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Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

SCHEDULES

SCHEDULE 1

Sections 28 and 33

NON-UK RESIDENT VULNERABLE PERSONS: INTERPRETATION

Vulnerable person's actual income

- 1 The “vulnerable person's actual income” for the tax year means the income that would arise (or be treated as arising) under the Income Tax Acts to the vulnerable person in the tax year on the assumption that the vulnerable person is resident and domiciled in the United Kingdom throughout the tax year.

Trustees' specially taxed income

- 2 The “trustees' specially taxed income” for the tax year means income arising (or treated as arising) to the trustees in the tax year from property held on qualifying trusts for the benefit of the vulnerable person in connection with which special income tax treatment applies for the tax year in accordance with section 25 by virtue of a claim for special tax treatment under this Chapter.

Vulnerable person's deemed CGT taxable amount

- 3 (1) The “vulnerable person's deemed CGT taxable amount” for the tax year means the sum of—
- (a) the vulnerable person's taxable amount for the tax year for the purposes of section 3 of TCGA 1992 calculated by reference only to actual gains and actual losses, and
 - (b) the vulnerable person's taxable amount for the tax year for the purposes of that section calculated by reference only to assumed gains and assumed losses.
- (2) But in calculating the taxable amount under sub-paragraph (1)(b)—
- (a) no deduction is to be made under section 2(2)(b) of TCGA 1992, and
 - (b) the words “except as provided by section 62” in section 2(3) of that Act are to be disregarded.
- (3) In determining the vulnerable person's deemed CGT taxable amount for the tax year any claims or elections made in relation to any assumed gains of the vulnerable person are to be disregarded.
- (4) In this paragraph—
- (a) “actual gains” and “actual losses” have the meanings given in paragraph 5, and
 - (b) “assumed gains” and “assumed losses” have the meanings given in paragraph 6.

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Vulnerable person's notional section 77 gains

- 4 (1) The “vulnerable person's notional section 77 gains” for the tax year means the chargeable gains that would be treated as accruing to the vulnerable person in the tax year under section 77 of TCGA 1992 by virtue of section 31 of this Act if the relevant assumptions were made.
- (2) In this paragraph “relevant assumptions” has the meaning given in paragraph 7.

Actual gains and actual losses

- 5 (1) “Actual gains” means any chargeable gains which accrue to the vulnerable person and in respect of which he is chargeable to capital gains tax for the tax year.
- (2) “Actual losses” means—
- (a) any allowable losses accruing to the vulnerable person in the tax year, and
 - (b) so far as they have not been allowed as a deduction from chargeable gains accruing to him in any previous tax year, any allowable losses accruing to him in any previous tax year (not earlier than that beginning on 6th April 1965).

Assumed gains and assumed losses

- 6 (1) “Assumed gains” means any chargeable gains, other than actual gains, which, on the relevant assumptions, would accrue to the vulnerable person and in respect of which, on those assumptions, he would be chargeable to capital gains tax for the tax year.
- (2) “Assumed losses” means any allowable losses, other than actual losses, which, on the relevant assumptions, would accrue to the vulnerable person in the tax year.
- (3) In this paragraph “relevant assumptions” has the meaning given in paragraph 7.

Relevant assumptions

- 7 (1) For the purposes of paragraphs 4 and 6 the “relevant assumptions” are—
- (a) that the vulnerable person is resident and domiciled in the United Kingdom throughout the tax year, and
 - (b) that he has given a notice under subsection (2A) of section 16 of TCGA 1992 (computation of losses) in respect of each loss accruing to him in the tax year which by virtue of subsection (3) of that section would not be an allowable loss (but for the assumption in paragraph (a)).
- (2) But the relevant assumption in sub-paragraph (1)(a) does not apply for the purposes of section 10A of TCGA 1992 (temporary non-residents).

Interpretation of Schedule

- 1 In this Schedule, “relevant arrangements” means—

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- (a) arrangements falling within section 47 under which the person referred to in that section as Y is a financial institution, or
- (b) arrangements falling within section 49.

Taxes Management Act 1970 (c. 9)

- 2 In sections 17 and 18 of TMA 1970 (interest paid etc. without deduction of income tax), references to interest include references to alternative finance return or profit share return.

Income and Corporation Taxes Act 1988 (c. 1)

- 3 Section 349 of ICTA (certain payments to be made subject to deduction of income tax) has effect in relation to alternative finance return or profit share return as it has effect in relation to interest.
- 4 In section 468L of ICTA (interest distributions), in subsection (9)(a), the reference to money placed at interest includes a reference to money invested under relevant arrangements.
- 5 Section 477A of ICTA (building societies: regulations for deduction of tax) applies in relation to alternative finance return and profit share return paid or credited under relevant arrangements as it applies in relation to interest paid or credited in respect of a deposit or loan.
- 6 Sections 480A to 482 of ICTA (relevant deposits: deduction of tax from interest payments etc.) have effect as if—
- (a) relevant arrangements were a deposit, and
 - (b) alternative finance return or profit share return payable under relevant arrangements were interest.
- 7 In section 582 of ICTA (funding bonds) references to interest include references to alternative finance return or profit share return.
- 8 Section 787 of ICTA (restriction of relief for payments of interest) has effect in relation to alternative finance return or profit share return as it has effect in relation to interest.

Finance Act 1996 (c. 8)

- 9 In paragraph 8(2)(a) of Schedule 10 to FA 1996 (loan relationships: collective investment schemes), the reference to money placed at interest includes a reference to money invested under relevant arrangements.

Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 10 In section 380 of ITTOIA 2005 (funding bonds), references to interest include references to alternative finance return or profit share return.

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SCHEDULE 3

Section 59

FILMS: RESTRICTIONS ON RELIEF FOR PRODUCTION AND ACQUISITION EXPENDITURE

PART 1

RESTRICTIONS ON CIRCUMSTANCES IN WHICH RELIEF MAY BE OBTAINED

Section 42 of the Finance (No.2) Act 1992 (c. 48)

- 1 (1) Section 42 of F(No.2)A 1992 (relief for production or acquisition expenditure) is amended as follows.
- (2) In subsection (2) omit “and” immediately before paragraph (b) and after that paragraph insert “, and
- (c) that version was owned by the claimant at the time the film was completed.”
- (3) In subsection (3) omit “and” immediately before paragraph (b) and after that paragraph insert “, and
- (c) that version has not previously been acquired by the claimant.”
- (4) After subsection (3) insert—
- “(3A) A claim under this section for a relevant period, in relation to the original master version of a film, may be made in respect of either expenditure to which subsection (2) applies or expenditure to which subsection (3) applies, but not both.
- (3B) Where, in relation to a trade or business, a company (“C”) makes a claim under this section (“the relevant claim”) for a deduction in respect of expenditure relating to the original master version of a film, C is not entitled to make that deduction if—
- (a) the relevant claim is in respect of expenditure to which subsection (2) applies and—
- (i) a previous claim under this section has been made in relation to the same trade or business for any relevant period, or
- (ii) in computing the profits of that trade or business of any relevant period, a deduction has been made under section 138, 138A or 140 of the Income Tax (Trading and Other Income) Act 2005,
- in respect of expenditure incurred on the acquisition of that version,
- (b) the relevant claim is in respect of expenditure to which subsection (3) applies and—
- (i) a previous claim under this section has been made in relation to the same trade or business for any relevant period, or
- (ii) in computing the profits of that trade or business of any relevant period, a deduction has been made under section 138 or 139 of that Act,
- in respect of expenditure incurred on the production of that version,

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- (c) a previous claim under this section has been made in relation to another trade or business, for any relevant period, in respect of expenditure to which subsection (2) or (3) applies which relates to that version, or
 - (d) a deduction has been made in respect of expenditure relating to that version under any of sections 138 to 140 of the Income Tax (Trading and Other Income) Act 2005 in computing the profits of another trade or business of any relevant period.
- (3C) For the purposes of subsection (3B)—
 - (a) it does not matter whether the previous claim was made before, or on or after, 2nd December 2004, and
 - (b) “relevant period”, in relation to a deduction under the Income Tax (Trading and Other Income) Act 2005, means a relevant period within the meaning of section 133 of that Act.
- (3D) Where, in relation to any particular film, more than one claim under this section is made at the same time, the Inland Revenue may determine which of the claims is to be regarded as made first for the purposes of subsection (3B).

In this subsection references to a claim under this section are to be read as including references to a deduction of a kind mentioned in that subsection.
- (3E) In this section “the Inland Revenue” means any officer of the Board.”
- (5) After subsection (5) insert—
 - “(5A) For the purposes of subsection (4) the total expenditure incurred by the claimant on the production or acquisition of the original master version of the film concerned is—
 - (a) in the case of a deduction in respect of expenditure to which subsection (2) applies, the total expenditure incurred by the claimant on the production of the original master version of the film concerned, and
 - (b) in the case of a deduction in respect of expenditure to which subsection (3) applies, the total expenditure incurred by the claimant on the acquisition of that original master version (“the claimant’s acquisition expenditure”).”
- (6) Subject to sub-paragraphs (7) to (10), the amendments made by this paragraph are deemed to have come into force on 2nd December 2004.
- (7) The amendments made by this paragraph do not have effect in relation to any claim for relief which—
 - (a) is made before 2nd December 2004, or
 - (b) is in respect of expenditure relating to a film which was in production on that date.
- (8) The amendments made by sub-paragraphs (2) and (3) do not have effect in relation to pre-announcement expenditure.
- (9) Where the relevant claim within the meaning of subsection (3B) of section 42 of F(No.2)A 1992 is a claim in respect of pre-announcement expenditure only, the references in paragraphs (a) to (d) of that subsection to a previous claim, or

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a deduction, do not include a previous claim, or a deduction, in respect of pre-announcement expenditure only.

- (10) Section 42 of F(No.2)A 1992 (as amended by this Schedule) has effect, for income tax purposes, for the year 2004-05 and earlier years of assessment, as if in subsection (3B) for “company” there were substituted “person”.
- (11) For the purposes of this paragraph “claim for relief” means a claim for relief under section 42 of F(No.2)A 1992 (including a claim for relief under that section as modified by section 48 of F(No.2)A 1997).

Section 101 of the Finance Act 2002 (c. 23)

- 2 (1) Section 101 of FA 2002 (restriction of relief for successive acquisitions of the same film) shall cease to have effect.
- (2) The repeal made by this paragraph is deemed to have come into force on 2nd December 2004.
- (3) But that repeal does not have effect in relation to—
- (a) any claim for relief which was made before 2nd December 2004,
 - (b) any claim for relief which is in respect of expenditure relating to a film which was in production on that date, or
 - (c) any claim for relief—
 - (i) which is made on or after that date, and
 - (ii) in relation to which section 42(3B) of F(No.2)A 1992 (as inserted by paragraph 1) would operate to prevent a deduction being made, but for paragraph 1(9) (transitional provision in respect of pre-announcement expenditure).
- (4) For the purposes of sub-paragraph (3) “claim for relief” means a claim for relief under section 42 of F(No.2)A 1992 as modified by section 48 of F(No.2)A 1997.

Section 138 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 3 (1) For section 138 of ITTOIA 2005 (certified master versions: production or acquisition expenditure) substitute—

“138 Certified master versions: production expenditure

- (1) This section applies if—
- (a) the person carrying on the trade has incurred production expenditure in respect of the original master version of a film in, or before, the relevant period,
 - (b) the film was completed in, or before, that period,
 - (c) the original master version is a certified master version,
 - (d) the original master version was owned by that person at the time the film was completed,
 - (e) the film is genuinely intended for theatrical release, and
 - (f) there has not already been a disqualifying deduction in respect of expenditure relating to the film (see section 140A).

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- (2) A deduction is allowed for the amount of the expenditure allocated to the relevant period, but this is subject to the application of any prohibitive rule.
- (3) The person carrying on the trade may allocate up to the permissible amount of the expenditure to the relevant period.
- (4) The permissible amount of the expenditure is the smallest amount given by the following calculations.
- (5) The calculations are—

Calculation 1

Calculate one-third of the total production expenditure incurred by the person in respect of the original master version (“the total expenditure”).

Calculation 2

Calculate one-third of the sum obtained by deducting from the total expenditure—

- (a) any amount of the total expenditure already allocated under section 137,
- (b) any amount of the total expenditure already allocated under section 41 of F(No.2)A 1992, and
- (c) any amount of the total expenditure that has already been, or is capable of being, allocated under section 139 below or under section 42 of F(No.2)A 1992 as applied by section 48(1) to (3) of F(No.2)A 1997 (corresponding corporation tax provision).

Calculation 3

Calculate so much of the total expenditure as has not already been allocated to the relevant period or any other relevant period—

- (a) under this section or any other provision of this Chapter, or
 - (b) under any of sections 40B, 41 or 42 of F(No.2)A 1992.
- (6) If the relevant period is less than 12 months the above references to one-third are to be read as references to a proportionately smaller fraction.
 - (7) If any production expenditure in respect of the original master version is allocated to the relevant period—
 - (a) under section 135 above, or
 - (b) under section 40B of F(No.2)A 1992,no other production expenditure in respect of the original master version may be allocated to the relevant period under this section.

138A Certified master versions: acquisition expenditure

- (1) This section applies if—
 - (a) the person carrying on the trade has incurred acquisition expenditure in respect of the original master version of a film in, or before, the relevant period,
 - (b) the original master version has not previously been acquired by that person,

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- (c) the film was completed in, or before, that period,
 - (d) the original master version is a certified master version,
 - (e) the film is genuinely intended for theatrical release, and
 - (f) there has not already been a disqualifying deduction in respect of expenditure relating to the film (see section 140A).
- (2) A deduction is allowed for the amount of the expenditure allocated to the relevant period, but this is subject to the application of any prohibitive rule.
- (3) The person carrying on the trade may allocate up to the permissible amount of the expenditure to the relevant period.
- (4) The permissible amount of the expenditure is the smallest amount given by the following calculations.
- (5) The calculations are—
- Calculation 1*
- Calculate one-third of the total acquisition expenditure incurred by the person in respect of the original master version (“the total expenditure”).
- Calculation 2*
- Calculate one-third of the sum obtained by deducting from the total expenditure any amount of the total expenditure that has already been, or is capable of being, allocated under section 140 below or under section 42 of F(No.2)A 1992 as applied by section 48(1) to (3) of F(No.2)A 1997 (corresponding corporation tax provision).
- Calculation 3*
- Calculate so much of the total expenditure as has not already been allocated to the relevant period or any other relevant period—
- (a) under this section or any other provision of this Chapter, or
 - (b) under any of sections 40B or 42 of F(No.2)A 1992.
- (6) If the relevant period is less than 12 months the above references to one-third are to be read as references to a proportionately smaller fraction.
- (7) If any acquisition expenditure in respect of the original master version is allocated to the relevant period—
- (a) under section 135 above, or
 - (b) under section 40B of F(No.2)A 1992,
- no other acquisition expenditure in respect of the original master version may be allocated to the relevant period under this section.”
- (2) Subject to sub-paragraphs (3) and (4), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
- (3) Those amendments do not have effect in relation to any film which was in production on 2nd December 2004.
- (4) In relation to pre-announcement expenditure—
- (a) section 138 of ITTOIA 2005 (as substituted by this paragraph) has effect as if subsection (1)(d) of that section were omitted, and

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- (b) section 138A of that Act (as so substituted) has effect as if subsection (1)(b) of that section were omitted.

Section 139 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 4 (1) Section 139 of ITTOIA 2005 (certified master versions: production expenditure on limited-budget films) is amended as follows.
- (2) In subsection (1), after paragraph (c) insert—
- “(ca) the original master version was owned by that person at the time the film was completed.”
- (3) In that subsection omit “and” immediately before paragraph (e) and after that paragraph insert “, and
- (f) there has not already been a disqualifying deduction in respect of expenditure relating to the film (see section 140A).”
- (4) Subject to sub-paragraphs (5) and (6), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
- (5) Those amendments do not have effect in relation to any film which was in production on 2nd December 2004.
- (6) The amendment made by sub-paragraph (2) does not have effect in relation to pre-announcement expenditure.

Section 140 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 5 (1) Section 140 of ITTOIA 2005 (certified master versions: acquisition expenditure on limited-budget films) is amended as follows.
- (2) In subsection (1)—
- (a) omit paragraph (b),
- (b) before paragraph (c) insert—
- “(ba) the original master version has not previously been acquired by that person,”, and
- (c) omit “and” immediately before paragraph (f) and after that paragraph insert “, and
- (g) there has not already been a disqualifying deduction in respect of expenditure relating to the film (see section 140A).”
- (3) Omit subsection (2).
- (4) Subject to sub-paragraphs (5) to (7), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
- (5) Those amendments do not have effect in relation to any film which was in production on 2nd December 2004.
- (6) The amendments made by sub-paragraphs (2)(a) and (3) do not have effect in a case where subsection (1)(g) of section 140 of ITTOIA 2005 (as inserted by this paragraph) would operate to prevent a deduction being made under that section, but for paragraph 6(3) of this Schedule (transitional provision in respect of pre-announcement expenditure).

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- (7) The amendment made by sub-paragraph (2)(b) does not have effect in relation to pre-announcement expenditure.

Meaning of “disqualifying deduction”

- 6 (1) After section 140 of ITTOIA 2005 insert—

“Interpretation of sections 138 to 140

140A “Disqualifying deduction”

- (1) For the purposes of sections 138 and 139 a disqualifying deduction in respect of expenditure relating to the film occurs when—
- (a) under sections 138, 138A or 140 a deduction is made in respect of acquisition expenditure in respect of the original master version of the film in calculating the profits of the trade of any relevant period,
 - (b) a claim under section 42 of F(No.2)A 1992 is made in relation to the trade, for any relevant period, in respect of expenditure incurred on the acquisition of that version,
 - (c) under any of sections 138 to 140 a deduction is made in respect of production or acquisition expenditure in respect of that version in calculating the profits of another trade or business of any relevant period, or
 - (d) a claim under section 42 of F(No.2)A 1992 is made in relation to another trade or business, for any relevant period, in respect of expenditure incurred on the production or acquisition of that version.
- (2) For the purposes of sections 138A and 140 a disqualifying deduction in respect of expenditure relating to the film occurs when—
- (a) under section 138 or 139 a deduction is made in respect of production expenditure in respect of the original master version of the film in calculating the profits of the trade of any relevant period,
 - (b) a claim under section 42 of F(No.2)A 1992 is made in relation to the trade, for any relevant period, in respect of expenditure incurred on the production of that version,
 - (c) under any of sections 138 to 140 a deduction is made in respect of production or acquisition expenditure in respect of that version in calculating the profits of another trade or business of any relevant period, or
 - (d) a claim under section 42 of F(No.2)A 1992 is made in relation to another trade or business, for any relevant period, in respect of expenditure incurred on the production or acquisition of that version.
- (3) For the purposes of subsections (1) and (2)—
- (a) it does not matter whether a claim under section 42 of F(No.2)A 1992 was made before, or on or after, 2nd December 2004, and
 - (b) references to a relevant period in relation to such a claim are to a relevant period within the meaning of section 40B of that Act.
- (4) Where more than one deduction is made at the same time, the Inland Revenue may determine which of those deductions is to be regarded as made first for

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the purposes of determining, for the purposes of sections 138 to 140, whether a disqualifying deduction has already been made.

- (5) In subsection (4) references to a deduction are to be read as including references to a claim under section 42 of F(No.2)A 1992.”
- (2) Subject to sub-paragraphs (3) and (4), the amendment made by this paragraph has effect for the year 2005-06 and subsequent years of assessment.
- (3) When determining whether a deduction under any of sections 138 to 140 of ITTOIA 2005 in respect of pre-announcement expenditure only is allowed, any other deduction under any of those sections, or previous claim under section 42 of F(No.2)A 1992, in respect of pre-announcement expenditure only is to be ignored for the purposes of determining whether there has already been a disqualifying deduction.
- (4) In sub-paragraph (3) “disqualifying deduction” is to be construed in accordance with section 140A of ITTOIA 2005.

Transitional provision for films in production

- 7 (1) This paragraph applies in relation to any claim for relief under section 42 of F(No.2)A 1992 (other than any claim for relief under that section as modified by section 48 of F(No.2)A 1997) which is in respect of expenditure incurred on the acquisition of the original master version of a film which was in production on 2nd December 2004.
- (2) No relief is available under section 42 of F(No.2)A 1992 in respect of that expenditure if—
- (a) the acquisition is not the first acquisition by the claimant of the original master version of the film, or
- (b) a claim has already been made under that section, or a deduction has already been made under section 138, 138A or 140 of ITTOIA 2005, in respect of expenditure incurred on another acquisition of that version.
- (3) Where, in relation to any particular film, more than one claim under section 42 of F(No.2)A 1992 is made at the same time, the Inland Revenue may determine which of the claims is to be regarded as made first for the purposes of this paragraph.

In this sub-paragraph references to a claim under section 42 of F(No.2)A 1992 are to be read as including references to a deduction of the kind mentioned in sub-paragraph (2)(b).

- (4) For the purposes of this paragraph “the Inland Revenue” means any officer of the Board.
- (5) This paragraph is deemed to have come into force on 2nd December 2004.
- 8 (1) This paragraph applies in relation to relief under section 138 of ITTOIA 2005 in respect of any expenditure incurred on the acquisition of the original master version of a film which was in production on 2nd December 2004.
- (2) No deduction is allowed under that section in respect of expenditure incurred by a person on the acquisition of that version if—
- (a) the acquisition is not the first acquisition by that person of the original master version of the film, or

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- (b) a deduction has already been made under section 138, 138A or 140 of ITTOIA 2005, or a claim has already been made under section 42 of F(No.2)A 1992, in respect of expenditure incurred on another acquisition of that version.
- (3) Where, in relation to any particular film, more than one deduction of the kind mentioned in sub-paragraph (2)(b) is made at the same time, the Inland Revenue may determine which of the deductions is to be regarded as made first for the purposes of this paragraph.
- In this sub-paragraph references to a deduction of the kind mentioned in sub-paragraph (2)(b) are to be read as including references to a claim under section 42 of F(No.2)A 1992.
- (4) For the purposes of this paragraph “the Inland Revenue” means any officer of the Board.
- (5) This paragraph has effect for the year 2005-06 and subsequent years of assessment.

PART 2

RESTRICTIONS ON AMOUNT OF RELIEF WHICH MAY BE OBTAINED

Section 42 of the Finance (No.2) Act 1992 (c. 48)

- 9 (1) Section 42 of F(No.2)A 1992 (relief for production or acquisition expenditure) is amended as follows.
- (2) After subsection (3) (and before subsection (3A) inserted by paragraph 1(4) of this Schedule) insert—
- “(3ZA) Subsection (3) does not apply to so much of that expenditure as exceeds the total production expenditure in respect of the film concerned.
- (3ZB) For the purposes of this section the “total production expenditure” in respect of a film means the total of all the expenditure incurred on the production of the original master version of the film.”
- (3) After subsection (5A) (inserted by paragraph 1(5) of this Schedule) insert—
- “(5B) Where the claimant's acquisition expenditure exceeds the total production expenditure in respect of the film, paragraph (b) of subsection (5A) has effect as if the claimant's acquisition expenditure were an amount equal to that total production expenditure.”
- (4) After subsection (8) insert—
- “(8A) For the purposes of this section the expenditure incurred on the production of the original master version of a film does not include any amount that at the time the film is completed—
- (a) has not been paid, and
- (b) is not the subject of an unconditional obligation to pay within 4 months after the date of completion.

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- (8B) Subsections (1) to (5) of section 5 of the Capital Allowances Act 2001 (when capital expenditure is incurred) apply for determining when for the purposes of this section any expenditure is incurred as they apply for determining when for the purposes of that Act any capital expenditure is incurred, but as if, in subsection (6) of that section, “at an earlier time” were substituted for “in an earlier chargeable period”.
- (5) Subject to sub-paragraphs (6) to (9), the amendments made by this paragraph are deemed to have come into force on 2nd December 2004.
- (6) Those amendments do not have effect in relation to any claim for relief which is in respect of expenditure which relates to a film which had its first day of principal photography before that date.
- (7) Where, in relation to a film—
- (a) disregarding subsection (3ZA) of section 42 of F(No.2)A 1992, a claimant under that section has incurred pre-announcement expenditure to which subsection (3) of that section applies, and
- (b) the total amount of that pre-announcement expenditure exceeds the total production expenditure in respect of the film (within the meaning of subsection (3ZB) of that section),
- the references in subsections (3ZA) and (5B) of that section to the total production expenditure in respect of the film are to be read as references to the total amount of that pre-announcement expenditure.
- (8) Subject to sub-paragraph (9), the amendment made by sub-paragraph (4) does not have effect in relation to pre-announcement expenditure.
- (9) For the purposes of section 42(3ZB) of F(No.2)A 1992 (definition of “total production expenditure” in respect of a film) the amendment made by sub-paragraph (4) also has effect in relation to expenditure incurred on the production of an original master version which is pre-announcement expenditure.
- (10) In this paragraph “claim for relief” means a claim for relief under section 42 of F(No.2)A 1992 (including a claim for relief under that section as modified by section 48 of F(No.2)A 1997).

Section 48 of the Finance (No.2) Act 1997 (c. 58)

- 10 (1) In section 48 of F(No.2)A 1997 (which modifies section 42 of F(No.2)A 1992 as it applies in relation to certain expenditure)—
- (a) in subsection (2), for “Subject to subsection (3) below, this” substitute “ This ”,
- (b) omit subsection (3), and
- (c) omit subsections (4) and (5).
- (2) Subject to sub-paragraphs (3) and (4), the amendments made by this paragraph are deemed to have come into force on 2nd December 2004.
- (3) The amendments made by this paragraph do not have effect in relation to any claim for relief which is in respect of expenditure which relates to a film which had its first day of principal photography before that date.

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- (4) Those amendments also do not have effect in relation to any claim for relief which is in respect of pre-announcement expenditure only or expenditure which includes pre-announcement expenditure.
- (5) In this paragraph “claim for relief” means a claim for relief under section 42 of F(No.2)A 1992 as modified by section 48 of F(No.2)A 1997.

Section 138 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 11 (1) Section 138 of ITTOIA 2005 (certified master versions: production expenditure) (as substituted by paragraph 3 of this Schedule) is amended as follows.
- (2) In subsection (1), after paragraph (a) insert—
 - “(aa) section 139 does not apply in relation to that film.”
 - (3) After subsection (1) insert—
 - “(1A) Any expenditure which—
 - (a) has not been paid at the time the film is completed, and
 - (b) is not, at that time, the subject of an unconditional obligation to pay within 4 months after the date of completion,
 is not regarded as production expenditure for the purposes of this section.”
 - (4) In subsection (5), in Calculation 2—
 - (a) at the end of paragraph (a) insert “ and ”, and
 - (b) omit paragraph (c) and the word “and” immediately before it.
 - (5) Subject to sub-paragraphs (6) to (8), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
 - (6) Those amendments do not have effect in relation to expenditure relating to films which had their first day of principal photography before 2nd December 2004.
 - (7) The amendments made by sub-paragraphs (2) and (4) do not have effect in relation to cases to which section 138 of ITTOIA 2005 applies in which any of the expenditure within subsection (1)(a) of that section is pre-announcement expenditure.
 - (8) The amendment made by sub-paragraph (3) does not have effect in relation to pre-announcement expenditure.

Section 138A of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 12 (1) Section 138A of ITTOIA 2005 (certified master versions: acquisition expenditure) (as substituted by paragraph 3 of this Schedule) is amended as follows.
- (2) In subsection (1), after paragraph (a) insert—
 - “(aa) section 140 does not apply in relation to that film.”
 - (3) After subsection (3) insert—
 - “(3A) But the total amount allocated under this section may not exceed the total production expenditure in respect of the original master version.”
 - (4) In subsection (5), omit Calculation 2.
 - (5) After subsection (6) insert—

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“(6A) Where the total acquisition expenditure incurred by the person in respect of the original master version exceeds the total production expenditure in respect of the original master version, the calculations in subsection (5) have effect as if that total acquisition expenditure were an amount equal to that total production expenditure.”

- (6) Subject to sub-paragraphs (7) to (9), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
- (7) Those amendments do not have effect in relation to expenditure relating to films which had their first day of principal photography before 2nd December 2004.
- (8) The amendments made by sub-paragraphs (2) and (4) do not have effect in relation to cases to which section 138A of ITTOIA 2005 applies in which any of the expenditure within subsection (1)(a) of that section is pre-announcement expenditure.
- (9) Where, in a case to which section 138A of ITTOIA 2005 applies—
 - (a) the total acquisition expenditure incurred by the person in respect of the original master version consists of or includes an amount of pre-announcement expenditure, and
 - (b) the total amount of that pre-announcement expenditure exceeds the total production expenditure in respect of the original master version of the film in question (as defined for the purposes of that section by section 141 of that Act),

the references in subsections (3A) and (6A) of that section to that total production expenditure are to be read as references to the total amount of that pre-announcement expenditure.

