms, if conditions A and B are met.
- (4) Condition A is that each non-company employee is also entitled by reason of the office or employment and in priority to members of the public, to an allocation of shares in another company or companies which are offered to the public at a fixed price or by tender at the same time as the shares in the company.
- (5) Condition B is that in the case of each non-company employee the aggregate value of all the shares included in the allocations to which the non-company employee is entitled is the same, or as nearly the same as is reasonably practicable, as that of the shares in the company included in the entitlement of a comparable company employee.
- (6) For the purposes of subsection (5), the value of shares is to be measured by reference to the fixed price or the lowest price successfully tendered.
- (7) In this section—
  - “company employee”, in relation to a company, means a director or employee of the company, and
  - “non-company employee”, in relation to a company, means a director or employee of another company or person.

#### **547 Meaning and amount or value of “registrant discount”**

- (1) For the purposes of this Chapter there is a “registrant discount” in respect of the shares of a company if conditions A to C are met.
- (2) Condition A is that members of the public who comply with such requirements as may be imposed in connection with the offer or, if section 544 applies, the public offer are, or may become, entitled to a discount in respect of the whole or part of the shares of the company allocated to them.
- (3) Condition B is that at least 40% of the shares of the company allocated to members of the public are allocated to individuals who are or become entitled to—
  - (a) the discount, or
  - (b) some other benefit of similar value for which they may elect as an alternative to the discount.
- (4) Directors and employees who are entitled by reason of their office or employment to an allocation of the shares in priority to members of the public are not to be treated as members of the public for the purposes of subsection (3).
- (5) Condition C is that subscribing employees are, or may become, entitled to the same discount in respect of the shares of the company as any other members of the public to whom shares of the company are allocated under the offer.
- (6) In subsection (5) a “subscribing employee” means a director or employee who—

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- (a) subscribes for shares—
    - (i) if section 542 (offer made to public and employees) applies, under the offer as a member of the public, or
    - (ii) if section 544 (different offers made to public and employees) applies, under the public offer as a member of the public or under the employee offer as a director or employee, and
  - (b) complies (or, in the case of a requirement to register, is taken under the terms of the offer to comply) with the requirements mentioned in subsection (2).
- (7) For the purposes of this Chapter, the “amount or value” of any registrant discount made to a director or employee means—
- (a) the amount of any such discount made to the director or employee as is mentioned in subsection (5), or
  - (b) the value of any such other benefit as is mentioned in subsection (3)(b) which is conferred on the director or employee as an alternative to the discount.

#### **548 Minor definitions**

- (1) In this Chapter—
- “director” means—
- (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that body,
  - (b) in relation to a company whose affairs are managed by a single director or similar person, that director or person, and
  - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company, and
- includes any person in accordance with whose directions or instructions the directors of the company (as defined in paragraphs (a) to (c)) are accustomed to act and a person who is to be, or has ceased to be, a director (as so defined);
- “employee” includes a person who is to be or has been an employee;
- “shares” includes stock;
- “the employee offer” and “the public offer” have the meanings given by section 544(1).
- (2) For the purposes of subsection (1) a person is not to be regarded as a person in accordance with whose directions or instructions the directors of the company are accustomed to act merely because the directors act on advice given by that person in a professional capacity.
- (3) References in this Chapter—
- (a) to the employment, in relation to an employee, are to the employment of that employee, and
  - (b) to the office, in relation to a director, are to the office of that director.

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## CHAPTER 11

### SUPPLEMENTARY PROVISIONS ABOUT EMPLOYEE BENEFIT TRUSTS

#### *Introduction*

#### **549 Application of this Chapter**

- (1) This Chapter applies for the purposes of any listed provision in circumstances where—
- an individual (“B”) is interested as a beneficiary of an employee benefit trust in shares or obligations of a particular company (“the company”), and
  - the question arises under that provision whether the trustees of the trust are, as a result of B’s being so interested, to be regarded as associates of B’s for the relevant purposes.

The relevant purposes are those of the operation, in relation to the company, of the “no material interest” requirement contained in the Schedule to this Act in which the listed provision appears.

- (2) In this Chapter “listed provision” means any of the following provisions (under which trustees of an employee benefit trust are not to be regarded as associates if specified limits relating to share ownership are not exceeded)—

- paragraph 23(2) of Schedule 2 (approved SIPs),
- paragraph 15(2) of Schedule 3 (approved SAYE option schemes),
- paragraph 13(2) of Schedule 4 (approved CSOP schemes), or
- paragraph 32(2) of Schedule 5 (enterprise management incentives).

- (3) The general effect of this Chapter is that if the provisions of—

- sections 552 and 553 (attribution of interest in company to beneficiary or associate), or
- section 554 (attribution of further interest),

apply in relation to B or an associate of B's, B or the associate is to be treated for the purposes of the listed provision as having been the beneficial owner of a particular percentage of the company’s ordinary share capital on a particular date.

- (4) In this Chapter, in relation to an individual, “associate”—

- has the same meaning as in section 417(3) and (4) of ICTA (expressions relating to close companies), but
- does not include the trustees of an employee benefit trust as a result only of the individual’s having (as mentioned in subsection (1)(a)) an interest in shares or obligations of the company which are subject to the trust.

- (5) In this Chapter “employee” means the holder of a taxable employment under Part 2 (as defined in section 66(3)), and accordingly includes an office-holder whose office is within the scope of that definition as a result of section 5(1).

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### *Employee benefit trusts*

#### **550 Meaning of “employee benefit trust”**

- (1) In this Chapter “employee benefit trust”, in relation to a company, means a trust where conditions A and B are met.
- (2) Condition A is that all or most of the employees of the company are eligible to benefit under the trust.
- (3) Condition B is that after 13th March 1989 either—
  - (a) there has been no disposal of any of the property subject to the trust, or
  - (b) any disposal of any of that property was a disposal within subsection (4).
- (4) The disposals within this subsection are—
  - (a) disposals in the ordinary management of the trust, or
  - (b) qualifying disposals (within the meaning given by section 551).
- (5) In this section and section 551 “disposal” means disposal by sale, loan or otherwise.

#### **551 “Qualifying disposals” for purposes of section 550**

- (1) For the purposes of section 550 (meaning of “employee benefit trust”) a “qualifying disposal” is a disposal of property consisting of—
  - (a) any of the ordinary share capital of the company, or
  - (b) money paid outright,
 where any of conditions 1, 2 and 3 is met.
- (2) Condition 1 is that the property has been applied for the benefit of—
  - (a) individual employees or former employees of the company,
  - (b) spouses, former spouses, widows or widowers of employees or former employees of the company,
  - (c) dependants of persons within paragraph (a), or
  - (d) relatives, or spouses of relatives, of persons within paragraph (a) or (b).
- (3) In subsection (2) each reference to the company includes a reference to a company controlled by the company.
- (4) Condition 2 is that the property has been applied for charitable purposes.
- (5) Condition 3 is that the property has been transferred to—
  - (a) the trustees of another employee benefit trust,
  - (b) the trustees of a qualifying employee share ownership trust (within the meaning of Schedule 5 to FA 1989), or
  - (c) the trustees of a profit sharing scheme approved under Schedule 9 to ICTA (approved share option schemes and profit sharing schemes).
- (6) In this section “relative” means—
  - (a) parent, child or remoter relation in the direct line, or
  - (b) brother, sister, uncle, aunt, nephew or niece.

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### *Attribution of interests in company*

#### **552 Attribution of interest in company to beneficiary or associate**

- (1) This section applies if—
  - (a) after 13th March 1989 B, or an associate of B's, has received a payment (“the relevant payment”) from the trustees of the employee benefit trust, and
  - (b) at any time during the period of 3 years ending with the day on which the relevant payment was received (“the payment date”), the property subject to the trust consisted of or included any part of the ordinary share capital of the company.
- (2) In such a case B or the associate is to be treated for the purposes of the listed provision as having been the beneficial owner of the appropriate percentage of the ordinary share capital of the company on the payment date.
- (3) This is in addition to any percentage of that share capital of which B or the associate was actually the beneficial owner on that date.
- (4) Section 553 explains what is meant by “the appropriate percentage”.

#### **553 Meaning of “appropriate percentage” for purposes of section 552**

- (1) For the purposes of section 552 “the appropriate percentage” is—

$$\frac{P \times 100}{D}$$

where P and D have the meaning given by the following provisions.

- (2) Unless subsection (3) applies, P is the aggregate of the relevant payment and any other payments received by B or associates of B's from the trustees of the trust during the period of 12 months ending with the payment date.
- (3) If—
  - (a) any distributions were made to the trustees of the trust by the company in respect of its ordinary share capital during the period of 3 years ending with the payment date, and
  - (b) the aggregate of those distributions is less than the aggregate mentioned in subsection (2),

P is the aggregate of those distributions.

- (4) Unless subsection (5) applies, D is the amount determined as follows—

##### *Step 1*

Calculate the aggregate of—

- (a) any distributions made by the company in respect of its ordinary share capital during the period of 12 months ending with the payment date,
- (b) any distributions so made during the period of 12 months immediately preceding that mentioned in paragraph (a), and
- (c) any distributions so made during the period of 12 months immediately preceding that mentioned in paragraph (b).

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### *Step 2*

Divide the aggregate so calculated by the number of the periods mentioned in paragraphs (a) to (c) in which distributions were so made.

- (5) If no distributions were so made during any of those periods, D is 1.
- (6) In this section “the payment date” and “the relevant payment” have the meaning indicated in section 552(1).

## **554 Attribution of further interest in company**

- (1) This section applies if—
  - (a) B or an associate of B’s is (apart from this section) to be treated by virtue of section 552(2) as having been the beneficial owner of a percentage of the ordinary share capital of the company as a result of receiving the relevant payment from the trustees of an employment benefit trust, and
  - (b) B or an associate of B’s has, during the period of 12 months ending with the payment date, received one or more payments from the trustees of any other employee benefit trust or trusts connected with the company.
- (2) In such a case section 552 applies to B or (as the case may be) the associate mentioned in subsection (1)(a) as if B or the associate had received—
  - (a) any payment from the trustees of a trust as mentioned in subsection (1)(b), or
  - (b) where more than one payment has been received from the trustees of a trust, the last of the payments,on the payment date.
- (3) B or the associate is accordingly to be treated for the purposes of the listed provision as having been the beneficial owner on the payment date of both—
  - (a) the percentage of the ordinary share capital of the company mentioned in subsection (1)(a), and
  - (b) the appropriate percentage of that share capital as determined in accordance with subsection (2).
- (4) This is in addition to any percentage of that share capital of which B or the associate was actually the beneficial owner on that date.
- (5) For the purposes of this section a trust is “connected with” the company if, at any time during the period of 3 years ending with the payment date, the property subject to the trust consisted of or included any part of the ordinary share capital of the company.
- (6) In this section “the payment date” and “the relevant payment” have the meaning indicated in section 552(1).



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## PART 8

### FORMER EMPLOYEES: DEDUCTIONS FOR LIABILITIES

#### *Deductions from total income*

#### **555 Former employee entitled to deduction from total income**

- (1) This Part applies if—
  - (a) a former employee makes a deductible payment, or
  - (b) a former employer makes a deductible payment on behalf of a former employee and the payment is treated—
    - (i) as a relevant retirement benefit, or
    - (ii) as post-employment earnings, of the former employee.
- (2) A deduction of the amount of the deductible payment may be made when computing the former employee's total income for the tax year in which the payment is made.
- (3) Subsection (2) applies only if the former employee makes a claim to the deduction.
- (4) The entitlement to a deduction under this section is subject to sections 556 and 557.
- (5) For the application of this Part in relation to former office-holders, see section 564.
- (6) For relief from capital gains tax where the amount of the deduction allowed under this section exceeds total income, see section 263ZA of TCGA 1992.

#### **556 Deductible payments made outside the time limits allowed**

- (1) No deduction may be made under section 555 if the deductible payment is made—
  - (a) on or before the day on which the former employee ceased to hold the former employment, or
  - (b) after the end of the sixth tax year following the tax year in which the former employee ceased to hold the former employment.
- (2) If subsection (1)(a) applies, see section 346 (deduction for employee liabilities).

#### **557 Deductible payments wholly or partly borne by the former employer etc.**

- (1) This section applies if—
  - (a) a deductible payment is made by the former employee (and not by the former employer on behalf of the former employee), but
  - (b) the whole or a part of the cost of making the payment is borne—
    - (i) by the former employer, or
    - (ii) out of the proceeds of a contract of insurance.
- (2) No deduction of the amount of the cost borne as mentioned in subsection (1)(b) (the "relevant amount") may be made under section 555.
- (3) But this is subject to subsection (4) if the whole or a part of the relevant amount is treated—

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- (a) as a relevant retirement benefit of the former employee, or
  - (b) as post-employment earnings of the former employee.
- (4) In such a case, a deduction of so much of the relevant amount as is treated in that way may be made under section 555.

### *Interpretation*

#### **558 Meaning of “deductible payment”**

- (1) For the purposes of this Part each of the following is a deductible payment—
- A. Payment in or towards the discharge of a liability related to the former employment.
  - B. Payment of any costs or expenses incurred in connection with—
    - (a) a claim that the former employee is subject to a liability related to the former employment, or
    - (b) proceedings relating to or arising out of a claim that the former employee is subject to a liability related to the former employment.
  - C. Payment of a premium under a qualifying insurance contract, but only to the extent that the premium relates to—
    - (a) provision in the contract for the former employee to be indemnified against a payment falling within paragraph A, or
    - (b) provision in the contract for the payment of any costs or expenses falling within paragraph B.
- (2) But a payment which falls within paragraph A or B is not a deductible payment if it would have been unlawful for the former employer to enter into a contract of insurance in respect of the liability, or costs or expenses, in question.
- (3) In this Part—
- (a) “premium”, in relation to a qualifying insurance contract, means an amount payable to the insurer under the contract, and
  - (b) where a qualifying insurance contract relates to more than one person, employment or risk, the part of the premium to be treated as relating to each of them is to be determined by apportionment on a just and reasonable basis.

#### **559 Liabilities related to the former employment**

For the purposes of this Part each of the following kinds of liability is related to the former employment—

A. Liability imposed upon the former employee because he did an act, or failed to do an act—

- (a) in his capacity as holder of the former employment, or
- (b) in any other capacity in which he acted in the performance of the duties of the former employment.

B. Liability imposed upon the former employee in connection with any proceedings relating to, or arising from, a claim that he is subject to a liability because he did an act, or failed to do an act—

- (a) in his capacity as holder of the former employment, or

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- (b) in any other capacity in which he acted in the performance of the duties of the former employment.

## **560 Meaning of “qualifying insurance contract”**

- (1) In section 558 “qualifying insurance contract” means a contract of insurance which meets conditions A, B, C and D.
- (2) Condition A is that, so far as the risks insured against are concerned, the contract only relates to one or more of the following—
  - (a) the indemnification of a former employee against a liability related to the former employment,
  - (b) the indemnification of a person against vicarious liability in respect of a liability related to another person’s employment,
  - (c) the payment of costs or expenses incurred—
    - (i) in connection with a claim that a person is subject to a liability to which the insurance relates, or
    - (ii) in connection with any proceedings relating to or arising out of a claim that a person is subject to a liability to which the insurance relates,
  - (d) the indemnification of an employer against loss from a payment made by the employer to a former employee in respect of—
    - (i) a liability related to the former employment, or
    - (ii) any costs or expenses incurred as mentioned in paragraph (c).
- (3) Condition B is that—
  - (a) the period of insurance under the contract does not exceed 2 years or, if it does, it does so only because of one or more renewals, each for a period of 2 years or less, and
  - (b) the insured is not required to renew the contract for any period.
- (4) Condition C is—
  - (a) that the insured is not entitled under the contract to receive any payment or other benefit in addition to—
    - (i) cover for the risks insured against, and
    - (ii) any right to renew the contract, or
  - (b) if the insured is so entitled, that the part of the premium reasonably attributable to the entitlement is not a significant part of the whole premium.
- (5) Condition D is that the contract is not connected with another contract.

## **561 Connected contracts**

- (1) An insurance contract is connected with another contract for the purposes of section 560 if conditions E and F are met—
  - (a) at the time when both contracts are first in force, or
  - (b) at any time after that time.
- (2) Condition E is that one of the contracts was entered into—
  - (a) by reference to the other, or
  - (b) with a view to enabling or facilitating entry into the other on particular terms.

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- (3) Condition F is that the terms on which one of the contracts was entered into are significantly different from what they would have been if—
- (a) it had not been entered into in anticipation of the other being entered into, or
  - (b) the other had not also been entered into.
- (4) If—
- (a) there is only one such significant difference in terms, and
  - (b) the contracts meet conditions A, B and C specified in section 560,
- the difference may be disregarded in the following cases.
- (5) The first case is where the difference is a reduction in premiums under the contract that is reasonably attributable only to the contract—
- (a) containing a right to renew, or
  - (b) being entered into by way of renewal.
- (6) The second case is where—
- (a) two or more contracts have been entered into as part of a single transaction, and
  - (b) the difference is reductions in their premiums that are reasonably attributable only to the premium under each of them having been fixed by reference to the appropriate proportion of the combined premium.
- (7) In subsection (6) “the combined premium” means the amount that would have been the total premium under a single contract relating to all the risks covered by the contracts.

