



Finance Act 1968

1968 CHAPTER 44

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

11 Charge of income tax for 1968-69

Income tax for the year 1968-69 shall be charged at the standard rate of 8s. 3d. in the pound, and in the case of an individual whose total income exceeds £2,000 at such higher rates in respect of the excess as Parliament may hereafter determine.

12 Surtax rates for 1967-68

Income tax for the year 1967-68 shall be charged, in the case of an individual whose total income exceeded £2,000, at the same higher rates in respect of the excess as were charged for the year 1966-67.

13 Charge of corporation tax for financial year 1967

Corporation tax shall be charged for the financial year 1967 at the rate of 42J per cent.

14 Alterations in personal reliefs

- (1) For the year 1968-69 and subsequent years of assessment, section 13 of the Finance Act 1957 (relief for persons over 65 with small incomes), as amended by section 16(1) of the Finance Act 1967, shall be amended by substituting—
 - (a) for the references to £401 and £643 (the income limits for exemption from tax), references to £415 and £665, and
 - (b) for the reference to £180 (the excess over those limits beyond which relief by reduction of tax is excluded), a reference to £230.
- (2) Section 210(1) of the Income Tax Act 1952 (married and single relief) shall for the year 1968-69 and subsequent years of assessment have effect in relation to any claim made by a man who becomes married in the year for which the claim is made, and has

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not previously in that year been entitled to the higher relief specified in paragraph (a) thereof (married relief), as if the sum specified for that year in that paragraph were reduced, for each month of that year ending before the date of the marriage, by one-twelfth of the amount by which it exceeds the sum specified in paragraph (b) (single relief).

In this subsection " month " means a month beginning with the 6th day of a month of the calendar year.

- (3) A man who becomes married during a year of assessment may by notice in writing to the inspector elect that his marriage be disregarded for the purposes of any claim for that year under section 214 or 215 of the Income Tax Act 1952 or section 17 of the Finance Act 1960 (housekeeper etc. relief), and, in that case, the marriage shall also be disregarded for the purposes of any claim for that year under section 210 of the said Act of 1952 (married and single relief).
- (4) Where for the year 1968-69 an individual is assessable to income tax in respect of payments on account of an allowance or allowances under the Family Allowances Act 1965 or the Family Allowances Act (Northern Ireland) 1966, the total deductions from tax to which, apart from this section, the individual (or, if the individual is a wife assessable in respect of the payments by virtue of an application for separate assessment under section 355 of the Income Tax Act 1952, she and her husband together) would be entitled for the year under sections 210 and 212 to 219 of the said Act of 1952 (certain personal reliefs) shall be reduced, for each allowance if more than one, by an amount equal to tax at the standard rate on £36 or, if the payments in question are payments for a part only of the year, by the following amount or amounts—
 - (a) so far as the payments consist of or include payments for, or for a period falling within, the first half of the year, by an amount, or a proportionate part of an amount, equal to tax at the standard rate on £15, and
 - (b) so far as the payments consist of or include payments for, or for a period falling within, the second half of the year, by an amount, or a proportionate part of an amount, equal to tax at the standard rate on £21.
- (5) The allowances referred to in subsection (4) above shall be treated as including any allowance payable to an individual in the service of the Crown in lieu of an allowance under either of the enactments there specified.
- (6) The said subsection (4) shall not apply in the case of any payments if the individual assessable in respect thereof is entitled in the year—
 - (a) to a widow's allowance, widowed mother's allowance, retirement pension or child's special allowance under the National Insurance Act 1965 or the National Insurance Act (Northern Ireland) 1966, or
 - (b) to an allowance under section 21 of the National Insurance (Industrial Injuries) Act 1965 or section 21 of the National Insurance (Industrial Injuries) Act (Northern Ireland) 1966 (allowances in respect of children of deceased), or
 - (c) to an allowance granted by the Minister of Social Security under a Royal Warrant, Order in Council or order administered by him to widows of members of the armed forces.
- (7) The said subsection (4) shall not affect the construction of any reference in the Income Tax Acts to the deduction allowable under any particular provision of those referred to in that subsection.