Section 139 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 13 (1) In section 139 of ITTOIA 2005 (certified master versions: production expenditure on limited-budget films), in subsection (5)(d) omit “, or section 42 of that Act (but not as applied by section 48(1) and (2) of F(No.2)A 1997),”.
- (2) The amendment made by this paragraph has effect for the year 2005-06 and subsequent years of assessment.
- (3) But that amendment does not have effect—
 - (a) in relation to expenditure relating to films which had their first day of principal photography before 2nd December 2004, or
 - (b) in any case to which section 139 of ITTOIA 2005 applies where any of the expenditure within subsection (1)(a) of that section is pre-announcement expenditure.

Section 140 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 14 (1) In section 140 of ITTOIA 2005 (certified master versions: acquisition expenditure on limited-budget films), in subsection (6)(d) omit “, or section 42 of that Act (but not as applied by section 48(1) to (3) of F(No.2)A 1997),”.
- (2) The amendment made by this paragraph has effect for the year 2005-06 and subsequent years of assessment.
- (3) But that amendment does not have effect—

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- (a) in relation to expenditure relating to films which had their first day of principal photography before 2nd December 2004, or
- (b) in any case to which section 140 of ITTOIA 2005 applies where any of the expenditure within subsection (1)(a) of that section is pre-announcement expenditure.

Section 141 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 15 (1) Section 141 of ITTOIA 2005 (“total production expenditure in respect of the original master version”) is amended as follows.
- (2) In subsection (1) after “sections” insert “ 138A, ”.
 - (3) In subsection (4) for “Any” substitute “ For the purposes of sections 139(1)(e) and 140(1)(f) only, any ”.
 - (4) Subject to sub-paragraphs (5) to (7), the amendments made by this paragraph have effect for the year 2005-06 and subsequent years of assessment.
 - (5) Those amendments do not have effect in relation to expenditure relating to films which had their first day of principal photography before 2nd December 2004.
 - (6) Sub-paragraph (7) applies where, in a case to which section 140 of ITTOIA 2005 applies—
 - (a) the film in question had its first day of principal photography on or after 2nd December 2004,
 - (b) any or all of the expenditure within subsection (1)(a) of that section is pre-announcement expenditure,
 - (c) the amount of that pre-announcement expenditure exceeds the new expenditure cap, and
 - (d) the amount of the original expenditure cap exceeds the amount of the new expenditure cap.
 - (7) Where this sub-paragraph applies, the reference in subsection (5) of section 140 of that Act to “the total production expenditure in respect of the original master version” is to be read as a reference to the lower of—
 - (a) the amount of that pre-announcement expenditure, and
 - (b) the amount of the original expenditure cap.
 - (8) For the purposes of sub-paragraphs (6) and (7), in a case to which section 140 of that Act applies—
 - “the new expenditure cap” means the amount of “the total production expenditure in respect of the original master version” as defined for the purposes of subsection (5) of that section by section 141 of that Act as amended by this paragraph;
 - “the original expenditure cap” means the amount of “the total production expenditure in respect of the original master version” as defined for those purposes by section 141 of that Act disregarding the amendments made by this paragraph.

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Section 142 of the Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 16 (1) In section 142 of ITTOIA 2005 (when expenditure is incurred), in subsection (1) for “139 and” substitute “ 138 to ”.
- (2) The amendment made by this paragraph has effect for the year 2005-06 and subsequent years of assessment.
- (3) But that amendment does not have effect—
- (a) in relation to films which had their first day of principal photography before 2nd December 2004, or
- (b) in relation to pre-announcement expenditure.

PART 3

MINOR AND CONSEQUENTIAL AMENDMENTS

Income and Corporation Taxes Act 1988 (c. 1)

- 17 Section 118ZM of ICTA (partnerships exploiting films: supplementary), as that section has effect for years of assessment before the year 2005-06, has effect as if for subsection (4) there were substituted—

“(4) The reference in section 118ZL(6) to the acquisition of a film is a reference to the acquisition of the original master version of the film; and this subsection is to be construed in accordance with section 43 of the Finance (No.2) Act 1992.”

Finance (No.2) Act 1992 (c. 48)

- 18 (1) Section 40A of F(No.2)A 1992 (revenue nature of expenditure on master versions of films) is amended as follows.
- (2) In subsection (1) for “a master” substitute “ the original master ”.
- (3) In subsection (2) for “the master” in both places substitute “ the original master ”.
- (4) In subsection (3)—
- (a) for “a master” substitute “ the original master ”, and
- (b) for “the master” in both places substitute “ the original master ”.
- (5) Omit subsection (5).
- 19 (1) Section 40B of F(No.2)A 1992 (allocation of expenditure to periods) is amended as follows.
- (2) In subsection (1)—
- (a) after “exploitation of” insert “ original ”, and
- (b) in paragraph (a) for “a master” substitute “ the original master ”.
- (3) In subsections (4) and (5) for “the master”, in each place, substitute “ the original master ”.
- 20 In section 40C of F(No.2)A 1992 (cases where section 40B does not apply), for “the master” in both places substitute “ the original master ”.

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- 21 (1) Section 40D of F(No.2)A 1992 (election for sections 40A and 40B not to apply) is amended as follows.
- (2) In subsection (2)—
- (a) in paragraph (a)—
- (i) in sub-paragraph (i) after “exploitation of” insert “ original ”, and
- (ii) in sub-paragraph (ii) for “a master” substitute “ the original master ”, and
- (b) in paragraphs (b) and (c) for “the master” substitute “ the original master ”.
- (3) In each of the following provisions for “the master”, in each place it occurs, substitute “ the original master ”
- subsection (3)(a);
- subsection (4) as it has effect, after 5th April 2005, for corporation tax purposes for accounting periods ending after that date;
- subsection (4) as it has effect in any other case;
- subsection (6).
- (4) In subsection (7) for “a master” substitute “ the original master ”.
- 22 (1) Section 41 of F(No.2)A 1992 (relief for preliminary expenditure) is amended as follows.
- (2) In subsection (1) after “exploitation of” insert “ original master versions of ”.
- (3) In subsections (3) and (4) for “master negative of the film or any master tape or master disc” substitute “ original master version ”.
- (4) In subsection (5) after “expenditure on” insert “ the original master version of ”.
- 23 (1) Section 42 of F(No.2)A 1992 (relief for production or acquisition expenditure) is amended as follows.
- (2) In subsection (1) after “exploitation” insert “ of original master versions ”.
- (3) In subsection (2)—
- (a) for “of a film—” substitute “ of the original master version of a film where — ”,
- (b) in paragraph (a) for first “which” substitute “ the film ”, and
- (c) in paragraph (b) for “master negative of which or any master tape or master disc of which” substitute “ original master version of the film ”.
- (4) In subsection (3)—
- (a) for “master negative of a film or any master tape or master disc” substitute “ original master version ”, and
- (b) in paragraph (b) for “master negative, tape or disc” substitute “ original master version of the film ”.
- (5) In subsection (4)(a) for the words from “of the film” to the end substitute “ or acquisition of the original master version of the film concerned ”.
- (6) In subsection (7) after “acquisition” insert “ of the original master version ”.
- (7) In subsection (8) for “the film” substitute “ the original master version of the film ”.
- (8) In subsection (9)—

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- (a) in paragraph (a), after “production” insert “ of the original master version ”, and
 - (b) in paragraph (b), for “master negative, master tape or master disc” substitute “ original master version ”.
- 24 (1) Section 43 of F(No.2)A 1992 (interpretation of provisions relating to films) is amended as follows.
- (2) In subsection (1)—
- (a) insert the following definitions at the appropriate place—
 - ““film” is to be construed in accordance with paragraph 1 of Schedule 1 to the Films Act 1985;”
 - ““original master version”, in relation to a film, means the original master negative, tape or disc (but see subsections (2) and (2A));”,
 - (b) omit the following definitions—
 - “master disc”
 - “master negative”
 - “master tape”, and
 - (c) in the definition of “qualifying disc”, “qualifying film” and “qualifying tape” for “a master” substitute “ the original master ”.
- (3) For subsection (2) substitute—
- “(2) In sections 40A to 42 and this section, references to the original master version of a film include the original master version of the film soundtrack (if any).
 - (2A) In those provisions, references to the original master version also include any rights in the original master version that are held or acquired with it.”

Finance Act 1997 (c. 16)

- 25 In Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans) (as amended by Schedule 1 to ITTOIA 2005), in paragraph 11(9) after “138,” insert “ 138A, ”.

Finance (No. 2) Act 1997 (c. 58)

- 26 (1) Section 48 of F(No. 2)A 1997 (which modifies section 42 of F(No. 2)A 1992 as it applies in relation to certain expenditure) is amended as follows.
- (2) In subsection (1), in the inserted subsection (4), for the words from “on—” to the end of paragraph (b) substitute “ on the production or acquisition of the original master version of the film concerned, ”.
- (3) For subsection (6) substitute—
- “(6) In this section “total production expenditure” on a film, in relation to a claim for relief under section 42 of the Finance (No.2) Act 1992, means (subject to subsections (6A) and (7) below) the total of all expenditure incurred on the production of the original master version of the film, including expenditure incurred before 2nd July 1997 and whether or not incurred by the claimant.”

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- (4) In subsection (6A) for “the production expenditure on” substitute “ the expenditure incurred on the production of the original master version of”.
- (5) In subsection (7), in paragraph (a) after “production of” insert “ the original master version of”.
- (6) After subsection (7) insert—
 - “(7A) In this section—
 - “film” has the meaning given by section 43 of the Finance (No. 2) Act 1992;
 - “original master version” is to be construed in accordance with that section.”

Capital Allowances Act 2001 (c. 2)

- 27 (1) Paragraph 116 of Schedule 3 to CAA 2001 (transitional provision relating to sections 40A to 40D of F(No.2)A 1992 (films)) is amended as follows.
- (2) In sub-paragraph (2)(b), for “master” in both places substitute “ original master ”.
- (3) In sub-paragraph (2)(c)—
 - (a) for ““film,” substitute “ “a film, ”,
 - (b) for first “master” substitute “ the original master ”, and
 - (c) for second “master” substitute “ original master ”.
- (4) In sub-paragraph (2)(d) for “substitution for section 40A(5)” substitute “ insertion after section 40A(4) ”.
- (5) In sub-paragraph (2)(e)—
 - (a) for first “master” substitute “ original master ”,
 - (b) for ““film,” substitute “ “a film, ”, and
 - (c) for second “master” substitute “ the original master ”.
- (6) In sub-paragraph (2)(f) to (i) for “master” in each place substitute “ original master ”.
- (7) In sub-paragraph (2)(j) for the words from first “for” to the end substitute “for “original master versions of films”, of “a film, tape or disc

for “the original master version of a film” and of “film, tape or disc

for “original master version” (in both places);” ”.
- (8) In sub-paragraph (2)(k) to (m) for “master” in each place substitute “ original master ”.
- (9) In sub-paragraph (2)(n)—
 - (a) for ““film,” substitute “ “a film, ”, and
 - (b) for “master” substitute “ the original master ”.

Finance Act 2002 (c. 23)

- 28 Section 99 of FA 2002 (restriction of relief to films genuinely intended for theatrical release) in subsection (3) for “master version of the film” substitute “ original

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master version of the film (within the meaning given by section 43 of the Finance (No.2) Act 1992) ”.

- 29 In Schedule 29 to that Act (gains and losses of a company from intangible fixed assets), in paragraph 80(2)(a) for “has the meaning” to “films)” substitute “ means an original master version of the film (within the meaning given by section 43 of the Finance (No.2) Act 1992) ”.

Income Tax (Trading and Other Income) Act 2005 (c. 5)

- 30 (1) ITTOIA 2005 is amended as follows.
- (2) In section 139 (certified master versions: production expenditure on limited-budget films), in subsection (1), after paragraph (a) insert—
“(aa) the film was completed in, or before, that period,”.
- (3) In section 140 (certified master version: acquisition expenditure on limited-budget films), in subsection (1), after paragraph (a) insert—
“(aa) the film was completed in, or before, that period,”.
- (4) In Schedule 2 (transitionals and savings etc), in paragraph 34 for “Section 138 does” substitute “ Sections 138 and 138A do ”.

Commencement of Part 3 amendments

- 31 (1) The amendment made by paragraph 21(3), so far as it relates to section 40D(4) of F(No.2)A 1992 as amended by Schedule 1 to ITTOIA 2005, has effect for accounting periods ending after 5th April 2005.
- (2) The amendments made by paragraphs 25 and 30 have effect for the year 2005-06 and subsequent years of assessment.
- (3) The amendments made by the remaining provisions of this Part of this Schedule are deemed to have come into force on 2nd December 2004.

PART 4

INTERPRETATION

Meaning of “pre-announcement expenditure”

- 32 (1) For the purposes of this Schedule “pre-announcement expenditure” means expenditure incurred—
(a) before 2nd December 2004, or
(b) on or after that date in pursuance of an obligation to incur the expenditure which immediately before that date was an unconditional obligation.
- (2) In determining, for the purposes of sub-paragraph (1), whether an obligation in pursuance of which expenditure was incurred was an unconditional obligation immediately before 2nd December 2004, the obligation is not to be regarded as a conditional obligation at that time by reason only that it was contingent on one or more of the following conditions—

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- (a) a condition the fulfilment of which was outside the control of the person by whom the expenditure was incurred;
 - (b) a condition that the original master version of the film concerned is certified under Schedule 1 to the Films Act 1985 (c. 21) as a qualifying film, tape or disc for the purposes of section 40D of F(No.2)A 1992.
- (3) For the purposes of this Schedule—
- (a) a claim under section 42 of F(No.2)A 1992 in respect of expenditure incurred on the production or acquisition of the original master version of a film is a “claim in respect of pre-announcement expenditure only” if, and only if, all of the expenditure incurred by the claimant on the production or, as the case may be, acquisition of that version is pre-announcement expenditure, and
 - (b) a deduction under any of sections 138 to 140 of ITTOIA 2005 in respect of expenditure incurred on the production or acquisition of the original master version of a film is a “deduction in respect of pre-announcement expenditure only” if, and only if, all of the expenditure within subsection (1)(a) of the section under which the deduction is made is pre-announcement expenditure.

Meaning of film “in production”

- 33 (1) For the purposes of this Schedule a film was “in production” on 2nd December 2004 if it—
- (a) had its first day of principal photography before that date, and
 - (b) was completed on or after that date.
- (2) For this purpose a film is completed when it is first in a form in which it can reasonably be regarded as ready for copies of it to be made and distributed for presentation to the general public.

Meaning of “film” and “original master version”

- 34 For the purposes of this Schedule—
- “film” is to be construed in accordance with paragraph 1 of Schedule 1 to the Films Act 1985 (c. 21);
 - “original master version” is to be construed in accordance with section 43 of F(No.2)A 1992.

SCHEDULE 4

Section 80

ACCOUNTING PRACTICE AND RELATED MATTERS

PART 1

BAD DEBTS AND RELATED MATTERS

ICTA

- 1 In section 74 of ICTA (general rules as to deductions not allowable), omit subsection (1)(j) and subsection (2) (bad debts and related matters).

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2 Before section 89 of ICTA insert—

Restriction of deductions in respect of certain debts

“88D(1) This section applies to debts to which the following provisions do not apply—

- (a) Chapter 2 of Part 4 of the Finance Act 1996 (loan relationships, etc);
- (b) Schedule 26 to the Finance Act 2002 (derivative contracts);
- (c) Schedule 29 to that Act (intangible fixed assets).

(2) In calculating the profits of a company's trade for the purposes of corporation tax, no deduction is allowed in respect of a debt owed to the company, except—

- (a) by way of impairment loss, or
- (b) to the extent that the debt is released wholly and exclusively for the purposes of that trade as part of a statutory insolvency arrangement.

(3) In this section “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

(4) In this section “trade” has the meaning given by section 6(4).”.

3 (1) Section 89 of ICTA (debts proving to be irrecoverable after discontinuance etc) is amended as follows.

(2) In that section as it had effect before ITTOIA 2005—

- (a) make the existing provision subsection (1),
- (b) for “deduction allowed in respect of them under section 74(j)” substitute “relevant deduction in respect of them ”, and
- (c) at the end add—

“(2) In this section “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

The references to a debt being irrecoverable shall be read accordingly.

(3) For the purposes of this section “relevant deduction”, in relation to a debt, means a deduction made for tax purposes in respect of an impairment loss or release.”.

(3) In that section as substituted by ITTOIA 2005—

- (a) in subsection (3), for the words from “deduction allowed” to “ITTOIA 2005” substitute “ relevant deduction in respect of them ”, and
- (b) after that subsection add—

“(4) In this section “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.

The references to a debt being irrecoverable shall be read accordingly.

(5) For the purposes of this section “relevant deduction”, in relation to a debt, means a deduction made for tax purposes in respect of an impairment loss or release.”.

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- 4 (1) Section 94 of ICTA (debts deducted and subsequently released) is amended as follows.
- (2) In subsection (1) for “relevant arrangement or compromise” substitute “ statutory insolvency arrangement ”.
- (3) Omit subsection (2).
- 5 (1) Section 103 of ICTA (receipts after discontinuance) is amended as follows.
- (2) In subsection (4)(b) for “relevant arrangement or compromise” substitute “ statutory insolvency arrangement ”.
- (3) Omit subsection (4A).
- (4) In subsection (5) as it had effect before ITTOIA 2005 for “a deduction has been allowed in respect of that sum under section 74(j)” substitute “ a deduction has been made for tax purposes in respect of an impairment loss or a release of liability ”.
- (5) In subsection (5) as amended by ITTOIA 2005 for “a deduction has been allowed in respect of that sum under section 74(j) or section 35 of ITTOIA 2005” substitute “ a deduction has been made for tax purposes in respect of an impairment loss or a release of liability ”.
- 6 F1

Textual Amendments

- F1** Sch. 4 para. 6 repealed (retrospectively) by Finance (No. 2) Act 2005 (c. 22), Sch. 6 para. 4(1)(6), Sch. 11 Pt. 2(6)

- 7 In section 799 of ICTA (double taxation relief: computation of underlying loss), in subsection (6)(b) after “bad debts” insert “ , impairment losses ”.
- 8 In section 834(1) of ICTA (interpretation of the Corporation Tax Acts), at the appropriate place insert—
- ““statutory insolvency arrangement” means—
- (a) a voluntary arrangement that has taken effect under or as a result of the Insolvency Act 1986, Schedule 4 or 5 to the Bankruptcy (Scotland) Act 1985 or the Insolvency (Northern Ireland) Order 1989,
- (b) a compromise or arrangement that has taken effect under section 425 of the Companies Act 1985 or Article 418 of the Companies (Northern Ireland) Order 1986, or
- (c) any arrangement or compromise of a kind corresponding to any of those mentioned in paragraph (a) or (b) above that has taken effect under or by virtue of the law of a country or territory outside the United Kingdom;”.

FA 1996

- 9 (1) Section 100 of FA 1996 (interest, and exchange gains and losses, on debts etc not arising from the lending of money) is amended as follows.

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- (2) For the heading substitute “ **Money debts etc not arising from the lending of money** ”.
- (3) In subsection (1)(c) (money debts to which the section applies), after sub-paragraph (ii) insert—
- “or
- (iii) in respect of which a payment would fall to be brought into account for the purposes of corporation tax as a receipt of a trade, Schedule A business or overseas property business carried on by the company, and in relation to which an impairment loss (or a credit in respect of the reversal of an impairment loss) arises to the company;”.
- (4) In subsection (2) for paragraphs (a) and (b) substitute—
- “(a) this Chapter has effect in relation to the matters mentioned in subsection (1)(c) above as it has effect in relation to such matters arising under or in relation to a loan relationship, but
- (b) the only credits or debits to be brought into account for the purposes of this Chapter in respect of the relationship are those relating to those matters;”.
- (5) After subsection (13) add—
- “(14) This section does not apply to a debt in respect of which profits, gains or losses (if any) fall to be brought into account under—
- (a) Schedule 26 to the Finance Act 2002 (derivative contracts), or
- (b) Schedule 29 to that Act (gains and losses from intangible fixed assets).”.
- 10 (1) In Schedule 9 to FA 1996 (loan relationships: special computational provisions), before paragraph 5 insert—

“Deemed release of liability on impaired debt becoming held by connected company

- 4A (1) This paragraph applies—
- (a) in the case specified in sub-paragraph (2), subject to the exception in sub-paragraph (3); and
- (b) in the case specified in sub-paragraph (4).
- (2) The first case is where—
- (a) a company (“the debtor company”) is party as debtor to a loan relationship,
- (b) another company (“the creditor company”) becomes party as creditor to the loan relationship,
- (c) the debtor company and the creditor company—
- (i) are connected immediately before the latter becomes party to the loan relationship, or
- (ii) become connected as a result of its doing so, and

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- (d) the amount remaining payable under the debtor relationship at the time the creditor company becomes party to the loan relationship exceeds the amount or value of any consideration given by the creditor company for its rights under the loan relationship.
- (3) The exception to the first case is where—
- (a) the creditor company acquires its rights under the loan relationship under an arm's length transaction,
 - (b) there was no connection between the creditor company and the person from whom it acquired the asset in the period of account in which it acquired those rights, and
 - (c) there had been no connection between the creditor company and the debtor company at any time in the period—
 - (i) beginning four years before the date on which the creditor company acquired those rights, and
 - (ii) ending twelve months before that date.
- (4) The second case is where—
- (a) a company (“the debtor company”) is party as debtor to a loan relationship,
 - (b) another company (“the creditor company”) that—
 - (i) is party to the loan relationship as creditor, and
 - (ii) is not connected with the debtor company, becomes connected with the debtor company, and
 - (c) the amount remaining payable under the debtor relationship at the time the companies become connected exceeds its value.
- Its “value” means the amount that would have been its carrying value in the accounts of the creditor company if a period of account had ended immediately before the companies became connected.
- (5) Where this paragraph applies there is deemed to be a release by the creditor company of its rights under the loan relationship.
- (6) In the first case the release is deemed to be of the amount of the excess referred to in sub-paragraph (2)(d) and to take place when the creditor company acquires its rights under the loan relationship.
- (7) In the second case the release is deemed to be of the amount of the excess referred to in sub-paragraph (4)(c) and to take place when the creditor company becomes connected with the debtor company.”.
- (2) The amendment in sub-paragraph (1) has effect where the deemed release occurs on or after 16th March 2005.
- 11 (1) Paragraph 5 of Schedule 9 to FA 1996 (release of liability under debtor relationship) is amended as follows.
- (2) In the heading, at the end add “ : cases in which credit need not be brought into account ”.
- (3) In sub-paragraph (3) for “four” substitute “ five ”.

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- (4) In sub-paragraph (4) for “relevant arrangement or compromise within the meaning given by section 74(2) of the Taxes Act 1988” substitute “ statutory insolvency arrangement ”.
- (5) In sub-paragraph (5) at the end add— “ This condition does not apply in the case of a credit required to be brought into account by virtue of paragraph 4A (deemed release on impaired debt becoming held by connected company). ”.
- (6) After sub-paragraph (7) insert—
- “(8) Condition 5 is that the release is in consideration of, or of any entitlement to, shares forming part of the ordinary share capital of the debtor company.”.
- 12 After paragraph 5 of Schedule 9 to FA 1996 insert—
- “Release of liability under creditor relationship:
application of provisions relating to impairment losses*
- 5ZA The provisions of—
- (a) paragraph 5A (impairment losses and consortium relief), and
- (b) paragraphs 6, 6A and 6C (restrictions on bringing impairment losses into account),
- apply in relation to a debit in respect of a release by a company of liability under a creditor relationship of the company as they apply in relation to an impairment loss.”.
- 13 (1) Paragraph 6 of Schedule 9 to FA 1996 (impairment losses where parties have a connection) is amended as follows.
- (2) In sub-paragraph (2) for “sub-paragraphs (3) to (6) and paragraphs 6A and 6B” substitute “ sub-paragraph (3) (and the provisions mentioned there) and sub-paragraph (6) ”.
- (3) In sub-paragraph (3) for paragraphs (a) to (c) substitute—
- “(a) sub-paragraph (4) below, or
- (b) paragraph 6A.”.
- (4) For sub-paragraphs (6) and (7) substitute—
- “(6) Where in any period a related transaction takes place in relation to the loan relationship—
- (a) the debits brought into account for that period in respect of the relationship must not be more than they would have been if the transaction had not taken place, and
- (b) the credits brought into account for that period in respect of the relationship must not be less than they would have been if the transaction had not taken place.
- (7) In determining for the purposes of sub-paragraph (6) the debits and credits that would have been brought into account if the related transaction had not taken place, no account shall be taken of any amounts that would have accrued at times after the transaction took place.”.
- (5) The amendments in this paragraph have effect in relation to any related transaction taking place on or after 2nd December 2004.

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- 14 Omit paragraph 6B of Schedule 9 to FA 1996 (impairment losses: companies becoming connected).
- 15 In paragraph 6C of Schedule 9 to FA 1996—
- (a) in sub-paragraph (1), for “sub-paragraphs (2) and (3) below shall apply” substitute “sub-paragraph (3) applies”, and
 - (b) omit sub-paragraph (2).
- 16 After paragraph 6C of Schedule 9 to FA 1996 insert—

“Restriction on bringing into account debits resulting from revaluation

- 6D (1) No debit shall be brought into account for the purposes of this Chapter as a result of the revaluation of an asset representing a creditor relationship of a company, except—
- (a) an impairment loss, or
 - (b) a debit resulting from a release by the company of any liability under the relationship.
- (2) No credit may be brought into account for the purposes of this Chapter in respect of the reversal of—
- (a) a debit disallowed by sub-paragraph (1),
 - (b) a debit that in a period of account beginning before 1st January 2005 was disallowed for tax purposes—
 - (i) because of the assumption required by paragraph 5(1) above, or
 - (ii) because the exceptions in section 74(1)(j) of the Taxes Act 1988 did not apply.
- (3) The reference in sub-paragraph (1) to revaluation of an asset includes any case where a provision or allowance is made by the company reducing the carrying value of the asset or of a group of assets including the asset in question.
- (4) This paragraph does not affect the debits to be brought into account in respect of exchange gains or losses.
- (5) This paragraph does not apply if fair value accounting is used.”.
- 17 (1) The following provisions of Schedule 9 to FA 1996 shall cease to have effect—
- (a) paragraph 8 (restriction on writing off overseas sovereign debt etc.);
 - (b) paragraph 9 (restriction on bringing into account losses on overseas sovereign debt etc.).
- (2) Where at the end of the last period of account of a company before sub-paragraph (1) (a) has effect—
- (a) the company is one to which a relevant overseas debt (within the meaning of paragraph 8) is owed, and
 - (b) the effect of that paragraph (or a corresponding earlier enactment) having applied is that the aggregate amount of the debits (less any credits) brought into account by the company for tax purposes in respect of the loan relationship over the period for which the company has been party to it is less than would otherwise have been the case,

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the balance may be brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 (loan relationships) as a debit in the company's next period of account.

- (3) Where at the end of the last period of account of a company before sub-paragraph (1) (b) has effect—
- (a) the company has ceased to be a party to a loan relationship, and
 - (b) the effect of paragraph 9 (or a corresponding earlier enactment) is that part of the loss arising has not been brought into account for tax purposes,
- nothing in this paragraph prevents any debit that could have been brought into account for the purposes of Chapter 2 of Part 4 of FA 1996 (loan relationships) under paragraph 9(4) and (5) in a subsequent period of account from being so brought into account.

FA 1997

- 18 (1) Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans) is amended as follows.
- (2) In paragraph 9(7) (relief for bad debts etc: cumulative accountancy rental excess), for the definition of “bad debt deduction” substitute—
- ““bad debt deduction”, in relation to a period of account, means the aggregate of any deductions falling to be made for accounting purposes for that period by way of impairment loss in respect of rents from the lease of the asset;”.
- (3) In paragraph 10(7) (relief for bad debts etc: cumulative normal rental excess), for the definition of “bad debt deduction” substitute—
- ““bad debt deduction”, in relation to a period of account, means the aggregate of any deductions falling to be made for accounting purposes for that period by way of impairment loss in respect of rents from the lease of the asset;”.

Schedule 26 to FA 2002

- 19 In paragraph 22(5) of Schedule 26 to FA 2002 (derivative contracts release of liability) for “relevant arrangement or compromise within the meaning given by section 74(2) of the Taxes Act 1988” substitute “statutory insolvency arrangement”.