## **562 Meaning of “former employee” and “employment”**

- (1) In this Part “former employee” means an individual who has ceased to hold an employment.
- (2) In this Part “employment” includes in particular—
- (a) any employment under a contract of service,
  - (b) any employment under a contract of apprenticeship, and
  - (c) any employment in the service of the Crown.

“Employee” and “employer” have corresponding meanings.

## **563 Other interpretation**

In this Part each of the following expressions, when used in relation to a former employee, has the meaning given—

“former employment” means the employment which the former employee has ceased to hold;

“former employer” means—

- (a) the person under whom the former employee held the former employment,
- (b) a person for the time being carrying on the whole or any part of the business or other undertaking for the purposes of which the former employee held the former employment,

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(c) a person who is for the time being subject to any of the liabilities with respect to that business or other undertaking of the person mentioned in paragraph (a), and

(d) a person who is connected with a person falling within paragraph (a), (b) or (c);

“post-employment earnings” means so much of any amount received after the former employee has ceased to hold the former employment as constitutes general earnings for the purposes of the employment income Parts;

“relevant retirement benefit” means a benefit—

(a) which is received by the former employee under a retirement benefits scheme of which he is a member in respect of the former employment, and

(b) which, under Chapter 2 of Part 6 (benefits from non-approved pension schemes), counts as employment income of the former employee.

#### **564 Application of this Part to office-holders**

(1) The provisions of this Part are expressed to apply to former employees but they apply equally to former office-holders.

(2) In those provisions as they apply to a former office-holder—

(a) references to holding a former employment are to holding the office;

(b) “former employment” means the office held;

(c) “former employer” means the person under whom the person held the office.

(3) In this Part “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

### **PART 9**

#### **PENSION INCOME**

### **CHAPTER 1**

#### **INTRODUCTION**

#### **565 Structure of Part 9**

The structure of this Part is as follows— Chapter 2—

(a) imposes the charge to tax on pension income, and

(b) provides for deductions to be made from the amount of income chargeable;

Chapters 3 to 15 set out the types of income which are charged to tax under this Part and, for each type of income, identify—

(a) the amount of income chargeable to tax for a tax year, and

(b) the person liable to pay any tax charged;

Chapters 16 to 18 deal with exemptions from the charge to tax (whether under this Part or any other provision).

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## CHAPTER 2

### TAX ON PENSION INCOME

#### 566 Nature of charge to tax on pension income and relevant definitions

- (1) The charge to tax on pension income under this Part is a charge to tax on that income excluding any exempt income.
- (2) “Pension income” means the pensions, annuities and income of other types to which the provisions listed in subsection (4) apply.

This definition applies for the purposes of the Tax Acts.

- (3) “Exempt income” means pension income on which no liability to income tax arises as a result of any provision of Chapters 16 to 18 of this Part.

This definition applies for the purposes of this Part.

- (4) These are the provisions referred to in subsection (2)—

<i>Provision</i>	<i>Income</i>	<i>Chapter (of this Part)</i>
Section 569	United Kingdom pensions	Chapter 3
Section 573	Foreign pensions	Chapter 4
Section 577	United Kingdom social security pensions	Chapter 5
Section 580	Pensions or annuities from approved retirement benefits schemes	Chapter 6
Section 583	Unauthorised payments from— (a) approved retirement benefits schemes, or (b) former approved superannuation funds (see section 593)	Chapter 6
Section 590	Annuities paid under former approved superannuation funds	Chapter 7
Section 595	Annuities from approved personal pension schemes	Chapter 8
Section 598	Income withdrawals under approved personal pension arrangements	Chapter 8
Section 601	Unauthorised personal pension payments	Chapter 8
Section 605	Annuities under retirement annuity contracts	Chapter 9

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Section 609	Annuities for the benefit of dependants	Chapter 10
Section 610	Annuities under sponsored superannuation schemes	Chapter 10
Section 611	Annuities in recognition of another's services	Chapter 10
Section 615	Certain overseas government pensions paid in the United Kingdom	Chapter 11
Section 619	The House of Commons Members' Fund	Chapter 12
Section 623	Return of surplus employee additional voluntary contributions	Chapter 13
Section 629	Pre-1973 pensions paid under OPA 1973	Chapter 14
Section 633	Voluntary annual payments	Chapter 15

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## 567 Amount charged to tax

- (1) The amount of pension income which is charged to tax under this Part for a particular tax year is as follows.
- (2) In relation to each pension, annuity or other item of pension income, the amount charged to tax is the “net taxable pension income” for the tax year.
- (3) The net taxable pension income for a pension, annuity or other item of pension income for a tax year is given by the formula—

### TPI- DPI

where—

TPI means the amount of taxable pension income for that pension, annuity or item of pension income for that year (see subsection (4)), and

DPI means the total amount of any deductions allowed from the pension, annuity or item of pension income (see subsection (5)).

- (4) For the purposes of this Act—
  - (a) the amount of taxable pension income for a pension, annuity or other item of pension income for a tax year is determined in accordance with Chapters 3 to 15 of this Part (which contain provisions relating to this amount for each type of pension income); and
  - (b) in determining the amount of taxable pension income for a pension, annuity or other item of pension income, any exempt income is to be excluded.
- (5) The deductions allowed from a pension, annuity or other item of pension income are those under—

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section 617 (10% deduction from an overseas government pension to which section 615 applies);  
Part 12 (payroll giving).

#### **568 Person liable for tax**

For the provision identifying which person is liable for any tax charged under this Part on a pension, annuity or other item of pension income, see Chapters 3 to 15.

### **CHAPTER 3**

#### **UNITED KINGDOM PENSIONS: GENERAL RULES**

#### **569 United Kingdom pensions**

- (1) This section applies to any pension paid by or on behalf of a person who is in the United Kingdom.
- (2) But this section does not apply to a pension if any provision of Chapters 5 to 14 of this Part applies to it.
- (3) For pensions paid by or on behalf of a person who is outside the United Kingdom, see Chapter 4 of this Part.

#### **570 “Pension”: interpretation**

In this Chapter “pension” includes a pension which is paid voluntarily or is capable of being discontinued.

#### **571 Taxable pension income**

If section 569 applies, the taxable pension income for a tax year is the full amount of the pension accruing in that year irrespective of when any amount is actually paid.

#### **572 Person liable for tax**

If section 569 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension.

### **CHAPTER 4**

#### **FOREIGN PENSIONS: GENERAL RULES**

#### **573 Foreign pensions**

- (1) This section applies to any pension paid by or on behalf of a person who is outside the United Kingdom to a person who is resident in the United Kingdom.
- (2) But this section does not apply to a pension if any provision of Chapters 5 to 14 of this Part applies to it.



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- (3) For pensions paid by or on behalf of a person who is in the United Kingdom, see Chapter 3 of this Part.

#### **574 “Pension”: interpretation**

- (1) For the purposes of this Chapter “pension” includes a pension which is paid voluntarily, or is capable of being discontinued, if conditions A and B are met.
- (2) Condition A is that the pension is paid to—
- (a) a former employee or a former office-holder,
  - (b) the widow or widower of a former employee or a former office-holder, or
  - (c) any child, relative or dependant of a former employee or a former office-holder.
- (3) Condition B is that the pension is paid by or on behalf of—
- (a) the person—
    - (i) who employed the former employee, or
    - (ii) under whom the former office-holder held the office, or
  - (b) the successors of that person.
- (4) In this section “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

#### **575 Taxable pension income**

- (1) If section 573 applies, the taxable pension income for a tax year is the amount on which tax would be chargeable if the pension were charged to tax under Case V of Schedule D for that year (see in particular the provisions of ICTA listed in subsection (2)).
- (2) Those provisions of ICTA are—
- (a) sections 65 and 68 (calculation of the amount of the income on which tax is to be charged in the tax year);
  - (b) section 584 (relief for unremittable overseas income);
  - (c) section 585 (relief on delayed remittances).

#### **576 Person liable for tax**

If section 573 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension.

## **CHAPTER 5**

### **UNITED KINGDOM SOCIAL SECURITY PENSIONS**

#### **577 United Kingdom social security pensions**

- (1) This section applies to—
- the state pension,
  - graduated retirement benefit,
  - industrial death benefit,

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widowed mother's allowance,  
 widowed parent's allowance, and  
 widow's pension.

(2) In this section—

“state pension” means any pension payable under—

- (a) section 44, 48A, 48B, 48BB, 51 or 78 of SSCBA 1992, or
- (b) section 44, 48, 48B, 48BB, 51 or 78 of SSCB(NI)A 1992;

“graduated retirement benefit” means any benefit payable under—

- (a) section 36 or 37 of the National Insurance Act 1965 (c. 51), or
- (b) section 35 or 36 of the National Insurance Act (Northern Ireland) 1966 (c. 6 (N.I.));

“industrial death benefit” means any benefit payable under—

- (a) section 94 of, and Part 6 of Schedule 7 to, SSCBA 1992, or
- (b) section 94 of, and Part 6 of Schedule 7 to, SSCB(NI)A 1992;

“widowed mother's allowance” means any allowance payable under—

- (a) section 37 of SSCBA 1992, or
- (b) section 37 of SSCB(NI)A 1992;

“widowed parent's allowance” means any allowance payable under—

- (a) section 39A of SSCBA 1992, or
- (b) section 39A of SSCB(NI)A 1992;

“widow's pension” means any pension payable under—

- (a) section 38 of SSCBA 1992, or
- (b) section 38 of SSCB(NI)A 1992.

(3) In subsection (2), in paragraph (b) of the definition of state pension, the reference to section 48 of SSCB(NI)A 1992 is a reference to the section 48 inserted by paragraph 3(1) of Schedule 2 to the Pensions (Northern Ireland) Order 1995 (S.I. 1995/3213 (N.I. 22)).

(4) Chapter 17 of this Part provides a partial exemption for a pension to which this section applies in respect of any part of the pension which is attributable to an increase in respect of a child (see section 645).

## **578 Taxable pension income**

If section 577 applies, the taxable pension income for a tax year is the full amount of the pension, benefit or allowance accruing in that year irrespective of when any amount is actually paid.

## **579 Person liable for tax**

If section 577 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension, benefit or allowance.

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## CHAPTER 6

### APPROVED RETIREMENT BENEFITS SCHEMES

#### *Pensions and annuities*

#### **580 Pensions and annuities**

This section applies to—

- (a) any pension or annuity paid under a retirement benefits scheme which is either approved or being considered for approval, and
- (b) any annuity acquired using funds held for the purposes of a retirement benefits scheme which is either approved or being considered for approval.

#### **581 Taxable pension income**

If section 580 applies, the taxable pension income for a tax year is the full amount of the pension or annuity accruing in that year irrespective of when any amount is actually paid.

#### **582 Person liable for tax**

If section 580 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension or annuity.

#### *Unauthorised payments*

#### **583 Unauthorised payments**

- (1) This section applies to a payment if conditions A, B and C are met.
- (2) But this section does not apply to a payment to which section 623 applies.
- (3) Condition A is that the payment—
  - (a) is made out of funds which are held for the purposes of an approved retirement benefits scheme (“the paying scheme”), but
  - (b) is not expressly authorised—
    - (i) by the rules of the paying scheme, or
    - (ii) by virtue of paragraph 33 of Schedule 6 to FA 1989.
- (4) Condition B is that the payment is not made in the course of payment of a pension or annuity.
- (5) Condition C is that the payment is made to or for the benefit of—
  - (a) an employee, or
  - (b) an ex-spouse of an employee.
- (6) A payment to which this section applies is not to be charged to tax under—
  - (a) section 598 or 599 of ICTA, or
  - (b) the Regulations mentioned in paragraph 8 of Schedule 3 to FA 1971.

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- (7) In this section “payment” includes—
- (a) a transfer of assets, and
  - (b) any other transfer of money’s worth.

#### **584 Taxable pension income**

If section 583 applies, the taxable pension income for a tax year is the total amount or value of the payments made in that year.

#### **585 Person liable for tax**

If section 583 applies, the person liable for any tax charged under this Part is the person mentioned in condition C in section 583(5) to whom, or for whose benefit, the payment is made.

*Interpretation etc.*

#### **586 Meaning of “retirement benefits scheme” etc.**

- (1) In this Chapter—
- “retirement benefits scheme” has the meaning given in section 611 of ICTA;
- “approved”, in relation to such a scheme, means that the scheme is approved by the Board of Inland Revenue for the purposes of—
- (a) Chapter 2 of Part 2 of FA 1970, or
  - (b) Chapter 1 of Part 14 of ICTA.
- (2) Any reference in this Chapter to a pension or annuity paid under a retirement benefits scheme includes a reference to a pension or annuity paid under a contract which—
- (a) is made for purposes of the scheme, and
  - (b) is made between—
    - (i) the administrator of the scheme,
    - (ii) the employer, or
    - (iii) the employee or an ex-spouse of the employee,
 and a third party.
- (3) In subsection (2) the reference to the employer is a reference to the person who is the employer in relation to the scheme.
- (4) In subsection (2)(b)(i) “administrator of the scheme” is to be construed in accordance with section 611AA of ICTA.
- (5) References in this Chapter to approved retirement benefits schemes are extended by section 587 (marine pilots' benefit fund).

#### **587 Application to marine pilots' benefit fund**

- (1) In this Chapter the expression “approved retirement benefits scheme” includes a marine pilots' benefit fund which is approved by the Board of Inland Revenue under section 607 of ICTA for the purposes of Chapter 1 of Part 14 of ICTA.

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- (2) In any case where the paying scheme for the purposes of section 583(3) is a pilots' benefit fund, the references in section 583(5) to an employee are to be read as references to a member or former member of the fund.
- (3) In this section “marine pilots' benefit fund” means—
  - (a) a fund established under section 15(1)(i) of the Pilotage Act 1983 (c. 21), or
  - (b) any scheme supplementing or replacing any such fund.

## **588 Meaning of “employee” and “ex-spouse”**

- (1) In this Chapter—

“employee”—

  - (a) includes a person who is to be, or has been, an employee, and
  - (b) in relation to a company, includes any officer or director of the company and any other person taking part in the management of the affairs of the company;

“ex-spouse” means a party to a marriage which has been dissolved or annulled and, in relation to any person, means the other party to a marriage with that person which has been dissolved or annulled.
- (2) For the purposes of the definition of “employee” in subsection (1), “director”, in relation to a company, includes—
  - (a) in the case of a company the affairs of which are managed by a board of directors or similar body, a member of that board or body,
  - (b) in the case of a company the affairs of which are managed by a single director or similar person, that person,
  - (c) in the case of a company the affairs of which are managed by the members themselves, a member of that company,and includes a person who is to be or has been a director.

## **589 Regulations**

The Board of Inland Revenue may make regulations generally for the purpose of carrying the preceding provisions of this Chapter into effect.

# **CHAPTER 7**

## **FORMER APPROVED SUPERANNUATION FUNDS**

### *Annuities*

## **590 Annuities**

This section applies to—

- (a) any annuity paid under a former approved superannuation fund, and
- (b) any annuity acquired using funds held for the purposes of a former approved superannuation fund.

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## **591 Taxable pension income**

If section 590 applies, the taxable pension income for a tax year is the full amount of the annuity paid in that year.

## **592 Person liable for tax**

If section 590 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the annuity.

### *Unauthorised payments*

## **593 Unauthorised payments: application of section 583**

- (1) Section 583 applies to a payment if—
  - (a) the payment is made out of funds which are held for the purposes of a former approved superannuation fund (“the paying fund”), but
  - (b) it is not expressly authorised—
    - (i) by the rules of the paying fund, or
    - (ii) by virtue of paragraph 33 of Schedule 6 to FA 1989, and
  - (c) conditions B and C in section 583(4) and (5) are met.
- (2) But section 583 does not apply to a payment to which section 623 applies.
- (3) In this section “payment” includes—
  - (a) a transfer of assets, and
  - (b) any other transfer of money’s worth.
- (4) If section 583 applies to a payment by virtue of this section, sections 584, 585 and 588 apply accordingly.

### *Interpretation*

## **594 Meaning of “former approved superannuation fund”**

- (1) In this Chapter “former approved superannuation fund” means any fund which immediately before 6th April 1980 was an approved superannuation fund for the purposes of section 208 of ICTA 1970.
- (2) But a fund is not a former approved superannuation fund if any of the following things has happened since 5th April 1980—
  - (a) the fund has been approved by the Board of Inland Revenue for the purposes of Chapter 2 of Part 2 of FA 1970,
  - (b) the fund has been approved by the Board for the purposes of Chapter 1 of Part 14 of ICTA, or
  - (c) any sum has been paid to the fund by way of contribution.

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## CHAPTER 8

### APPROVED PERSONAL PENSION SCHEMES

#### *Annuities*

#### **595 Annuities**

This section applies to any annuity acquired using funds held for the purposes of an approved personal pension scheme.