- (8) The preceding provisions of this section shall not be deemed to have required any change to be made in the amounts deducted or repaid under section 157 of the Income Tax Act 1952 (pay as you earn) before 27th April 1968.

15 Aggregation with income of parents of investment, etc income of unmarried infants not regularly working

- (1) Subject to the following provisions of this section, an infant's income, so far as it is income for a year of assessment or part of a year of assessment during which he or she is unmarried and not regularly working, shall in the circumstances specified in Schedule 8 to this Act be treated in accordance with that Schedule as income of his or her parent or parents, and the supplemental provisions contained in that Schedule shall also have effect.
- (2) Subsection (1) above does not apply to—
- (a) earned income, or
 - (b) income derived from any sum, or from assets representing any sum, paid by way of, or in satisfaction of a claim for, damages in respect of personal injury to the infant (including any disease, and any impairment of his or her physical or mental condition),

but, subject to those exclusions and to subsection (3) below, the said subsection applies to all such amounts as would fall to be included in computing the infant's total income apart therefrom, and so applies notwithstanding anything in any other enactment (including, except so far as the contrary is expressly provided, any enactment passed after this Act) requiring any amount not to be treated as income of anyone other than the infant.

- (3) Section 397(3) of the Income Tax Act 1952 (settlements on children: income not exceeding £5 not to be treated as income of settlor by virtue of section 397(1) of that Act) shall cease to have effect, but neither the said section 397(1) nor subsection (1) above shall have effect in relation to an infant for any year of assessment for which his aggregate income, so far as it would fall within one or other of those provisions but for this exception, does not exceed £5.
- (4) An infant is to be treated for the purposes of this section as working regularly if, and only if, he or she is engaged in a full-time occupation, not being one entered into during an interval not exceeding fifteen months between two periods of full-time education, and intends to be regularly engaged in it or another such occupation.

In this subsection " occupation" means any office, employment, trade, profession or vocation.

- (5) Income falling by virtue of this section and the said Schedule 8 to be treated as income of an infant's parent shall not be taken into account for the purposes of section 212(4) of the Income Tax Act 1952 (reduction in child relief where child entitled in own right to income exceeding £115 per year).
- (6) Section 21 of the Finance Act 1965 (calculation of capital gains tax by reference to liability to income tax) shall have effect as if this section, except so far as it affects the operation of section 397(1) of the Income Tax Act 1952, had not been enacted.
- (7) Any tax falling to be assessed in respect of income which is to be treated by virtue of this section and the said Schedule 8 as income of an infant's parent shall, instead of being assessed on the infant, or on the infant's trustee, guardian, curator or committee,

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or on the infant's executors or administrators, be assessable on the parent, or, in the appropriate cases, on the parent's trustee, guardian, curator or committee, or on the parent's executors or administrators.

(8) This section shall have effect for the year 1969-70 and subsequent years of assessment.

16 Life policies, life annuity contracts and capital redemption policies

(1) Subject to the provisions of this section—

- (a) relief from tax under section 219 of the Income Tax Act 1952 shall be granted in respect of the premiums payable under a policy of life insurance only if the policy is a qualifying policy within the meaning of Part I of Schedule 9 to this Act;
- (b) Part II of that Schedule shall have effect for the purpose of imposing, in the manner and to the extent therein provided, charges to surtax and to tax under section 77 of the Finance Act 1965 (shortfall in distributions of close company) in respect of gains to be treated in accordance with that Part as arising in connection with policies of life insurance, contracts for life annuities, and capital redemption policies ; and
- (c) section 241 of the said Act of 1952 (no surtax deduction for interest etc. on loans used to pay premiums) shall be amended as follows—
 - (i) subsection (3)(d) of that section (exemption where annual premiums do not exceed one-eighth of capital sum payable on death) shall not apply to any interest or other sum unless it is shown to the satisfaction of the Board that it is exceptional for the individual in question to apply borrowed money to or towards the payment of premiums to which that provision applies, and that no such money has been so applied by him in any of the three years of assessment immediately preceding that in which he so applies the money on or in respect of which the interest or other sum in question is payable, and
 - (ii) subsection (3)(e) of that section (exemption for interest etc. not exceeding £100 in the case of other premiums each of which is one of a series of equal premiums payable at equal intervals of not more than one year) shall have effect without the exclusion of premiums falling within the said subsection (3)(d), and, in the case of premiums payable under a qualifying policy within the meaning of Part I of the said Schedule 9, with the omission of the words from " each of which " to " one year ".