Schedule 29 to FA 2002

- 20 (1) In Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets), paragraph 115 (bad debts etc) is amended as follows.
- (2) For sub-paragraph (1) substitute—
- “(1) No debit may be brought into account for the purposes of this Schedule in respect of a debt owed to the company, except—
- (a) by way of impairment loss, or
 - (b) to the extent that the debt is released as part of a statutory insolvency arrangement.”.

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- (3) Omit sub-paragraph (2).
- (4) In sub-paragraph (3) for “sub-paragraph (1)(c)” substitute “ sub-paragraph (1)(b) ”.
- (5) After sub-paragraph (5) insert—
 - “(6) In this paragraph “debt” includes an obligation or liability that falls to be discharged otherwise than by the payment of money.”.

PART 2

OTHER PROVISIONS CONNECTED WITH ACCOUNTING PRACTICE

ICTA

- 21 In section 43A of ICTA (rent factoring: meaning of “finance agreement”), in subsection (3) (reference to consolidated group accounts), omit paragraphs (a) and (b) and the word “and” preceding paragraph (a).
- 22 In section 75A(10) of ICTA (accounting period to which expenses of management are referable)—
 - (a) in paragraph (a) after “profit and loss account” insert “ or income statement ”, and
 - (b) in paragraph (b), after “gains and losses” insert “ , statement of changes in equity ”.
- 23 In section 501A of ICTA (supplementary charge in respect of ring-fence trades), in subsection (10) (reference to group accounts) for paragraph (b) substitute—
 - “(b) are drawn up in accordance with generally accepted accounting practice.”.
- 24 (1) Section 747A of ICTA (special rule requiring chargeable profits of controlled foreign companies to be computed in currency of accounts of company's first relevant accounting period) shall cease to have effect.
 - (2) This amendment has effect in relation to accounting periods beginning on or after 16th March 2005.
- 25 Section 836A of ICTA (meaning of generally accepted accounting practice) shall cease to have effect.

FA 1996

- 26 (1) Section 85B of FA 1996 (loan relationships: amounts recognised in determining company's profit or loss) is amended as follows.
 - (2) In subsection (1)(a) after “profit and loss account” insert “ or income statement ”.
 - (3) For subsection (2) substitute—
 - “(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in subsection (1) shall be brought into account for the purposes of this Chapter in computing the company's profits and losses for the period to which the statement relates.

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This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.”.

- (4) In subsection (3)—
- (a) in paragraph (a) after “subsection (1)” insert “ or (2) ”, and
 - (b) in paragraph (b) for “subsection (1)” substitute “ that subsection ”.
- (5) In subsection (4) after “subsection (1)” insert “ or (2) ”.
- 27 (1) Section 94 of FA 1996 (loan relationships: treatment of indexed gilt-edged securities) shall be deemed not to have been repealed by paragraph 12 of Schedule 10 to FA 2004.
- Paragraph 12(3) of Schedule 25 to FA 2002 (which amended that section) shall also be deemed not to have been repealed by Division (6) of Part 2 of Schedule 42 to FA 2004.
- (2) That section is, instead, amended as follows.
- (3) For subsections (1) to (3A) substitute—
- “(1) In the case of a loan relationship represented by an index-linked gilt-edged security—
 - (a) the amounts to be brought into account for the purposes of this Chapter must be determined using fair value accounting, and
 - (b) the following adjustment shall be made in computing those amounts. - (2) The adjustment shall be made wherever—
 - (a) those amounts fall to be determined by reference to the value of the security at two different times, and
 - (b) there is a change in the retail prices index between those times. - (3) The adjustment is made to the carrying value of the security at the earlier time and is to increase or, as the case may be, reduce it by the same percentage as the percentage increase or reduction in the retail prices index between the earlier and the later time.”.
- 28 (1) Section 94A of FA 1996 (loan relationships with embedded derivatives) is amended as follows.
- (2) In subsection (1) for “is permitted or required in accordance with generally accepted accounting practice to treat” substitute “ in accordance with generally accepted accounting practice treats ”.
- (3) Where—
- (a) immediately before the end of its last period of account beginning before 1st January 2005 a company holds one or more assets to which section 92 or 93 of FA 1996 applies, and
 - (b) section 94A of FA 1996 does not otherwise apply in relation to those assets in the company's first period of account beginning on or after 1st January 2005,
- the company may elect that section 94A shall apply in relation to those assets.
- (4) Any such election—
- (a) must be made to the Inland Revenue in writing on or before 31st July 2005,

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- (b) must apply to all the assets held by the company as mentioned in sub-paragraph (3), and
- (c) is irrevocable.
- 29 In section 103 of FA 1996 (interpretation), after subsection (1A) (meaning of “exchange gains or losses”) insert—
- “(1AA) In a case where fair value accounting is used the valuation referred to in subsection (1A) is the valuation that would be given by an amortised cost basis of accounting.”.
- 30 In Schedule 9 to FA 1996 (loan relationships: special computational provisions), after paragraph 14 (debits and credits treated as relating to capital expenditure) insert—
- “Debits and credits recognised in equity or shareholders’ funds*
- 14A Where in accordance with generally accepted accounting practice a debit or credit for a period in respect of a loan relationship of a company—
- (a) is recognised in equity or shareholders’ funds, and
- (b) is not recognised in any of the statements mentioned in section 85B(1),
- the debit or credit shall be brought into account for that period for the purposes of this Chapter in the same way as a debit or credit that, in accordance with generally accepted accounting practice, is brought into account in determining the company’s profit or loss for that period.”.
- 31 (1) Paragraph 19A of Schedule 9 to FA 1996 (loan relationships: adjustment on change of accounting policy) is amended as follows.
- (2) In sub-paragraph (4), after “means” insert “, subject to sub-paragraph (4B), ”.
- (3) After that sub-paragraph insert—
- “(4A) For the purposes of this paragraph the “carrying value” of an asset or liability includes amounts recognised for accounting purposes in relation to the loan relationship in respect of—
- (a) accrued amounts;
- (b) amounts paid or received in advance;
- (c) impairment losses (including provisions for bad or doubtful debts).
- (4B) In determining the profits, gains and losses to be recognised in determining the carrying value of the asset or liability for the purposes of this paragraph, the following provisions—
- (a) section 87(2) (accounting method where parties have a connection),
- (b) section 88A(4) (accounting method where rate of interest is reset),
- (c) section 94 (loan relationships: treatment of indexed gilt-edged securities),
- (d) section 94A(2) (loan relationships with embedded derivatives),
- (e) section 96(2) (special rules for certain gilts),
- (f) section 154(6) (FOTRA securities: certain amounts not to be brought into account), and

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- (g) paragraphs 1, 1A, 2, 6, 12 and 18 of this Schedule (special computational provisions),
apply as they apply for the purposes of determining the credits and debits to be brought into account under this Chapter.
- (4C) Where—
- (a) a company has ceased to be a party to a loan relationship,
 - (b) section 103(6) (credits and debits to be brought into account in respect of profits, gains and losses arising in the cessation period) applied to the cessation, and
 - (c) there is a difference between—
 - (i) the amount outstanding in respect of the loan relationship at the end of the earlier period, and
 - (ii) the amount outstanding in respect of the loan relationship at the beginning of the later period,a debit or credit (as the case may be) corresponding to that difference shall be brought into account for the purposes of this Chapter at the beginning of the later period.
- (4D) In sub-paragraph (4C), “the amount outstanding”, in respect of a loan relationship, means so much of the amount recognised as deferred income or deferred loss in the company's balance sheet, in accordance with generally accepted accounting practice, in respect of the profits, gains or losses that arose from that relationship or a related transaction in the cessation period (within the meaning of section 103(6)) as has not been represented by credits or debits brought into account under this Chapter.”.
- (4) In sub-paragraph (5) after “sub-paragraph (3)” insert “ or (4C) ”.
- (5) Omit sub-paragraph (6).

FA 1997

- 32 In Schedule 12 to FA 1997 (leasing arrangements: finance leases and loans), in paragraph 30(1) (interpretation) omit the definitions of “consolidated group accounts”, “group of companies” and “member” in relation to a group of companies.

CAA 2001

- 33 In section 219 of CAA 2001 (finance leases), in subsection (3) (reference to group accounts) for paragraph (b) substitute—
“(b) are drawn up in accordance with generally accepted accounting practice.”.

Schedule 26 to FA 2002

- 34 (1) Paragraph 17B of Schedule 26 to FA 2002 (derivative contracts: amounts recognised in determining company's profit or loss) is amended as follows.
- (2) In sub-paragraph (1)(a) after “profit and loss account” insert “ or income statement ”.
- (3) For sub-paragraph (2) substitute—

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“(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in sub-paragraph (1) shall be brought into account for the purposes of this Schedule in computing the company's profits and losses for the period to which the statement relates.

This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.”.

35 After paragraph 25 of Schedule 26 to FA 2002 (debits and credits treated as relating to capital expenditure) insert—

“Debits and credits recognised in equity or shareholders' funds

25A Where in accordance with generally accepted accounting practice a debit or credit for a period in respect of a derivative contract of a company—

- (a) is recognised in equity or shareholders' funds, and
- (b) is not recognised in any of the statements mentioned in section 85B(1),

the debit or credit shall be brought into account for that period for the purposes of this Chapter in the same way as a debit or credit that, in accordance with generally accepted accounting practice, is brought into account in determining the company's profit or loss for that period.”.

36 In paragraphs 38(1) and (3) and 38A(1) and (3) of Schedule 26 to FA 2002, as inserted by Schedule 10 to FA 2004, for “creditor relationship” substitute “derivative contract”. These amendments shall be deemed always to have had effect.

37 In paragraph 54 of Schedule 26 to FA 2002 (derivative contracts: general interpretation), after sub-paragraph (2) (meaning of “exchange gains or losses”) insert—

“(2A) In a case where fair value accounting is used the valuation referred to in sub-paragraph (2) is the valuation that would be given by an amortised cost basis of accounting.”.

Schedule 29 to FA 2002

38 (1) Paragraph 6 of Schedule 29 to FA 2002 (gains and losses of a company from intangible fixed assets: reference to consolidated group accounts) is amended as follows.

(2) Omit sub-paragraph (2).

(3) After that sub-paragraph insert—

“(2A) This paragraph does not apply if the consolidated group accounts—

- (a) are drawn up using a different accounting framework from that used for the company's individual accounts, and
- (b) as a result, are prepared on a basis that, in relation to the matters mentioned in sub-paragraph (1), substantially diverges from the basis used in the company's individual accounts.”.

39 In paragraph 8(1) of Schedule 29 to FA 2002 for “a company's profit and loss account” substitute “determining a company's profit or loss”.

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- 40 In paragraphs 9(1), 12(1), 14(1), 16(1), 17(1), 26(1)(a), 103(2) and (3)(a) of Schedule 29 to FA 2002, for “the company's profit and loss account” substitute “determining the company's profit or loss”.
- 41 In paragraph 13(1)(a) of Schedule 29 to FA 2002 for “the profit and loss account” substitute “determining the company's profit or loss”.
- 42 In paragraphs 27 and 28 of Schedule 29 to FA 2002 (intangible fixed assets: calculation of tax written down value), for sub-paragraph (3) substitute—
- “(3) This paragraph has effect subject to—
- paragraph 29 in the case of an asset that has been the subject of a part realisation, and
- Part 13A of this Schedule in the case of an asset that has been subject to adjustment on a change of accounting policy.”.
- 43 In paragraph 29 of Schedule 29 to FA 2002 (intangible fixed assets: effect of part realisation), after sub-paragraph (4) insert—
- “(5) On a subsequent change of accounting policy affecting the asset, the provisions of Part 13A of this Schedule apply.”.
- 44 In Part 7 of Schedule 29 to FA 2002 (intangible fixed assets: roll-over relief in case of realisation and reinvestment), after paragraph 42 insert—

“References to cost of asset where asset affected by change of accounting policy

- 42A (1) In the case of an asset to which Part 13A of this Schedule has applied (adjustment on change of accounting policy) the references in this Part to the cost of the asset shall be read as follows.
- (2) Where paragraph 116B applied (change of accounting value) the references are unaffected.
- (3) Where paragraph 116C or 116D applied (changes involving disaggregation of asset) the references to the cost of the asset shall be read as references to the appropriate proportion of that cost.
- The appropriate proportion is determined by applying to the cost of the asset the same fraction as is applied by paragraph 116C(5) or 116D(3), as the case may be, to determine the tax written down value of the asset after the change.
- (4) References in this paragraph to paragraphs 116B, 116C and 116D include references to those provisions as applied by paragraph 116E.”.
- 45 For paragraph 116A of Schedule 29 to FA 2002 (intangible fixed assets: adjustment on change of accounting policy) substitute—

“PART 13A

ADJUSTMENT ON CHANGE OF ACCOUNTING POLICY

Introduction

- 116A (1) This Part of this Schedule applies where—

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- (a) there is a change of accounting policy in drawing up a company's accounts from one period of account (“the earlier period”) to the next (“the later period”), and
 - (b) the approach in each of those periods accords with the law and practice applicable in relation to that period.
- (2) It applies, in particular, where—
- (a) the company prepares accounts for the earlier period in accordance with UK generally accepted accounting practice and for the later period in accordance with international accounting standards, or
 - (b) the company prepares accounts for the earlier period in accordance with international accounting standards and for the later period in accordance with UK generally accepted accounting practice.

Change of accounting policy involving change of value

- 116B (1) If as a result of the change of accounting policy there is a difference between—
- (a) the accounting value of an intangible fixed asset of the company at the end of the earlier period, and
 - (b) the accounting value of that asset at the beginning of the later period,
- a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.
- (2) Any such debit or credit is treated as arising at the beginning of the later period.
- (3) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{Accounting Difference} \times \frac{\text{Tax Value}}{\text{Accounting Value}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (1);

Tax Value is the tax written down value of the asset at the end of the earlier period; and

Accounting Value is the accounting value of the asset at the end of that period.

- (4) The tax written down value of the asset at the beginning of the later period shall be taken to be the tax written down value of the asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (3).

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- (5) Subsequently—
- (a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (4), together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and
 - (b) the tax written down value shall be determined taking account only of subsequent debits and credits.
- (6) This paragraph does not apply to an asset in respect of which an election has been made under paragraph 10 (election for writing down at fixed-rate).
- (7) This paragraph has effect subject to—
paragraph 116F (cap on credit to be brought into account on change of accounting policy), and
paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation

- 116C (1) This paragraph applies where the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset (“the original asset”) in the earlier period being treated as two or more assets (“the resulting assets”) in the later period.
- (2) If there is a difference between—
- (a) the accounting value of the original asset at the end of the earlier period, and
 - (b) the aggregate accounting value of the resulting assets at the beginning of the later period,
- a corresponding debit or credit (as the case may be) shall be brought into account for tax purposes in the later period.
- (3) Any such debit or credit is treated as arising at the beginning of the later period.
- (4) The amount of the debit or credit to be brought into account for tax purposes is:

$$\text{Accounting Difference} \times \frac{\text{Old Tax Value}}{\text{Old Accounting Value}}$$

where—

Accounting Difference is the amount of the difference specified in sub-paragraph (2),

Old Tax Value is the tax written-down value of the original asset at the end of the earlier period, and

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Old Accounting Value is the accounting value of that asset at the end of that period.

- (5) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\text{Adjusted Old Tax Value} \times \frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

Adjusted Old Tax Value is the tax written down value of the original asset at the end of the earlier period, reduced by the amount of the debit or (as the case may be) increased by the amount of the credit brought into account for tax purposes under sub-paragraph (4),

New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

- (6) Subsequently for each resulting asset—
- (a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (5) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and
 - (b) the tax written down value shall be determined taking account only of subsequent debits and credits.
- (7) This paragraph does not apply if an election under paragraph 10 (election for writing down at fixed-rate)—
- (a) has been or is subsequently made in respect of the original asset (see paragraph 116D), or
 - (b) is subsequently made in respect of any of the resulting assets (see paragraph 116E).
- (8) This paragraph has effect subject to—
- paragraph 116F (cap on credit to be brought into account on change of accounting policy), and
 - paragraph 116G (debits or credits brought into account under other provisions).

Change of accounting policy involving disaggregation: original asset subject to fixed rate writing down

116D (1) This paragraph applies where—

- (a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset (“the original asset”) in the earlier period being treated as two or more assets (“the resulting assets”) in the later period, and

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- (b) an election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.
- (2) That election has effect—
 - (a) in relation to the original asset, for periods up to and including the earlier period, and
 - (b) in relation to each of the resulting assets, for the later period and subsequent periods.
- (3) The tax written down value of each resulting asset at the beginning of the later period is given by:

$$\text{Old Tax Value} \times \frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

Old Tax Value is the tax written down value of the original asset at the end of the earlier period,

New Accounting Value is the accounting value of the asset in question at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

- (4) Subsequently for each resulting asset—
 - (a) the cost recognised for tax purposes shall be taken to be the tax written down value given by sub-paragraph (3) above, together with the cost recognised for tax purposes of any subsequent expenditure on the asset that is capitalised for accounting purposes; and
 - (b) the tax written down value shall be determined taking account only of subsequent debits and credits.

Change of accounting policy involving disaggregation: election for fixed rate writing down in relation to resulting asset

- 116E (1) This paragraph applies where—
- (a) the change of accounting policy results in an intangible fixed asset of the company that was treated as one asset (“the original asset”) in the earlier period being treated as two or more assets (“the resulting assets”) in the later period, and
 - (b) no election under paragraph 10 (election for writing down at fixed-rate) has been or is subsequently made in respect of the original asset.
- (2) An election under that paragraph may be made in respect of any of the resulting assets, provided it is made within the period during which such an election could have been made in relation to the original asset.
 - (3) The effect of the election is that—

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- (a) the original asset is treated as if it had at all material times consisted of as many assets (“notional original assets”) as there are resulting assets,
 - (b) each notional original asset is taken to be the same asset as one of the resulting assets (its “corresponding resulting asset”),
 - (c) there is attributed to each notional original asset the appropriate proportion, ascertained by reference to its corresponding resulting asset (see sub-paragraph (4)), of every amount falling to be taken into account in relation to the original asset, and
 - (d) the provisions of this Schedule apply in relation to each of the notional original assets and its corresponding resulting asset accordingly.
- (4) The appropriate proportion in relation to each resulting asset is:

$$\frac{\text{New Accounting Value}}{\text{Aggregate New Accounting Value}}$$

where—

New Accounting Value is the accounting value of the asset at the beginning of the later period, and

Aggregate New Accounting Value is the aggregate of the accounting values of all the resulting assets at the beginning of that period.

Cap on credit to be brought into account on change of accounting policy

- 116F (1) The amount of any credit to be brought into account for tax purposes under paragraph 116B or 116C (assets subject to writing down on accounting basis) is limited to the net aggregate amount of relevant tax debits previously brought into account.
- (2) Where the credit is to be brought into account under paragraph 116B (change of value), the net aggregate amount of relevant tax debits previously brought into account is:

$$\text{Previous Debits} - \text{Previous Credits}$$

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the asset, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of the asset.

- (3) Where the credit is to be brought into account under paragraph 116C (disaggregation), the net aggregate amount of relevant tax debits previously brought into account is:

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Previous Debits – Previous Credits

where—

Previous Debits is the total amount of debits previously brought into account for tax purposes in respect of the original asset at the end of the earlier period, and

Previous Credits is the total amount of credits previously brought into account for tax purposes in respect of that asset.

Exclusion of debits or credits brought into account under other provisions

- 116G A debit or credit is not required to be brought into account under this Part of this Schedule to the extent that a debit or credit representing the accounting difference in question is brought into account for tax purposes under—
- (a) paragraph 12 (reversal of accounting gain),
 - (b) paragraph 15 (gain on revaluation), or
 - (c) paragraph 17 (reversal of accounting loss).

Subsequent events affecting asset subject to adjustment under this Part

- 116H (1) On a further change of accounting policy affecting an intangible fixed asset in relation to which this Part of this Schedule has applied, the preceding provisions of this Part apply again.
- (2) On a subsequent part realisation affecting the asset in question, paragraph 29 applies.”
- 46 (1) Paragraph 134 of Schedule 29 to FA 2002 (intangible fixed assets: references to amounts recognised in profit and loss account) is amended as follows.
- (2) In the paragraph heading for “*profit and loss account*” substitute “*determining profit or loss*”.
- (3) Make the existing provision sub-paragraph (1).
- (4) In that sub-paragraph—
- (a) in the opening words, for “a company's profit and loss account” substitute “determining a company's profit or loss” and for “include” substitute “are to”;
 - (b) in sub-paragraph (a) after “recognised in” insert “the company's profit and loss account or income statement, ”; and
 - (c) omit the words following paragraph (b).
- (5) After that sub-paragraph insert—
- “(2) An amount that in accordance with generally accepted accounting practice is shown as a prior period adjustment in any such statement as is mentioned in sub-paragraph (1) shall be brought into account for the purposes of this Schedule in computing the company's profits and losses for the period to which the statement relates.

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This does not apply to an amount recognised for accounting purposes by way of correction of a fundamental error.”.

- 47 In paragraph 143 of Schedule 29 to FA 2002 (intangible fixed assets: index of defined expressions) for “profit and loss account (amounts recognised in)” substitute “profit and loss (amounts recognised in determining) ”.

ITEPA 2003

- 48 In Schedule 5 to ITEPA 2003 (enterprise management incentives), in paragraph 59 (index of defined expressions), in the entry relating to the expression “generally accepted accounting practice”, for “section 836A of ICTA” substitute “section 50(1) of the Finance Act 2004 ”.

FA 2004

- 49 In section 50 of FA 2004 (generally accepted accounting practice), for subsections (2) and (3) substitute—

“(2) In the Tax Acts “international accounting standards” has the same meaning as in Regulation (EC) No 1606/2002 of the European Parliament and the Council of 19 July 2002 on the application of international accounting standards.

(3) Where the European Commission has in accordance with that Regulation adopted an international accounting standard with modifications, then as regards matters covered by that standard—

- (a) generally accepted accounting practice with respect to IAS accounts shall be regarded as permitting the use of the standard either with or without the modifications, and
- (b) accounts prepared on either basis shall be regarded for the purposes of the Tax Acts as prepared in accordance with international accounting standards.”.

- 50 In sections 50(6), 51(6), 52(3) and 54(2) of FA 2004 (periods of account in relation to which the sections have effect), omit paragraph (b) and the word “and” preceding it. This amendment shall be deemed always to have had effect.

- 51 In Part 4 of Schedule 10 to FA 2004 (amendments relating to foreign currency accounting), after paragraph 78 insert—

“Transitional provision

- 79 Where a company carries forward to its first period of account beginning on or after 1st January 2005 an amount by way of—

- (a) management expenses brought forward under section 75 of the Taxes Act 1988,
- (b) losses brought forward under section 392B or 393 of that Act, or
- (c) non-trading deficits on loan relationships brought forward under section 83 of the Finance Act 1996,

that amount shall be translated into sterling using the London closing exchange rate for the last day of the previous period of account.”.

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Power to make certain regulations with limited retrospective effect

- 52 (1) This paragraph applies to regulations under any of the following provisions—
- (a) section 85B of FA 1996;
 - (b) paragraph 19B of Schedule 9 to FA 1996;
 - (c) paragraph 13 or 17C of Schedule 26 to FA 2002.
- (2) Any such regulations may be made so as to apply to periods of account beginning before the regulations are made, but not earlier than the beginning of the calendar year in which they are made.

SCHEDULE 5

Section 87

SECTION 804ZA: PRESCRIBED SCHEMES AND ARRANGEMENTS

After Schedule 28AA to ICTA insert—

“SCHEDULE 28AB

SECTION 804ZA: PRESCRIBED SCHEMES AND ARRANGEMENTS

Introductory

- 1 (1) A scheme or arrangement, other than a scheme or arrangement falling within sub-paragraph (3), is a prescribed scheme or arrangement if one or more of paragraphs 2 to 6 apply to it.
- (2) A scheme or arrangement falling within sub-paragraph (3) is a prescribed scheme or arrangement if one or more of paragraphs 2 to 6 would, on the assumption in sub-paragraph (4), apply to it.
- (3) A scheme or arrangement falls within this sub-paragraph if its main purpose, or one of its main purposes, is to cause an amount of underlying tax allowable in respect of a dividend paid by a body corporate resident in a territory outside the United Kingdom to be taken into account in the case of a person.
- (4) The assumption is that the body corporate is resident in the United Kingdom.
- (5) Nothing in sub-paragraph (4) requires it to be assumed that there is any change in the place or places at which the body corporate carries on its activities.

Attribution of foreign tax

- 2 This paragraph applies to a scheme or arrangement if the scheme or arrangement enables a person who is party to, or concerned in, the scheme or arrangement to pay, in respect of a source of income or chargeable gain, an amount of foreign tax all or part of which is properly attributable to another source of income or chargeable gain (or to more than one such other source).

Effect of paying foreign tax

- 3 (1) This paragraph applies to a scheme or arrangement if, under the scheme or arrangement, sub-paragraph (2) is satisfied in relation to a person who has claimed, or is in a position

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to claim, for a chargeable period an allowance under any arrangements by way of credit for foreign tax (“the claimant”).

- (2) This sub-paragraph is satisfied if—
- (a) an amount of foreign tax is paid by the claimant, and
 - (b) at the time when the claimant entered into the scheme or arrangement, it could reasonably be expected that the effect of the payment of that amount of foreign tax on the foreign tax total would be to increase it by less than the amount allowable to the claimant as a credit in respect of the payment of that amount of foreign tax.
- (3) The foreign tax total is the amount found by—
- (a) aggregating the amounts of foreign tax paid or payable in respect of the transaction or transactions forming part of the scheme or arrangement by persons party to, or concerned in, the scheme or arrangement, and
 - (b) taking into account any reliefs, deductions, reductions or allowances against or in respect of any tax that arise to the persons party to, or concerned in, the scheme or arrangement (including any reliefs, deductions, reductions or allowances arising to any one or more of those persons as a consequence of the payment by the claimant of that amount of foreign tax).

Effect of claim, election or other arrangement

- 4 (1) This paragraph applies to a scheme or arrangement if under the scheme or arrangement—
- (a) a step is taken by a person who is party to, or concerned in, the scheme or arrangement, or
 - (b) a step that could have been taken by such a person is not taken,
- and that action or that failure to act has the effect of increasing a claim made by a person who is party to, or concerned in, the scheme or arrangement for an allowance by way of credit in accordance with this Part or of giving rise to such a claim.
- (2) The steps mentioned in sub-paragraph (1) are steps that may be made—
- (a) under the law of any territory, or
 - (b) under arrangements made in relation to any territory.
- (3) The steps mentioned in sub-paragraph (1) include—
- (a) claiming, or otherwise securing the benefit of, reliefs, deductions, reductions or allowances;
 - (b) making elections for tax purposes.

Effect attributable to scheme or arrangement

- 5 (1) This paragraph applies to a scheme or arrangement if, under the scheme or arrangement, sub-paragraph (2) is satisfied in relation to a person who has claimed, or is in a position to claim, for a chargeable period an allowance under any arrangements by way of credit for foreign tax.
- (2) This sub-paragraph is satisfied if amount A is less than amount B.
- (3) Amount A is the amount of United Kingdom taxes payable by the person in respect of income and chargeable gains arising in the chargeable period.

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- (4) Amount B is the amount of United Kingdom taxes that would be payable by the person in respect of income and chargeable gains arising in the chargeable period if, in determining that amount, the transactions forming part of the scheme or arrangement were disregarded.

Tax deductible payments

- 6 (1) This paragraph applies to a scheme or arrangement if the scheme or arrangement includes—
- (a) the making by a person (“A”) of a relevant payment or payments, and
 - (b) the giving, in respect of that payment or payments, of consideration that satisfies the requirements of sub-paragraph (3).
- (2) A payment made by A is a relevant payment if all or part of it may be brought into account in computing A's income for the purposes of United Kingdom taxes.
- (3) Consideration given in respect of a payment or payments made by A satisfies the requirements of this sub-paragraph if—
- (a) all or part of it consists of a payment or payments made to A or a person connected with A, and
 - (b) tax is chargeable in respect of the payment or payments under the law of a territory outside the United Kingdom.
- (4) In this paragraph references to a payment include references to a transfer of money's worth.
- (5) Section 839 applies for the purposes of this paragraph.”

SCHEDULE 6

Section 92

CAPITAL ALLOWANCES: RENOVATION OF BUSINESS PREMISES IN DISADVANTAGED AREAS

PART 1

NEW PART 3A OF THE CAPITAL ALLOWANCES ACT 2001

- 1 After Part 3 of CAA 2001 insert—

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“PART 3A

BUSINESS PREMISES RENOVATION ALLOWANCES

CHAPTER 1

INTRODUCTION

Business premises renovation allowances

- 360A) Allowances are available under this Part if a person incurs qualifying expenditure in respect of a qualifying building.
- (2) Allowances under this Part are made to the person who—
- (a) incurred the expenditure, and
 - (b) has the relevant interest in the qualifying building.