#### **596 Taxable pension income**

If section 595 applies, the taxable pension income for a tax year is the full amount of the annuity received in that year.

#### **597 Person liable for tax**

If section 595 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the annuity.

#### *Income withdrawals*

#### **598 Income withdrawals**

This section applies to any income withdrawal under approved personal pension arrangements.

#### **599 Taxable pension income**

If section 598 applies, the taxable pension income for a tax year is the total amount of the income withdrawals made in that year.

#### **600 Person liable for tax**

If section 598 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the income.

#### *Unauthorised personal pension payments*

#### **601 Unauthorised personal pension payments**

- (1) This section applies to any unauthorised personal pension payment.
- (2) In this section “personal pension payment” means a payment which—
  - (a) is made out of funds which are or have been held for the purposes of a personal pension scheme (“the paying scheme”), and
  - (b) is made to or for the benefit of an individual who has made personal pension arrangements in accordance with the paying scheme (“the individual’s arrangements”).

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- (3) For the purposes of this section a personal pension payment is unauthorised if any of conditions A, B and C are met.
- (4) Condition A is that—
- (a) the paying scheme and the individual’s arrangements are both approved at the time the payment is made, but
  - (b) the payment is not expressly authorised by the rules of the paying scheme.
- (5) Condition B is that—
- (a) the paying scheme is not approved at the time the payment is made, and
  - (b) at the time the scheme was last approved, the payment would not have been expressly authorised under the scheme’s rules.
- (6) Condition C is that—
- (a) the individual’s arrangements are not approved at the time the payment is made, and
  - (b) at the time the arrangements were last approved, the payment would not have been expressly authorised under the arrangements.
- (7) In this section “payment” includes—
- (a) a transfer of assets, and
  - (b) any other transfer of money’s worth.

## **602 Taxable pension income**

If section 601 applies, the taxable pension income for a tax year is the total amount or value of the payments made in that year.

## **603 Person liable for tax**

If section 601 applies, the person liable for any tax charged under this Part is the individual who made the arrangements mentioned in section 601(2)(b) to whom or for whose benefit the payment is made, whether or not the individual is the recipient of the payment.

### *Interpretation*

## **604 Meaning of “personal pension scheme” and related expressions**

In this Chapter the following expressions have the same meaning as in Chapter 4 of Part 14 of ICTA (see section 630(1) of ICTA)—

- (a) “approved”;
- (b) “income withdrawal”;
- (c) “personal pension arrangements”;
- (d) “personal pension scheme”.



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## CHAPTER 9

### RETIREMENT ANNUITY CONTRACTS

#### 605 Annuities

This section applies to any annuity paid under a retirement annuity contract.

#### 606 Meaning of “retirement annuity contract”

In this Chapter “retirement annuity contract” means—

- (a) an annuity contract or a trust scheme approved by the Board of Inland Revenue under section 620 of ICTA (qualifying premiums) or under section 621 of ICTA (other approved contracts), or
- (b) a substituted contract within the meaning of section 622(3) of ICTA (substituted retirement annuity contracts).

#### 607 Taxable pension income

If section 605 applies, the taxable pension income for a tax year is the full amount of the annuity arising in that year.

#### 608 Person liable for tax

If section 605 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the annuity.

## CHAPTER 10

### OTHER EMPLOYMENT-RELATED ANNUITIES

#### 609 Annuities for the benefit of dependants

- (1) This section applies to any annuity which was granted for consideration consisting in whole or in part of sums which satisfied the conditions for relief under section 273 of ICTA (obligatory contributions to secure an annuity for the benefit of dependants).
- (2) But this section applies to an annuity which arises from a source outside the United Kingdom only if it is paid to a person resident in the United Kingdom.

#### 610 Annuities under sponsored superannuation schemes

- (1) This section applies to—
  - (a) any annuity paid under a sponsored superannuation scheme, and
  - (b) any annuity acquired using funds held for the purposes of a sponsored superannuation scheme.
- (2) But this section applies to an annuity which arises from a source outside the United Kingdom only if it is paid to a person resident in the United Kingdom.

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- (3) This section does not apply to an annuity to which any provision of Chapter 6, 7, 8 or 9 of this Part applies.
- (4) In this section “sponsored superannuation scheme” has the meaning given by section 624(1) of ICTA.

### **611 Annuities in recognition of another’s services**

- (1) This section applies to any annuity purchased by any person in recognition of another person’s services in any office or employment.
- (2) But this section applies to an annuity which arises from a source outside the United Kingdom only if it is paid to a person resident in the United Kingdom.
- (3) This section does not apply to an annuity to which any provision of Chapter 6, 7, 8 or 9 of this Part applies.
- (4) For the purposes of this section “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

### **612 Taxable pension income: UK annuities**

- (1) The taxable pension income for an annuity to which section 609, 610 or 611 applies is determined in accordance with this section if the annuity arises from a source in the United Kingdom.
- (2) The taxable pension income for a tax year is the full amount of the annuity arising in that year.

### **613 Taxable pension income: foreign annuities**

- (1) The taxable pension income for an annuity to which section 609, 610 or 611 applies is determined in accordance with this section if the annuity arises from a source outside the United Kingdom.
- (2) The taxable pension income for a tax year is the amount on which tax would be chargeable if the annuity were charged to tax under Case V of Schedule D for that year (see in particular the provisions of ICTA listed in subsection (3)).
- (3) Those provisions of ICTA are—
  - (a) sections 65 and 68 (calculation of the amount of the income on which tax is to be charged in the tax year);
  - (b) section 584 (relief for unremittable overseas income);
  - (c) section 585 (relief on delayed remittances).
- (4) In the application of sections 65(2) and 585(2) of ICTA in relation to the calculation of the taxable pension income for the purposes of this section, any reference to income arising from a pension is a reference to the annuity.

### **614 Person liable for tax**

If section 609, 610 or 611 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the annuity.

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## CHAPTER 11

### CERTAIN OVERSEAS GOVERNMENT PENSIONS PAID IN THE UK

#### **615 Certain overseas government pensions paid in the United Kingdom**

- (1) This section applies to a pension if conditions A, B and C are met.
- (2) Condition A is that the pension—
  - (a) is payable—
    - (i) to a person who has been employed in overseas government service, or
    - (ii) to the widow, widower, child, relative or dependant of a person who has been employed in overseas government service, and
  - (b) is payable in respect of that service.
- (3) Condition B is that the pension—
  - (a) is payable in the United Kingdom, and
  - (b) is payable to a person who is resident in the United Kingdom.
- (4) Condition C is that the pension is payable by or on behalf of the government of—
  - (a) a country which forms part of Her Majesty’s dominions,
  - (b) any other country which is for the time being mentioned in Schedule 3 to the British Nationality Act 1981 (c. 61), or
  - (c) any territory under Her Majesty’s protection.
- (5) But condition C is not met if the pension is payable out of the public revenue of the United Kingdom or Northern Ireland.
- (6) In condition A the references to a person being employed in overseas government service are to the person being employed outside the United Kingdom—
  - (a) in the service of the Crown, or
  - (b) in service under the government of a country or territory which falls within subsection (4).
- (7) In this Chapter “pension” includes a pension which is paid voluntarily or is capable of being discontinued.

#### **616 Taxable pension income**

If section 615 applies, the taxable pension income for a tax year is the full amount of the pension accruing in that year irrespective of when any amount is actually paid.

#### **617 Deduction allowed from taxable pension income**

A deduction of 10% is allowed from an amount of taxable pension income determined under section 616 (see section 567).

#### **618 Person liable for tax**

If section 615 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension.

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## CHAPTER 12

### HOUSE OF COMMONS MEMBERS' FUND

#### 619 The House of Commons Members' Fund

This section applies to any periodical payment granted out of—

- (a) the House of Commons Members' Fund,
- (b) sums appropriated from that Fund, or
- (c) income from sums appropriated from that Fund.

#### 620 Meaning of “House of Commons Members' Fund”

In this Chapter “House of Commons Members' Fund” means the fund with that name established by section 1 of the House of Commons Members' Fund Act 1939 (c. 49).

#### 621 Taxable pension income

If section 619 applies, the taxable pension income for a tax year is the total amount of the payments made in that year.

#### 622 Person liable for tax

If section 619 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the payments.

## CHAPTER 13

### RETURN OF SURPLUS EMPLOYEE ADDITIONAL VOLUNTARY CONTRIBUTIONS

#### 623 Return of surplus employee additional voluntary contributions

- (1) This section applies to a payment if conditions A, B and C are met.
- (2) Condition A is that the payment is made out of funds which are or have been held for the purposes of—
  - (a) a scheme which is or has been an exempt approved scheme, or
  - (b) a relevant statutory scheme established under a public general Act.
- (3) Condition B is that the payment is made under a duty to return surplus funds.
- (4) Condition C is that the payment is made to or for the benefit of an employee.
- (5) A payment to which this section applies is not to be charged to tax under—
  - (a) section 598 or 599 of ICTA, or
  - (b) the Regulations mentioned in paragraph 8 of Schedule 3 to FA 1971.
- (6) In this section “payment” includes—
  - (a) a transfer of assets, and
  - (b) any other transfer of money's worth.

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## **624 Taxable pension income**

If section 623 applies, the taxable pension income for a tax year is the amount equal to the total amount or value of the payments made in that year, grossed up by reference to the basic rate for that year.

## **625 Person liable for tax**

If section 623 applies, the person liable for any tax charged under this Part is the employee mentioned in condition C in section 623(4) to whom or for whose benefit the payment is made.

## **626 Income tax treated as paid**

- (1) An employee who is liable for the tax charged on a payment to which section 623 applies is treated as having paid income tax at the basic rate on the amount chargeable.
- (2) The income tax treated as paid under subsection (1) is not repayable.

## **627 Meaning of “grossing up”**

- (1) In section 624 “grossing up” by reference to the basic rate means calculating the amount (“the gross amount”) which after deduction of income tax at the basic rate would equal the amount to be grossed up (“the net amount”).
- (2) The gross amount is the sum of the net amount and the tax deducted.

## **628 Interpretation**

- (1) In this Chapter—  
“employee”—
  - (a) includes a person who is to be, or has been, an employee, and
  - (b) in relation to a company, includes any officer or director of the company and any other person taking part in the management of the affairs of the company;  
“exempt approved scheme” has the meaning given in section 592(1) of ICTA;  
“relevant statutory scheme” has the meaning given in section 611A(1) of ICTA.
- (2) For the purposes of the definition of “employee” in subsection (1), “director”, in relation to a company, includes—
  - (a) in the case of a company the affairs of which are managed by a board of directors or similar body, a member of that board or body,
  - (b) in the case of a company the affairs of which are managed by a single director or similar person, that person,
  - (c) in the case of a company the affairs of which are managed by the members themselves, a member of that company,and includes a person who is to be or has been a director.
- (3) If section 623 applies to a payment made out of funds which are or have been held for the purposes of a relevant statutory scheme established under a public general Act, any reference in this Chapter to an employee includes references to a person who holds

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an office, to a person who is to hold an office and to a person who has ceased to hold an office.

This is without prejudice to subsection (1).

- (4) For the purposes of subsection (3) “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

## CHAPTER 14

### PRE-1973 PENSIONS PAID UNDER THE OVERSEAS PENSIONS ACT 1973

#### 629 Pre-1973 pensions paid under the Overseas Pensions Act 1973

- (1) This section applies to a pension if—
- (a) it is paid under section 1 of OPA 1973 (whether or not paid out of a fund established under a scheme made under that section),
  - (b) it is a pre-1973 pension, and
  - (c) it is paid to—
    - (i) the original pensioner, or
    - (ii) the widow or widower of the original pensioner.
- (2) But this section does not apply to a part of a pension which is paid because the Pensions (Increase) Act 1971 (c. 56) applies to it (and accordingly section 569 applies to that part of the pension).
- (3) Chapter 18 of this Part provides an exemption where a pension to which this section applies is paid to a person who is not resident in the United Kingdom (see sections 647 and 651).

#### 630 Interpretation

- (1) For the purposes of this Chapter a person is the “original pensioner” in relation to a pension if—
- (a) the pension is payable by virtue of the person’s service, and
  - (b) the person retired from that service before 6th April 1973.
- (2) For the purposes of this Chapter a pension is a “pre-1973 pension” if, immediately before 6th April 1973—
- (a) the pension was payable to—
    - (i) the original pensioner, or
    - (ii) the widow or widower of the original pensioner, and
  - (b) that person was resident in the United Kingdom.

#### 631 Taxable pension income

- (1) If section 629 applies, the taxable pension income for a tax year is the amount on which tax would be chargeable if the pension were charged to tax under Case V of Schedule D for that year (see in particular the provisions of ICTA listed in subsection (2)).

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- (2) Those provisions of ICTA are sections 65 and 68 (calculation of the amount of the income on which tax is to be charged in the tax year).

### **632 Person liable for tax**

If section 629 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the pension.

## **CHAPTER 15**

### **VOLUNTARY ANNUAL PAYMENTS**

### **633 Voluntary annual payments**

- (1) This section applies to an annual payment which—
- (a) is paid voluntarily, or
  - (b) is capable of being discontinued,
- if conditions A and B are met.
- (2) Condition A is that the payment is paid to—
- (a) a former employee or a former office-holder,
  - (b) the widow or widower of a former employee or former office-holder, or
  - (c) any child, relative or dependant of a former employee or a former office-holder.
- (3) Condition B is that the payment is paid by or on behalf of—
- (a) the person—
    - (i) who employed the former employee, or
    - (ii) under whom the former office-holder held the office, or
  - (b) the successors of that person.
- (4) But this section applies to a payment which is paid by or on a behalf of a person who is outside the United Kingdom only if it is paid to a person resident in the United Kingdom.
- (5) In this section “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

### **634 Taxable pension income: UK voluntary annual payments**

- (1) The taxable pension income for payments to which section 633 applies is determined in accordance with this section if the payments are made by or on behalf of a person who is in the United Kingdom.
- (2) The taxable pension income for a tax year is the full amount of the payments accruing in that year irrespective of when any amount is actually paid.

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### **635 Taxable pension income: foreign voluntary annual payments**

- (1) The taxable pension income for payments to which section 633 applies is determined in accordance with this section if the payments are made by or on behalf of a person who is outside the United Kingdom.
- (2) The taxable pension income for a tax year is the amount on which tax would be chargeable if the pension were charged to tax under Case V of Schedule D for that year (see in particular the provisions of ICTA listed in subsection (3)).
- (3) Those provisions of ICTA are—
  - (a) sections 65 and 68 (calculation of the amount of the income on which tax is to be charged in the tax year);
  - (b) section 584 (relief for unremittable overseas income);
  - (c) section 585 (relief on delayed remittances).

### **636 Person liable for tax**

If section 633 applies, the person liable for any tax charged under this Part is the person receiving or entitled to the payment.

## **CHAPTER 16**

### EXEMPTION FOR CERTAIN LUMP SUMS

### **637 Exemption for lump sums provided under certain pension schemes etc.**

- (1) No liability to income tax arises on a lump sum provided under—
  - (a) approved personal pension arrangements,
  - (b) a tax-exempt pension scheme, or
  - (c) a retirement annuity contract.
- (2) But subsection (1)(b) applies to a lump sum paid in compensation for loss of office or employment, or for loss or diminution of earnings, only if—
  - (a) the payment is properly regarded as earned by past services, or
  - (b) the loss of office or employment, or the loss or diminution of earnings, is due to ill-health.
- (3) Subsection (1)(b) does not apply to a lump sum to which section 583 (approved retirement benefits schemes: unauthorised payments) or section 623 (return of surplus AVCs) applies.

This includes cases where section 583 applies by virtue of section 593.

- (4) Subsection (1)(c) applies to a lump sum only if it is provided in consequence of a right which meets the conditions in paragraphs (a) and (b) of section 620(3) of ICTA.
- (5) In this section—
  - “approved personal pension arrangements” has the same meaning as in Chapter 4 of Part 14 of ICTA (see section 630(1) of ICTA);
  - “earnings” means earnings or amounts treated as earnings which constitute employment income (see section 7(2)(a) or (b));



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“office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders;  
“retirement annuity contract” has the same meaning as in Chapter 9 of this Part (see section 606).

- (6) In this section “tax-exempt pension scheme” means—
- (a) a retirement benefits scheme which is—
    - (i) an approved scheme,
    - (ii) a relevant statutory scheme, or
    - (iii) a scheme set up by a government outside the United Kingdom for the benefit, or primarily for the benefit, of its employees, or
  - (b) any such scheme or fund as was described in section 221(1) and (2) of ICTA 1970 (schemes to which payments could be made without charge to tax under section 220 of that Act).
- (7) For the purposes of subsection (6)—
- “relevant statutory scheme” has the meaning given in section 611A(1) of ICTA;
- “retirement benefits scheme” has the meaning given in section 611 of ICTA;
- “approved”, in relation to a retirement benefits scheme, means that the scheme is approved by the Board of Inland Revenue for the purposes of—
- (a) Chapter 2 of Part 2 of FA 1970, or
  - (b) Chapter 1 of Part 14 of ICTA.