(2) The supplementary provisions contained in Part III of the said Schedule 9 shall also have effect.

(3) Nothing in this section or the said Schedule 9 shall apply—

- (a) to any policy of life insurance having as its sole object the provision on an individual's death or disability of a sum substantially the same as any amount then outstanding under a mortgage of his residence, or of any premises occupied by him for the purposes of a business, being a mortgage the principal amount secured by which is repayable by instalments payable annually or at shorter regular intervals, or
- (b) to any policy of life insurance issued in connection with a sponsored superannuation scheme as defined in section 22(10) of the Finance Act 1956,

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if one-half at least of the cost of the scheme is borne by the person or persons under whom the relevant offices or employments are held.

In the application of this subsection to Scotland, for the reference to a mortgage there shall be substituted a reference to a heritable security within the meaning of the Conveyancing (Scotland) Act 1924 (but including a security constituted by ex facie absolute disposition or assignment).

- (4) In this section and the said Schedule 9 "life annuity" means any annuity to which section 27 of the Finance Act 1956 applies, and " capital redemption policy " means any insurance effected in the course of a capital redemption business as defined in section 431(3) of the Income Tax Act 1952.
- (5) Paragraphs (a) and (c) of subsection (1) above shall have effect for the year 1967-68 and subsequent years of assessment, but, in the case of paragraph (a), only as respects policies of life insurance issued in respect of insurances made after 19th March 1968, and, in the case of paragraph (c), only as respects interest on, and other sums payable in respect of, money borrowed after that date ; and paragraph (b) of that subsection shall have effect for the year 1968-69 and subsequent years of assessment, but only as respects policies of life insurance issued as aforesaid, contracts for life annuities entered into after the said 19th March, and capital redemption policies effected after that date.
- (6) A policy of life insurance issued in respect of an insurance made on or before 19th March 1968 shall be treated for the purposes of subsection (5) above and the said Schedule 9 as issued in respect of one made after that date if it is varied after that date so as to increase the benefits secured or to extend the term of the insurance:

Provided that a variation effected before the end of the year 1968 shall be disregarded for the purposes of this subsection if its only effect is to bring into conformity with paragraph 2 of that Schedule (qualifying conditions for endowment policies) a policy previously conforming therewith except as respects the amount guaranteed on death, and no increase is made in the premiums payable under the policy.

17 Small maintenance payments

- (1) In section 205(1)(i) of the Income Tax Act 1952 (definition of small maintenance payments) for the words from ' to be made weekly' to ' subsection (3) of this section' there shall be substituted the words ' to be made—
 - (A) weekly at a rate not exceeding £7 10s. 0d. per week, or
 - (B) monthly at a rate not exceeding £32 10s. 0d. per month'.
- (2) Subsection (1) above shall not affect payments falling due before 6th April 1969 under an order made before the coming into force of this section:

Provided that where an order so made is varied or revived at any time after the coming into force of this section, subsection (1) above shall apply in relation to payments falling due under the order after that time.

- (3) Where a court makes an order in consequence of which payments falling due under a previous order which is not already a small maintenance order within the meaning of the said section 205 will be treated as small maintenance payments within the meaning of that section by virtue of the proviso to subsection (2) above, the court shall furnish to the Board, in such form as the Board may prescribe, particulars of those orders, the

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names of the persons for the time being liable to make, and entitled to, those payments and, so far as known to the court, the addresses of those persons.