CHAPTER 2

QUALIFYING EXPENDITURE

Meaning of “qualifying expenditure”

- 360B) In this Part “qualifying expenditure” means capital expenditure incurred before the expiry date on, or in connection with—
- (a) the conversion of a qualifying building into qualifying business premises,
 - (b) the renovation of a qualifying building if it is or will be qualifying business premises, or
 - (c) repairs to a qualifying building or, where the qualifying building is part of a building, to the building of which the qualifying building forms part, to the extent that the repairs are incidental to expenditure within paragraph (a) or (b).
- (2) In subsection (1) “the expiry date” means—
- (a) the fifth anniversary of the day appointed under section 92 of the Finance Act 2005, or
 - (b) such later date as the Treasury may prescribe by regulations.
- (3) Expenditure is not qualifying expenditure if it is incurred on or in connection with—
- (a) the acquisition of land or rights in or over land,
 - (b) the extension of a qualifying building (except to the extent required for the purpose of providing a means of getting to or from qualifying business premises),
 - (c) the development of land adjoining or adjacent to a qualifying building, or

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- (d) the provision of plant and machinery, other than plant or machinery which is or becomes a fixture as defined by section 173(1).
- (4) For the purposes of this section, expenditure incurred on repairs to a building is to be treated as capital expenditure if it is not expenditure that would be allowed to be deducted in calculating the profits of a property business, or of a trade, profession or vocation, for tax purposes.
- (5) The Treasury may by regulations make further provision as to expenditure which is, or is not, qualifying expenditure.

CHAPTER 3

QUALIFYING BUILDINGS AND QUALIFYING BUSINESS PREMISES

Meaning of “qualifying building”

360(1) In this Part “qualifying building”, in relation to any conversion or renovation work, means any building or structure, or part of a building or structure, which—

- (a) is situated in an area which, on the date on which the conversion or renovation work began, was a disadvantaged area,
 - (b) was unused throughout the period of one year ending immediately before that date,
 - (c) on that date, had last been used—
 - (i) for the purposes of a trade, profession or vocation, or
 - (ii) as an office or offices (whether or not for the purposes of a trade, profession or vocation),
 - (d) on that date, had not last been used as, or as part of, a dwelling, and
 - (e) in the case of part of a building or structure, on that date had not last been occupied and used in common with any other part of the building or structure other than a part—
 - (i) as respects which the condition in paragraph (b) is met, or
 - (ii) which had last been used as a dwelling.
- (2) In this section “disadvantaged area” means—
- (a) an area designated as a disadvantaged area for the purposes of this section by regulations made by the Treasury, or
 - (b) if no regulations are made under paragraph (a), an area for the time being designated as a disadvantaged area for the purposes of Schedule 6 to the Finance Act 2003 (stamp duty land tax: disadvantaged areas relief).
- (3) Regulations under subsection (2)(a) may—
- (a) designate specified areas as disadvantaged areas, or
 - (b) provide for areas of a description specified in the regulations to be designated as disadvantaged areas.
- (4) If regulations under subsection (2)(a) so provide, the designation of an area as a disadvantaged area shall have effect for such period as may be specified in or determined in accordance with the regulations.

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- (5) Regulations under subsection (2)(a) may—
- (a) make different provision for different cases, and
 - (b) contain such incidental, supplementary, consequential or transitional provision as appears to the Treasury to be necessary or expedient.
- (6) Where a building or structure (or part of a building or structure) which would otherwise be a qualifying building is on the date mentioned in subsection (1)
- (a) situated partly in a disadvantaged area and partly outside it, only so much of the expenditure incurred in accordance with section 360B as, on a just and reasonable apportionment, is attributable to the part of the building or structure located in the disadvantaged area is to be treated as qualifying expenditure.
- (7) The Treasury may by regulations make further provision as to the circumstances in which a building or structure or part of a building or structure is, or is not, a qualifying building.

Meaning of “qualifying business premises”

- 360D) In this Part “qualifying business premises” means any premises in respect of which the following requirements are met—
- (a) the premises must be a qualifying building,
 - (b) the premises must be used, or available and suitable for letting for use,—
 - (i) for the purposes of a trade, profession or vocation, or
 - (ii) as an office or offices (whether or not for the purposes of a trade, profession or vocation),
 - (c) the premises must not be used, or available for use as, or as part of, a dwelling.
- (2) In this section “premises” means any building or structure or part of a building or structure.
- (3) For the purposes of this Part, if premises are qualifying business premises immediately before a period when they are temporarily unsuitable for use for the purposes mentioned in subsection (1)(b), they are to be treated as being qualifying business premises during that period.
- (4) The Treasury may by regulations make further provision as to the circumstances in which premises are, or are not, qualifying business premises.

CHAPTER 4

THE RELEVANT INTEREST IN THE QUALIFYING BUILDING

General rule as to what is the relevant interest

- 360E) The relevant interest in a qualifying building in relation to any qualifying expenditure is the interest in the qualifying building to which the person who incurred the qualifying expenditure was entitled when it was incurred.

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- (2) Subsection (1) is subject to the following provisions of this Chapter and to section 360Z3 (provisions applying on termination of lease).
- (3) If—
 - (a) the person who incurred the qualifying expenditure was entitled to more than one interest in the qualifying building when the expenditure was incurred, and
 - (b) one of those interests was reversionary on all the others,
the reversionary interest is the relevant interest in the qualifying building.
- (4) An interest does not cease to be the relevant interest merely because of the creation of a lease or other interest to which that interest is subject.
- (5) If—
 - (a) the relevant interest is a leasehold interest, and
 - (b) that interest is extinguished on the person entitled to it acquiring the interest which is reversionary on it,
the interest into which the leasehold interest merges becomes the relevant interest when the leasehold interest is extinguished.

Interest acquired on completion of conversion

- 360F For the purposes of determining the relevant interest in a qualifying building, a person who—
- (a) incurs expenditure on the conversion of a qualifying building into qualifying business premises, and
 - (b) is entitled to an interest in the qualifying building on or as a result of the completion of the conversion,
- is treated as having had that interest when the expenditure was incurred.

CHAPTER 5

INITIAL ALLOWANCES

Initial allowances

- 360G (1) A person who has incurred qualifying expenditure in respect of any qualifying building is entitled to an initial allowance in respect of the expenditure.
- (2) The amount of the initial allowance is 100% of the qualifying expenditure.
 - (3) A person claiming an initial allowance under this section may require the allowance to be reduced to a specified amount.
 - (4) The initial allowance is made for the chargeable period in which the qualifying expenditure is incurred.

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Premises not qualifying business premises or relevant interest sold before premises first used or let

- 360H) No initial allowance is to be made under section 360G if, at the relevant time, the qualifying building does not constitute qualifying business premises.
- (2) An initial allowance which has been made in respect of a qualifying building which is to be qualifying business premises is to be withdrawn if—
- (a) the qualifying building does not constitute qualifying business premises at the relevant time, or
 - (b) the person to whom the allowance was made has sold the relevant interest in the qualifying building before the relevant time.
- (3) All such assessments and adjustments of assessments are to be made as are necessary to give effect to this section.
- (4) In this section “the relevant time” means the time when the premises are first used by the person with the relevant interest or, if they are not so used, the time when they are first suitable for letting for either of the purposes mentioned in section 360D(1)(b).

CHAPTER 6

WRITING-DOWN ALLOWANCES

Entitlement to writing-down allowances

- 360I) A person is entitled to a writing-down allowance for a chargeable period if he has incurred qualifying expenditure in respect of a qualifying building and, at the end of the chargeable period—
- (a) the person is entitled to the relevant interest in the qualifying building,
 - (b) the person has not granted a long lease of the qualifying building out of the relevant interest in consideration of the payment of a capital sum, and
 - (c) the qualifying building constitutes qualifying business premises.
- (2) In subsection (1)(b) “long lease” means a lease the duration of which exceeds 50 years.
- (3) Whether the duration of a lease exceeds 50 years is to be determined—
- (a) in accordance with section 303 of ITTOIA 2005, and
 - (b) without regard to section 360Z3(3) of this Act (new lease granted as a result of the exercise of an option treated as continuation of old lease).
- (4) A person claiming a writing-down allowance may require the allowance to be reduced to a specified amount.

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Amount of allowance

- 360(J) The writing-down allowance for a chargeable period is 25% of the qualifying expenditure.
- (2) The allowance is proportionately increased or reduced if the chargeable period is more or less than a year.
 - (3) The amount of the writing-down allowance for a chargeable period is limited to the residue of qualifying expenditure.
 - (4) For this purpose the residue is ascertained immediately before writing off the writing-down allowance at the end of the chargeable period.

Meaning of “the residue of qualifying expenditure”

- 360K The residue of qualifying expenditure is the qualifying expenditure that has not yet been written off in accordance with Chapter 9.

CHAPTER 7

GRANTS IN RESPECT OF QUALIFYING EXPENDITURE

Grants affecting entitlement to allowances

- 360(1) No initial allowance or writing-down allowance under this Part is to be made in respect of expenditure to the extent that it is taken into account for the purposes of a relevant grant or relevant payment made towards that expenditure.
- (2) A grant or payment is relevant if it is—
 - (a) a notified State aid other than an allowance under this Part, or
 - (b) a grant or subsidy, other than a notified State aid, which the Treasury by order declares to be relevant for the purposes of the withholding of initial allowances or writing-down allowances.
 - (3) For the purposes of subsection (2), “notified State aid” means a State aid notified to and approved by the European Commission.
 - (4) If a relevant grant or relevant payment towards the expenditure is made after the making of an initial allowance or a writing-down allowance, the allowance is to be withdrawn to that extent.
 - (5) If the amount of the relevant grant or relevant payment is repaid by the grantee to the grantor, in whole or in part, the grant or payment is treated, to that extent, as never having been made.
 - (6) All such assessments and adjustments of assessments are to be made as are necessary to give effect to subsection (4) or (5).
 - (7) Any such assessment or adjustment is not out of time if it is made within 3 years of the end of the chargeable period in which the grant, payment or adjustment was made.

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

CHAPTER 8

BALANCING ADJUSTMENTS

When balancing adjustments are made

360M) A balancing adjustment is made if—

- (a) qualifying expenditure has been incurred in respect of a qualifying building, and
 - (b) a balancing event occurs.
- (2) A balancing adjustment is either a balancing allowance or a balancing charge and is made for the chargeable period in which the balancing event occurs.
 - (3) A balancing allowance or balancing charge is made to or on the person who incurred the qualifying expenditure.
 - (4) No balancing adjustment is made if the balancing event occurs more than 7 years after the time when the premises were first used, or suitable for letting, for either of the purposes mentioned in section 360D(1)(b).
 - (5) If more than one balancing event within section 360N occurs, a balancing adjustment is made only on the first of them.

Balancing events

360N) The following are balancing events for the purposes of this Part—

- (a) the relevant interest in the qualifying building is sold;
 - (b) a long lease of the qualifying building is granted out of the relevant interest in consideration of the payment of a capital sum;
 - (c) if the relevant interest is a lease, the lease ends otherwise than on the person entitled to it acquiring the interest reversionary on it;
 - (d) the person who incurred the qualifying expenditure dies;
 - (e) the qualifying building is demolished or destroyed;
 - (f) the qualifying building ceases to be qualifying business premises (without being demolished or destroyed).
- (2) Section 360I(2) and (3) (meaning of “long lease”) applies for the purposes of subsection (1)(b).

Proceeds from balancing events

360O) References in this Part to the proceeds from a balancing event are to the amounts received or receivable in connection with the event, as shown in the Table—

TABLE: BALANCING EVENTS AND PROCEEDS

<i>1 Balancing Event</i>	<i>2 Proceeds from event</i>
1 The sale of the relevant interest.	The net proceeds of the sale.

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2 The grant of a long lease out of the relevant interest.	If the capital sum paid in consideration of the grant is less than the commercial premium, the commercial premium. In any other case, the capital sum paid in consideration of the grant.
3 The coming to an end of a lease, where a person entitled to the lease and a person entitled to any superior interest are connected persons.	The market value of the relevant interest in the qualifying building at the time of the event.
4 The death of the person who incurred the qualifying expenditure.	The residue of qualifying expenditure immediately before the death.
5 The demolition or destruction of the qualifying building.	The net amount received for the remains of the qualifying building, together with <ol style="list-style-type: none"> (a) any insurance money received in respect of the demolition or destruction, and (b) any other compensation of any description so received, so far as it consists of capital sums.
6 The qualifying building ceases to be qualifying business premises.	The market value of the relevant interest in the qualifying building at the time of the event.

-
- (2) The amounts referred to in column 2 of the Table are those received or receivable by the person who incurred the qualifying expenditure.
- (3) In Item 2 of the Table “the commercial premium” means the premium that would have been given if the transaction had been at arm's length.

Calculation of balancing adjustments

- 360(1) A balancing allowance is made if—
- (a) there are no proceeds from the balancing event, or
 - (b) the proceeds from the balancing event are less than the residue of qualifying expenditure immediately before the event.
- (2) The amount of the balancing allowance is the amount of—
- (a) the residue (if there are no proceeds);
 - (b) the difference (if the proceeds are less than the residue).
- (3) A balancing charge is made if the proceeds from the balancing event are more than the residue, if any, of qualifying expenditure immediately before the event.
- (4) The amount of the balancing charge is the amount of—
- (a) the difference, or
 - (b) the proceeds (if the residue is nil).
- (5) The amount of a balancing charge made on a person must not exceed the total amount of—

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- (a) any initial allowances made to the person in respect of the expenditure, and
- (b) any writing-down allowances made to the person in respect of the expenditure for chargeable periods ending on or before the date of the balancing event giving rise to the balancing adjustment.

CHAPTER 9

WRITING OFF QUALIFYING EXPENDITURE

Introduction

360Q For the purposes of this Part qualifying expenditure is written off to the extent and at the times specified in this Chapter.

Writing off initial allowances and writing-down allowances

360R(1) If an initial allowance is made in respect of the qualifying expenditure, the amount of the allowance is written off at the time when the qualifying business premises are first used, or suitable for letting for use, for either of the purposes mentioned in section 360D(1)(b).

- (2) If a writing-down allowance is made in respect of the qualifying expenditure, the amount of the allowance is written off at the end of the chargeable period for which the allowance is made.
- (3) If a balancing event occurs at the end of the chargeable period referred to in subsection (2), the amount written off under that subsection is to be taken into account in calculating the residue of qualifying expenditure immediately before the event to determine what balancing adjustment (if any) is to be made.

Treatment of demolition costs

360S(1) This section applies if—

- (a) a qualifying building is demolished, and
 - (b) the person who incurred the qualifying expenditure incurs the cost of the demolition.
- (2) The net cost of the demolition is added to the residue of qualifying expenditure immediately before the demolition.
 - (3) “The net cost of the demolition” means the amount, if any, by which the cost of the demolition exceeds any money received for the remains of the qualifying building.
 - (4) If this section applies, neither the cost of the demolition nor the net cost of the demolition is treated for the purposes of any Part of this Act as expenditure on any other property replacing the qualifying building demolished.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

CHAPTER 10

>ADDITIONAL VAT LIABILITIES AND REBATES

Introduction

360T For the purposes of this Chapter—

- (a) “additional VAT liability” and “additional VAT rebate” have the meanings given by section 547,
- (b) the time when—
 - (i) a person incurs an additional VAT liability, or
 - (ii) an additional VAT rebate is made to a person,is given by section 548, and
- (c) the chargeable period in which, and the time when, an additional VAT liability or an additional VAT rebate accrues are given by section 549.

Additional VAT liabilities and initial allowances

360(1) This section applies if—

- (a) a person was entitled to an initial allowance under this Part in respect of qualifying expenditure on a qualifying building,
 - (b) that person incurs an additional VAT liability in respect of that expenditure, and
 - (c) the additional VAT liability is incurred at a time when the qualifying building is, or is about to be, qualifying business premises.
- (2) If this section applies, the person entitled to the relevant interest is entitled to an initial allowance on the amount of the additional VAT liability.
 - (3) The amount of the initial allowance is 100% of the amount of the additional VAT liability.
 - (4) A person claiming an initial allowance under this section may require the allowance to be reduced to a specified amount.
 - (5) The allowance is made for the chargeable period in which the additional VAT liability accrues.

Additional VAT liabilities and writing-down allowances

360(1) This section applies if the person entitled to the relevant interest in relation to qualifying expenditure incurs an additional VAT liability in respect of that expenditure.

- (2) If this section applies—
 - (a) the additional VAT liability is treated as qualifying expenditure, and
 - (b) the amount of the residue of qualifying expenditure is accordingly increased at the time when the liability accrues by the amount of the liability.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Additional VAT liabilities and writing off initial allowances

360W If an initial allowance is made in respect of an additional VAT liability incurred after the qualifying business premises are first used or suitable for letting for business use, the amount of the allowance is written off at the time when the liability accrues.

Additional VAT rebates and balancing adjustments

360X) If an additional VAT rebate is made in respect of qualifying expenditure to the person entitled to the relevant interest in relation to that qualifying expenditure—

- (a) the making of the rebate is a balancing event for the purposes of this Part, but
 - (b) the making of balancing adjustments as a result of the event is subject to subsections (2) and (3).
- (2) No balancing allowance is to be made as a result of the event.
- (3) A balancing charge is not to be made as a result of the event unless—
- (a) the amount of the additional VAT rebate is more than the amount of the residue of qualifying expenditure immediately before the time when the rebate accrues, or
 - (b) there is no such residue.
- (4) The amount of the balancing charge is—
- (a) the amount of the difference, or
 - (b) the amount of the rebate (if there is no residue).

Additional VAT rebates and writing off qualifying expenditure

360Y If an additional VAT rebate is made in respect of qualifying expenditure, an amount equal to the rebate is written off at the time when the rebate accrues.

CHAPTER 11

SUPPLEMENTARY PROVISIONS

Giving effect to allowances and charges: trades

360Z) An allowance or charge to which a person is entitled or liable under this Part is to be given effect in calculating the profits of that person's trade, by treating—

- (a) the allowance as an expense of the trade, and
 - (b) the charge as a receipt of the trade.
- (2) In the case of a person who—
- (a) is entitled to an allowance or liable to a charge in respect of a qualifying building, and
 - (b) occupies that building in the course of a profession or vocation,

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

the references in subsection (1) to a trade are to be read as references to the profession or vocation.

(3) Subsection (1) is subject to the following provisions of this Chapter.

Giving effect to allowances and charges: lessors and licensees

360Z(1) This section applies if—

- (a) a person is entitled or liable to an allowance or charge under this Part for a chargeable period (“the relevant period”), but
 - (b) his interest in the building in question is or was subject to a lease or a licence at any time in that period.
- (2) If the person's interest in the building is an asset of a property business carried on by him at any time in the relevant period, the allowance or charge is to be given effect in calculating the profits of that business for the relevant period by treating—
- (a) the allowance as an expense of that business, and
 - (b) the charge as a receipt of that business.
- (3) If the person's interest in the building is not an asset of a property business carried on by him at any time in the relevant period, the allowance or charge is to be given effect by treating him as if he had been carrying on a property business in that period and as if—
- (a) the allowance were an expense of that business, and
 - (b) the charge were a receipt of that business.

Apportionment of sums partly referable to non-qualifying assets

360Z(1) If the sum paid for the sale of the relevant interest in a qualifying building is attributable—

- (a) partly to assets representing expenditure for which an allowance can be made under this Part, and
 - (b) partly to assets representing other expenditure,
- only so much of the sum as on a just and reasonable apportionment is attributable to the assets referred to in paragraph (a) is to be taken into account for the purposes of this Part.
- (2) Subsection (1) applies to other proceeds from a balancing event in respect of a qualifying building as it applies to a sum given for the sale of the relevant interest in the qualifying building.
- (3) Subsection (1) does not affect any other provision of this Act requiring an apportionment of the proceeds of a balancing event.

Provisions applying on termination of lease

360Z(1) This section applies for the purposes of this Part if a lease is terminated.

- (2) If, with the consent of the lessor, the lessee of the qualifying building remains in possession of the qualifying building after the termination without a new lease being granted to him, the lease is treated as continuing so long as the lessee remains in possession.

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (3) If on the termination a new lease is granted to a lessee as a result of the exercise of an option available to him under the terms of the first lease, the second lease is treated as a continuation of the first.
- (4) If on the termination the lessor pays a sum to the lessee in respect of business premises comprised in the lease, the lease is treated as if it had come to an end by surrender in consideration of the payment.
- (5) If on the termination—
- (a) another lease is granted to a different lessee, and
 - (b) in connection with the transaction that lessee pays a sum to the person who was the lessee under the first lease,
- the two leases are to be treated as if they were the same lease which had been assigned by the lessee under the first lease to the lessee under the second lease in consideration of the payment.

Meaning of “lease” etc.

360Z(4) In this Part “lease” includes—

- (a) an agreement for a lease if the term to be covered by the lease has begun, and
 - (b) any tenancy,
- but does not include a mortgage (and “lessee”, “lessor” and “leasehold interest” are to be read accordingly).
- (2) In the application of this Part to Scotland—
- (a) “leasehold interest” or “leasehold estate” means the interest of a tenant in property subject to a lease, and
 - (b) any reference to an interest which is reversionary on a leasehold interest or on a lease is to be read as a reference to the interest of the landlord in the property subject to the leasehold interest or lease.”

PART 2

CONSEQUENTIAL AMENDMENTS

- 2 In section 1(2) of CAA 2001 (capital allowances provided for by Act), after paragraph (b) insert—
- “(ba) Part 3A (business premises renovation allowances)”.
- 3 In section 2(3) of CAA 2001 (provisions about giving effect to allowances and charges), after the entry in the list for sections 352 to 355 of that Act insert— “sections 360Z and 360Z1 (business premises renovation allowances)”.
- 4 In section 3 of CAA 2001 (claims for capital allowances) after subsection (2) insert—
- “(2A) Any claim for an allowance under Part 3A (business premises renovation allowances) must be separately identified as such in the return.”
- 5 In section 537(1) of CAA 2001 (general conditions for making contribution allowances under Parts 2 to 4 and 5), and in the section heading and the cross-

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- heading preceding that section, for “Parts 2 to 4 and 5” substitute “ Parts 2, 3, 4 and 5 ”.
- 6 In section 546 of CAA 2001 (interpretation of VAT provisions), before the “and” at the end of paragraph (b) insert—
“(ba) Chapter 10 of Part 3A (business premises renovation allowances: additional VAT liabilities and rebates),”.
- 7 In section 567(1) of CAA 2001 (Parts of Act for purposes of which provisions about sales not at market value apply), after “3,” insert “ 3A, ”.
- 8 In section 570(1) of CAA 2001 (elections under section 569 of that Act: supplementary), after “Part” insert “ 3A, ”.
- 9 In section 570A(1) of CAA 2001 (avoidance affecting proceeds of balancing event), after “3,” insert “ , 3A ”.
- 10 In section 573(1) of CAA 2001 (transfers treated as sales), after “3,” insert “ 3A, ”.
- 11 (1) Part 2 of Schedule 1 to CAA 2001 (list of defined expressions) is amended as follows.
(2) Insert the following entries in the appropriate places—

“balancing adjustment (in Part 3A)	section 360M”
“balancing event (in Part 3A)	section 360N”
“lease and related expressions (in Part 3A)	section 360Z4”
“proceeds from a balancing event (in Part 3A)	section 360O”
“qualifying building (in Part 3A)	section 360C”
“qualifying business premises (in Part 3A)	section 360D”
“qualifying expenditure (in Part 3A)	section 360B”
“relevant interest (in Part 3A)	Chapter 4 of Part 3A”
“residue of qualifying expenditure (in Part 3A)	section 360K”

- (3) In the entry for “sale, transfers under Parts 3, 4, 4A and 10 treated as”, after “3” insert “ , 3A ”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

SCHEDULE 7

Section 93

TONNAGE TAX

PART 1

AMENDMENTS OF SCHEDULE 22 TO FA 2000

Introduction

1 Schedule 22 to FA 2000 shall be amended as follows.

Period for which election is in force

2 (1) Paragraph 13 is amended as follows.

(2) After sub-paragraph (2) insert—

“(2A) A tonnage tax election ceases to be in force—

- (a) in the case of a company election, if a withdrawal notice in respect of the company takes effect under paragraph 15A;
- (b) in the case of a group election, if a withdrawal notice in respect of the group takes effect under that paragraph.”.

Withdrawal notices

3 After paragraph 15 (and before Part 3) insert—

“Withdrawal notices

15A(1) A withdrawal notice (see paragraph 13(2A)) may be given—

- (a) in respect of a single company, or
- (b) in respect of a group,

but only if the following conditions are met.

(2) Condition 1 is that the notice is given during the period—

- (a) beginning with the day on which the Finance Act 2005 is passed, and
- (b) ending with 31st March 2006.

(3) Condition 2 is that, for the whole of the period of three years ending with the day on which the Finance Act 2005 is passed, a tonnage tax election or a renewal election has been in force in respect of the company or group in respect of which the withdrawal notice is to be given.

(4) A withdrawal notice must be given to the Inland Revenue—

- (a) in the case of a withdrawal notice in respect of a single company, by that company;
- (b) in the case of a withdrawal notice in respect of a group, jointly by all the qualifying companies in the group.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (5) A withdrawal notice given in accordance with this paragraph takes effect at the end of the accounting period that precedes the first accounting period of the company to begin after 1st July 2005.
- (6) In the case of a withdrawal notice given in respect of a group, sub-paragraph (5) has effect in relation to each qualifying company in the group by reference to that company's accounting periods.

Power to provide further opportunities for withdrawal

- 15B (1) The Treasury may by order provide for further periods during which withdrawal notices under paragraph 15A may be given.
- (2) Any such order may provide for that paragraph to apply, with such consequential adaptations as appear to the Treasury to be appropriate, in relation to any such further period as it applies in relation to the period specified in sub-paragraph (2) of that paragraph.
 - (3) The consequential adaptations that may be made include adaptations of the reference in sub-paragraph (3) of that paragraph to the period of three years ending with the day on which the Finance Act 2005 is passed.”.

VALID FROM 01/07/2005

Qualifying ships

- 4 (1) Paragraph 19 is amended as follows.
- (2) In sub-paragraph (1) (meaning of “qualifying ship”)—
 - (a) in paragraph (a), after “carriage” insert “ by sea ”;
 - (b) in paragraph (b), after “carriage” insert “ by sea ”;
 - (c) in paragraph (c), after “assistance” insert “ carried out at sea ”;
 - (d) in paragraph (d), after “transport” insert “ by sea ”.
 - (3) In sub-paragraph (3) (other provisions to which sub-paragraph (1) is subject)—
 - (a) after “subject to” insert—

“(a) ”;
 - (b) at the end insert—

“(b) paragraph 20A (qualifying dredgers and tugs);
(c) paragraphs 22A to 22F (flagging).”.
 - (4) After sub-paragraph (4) insert—

“(5) For the purposes of sub-paragraph (1) “sea” does not include—
 - (a) a port or harbour;
 - (b) an estuary, a tidal or other river or an inland waterway.”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 01/07/2005

Vessels excluded from being qualifying ships

- 5 (1) Paragraph 20 is amended as follows.
- (2) In sub-paragraph (1) (list of excluded vessels) for paragraph (f) (dredgers) substitute—
- “(f) dredgers other than qualifying dredgers.”.
- (3) After sub-paragraph (6) insert—
- “(7) In this Schedule “qualifying dredger” means a dredger which—
- (a) is self-propelled, and
- (b) is constructed or adapted for the carriage of cargo;
- (but see further paragraph 20A).”.

VALID FROM 01/07/2005

Qualifying dredgers and tugs

- 6 After paragraph 20 insert—
- “Qualifying dredgers and tugs*
- 20A (1) This paragraph applies where a company operates a ship in an accounting period and the ship—
- (a) is a qualifying dredger or a tug, and
- (b) would, apart from this paragraph, be a qualifying ship.
- (2) The ship shall not be regarded as a qualifying ship operated by the company in that accounting period unless it is used for one or more of the activities mentioned in paragraph 19(1)(a) to (d) for more than 50% of its operational time.
- (3) In this paragraph “operational time”, in relation to a ship operated by a company in an accounting period, means the time during that accounting period during which the ship is—
- (a) operated by the company, and
- (b) used for any activity.
- (4) For the purposes of sub-paragraph (2) assisting a self-propelled vessel into or out of a port or harbour is not to be regarded as use for an activity mentioned in paragraph 19(1)(c).
- (5) For the purposes of sub-paragraph (3) any waiting time spent by a tug for the purposes of a particular activity is to be treated as time during which the tug is used for that activity.”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Effect of change of use

- 7 (1) Paragraph 22 is amended as follows.
- (2) In sub-paragraph (1) (qualifying ship beginning to be used as vessel of excluded kind ceases to be such ship when it begins to be so used) for “as a vessel of an excluded kind” substitute “ for non-qualifying purposes ”.
- (3) In sub-paragraph (2)(b) (use as vessel of excluded kind for up to 30 days in accounting period to be disregarded) for “as a vessel of an excluded kind” substitute “ for non-qualifying purposes ”.
- (4) In sub-paragraph (5) (meaning of references to use as vessel of excluded kind) for “as a vessel of an excluded kind are to” substitute “for non-qualifying purposes are to—
- (a) use for an activity other than any of the activities mentioned in paragraph 19(1)(a) to (d), or
- (b)”.
- (5) After that sub-paragraph insert—
- “(6) This paragraph does not apply for the purposes of sub-paragraphs (2) to (5) of paragraph 20A (qualifying dredgers and tugs).”.