## CHAPTER 17

### EXEMPTIONS: ANY TAXPAYER

#### 638 Awards for bravery

- (1) No liability to income tax arises on a pension or annuity if it is paid to the holder of an award for bravery in respect of the award.
- (2) In this section “award for bravery” means—
- the Victoria Cross,
  - the George Cross,
  - the Albert Medal,
  - the Edward Medal,
  - the Military Cross,
  - the Distinguished Flying Cross,
  - the Distinguished Conduct Medal,
  - the Conspicuous Gallantry Medal,
  - the Distinguished Service Medal,
  - the Military Medal,
  - the Distinguished Flying Medal.

#### 639 Pensions in respect of death due to military or war service

[<sup>F20</sup>(1)] No liability to income tax arises on these pensions and allowances—

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- (a) a pension or allowance payable by or on behalf of [<sup>F21</sup>the Ministry of Defence] under so much of [<sup>F22</sup>instrument specified in subsection (2),] as relates to death due to—
- (i) service in the armed forces of the Crown,
  - (ii) wartime service in the merchant navy, or
  - (iii) war injuries;
- (b) a pension or allowance—
- (i) payable by the Ministry of Defence in respect of death due to peacetime service in the armed forces of the Crown before 3rd September 1939, and
  - (ii) payable at rates, and subject to conditions, similar to those of a pension within paragraph (a);
- (c) a pension or allowance—
- (i) payable under the law of a country other than the United Kingdom, and
  - (ii) of a character substantially similar to a pension within paragraph (a) or (b).

[<sup>F23</sup>(2) The instruments referred to in subsection (1)(a) are—

Defence (Local Defence Volunteers) Regulations 1940 (S.R. & O. 1940/748),  
 War Pensions (Coastguards) Scheme 1944 (S.R. & O. 1944/500),  
 War Pensions (Naval Auxiliary Personnel) Scheme 1964 (S.I. 1964/1985),  
 Pensions (Polish Forces) Scheme 1964 (S.I. 1964/2007),  
 War Pensions (Mercantile Marine) Scheme 1964 (S.I. 1964/2058),  
 Order by Her Majesty concerning pensions and other grants in respect of disablement or death due to service in the Home Guard (1964 Cmnd. 2563),  
 Order by Her Majesty concerning pensions and other grants in respect of disablement or death due to service in the Home Guard after 27th April 1952 (1964 Cmnd. 2564),  
 Order by Her Majesty concerning pensions and other grants in respect of disablement or death due to service in the Ulster Defence Regiment (1971 Cmnd. 4567),  
 Personal Injuries (Civilians) Scheme 1983 (S.I. 1983/686),  
 Naval, Military and Air Forces etc. (Disablement and Death) Service Pensions Order 1983 (S.I. 1983/883).

(3) The Treasury may by order amend subsection (2).]

#### Textual Amendments

- F20** S. 639 renumbered as s. 639(1) (retrospectively) by [Finance Act 2005 \(c. 7\), s. 19\(3\)\(8\)](#)  
**F21** Words in s. 639(a) substituted (retrospectively) by [Finance Act 2005 \(c. 7\), s. 19\(3\)\(a\)\(8\)](#)  
**F22** Words in s. 639(a) substituted (retrospectively) by [Finance Act 2005 \(c. 7\), s. 19\(3\)\(b\)\(8\)](#)  
**F23** S. 639(2)(3) inserted (retrospectively) by [Finance Act 2005 \(c. 7\), s. 19\(3\)\(8\)](#)

#### 640 Exemption under section 639 where income withheld

- (1) This section applies if—
- (a) an individual is entitled to both of the following—

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- (i) a pension or allowance mentioned in section 639 (“pension A”), and
  - (ii) any other pension or allowance (“pension B”), and
  - (b) the whole or a part of pension A is withheld because of the individual’s entitlement to pension B.
- (2) In such a case, an amount of pension B equal to the withheld amount of pension A is treated for the purposes of section 639 as part of pension A.

#### **641 Wounds and disability pensions**

- (1) No liability to income tax arises on—
- (a) a wounds pension granted to a member of the armed forces of the Crown;
  - (b) retired pay of a disabled officer granted on account of medical unfitness attributable to or aggravated by service in the armed forces of the Crown;
  - (c) a disablement or disability pension granted to a member of the armed forces of the Crown, other than a commissioned officer, on account of medical unfitness attributable to or aggravated by service in the armed forces of the Crown;
  - (d) a disablement pension granted to a person who has been employed in the nursing services of any of the armed forces of the Crown on account of medical unfitness attributable to or aggravated by service in the armed forces of the Crown;
  - (e) an injury or disablement pension payable under any scheme made under—
    - (i) the Injuries in War (Compensation) Act 1914 (c. 30), or
    - (ii) the Injuries in War (Compensation) Act 1914 (Session 2) (5 & 6 Geo. 5 c. 18);
  - (f) an injury or disablement pension payable under any War Risks Compensation Scheme for the Mercantile marine;
  - (g) a pension—
    - (i) granted to a person on account of disablement, and
    - (ii) payable under any scheme made under section 3, 4 or 5 of the Pensions (Navy, Army, Air Force and Mercantile Marine) Act 1939 (c. 83).
- (2) But if the Secretary of State certifies that a pension or retired pay of a kind listed in subsection (1) is only partly attributable to disablement or disability, that subsection applies only to the part attributable to disablement or disability.

#### **642 Compensation for National-Socialist persecution**

No liability to income tax arises on a pension or annuity which is payable under any special provision for victims of National-Socialist persecution which is made by the law of—

- (a) the Federal Republic of Germany or any part of it, or
- (b) Austria.

#### **643 Malawi, Trinidad and Tobago and Zambia government pensions**

- (1) No liability to income tax arises on—
- (a) a Malawi government pension,
  - (b) a Trinidad and Tobago government pension, or

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- (c) a Zambia government pension,  
if conditions A, B and C are met.
- (2) Condition A is that the pension is paid to—
- (a) the original pensioner, or
  - (b) the widow or widower of the original pensioner.
- (3) Condition B is that the pension is now paid under section 1 of OPA 1973 (whether or not it is paid out of a fund established under a scheme made under that section).
- (4) Condition C is that, at the time the pension is paid, provision is made by double taxation relief arrangements which would exempt the pension from income tax in the United Kingdom if the pension were still paid by the relevant government (rather than under section 1 of OPA 1973).
- (5) Subsection (1) does not apply to any part of a pension which is paid because the Pensions (Increase) Act 1971 (c. 56) applies to it.
- (6) In this section—
- “double taxation relief arrangements” means arrangements specified in an Order in Council making any such provisions as are referred to in section 788 of ICTA;
- “Malawi government pension” means a pension payable by the government of Malawi for services rendered—
- (a) to the government of Malawi, or
  - (b) to the government of the Federation of Rhodesia and Nyasaland,
- in the discharge of government functions;
- “Trinidad and Tobago government pension” means a pension payable by the government of Trinidad and Tobago for services rendered to the government of Trinidad and Tobago in the discharge of governmental functions;
- “Zambia government pension” means a pension payable by the government of Zambia for services rendered—
- (a) to the government of Zambia,
  - (b) to the government of Northern Rhodesia, or
  - (c) to the government of the Federation of Rhodesia and Nyasaland,
- in the discharge of governmental functions.
- (7) For the purposes of this section a person is the “original pensioner” in relation to a pension if—
- (a) the pension is payable by virtue of the person’s service, and
  - (b) the person retired from that service before 6th April 1973.

#### **644 Pensions payable where employment ceased due to disablement**

- (1) No liability to income tax arises on the exempt amount of a disablement pension.
- (2) For the purposes of this section a pension is a “disablement pension” if—
- (a) the pension is payable because a person has ceased to hold an employment or office because of disablement, and
  - (b) that disablement is attributable to—
    - (i) performance of the duties of the employment or office, or

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(ii) war injuries.

But “disablement pension” does not include any pension to which section 580 or 590 applies.

(3) The exempt amount of a disablement pension is determined in accordance with the following steps.

*Step 1*

Determine what pension would have been payable if—

- (a) the person had ceased to hold the employment or office because of the disablement mentioned in subsection (2)(a), but
- (b) the disablement had not been attributable to—
  - (i) performance of the duties of the employment or office, or
  - (ii) war injuries.

*Step 2*

If no pension would have been payable, the exempt amount is the amount of the disablement pension.

If a pension of a smaller amount than the disablement pension would have been payable, the exempt amount is the amount by which the disablement pension exceeds the smaller amount.

In any other case, the exempt amount is nil.

(4) For the purposes of this section “office” includes in particular any position which has an existence independent of the person who holds it and may be filled by successive holders.

**645 Social security pensions: increases in respect of children**

(1) No liability to income tax arises on a part of a social security pension which is attributable to an increase in respect of a child.

(2) In this section “social security pension” means—

- (a) any pension, benefit or allowance to which section 577 applies, and
- (b) any pension, benefit or allowance which—
  - (i) is payable under the law of a country or territory outside the United Kingdom, and
  - (ii) is substantially similar in character to a pension, benefit or allowance to which section 577 applies.

**646 Former miners etc: coal and allowances in lieu of coal**

(1) No liability to income tax arises on—

- (a) the provision of coal or smokeless fuel—
  - (i) to a former colliery worker, or
  - (ii) to the widow or widower of a former colliery worker, or
- (b) any allowance paid to such a person in lieu of such provision, if the condition in subsection (2) is met.

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- (2) That condition is that the amount of coal or fuel provided or in respect of which the allowance is paid does not substantially exceed the amount reasonably required for personal use.
- (3) That condition is assumed to be met unless the contrary is shown.
- (4) In this section “former colliery worker” means—
  - (a) any person who has ceased to be employed as a coal miner, or
  - (b) any other person who has ceased to be employed at or about a colliery otherwise than in clerical, administrative or technical work.

## CHAPTER 18

### EXEMPTIONS: NON-UK RESIDENT TAXPAYERS

#### **647 Introduction and meaning of “foreign residence condition” etc.**

- (1) The provisions of this Part provide that no liability to income tax arises on certain kinds of pensions if the foreign residence condition is met.
- (2) The foreign residence condition is met in relation to a pension if the pension is payable to a person who is not resident in the United Kingdom.
- (3) For the purposes of the foreign residence condition, a person is taken to be not resident in the United Kingdom only if—
  - (a) a person makes a claim to the Board of Inland Revenue that the person is not resident, and
  - (b) the Board is satisfied that the person is not resident.
- (4) In this Chapter “pension” includes—
  - (a) a gratuity or any sum payable on or in respect of death,
  - (b) a return of contributions, and
  - (c) any interest or other addition included in a return of contributions.

#### **648 The Central African Pension Fund**

- (1) No liability to income tax arises on a pension which is paid from the Central African Pension Fund if the foreign residence condition is met.
- (2) In this section “the Central African Pension Fund” means the fund established under that name by section 24 of the Federation of Rhodesia and Nyasaland (Dissolution) Order in Council 1963 (S.I. 1963/2085).

#### **649 Commonwealth government pensions**

- (1) No liability to income tax arises on a pension paid out of a fund which is established—
  - (a) in the United Kingdom,
  - (b) by a Commonwealth government,
  - (c) for the sole purpose of providing pensions payable in respect of service under that government,
 if the foreign residence condition is met.

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- (2) In this section “Commonwealth government” means—
- (a) the government of a territory or country mentioned in subsection (3),
  - (b) the government of any part of a territory or country mentioned in subsection (3), or
  - (c) a government constituted for two or more of the territories or countries mentioned in subsection (3).
- (3) The territories and countries referred to in subsection (2) are—
- (a) a country mentioned in Schedule 3 to the British Nationality Act 1981 (c. 61) apart from Australia, Canada, New Zealand, India, Sri Lanka and Cyprus,
  - (b) an associated state,
  - (c) a British overseas territory,
  - (d) a protectorate,
  - (e) a protected state, and
  - (f) a United Kingdom trust territory.
- (4) In subsection (2)(c) the reference to a government constituted for two or more of the territories or countries mentioned in subsection (3) includes a reference to any authority established for the purpose of providing or administering services which are common to, or relate to matters of common interest to, two or more of those territories or countries.
- (5) In subsection (3)(f) “United Kingdom trust territory” means a territory administered by the government of the United Kingdom under the trusteeship system of the United Nations.

## **650 Oversea Superannuation Scheme**

- (1) No liability to income tax arises on a pension which is paid under the Oversea Superannuation Scheme (formerly known as the Colonial Superannuation Scheme) if the foreign residence condition is met.
- (2) For the purposes of subsection (1) a pension is paid under the Oversea Superannuation Scheme if—
- (a) the pension is paid under the Scheme as it has effect (by reason of section 2(4A) of OPA 1973) as a scheme under section 2 of OPA 1973, or
  - (b) the pension is paid under a scheme which—
    - (i) the Secretary of State has made under section 2(1) of OPA 1973, and
    - (ii) corresponds to the Oversea Superannuation Scheme.

## **651 Overseas Pensions Act 1973**

- (1) No liability to income tax arises on a pension which is paid under section 1 of OPA 1973 if the foreign residence condition is met.
- (2) Subsection (1) applies whether or not the pension is paid out of a fund established under a scheme made under section 1 of OPA 1973.
- (3) But subsection (1) does not apply to any part of a pension paid because the Pensions (Increase) Acts apply to it.
- (4) In this section “the Pensions (Increase) Acts” means—

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- (a) the Pensions (Increase) Act 1971 (c. 56), and
- (b) any Act passed after that Act for purposes which correspond to the purposes of that Act.

## **652 Overseas Service Act 1958**

- (1) No liability to income tax arises on a pension—
  - (a) which is paid under the authority of the Overseas Service Act 1958 (c. 14), and
  - (b) which the Secretary of State certifies to be attributable to the employment of a person in the public services of an overseas territory,
 if the foreign residence condition is met.
- (2) If the Secretary of State certifies that only part of a pension paid under the authority of the 1958 Act is attributable to the employment of a person in the public services of an overseas territory, subsection (1) applies only to that part of the pension.
- (3) For the purposes of subsections (1) and (2) a pension is paid under the authority of the 1958 Act if condition A or B is met.
- (4) Condition A is that the pension is paid under either of the following—
  - (a) an order made under section 2 of the 1958 Act, or
  - (b) section 4(2) of the 1958 Act,
 as it has effect (by reason of section 2(3) of OPA 1973) as a scheme under section 2 of OPA 1973.
- (5) Condition B is that the pension is paid under a scheme which the Secretary of State—
  - (a) has made under section 2(1) of OPA 1973, and
  - (b) has certified to correspond to—
    - (i) an order made under section 2 of the 1958 Act, or
    - (ii) section 4(2) of the 1958 Act.
- (6) For the purposes of this section, a person is taken to be employed in the public service of an overseas territory at any time when—
  - (a) the person is employed in any capacity under the government of that territory, or under any municipal or other local authority in it,
  - (b) the person is employed in circumstances not falling within paragraph (a), by a body corporate established for any public purpose in that territory by an enactment of a legislature empowered to make laws for that territory, or
  - (c) the person is the holder of a public office in that territory in circumstances not falling within paragraph (a) or (b).
- (7) In subsection (6) references to the government of an overseas territory include references to—
  - (a) a government constituted for two or more overseas territories, and
  - (b) any authority established for the purpose of providing or administering services which are common to, or relate to matters of common interest to, two or more such territories.
- (8) In this section—
  - “the 1958 Act” means the Overseas Service Act 1958 (c. 14);
  - “certified” means certified for the purposes of ICTA 1970, ICTA or this Act.



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### **653 Overseas Service Pensions Fund**

- (1) No liability to income tax arises on a pension which is paid out of the Overseas Service Pensions Fund if the foreign residence condition is met.
- (2) In this section “the Overseas Service Pensions Fund” means the fund with that name established under section 7(1) of the Overseas Aid Act 1966 (c. 21).
- (3) In this section “pension” includes not only the things mentioned in section 647(4) but also any sum payable in respect of ill-health.

### **654 The Pensions (India, Pakistan and Burma) Act 1955**

- (1) No liability to income tax arises on a pension paid under the authority of the Pensions (India, Pakistan and Burma) Act 1955 (c. 22) if the foreign residence condition is met.
- (2) A pension is paid under the authority of the 1955 Act if—
  - (a) the pension is paid under the 1955 Act as it has effect (by reason of section 2(3) of OPA 1973) as a scheme under section 2 of OPA 1973, or
  - (b) the pension is paid under a scheme which the Secretary of State—
    - (i) has made under section 2(1) of OPA 1973, and
    - (ii) has certified to correspond to the provision made under the 1955 Act.
- (3) This section does not apply to any part of a pension paid because the Pensions (Increase) Acts apply to it.
- (4) In this section—

“the 1955 Act” means the Pensions (India, Pakistan and Burma) Act 1955 (c. 22);

“certified” means certified for the purposes of ICTA 1970, ICTA or this Act;

“the Pensions (Increase) Acts” means—

  - (a) the Pensions (Increase) Act 1971 (c. 56), and
  - (b) any Act passed after that Act for purposes which correspond to the purposes of that Act.