- (4) The Treasury may from time to time by order increase the amount of £7 10s. 0d. and the amount of £32 10s. 0d. in the said section 205(1)(i) either as respects payments within paragraph (a) of the said subsection (1) (payments to a person who is or has been a party to a marriage), or as respects payments within paragraph (b) of that subsection (payments for children), or as respects both.
- (5) An order which increases, or further increases, the said amount of £7 10s. 0d. for a class of payments shall increase, or further increase, the amount of £32 10s. 0d. for that class of payments so that it is 52 twelfths of the weekly amount or, if that does not give a convenient round sum, such other amount as appears to the Treasury to be the nearest convenient round sum.
- (6) An order under subsection (4) above may contain provisions corresponding to subsections (2) and (3) above so as to postpone the effect of the order under this section in relation to payments under court orders made before the coming into force, for other purposes, of the order under this section.
- (7) An order under subsection (4) above shall be made by statutory instrument subject to annulment in pursuance of a resolution of the Commons House of Parliament.
- (8) Section 205(3) of the Income Tax Act 1952 and section 40(1)(c) of the Finance Act 1960 (which are superseded by this section) shall cease to have effect, so however that the repeal thereof shall not affect payments in relation to which subsection (1) of this section is excluded by subsection (2) of this section.
- (9) This section shall come into force on the passing of this Act.

18 Cash basis, etc.: post-cessation and other receipts;

- (1) Where any trade, profession or vocation the profits or gains of which are chargeable to tax under Case I or Case II of Schedule D has been permanently discontinued, and the profits or gains for any period before the discontinuance were computed on a conventional basis (that is to say, were computed otherwise than by reference to earnings), tax shall be charged under Case VI of Schedule D in respect of sums to which this subsection applies which are received on or after the discontinuance.

This subsection applies to all sums arising from the carrying on of the trade, profession or vocation during any period before the discontinuance (not being sums otherwise chargeable to tax) in so far as their amount or value was not brought into account in computing the profits or gains for any period before the discontinuance.

- (2) Where, in the case of any trade, profession or vocation the profits or gains of which are chargeable to tax under Case I or Case II of Schedule D there has been—
 - (a) a change from a conventional basis to the earnings basis, or
 - (b) a change of conventional basis which may result in receipts dropping out of computation,

tax shall be charged under Case VI of Schedule D in respect of sums to which this subsection applies which are received after the change, and before the trade, profession or vocation is permanently discontinued.

This subsection applies to all sums arising from the carrying on of the trade, profession or vocation during any period before the change (not being sums otherwise chargeable

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- to tax) in so far as their amount or value was not brought into account in computing the profits or gains for any period.
- (3) Schedule 10 to this Act shall have effect for supplementing and giving effect to this and the next following section, and in that Schedule " the principal section " means this section.
- (4) Subsection (1) above shall not apply to sums to which section 32 of the Finance Act 1960 (post-cessation receipts) applies despite the words " (not being sums otherwise chargeable to tax)" in subsection (2) of the said section 32, and shall not apply to sums to which the said section 32 would have applied but for paragraphs (a) and (b) of subsection (3) of that section (non-residents and copyright).
- (5) For the purposes of this and the next following section and the said Schedule—
- (a) " by reference to earnings" shall be construed in accordance with section 32(5) of the Finance Act 1960, and " earnings basis " shall be construed accordingly,
 - (b) " conventional basis" has the meaning given by subsection (1) above, so that profits or gains are computed on a conventional basis if computed otherwise than by reference to earnings,
 - (c) there is a change from a conventional basis to the earnings basis at the end of a period the profits or gains of which were computed on a conventional basis if the profits or gains of the next succeeding period are computed by reference to earnings,
 - (d) if the profits or gains of two successive periods are computed on different conventional bases, a change of conventional basis occurs at the end of the earlier period.
- (6) For the said purposes any reference to the permanent discontinuance of a trade, profession or vocation includes a reference to the occurring of any event which, under any of the provisions in the Income Tax Acts or the Corporation Tax Acts, is to be treated as equivalent to the permanent discontinuance of a trade, profession or vocation; and the trade, profession or Vocation carried on before a permanent discontinuance shall not be treated for those purposes as the same as any carried on after the discontinuance.
- (7) Subsection (1) above shall not apply where the permanent discontinuance fell before 19th March 1968, but, subject to that, has effect as respects sums received at any time on or after that date, whether before or after the passing of this Act, and as respects income tax or corporation tax for years of assessment from the year 1967-68 onwards or any accounting period ending on or after 19th March 1968.
- (8) Subsection (2) above shall not apply where the change took place before 19th March 1968 and before that date—
- (a) the decision had been taken to prepare accounts reflecting the change, or
 - (b) the trade, profession or vocation had been permanently discontinued,
- but, subject to that, has effect as respects sums received at any time before or after that date, and as respects income tax or corporation tax for any past or future year of assessment or accounting period.