VALID FROM 01/07/2005

Flagging: rule for ships other than dredgers and tugs

- 8 After paragraph 22 insert—

“Flagging: rule for ships other than dredgers and tugs

- 22A (1) This paragraph applies if the following conditions are satisfied in the case of a ship which—
- (a) is neither a qualifying dredger nor a tug, and
- (b) would, apart from this paragraph, be a qualifying ship.
- (2) Condition 1 is that, at a time after the later of the reference date (see paragraph 22B(1)) and 30th June 2005,—
- (a) in the case of a tonnage tax company which is a single company, the company begins, in a financial year which is not excepted (see paragraph 22B(2)), to operate the ship for the first time, or
- (b) in the case of a tonnage tax company which is a member of a tonnage tax group, the company begins, in a financial year which is not excepted, to operate the ship for the first time, the ship not having previously been operated by any other member of the group.
- (3) Condition 2 is that less than 60% of the company's total tonnage is Community-flagged (see paragraph 22B(3)) on average over the period—
- (a) beginning with the first day of the financial year mentioned in condition 1, and
- (b) ending with the day on which the company so begins to operate the ship.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (4) Condition 3 is that—
- (a) the percentage of the company's total tonnage which is Community-flagged on average over the period mentioned in condition 2,
is less than
 - (b) the percentage of the company's total tonnage which was Community-flagged on the reference date.
- (5) Condition 4 is that, on the date on which the company so begins to operate the ship, the ship is not registered in one of the Member States' registers (see paragraph 22B(7)).
- (6) Where this paragraph applies in relation to the ship, the ship shall not, at any time on or after that date, be regarded as—
- (a) a qualifying ship operated by the company, or
 - (b) if immediately before that date the company is a member of a tonnage tax group, a qualifying ship operated by any company that is or becomes a member of the group.
- (7) But sub-paragraph (6) does not apply if—
- (a) the ship has become registered in one of the Member States' registers by the end of the period of three months beginning with that date, or
 - (b) the conditions in sub-paragraph (8) are satisfied.
- (8) Those conditions are that—
- (a) a substitute ship which was not registered in one of the Member States' registers has, during the period mentioned in sub-paragraph (7)(a), become so registered, and
 - (b) no later than the end of that period—
 - (i) if the company is a single company, the company makes an election under this sub-paragraph in relation to the substitute ship, or
 - (ii) if the company is a member of a tonnage tax group, all the qualifying companies in the group jointly make such an election.
- (9) In sub-paragraph (8) a “substitute ship” means a qualifying ship—
- (a) the tonnage of which is no less than that of the ship mentioned in sub-paragraph (1), and
 - (b) which was first operated by the company or, if the company is a member of a tonnage tax group, by any other member of the group more than three months before that date;
- and for this purpose the tonnage of a ship is to be determined on the same basis as it is under paragraph 22B(3).
- (10) An election under sub-paragraph (8) is made by notice to the Inland Revenue.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Flagging: meaning of terms used in paragraph 22A

22B (1) In paragraph 22A “the reference date” means 17th January 2004 or, if later,—

- (a) in the case of a single company, the date of the end of the accounting period in which the company became (or becomes) a tonnage tax company;
- (b) in the case of a member of a group, the date of the end of the accounting period in which the group became (or becomes) a tonnage tax group;

but where the members of a group had (or have) different accounting periods at the time the group became (or becomes) a tonnage tax group, paragraph (b) has effect by reference to the first of those accounting periods.

- (2) For the purposes of sub-paragraph (2) of paragraph 22A a financial year is excepted if it is designated by an order made by the Treasury as a financial year in relation to which that paragraph is not to have effect (see further paragraph 22C(1) to (3)).
- (3) For the purposes of paragraph 22A the percentage of a company's total tonnage which is Community-flagged is—

$$\frac{\text{CFT}}{\text{TT}} \times 100$$

where—

CFT is the aggregate tonnage of such of the relevant ships as are registered in one of the Member States' registers, and

TT is the aggregate tonnage of all the relevant ships.

- (4) For the purposes of sub-paragraph (3) the ships which are the relevant ships are—
 - (a) if the company is a single company, the ships operated by the company, or
 - (b) if the company is a member of a tonnage tax group, the ships operated by each member of the group which is a qualifying company.
- (5) Sub-paragraphs (3) and (4) are subject to any regulations made under paragraph 22C(4).
- (6) A ship shall not be counted more than once in determining for the purposes of sub-paragraph (3) the aggregate tonnage of relevant ships.
- (7) In this Schedule “Member States' registers” has the meaning given by the Annex to Commission communication C(2004) 43 — Community guidelines on State aid to maritime transport (as from time to time amended or replaced).

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Flagging: provisions supplementing paragraphs 22A and 22B

- 22C (1) An order under paragraph 22B(2) designating a financial year shall be made if—
- (a) the Treasury are satisfied, on the basis of the information available to them, that the percentage of the tonnage tax fleet which is Community-flagged has not decreased on average over a prescribed three year period, and
 - (b) the order is made before the beginning of that financial year.
- (2) The Treasury may make provision by regulations for or in connection with—
- (a) specifying the meaning, for the purposes of sub-paragraph (1)(a), of the percentage of the tonnage tax fleet which is Community-flagged;
 - (b) specifying the way in which an average is to be calculated for those purposes;
 - (c) requiring any tonnage tax company or tonnage tax group to provide prescribed information for the purposes of enabling the Treasury to determine whether the condition in sub-paragraph (1)(a) is met;
 - (d) imposing penalties in respect of a failure to comply with a provision of the regulations made by virtue of paragraph (c) (including, in prescribed cases or circumstances, the exclusion of a company or group from tonnage tax).
- (3) Section 828(3) of the Taxes Act 1988 shall not apply in relation to an order under paragraph 22B(2).
- (4) The Treasury may make provision by regulations as to the way in which the percentage of a company's total tonnage which is Community-flagged is to be calculated for the purposes of paragraph 22A.
- (5) The provision that may be made by regulations under sub-paragraph (4) includes provision for or in connection with—
- (a) determining the percentage of a company's total tonnage which is Community-flagged on average over a period;
 - (b) specifying the basis on which the tonnage of a ship is to be determined;
 - (c) treating ships which would, but for the regulations, be relevant ships for the purposes of paragraph 22B(3) as not being relevant ships for those purposes;
 - (d) including in the calculation set out in paragraph 22B(3) only such proportion of the tonnage of a relevant ship as may be prescribed.
- (6) Regulations under this paragraph—
- (a) may make different provision for different cases or circumstances, and
 - (b) may contain such supplementary, incidental, consequential and transitional provisions as appear to the Treasury to be necessary or expedient.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (7) In this paragraph “prescribed” means—
- (a) specified in, or
 - (b) determined in accordance with, regulations under this paragraph.”

Flagging: rules for dredgers and tugs

9 After paragraph 22C insert—

“Flagging: rule on first operation of qualifying dredger or tug

22D(1) This paragraph applies if—

- (a) a company begins to operate a ship which—
 - (i) is a qualifying dredger or a tug,
 - (ii) would, apart from this paragraph, be a qualifying ship, and
 - (iii) has not previously been operated by the company or, if the company is a member of a group, by any member of the group, and
 - (b) on the date on which the company so begins to operate the ship, the ship is not registered in one of the Member States' registers.
- (2) The ship shall not, at any time on or after that date, be regarded as—
- (a) a qualifying ship operated by the company, or
 - (b) if immediately before that date the company is a member of a group, a qualifying ship operated by any company that is or becomes a member of the group.
- (3) But sub-paragraph (2) does not apply if the ship has become registered in one of the Member States' registers by the end of the period of three months beginning with that date.

Flagging: rule on subsequent re-flagging of qualifying dredger or tug

22E(1) This paragraph applies if—

- (a) a qualifying ship operated by a company ceases to be registered in any of the Member States' registers, and
 - (b) the ship is a qualifying dredger or a tug.
- (2) The ship shall not, at any time on or after the date on which it ceases to be so registered, be regarded as—
- (a) a qualifying ship operated by the company, or
 - (b) if immediately before that date the company is a member of a group, a qualifying ship operated by any company that is or becomes a member of the group.”

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 01/07/2005

Flagging: restrictions where dredger or tug ceases to be qualifying ship under paragraph 22E

10 After paragraph 22E insert—

“Flagging: restrictions where ship ceases to be qualifying ship under paragraph 22E

22F (1) This paragraph applies where a qualifying ship operated by a tonnage tax company ceases to be a qualifying ship by virtue of paragraph 22E.

(2) No notice may be given under section 130 of the Capital Allowances Act 2001 for the postponement of all or part of a relevant allowance to which—

- (a) the company, or
- (b) if immediately before the date on which the ship so ceases to be a qualifying ship (“the cessation date”) the company is a member of a tonnage tax group, any company that is or becomes a member of the group,

becomes entitled on or after the cessation date.

(3) In sub-paragraph (2) “relevant allowance” means an allowance in respect of—

- (a) qualifying expenditure on the provision of the ship, or
- (b) qualifying expenditure which—
 - (i) is incurred on the provision of the ship, and
 - (ii) is allocated to a single ship pool.

(4) No claim may be made under section 135 of that Act for deferment of all or part of a balancing charge—

- (a) to which the company or, if immediately before the cessation date the company is a member of a tonnage tax group, any company that is or becomes a member of the group becomes liable, and
- (b) which arises when there is a disposal event in respect of the ship on or after the cessation date.

(5) Relief in respect of a relevant loss shall not be given under section 393A(1) of the Taxes Act 1988 (losses: set off against profits of the same, or an earlier, accounting period).

(6) Group relief under Chapter 4 of Part 10 of that Act shall not be available in respect of a relevant loss.

(7) Accordingly, relief in respect of a relevant loss shall be given only under section 393(1) of that Act (losses other than terminal losses).

(8) In sub-paragraphs (5) to (7) “relevant loss” means a loss which is incurred in respect of the ship on or after the cessation date in the course of a trade carried on by—

- (a) the company, or

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (b) if immediately before the cessation date the company is a member of a tonnage tax group, any company that is or becomes a member of the group.”.

Requirement to prove compliance with safety etc standards

11 After paragraph 43 insert—

“The requirement to prove compliance with safety etc standards

- 43A(1) The Secretary of State may make provision by regulations for or in connection with requiring qualifying companies or qualifying groups to provide evidence of compliance with prescribed standards relating to—
- (a) health and safety in connection with qualifying ships which are not registered in any of the Member States' registers;
 - (b) environmental performance of such ships;
 - (c) working conditions on such ships.
- (2) The provision that may be made by regulations under this paragraph includes provision for or in connection with—
- (a) requiring returns to be made at prescribed intervals;
 - (b) authorising the Secretary of State to require persons to provide prescribed information in prescribed cases or circumstances;
 - (c) enabling audits to be carried out on behalf of the Secretary of State;
 - (d) authorising the Secretary of State to issue certificates of non-compliance in prescribed cases or circumstances;
 - (e) the effect of such a certificate (including preventing the making of a renewal election when such a certificate is in force);
 - (f) enabling persons to apply to the Secretary of State for the cancellation of such a certificate;
 - (g) requiring or enabling the Secretary of State to revoke a tonnage tax election after a prescribed period of non-compliance;
 - (h) the making of appeals;
 - (i) authorising the disclosure of information between the Secretary of State and the Inland Revenue.
- (3) Regulations under this paragraph may create criminal offences in respect of failures to comply with requirements imposed by the regulations.
- (4) Regulations under this paragraph shall be made by statutory instrument which shall be subject to annulment in pursuance of a resolution of the House of Commons.
- (5) Regulations under this paragraph—
- (a) may make different provision for different cases, and
 - (b) may contain such supplementary, incidental and transitional provisions as appear to the Secretary of State to be necessary or expedient.
- (6) In this paragraph “prescribed” means prescribed by regulations under this paragraph.”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

The ring fence: capital allowances: general: introduction

- 12 (1) Paragraph 68 is amended as follows.
- (2) In sub-paragraph (2) (description of general scheme of Part 9 of Schedule 22) for paragraph (c) substitute—
- “(c) on leaving tonnage tax—
- (i) a company is treated as having incurred qualifying expenditure on its tonnage tax plant and machinery assets of an amount equal to the lower of cost and market value, where it leaves tonnage tax on expiry of an election or on the taking effect of a withdrawal notice, but
- (ii) otherwise, a company is put broadly in the position it would have been in if it had never been subject to tonnage tax.”.

The ring fence: capital allowances: exit: plant and machinery

- 13 (1) Paragraph 85 is amended as follows.
- (2) After sub-paragraph (1) insert—
- “(1A) Sub-paragraph (1C) applies where the company leaves tonnage tax—
- (a) on the expiry of a tonnage tax election, or
- (b) on a tonnage tax election ceasing to be in force under paragraph 13(2A) (taking effect of withdrawal notice under paragraph 15A).
- (1B) In any other case, sub-paragraph (2) applies.
- (1C) Where this sub-paragraph applies, the amount of qualifying expenditure in respect of each asset used by the company for the purposes of its tonnage tax activities and held by the company when it leaves tonnage tax shall be taken to be—
- (a) the market value of the asset at the time the company leaves tonnage tax, or
- (b) if less, the amount of expenditure incurred on the provision of the asset that would have been qualifying expenditure if the company had not been subject to tonnage tax.”.
- (3) In sub-paragraph (2) (amount of qualifying expenditure to be determined by reference to tax written down value of assets) at the beginning insert “ Where this sub-paragraph applies, ”.

The ring fence: capital allowances: ship leasing: sale and lease-back arrangements

- 14 (1) Paragraph 92 is amended as follows.
- (2) In sub-paragraph (2) (meaning of “sale and lease-back arrangements”) for “subject to sub-paragraph (3)” substitute “ subject to sub-paragraphs (3) and (3A) ”.
- (3) After sub-paragraph (3) insert—
- “(3A) This paragraph does not apply if—
- (a) expenditure is incurred on enhancing the ship or on converting it to another use,
- (b) the amount of that expenditure—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (i) is greater than 33% of the market value of the ship immediately after completion of the enhancement or conversion, and
 - (ii) is equal to or greater than the market value of the interest in the ship which is the subject of the transaction mentioned in Step Two in sub-paragraph (2), and
- (c) that transaction is effected not more than four months after the first occasion following completion of the enhancement or conversion on which the ship is brought into use by any person for any purpose.”.

VALID FROM 01/07/2005

Meaning of “offshore activities”

- 15 (1) Paragraph 104 is amended as follows.
- (2) After sub-paragraph (1) (meaning of “offshore activities”) insert—
- “(1A) But none of the following activities is to be regarded as an offshore activity—
- (a) offshore supply services;
 - (b) towage, salvage or other marine assistance;
 - (c) anchor handling;
 - (d) carriage of liquids or gases;
 - (e) safety or rescue services;
 - (f) the carriage of cargo in connection with dredging.
- (1B) The Treasury may make provision by order amending sub-paragraph (1A) by—
- (a) adding, or
 - (b) varying,
- any description of activity.”.

VALID FROM 01/07/2005

Vessels to which the special rules for offshore activities do not apply

- 16 Omit paragraph 105.

VALID FROM 01/07/2005

Index of defined expressions

- 17 (1) Paragraph 147 is amended as follows.
- (2) Insert each of the following at the appropriate place—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“qualifying dredger	paragraph 20(7)”;
“Member States' registers	paragraph 22B(7)”.

PART 2

COMMENCEMENT AND TRANSITIONAL PROVISION

Commencement

- 18 (1) Subject to paragraphs 19 to 21, paragraphs 4 to 6, 8 to 10 and 15 to 17 (and paragraph 1 so far as relating to those paragraphs) shall come into force on 1st July 2005.
- (2) This Part of this Schedule, and the other provisions of Part 1 of this Schedule, shall come into force on the day on which this Act is passed.

Transitional provision: qualifying activities

- 19 (1) If a withdrawal notice is given on or before 31st March 2006 under paragraph 15A of Schedule 22 to FA 2000 in respect of a single company or a group, the amendments made by—
- paragraph 4, and
 - so far as relating to tugs, paragraph 6,
- shall not have effect in relation to that company or group until the day on which the relevant accounting period begins.
- (2) In sub-paragraph (1) “the relevant accounting period” means the first accounting period of the company to begin after 1st July 2005.
- (3) In the case of a withdrawal notice given in respect of a group, this paragraph has effect in relation to each qualifying company in the group by reference to that company's accounting periods.

Transitional provision: flagging: order designating financial year 2005

- 20 In relation to the financial year 2005, Schedule 22 to FA 2000 shall have effect with the omission of paragraph 22C(1).

Transitional provision: flagging

- 21 Where a company (whether or not a member of a group) has operated a qualifying dredger or a tug at any time before 1st July 2005, the company is to be treated, for the purposes of paragraph 22D of Schedule 22 to FA 2000, as not having operated the qualifying dredger or tug before that date.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

SCHEDULE 8

Section 94

STAMP DUTY LAND TAX: ALTERNATIVE PROPERTY FINANCE

Introduction

1 Part 4 of FA 2003 is amended in accordance with this Schedule.

Alternative property finance: England and Wales and Northern Ireland

2 After section 71 insert—

“71A Alternative property finance: land sold to financial institution and leased to individual

- (1) This section applies where arrangements are entered into between an individual and a financial institution under which—
 - (a) the institution purchases a major interest in land or an undivided share of a major interest in land (“the first transaction”),
 - (b) where the interest purchased is an undivided share, the major interest is held on trust for the institution and the individual as beneficial tenants in common,
 - (c) the institution (or the person holding the land on trust as mentioned in paragraph (b)) grants to the individual out of the major interest a lease (if the major interest is freehold) or a sub-lease (if the major interest is leasehold) (“the second transaction”), and
 - (d) the institution and the individual enter into an agreement under which the individual has a right to require the institution or its successor in title to transfer to the individual (in one transaction or a series of transactions) the whole interest purchased by the institution under the first transaction.
- (2) The first transaction is exempt from charge if the vendor is—
 - (a) the individual, or
 - (b) another financial institution by whom the interest was acquired under arrangements of the kind mentioned in subsection (1) entered into between it and the individual.
- (3) The second transaction is exempt from charge if the provisions of this Part relating to the first transaction are complied with (including the payment of any tax chargeable).
- (4) Any transfer to the individual that results from the exercise of the right mentioned in subsection (1)(d) (“a further transaction”) is exempt from charge if—
 - (a) the provisions of this Part relating to the first and second transactions are complied with, and
 - (b) at all times between the second transaction and the further transaction—
 - (i) the interest purchased under the first transaction is held by a financial institution so far as not transferred by a previous further transaction, and

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (ii) the lease or sub-lease granted under the second transaction is held by the individual.
- (5) The agreement mentioned in subsection (1)(d) is not to be treated—
- (a) as substantially performed unless and until the whole interest purchased by the institution under the first transaction has been transferred (and accordingly section 44(5) does not apply), or
 - (b) as a distinct land transaction by virtue of section 46 (options and rights of pre-emption).
- (6) The requirements of subsection (1), or (4)(b)(ii), are not met if—
- (a) the individual enters into the arrangement, or holds the lease or sub-lease, as trustee and any beneficiary of the trust is not an individual, or
 - (b) the individual enters into the arrangements, or holds the lease or sub-lease, as partner and any of the other partners is not an individual.
- (7) A further transaction that is exempt from charge by virtue of subsection (4) is not a notifiable transaction unless the transaction involves the transfer to the individual of the whole interest purchased by the institution under the first transaction, so far as not transferred by a previous further transaction.
- (8) In this section “financial institution” means—
- (a) a bank within the meaning of section 840A of the Taxes Act 1988,
 - (b) a building society within the meaning of the Building Societies Act 1986, or
 - (c) a wholly-owned subsidiary of a bank within paragraph (a) or a building society within paragraph (b).
- For the purposes of paragraph (c) a company is a wholly-owned subsidiary of a bank or building society if it has no members except the parent and the parent's wholly-owned subsidiaries or persons acting on behalf of the parent or the parent's wholly-owned subsidiaries.
- (9) References in this section to an individual shall be read, in relation to times after the death of the individual concerned, as references to his personal representatives.
- (10) This section does not apply in relation to land in Scotland.”

Alternative property finance: Scotland

- 3 (1) Section 72 (alternative property finance: land sold to financial institution and leased to individual) is amended as follows.
- (2) In subsection (1)—
- (a) in paragraph (b)—
 - (i) for “freehold” substitute “ the interest of the owner ”, and
 - (ii) for “leasehold” substitute “ the tenant's right over or interest in a property subject to a lease ”, and
 - (b) in paragraph (c), omit “or its successor in title”.
- (3) For subsection (7) substitute—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“(7) In this section “financial institution” has the same meaning as in section 71A.”

(4) Omit subsection (8).

(5) After subsection (9) insert—

“(10) This section applies only in relation to land in Scotland.”

(6) In the heading, after “finance” insert “ in Scotland ”.

4 After section 72 insert—

“72A Alternative property finance in Scotland: land sold to financial institution and individual in common

(1) This section applies where arrangements are entered into between an individual and a financial institution under which—

- (a) the institution and the individual purchase a major interest in land as owners in common (“the first transaction”),
- (b) the institution and the individual enter into an agreement under which the individual has a right to occupy the land exclusively (“the second transaction”), and
- (c) the institution and the individual enter into an agreement under which the individual has a right to require the institution to transfer to the individual (in one transaction or a series of transactions) the whole interest purchased under the first transaction.

(2) The first transaction is exempt from charge if the vendor is—

- (a) the individual, or
- (b) another financial institution by whom the interest was acquired under arrangements of the kind mentioned in subsection (1) entered into between it and the individual.

(3) The second transaction is exempt from charge if the provisions of this Part relating to the first transaction are complied with (including the payment of any tax chargeable).

(4) Any transfer to the individual that results from the exercise of the right mentioned in subsection (1)(c) (“a further transaction”) is exempt from charge if—

- (a) the provisions of this Part relating to the first transaction are complied with, and
- (b) at all times between the first and the further transaction—
 - (i) the interest purchased under the first transaction is held by a financial institution and the individual as owners in common, and
 - (ii) the land is occupied by the individual under the agreement mentioned in subsection (1)(b).

(5) The agreement mentioned in subsection (1)(c) is not to be treated—

- (a) as substantially performed unless and until the whole interest purchased by the institution under the first transaction has been transferred (and accordingly section 44(5) does not apply), or

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (b) as a distinct land transaction by virtue of section 46 (options and rights of pre-emption).
- (6) The requirements of subsection (1), or (4)(b)(ii), are not met if the individual enters into the arrangements, or occupies the land, as partner and any of the other partners is not an individual.
- (7) A further transaction that is exempt from charge by virtue of subsection (4) is not a notifiable transaction unless the transaction involves the transfer to the individual of the whole interest purchased by the institution under the first transaction, so far as not transferred by a previous further transaction.
- (8) In this section “financial institution” has the same meaning as in section 71A.
- (9) References in this section to an individual shall be read, in relation to times after the death of the individual concerned, as references to his personal representatives.
- (10) This section applies only in relation to land in Scotland.”

Consequential amendments

- 5 (1) Section 73 (alternative property finance: land sold to individual and re-sold to individual) is amended as follows.
 - (2) In subsection (2)(b), for “section 72(1)” substitute “ section 71A(1), 72(1) or 72A(1) ”.
 - (3) In subsection (5)(a), for “section 72” substitute “ section 71A ”.
- 6 In section 122 (index of defined expressions), in the entry for “notifiable (in relation to a land transaction)” at the end insert “ (see too sections 71A(7) and 72A(7)) ”.

Commencement

- 7 (1) Paragraphs 2 and 3, and paragraphs 5 and 6 so far as relating to section 71A of FA 2003, have effect in any case where the effective date of the first transaction, within the meaning of section 71A of FA 2003 (as inserted by paragraph 2), falls on or after the day on which this Act is passed.
- (2) Paragraph 4, and paragraphs 5 and 6 so far as relating to section 72A of FA 2003, have effect in any case where the effective date of the first transaction, within the meaning of section 72A of FA 2003 (as inserted by paragraph 4), falls on or after the day on which this Act is passed.
- (3) In this paragraph “the effective date” has the same meaning as in Part 4 of FA 2003.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

SCHEDULE 9

Section 96

STAMP DUTY LAND TAX AND STAMP DUTY: REMOVAL OF
DISADVANTAGED AREAS RELIEF FOR NON-RESIDENTIAL PROPERTY*Stamp duty land tax*

- 1 (1) Schedule 6 to FA 2003 (disadvantaged areas relief) is amended as follows.
- (2) In paragraph 3 (land wholly situated in a disadvantaged area: introduction), after “if” insert “ (a) ” and at the end insert “, and
(b) the land is wholly or partly residential property”.
- (3) Omit paragraph 4 (land wholly situated in a disadvantaged area: exemption from charge where land all non-residential).
- (4) In paragraph 6 (land wholly situated in a disadvantaged area: cases where land partly non-residential and partly residential)—
- (a) for the first sentence of sub-paragraph (1) substitute— “ This paragraph applies, where the land is partly non-residential property and partly residential property, in relation to the consideration attributable to land that is residential property. ”;
- (b) in the second sentence of that sub-paragraph omit “land that is non-residential property or”;
- (c) omit sub-paragraphs (2) and (3).
- (5) In paragraph 7 (land partly situated in a disadvantaged area: introduction), in sub-paragraph (1) after “if” insert “ (a) ” and at the end of that sub-paragraph insert “, and
(b) the land situated in a disadvantaged area is wholly or partly residential property”.
- (6) Omit paragraph 8 (land partly situated in a disadvantaged area: exemption from charge for part so situated if all non-residential).
- (7) In paragraph 10 (land partly situated in a disadvantaged area: cases where part so situated is partly non-residential and partly residential)—
- (a) for the first sentence of sub-paragraph (1) substitute— “ This paragraph applies, where the land situated in a disadvantaged area is partly non-residential property and partly residential property, in relation to the consideration attributable to land that is residential property. ”;
- (b) in the second sentence of that sub-paragraph omit “land that is non-residential property or”;
- (c) omit sub-paragraphs (2) and (3).

Stamp duty

- 2 (1) The Stamp Duty (Disadvantaged Areas) (Application of Exemptions) Regulations 2003 (S.I. 2003/1056) are amended as follows.
- (2) After regulation 2 insert—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Disapplication of exemptions conferred by section 92 or by Schedule 30 where all of land is non-residential property

“2A An exemption conferred by section 92 or by Schedule 30 shall not apply where none of the land in question is residential property.”.

(3) In regulation 5 (application of exemptions conferred by section 92 or by Schedule 30 where land only partly residential property), after paragraph (3) insert—

“(3A) An exemption conferred by section 92 or by Schedule 30 shall not apply in relation to any duty chargeable in respect of relevant consideration, or the rate or average rate of rent, attributed to the land in question to the extent that it is not residential property.”.

3 The insertion by paragraph 2 of provisions into the Stamp Duty (Disadvantaged Areas) (Application of Exemptions) Regulations 2003 is without prejudice to the power to amend or revoke those provisions by further regulations under section 92A of FA 2001.

Commencement and transitional provisions

4 (1) Subject to sub-paragraph (2), paragraph 1 applies in relation to any transaction of which the effective date is after 16th March 2005.

(2) That paragraph does not apply—

- (a) in relation to any transaction that is effected in pursuance of a contract entered into and substantially performed on or before 16th March 2005, or
- (b) (subject to sub-paragraph (3)) in relation to any other transaction that is effected in pursuance of a contract entered into on or before that date.

(3) The exclusion by sub-paragraph (2)(b) of transactions effected in pursuance of contracts entered into on or before 16th March 2005 does not apply—

- (a) if there is any variation of the contract or assignment of rights under the contract after that date,
- (b) if the transaction is effected in consequence of the exercise after that date of any option, right of pre-emption or similar right, or
- (c) if after that date there is an assignment, subsale or other transaction (relating to the whole or part of the subject-matter of the contract) as a result of which a person other than the purchaser under the contract becomes entitled to call for a conveyance to him.