## **PART 10**

### **SOCIAL SECURITY INCOME**

#### **CHAPTER 1**

##### **INTRODUCTION**

### **655 Structure of Part 10**

- (1) The structure of this Part is as follows—

Chapter 2—

  - (a) imposes the charge to tax on social security income, and
  - (b) provides for deductions to be made from the amount of income chargeable;

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Chapter 3 sets out the UK social security benefits which are charged to tax under this Part and identifies—

- (a) the amount of income chargeable to tax for a tax year, and
- (b) the person liable to pay any tax charged;

Chapters 4 and 5 deal with exemptions from the charge to tax on UK social security benefits (whether under this Part or any other provision);

Chapters 6 and 7 make provision about foreign benefits.

- (2) For other provisions about the taxation of social security benefits, see—
  - section 151 of FA 1996 (power for the Treasury to make orders about the taxation of benefits payable under Government pilot schemes);
  - section 84 of FA 2000 (exemption of payments under New Deal 50plus);
  - section 85 of FA 2000 (exemption of payments under Employment Zones programme).
- (3) For the charge to tax on social security pensions, see Part 9 (pension income).

## CHAPTER 2

### TAX ON SOCIAL SECURITY INCOME

#### 656 Nature of charge to tax on social security income

- (1) The charge to tax on social security income is a charge to tax on that income excluding any exempt income.
- (2) “Exempt income” is social security income on which no liability to income tax arises as a result of any provision of Chapter 4, 5 or 7 of this Part.

This definition applies for the purposes of this Part.

#### 657 Meaning of “social security income”, “taxable benefits” etc.

- (1) This section defines—
  - “social security income” for the purposes of the Tax Acts, and
  - “taxable benefits”, “Table A” and “Table B” for the purposes of this Part.
- (2) “Social security income” means—
  - (a) the United Kingdom social security benefits listed in Table A,
  - (b) the United Kingdom social security benefits listed in Table B,
  - (c) the foreign benefits to which section 678 applies, and
  - (d) the foreign benefits to which section 681(2) applies.
- (3) “Taxable benefits” means—
  - (a) the United Kingdom social security benefits listed in Table A, and
  - (b) the foreign benefits to which section 678 applies.
- (4) Subsections (2) and (3) are subject to section 660(2).
- (5) “Table A” means Table A in section 660.

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(6) “Table B” means Table B in section 677.

### **658 Amount charged to tax**

- (1) The amount of social security income which is charged to tax under this Part for a particular tax year is as follows.
- (2) In relation to a taxable benefit, the amount charged to tax is the net taxable social security income for the tax year.
- (3) The net taxable social security income for a taxable benefit for a tax year is given by the formula—

### **TSSI- PGD**

where—

TSSI means the amount of taxable social security income for that benefit for that year (see subsections (4) to (7)), and

PGD means the amount of the deduction (if any) allowed from the benefit under Part 12 (payroll giving).

- (4) In relation to bereavement allowance, carer’s allowance, incapacity benefit and income support (which are listed in Table A), the amount of taxable social security income is determined in accordance with section 661.
- (5) In relation to any other benefit listed in Table A, the amount of taxable social security income is the amount of the benefit that falls to be charged to tax.
- (6) In relation to foreign benefits to which section 678 applies, the amount of taxable social security income is determined in accordance with section 679.
- (7) In determining for the purposes of this Act the amount of taxable social security income, any exempt income is to be excluded.

### **659 Person liable for tax**

The person liable for any tax charged under this Part is identified in—

- (a) section 662 (UK benefits), or
- (b) section 680 (foreign benefits).

## **CHAPTER 3**

### **TAXABLE UK SOCIAL SECURITY BENEFITS**

### **660 Taxable benefits: UK benefits – Table A**

- (1) This is Table A—

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TABLE A

## TAXABLE UK BENEFITS

<i>Social security benefit</i>	<i>Payable under</i>	
Bereavement allowance	SSCBA 1992 SSCB(NI)A 1992	Section 39B Section 39B
Carer's allowance	SSCBA 1992 SSCB(NI)A 1992	Section 70 Section 70
Incapacity benefit	SSCBA 1992 SSCB(NI)A 1992	Section 30A(1) or (5), 40 or 41 Section 30A(1) or (5), 40 or 41
Income support	SSCBA 1992 SSCB(NI)A 1992	Section 124 Section 123
Jobseeker's allowance	JSA 1995 JS(NI)O 1995	Section 1 Article 3
Statutory adoption pay	SSCBA 1992	Section 171ZL
	Any provision made for Northern Ireland which corresponds to section 171ZL of SSCBA 1992	
Statutory maternity pay	SSCBA 1992 SSCB(NI)A 1992	Section 164 Section 160
Statutory paternity pay	SSCBA 1992	Section 171ZA or 171ZB
	Any provision made for Northern Ireland which corresponds to section 171ZA or section 171ZB of SSCBA 1992	
Statutory sick pay	SSCBA 1992 SSCB(NI)A 1992	Section 151 Section 147.

- (2) A benefit listed below is not “social security income” or a “taxable benefit” if it is charged to tax under another Part of this Act—
- statutory adoption pay;
  - statutory maternity pay;
  - statutory paternity pay;
  - statutory sick pay.

**661 Taxable social security income**

- (1) This section applies in relation to each of the following taxable benefits listed in Table A—
- bereavement allowance,
  - carer's allowance,
  - incapacity benefit, and
  - income support.

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- (2) The amount of taxable social security income for a taxable benefit for a tax year is the full amount of the benefit accruing in the tax year irrespective of when any amount is actually paid.

#### **662 Person liable for tax**

The person liable for any tax charged under this Part on a taxable benefit listed in Table A is the person receiving or entitled to the benefit.

### **CHAPTER 4**

#### **TAXABLE UK SOCIAL SECURITY BENEFITS: EXEMPTIONS**

##### *Incapacity benefit*

#### **663 Long-term incapacity benefit: previous entitlement to invalidity benefit**

- (1) No liability to income tax arises on long-term incapacity benefit if—
- (a) a person is entitled to the benefit for a day of incapacity for work which falls in a period of incapacity for work which is treated for the purposes of that benefit as having begun before 13th April 1995, and
  - (b) the part of that period which is treated as having fallen before that date includes a day for which that person was entitled to invalidity benefit.
- (2) In this section—
- “invalidity benefit” means invalidity benefit under—
    - (a) Part 2 of SSCBA 1992, or
    - (b) Part 2 of SSCB(NI)A 1992;
  - “long-term incapacity benefit” means incapacity benefit payable under—
    - (a) section 30A(5), 40 or 41 of SSCBA 1992, or
    - (b) section 30A(5), 40 or 41 of SSCB(NI)A 1992.

#### **664 Short-term incapacity benefit not payable at the higher rate**

- (1) No liability to income tax arises on short-term incapacity benefit unless it is payable at the higher rate.
- (2) In this section—
- (a) “short-term incapacity benefit” means incapacity benefit payable under—
    - (i) section 30A(1) of SSCBA 1992, or
    - (ii) section 30A(1) of SSCB(NI)A 1992;
  - (b) the reference to short-term incapacity benefit payable at the higher rate is to be construed in accordance with—
    - (i) section 30B of SSCBA 1992, or
    - (ii) section 30B of SSCB(NI)A 1992.

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### *Income support*

#### **665 Exempt unless payable to member of couple involved in trade dispute**

- (1) No liability to income tax arises on income support unless—
  - (a) the income support is payable to one member of a married or unmarried couple (“the claimant”), and
  - (b) section 126 of SSCBA 1992 or section 125 of SSCB(NI)A 1992 (trade disputes) applies to the claimant but not to the other member of the couple.
- (2) In this section “married couple” and “unmarried couple” have the same meaning as in section 137(1) of SSCBA 1992 or section 133(1) of SSCB(NI)A 1992.

#### **666 Child maintenance bonus**

No liability to income tax arises on a part of income support which is attributable to a child maintenance bonus (within the meaning of section 10 of CSA 1995 or Article 4 of CS(NI)O 1995).

#### **667 Amounts in excess of taxable maximum**

- (1) If the amount of income support paid to a person (“the claimant”) for a week or a part of a week exceeds the claimant’s taxable maximum for that period, no liability to income tax arises on the excess.
- (2) The claimant’s taxable maximum for a period is determined under section 668.

#### **668 Taxable maximum**

- (1) A claimant’s taxable maximum for a week is determined under this subsection if the applicable amount for the purpose of calculating the income support consists only of an amount in respect of the relevant couple.

The taxable maximum is equal to one half of the applicable amount.

- (2) A claimant’s taxable maximum for a week is determined under this subsection if the applicable amount includes amounts that are not in respect of the relevant couple.

The taxable maximum is equal to one half of the amount which is included in the applicable amount in respect of the relevant couple.

- (3) A claimant’s taxable maximum for a part of a week is determined as follows—

##### *Step 1*

Assume that the income support is paid to the claimant for the whole of, rather than part of, the week.

##### *Step 2*

Determine under subsection (1) or (2) what the claimant’s taxable maximum for that week would be on that assumption.

##### *Step 3*

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Determine the claimant's taxable maximum for the part of the week using this formula—

$$\frac{N}{7} \times \text{TMW}$$

where—

N is the number of days in the part of the week for which the claimant is actually paid the income support, and

TMW is the taxable maximum for the whole week determined under step 2.

## 669 Interpretation

- (1) In section 668, except in relation to Northern Ireland—
  - “applicable amount” means the amount prescribed in relation to income support in regulations made under section 135 of SSCBA 1992;
  - “married couple” and “unmarried couple” have the same meaning as in section 137(1) of SSCBA 1992.
- (2) In section 668, in relation to Northern Ireland—
  - “applicable amount” means the amount prescribed in relation to income support in regulations made under section 131 of SSCB(NI)A 1992;
  - “married couple” and “unmarried couple” have the same meaning as in section 133(1) of SSCB(NI)A 1992.
- (3) In section 668 “relevant couple”, in relation to a claimant, means the married or unmarried couple of which the claimant is a member.

### *Jobseeker's allowance*

## 670 Child maintenance bonus

No liability to income tax arises on a part of a jobseeker's allowance which is attributable to a child maintenance bonus (within the meaning of section 10 of CSA 1995 or Article 4 of CS(NI)O 1995).

## 671 Amounts in excess of taxable maximum

- (1) If the amount of jobseeker's allowance paid to a person (“the claimant”) for a week or a part of a week exceeds the claimant's taxable maximum for that period, no liability to income tax arises on the excess.
- (2) The claimant's taxable maximum for a period is determined under sections 672 to 674.

## 672 Taxable maximum: general

- (1) A claimant's taxable maximum for a week is determined—
  - (a) under section 673, if the claimant is paid an income-based jobseeker's allowance for that week, or

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- (b) under section 674, if the claimant is paid a contribution-based jobseeker's allowance for that week.

- (2) A claimant's taxable maximum for a part of a week is determined as follows—

*Step 1*

Assume that the jobseeker's allowance is paid to the claimant for the whole of, rather than part of, the week.

*Step 2*

Determine under section 673 or 674 what the claimant's taxable maximum for that week would be on that assumption.

*Step 3*

Determine the claimant's taxable maximum for the part of the week using this formula—

$$\frac{M}{7} \times \text{TMW}$$

where—

*N* is the number of days in the part of the week for which the claimant is actually paid the jobseeker's allowance, and

TMW is the taxable maximum for the whole week determined under step 2.

**673 Taxable maximum: income-based jobseeker's allowance**

- (1) A claimant's taxable maximum for a week is determined under this section if—
- (a) the claimant is paid an income-based jobseeker's allowance for that week, or
  - (b) the claimant is assumed under section 672(2) to be paid an income-based jobseeker's allowance for that week.
- (2) If the claimant is not a member of a married or unmarried couple, the claimant's taxable maximum for the week is equal to the age-related amount which would be applicable to the claimant if a contribution-based jobseeker's allowance were payable to the claimant for that week.
- (3) If the claimant is a member of a married or unmarried couple, the claimant's taxable maximum for the week is equal to the portion of the applicable amount which is included in the jobseeker's allowance in respect of the couple for that week.
- (4) But if—
- (a) the claimant is a member of a married or unmarried couple, and
  - (b) the other member of that couple is prevented by section 14 of JSA 1995 or Article 16 of JS(NI)O 1995 (trade disputes) from being entitled to a jobseeker's allowance,

the claimant's taxable maximum for that week is equal to half the portion of the applicable amount which is included in the jobseeker's allowance in respect of the couple for that week.



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#### **674 Taxable maximum: contribution-based jobseeker's allowance**

- (1) A claimant's taxable maximum for a week is determined under this section if—
  - (a) the claimant is paid a contribution-based jobseeker's allowance for that week, or
  - (b) the claimant is assumed under section 672(2) to be paid a contribution-based jobseeker's allowance for that week.
- (2) If the claimant is not a member of a married or unmarried couple, the claimant's taxable maximum for the week is equal to the age-related amount which is applicable to the claimant for that week.
- (3) If the claimant is a member of a married or unmarried couple, the claimant's taxable maximum for the week is equal to the portion of the applicable amount which would be included in the jobseeker's allowance in respect of the couple if an income-based jobseeker's allowance were payable to the claimant for that week.

#### **675 Interpretation**

- (1) In sections 671 to 674, except in relation to Northern Ireland—
  - “age-related amount” and “applicable amount” mean the amounts determined as such in accordance with regulations made under section 4 of JSA 1995;
  - “contribution-based jobseeker's allowance” and “income-based jobseeker's allowance” have the same meaning as in section 1(4) of JSA 1995;
  - “married couple” and “unmarried couple” have the same meaning as in section 35(1) of JSA 1995.
- (2) In sections 671 to 674, in relation to Northern Ireland—
  - “age-related amount” and “applicable amount” mean the amounts determined as such in accordance with regulations made under Article 6 of JS(NI)O 1995;
  - “contribution-based jobseeker's allowance” and “income-based jobseeker's allowance” have the same meaning as in Article 3(4) of JS(NI)O 1995;
  - “married couple” and “unmarried couple” have the same meaning as in Article 2(2) of JS(NI)O 1995.

*Increases in respect of children*

#### **676 Increases in respect of children**

No liability to income tax arises on a part of a taxable benefit listed in Table A which is attributable to an increase in respect of a child.

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## CHAPTER 5

### UK SOCIAL SECURITY BENEFITS WHOLLY EXEMPT FROM INCOME TAX

#### 677 UK social security benefits wholly exempt from tax: Table B

- (1) No liability to income tax arises on the United Kingdom social security benefits listed in Table B.

TABLE B—PART 1

#### BENEFITS PAYABLE UNDER PRIMARY LEGISLATION

<i>Social security benefit</i>	<i>Payable under</i>	
Attendance allowance	SSCBA 1992	Section 64
	SSCB(NI)A 1992	Section 64
Back to work bonus	JSA 1995	Section 26
	JS(NI)O 1995	Article 28
Bereavement payment	SSCBA 1992	Section 36
	SSCB(NI)A 1992	Section 36
Child benefit	SSCBA 1992	Section 141
	SSCB(NI)A 1992	Section 137
Child's special allowance	SSCBA 1992	Section 56
	SSCB(NI)A 1992	Section 56
Child tax credit	TCA 2002	Part 1
Council tax benefit	SSCBA 1992	Section 131
Disability living allowance	SSCBA 1992	Section 71
	SSCB(NI)A 1992	Section 71
Guardian's allowance	SSCBA 1992	Section 77
	SSCB(NI)A 1992	Section 77
Housing benefit	SSCBA 1992	Section 130
	SSCB(NI)A 1992	Section 129
Industrial injuries benefit (apart from industrial death benefit)	SSCBA 1992	Section 94
	SSCB(NI)A 1992	Section 94
Pensioner's Christmas bonus	SSCBA 1992	Section 148
	SSCB(NI)A 1992	Section 144
Payments out of the social fund	SSCBA 1992	Section 138
	SSCB(NI)A 1992	Section 134
Severe disablement allowance	SSCBA 1992	Section 68
	SSCB(NI)A 1992	Section 68
State maternity allowance	SSCBA 1992	Section 35
	SSCB(NI)A 1992	Section 35
State pension credit	SPCA 2002	Section 1

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	SPCA(NI) 2002	Section 1
Working tax credit	TCA 2002	Part 1

## TABLE B — PART 2

### BENEFITS PAYABLE UNDER REGULATIONS

<i>Social security benefit</i>	<i>Payable under regulations made under</i>	
Compensation payments where child support reduced because of a change in legislation	CSA 1995 CS(NI)O 1995	Section 24 Article 17
Payments to reduce under-occupation by housing benefit claimants	WRPA 1999 WRP(NI)O 1999	Section 79 Article 70

- (2) Industrial death benefit is charged to tax under Part 9 (see section 577).
- (3) In this section “industrial death benefit” means any benefit payable under—
- section 94 of, and Part 6 of Schedule 7 to, SSCBA 1992, or
  - section 94 of, and Part 6 of Schedule 7 to, SSCB(NI)A 1992.