19 Cash basis, etc.: relief for individuals

- (1) If an individual born before 6th April 1917, or the personal representative of such an individual, is chargeable to tax under the last preceding section and—

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- (a) the individual was engaged in carrying on the trade, profession or vocation on 18th March 1968, and
 - (b) the profits or gains of the trade, profession or vocation were not computed by reference to earnings in the period in which the said 18th March fell, or in any subsequent period ending before or with the relevant date,
- the net amount with which he is so chargeable to tax shall be reduced by multiplying that net amount by the fraction given below.
- (2) Where subsection (2) of the last preceding section applies in relation to a change of basis taking place on a date before 19th March 1968, then in relation to tax chargeable by reference to that change of basis, that earlier date shall be substituted for the date in paragraph (a) above, and paragraph (b) above shall be omitted.
 - (3) The said fraction is—
 - (a) where on 5th April 1968 the individual had not attained the age of fifty-two, nineteen-twentieths,
 - (b) where on that date he had attained the age of fifty-two, but had not attained the age of fifty-three, eighteen-twentieths, and so on reducing the fraction by one-twentieth for each year he had attained, up to the age of sixty-four,
 - (c) where on that date he had attained the age of sixty-five or any greater age, five-twentieths.
 - (4) In this section—
 - " the net amount " with which a person is chargeable to tax under the last preceding section means the amount with which he is so chargeable after making any deduction authorised by Schedule 10 to this Act, but before giving any relief under this section,
 - " relevant date "—
 - (a) in relation to tax under subsection (1) of the last preceding section, means the date of the permanent discontinuance,
 - (b) in relation to tax under subsection (2) of that section, means the date of the change in basis.

20 Partnerships of companies and individuals

- (1) Where one or more of the persons engaged throughout all or any part of a year of assessment in carrying on a trade to which section 73 of the Finance Act 1965 (company partnerships) applies is an individual, this section shall have effect as respects income tax which, in accordance with subsections (3) and (4) of that section, is chargeable for that year.
- (2) Notwithstanding any difference between the partners' interests during the basis period and their interests during the year of assessment, the amount of the individual's income from the partnership for the year of assessment, or the total of the amounts of the individuals' incomes from the partnership for that year, shall be deemed to be not less than the profits of the basis period reduced, where any share was apportioned to a company under subsection (2) of the said section 73, by the amount of that company's share.
- (3) Where there are two or more individuals, and, but for subsection (2) above, the total of the amounts of the individuals' incomes from the partnership for the year would fall short of the profits of the basis period reduced as aforesaid, that amount shall be apportioned—

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- (a) according to the individuals' interests during the year of assessment, disregarding any company's interest, and
 - (b) in so far as that does not determine or fully determine the apportionment, between the individuals in equal shares.
- (4) In this section—
- (a) " basis period ", in relation to a year of assessment, means any accounting period or part of an accounting period which is, or forms part of, the period on the profits or gains of which income tax for the year of assessment in question falls to be computed under Schedule D in respect of the trade, and
 - (b) references to an individual's income from the partnership are references to that income before deduction of capital allowances or charges on income.
- (5) It is hereby declared that in the said section 73 " profits " does not include chargeable gains.
- (6) This section shall be construed as one with the said section 73.

21 Tax consequences of dealings in know-how

- (1) Subject to subsections (3) and (6) below, where after 19th March 1968 a person—
- (a) acquires know-how for use in a trade carried on by him, or
 - (b) acquires know-how, and thereafter sets up and commences a trade in which it is used,
- writing-down allowances in respect of his expenditure on the acquisition, so far as not otherwise deducted for the purposes of corporation tax or income tax, shall be made in taxing the trade during a writing-down period of six years beginning with the chargeable period related to the expenditure; and if during that period he ceases to carry on the trade, an allowance equal to the amount of that expenditure then unallowed shall be made in taxing the trade for the chargeable period related to the discontinuance.
- For the purposes of this subsection, a person incurring expenditure on know-how before the setting up and commencement of the trade in which it is used shall be treated as incurring it on that setting up and commencement.
- (2) Subject to the said subsection (6), where after 19th March 1968 a person disposes of know-how which has been used in a trade carried on by him, and continues to carry on the trade after the disposal, the amount or value of any consideration received by him for the disposal shall, so far as it is not chargeable to tax as a revenue or income receipt, be treated for all purposes as a trading receipt.
- (3) Where after the said 19th March a person disposes of a trade or part of a trade and, together therewith, of know-how used therein, any consideration received by him for the know-how shall be dealt with, in relation both to him and to the person acquiring the know-how, if that person provided the consideration, and for the purposes of corporation tax, income tax and the capital gains tax, as a payment for goodwill :