(4) In this paragraph “effective date” and “substantially performed” have the same meaning as in Part 4 of FA 2003.

5 (1) Subject to sub-paragraph (2), paragraph 2 applies in relation to instruments executed after 16th March 2005.

(2) That paragraph does not apply in relation to an instrument giving effect to a contract entered into on or before 16th March 2005, unless—

- (a) the instrument is made in consequence of the exercise after that date of any option, right of pre-emption or similar right, or
- (b) the instrument transfers the property in question to, or vests it in, a person other than the purchaser under the contract, because of an assignment (or, in Scotland, assignation) or further contract made after that date.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

SCHEDULE 10

Section 101

PENSION SCHEMES ETC.

VALID FROM 06/04/2006

Introduction

- 1 Part 4 of FA 2004 (pension schemes etc.) is amended in accordance with paragraphs 2 to 58.

VALID FROM 06/04/2006

Deferred annuities

- 2 In section 153(8) (deferred annuity contract to be registered pension scheme), after “contract” insert “ made with an insurance company ”.

VALID FROM 06/04/2006

Orders for return of unauthorised payments

- 3 In section 153 (registration of pension schemes), after subsection (8) insert—
“(8A) Where an order has been made under section 19(4) or 21(2)(a) of the Pensions Act 2004 or Article 15(4) or 17(2)(a) of the Pensions (Northern Ireland) Order 2005 (restitution by order of court or Pensions Regulator) that property or money be transferred, or a sum be paid, towards an annuity contract made with an insurance company, the annuity contract is to be treated as having become a registered pension scheme on the day on which it is made.”

- 4 After section 266 insert—

“Relief from liability in respect of returned unauthorised member payments

266A Member's liability

- (1) This section applies where—
- (a) a liability to the unauthorised payments charge, or to both the unauthorised payments charge and the unauthorised payments surcharge, has arisen in respect of an unauthorised member payment, and
 - (b) property or money is transferred, or a sum paid, towards a registered pension scheme pursuant to an order under section 19(4) or 21(2)(a) of the Pensions Act 2004 or Article 15(4) or 17(2)(a) of the Pensions (Northern Ireland) Order 2005

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(restitution by order of court or Pensions Regulator) as a result of the unauthorised member payment.

- (2) The member of the registered pension scheme to or in respect of whom the unauthorised member payment was made (or, if it was paid after his death, the recipient) may claim relief from—
 - (a) the relevant proportion of the unauthorised payments charge, and
 - (b) if a liability to the unauthorised payments surcharge has arisen and subsection (4) is satisfied, the relevant proportion of the unauthorised payments surcharge.
- (3) The claim must be made within the period of one year beginning with the day on which the property or money is transferred, or the sum paid.
- (4) This subsection is satisfied if no part of the unauthorised member payment and no asset or sum representing it—
 - (a) has been received by (or on behalf of) the member or a person connected with the member, or
 - (b) has been held for more than 180 days by a person or succession of persons, other than the member or a person connected with the member, involved in any transaction by which the unauthorised member payment was made.
- (5) The relevant proportion of the unauthorised payments charge or the unauthorised payments surcharge is—

$$\frac{\text{ASO}}{\text{UMP}}$$

where—

ASO is the amount subject to the order, that is the aggregate of the market value of any property and the amount of any money transferred, or the amount of the sum paid, towards a registered pension scheme pursuant to the order under section 19(4) or 21(2)(a) of the Pensions Act 2004 or Article 15(4) or 17(2)(a) of the Pensions (Northern Ireland) Order 2005 in respect of the unauthorised member payment, and

UMP is the amount of the unauthorised member payment.

- (6) But if ASO is greater than UMP, the relevant proportion of the unauthorised payments charge or the unauthorised payments surcharge is the whole of it.
- (7) Section 839 of ICTA (connected persons) applies for the purposes of this section.

266B Scheme's liability

- (1) This section applies where—
 - (a) the scheme administrator of a registered pension scheme has become liable to the scheme sanction charge in respect of an unauthorised member payment, and

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (b) property or money is transferred, or a sum paid, towards a registered pension scheme pursuant to an order under section 19(4) or 21(2)(a) of the Pensions Act 2004 or Article 15(4) or 17(2)(a) of the Pensions (Northern Ireland) Order 2005 (restitution by order of court or Pensions Regulator) as a result of the unauthorised member payment.
- (2) The scheme administrator may, within the period of one year beginning with the day on which the property or money is transferred, or the sum paid, claim relief from the relevant proportion of the scheme sanction charge.
- (3) The relevant proportion of the scheme sanction charge is—

$$\frac{\text{ASO}}{\text{UMP}}$$

where—

ASO is the amount subject to the order, that is the aggregate of the market value of any property and the amount of any money transferred, or the amount of the sum paid, towards a registered pension scheme pursuant to the order under section 19(4) or 21(2)(a) of the Pensions Act 2004 or Article 15(4) or 17(2)(a) of the Pensions (Northern Ireland) Order 2005 in respect of the unauthorised member payment, and

UMP is the amount of the unauthorised member payment.

- (4) But if ASO is greater than UMP, the relevant proportion of the scheme sanction charge is the whole of it.”

VALID FROM 06/04/2006

Unauthorised member payments

- 5 In section 161(5) (payment made to person who is connected with member, or was connected with member at his death, to be treated as made in respect of member), after “scheme to” insert “ or in respect of”.

VALID FROM 06/04/2006

Unauthorised payments: loans to person connected with member or sponsoring employer

- 6 (1) Section 162 (meaning of “loan”) is amended as follows.
- (2) In subsection (3) (guarantee of loan to or in respect of member or sponsoring employer to be treated as loan), after “scheme” insert “ , or to or in respect of a person who is connected with a member or sponsoring employer of a registered pension scheme but is not a member or sponsoring employer of the pension scheme, ”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (3) In subsection (4) (debt of member or sponsoring employer not required to be repaid at normal time to be treated as loan), after “registered pension scheme” insert “ or a person who is connected with a member or sponsoring employer of a registered pension scheme but is not a member or sponsoring employer of the pension scheme ”.
- (4) After subsection (5) insert—
- “(6) Section 839 of ICTA (connected persons) applies for the purposes of this section.”

VALID FROM 06/04/2006

Abatement of public service pensions

7 In section 165(3) (when a person becomes entitled to a pension), insert at the end (not as part of paragraph (b)) “ and, for this purpose, the abatement of a scheme pension under a public service pension scheme is not to be taken to affect the right to receive it. ”

8 (1) Schedule 32 (benefit crystallisation events: supplementary) is amended as follows.

(2) In paragraph 9 (benefit crystallisation event 2: meaning of “P”), after sub-paragraph (1) insert—

“(1A) If the pension is under a public service pension scheme, any abatement of the pension is to be left out of account in determining the amount of the pension which will be payable for the purposes of sub-paragraph (1).”

(3) After that paragraph insert—

“Benefit crystallisation event 3: disregarding abatement

9A For the purposes of benefit crystallisation event 3, any abatement of the scheme pension is to be left out of account in determining for the purposes of column 1—

- (a) the increased annual rate of the pension, and
- (b) the rate at which it was payable on the day on which the individual became entitled to it.”

(4) In paragraph 11 (benefit crystallisation event 3: permitted margin in case of post-5th April 2006 pension), after sub-paragraph (7) insert—

“(8) If the pension is under a public service pension scheme, any abatement of the pension is to be left out of account in determining for the purposes of this paragraph the annual amount of the pension at the rate at which it was payable on the day on which the individual became entitled to it.”

(5) In paragraph 12 (benefit crystallisation event 3: permitted margin in case of pre-5th April 2006 pension), after sub-paragraph (3) insert—

“(4) If the pension is under a public service pension scheme, any abatement of the pension is to be left out of account in determining for the purposes of

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	<p>this paragraph the annual amount of the pension at the rate at which it was payable on the day on which the individual became entitled to it.”</p>		
	<p>(6) In paragraph 13 (benefit crystallisation event 3: meaning of “XP”), after sub-paragraph (2) insert—</p> <p>“(3) If the pension is under a public service pension scheme, any abatement of the pension is to be left out of account in determining for the purposes of sub-paragraph (1)—</p> <p>(a) the increased annual rate of the pension, and</p> <p>(b) the rate at which it was payable on the day on which the individual became entitled to it.”</p>		
9	<p>In section 279(1) (definitions), before the definition of “the Board of Inland Revenue” insert—</p> <p>““abatement”, in relation to a scheme pension under a public service pension scheme, means the reduction of the pension (including its reduction to nil) in accordance with the rules of the pension scheme by reason of re-employment in public service.”.</p>		
10	<p>In the table in section 280(2) (index of defined expressions), insert at the appropriate place—</p> <hr/> <table border="0"><tr><td>“abatement</td><td>section 279(1)”.</td></tr></table> <hr/>	“abatement	section 279(1)”.
“abatement	section 279(1)”.		

VALID FROM 06/04/2006

Scheme pensions

- 11 (1) Paragraph 2 of Schedule 28 (scheme pensions) is amended as follows.
- (2) Omit sub-paragraph (1) (special provisions for pension scheme with fewer than 50 members).
- (3) In sub-paragraph (2) (pension scheme with 50 or more members), for “In the case of a pension scheme with 50 or more members, a” substitute “ A ”.
- (4) In sub-paragraph (3)(b) (no reduction in rate of pension)—
- (a) for “in respect of any” substitute “ at any time during any ”, and
- (b) for “in respect of the previous 12 month period” substitute “ at the relevant time ”.
- (5) After that sub-paragraph insert—
- “(3A) “The relevant time” is—
- (a) in the case of the first relevant 12 month period, the day on which the member becomes entitled to the pension, and
- (b) in the case of any other relevant 12 month period, immediately before the beginning of that period.”
- (6) In sub-paragraph (4) (things not preventing condition in sub-paragraph (3) being satisfied), omit “or” at the end of paragraph (b) and insert at the end—

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- “(d) the reduction of the pension in consequence of a pension sharing order or provision,
- (e) forfeiture of entitlement to the pension in circumstances prescribed by regulations made by the Board of Inland Revenue,
- (f) the reduction of the pension in consequence of an order of a court,
- (g) if the pension is under a public service pension scheme, its reduction by abatement, or
- (h) the reduction of the pension in any other circumstances prescribed by regulations made by the Board of Inland Revenue.”

(7) After that sub-paragraph insert—

“(4A) In sub-paragraph (4) references to the reduction of a pension include its ceasing to be payable (whether temporarily or permanently).”

(8) After sub-paragraph (6) insert—

“(6A) The Board of Inland Revenue may by regulations provide that if—

- (a) a scheme pension payable by an insurance company selected by the scheme administrator of a registered pension scheme (“the original scheme pension”) ceases to be payable, and
- (b) in consequence of the transfer of sums or assets (or both) from the insurance company to another insurance company in connection with the original scheme pension ceasing to be payable, another scheme pension becomes payable by the other insurance company (“the new scheme pension”),

the new scheme pension is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original scheme pension.”

(9) Insert at the end—

“(8) Regulations under sub-paragraph (4)(e) and (h) may include provision having effect in relation to times before they are made.”

12

In Schedule 28 (authorised pensions), after paragraph 2 insert—

“2A (1) Where this paragraph applies in relation to a pension payable to the member, the pension scheme is to be treated as making an unauthorised payment to the member of the appropriate amount.

(2) This paragraph applies to a pension if it fails to satisfy the condition in sub-paragraph (3) of paragraph 2—

- (a) by reason of not complying with paragraph (a) of that sub-paragraph, or
- (b) by reason of not complying with paragraph (b) of that sub-paragraph because a substantial reduction occurs in the rate of the pension,

or if it is a pension the rate of which is reduced in accordance with paragraph (b) of sub-paragraph (4) of paragraph 2 but the reduction is part of avoidance arrangements.

(3) For the purposes of sub-paragraph (2)(b) a substantial reduction occurs in the rate of a pension if the rate at which the pension is

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payable at any time during any relevant 12 month period (within the meaning of paragraph 2(7)) is less than 80% of the rate payable when the member became entitled to the pension.

- (4) For the purposes of sub-paragraph (2) “avoidance arrangements” includes schemes, arrangements and understandings of any kind (whether or not legally enforceable) the main purpose, or one of the main purposes, of which is to increase the member's entitlement to a lump sum on which there is no liability to income tax.
- (5) “The appropriate amount”, in relation to the pension, is the amount of any lump sum on which there is no liability to tax to which the member became entitled in connection with the pension.
- (6) Once this paragraph has applied in relation to the pension, it does not apply in relation to it again.
- (7) The application of this paragraph in relation to the pension does not prevent any payments of the pension themselves being unauthorised member payments.”

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Annuities

- 13 (1) Paragraph 3 of Schedule 28 (lifetime annuity) is amended as follows.
- (2) For sub-paragraph (1)(d) (lifetime annuity to be level annuity, increasing annuity or relevant linked annuity) substitute—
- “(d) its amount either cannot decrease or falls to be determined in any manner prescribed by regulations made by the Board of Inland Revenue.”
- (3) After sub-paragraph (2) insert—
- “(2A) An annuity does not fail to satisfy sub-paragraph (1)(d) by reason of the operation of a pension sharing order or provision.
- (2B) The Board of Inland Revenue may by regulations make provision in relation to cases in which a lifetime annuity payable by an insurance company (“the original lifetime annuity”) ceases to be payable and in consequence of that—
- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied towards the provision of either another lifetime annuity (a “new lifetime annuity”) or a scheme pension, short-term annuity, dependants' scheme pension, dependants' annuity or dependants' short-term annuity by the other insurance company, or
 - (b) sums or assets are transferred to the relevant registered pension scheme.
- (2C) The regulations may provide that—

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- (a) in a case where a new lifetime annuity becomes payable, the new lifetime annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original lifetime annuity, and
- (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment to the member of an amount equal to the aggregate of the amount of the sums, and the market value of the assets, transferred.
- (2D) For the purposes of sub-paragraphs (2B) and (2C) a registered pension scheme is the relevant registered pension scheme if the original lifetime annuity was acquired using sums or assets held for the purposes of the pension scheme.”
- (4) Omit sub-paragraphs (3) to (6) (which define level annuity, increasing annuity and relevant linked annuity).
- 14 (1) Paragraph 6 of Schedule 28 (short-term annuity) is amended as follows.
- (2) In sub-paragraph (1) (meaning of “short-term annuity”), for “An” substitute “ For the purposes of this Part an ”.
- (3) For paragraph (e) of that sub-paragraph (short-term annuity to be level annuity, increasing annuity or relevant linked annuity) substitute—
- “(e) its amount either cannot decrease or falls to be determined in any manner prescribed by regulations made by the Board of Inland Revenue.”
- (4) After that sub-paragraph insert—
- “(1A) An annuity does not fail to satisfy sub-paragraph (1)(e) by reason of the operation of a pension sharing order or provision.
- (1B) The Board of Inland Revenue may by regulations make provision in relation to cases in which a short-term annuity payable by an insurance company (“the original short-term annuity”) ceases to be payable and in consequence of that—
- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied towards the provision of either another short-term annuity (a “new short-term annuity”) or a scheme pension, lifetime annuity, dependants' scheme pension, dependants' annuity or dependants' short-term annuity by the other insurance company, or
- (b) sums or assets are transferred to the relevant registered pension scheme.
- (1C) The regulations may provide that—
- (a) in a case where a new short-term annuity becomes payable, the new short-term annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original short-term annuity, and
- (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment to the member of an amount equal to the aggregate of the amount of the sums, and the market value of the assets, transferred.

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- (1D) For the purposes of sub-paragraphs (1B) and (1C) a registered pension scheme is the relevant registered pension scheme if the original short-term annuity was acquired using sums or assets held for the purposes of the pension scheme.”
- (5) Omit sub-paragraph (2) (which defines level annuity, increasing annuity and relevant linked annuity).
- 15 (1) Paragraph 17 of Schedule 28 (dependants' annuity) is amended as follows.
- (2) In sub-paragraph (1) (meaning of “dependants' annuity”), for “An” substitute “ For the purposes of this Part an ”.
- (3) For paragraph (c) of that sub-paragraph (dependants' annuity to be level annuity, increasing annuity or relevant linked annuity) substitute—
- “ (c) its amount either cannot decrease or falls to be determined in any manner prescribed by regulations made by the Board of Inland Revenue.”.
- (4) For sub-paragraph (2) (which defines level annuity, increasing annuity and relevant linked annuity) substitute—
- “ (2) An annuity does not fail to satisfy sub-paragraph (1)(c) by reason of the operation of a pension sharing order or provision.
- (3) The Board of Inland Revenue may by regulations make provision in relation to cases in which a dependants' annuity payable to a person (“the original dependants' annuity”) ceases to be payable and in consequence of that—
- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied towards the provision of either another dependants' annuity (a “new dependants' annuity”) or a scheme pension, lifetime annuity, short-term annuity, dependants' scheme pension or dependants' short-term annuity by the other insurance company, or
- (b) sums or assets are transferred to the relevant registered pension scheme.
- (4) The regulations may provide that—
- (a) in a case where a new dependants' annuity becomes payable, the new dependants' annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original dependants' annuity, and
- (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the amount of the sums, and the market value of the assets, transferred.
- (5) For the purposes of sub-paragraphs (3) and (4) a registered pension scheme is the relevant registered pension scheme if the original dependants' annuity was acquired using sums or assets held for the purposes of the pension scheme.”

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- 16 (1) Paragraph 20 of Schedule 28 (dependants' short-term annuity) is amended as follows.
- (2) In sub-paragraph (1) (meaning of “dependants' short-term annuity”), for “An” substitute “ For the purposes of this Part an ”.
- (3) For paragraph (e) of that sub-paragraph (dependants' short-term annuity to be level annuity, increasing annuity or relevant linked annuity) substitute—
- “(e) its amount either cannot decrease or falls to be determined in any manner prescribed by regulations made by the Board of Inland Revenue.”
- (4) After that sub-paragraph insert—
- “(1A) An annuity does not fail to satisfy sub-paragraph (1)(e) by reason of the operation of a pension sharing order or provision.
- (1B) The Board of Inland Revenue may by regulations make provision in relation to cases in which a dependants' short-term annuity payable to a person (“the original dependants' short-term annuity”) ceases to be payable and in consequence of that—
- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied towards the provision of either another dependants' short-term annuity (a “new dependants' short-term annuity”) or a scheme pension, lifetime annuity, short-term annuity, dependants' scheme pension or dependants' annuity by the other insurance company, or
- (b) sums or assets are transferred to the relevant registered pension scheme.
- (1C) The regulations may provide that—
- (a) in a case where a new dependants' short-term annuity becomes payable, the new dependants' short-term annuity is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original dependants' short-term annuity, and
- (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the amount of the sums, and the market value of the assets, transferred.
- (1D) For the purposes of sub-paragraphs (1B) and (1C) a registered pension scheme is the relevant registered pension scheme if the original dependants' short-term annuity was acquired using sums or assets held for the purposes of the pension scheme.”
- (5) Omit sub-paragraph (2) (which defines level annuity, increasing annuity and relevant linked annuity).
- 17 In the table in section 280(2) (index of defined expressions), insert at the appropriate place—

“dependants' annuity

paragraph 17 of Schedule 28”

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“dependants'short-term annuity	paragraph 20 of Schedule 28”
“short-term annuity	paragraph 6 of Schedule 28”.

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Unsecured pension funds and alternatively secured pension funds

- 18 (1) Paragraph 8 of Schedule 28 (member's unsecured pension fund) is amended as follows.
- (2) In sub-paragraph (1) (sums and assets designated as available for the payment of unsecured pension), for the words after “of the arrangement” substitute “ as member-designated funds. ”
- (3) After that sub-paragraph insert—
- “(1A) For the purposes of this Part sums or assets held for the purposes of an arrangement are member-designated funds if they—
- (a) have been designated at any time under the arrangement as available for the payment of unsecured pension, or
- (b) arise, or (directly or indirectly) derive, from sums or assets which have been so designated or which so arise or derive,
- and have not been applied towards the provision of a scheme pension.”
- (4) In sub-paragraph (3) (“relevant uncrystallised funds”), for the words after “means” substitute—
- “(a) if the arrangement is a cash balance arrangement, a sum equal to what would, on the valuation assumption in section 277(a), be available for the provision of benefits to or in respect of the member if the member became entitled to them on reaching the age of 75, and
- (b) if it is not, such of the sums and assets held for the purposes of the arrangement as are not member-designated funds and have not been applied towards the provision of a scheme pension or a dependants' scheme pension.”
- (5) After that sub-paragraph insert—
- “(4) If any sums or assets representing the member's unsecured pension fund in respect of an arrangement under the pension scheme would (apart from this sub-paragraph) come to be taken to represent another unsecured pension fund of his under the pension scheme, or a dependant's unsecured pension fund of his under the pension scheme, they are to be treated as not doing so.”
- 19 (1) Paragraph 10 of Schedule 28 (“unsecured pension years” etc.) is amended as follows.
- (2) In sub-paragraph (4)(“basis amount”)—

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- (a) in paragraph (a), for “or recent additional fund designation” substitute “ , recent additional fund designation or recent pension sharing event ”, and
- (b) in paragraph (b), for “or additional fund designation” substitute “ , additional fund designation or pension sharing event ”.
- (3) After sub-paragraph (8) insert—
- “(8A) “Pension sharing event” means the coming into operation of a pension sharing order or provision relating to the sums and assets representing the member's unsecured pension fund.”
- (4) In sub-paragraph (9) (“recent”), for “or additional fund designation” substitute “ , additional fund designation or pension sharing event ”.
- 20 (1) Paragraph 11 of Schedule 28 (member's alternatively secured pension fund) is amended as follows.
- (2) In sub-paragraph (1)(b) (exclusion of certain sums and assets), for “for purchasing a scheme pension or a lifetime annuity or paid as income withdrawal” substitute “ towards the provision of a scheme pension. ”
- (3) For sub-paragraphs (2) and (3) (conditions to be met) substitute—
- “(2) Condition A is that they—
- (a) were part of the member's unsecured pension fund in respect of the arrangement when the member reached the age of 75, or
- (b) arise, or (directly or indirectly) derive, from sums or assets within paragraph (a) or which so arise or derive.
- (3) Condition B is that they—
- (a) became held for the purposes of the arrangement after the member reached the age of 75 or arise, or (directly or indirectly) derive, from sums or assets which became so held or which so arise or derive, or
- (b) if the arrangement is a relevant arrangement, have at any time since the member reached that age been designated as available for the payment of alternatively secured pension to the member or arise, or (directly or indirectly) derive, from sums or assets which have been so designated or which so arise or derive.”
- (4) After sub-paragraph (4) insert—
- “(5) If any sums or assets representing the member's alternatively secured pension fund in respect of an arrangement under the pension scheme would (apart from this sub-paragraph) come to be taken to represent another alternatively secured pension fund of his under the pension scheme, or a dependant's alternatively secured pension fund of his under the pension scheme, they are to be treated as not doing so.”
- 21 (1) Paragraph 22 of Schedule 28 (dependant's unsecured pension fund) is amended as follows.
- (2) In sub-paragraph (1) (sums and assets designated as available for the payment of dependants' unsecured pension), for paragraphs (a) and (b) substitute—
- “(a) as are dependant-designated funds, and

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- (b) have not been applied towards the provision of a dependants' scheme pension.”
- (3) After that sub-paragraph insert—
- “(2) For the purposes of this Part sums or assets held for the purposes of an arrangement are dependant-designated funds if they—
- (a) have been designated at any time under the arrangement as available for the payment of dependant's unsecured pension to the dependant, or
- (b) arise, or (directly or indirectly) derive, from sums or assets which have been so designated or which so arise or derive.
- (3) If any sums or assets representing a dependant's unsecured pension fund in respect of an arrangement under the pension scheme would (apart from this sub-paragraph)—
- (a) come to be taken to represent another dependant's unsecured pension fund of his under the pension scheme, or an unsecured pension fund of his under the pension scheme, or
- (b) are applied towards the provision of a scheme pension or a lifetime annuity,
- they are to be treated as not doing so.”
- 22 (1) Paragraph 24 of Schedule 28 (“unsecured pension years” etc.) is amended as follows.
- (2) In sub-paragraph (4) (“basis amount”)—
- (a) in paragraph (a), for “or recent additional fund designation” substitute “ , recent additional fund designation or recent pension sharing event ”, and
- (b) in paragraph (b), for “or additional fund designation” substitute “ , additional fund designation or pension sharing event ”.
- (3) After sub-paragraph (8) insert—
- “(8A) “Pension sharing event” means the coming into operation of a pension sharing order or provision relating to the sums and assets representing the dependant's unsecured pension fund.”
- (4) In sub-paragraph (9) (“recent”), for “or additional fund designation” substitute “ , additional fund designation or pension sharing event ”.
- 23 (1) Paragraph 25 of Schedule 28 (dependant's alternatively secured pension fund) is amended as follows.
- (2) In sub-paragraph (1)(b) (exclusion of certain sums and assets), for “for purchasing a dependants' scheme pension or a dependants' annuity or paid as dependants' income withdrawal” substitute “ towards the provision of a dependants' scheme pension ”.
- (3) For sub-paragraphs (2) and (3) (conditions to be met) substitute—
- “(2) Condition A is that they—
- (a) were part of the dependant's unsecured pension fund in respect of the arrangement when the dependant reached the age of 75, or
- (b) arise, or (directly or indirectly) derive, from sums or assets within paragraph (a) or which so arise or derive.

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	(3) Condition B is that they have at any time since the dependant reached the age of 75 been designated as available for the payment of alternatively secured dependants' pension to the dependant or arise, or (directly or indirectly) derive, from sums or assets which have been so designated or which so arise or derive.
	(4) If any sums or assets representing a dependant's alternatively secured pension fund in respect of an arrangement under the pension scheme would (apart from this sub-paragraph) come to be taken to represent another dependant's alternatively secured pension fund of his under the pension scheme, or an alternatively secured pension fund of his under the pension scheme, they are to be treated as not doing so.”
24	In paragraph 3(8) of Schedule 29 (pension commencement lump sum: deduction from applicable amount in case of scheme pension), for “surrender” substitute “ application ”.
25	(1) Schedule 32 (benefit crystallisation events: supplementary) is amended as follows. (2) In paragraph 3(1) (benefit crystallisation events 1, 2 and 4: prevention of overlap), for “surrender” substitute “ application ”. (3) In paragraph 5(2) (benefit crystallisation events 1 and 5: hybrid arrangements), for “the sums or assets held for the purposes of the arrangement are to be treated as having been designated” substitute “ , under paragraph 8(2) of Schedule 28, any relevant uncrystallised funds are to be treated as having been designated under the arrangement ”.

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	<i>Meaning of “dependant”</i>
26	In paragraph 15 of Schedule 28 (meaning of “dependant”), after sub-paragraph (1) insert— “(1A) If the rules of the pension scheme so provide, a person who was married to the member when the member first became entitled to a pension under the pension scheme is a dependant of the member.”

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	<i>Dependants' scheme pensions</i>
27	(1) Paragraph 16 of Schedule 28 (dependants' scheme pension) is amended as follows. (2) Omit sub-paragraph (1) (special provisions for pension scheme with fewer than 50 members). (3) In sub-paragraph (2) (pension scheme with 50 or more members)— (a) for “In the case of a pension scheme with 50 or more members, a” substitute “ A ”, and

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(b) omit sub-paragraph (2)(b) and the word “and” before it.

(4) After that sub-paragraph insert—

“(2A) The Board of Inland Revenue may by regulations make provision in relation to cases in which a dependants' scheme pension payable to a dependant of a member of a registered pension scheme by an insurance company (“the original dependants' scheme pension”) ceases to be payable and in consequence of that—

- (a) sums or assets (or both) are transferred from the insurance company to another insurance company and are applied towards the provision of either another dependants' scheme pension (a “new dependants' scheme pension”) or a scheme pension, lifetime annuity, short-term annuity, dependants' annuity or dependants' short-term annuity by the other insurance company, or
- (b) sums or assets are transferred to the relevant registered pension scheme.

(2B) The regulations may provide that—

- (a) in a case where a new dependants' scheme pension becomes payable, the new dependants' scheme pension is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original dependants' scheme pension, and
- (b) in any other case, the relevant registered pension scheme is to be treated as making an unauthorised payment in respect of the member of an amount equal to the aggregate of the amount of the sums, and the market value of the assets, transferred.

(2C) For the purposes of sub-paragraphs (2A) and (2B) a registered pension scheme is the relevant registered pension scheme if the original dependants' scheme pension was acquired using sums or assets held for the purposes of the pension scheme.”

(5) Omit sub-paragraphs (3) to (6) (condition to be satisfied).