## CHAPTER 6

### TAXABLE FOREIGN BENEFITS

#### 678 Taxable benefits: foreign benefits

- (1) This section applies to any benefit which is payable under the law of a country or territory outside the United Kingdom if—
- it is substantially similar in character to a benefit listed in Table A, and
  - it is payable to a person resident in the United Kingdom.
- (2) But this section does not apply to a benefit which is charged to tax under Part 9 (pension income).

#### 679 Taxable social security income

- (1) If section 678 applies, the taxable social security income for a taxable benefit for a tax year is the amount on which tax would be chargeable if the benefit were chargeable to tax under Case V of Schedule D (see in particular the provisions of ICTA listed in subsection (2)).
- (2) Those provisions of ICTA are—
- sections 65 and 68 (calculation of the amount of the income on which tax is to be charged in the tax year);
  - section 584 (relief for unremittable overseas income);
  - section 585 (relief on delayed remittances).

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## **680 Person liable for tax**

The person liable for any tax charged under this Part on a benefit to which section 678 applies is the person receiving or entitled to the benefit.

## **CHAPTER 7**

### TAXABLE AND OTHER FOREIGN BENEFITS: EXEMPTIONS

## **681 Taxable and other foreign benefits: exemptions**

- (1) No liability to income tax arises on a taxable foreign benefit if, or to the extent that, the corresponding UK benefit is exempt income.
- (2) No liability to income tax arises on a benefit which is payable under the law of a country or territory outside the United Kingdom if it is substantially similar in character to a United Kingdom social security benefit listed in Table B.
- (3) In this section—
  - “taxable foreign benefit” means a benefit to which section 678 applies;
  - “corresponding UK benefit”, in relation to a taxable foreign benefit, means the taxable benefit listed in Table A to which the foreign benefit is substantially similar in character (see section 678).

## **PART 11**

### PAY AS YOU EARN

## **CHAPTER 1**

### INTRODUCTION

## **682 Scope of this Part**

- (1) This Part provides for the assessment, collection and recovery of income tax in respect of PAYE income.
- (2) The provisions of this Part are contained in—
  - this Chapter (which gives the meaning of “PAYE income”),
  - Chapter 2 (PAYE: general),
  - Chapter 3 (PAYE: special types of payer or payee),
  - Chapter 4 (PAYE: special types of income),
  - Chapter 5 (PAYE settlement agreements), and
  - Chapter 6 (miscellaneous and supplemental).
- (3) Provision for PAYE regulations is made by Chapters 2 to 6.

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## 683 PAYE income

- (1) For the purposes of this Act and any other enactment (whenever passed) “PAYE income” for a tax year consists of—
  - (a) any PAYE employment income for the year,
  - (b) any PAYE pension income for the year, and
  - (c) any PAYE social security income for the year.
- (2) “PAYE employment income” for a tax year means income which consists of—
  - (a) any taxable earnings from an employment in the year (determined in accordance with section 10(2)), and
  - (b) any taxable specific income from an employment for the year (determined in accordance with section 10(3)).
- (3) “PAYE pension income” for a tax year means, subject to subsection (4), taxable pension income for the year determined in accordance with any of the following provisions—
  - section 571 (United Kingdom pensions),
  - section 578 (United Kingdom social security pensions),
  - section 581 (approved retirement benefits schemes: pensions and annuities),
  - section 584 (approved retirement benefits schemes: unauthorised payments),
  - section 591 (former approved superannuation funds: annuities),
  - section 596 (approved personal pension schemes: annuities),
  - section 599 (approved personal pension schemes: income withdrawals),
  - section 602 (approved personal pension schemes: unauthorised payments),
  - section 616 (certain overseas government pensions paid in the United Kingdom),
  - section 621 (the House of Commons Members' Fund),
  - section 634 (voluntary annual payments).
- (4) “PAYE pension income” does not include any taxable pension income determined in accordance with section 584 that would not be such income if section 587 (marine pilots' benefit fund) were omitted.
- (5) “PAYE social security income” for a tax year means taxable social security income for the year determined in accordance with section 658(4) or (5) (taxable United Kingdom social security benefits).

## CHAPTER 2

### PAYE: GENERAL

## 684 PAYE regulations

- (1) The Board of Inland Revenue must make regulations (“PAYE regulations”) with respect to the assessment, charge, collection and recovery of income tax in respect of all PAYE income.
- (2) PAYE regulations may, in particular, include any such provision as is set out in the following list.

#### LIST OF PROVISIONS

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1. Provision—
    - (a) for requiring persons making payments of, or on account of, PAYE income to make, at the time of the payment, deductions or repayments of income tax calculated by reference to tax tables prepared by the Board of Inland Revenue, and
    - (b) for making persons who are required to make any such deductions or repayments accountable to or, as the case may be, entitled to repayment from the Board.
  2. Provision for the collection and recovery, whether by deduction from any PAYE income paid in any later year or otherwise, of income tax in respect of any such income which has not been deducted or otherwise recovered during the year.
  3. Provision for the production to, and inspection by, persons authorised by the Board of wages sheets and other documents and records for the purposes of satisfying themselves that income tax has been and is being deducted, repaid and accounted for in accordance with the regulations.
  4. Provision for requiring an employer or former employer to provide any information, within a prescribed time, about payments or other benefits provided or to be provided, including those provided or to be provided in connection with—
    - (a) the termination of a person’s employment, or
    - (b) a change in the duties of or general earnings from a person’s employment.
  5. Provision for the way in which any matters provided for by the regulations are to be proved.
  6. Provision—
    - (a) for requiring the payment of interest on sums due to the Board which are not paid by the due date,
    - (b) for determining the date (being not less than 14 days after the end of the tax year in respect of which the sums are due) from which such interest is to be calculated, and
    - (c) for enabling the repayment or remission of such interest.
  7. Provision for requiring the payment of interest on sums due from the Board and for determining the date from which such interest is to be calculated.
  8. Provision for the assessment and charge of income tax in respect of PAYE income.
  9. Provision for appeals with respect to matters arising under the regulations which would otherwise not be the subject of an appeal.
  10. Different provision for different cases or classes of case.
  11. Any incidental, consequential, supplementary and transitional provision which appears to the Board to be expedient.
- (3) The deductions of income tax required to be made by PAYE regulations under item 1 in the above list may be required to be made at the basic rate or other rates in such cases or classes of case as may be provided by the regulations.
  - (4) Interest required to be paid by PAYE regulations under item 6 or 7 in the above list must be paid without any deduction of income tax and may not be taken into account in computing any income, profits or losses for any tax purposes.

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- (5) PAYE regulations must not affect any right of appeal to the General or Special Commissioners which a person would have apart from the regulations.
- (6) It does not matter for the purposes of PAYE regulations that income is wholly or partly income for a tax year other than that in which the payment is made.
- (7) PAYE regulations have effect despite anything in the Income Tax Acts.
- (8) In this Act and any other enactment (whenever passed) “PAYE regulations” means regulations under this section.

## **685 Tax tables**

- (1) The Board of Inland Revenue must construct tax tables with a view to securing that so far as possible—
  - (a) the total income tax payable in respect of PAYE income for any tax year is deducted from PAYE income paid during that year, and
  - (b) the income tax deductible or repayable on the occasion of any payment of, or on account of, PAYE income is such that the following proportions are the same—
    - (i) the proportion which the total net income tax deducted since the beginning of the tax year bears to the total income tax payable for the year, and
    - (ii) the proportion which the part of the tax year which ends with the date of the payment bears to the whole year.
- (2) References in subsection (1) to the total income tax payable for the year are to be read as references to the total income tax estimated to be payable for the year in respect of the income in question—
  - (a) subject to a provisional deduction for allowances and reliefs, and
  - (b) subject, if necessary, to an adjustment for amounts overpaid or remaining unpaid on account of income tax in respect of PAYE income for any previous year.
- (3) For the purpose of estimating the total income tax payable as mentioned in subsection (1)(a), it may be assumed, in relation to any payment of, or on account of, PAYE income, that the following proportions will be the same—
  - (a) the proportion which the income paid in the part of the tax year which ends with the making of the payment bears to the income for the whole year, and
  - (b) the proportion which that part of the tax year bears to the whole year.

## **686 Meaning of “payment”**

- (1) For the purposes of PAYE regulations, a payment of, or on account of, PAYE income of a person is treated as made at the earliest of the following times—

### *Rule 1*

The time when the payment is made.

### *Rule 2*

The time when the person becomes entitled to the payment.

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### Rule 3

If the person is a director of a company and the income is income from employment with the company (whether or not as director), whichever is the earliest of—

- (a) the time when sums on account of the income are credited in the company's accounts or records (whether or not there is any restriction on the right to draw the sums);
  - (b) if the amount of the income for a period is determined before the period ends, the time when the period ends;
  - (c) if the amount of the income for a period is not determined until after the period has ended, the time when the amount is determined.
- (2) Rule 3 applies if the person is a director of the company at any time in the tax year in which the time mentioned falls.
- (3) In this section “director” means—
- (a) in relation to a company whose affairs are managed by a board of directors or similar body, a member of that board or body,
  - (b) in relation to a company whose affairs are managed by a single director or other person, that director or person, and
  - (c) in relation to a company whose affairs are managed by the members themselves, a member of the company,
- and includes any person in accordance with whose directions or instructions the company's directors (as defined above) are accustomed to act.
- (4) For the purposes of subsection (3) a person is not regarded as a person in accordance with whose directions or instructions the company's directors are accustomed to act merely because the directors act on advice given by that person in a professional capacity.

## CHAPTER 3

### PAYE: SPECIAL TYPES OF PAYER OR PAYEE

#### 687 Payments by intermediary

- (1) If any payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of the income of an amount equal to the amount given by subsection (3).
- (2) Subsection (1) does not apply if the intermediary (whether or not a person to whom PAYE regulations apply) deducts income tax from the payment the intermediary makes, and accounts for it, in accordance with PAYE regulations.
- (3) The amount referred to is—
  - (a) if the amount of the payment made by the intermediary is an amount to which the recipient is entitled after deduction of income tax, the aggregate of the amount of the payment and the amount of any income tax due, and
  - (b) in any other case, the amount of the payment.



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- (4) For the purposes of this section a payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer if it is made—
- (a) by a person acting on behalf of the employer and at the expense of the employer or a person connected with the employer, or
  - (b) by trustees holding property for any persons who include or class of persons which includes the employee.

### **688 Agency workers**

- (1) If the remuneration receivable by an individual under or in consequence of any contract falls to be treated under section 44 (agency workers) as earnings from an employment, the relevant provisions have effect as if the individual held the employment with or under the agency.
- (2) If—
- (a) the remuneration receivable by an individual under or in consequence of any contract falls to be so treated under section 44, and
  - (b) a payment of, or on account of, PAYE income of the individual is made by a person acting on behalf of the client, and at the expense of the client or a person connected with the client,
- section 687 and, in relation to any payment treated as made by the client under section 687, section 710 have effect in relation to the payment as if the client and not the agency were the employer for the purposes of the relevant provisions.
- (3) In subsections (1) and (2)—
- “the agency” and “the client” have the same meanings as in section 44;
  - “the relevant provisions” means this Chapter except section 691, Chapter 4 of this Part and section 710.

### **689 Employee of non-UK employer**

- (1) This section applies if—
- (a) an employee during any period works for a person (“the relevant person”) who is not the employer of the employee,
  - (b) any payment of, or on account of, PAYE income of the employee in respect of that period is made by a person who is the employer or an intermediary of the employer or of the relevant person,
  - (c) PAYE regulations do not apply to the person making the payment or, if that person makes the payment as an intermediary of the employer or of the relevant person, the employer, and
  - (d) income tax is not deducted, or not accounted for, in accordance with the regulations by the person making the payment or, if that person makes the payment as an intermediary of the employer or of the relevant person, the employer.
- (2) The relevant person is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount given by subsection (3).
- (3) The amount referred to is—

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- (a) if the amount of the payment actually made is an amount to which the recipient is entitled after deduction of income tax, the aggregate of the amount of the payment and the amount of any income tax due, and
  - (b) in any other case, the amount of the payment.
- (4) If, by virtue of any of sections 693 to 700, an employer would be treated for the purposes of PAYE regulations (if they applied to the employer) as making a payment of any amount to an employee, this section has effect as if—
- (a) the employer were also to be treated for the purposes of this section as making an actual payment of that amount, and
  - (b) paragraph (a) of subsection (3) were omitted.
- (5) For the purposes of this section a payment of, or on account of, PAYE income of an employee is made by an intermediary of the employer or of the relevant person if it is made—
- (a) by a person acting on behalf of the employer or the relevant person and at the expense of the employer or the relevant person or a person connected with the employer or the relevant person, or
  - (b) by trustees holding property for any persons who include or class of persons which includes the employee.
- (6) In this section and sections 690 and 691 “work”, in relation to an employee, means the performance of any duties of the employment of the employee and any reference to the employee’s working is to be read accordingly.

#### **690 Employee non-resident etc.**

- (1) This section applies in relation to an employee in a tax year only if the employee—
- (a) is not resident or, if resident, not ordinarily resident in the United Kingdom, and
  - (b) works or will work in the United Kingdom and also works or is likely to work outside the United Kingdom.
- (2) If in relation to an employee to whom this section applies and any tax year it appears to the Inland Revenue that—
- (a) some of the income paid to the employee by the employer is PAYE income, but
  - (b) some of that income may not be PAYE income,
- the Inland Revenue may, on an application made by the appropriate person, give a direction for determining a proportion of any payment made in that year of, or on account of, income of the employee which is to be treated as PAYE income.
- (3) In this section—
- (a) “the appropriate person” means the person designated by the employer for the purposes of this section and, if no person is so designated, the employer, and
  - (b) any reference to a payment made by the employer includes a reference to a payment made by a person acting on behalf of the employer and at the expense of the employer or a person connected with the employer.
- (4) An application under subsection (2) must provide such information as is available and is relevant to the application.
- (5) A direction under subsection (2)—
- (a) must specify the employee to whom and the tax year to which it relates,

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- (b) must be given by notice to the appropriate person, and
  - (c) may be withdrawn by notice to the appropriate person from a date specified in the notice.
- (6) The date so specified may not be earlier than 30 days from the date on which the notice of withdrawal is given.
- (7) If—
- (a) a direction under subsection (2) has effect in relation to an employee to whom this section applies, and
  - (b) a payment of, or on account of, the income of the employee is made by the employer in the tax year to which the direction relates,
- the proportion of the payment determined in accordance with the direction is to be treated for the purposes of PAYE regulations as a payment of PAYE income of the employee.
- (8) If in any tax year—
- (a) no direction under subsection (2) has effect in relation to an employee to whom this section applies, and
  - (b) any payment of, or on account of, the income of the employee is made by the employer,
- the entire payment is to be treated for the purposes of PAYE regulations as a payment of PAYE income of the employee.
- (9) Subsections (7) and (8) are without prejudice to—
- (a) any assessment in respect of the income of the employee in question, and
  - (b) any right to repayment of income tax overpaid and any obligation to pay income tax underpaid.
- (10) In a case where section 689 applies—
- (a) the references to the employer in subsection (3)(a) are to be read as references to the relevant person, and
  - (b) any reference to a payment made by the employer is to be read as a reference to a payment treated, for the purposes of PAYE regulations, as made by the relevant person.
- In this subsection “the relevant person” has the same meaning as in section 689.

## **691 Mobile UK workforce**

- (1) This section applies if it appears to the Board of Inland Revenue that—
- (a) a person (“the relevant person”) has entered into or is likely to enter into an agreement that employees of another person (“the contractor”) are in any period to work for, but not as employees of, the relevant person,
  - (b) payments of, or on account of, PAYE income of the employees in respect of work done in that period are likely to be made by or on behalf of the contractor, and
  - (c) PAYE regulations would apply on the making of such payments but it is likely that income tax will not be deducted, or will not be accounted for, in accordance with the regulations.

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- (2) The Board may give a direction that, if—
- (a) any of the employees of the contractor work in any period for, but not as employees of, the relevant person, and
  - (b) any payment is made by the relevant person in respect of work done by the employees in that period,
- income tax is to be deducted in accordance with the provisions of this section by the relevant person on making the payment.
- (3) A direction under subsection (2)—
- (a) must specify the relevant person and the contractor to whom it relates;
  - (b) must be given by notice to the relevant person; and
  - (c) may at any time be withdrawn by notice to the relevant person.
- (4) The Board must take such steps as are reasonably practicable to ensure that a contractor is supplied with a copy of any notice under subsection (3) which relates to him.
- (5) If—
- (a) a direction under subsection (2) has effect, and
  - (b) any employees of the contractor specified in the direction work for, but not as employees of, the relevant person so specified,
- income tax is, subject to and in accordance with PAYE regulations, to be deducted by the relevant person on making any payment in respect of that work as if so much of the payment as is attributable to work done by each employee were a payment of PAYE income of that employee.

## **692 Organised arrangements for sharing tips**

- (1) PAYE regulations may make provision with respect to organised arrangements for tips to be shared among employees by a person (“P”) who is not the principal employer.
- (2) PAYE regulations may include provisions which, for the purposes of PAYE regulations—
- (a) treat every payment made by P to an employee by way of the employee’s share of any tips (including the retention by P of P’s own share if P is an employee) as a payment of PAYE income by P, and
  - (b) treat P as the employer in relation to every such payment.
- (3) PAYE regulations may also include provisions which—
- (a) apply if P has failed to comply with any of the requirements of PAYE regulations, and
  - (b) treat the principal employer, for the purposes of PAYE regulations, as making payments to the employees of any tips paid over to P by the principal employer.
- (4) In this section—
- “the principal employer” means the person under whose general control and management the employees work;
- “tips” means gratuities and service charges.

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## CHAPTER 4

### PAYE: SPECIAL TYPES OF INCOME

#### *Income provided by means of vouchers and tokens*

#### **693 Cash vouchers**

- (1) If a cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies is received by an employee at any time, the employer is to be treated, for the purposes of PAYE regulations, as making at that time a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 81(2) (benefit of cash voucher treated as earnings).
- (2) This section does not apply to the provision of a cash voucher if—
  - (a) the voucher is used to meet expenses, and
  - (b) if the amount for which the voucher is capable of being exchanged had been paid directly to the employee by his or her employer, the amount would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) This section does not apply to the provision of a cash voucher if it is exchanged for an amount which—
  - (a) is used to meet expenses, and
  - (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70.
- (4) PAYE regulations may exclude from the scope of this section the provision of cash vouchers in circumstances specified in the regulations.
- (5) A cash voucher provided for an employee and appropriated to the employee—
  - (a) by attaching it to a card held for the employee, or
  - (b) in any other way,is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

#### **694 Non-cash vouchers**

- (1) If a non-cash voucher to which this section applies is received by an employee, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 87(2) (benefit of non-cash voucher treated as earnings).
- (2) This section applies to a non-cash voucher to which Chapter 4 of Part 3 (taxable benefits: vouchers and credit-tokens) applies if—
  - (a) either of the conditions set out below is met with respect to the voucher, and
  - (b) the voucher is not of a description for the time being excluded from the scope of this section by PAYE regulations.
- (3) The first condition is met with respect to a non-cash voucher if it is capable of being exchanged for anything which, if provided to the employee at the time when the voucher is received, would fall to be regarded as a readily convertible asset.

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- (4) The second condition is met with respect to a non-cash voucher if (but for section 701(2)(b)) it would fall itself to be regarded as a readily convertible asset.
- (5) A payment under subsection (1) is made—
- (a) in the case of a non-cash voucher other than a cheque voucher, at the time when the cost of provision is incurred or, if later, the time when the voucher is received by the employee;
  - (b) in the case of a cheque voucher, at the time when the voucher is handed over in exchange for money, goods or services.
- (6) For the purposes of subsection (5)—
- “cheque voucher” has the same meaning as in Chapter 4 of Part 3;
- “cost of provision”, in relation to a voucher provided by an employer, has the meaning given by section 87;
- and a cheque voucher that is posted is to be treated as handed over at the time of posting.
- (7) A non-cash voucher provided for an employee and appropriated to the employee—
- (a) by attaching it to a card held for the employee, or
  - (b) in any other way,
- is to be treated for the purposes of this section as having been received by the employee at the time when it is appropriated.

## 695 Credit-tokens

- (1) On each occasion on which an employee uses a credit-token provided to the employee because of the employee’s employment to obtain—
- (a) money, or
  - (b) anything which, if provided to the employee at the time when the credit-token is used, would fall to be regarded as a readily convertible asset,
- the employer is to be treated, for the purposes of PAYE regulations, as making a payment of PAYE income of the employee of an amount equal to the amount ascertained under section 94(2) (benefit of credit-token treated as earnings).
- (2) The use of a credit-token by an employee to obtain money is excluded from the scope of this section if the money—
- (a) is used to meet expenses, and
  - (b) if it had been paid directly to the employee by the employer, would not have been PAYE income except by virtue of section 70 (sums in respect of expenses).
- (3) PAYE regulations may make provision for excluding from the scope of this section any other description of use of a credit-token.

### *Income provided in other ways*

## 696 Readily convertible assets

- (1) If any PAYE income of an employee is provided in the form of a readily convertible asset, the employer is to be treated, for the purposes of PAYE regulations, as making a payment of that income of an amount equal to the amount given by subsection (2).

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- (2) The amount referred to is the amount which, on the basis of the best estimate that can reasonably be made, is the amount of income likely to be PAYE income in respect of the provision of the asset.

## **697 Enhancing the value of an asset**

- (1) This section applies if—
- (a) any PAYE income of an employee is provided in the form of anything enhancing the value of an asset in which the employee or a member of the employee's family or household already has an interest, and
  - (b) that asset, with its value enhanced, would be treated as a readily convertible asset if PAYE income were provided to the employee in the form of the asset at the time of the enhancement.
- (2) Section 696 has effect as if—
- (a) the employee had been provided, at the time of the enhancement, with PAYE income in the form of the asset (with its value enhanced), instead of with what enhanced its value, and
  - (b) the reference in subsection (2) to the provision of the asset were a reference to the enhancement of its value.
- (3) Any reference in this section to enhancing the value of an asset is a reference to—
- (a) the provision of any services by which the asset or any right or interest in it is improved or otherwise made more valuable,
  - (b) the provision of any property the addition of which to the asset improves it or otherwise increases its value, or
  - (c) the provision of any other enhancement by the application of money or property to the improvement of the asset or to securing an increase in its value or the value of any right or interest in it.
- (4) There is excluded from the scope of what constitutes enhancing the value of an asset for the purposes of this section any enhancement of value arising on the acquisition by the employee (whether or not as a result of the exercise of a right to acquire shares) of—
- (a) any shares acquired by the employee under a scheme approved under Schedule 3 (approved SAYE option schemes) or 4 (approved CSOP schemes), or Schedule 9 to ICTA (approved profit sharing schemes),
  - (b) any right over or interest in shares obtained or acquired by the employee under such a scheme, or
  - (c) any shares acquired by the employee as a result of the exercise of a right over shares obtained before 27th November 1996,
- if the shares in question form part of the share capital of a company falling within section 701(3).
- (5) PAYE regulations may make provision excluding such other matters as may be described in the regulations from the scope of what constitutes enhancing the value of an asset for the purposes of this section.

## **698 PAYE: shares ceasing to be only conditional or being disposed of**

- (1) This section applies if—

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- (a) either of the following events occurs—
    - (i) shares cease, without the employee ceasing to have a beneficial interest in them, to be shares in which the employee’s interest is only conditional;
    - (ii) in a case where shares have not so ceased, the employee sells or otherwise disposes of the employee’s interest or any other beneficial interest in the shares; and
  - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (2) This section also applies if—
- (a) an event occurs which is treated for the purposes of section 427 (charge on interest in shares ceasing to be only conditional or on disposal) as an event falling within subsection (1)(b) of that section by virtue of section 431 (disposal where employee dies); and
  - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 427(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if—
- (a) in addition to the provision to the relevant person of the employee’s interest in the shares, a further interest in those shares were provided to the relevant person at the time of the event in question; and
  - (b) the further interest were not subject to any terms by virtue of which it would fall for the purposes of Chapter 2 of Part 7 (conditional interests in shares) to be treated as only conditional.
- (4) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income 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 Chapter 2 of Part 7 in respect of the event in question.
- (5) Expressions used in this section and any provisions of Chapter 2 of Part 7 have the same meanings in this section as in those provisions.

## **699 PAYE: conversion of shares**

- (1) This section applies if—
- (a) at a time when the employee has a beneficial interest in them, shares are converted into shares of a different class as a result of an entitlement to convert them which has been conferred on the holder, and
  - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (2) This section also applies if—
- (a) an event occurs which is treated for the purposes of section 438 (charge on conversion of shares) as an event falling within subsection (1) of that section by virtue of section 444 (conversion in consequence of death); and
  - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 438(1).
- (3) If this section applies, sections 684 to 691 and 696 have effect as if, in addition to the original provision to the relevant person of the convertible shares, the shares into



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which they were converted were also provided to the relevant person at the time of the event in question.

- (4) Subsection (3) applies in a case where the convertible shares were themselves acquired—
  - (a) by means of a taxable conversion (as defined in section 439(6)), or
  - (b) by means of a series of such conversions,as if the reference to the original provision of the convertible shares were a reference to the provision of the shares which were converted by the earlier or earliest conversion.
- (5) Section 696 as applied by subsection (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income 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 Chapter 3 of Part 7 (convertible shares) in respect of the event in question.
- (6) Expressions used in this section and any provisions of Chapter 3 of Part 7 have the same meanings in this section as in those provisions.

## **700 PAYE: gains from share options**

- (1) This section applies if—
  - (a) a gain is realised by the exercise, assignment or release of a right to acquire shares, and
  - (b) as a result, an amount is chargeable on any person (“the relevant person”) by virtue of section 476 or 477 (charge on exercise etc. of share option).
- (2) In the case of the exercise of a right to acquire shares, section 696 has effect as if the relevant person were being provided with PAYE income in the form of the shares—
  - (a) at the time the relevant person acquires the shares in the exercise of the right, and
  - (b) in respect of the employment because of which the relevant person was granted the right.
- (3) In the case of the assignment or release of a right to acquire shares, sections 684 to 691 and 696 have effect—
  - (a) in so far as the consideration for the assignment or release takes the form of a payment, as if so much of that payment as does not exceed—
    - (i) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the assignment or release of the right, less
    - (ii) the amount of any relief likely to be available under section 481 (deductible amount in respect of secondary Class 1 contributions met by employee),were a payment of PAYE income of the relevant person; and
  - (b) in so far as that consideration consists in the provision of an asset, as if the provision of the asset were the provision of PAYE income in the form of the asset—
    - (i) to the relevant person, and
    - (ii) in respect of the employment because of which the relevant person was granted the right.

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- (4) Section 696 as applied by subsection (2) or (3) has effect as if the reference in subsection (2) of that section to the amount of income likely to be PAYE income in respect of the provision of the asset were a reference to—
- (a) the relevant proportion of the amount chargeable by virtue of section 476 or 477 in respect of the exercise, assignment or release of the right, less
  - (b) the amount of any relief likely to be available under section 481.
- (5) PAYE regulations may make provision for excluding payments from the scope of subsection (3)(a) in such circumstances as may be specified in the regulations.
- (6) In this section—
- “asset” includes anything to which subsection (7) applies;
- “the relevant proportion” means the proportion that so much of the consideration as takes the form of a payment, or (as the case may be) consists in the provision of an asset, bears to the whole consideration;
- and anything to which subsection (7) applies is treated as a readily convertible asset for the purposes of section 696 as applied by subsection (3) (b) or (4).
- (7) This subsection applies to—
- (a) any cash voucher;
  - (b) any non-cash voucher —
    - (i) which is capable of being exchanged for anything which, if provided to the employee at the time when the voucher is received, would fall to be regarded as a readily convertible asset, or
    - (ii) which (but for section 701(2)(b)) would fall itself to be regarded as a readily convertible asset; and
  - (c) any credit-token which is capable of being used to obtain—
    - (i) money, or
    - (ii) anything which, if provided to the employee at the time when the token is used, would fall to be regarded as a readily convertible asset.
- (8) Expressions used in this section and section 476 or 477 have the same meanings in this section as in that section.

### *Supplemental*

#### **701 Meaning of “asset”**

- (1) In this Chapter “asset” includes any property and in particular any investment of a kind specified in Part 3 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (S.I. 2001/544).

This is subject to subsection (2).

- (2) In this Chapter “asset” does not include—
- (a) any payment actually made of, or on account of, PAYE income;
  - (b) subject to section 700(6), any cash voucher, non-cash voucher or credit-token;
  - (c) the following—
    - (i) any shares acquired by the employee (whether or not as a result of the exercise of a right to acquire shares) under a scheme approved under

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- Schedule 3 (approved SAYE option schemes)<sup>F24</sup>..., or Schedule 9 to ICTA (approved profit sharing schemes),
- [<sup>F25</sup>(ia) any shares acquired by the employee (whether or not as a result of the exercise of a right to acquire shares) under a scheme approved under Schedule 4 (approved CSOP schemes), other than shares acquired as a result of the exercise of the right before the third anniversary of the date on which it was granted or later than the tenth anniversary of that date;]
- (ii) any right over or interest in shares obtained or acquired by the employee under [<sup>F26</sup>a scheme such as is mentioned in subparagraph (i) or (ia)], or
- (iii) any shares acquired by the employee as the result of the exercise of a right over shares obtained before 27th November 1996,
- if the shares in question form part of the ordinary share capital of a company falling within subsection (3); or
- (d) any description of property for the time being excluded from the scope of this section by PAYE regulations.
- (3) A company falls within this subsection if it—
- (a) is the employer (“the employer company”);
- (b) has control of the employer company; or
- (c) either is, or has control of, a company which is a member of a consortium owning either the employer company or a company having control of the employer company.
- (4) In this section “share” includes stock.
- (5) For the purposes of this section a company is a member of a consortium owning another company if it is one of a number of companies which between them beneficially own not less than 75% of the other company’s ordinary share capital and each of which beneficially owns not less than 5% of that capital.

#### Textual Amendments

- F24** Words in s. 701(2)(c)(i) repealed (with effect in accordance with Sch. 21 para. 18(5) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 21 para. 18\(2\)](#), [Sch. 43 Pt. 3\(3\)](#)
- F25** S. 701(2)(c)(ia) inserted (with effect in accordance with Sch. 21 para. 18(5) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 21 para. 18\(3\)](#)
- F26** Words in s. 701(2)(c)(ii) substituted (with effect in accordance with Sch. 21 para. 18(5) of the amending Act) by [Finance Act 2003 \(c. 14\)](#), [Sch. 21 para. 18\(4\)](#)

## 702 Meaning of “readily convertible asset”

- (1) In this Chapter “readily convertible asset” means—
- (a) an asset capable of being sold or otherwise realised on—
- (i) a recognised investment exchange (within the meaning of the Financial Services and Markets Act 2000 (c. 8)),
- (ii) the London Bullion Market,
- (iii) the New York Stock Exchange, or
- (iv) a market for the time being specified in PAYE regulations;

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- (b) an asset consisting in—
    - (i) the rights of an assignee, or any other rights, in respect of a money debt that is or may become due to the employer or any other person,
    - (ii) property that is subject to a warehousing regime, or any right in respect of property so subject, or
    - (iii) anything that is likely (without anything being done by the employee) to give rise to, or to become, a right enabling a person to obtain an amount or total amount of money which is likely to be similar to the expense incurred in the provision of the asset; or
  - (c) an asset for which trading arrangements are in existence, or are likely to come into existence in accordance with—
    - (i) any arrangements of another description existing when the asset is provided, or
    - (ii) any understanding existing at that time.
- (2) For the purposes of this section trading arrangements for any asset provided to any person exist whenever there exist any arrangements the effect of which in relation to that asset is to enable—
- (a) that person, or
  - (b) a member of that person’s family or household,
- to obtain an amount or total amount of money that is, or is likely to be, similar to the expense incurred in the provision of that asset.
- (3) PAYE regulations may exclude any description of arrangements from being trading arrangements for the purposes of this section.
- (4) References in this section to enabling a person to obtain an amount of money are to be read—
- (a) as references to enabling an amount to be obtained by that person by any means at all, including in particular—
    - (i) by using any asset or other property as security for a loan or advance, or
    - (ii) by using any rights comprised in or attached to any asset or other property to obtain any asset for which trading arrangements exist; and
  - (b) as including references to cases where a person is enabled to obtain an amount as a member of a class or description of persons, as well as where the person is so enabled in the person’s own right.
- (5) For the purposes of this section an amount is similar to the expense incurred in the provision of any asset if it is, or is an amount of money equivalent to—
- (a) the amount of the expense so incurred, or
  - (b) a greater amount, or
  - (c) an amount that is less than that amount but not substantially so.
- (6) In this section—
- “money” includes money expressed in a currency other than sterling;
  - “money debt” means any obligation which falls to be, or may be, settled—
    - (a) by the payment of money, or
    - (b) by the transfer of a right to settlement under an obligation which is itself a money debt;
  - “warehousing regime” means—

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- (a) a warehousing or fiscal warehousing regime (within the meaning of sections 18 to 18F of the Value Added Tax Act 1994 (c. 23)); or
- (b) any corresponding arrangements in a State other than the United Kingdom which is a Contracting Party to the Agreement on the European Economic Area signed at Oporto on 2nd May 1992 as adjusted by the Protocol signed at Brussels on 17th March 1993.