28 In Schedule 28 (authorised pensions), after paragraph 16 insert—

“16A (1) Paragraphs 16B and 16C apply where—

- (a) the member dies after 5th April 2006,
- (b) he has reached the age of 75 before his death, and
- (c) at the time of his death he is actually or prospectively entitled to one or more scheme pensions under the pension scheme.

(2) References in this paragraph and paragraph 16B to a scheme pension include a pension payable before 6th April 2006 which would be a scheme pension if payable after that date.

16B (1) Where a pension is payable under the pension scheme to a dependant of the member in the period of 12 months beginning with the date of the member's death (“the post-death year”), so much of the pension as exceeds the initial member pension limit is not a dependants' scheme pension.

(2) But if—

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- (a) more than one pension is so payable to one of the dependants of the member in the post-death year, or
- (b) pensions are so payable to more than one dependant of the member in the post-death year,
- (or both), so much of any of the pensions as exceeds the appropriate portion of the initial member pension limit is not a dependants' scheme pension.
- (3) The “initial member pension limit” is (subject to sub-paragraph (4)) the sum of—
- (a) the aggregate of the amounts of the scheme pensions to which the member is actually entitled under the pension scheme immediately before his death payable to the member in the period of 12 months ending with the date of his death (“the pre-death year”),
- (b) the aggregate of the amounts of the scheme pensions to which the member is prospectively entitled under the pension scheme at that time which would have been so payable if he had been actually entitled to the pensions throughout the pre-death year, and
- (c) 5% of the aggregate of the amounts of the lump sums on which there is no liability to income tax to which the member has become entitled in connection with scheme pensions under the pension scheme before his death.
- (4) But if the member became (actually) entitled to a scheme pension under the pension scheme during the pre-death year, sub-paragraph (3)(a) has effect as if the amount of that scheme pension which was payable to the member under the pension scheme in the pre-death year were the amount which would have been payable to him in the period of 12 months beginning with the date on which he became entitled to it had he not died.
- (5) The “appropriate portion” of the initial member pension limit, in relation to any pension payable under the pension scheme to a dependant of the member in the post-death year, is—

$$\frac{P}{AP}$$

where—

P is the amount of that pension payable in the post-death year, and

AP is the aggregate of the amounts of each of the pensions payable under the pension scheme to dependants of the member in the post-death year.

- 16C (1) Where a pension is payable under the pension scheme to a dependant of the member, otherwise than in excepted circumstances, in—
- (a) the period of 12 months beginning with the end of the post-death year, or

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- (b) any succeeding period of 12 months, (“the 12 months in question”), so much of the pension as exceeds the current member pension limit is not a dependants' scheme pension.
- (2) But if—
- (a) more than one pension is so payable to one of the dependants in the 12 months in question, or
- (b) pensions are so payable to more than one dependant of the member in the 12 months in question,
- (or both), so much of any of the pensions as exceeds the appropriate portion of the current member pension limit is not a dependants' scheme pension.
- (3) “Excepted circumstances” means—
- (a) that at the beginning of the period of 12 months in question there are at least 50 pensioner members of the pension scheme, and
- (b) that the condition in subsection (4) is met.
- (4) The condition in this subsection is met if —
- (a) the difference between CYP and PYP in the case of each relevant existing pension is the same amount,
- (b) the difference between CYP and PYP in the case of each relevant existing pension is the same percentage of PYP, or
- (c) in the case of each relevant existing pension the difference between CYP and PYP is the aggregate of a percentage of PYP and an amount which are both the same as those the aggregate of which make up the difference between CYP and PYP in the case of each other relevant existing pension.
- (5) In this section—
- “relevant existing pension” means a pension payable to any dependant of any member under the pension scheme throughout the 12 months in question and the immediately preceding period of 12 months,
- “CYP”, in relation to a relevant existing pension, is the current year pension, that is the amount of the pension payable in the 12 months in question, and
- “PYP”, in relation to a relevant existing pension, is the previous year pension, that is the amount of the pension payable in the immediately preceding period of 12 months.
- (6) The “current member pension limit”, in relation to the 12 month period in question, is the initial member pension limit increased by the aggregate of—
- (a) the permitted margin, and
- (b) the excepted circumstances amount.
- (7) The “permitted margin” is the amount by which the initial member pension limit would be greater if it had been increased by whichever of calculation A and calculation B gives the greater amount.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (8) Calculation A involves increasing the initial member pension limit by the relevant annual percentage rate for the whole of the period—
- (a) beginning with the first month beginning after the end of the post-death year (“the opening month”), and
 - (b) ending with the first month of the 12 months in question (“the closing month”).
- (9) The relevant annual percentage rate is—
- (a) if the relevant valuation factor in relation to the pension scheme is a number greater than 20, the annual rate agreed by the Inland Revenue and the scheme administrator, and
 - (b) otherwise, 5% per annum.
- (10) Calculation B involves increasing the initial member pension limit by the relevant indexation percentage.
- (11) If the retail prices index for the closing month is higher than it was for the opening month, the relevant indexation percentage is the percentage increase in the retail prices index.
- (12) If it is not, the relevant indexation percentage is 0%.
- (13) The “excepted circumstances amount” is the aggregate of the amounts of the relevant increases in pensions which were payable under the pension scheme to dependants of the member in excepted circumstances in any period or periods within subsection (1)(a) or (b).
- (14) The relevant increase in the case of any pension payable in relation to any 12 month period under the pension scheme to a dependant of the member is the difference between CYP and PYP (for this purpose reading the references in subsection (5) to the 12 months in question as references to the 12 month period).
- (15) The “appropriate portion” of the current member pension limit, in relation to any pension payable under the pension scheme to a dependant of the member in the 12 months in question, is—

$$\frac{P}{AP}$$

where—

P is the amount of that pension payable in the 12 months in question, and

AP is the aggregate of the amounts of each of the pensions payable under the pension scheme to one or more dependants of the member in the 12 months in question.”

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 06/04/2006

Pension commencement lump sums

- 34 (1) Paragraph 1 of Schedule 29 (meaning of “pension commencement lump sum”) is amended as follows.
- (2) In sub-paragraph (3)(b) (member must become entitled to lump sum in connection with becoming entitled to relevant pension: lump sum and pension to be under same arrangement), for “under the arrangement” substitute “, otherwise than by virtue of the operation of paragraph 8(2) of Schedule 28, under the pension scheme ”.
- (3) After sub-paragraph (5) insert—
- “(6) The Board of Inland Revenue may by regulations provide that, where incorrect income tax has been paid by the scheme administrator in relation to the member by way of the lifetime allowance charge in circumstances prescribed by the regulations, a lump sum subsequently paid to the member in circumstances so prescribed is to be treated as a pension commencement lump sum even though either or both of the conditions in sub-paragraph (1) (c) and (e) are not met.”
- 35 (1) Paragraph 3 of Schedule 29 (applicable amount limit) is amended as follows.
- (2) For sub-paragraph (5) (annuity purchase price: sums and assets to be disregarded) substitute—
- “(5) There is to be deducted from that aggregate—
- (a) if the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants' annuity consist of or include sums or assets representing the whole or part of the member's unsecured pension fund, the aggregate of the amount of those sums and the market value of those assets, and
- (b) in any case, so much (if any) of the sums or assets applied in (or in connection with) the purchase of the annuity or any related dependants' annuity as represents rights which are attributable to a disqualifying pension credit.”
- (3) In sub-paragraph (7) (scheme pensions), in the definition of AC, insert at the end “(disregarding paragraph 3 of Schedule 32).”

VALID FROM 06/04/2006

Recognised transfers

- 36 In section 169 (recognised transfers), after subsection (1) insert—
- “(1A) A transfer of sums or assets held for the purposes of, or representing accrued rights under, a registered pension scheme to an insurance company is to be treated as a recognised transfer if the sums or assets had been applied by the pension scheme towards the provision of a scheme pension or a dependants' scheme pension (but subject to regulations under subsections (1B) and (1C)).

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (1B) The Board of Inland Revenue may by regulations provide that, where any of the sums or assets transferred represent rights in respect of a scheme pension to which a member of a registered pension scheme has become entitled (“the original scheme pension”)—
- (a) the transfer is not a recognised transfer unless those sums and assets are, after the transfer, applied towards the provision of a scheme pension (a “new scheme pension”), and
 - (b) if they are so applied, the new scheme pension is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original scheme pension.
- (1C) The Board of Inland Revenue may by regulations provide that, where any of the sums or assets transferred represent rights in respect of a dependants' scheme pension to which a dependant of a member of a registered pension scheme has become entitled in respect of the member (“the original dependants' scheme pension”)—
- (a) the transfer is not a recognised transfer unless those sums and assets are, after the transfer, applied towards the provision of a dependants' scheme pension (a “new dependants' scheme pension”), and
 - (b) if they are so applied, the new dependants' scheme pension is to be treated, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, as if it were the original dependants' scheme pension.
- (1D) The Board of Inland Revenue may by regulations provide that, where any of the sums or assets transferred represent—
- (a) a person's unsecured pension fund or dependant's unsecured pension fund, or
 - (b) a person's alternatively secured pension fund or dependant's alternatively secured pension fund,
- under an arrangement (“the old arrangement”), the transfer is not a recognised transfer unless all of those sums and assets become held under an arrangement under which no other sums or assets are held (“the new arrangement”).
- (1E) If regulations so provide they may make in relation to cases in which the sums and assets become so held provision as to the treatment for the purposes of any provision of this Part of—
- (a) the sums and assets transferred, and
 - (b) the new arrangement,
- including provision for treating the sums and assets transferred as remaining, to such extent as is prescribed by the regulations and for such of the purposes of this Part as are so prescribed, sums and assets held under the old arrangement.”

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 06/04/2006

Assignment

- 37 (1) Section 172 (assignment of benefit to which member has actual or prospective entitlement to constitute unauthorised payment) is amended as follows.
- (2) In subsection (1) (members), for the words after “agrees to assign” substitute—
- “(a) any benefit, other than an excluded pension, to which the member (or any dependant of the member) has an actual or prospective entitlement under the pension scheme, or
- (b) any right in respect of any sums or assets held for the purposes of any arrangement under the pension scheme.”
- (3) In subsection (3) (other persons), for the words after “agrees to assign” substitute—
- “(a) any benefit, other than an excluded pension, to which the person has an actual or prospective entitlement under the pension scheme in respect of a member of the pension scheme, or
- (b) any right in respect of any sums or assets held for the purposes of any arrangement relating to the member under the pension scheme.”
- (4) In subsection (5)(b) (amount of unauthorised payment), insert at the end “ and any power to reduce the entitlement to the benefit or right did not exist. ”
- (5) In subsection (6) (payments of benefits assigned not unauthorised payments), after “benefit” insert “ or right ”.
- (6) For subsection (7) substitute—
- “(7) An excluded pension is so much of any pension which under pension rule 2 may continue to be paid after the member's death as may be so paid.”

VALID FROM 06/04/2006

Surrender and allocation of rights etc.

- 38 After section 172 insert—
- “172A Surrender**
- (1) Subsection (2) applies if a member of a registered pension scheme surrenders or agrees to surrender—
- (a) any benefit, other than an excluded pension, to which the member (or any dependant of the member) has a prospective entitlement under an arrangement under the pension scheme, or
- (b) any right in respect of any sums or assets held for the purposes of any arrangement under the pension scheme.
- (2) The pension scheme is to be treated as making an unauthorised payment to the member.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (3) Subsection (4) applies if a person surrenders or agrees to surrender—
 - (a) any benefit, other than an excluded pension, to which the person has a prospective entitlement under an arrangement under the pension scheme relating to a member of a pension scheme, or
 - (b) any right in respect of any sums or assets held for the purposes of any arrangement relating to a member of the pension scheme under the pension scheme.
- (4) The pension scheme is to be treated as making an unauthorised payment to the person in respect of the member.
- (5) Subsections (2) and (4) do not apply to—
 - (a) a surrender pursuant to a pension sharing order or provision,
 - (b) a surrender (or agreement to surrender) by the member in return for the conferring on a dependant of an entitlement to benefits after the member's death,
 - (c) a transfer of (or agreement to transfer) benefits or rights so as to become benefits or rights under another arrangement under the pension scheme relating to the member or dependant,
 - (d) a surrender of (or agreement to surrender) benefits or rights in order to fund the making of an authorised surplus payment,
 - (e) a surrender (or agreement to surrender) which constitutes an assignment (or agreement to assign) within section 172, or
 - (f) any surrender (or agreement to surrender) of a description prescribed by regulations made by the Board of Inland Revenue.
- (6) Regulations under subsection (5)(f) may include provision having effect in relation to times before they are made.
- (7) Subsections (2) and (4) do not apply to the surrender of a benefit to which the member (or a dependant of the member) has a prospective entitlement, or to which the person has a prospective entitlement in respect of a member, under an arrangement that is a defined benefits arrangement or cash balance arrangement unless—
 - (a) in consequence of the surrender, the actual or prospective entitlement of another member (or dependant of another member) of the pension scheme, or of another person in respect of another member, to benefits under the scheme is increased, and
 - (b) the two members are or have been connected persons.
- (8) The amount of the unauthorised payment is the consideration that might be expected to be received if what is surrendered were assigned by a transaction between parties at arm's length and any power to reduce the entitlement to the benefit or right did not exist.
- (9) In this section “surrender”, in relation to any benefit or right of a member (or dependant of a member) of a pension scheme or other person, includes any schemes, arrangements or understandings of any kind (whether or not legally enforceable) the main purpose, or one of the main purposes, of which is to reduce the member's (or dependant's), or person's, entitlement to the benefit or right.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (10) An excluded pension is so much of any pension which under pension rule 2 may continue to be paid after the member's death as may be so paid.
- (11) Section 839 of ICTA (connected persons) applies for the purposes of this section.

172B Increase in rights of connected person on death

- (1) This section applies if—
- (a) at any time after the death of a relevant member of a registered pension scheme, there is an increase in the pension rights of another member of the pension scheme which is attributable to the death, and
 - (b) the dead member and other member were connected persons immediately before the death.
- (2) A member of a registered pension scheme is a relevant member if, immediately before his death, any of his rights under the pension scheme are—
- (a) rights to benefit to which the member (or any dependant of the member) has a prospective entitlement under an arrangement under the pension scheme, or
 - (b) rights representing the member's unsecured pension fund, alternatively secured pension fund, dependant's unsecured pension fund or dependant's alternatively secured pension fund in respect of an arrangement under the pension scheme.
- (3) There is at any time an increase in the pension rights of the other member of the pension scheme which is attributable to the death if—
- (a) the consideration which might be expected to be received in respect of an assignment (or assignation) of the benefits to which he is actually or prospectively entitled under the pension scheme at that time, exceeds
 - (b) the consideration which might be expected to be received in respect of such an assignment (or assignation) immediately before that time,
- in consequence of the death (ignoring for the purposes of paragraphs (a) and (b) any power to reduce the entitlement to the benefits).
- (4) The pension scheme is to be treated as making an unauthorised payment to the other member (or to the other member's personal representatives) of an amount equal to the excess (but subject to subsection (6)).
- (5) The amount which would (apart from this subsection) constitute the unauthorised payment is to be reduced by so much of the excess as arises—
- (a) from the payment of any transfer lump sum death benefit in respect of the dead member so as to become held for the purposes of, or to represent accrued rights under, an arrangement relating to the other member,

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (b) from the other member becoming entitled to pension death benefits or lump sum death benefits in respect of the dead member, or
 - (c) in any manner prescribed by regulations made by the Board of Inland Revenue.
- (6) Regulations under subsection (5)(c) may include provision having effect in relation to times before they are made.
- (7) This section does not apply if—
- (a) at the time of the increase mentioned in subsection (1)(a) there at least 20 members of the pension scheme, and
 - (b) the benefits to which each of them is actually or prospectively entitled under the pension scheme are increased at the same rate in consequence of the death.
- (8) This section does not apply if the increase in the pension rights of the other member is brought about by an assignment (or agreement to assign) within section 172.
- (9) Section 839 of ICTA (connected persons) applies for the purposes of this section.

172C Allocation of unallocated employer contributions

- (1) This section applies if—
- (a) contributions are paid under a registered pension scheme by an employer otherwise than in respect of any individual,
 - (b) in any tax year any of the contributions become held for the purposes of the provision of benefits to or in respect of a member of the pension scheme under any relevant arrangement or arrangements (“the allocated contributions”),
 - (c) the amount of the allocated contributions exceeds the permitted maximum, and
 - (d) the member and the employer, or the member and any person connected with the employer at any time during the tax year, are connected persons at any time during the tax year.
- (2) An arrangement is a relevant arrangement if it is—
- (a) a money purchase arrangement that is not a cash balance arrangement, or
 - (b) a hybrid arrangement under which the benefits that may be provided to or in respect of the member are, or include, money purchase benefits other than cash balance benefits.
- (3) “The permitted maximum” is—
- (a) the maximum amount of relief to which the member is entitled under section 188 (relief for contributions) in respect of relievable pension contributions paid during the tax year (see section 190), less
 - (b) the amount of any contributions paid by employers under any registered pension scheme in respect of the member in the tax year.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (4) But if the member is also a member of one or more other registered pension schemes, the permitted maximum in relation to each of the registered pension schemes of which he is a member is—

$$\frac{PM}{N}$$

where—

PM is the amount arrived at under subsection (3), and

N is the number of registered pension schemes of which he is a member.

- (5) The pension scheme is to be treated as making an unauthorised payment to the member (or to the member's personal representatives).
- (6) The amount of the unauthorised payment is the amount by which the amount of the allocated contributions exceeds the permitted maximum.
- (7) Section 839 of ICTA (connected persons) applies for the purposes of this section.

172D Limit on increase in benefits

- (1) This section applies where, at any time during any pension input period in respect of a relevant arrangement relating to a member of an occupational pension scheme that is a registered pension scheme, the member and—
- (a) a sponsoring employer, or
 - (b) a person connected with a sponsoring employer.
- are connected persons.
- (2) If—
- (a) the pension input amount for the pension input period in respect of the relevant arrangement, exceeds
 - (b) the notional unconnected person input amount for the pension input period in respect of the relevant arrangement,
- the pension scheme is to be treated as making an unauthorised payment to the member (or to the member's personal representatives) of an amount equal to the excess.
- (3) A relevant arrangement is an arrangement under the pension scheme that is—
- (a) a defined benefits arrangement,
 - (b) a cash balance arrangement, or
 - (c) a hybrid arrangement under which the benefits that may be provided to or in respect of the member are, or include, defined benefits or cash balance benefits.
- (4) The pension input amount for a pension input period in respect of the relevant arrangement is to be determined in accordance with—

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Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (a) sections 230 to 232 if the relevant arrangement is a cash balance arrangement,
 - (b) sections 234 to 236 if it is a defined benefits arrangement, and
 - (c) section 237 if it is a hybrid arrangement,
- treating references in those sections to the individual as to the member and treating section 237 as if the references to input amount B were omitted.
- (5) The notional unconnected person input amount for the pension input period in respect of the relevant arrangement is what the pension input amount, as so determined, would have been if the member were connected with—
- (a) a sponsoring employer, or
 - (b) a person connected with a sponsoring employer,
- at no time during the pension input period.
- (6) Section 839 of ICTA (connected persons) applies for the purposes of this section.”

VALID FROM 06/04/2006

Restriction of employers' relief in respect of contributions

39

After section 196 insert—

“196A Power to restrict relief

- (1) The Board of Inland Revenue may make regulations for restricting the extent to which contributions paid by an employer under a registered pension scheme in respect of an individual are subject to relief in circumstances in which subsection (2) or (3) applies (or both do).
- (2) This subsection applies where any of the benefits which will or may be payable to or in respect of the individual under the registered pension scheme will be payable only if relevant benefits expected to be so paid under an employer-financed retirement benefits scheme are not so paid.
- (3) This subsection applies where, because relevant benefits are or may be payable to or in respect of the individual under an employer-financed retirement benefits scheme, the aggregate of the amount of any sums and the market value of any assets—
 - (a) held for the purposes of, or
 - (b) representing accrued rights under,the registered pension scheme which may be transferred by way of a recognised transfer in respect of the individual will or may be less than it otherwise would be.
- (4) The reference in subsection (1) to contributions paid by an employer being subject to relief is to—
 - (a) their being deductible in computing the amount of the profits of the employer for the purposes of Part 2 of ITTOIA 2005 (trading income) or Case I or II of Schedule D,

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- (b) their being expenses of management of the employer for the purposes of section 75 of ICTA (expenses of management: companies with investment business), or
- (c) their being brought into account at Step 1 in section 76(7) of ICTA (expenses of insurance companies) in respect of the employer,

(depending on which is appropriate in relation to the employer).

(5) In this section—

“employer-financed retirement benefits scheme”, and
“relevant benefits”,

have the same meaning as in Chapter 2 of Part 6 of ITEPA 2003 (see sections 393A and 393B of that Act).”

40 After section 246 insert—

“246A Case where no relief for provision by an employer

- (1) An employer's expenses of providing relevant benefits to or in respect of a present or former employee (“the employee”) under an employer-financed retirement benefits scheme (whether or not by the making of contributions under the scheme) are not subject to relief if subsection (2) applies.
- (2) This subsection applies where—
 - (a) the provision of the relevant benefits results in a reduction in the benefits payable to or in respect of the employee under a registered pension scheme, or
 - (b) a reduction in the benefits payable to or in respect of the employee under a registered pension scheme results in the provision of the relevant benefits.
- (3) But if the extent to which contributions paid by the employer under the registered pension scheme in respect of the employee are subject to relief has been restricted in accordance with regulations under section 196A, the employer's expenses of providing the relevant benefits are not prevented from being subject to relief to the extent that is just and reasonable.
- (4) The references in this section to expenses of an employer being subject to relief are to—
 - (a) their being deductible in computing the amount of the profits of the employer for the purposes of Part 2 of ITTOIA 2005 (trading income) or Case I or II of Schedule D,
 - (b) their being expenses of management of the employer for the purposes of section 75 of ICTA (expenses of management: companies with investment business), or
 - (c) their being brought into account at Step 1 in section 76(7) of ICTA (expenses of insurance companies) in respect of the employer,

(depending on which is appropriate in relation to the employer).
- (5) In this section—

“employer-financed retirement benefits scheme”, and

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“relevant benefits”,
have the same meaning as in Chapter 2 of Part 6 of ITEPA 2003 (see sections 393A and 393B of that Act).”

VALID FROM 06/04/2006

Lifetime allowance: reduction of rights in respect of tax paid

- 41 In section 215 (amount of lifetime allowance charge), omit—
- (a) in subsection (9), paragraph (b) (tax covered by scheme funded payment if rights not reduced so as fully to reflect amount of payment of tax) and the word “and” before it, and
 - (b) subsection (10) (whether rights reduced so as fully to reflect amount of payment of tax).
- 42 In the table in section 216(1) (benefit crystallisation events and amounts crystallised), in the entry relating to benefit crystallisation event 6 (entitlement to relevant lump sum), in the second column (amount crystallised), after “sum” insert “ paid to the individual ”.
- 43 (1) Schedule 32 (benefit crystallisation events: supplementary) is amended as follows.
- (2) In paragraph 9 (benefit crystallisation event 2: meaning of “P”) is amended as follows.
- (3) In sub-paragraph (2) (amount to be net of tax under section 215 paid by scheme administrator)—
- (a) for “will or may be” substitute “ is ”, and
 - (b) omit “which will be payable”.
- (4) After that sub-paragraph insert—
- “(3) And if the reduction is such that, in accordance with normal actuarial practice, it would be taken fully to reflect the amount of the tax, the tax is not to be treated as tax paid by the scheme administrator for the purposes of section 215(9).”
- (5) In paragraph 13 (benefit crystallisation event 3: meaning of “XP”), after sub-paragraph (3) (inserted by paragraph 8(6)) insert—
- “(4) If the rate at which the pension is payable is reduced so as to reflect the amount of any tax under section 215 to be paid by the scheme administrator, that reduction is to be left out of account in determining the rate at which the pension is payable for the purposes of sub-paragraph (1)(a).
- (5) And if the reduction is such that, in accordance with normal actuarial practice, it would be taken fully to reflect the amount of the tax, the tax is not to be treated as tax paid by the scheme administrator for the purposes of section 215(9).”
- (6) Paragraph 14 (benefit crystallisation event 5: meaning of “DP” and “DSLS”) is amended as follows.
- (7) After sub-paragraph (1) insert—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“(1A) If the rate at which the scheme pension would be payable would be reduced so as to reflect the amount of any tax under section 215 to be paid by the scheme administrator, that reduction is to be left out of account in determining the rate at which the pension would be payable for the purposes of sub-paragraph (1).

(1B) And if the reduction is such that, in accordance with normal actuarial practice, it would be taken fully to reflect the amount of the tax, the tax is not to be treated as tax paid by the scheme administrator for the purposes of section 215(9).”

(8) In sub-paragraph (2) (“DSLs”)—

- (a) for “the amount” substitute “ so much ”, and
- (b) after “pension” insert “ as would be paid to the individual ”.

VALID FROM 06/04/2006

Lifetime allowance: minor amendment

F²44

Textual Amendments

- F2** Sch. 10 para. 44 omitted (retrospective to 6.4.2006) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 29 paras. 11, 12\(3\)](#)

VALID FROM 06/04/2006

Lifetime allowance: pension credits

45 (1) Section 220 (lifetime allowance enhancement factor in case of pension credits from previously crystallised rights) is amended as follows.

(2) In subsection (4) (pension credit factor), in the definition of APC, after “APC is” insert “ the post-commencement pension in payment portion of ”.

(3) After that subsection insert—

“(4A) The post-commencement pension in payment portion of the appropriate amount referred to in the definition of APC—

- (a) in a case where the appropriate amount is arrived at under section 29(2) or (3)(b) of WRPA 1999 or Article 26(2) or (3)(b) of WRP(NI)O 1999, is so much of that amount as is attributable to rights to a post-commencement pension in payment, and
- (b) in a case where the appropriate amount is arrived at under section 29(3)(a) of WRPA 1999 or Article 26(3)(a) of WRP(NI)O 1999, is so much of that amount as is just and reasonable.”

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 06/04/2006

Migrant member relief

- 46 In paragraph 4(c) of Schedule 33 (meaning of “relevant migrant member”: requirement that person be entitled to contributions tax relief in foreign country before taking up residence in United Kingdom)—
- (a) at the beginning insert “ either ”, and
 - (b) after “resident” insert “ or meets such other condition as may be prescribed by regulations made by the Board of Inland Revenue ”.

VALID FROM 06/04/2006

Information

- 47 In section 251(4)(a) (persons to whom scheme administrators can be required to provide information), after “are prescribed” insert “ or to the scheme administrators of other registered pension schemes ”.

VALID FROM 06/04/2006

Electronic payment

- 48 After section 255 insert—

“Payment

255A Electronic payment

- (1) The Board of Inland Revenue may give directions requiring specified persons to use electronic means for the making of specified payments required to be made under or by virtue of this Part.
- (2) Directions under this section may make provision—
 - (a) as to conditions that must be complied with in connection with the use of electronic means for the making of any payment,
 - (b) for treating a payment as not having been made unless conditions imposed by the directions are satisfied, and
 - (c) for determining the time when a payment in accordance with directions under this section is to be taken to be made.
- (3) Directions under this section may also make provision (which may include provision for the application of conclusive or other presumptions) as to the manner of proving for any purpose—
 - (a) whether any use of electronic means for making a payment is to be taken as having resulted in the payment being made,

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- (b) the time of the making of any payment for the making of which electronic means have been used, and
 - (c) any other matter for which provision may be made by directions under this section.
- (4) Directions under this section—
- (a) may be specific or general, and
 - (b) may provide that the conditions of any authorisation or requirement imposed by the directions are to be taken to be satisfied only where the Inland Revenue is satisfied as to specified matters.
- (5) Directions under this section may—
- (a) suspend for any period during which the use of electronic means for the making of payments is impossible or impractical, any requirements imposed by the directions relating to the use of such means,
 - (b) substitute alternative requirements for the suspended ones, and
 - (c) make any provision that is necessary in consequence of the imposition of the substituted requirements.
- (6) Directions under this section may—
- (a) make different provision for different cases,
 - (b) make such incidental, supplementary, consequential and transitional provision in connection with any provision contained in such directions as the Board of Inland Revenue thinks fit.
- (7) In this section—
- “the Inland Revenue” includes any person who for the purposes of the electronic means of payment is acting under the authority of the Board of Inland Revenue, and
 - “specified” means specified in a direction under this section.

255B Payments to be cleared payments

- (1) A payment made to the Board of Inland Revenue or the Inland Revenue under or by virtue of this Part (otherwise than in cash) is to be treated as not having been made until the earliest date on or before which all the transactions that need to be completed before the whole amount of the payment becomes available to the Board are capable of being completed.
- (2) In this section “the Inland Revenue” includes any person who is acting under the authority of the Board of Inland Revenue.”