## CHAPTER 5

### PAYE SETTLEMENT AGREEMENTS

#### 703 Introduction

This Chapter provides—

- (a) for employers to make agreements with the Inland Revenue (“PAYE settlement agreements”) under which they agree to be accountable to the Board for sums in respect of income tax on general earnings of their employees; and
- (b) for such earnings to be treated for certain purposes of the Income Tax Acts as excluded from the employees' income.

#### 704 Sums payable by employers under agreements

(1) PAYE regulations may provide—

- (a) for a person to make a PAYE settlement agreement with the Inland Revenue; and
- (b) to such extent as may be prescribed, for that person's accountability, and the sums to be accounted for, in respect of income tax on general earnings of that person's employees to be determined—
  - (i) in accordance with the agreement, and
  - (ii) not in accordance with PAYE regulations which would apply apart from this Chapter.

(2) Without prejudice to the generality of section 684(2), any power of the Board to make PAYE regulations with respect to sums falling to be accounted for under such regulations includes power to make the corresponding provision with respect to sums falling to be accounted for in accordance with a PAYE settlement agreement.

#### 705 Approximations allowed in calculations

PAYE regulations may provide for a PAYE settlement agreement to allow sums which an employer is to account for—

- (a) to be computed, if two or more persons hold employments to which the agreement relates, by reference to a number of those persons all taken together;
- (b) to include sums representing income tax on an estimated amount taken to be the aggregate of the amounts of PAYE income consisting of—
  - (i) taxable benefits provided or made available by reason of the employments to which the agreement relates, and
  - (ii) expenses paid to the persons holding those employments; and

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- (c) to be computed in a manner under which they do not necessarily represent an amount of income tax which would be payable (apart from the agreement) by persons holding employments to which the agreement relates.

## 706 Exclusion of general earnings from income etc.

PAYE regulations may provide—

- (a) that sums accountable for by an employer under a PAYE settlement agreement, or any other sums, are not to be treated for any prescribed purpose as tax deducted from general earnings;
- (b) that an employee is to have no right to be treated as having paid tax in respect of sums accountable for by the employer under such an agreement;
- (c) that an employee is to be treated, except—
  - (i) for the purposes of the obligations imposed on the employer by such an agreement, and
  - (ii) to such further extent as may be prescribed,
 as relieved from any prescribed obligations of the employee under the Income Tax Acts in respect of general earnings from an employment to which the agreement relates; and
- (d) that such earnings are to be treated as excluded from the employee's income for such further purposes of the Income Tax Acts, and to such extent, as may be prescribed.

## 707 Interpretation of this Chapter

In this Chapter—

“employment” means any employment the general earnings from which are (or, apart from any regulations made by virtue of this section, would be) PAYE income and related expressions are to be construed accordingly;

“prescribed” means prescribed by PAYE regulations;

“taxable benefit”, in relation to an employee, means any benefit provided or made available, otherwise than in the form of a payment of money, to the employee, or to a person who is a member of the employee's family or household.

## CHAPTER 6

### MISCELLANEOUS AND SUPPLEMENTAL

## 708 PAYE repayments

- (1) PAYE regulations may provide that no repayment of income tax may be made under such regulations to a person—
  - (a) during a period for which the person has claimed jobseeker's allowance, or
  - (b) at a time when the person is prevented by the trade disputes provisions from being entitled to a jobseeker's allowance, or would be so prevented if the person otherwise met the conditions for entitlement.
- (2) Different provision may be made with respect to—

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- (a) persons within subsection (1)(a), and
  - (b) persons within subsection (1)(b).
- (3) “The trade disputes provisions” means—
- (a) section 14 of JSA 1995, or
  - (b) Article 16 of JS(NI)O 1995.

#### **709 Additional provision for certain assessments**

- (1) This section applies if—
- (a) an assessment to income tax is made as respects relevant income (with or without other income), and
  - (b) the assessment is made after the end of the period of 12 months following the tax year for which it is made.
- (2) In so far as it relates to relevant income, the assessment is to be made in accordance with the practice generally prevailing at the end of that period.
- (3) “Relevant income” means income which—
- (a) has been taken into account in the making of deductions or repayments of tax under PAYE regulations, and
  - (b) was received not less than 12 months before the beginning of the tax year in which the assessment is made.

#### **710 Notional payments: accounting for tax**

- (1) If an employer makes a notional payment of PAYE income of an employee, the employer must deduct income tax at the relevant time from any payment or payments the employer actually makes of, or on account of, PAYE income of the employee.
- (2) For the purposes of this section—
- (a) a notional payment is a payment treated as made by virtue of any of sections 687, 689 and 693 to 700, other than a payment whose amount is given by section 687(3)(a) or 689(3)(a), and
  - (b) any reference to an employer includes a reference to a person who is treated as making a payment by virtue of section 689(2).
- (3) Subsection (4) applies if, because the payments actually made are insufficient for the purpose, the employer is unable to deduct the full amount of the income tax as required by subsection (1).
- (4) The employer must account to the Board of Inland Revenue at the relevant time for an amount of income tax equal to the amount of income tax the employer is required, but is unable, to deduct.
- (5) PAYE regulations may make provision—
- (a) with respect to the time when any notional payment (or description of notional payment) is made;
  - (b) applying (with or without modifications) any specified provisions of the regulations for the time being in force in relation to deductions from actual payments to amounts accounted for in respect of any notional payments;
  - (c) with respect to the collection and recovery of amounts accounted for in respect of notional payments.

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- (6) Any amount—
- (a) which an employer deducts as mentioned in subsection (1), or
  - (b) for which an employer accounts as mentioned in subsection (4),
- is to be treated as an amount which, at the time when the notional payment is made, is paid by the employee in respect of the employee's liability to income tax.
- (7) “The relevant time” means—
- (a) in subsection (1), any occasion—
    - (i) on or after the time when the notional payment is made, and
    - (ii) falling within the same income tax period, on which the employer actually makes a payment of, or on account of, PAYE income of the employee;
  - (b) in subsection (4), any time within 14 days of the end of the income tax period in which the notional payment was made.
- (8) In subsection (7) “income tax period” has the same meaning as in the Income Tax (Employments) Regulations 1993 (S.I. 1993/744), or any subsequent regulations making corresponding provision.

## **711 Right to make a return**

- (1) A person who has PAYE income for a tax year in respect of which deductions or repayments are made under PAYE regulations may by notice require the Inland Revenue to give that person a notice under section 8 of TMA 1970 (personal return) for the tax year.
- (2) A notice to the Inland Revenue under subsection (1) must be given no later than 5 years after the 31st October next following the tax year.

## **712 Interpretation of this Part**

- (1) In this Part—
- “employee” means a person who holds or has held employment with another person;
  - “employer” means—
    - (a) in relation to an employee, a person with whom the employee holds or has held an employment, and
    - (b) in relation to any PAYE income of an employee, the person who is the employer of the employee in relation to the employment in respect of which the income is or was provided or, as the case may be, by reference to which it falls to be regarded as PAYE income. The above definitions are subject to sections 688 and 710(2)(b).
- (2) Sections 4 and 5 apply for the purposes of this Part as they apply for the purposes of the employment income Parts.



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## PART 12

### PAYROLL GIVING

#### 713 Donations to charity: payroll deduction scheme

- (1) This section applies if—
  - (a) an individual is entitled to receive payments of, or on account of, PAYE income in respect of which PAYE regulations require deductions or repayments of income tax in accordance with those regulations, and
  - (b) at the request of the individual, the person making the payments (the “payer”) withholds sums from them as donations.
- (2) In determining whether there is such a requirement under PAYE regulations for the purposes of subsection (1)(a), any requirement under the regulations which requires the deduction of an amount in calculating the payments of, or on account of, PAYE income is to be disregarded.
- (3) The amount of the donations is allowed as a deduction in calculating the amount of the individual’s income which is charged to tax in accordance with subsection (4).
- (4) In the case of a payment of, or on account of—
  - (a) taxable earnings from an employment, the deduction is allowed from the taxable earnings from the employment in calculating the net taxable earnings from the employment for the relevant tax year for the purposes of Part 2 (see section 11(1));
  - (b) taxable specific income from an employment, the deduction is allowed from that taxable specific income in calculating the net taxable specific income from the employment for the relevant tax year for the purposes of Part 2 (see section 12(1));
  - (c) taxable pension income for a pension, annuity or other item of pension income, the deduction is allowed from that taxable pension income in calculating the net taxable pension income for that income for the relevant tax year for the purposes of Part 9 (see section 567(3));
  - (d) taxable social security income for a taxable benefit, the deduction is allowed from that taxable social security income in calculating the net taxable social security income for that benefit for the relevant tax year for the purposes of Part 10 (see section 658(3)).
- (5) For the purposes of subsection (4) “relevant tax year” means—
  - (a) in the case of paragraphs (a) and (b), the tax year in which the donation is withheld, and
  - (b) in the case of paragraphs (c) and (d), the tax year for which the income referred to in subsection (1)(a) is taxable pension income or taxable social security income, as the case may be.

#### 714 Meaning of “donations”

- (1) For the purposes of this Part “donations” means sums which—
  - (a) are withheld by the payer under a scheme which is an approved scheme at the time of the withholding,

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- (b) constitute gifts by the individual to one or more specified charities under the scheme, and
- (c) satisfy the conditions (if any) set out in the scheme.

(2) In this section—

“approved scheme” means a scheme which is approved (or is of a kind approved) by the Inland Revenue and under which—

- (a) the payer is required to pay sums withheld to a body which is an approved agent at the time of the withholding, and
- (b) the approved agent is required—
  - (i) to pay sums withheld to the specified charity or charities, or
  - (ii) in a case where the agent is itself a specified charity, to retain any sum due to itself;

“charity” means any body of persons or trust established for charitable purposes only and includes each of the bodies mentioned in section 507 of ICTA;

“specified charity” means a charity specified by the individual.

(3) For the purposes of this section a body is an “approved agent” if it is approved by the Inland Revenue for the purpose of paying donations to one or more charities.

## **715 Approval of schemes: regulation by Treasury**

(1) The Treasury may by regulations prescribe the circumstances in which the Inland Revenue may grant or withdraw approval of any—

- (a) scheme,
- (b) kind of scheme, or
- (c) agent.

(2) The circumstances, whether relating to the terms of schemes or the qualifications of agents or otherwise, are to be such as the Treasury think fit.

(3) The Treasury may by regulations make provision—

- (a) requiring a payer or agent who participates (or has at any time participated) in an approved scheme under this Part—
  - (i) to comply, within a prescribed period, with any notice which the Inland Revenue give to the payer or agent to make available for their inspection documents or records of a prescribed kind,
  - (ii) in prescribed circumstances, to furnish to the Inland Revenue prescribed information;
- (b) for, and in relation to, appeals to the Special Commissioners against the Inland Revenue’s refusal to approve, or their withdrawal of approval from, any—
  - (i) scheme,
  - (ii) kind of scheme, or
  - (iii) agent;
- (c) generally for giving effect to sections 713 and 714.

In this subsection “prescribed” means prescribed by the regulations.

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## PART 13

### SUPPLEMENTARY PROVISIONS

#### *Alteration of amounts*

#### **716 Alteration of amounts by Treasury order**

- (1) The Treasury may by order increase or further increase the sums of money specified in any of the following provisions.
- (2) They are—
  - (a) section 179(2)(a) (limit on exception for advances for necessary expenses),
  - (b) section 241(3)(a) and (b) (incidental overnight expenses: overall exemption limit),
  - (c) section 264(2) and (3) (annual parties and functions),
  - (d) section 287(1) (limit on exemption under Chapter 7 of Part 4: removal benefits and expenses),
  - (e) section 322(1) and (4) (suggestion awards: “the permitted maximum”),
  - (f) section 323(2) (long service awards),
  - (g) section 324(6) (small gifts from third parties), and
  - (h) section 358(3)(b) (business entertainment and gifts: other exceptions).
- (3) An order relating to section 241(3)(a) or (b) may make provision for determining what earnings are treated as received on or after the date when the order comes into force.
- (4) An order relating to section 287(1) applies to a change of an employee’s residence where the employment change occurs on or after the day specified in the order for the purpose.

“The employment change” here has the same meaning as in Chapter 7 of Part 4 (see section 275).

#### *Orders and regulations*

#### **717 Orders and regulations made by Treasury or Board**

- (1) Any power of the Treasury or the Board of Inland Revenue to make any order or regulations under this Act is exercisable by statutory instrument.  
This is subject to subsection (2).
- (2) Subsection (1) does not apply to the power conferred by section 28(5) (overseas Crown employment: order excepting certain earnings).
- (3) Any statutory instrument containing any order or regulations made by the Treasury or the Board of Inland Revenue under this Act is subject to annulment in pursuance of a resolution of the House of Commons.  
This is subject to subsection (4).
- (4) Subsection (3) does not apply to any statutory instrument made under section 343(3) (deduction for professional membership fees: order adding certain fees).

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### *Interpretation*

#### **718 Connected persons**

Section 839 of ICTA (how to tell whether persons are connected) applies for the purposes of this Act.

#### **719 Control in relation to a body corporate**

Section 840 of ICTA (meaning of control in relation to a body corporate) applies for the purposes of this Act, unless otherwise indicated.

#### **720 Meaning of “the Inland Revenue” etc.**

- (1) In this Act “the Inland Revenue” means any officer of the Board of Inland Revenue.
- (2) In this Act “the Board of Inland Revenue” means the Commissioners of Inland Revenue (as to which, see in particular the Inland Revenue Regulation Act 1890 (c. 21)).
- (3) Functions conferred on the Board of Inland Revenue by this Act are within section 4A of that Act (functions of Board exercisable by officer acting with their authority).

#### **721 Other definitions**

- (1) In this Act—

“cash voucher” has the same meaning as in Chapter 4 of Part 3 (see section 75),

“credit-token” has the same meaning as in Chapter 4 of Part 3 (see section 92),

“foreign employer” means—

- (a) in the case of an employee resident in the United Kingdom, an individual, partnership or body of persons resident outside the United Kingdom and not resident in the United Kingdom or the Republic of Ireland, and
- (b) in the case of an employee not resident in the United Kingdom, an individual, partnership or body of persons resident outside and not resident in the United Kingdom,

“non-cash voucher” has the same meaning as in Chapter 4 of Part 3 (see section 84),

“the normal self-assessment filing date”, in relation to a tax year, means the 31st January following the tax year,

“personal representatives”, in relation to a person who has died, means—

- (a) in the United Kingdom, persons responsible for administering the estate of the deceased, and
- (b) in a country or territory outside the United Kingdom, those persons having functions under its law equivalent to those of administering the estate of the deceased,

“tax year” means, in relation to income tax, a year for which any Act provides for income tax to be charged, and

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“the tax year 2003-04” means the tax year beginning on 6th April 2003 (and any corresponding expression in which two years are similarly mentioned is to be read in the same way).

- (2) In the application of this Act to Scotland, “assignment” means an assignation.
- (3) Any reference in this Act to being domiciled in the United Kingdom is to be read as a reference to being domiciled in any part of the United Kingdom.
- (4) For the purposes of this Act the following are members of a person’s family—
  - (a) the person’s spouse,
  - (b) the person’s children and their spouses,
  - (c) the person’s parents, and
  - (d) the person’s dependants.
- (5) For the purposes of this Act the following are members of a person’s family or household—
  - (a) members of the person’s family,
  - (b) the person’s domestic staff, and
  - (c) the person’s guests.
- (6) The following provisions (which relate to the legal equality of illegitimate children) are to be disregarded in interpreting references in this Act to a child or children—
  - (a) section 1 of the Family Law Reform Act 1987 (c. 42);
  - (b) the paragraph inserted in Schedule 1 to the Interpretation Act 1978 (c. 30) by paragraph 73 of Schedule 2 to the 1987 Act;
  - (c) section 1(2) of the Law Reform (Parent and Child) (Scotland) Act 1986 (c. 9);
  - (d) Article 155 of the Children (Northern Ireland) Order 1995 (S.I. 1995/755 (N.I. 2)).
- (7) In the employment income Parts any reference to earnings which is not limited by the context—
  - (a) to earnings within Chapter 1 of Part 3, or
  - (b) to any other particular description of earnings,includes a reference to any amount treated as earnings by any of the provisions mentioned in section 7(5) (meaning of “employment income” etc.).

*Amendments, repeals, citation etc.*

## **722 Consequential amendments**

Schedule 6 contains consequential amendments.

## **723 Commencement and transitional provisions and savings**

- (1) This Act comes into force on 6th April 2003 and has effect—
  - (a) for the purposes of income tax, for the tax year 2003-04 and subsequent tax years, and
  - (b) for the purposes of corporation tax, for accounting periods ending after 5th April 2003.

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- (2) Subsection (1) is subject to Schedule 7, which contains transitional provisions and savings.

#### **724 Repeals and revocations**

- (1) The enactments specified in Part 1 of Schedule 8 (which include certain spent provisions) are repealed to the extent specified.
- (2) The instruments specified in Part 2 of that Schedule are revoked to the extent specified.

#### **725 Citation**

This Act may be cited as the Income Tax (Earnings and Pensions) Act 2003.

**Status:**

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**Changes to legislation:**

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