VALID FROM 06/04/2006

Insurance company liable as scheme administrator

49 (1) After section 273 insert—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“273A Insurance company liable as scheme administrator

- (1) The Board of Inland Revenue may make regulations in relation to cases where an insurance company makes a payment of—
- (a) a pension protection lump sum death benefit,
 - (b) an annuity protection lump sum death benefit, or
 - (c) an unsecured pension fund lump sum death benefit,
- which (by virtue of section 161(3) and (4)) is treated for the purposes of Chapter 3 as made by a registered pension scheme.
- (2) The regulations may provide that the insurance company—
- (a) is to be treated as the scheme administrator for the purposes of the operation of section 206 in relation to the lump sum death benefit, and
 - (b) is responsible for the discharge of all obligations imposed on the scheme administrator by or under this Part so far as related to the liability imposed by that section to pay tax in respect of it.
- (3) Where an insurance company is liable to pay any tax or interest, or is responsible for the discharge of any other obligation, by virtue of regulations under this section, no other person is liable to pay that tax, or responsible for the discharge of that obligation, under sections 270 to 273.”
- (2) In section 274(3)(b) (liabilities and other obligations under certain sections not affected by pension scheme being terminated or ceasing to be registered), insert at the end “ or regulations under section 273A ”.

VALID FROM 06/04/2006

Power to split schemes

50 Before section 275 insert—

Power to split schemes

- “274A) The Board of Inland Revenue may make regulations for and in connection with treating registered pension schemes to which this section applies as if they were a number of separate registered pension schemes for such of the purposes of this Part and of provision made under it as are prescribed by the regulations.
- (2) This section applies to pension schemes prescribed, or of a description prescribed, by the regulations.
- (3) The provision that may be made by the regulations may, in particular, include—
- (a) provision as to who is to be treated as the scheme administrator in relation to each of the separate pension schemes, and
 - (b) any such other modifications of the provision made by and under this Part as appears appropriate in consequence of, or otherwise in

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

connection with, provision made under subsection (1) (including provision so made by virtue of paragraph (a) of this subsection).

(4) The regulations may make different provision for different cases.”

VALID FROM 06/04/2006

Power to modify rules of existing schemes

51 In paragraph 3(2) of Schedule 36 (power to modify rules of existing schemes: modifications to have effect until earlier of time when rules amended and end of tax year 2008-09), for the words after “the pension scheme” substitute “which state that the modifications no longer apply in relation to it take effect, or

(b) the end of the tax year 2010-11 or such later time as the Board of Inland Revenue may by regulations prescribe.”

VALID FROM 06/04/2006

Primary and enhanced protection: valuation of uncrystallised rights

52 (1) Schedule 36 (transitional provisions) is amended as follows.

(2) Paragraph 9 (valuation of uncrystallised rights under pension schemes within paragraph 1(1)(a) to (d)) is amended as follows.

(3) In sub-paragraph (2) (alternative values)—

(a) omit “the lower of”, and

(b) for “and” at the end of paragraph (a) substitute “ or (if lower) ”.

(4) In sub-paragraph (4) (the maximum permitted pension), after “means” insert—

“(a) in the case of an arrangement under a pension scheme which immediately before 6th April 2006 was within section 611(1)(a) of ICTA, the maximum annual pension that could be paid to the individual under the pension scheme on 5th April 2006, and

(b) in any other case,”.

(5) In sub-paragraph (5) (assumptions)—

(a) in paragraph (a), at the beginning insert “ in the case of any arrangement, that ” and for “2006, that” substitute “ 2006 ”,

(b) after that paragraph insert—

“(aa) in the case of an arrangement within sub-paragraph (4)(a), that the valuation assumptions apply (see section 277),”, and

(c) in paragraph (b), at the beginning insert “ in the case of any other arrangement, that ” and for “scheme, that” substitute “ scheme ”.

(6) Paragraph 26 (lump sum protection: limit on value of uncrystallised rights under pension schemes within paragraph 1(1)(a) to (d)) is amended as follows.

(7) In sub-paragraph (2) (alternative values)—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (a) omit “the lower of”, and
 - (b) for “and” at the end of paragraph (a) substitute “ or (if lower) ”.
- (8) In sub-paragraph (3) (the maximum permitted lump sum), after “means” insert—
- “(a) in the case of an arrangement under a pension scheme which immediately before 6th April 2006 was within section 611(1)(a) of ICTA, the maximum lump sum that could be paid to the individual under the pension scheme on 5th April 2006, and
 - (b) in any other case.”.
- (9) In sub-paragraph (4) (assumptions)—
- (a) in paragraph (a), at the beginning insert “ in the case of any arrangement, that ” and for “2006, that” substitute “ 2006 ”,
 - (b) after that paragraph insert—
 - “(aa) in the case of an arrangement within sub-paragraph (3)(a), that the valuation assumptions apply (see section 277),”, and
 - (c) in paragraph (b), at the beginning insert “ in the case of any other arrangement, that ” and for “scheme, that” substitute “ scheme ”.

VALID FROM 06/04/2006

Enhanced protection

- 53 (1) Schedule 36 (transitional provisions) is amended as follows.
- (2) Paragraph 12 (enhanced protection) is amended as follows.
- (3) In sub-paragraph (2) (circumstances in which paragraph ceases to apply), after paragraph (a) insert—
- “(aa) there is an impermissible transfer into the arrangement or any of the arrangements (see paragraph 17A),”.
- (4) In sub-paragraph (3) (effect of enhanced protection), for the words after “an individual” substitute—
- “(a) there is no liability to the lifetime allowance charge in respect of the individual, and
 - (b) the payment of a lifetime allowance excess lump sum to the individual is not permitted by the lump sum rule (see section 166).”
- (5) In sub-paragraphs (5) and (6) (no enhanced protection if unsurrendered relevant excess), for “9” substitute “ 9(3) ”.
- (6) In sub-paragraph (9)—
- (a) in paragraph (a), for “and 14” substitute “ , 14 and 17A(1) and (2) ”, and
 - (b) in paragraph (b), for “and 15” substitute “ , 15 and 17A(3) ”.
- (7) In paragraph 13(a) (loss of enhanced protection: relevant benefit accrual in case of money purchase arrangement that is not a cash balance arrangement), after “the arrangement” insert “ or, where the arrangement has been a hybrid arrangement, if a relevant contribution was so paid at any time after 5th April 2006, ”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (8) Paragraph 14 (loss of enhanced protection: relevant benefit accrual) is amended as follows.
- (9) In sub-paragraph (1)(c) (relevant benefit accrual: relevant contributions consisting in employer's contribution becoming held for individual), for “by an employer of the individual otherwise than” substitute “ otherwise than by or on behalf of the individual or by an employer of the individual ”.
- (10) In sub-paragraph (2) (contributions which are not relevant contributions)—
- (a) for the words from the beginning to “minimum” substitute “ Minimum ”, and
 - (b) insert at the end “ are not relevant contributions for the purposes of paragraph 13(a) ”.
- (11) Paragraph 16 (enhanced protection: post-commencement earnings limit for capped individuals) is amended as follows.
- (12) In sub-paragraph (1) (individuals to whom paragraph applies), for “whom section 590C of ICTA (earnings cap) had effect in” substitute “whom—
- (a) section 590C of ICTA or paragraph 20 of Schedule 6 to FA 1989 (earnings cap) had effect, or
 - (b) provision similar to section 590C of ICTA had effect by virtue of conditions imposed under section 591 of that Act (discretionary approval),
- in ”.
- (13) In sub-paragraph (5) (appropriate three year period), for “the time when the first relevant event occurs” substitute “the earliest of—
- (a) the first relevant event,
 - (b) the individual leaving the employment to which the arrangement relates, and
 - (c) the individual's death.”
- (14) After that sub-paragraph insert—
- “(5A) Where the appropriate three year period ends otherwise than with the first relevant event, Amount B is what it would be apart from this sub-paragraph increased by whichever is the greatest of—
- (a) the percentage by which an amount would be increased if it were increased for the period beginning with the date on which it ends and ending with the date on which the relevant event occurs at an annual rate of 5%,
 - (b) the percentage by which an amount would be increased if it were increased for that period at an annual percentage rate referred to in regulations made by the Board of Inland Revenue, or
 - (c) the percentage by which the retail prices index for the month in which the first relevant event occurs is higher than that for the month in which the appropriate period ends.”
- (15) In paragraph 17 (enhanced protection: post-commencement earnings limit for other individuals), after sub-paragraph (5) insert—

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

“(6) Where the appropriate three year period ends otherwise than with the first relevant event, Amount D is what it would be apart from this sub-paragraph increased by whichever is the greatest of—

- (a) the percentage by which an amount would be increased if it were increased for the period beginning with the date on which it ends and ending with the date on which the relevant event occurs at an annual rate of 5%,
- (b) the percentage by which an amount would be increased if it were increased for that period at an annual percentage rate referred to in regulations made by the Board of Inland Revenue, or
- (c) the percentage by which the retail prices index for the month in which the first relevant event occurs is higher than that for the month in which the appropriate period ends.”

(16) After that paragraph insert—

“17A(1) There is an impermissible transfer into a relevant existing arrangement relating to an individual under a pension scheme in a case where the relevant existing arrangement is a money purchase arrangement that is not a cash balance arrangement if—

- (a) sums or assets held for the purposes of, or representing rights under, an arrangement relating otherwise than to the individual are transferred so as to become held for the purposes of the relevant existing arrangement, otherwise than pursuant to a pension sharing order or provision,
- (b) sums or assets which are neither held for the purposes of, nor represent rights under, a pension scheme are so transferred, or
- (c) a transfer lump sum death benefit is paid so as to become held for the purposes of, or to represent accrued rights under, the relevant existing arrangement.

(2) Sub-paragraph (1) applies where the relevant existing arrangement has been a hybrid arrangement as if the references to sums or assets being transferred, or to a transfer lump sum death benefit being paid, were to transfer or payment at any time after 5th April 2006.

(3) There is an impermissible transfer into a relevant existing arrangement relating to an individual under a pension scheme in a case where the relevant existing arrangement is a cash balance arrangement or a defined benefits arrangement if it becomes a money purchase arrangement that is not a cash balance arrangement.”

VALID FROM 06/04/2006

Transitional provisions: persons who may take benefits before normal minimum pension age

54 (1) Schedule 36 (transitional provisions) is amended as follows.

(2) In paragraph 19(5) (individuals permitted to take pension before normal minimum pension age), omit “and the pension scheme”.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (3) In the heading before paragraph 21, for “pension” substitute “benefit”.
- (4) Paragraph 22 (right to take pension before normal minimum pension age: protected pension scheme where original pension scheme within paragraph 1(1)(a), (b), (c), (d) or (e)) is amended as follows.
- (5) In sub-paragraph (4)(a) (entitlement to pension at age of less than 55), for “a pension” substitute “any benefit”.
- (6) In sub-paragraph (7) (retirement condition)—
 - (a) in paragraph (a), for “pensions” substitute “benefits”, and
 - (b) in paragraph (b), for “a pension” substitute “any benefit”.
- (7) In sub-paragraph (8) (member's protected pension age), for “a pension” substitute “any benefit”.

VALID FROM 06/04/2006

Transitional provisions: block transfers

- 55 (1) Schedule 36 (transitional provisions) is amended as follows.
- (2) Paragraph 22 (right to take pension before normal minimum pension age: protected pension scheme where original pension scheme within paragraph 1(1)(a), (b), (c), (d) or (e)) is amended as follows.
 - (3) In sub-paragraph (5) (condition B: membership due to block transfer from original pension scheme), for the words after “the pension scheme” substitute “(“a transferee pension scheme”) as a result of—
 - (a) a block transfer from the pension scheme (“the original pension scheme”) in relation to which condition A is met to the transferee pension scheme, or
 - (b) a block transfer to the transferee pension scheme from a pension scheme that was a transferee pension scheme in relation to the original pension scheme by virtue of the previous application of paragraph (a) or the previous application (on one or more occasions) of this paragraph.”
 - (4) For paragraph (b) of sub-paragraph (6) substitute—
 - “(b) either the member was not a member of the pension scheme to which the transfer is made before the transfer or he has been a member of that pension scheme for no longer than such period as is prescribed by regulations made by the Board of Inland Revenue.”
 - (5) In paragraph 23(5) (right to take pension before normal minimum pension age: condition B in case of protected pension scheme where original pension scheme within paragraph 1(1)(f) or (g)), for the words after “the pension scheme” substitute “(“a transferee pension scheme”) as a result of—
 - (a) a block transfer from the pension scheme (“the original pension scheme”) in relation to which condition A is met to the transferee pension scheme, or

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (b) a block transfer to the transferee pension scheme from a pension scheme that was a transferee pension scheme in relation to the original pension scheme by virtue of the previous application of paragraph (a) or the previous application (on one or more occasions) of this paragraph.”
- (6) In paragraph 31(7) (entitlement to lump sums exceeding 25% of uncrystallised rights: condition B), for the words after “the pension scheme” substitute “(“a transferee pension scheme”) as a result of—
 - (a) a block transfer from the pension scheme (“the original pension scheme”) in relation to which condition A is met to the transferee pension scheme, or
 - (b) a block transfer to the transferee pension scheme from a pension scheme that was a transferee pension scheme in relation to the original pension scheme by virtue of the previous application of paragraph (a) or the previous application (on one or more occasions) of this paragraph.”
- (7) In paragraph 51(5) (pre-commencement entitlement to corresponding relief), for the words after “a pension scheme” insert “(“a transferee pension scheme”) if there has been—
 - (a) a block transfer from the pension scheme within sub-paragraph (1) (“the original pension scheme”) to the transferee pension scheme, or
 - (b) a block transfer to the transferee pension scheme from a pension scheme that was a transferee pension scheme in relation to the original pension scheme by virtue of the previous application of paragraph (a) or the previous application (on one or more occasions) of this paragraph.”

VALID FROM 06/04/2006

Transitional provisions: lump sums before normal minimum pension age

56

In Schedule 36 (transitional provisions), after paragraph 23 insert—

“23A (1) Where—

- (a) paragraph 19 applies to a benefit crystallisation event occurring in relation to an individual, and
- (b) the benefit crystallisation event consists in the individual becoming entitled to a pension or a pension commencement lump sum,

paragraph 2(6) of Schedule 29 has effect as if CSLA were the current standard lifetime allowance reduced by the relevant percentage (within the meaning of paragraph 19).

- (2) Sub-paragraph (3) applies where, after the occurrence in relation to an individual of a benefit crystallisation event in relation to which paragraph 19 has had effect, another benefit crystallisation event occurs in relation to the individual.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (3) If the amount crystallised on the previous benefit crystallisation event exceeded the available amount of the individual's lifetime allowance at the time of that benefit crystallisation event, paragraph 2(6) of Schedule 29 has effect as if, for the purposes of AAC, the amount crystallised were the available amount of the individual's lifetime allowance at that time."

VALID FROM 06/04/2006

Transitional provisions: lump sums exceeding 25% of uncrystallised rights

- 57 In the substituted sub-paragraph (7) set out in paragraph 34(2) of Schedule 36 (entitlement to lump sums exceeding 25% of uncrystallised rights), in the definition of "ALSA", for "additional lump sum amount" substitute "greater of the additional lump sum amount and nil".

VALID FROM 06/04/2006

Transitional provisions: inheritance tax

- 58 (1) Schedule 36 (transitional provisions) is amended as follows.
- (2) In paragraph 57(1) and (2) (no contributions under scheme after 5th April 2006), for "proportion", in each place, substitute "percentage".
- (3) In paragraph 58(6)(b) (other cases), after "any" insert "relevant".

VALID FROM 06/04/2006

Trivial commutation and winding-up lump sums

- 59 In section 636B(3) of ITEPA 2003 (trivial commutation and winding-up lump sums: taxable pension income to be 75% of lump sum where member has not become entitled to any benefits under pension scheme), for the words after "member" substitute "has uncrystallised rights (within the meaning of section 212 of FA 2004) under any one or more arrangements under the pension scheme, the amount of the taxable pension income—
- (a) if all his rights under the pension scheme are uncrystallised rights, is 75% of the lump sum, and
- (b) otherwise, is reduced by 25% of the value of the uncrystallised rights calculated in accordance with that section."

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

VALID FROM 06/04/2007

Application of PAYE to annuities etc.

- 60 In section 683(3) of ITEPA 2003 (PAYE pension income), after the entry relating to section 579B of that Act insert— “ section 612, so far as relating to annuities to which section 610 applies (annuities under non-registered occupational pension schemes), ”.
- 61 In Schedule 36 to FA 2004 (transitional provisions), omit—
- (a) paragraph 43 (continuation of Chapter 9 of Part 9 of ITEPA 2003 for certain annuity contracts with continued exclusion from PAYE), and
 - (b) paragraph 46 (application of PAYE to certain existing annuity contracts taxable under section 612 of ITEPA 2003).
- 62 In sections 348(1A) and 349(1A) of ICTA (deduction of tax), omit—
- (a) paragraph (b), and
 - (b) in paragraph (c), “, 610”.

House of Commons Members' Fund

- 63 Section 613(1) and (2) of ICTA (tax relief for contributions to House of Commons Members' Fund) shall be treated as not having been repealed by ITEPA 2003.

Commencement

- 64 (1) Subject as follows, the preceding provisions of this Schedule come into force on 6th April 2006.
- (2) Paragraphs 60 to 62 come into force on 6th April 2007.
- (3) Paragraph 63 comes into force on the day on which this Act is passed.

SCHEDULE 11

Section 104

REPEALS

PART 1

EXCISE DUTIES

VEHICLE EXCISE DUTY

Short title and chapter

Extent of repeal

Vehicle Excise and Registration Act 1994
(c. 22)

In section 4, subsection (3) and, in subsection (7), the words “or (3)”.
In Schedule 1, paragraph 10(3A) and (3B).

These repeals have effect in accordance with section 7 of this Act.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Finance Act 1995 (c. 4)	In Schedule 4, paragraph 14(7)(b), (8)(b) and (9).
Finance Act 1999 (c. 16)	Section 8(4).
Finance Act 2001 (c. 9)	In Schedule 2, paragraph 6.
Finance Act 2003 (c. 14)	Section 14(1)(a) and (2).

These repeals have effect in accordance with section 7 of this Act.

PART 2

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

(1) EXTENSION OF OUTPLACEMENT SERVICES ETC EXEMPTION: PART-TIME EMPLOYEES

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income Tax (Earnings and Pensions) Act 2003 (c. 1)	In section 310(4), “full-time”. In section 311— (a) in subsection (3), paragraph (d) and the word “and” before it; (b) in subsection (4)(c), “full-time”.

These repeals have effect in accordance with section 18(5) of this Act.

(2) EMPLOYEE SECURITIES

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Taxation of Chargeable Gains Act 1992 (c. 12)	In section 119A(3), the words following the paragraphs.

This repeal has effect in accordance with section 22 of this Act.

(3) FILMS: RESTRICTIONS ON RELIEF FOR PRODUCTION AND ACQUISITION EXPENDITURE

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance (No. 2) Act 1992 (c. 48)	Section 40A(5). In section 42— (a) in subsection (2), the word and immediately before paragraph (b), and (b) in subsection (3), the word and immediately before paragraph (b). In section 43(1), the definitions of master disc, master negative and master tape.
Finance (No. 2) Act 1997 (c. 58)	Section 48(3), (4) and (5).
Finance Act 2002 (c. 23)	Section 101.
Income Tax (Trading and Other Income) Act 2005 (c. 5)	In section 138 (as substituted by this Act), in subsection (5), in Calculation 2, paragraph (c) and the word and immediately before it.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

In section 138A(5), Calculation 2.

In section 139—

- (a) in subsection (1), the word and immediately before paragraph (e), and
- (b) in subsection (5)(d) the words , or section 42 of that Act (but not as applied by section 48(1) and (2) of F(No.2)A 1997),.

In section 140—

- (a) in subsection (1), paragraph (b) and the word and immediately before paragraph (f),
- (b) subsection (2), and
- (c) in subsection (6)(d), the words , or section 42 of that Act (but not as applied by section 48(1) to (3) of F(No.2)A 1997),.

- 1 The repeals in section 40A(5) and 43(1) of F(No.2)A 1992 have effect in accordance with paragraph 31(3) of Schedule 3 to this Act.
- 2 The repeals in section 42 of that Act have effect in accordance with paragraph 1(6) to (8) of that Schedule.
- 3 The repeals in section 48 of F(No.2)A 1997 have effect in accordance with paragraph 10(2) to (4) of that Schedule.
- 4 The repeal of section 101 of FA 2002 has effect in accordance with paragraph 2(2) and (3) of that Schedule.
- 5 The repeals in section 138 of ITTOIA 2005 have effect in accordance with paragraph 11(5) to (7) of that Schedule.
- 6 The repeal in section 138A of that Act has effect in accordance with paragraph 12(6) to (8) of that Schedule.
- 7 The repeal in section 139(1) of that Act has effect in accordance with paragraph 4(4) and (5) of that Schedule.
- 8 The repeal in section 139(5) of that Act has effect in accordance with paragraph 13 of that Schedule.
- 9 The repeal in section 140(6) of that Act has effect in accordance with paragraph 14 of that Schedule.
- 10 The remaining repeals in that section have effect in accordance with paragraph 5(4) to (6) of that Schedule.

(4) PARTNERS: REMOVAL OF RESTRICTION ON INTEREST RELIEF

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	In section 117— <ul style="list-style-type: none">(a) in subsection (1), the words 353, and, in paragraph (a), the words , or of interest paid by him in connection with the carrying on of a trade,,(b) in subsection (2), in the definition of the aggregate amount, the words 353, and, in paragraph (a), the words , or of

These repeals have effect in accordance with section 72(7) to (12) of this Act.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- interest paid by him in connection with carrying it on,, and
- (c) in that subsection, in the definition of the appropriate time, the words or the interest paid.

In section 118ZB(2), the words , or interest paid by him in connection with the carrying on of a trade,.

In section 118ZE(1), the words 353, and , or interest paid by him in connection with the carrying on of a trade,.

In section 118ZF(1), the words 353, and , or of interest paid by him in connection with carrying it on,.

In section 118ZG(2)(b)(ii), the words 353, and , or of interest paid by him in connection with carrying it on,.

In section 118ZJ—

- (a) in subsection (3), the words 353, and , and interest paid by him in connection with carrying it on,,
- (b) in subsection (4), the words the sum of, paragraph (b) and the word and immediately before that paragraph, and
- (c) in subsection (5), paragraph (b) and the word and immediately before it.

These repeals have effect in accordance with section 72(7) to (12) of this Act.

(5) BAD DEBTS AND RELATED MATTERS

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	Section 74(1)(j) and (2). Section 94(2). Section 103(4A).
Finance Act 1994 (c. 9)	Section 144(1), (5) and (6).
Finance Act 1996 (c. 8)	In Schedule 9— (a) paragraph 6B; (b) paragraph 6C(2); (c) paragraph 8; (d) paragraph 9.
Finance Act 2002 (c. 23)	In Schedule 25, paragraph 26. In Schedule 29, paragraph 115(2).
Finance Act 2004 (c. 12)	In Schedule 10— (a) paragraph 24; (b) paragraph 25(4); (c) paragraph 26; (d) paragraph 27.

These repeals have effect in accordance with section 80(4) of this Act.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

(6) FOREIGN CURRENCY ACCOUNTING

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	Section 747(4A) and (4B). Section 747A. Section 748(4) and (5). Section 750(5) to (8). In Schedule 24, paragraph 11A.
Finance Act 1995 (c. 4)	In Schedule 25— (a) paragraphs 2 to 5; (b) paragraph 6(4).
Finance Act 1996 (c. 8)	In Schedule 36, paragraph 1(3)(b) and (c).
Finance Act 1998 (c. 36)	In Schedule 17, paragraph 2.
Capital Allowances Act 2001 (c. 2)	In Schedule 2, paragraph 66(3).
Finance Act 2002 (c. 23)	In Schedule 23, paragraph 19.

These repeals have effect in accordance with paragraph 24(2) of Schedule 4 to this Act.

(7) OTHER PROVISIONS CONNECTED WITH ACCOUNTING PRACTICE

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	In section 43A(3), paragraphs (a) and (b) and the word and preceding paragraph (a). Section 836A.
Finance Act 1996 (c. 8)	In Schedule 9, paragraph 19A(6).
Finance Act 1997 (c. 16)	In Schedule 12, in paragraph 30(1), the definitions of consolidated group accounts, group of companies and member in relation to a group of companies.
Finance Act 2002 (c. 23)	Section 103(2). In Schedule 25, paragraph 12(2). In Schedule 29— (a) paragraph 6(2); (b) in paragraph 15(4), in the definitions of Previous Debits and Previous Credits the words from under to accounting policy); (c) paragraph 20(1)(a), (b) and (c); (d) in paragraph 27(1), in the definitions of Debits and Credits the words from under to accounting policy); (e) in paragraph 134(1), the words following paragraph (b).

1 The repeals in sections 50, 51, 52 and 54 of FA 2004 have effect in accordance with paragraph 50 of Schedule 4 to this Act.

2 The other repeals have effect in accordance with section 80(4) of this Act.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

Finance Act 2004 (c. 12)	In sections 50(6), 51(6), 52(3) and 54(2), paragraph (b) and the word and preceding it. In Schedule 10— (a) paragraph 12; (b) paragraph 72; (c) paragraph 73(3); (d) paragraphs 74 to 76.
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- 1 The repeals in sections 50, 51, 52 and 54 of FA 2004 have effect in accordance with paragraph 50 of Schedule 4 to this Act.
 - 2 The other repeals have effect in accordance with section 80(4) of this Act.
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(8) DOUBLE TAXATION RELIEF: LIMITS ON CREDIT

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	Subsections (4) to (9) of section 803.

This repeal has effect in accordance with the provisions of section 86 of this Act.

(9) TAX AVOIDANCE INVOLVING ANNUAL PAYMENTS AND DOUBLE TAXATION RELIEF

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	Section 801(4A) to (4D).
Finance Act 2001 (c. 9)	In Schedule 27, paragraph 3.

These repeals have effect in accordance with section 91(8) of this Act.

(10) TONNAGE TAX

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 2000 (c. 17)	In Schedule 22, paragraph 105.

This repeal has effect in accordance with paragraph 18(1) of Schedule 7 to this Act.

PART 3

STAMP TAXES

(1) STAMP DUTY LAND TAX: ALTERNATIVE PROPERTY FINANCE

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 2003 (c. 14)	In section 72, in subsection (1)(c) the words “or its successor in title”, and subsection (8).

These repeals have effect in accordance with paragraph 7(1) of Schedule 8 to this Act.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

(2) STAMP DUTY LAND TAX: DISADVANTAGED AREAS RELIEF

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 2003 (c. 14)	In Schedule 6— (a) paragraph 4; (b) in the second sentence of paragraph 6(1), the words “land that is non-residential property or”; (c) paragraphs 6(2) and 6(3); (d) paragraph 8; (e) in the second sentence of paragraph 10(1), the words “land that is non-residential property or”; (f) paragraphs 10(2) and 10(3).

These repeals have effect in accordance with paragraph 7(1) of Schedule 8 to this Act.

PART 4

PENSIONS ETC

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income and Corporation Taxes Act 1988 (c. 1)	In sections 348(1A) and 349(1A)— (a) paragraph (b), and (b) in paragraph (c), “, 610”.
Finance Act 2004 (c. 12)	In section 215— (a) in subsection (9), paragraph (b) and the word “and” before it, and (b) subsection (10). In Schedule 28— (a) in paragraph 2, sub-paragraph (1) and, in sub-paragraph (4), the word “or” at the end of paragraph (b), (b) paragraph 3(3) to (6), (c) paragraph 6(2), (d) in paragraph 16, sub-paragraph (1), in sub-paragraph (2), paragraph (b) and the word “and” before it, and sub-paragraphs (3) to (6), and (e) paragraph 20(2). In Schedule 32, in paragraph 9(2), the words “which will be payable”. In Schedule 36— (a) in paragraph 9(2), the words “the lower of”, (b) in paragraph 19(5), the words “and the pension scheme”.

1 The repeals in ICTA and of paragraphs 43 and 46 of Schedule 36 to FA 2004 come into force on 6th April 2007.

2 The remaining repeals come into force on 6th April 2006.

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

Changes to legislation: There are currently no known outstanding effects for the Finance Act 2005. (See end of Document for details)

- (c) in paragraph 26(2), the words “the lower of”, and
- (d) paragraphs 43 and 46.

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- 1 The repeals in ICTA and of paragraphs 43 and 46 of Schedule 36 to FA 2004 come into force on 6th April 2007.
 - 2 The remaining repeals come into force on 6th April 2006.
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Status:

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

Changes to legislation:

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