Provided that this subsection shall not apply—

- (a) to either of the persons concerned if they so elect by notice in writing given jointly to the inspector within two years of the disposal, or
- (b) to the person acquiring the know-how if the trade in question was, before the acquisition, carried on wholly outside the United Kingdom ;

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and where know-how is disposed of with a trade or part of a trade, but this subsection is excluded in relation to the person acquiring it, subsection (1) above shall apply as if that person had acquired it for use in a trade previously carried on by him.

- (4) Subject to subsection (6) below, any consideration received by a person for the disposal of know-how shall, if it is neither chargeable to tax under subsection (2) above, or otherwise as a revenue or income receipt, nor dealt with in relation to him as a payment for goodwill as mentioned in subsection (3) above, be treated as a profit or gain chargeable to tax under Case VI of Schedule D:

Provided that, where the person concerned has incurred expenditure wholly and exclusively in the acquisition or disposal of the know-how, the amount which would apart from this proviso be treated as a profit or gain so chargeable shall be reduced by the amount of that expenditure; but a deduction shall not be twice made in respect of the same expenditure, whether under this proviso or otherwise.

- (5) Where subsection (4) above has effect in the case of an individual who devised the know-how in question, whether alone or jointly with any other person, the amount in respect of which he is chargeable to tax by virtue of that subsection shall be treated for all purposes as earned income.
- (6) The preceding provisions of this section, except subsection (3), shall not apply on any sale of know-how where the buyer is a body of persons over whom the seller has control, or the seller is a body of persons over whom the buyer has control, or both the seller and the buyer are bodies of persons and some other person has control over both of them; and the said subsection (3) shall apply on any such sale with the omission of the proviso.

In this subsection, references to a body of persons include references to a partnership.

- (7) In this section " know-how " means any industrial information and techniques likely to assist in the manufacture or processing of goods or materials, or in the working of a mine, oil-well or other source of mineral deposits (including the searching for, discovery, or testing of deposits or the winning of access thereto), or in the carrying out of any agricultural, forestry or fishing operations.
- (8) Where, in connection with any disposal of know-how, a person gives an undertaking (whether absolute or qualified, and whether legally valid or not) the tenor or effect of which is to restrict his or another's activities in any way, any consideration received in respect of the giving of the undertaking or its total or partial fulfilment shall be treated for the purposes of this section as consideration received for the disposal of the know-how.
- (9) Part I of the Capital Allowances Act 1968 shall have effect, and this section shall be construed, as if this section were contained in that Part, with references in that Part to property and its purchase or sale including references to know-how and its acquisition or disposal, with subsection (2) of section 75 (effect of providing for writing-down allowances during a writing-down period of a specified length) applying thereto as it applies to the provisions specified in subsection (1) of that section, and with the omission of section 78 (special provisions as to controlled sales).

22 Interest payable abroad

- (1) Subject to subsection (2) below, in section 52(5) of the Finance Act 1965 (conditions in which payments of interest to non-residents are charges on income for corporation

tax) paragraph (b) (under which the liability must have been incurred wholly or mainly for the purposes of activities of the trade carried on outside the United Kingdom) shall apply to interest which is payable in the currency of a territory outside the scheduled territories as if in that paragraph the words " carried on outside the United Kingdom " were omitted.

- (2) Subsection (1) above shall not apply where—
- (a) the trade is carried on by a body of persons over whom the person entitled to the interest has control, or
 - (b) the person entitled to the interest is a body of persons over whom the person carrying on the trade has control, or
 - (c) the person carrying on the trade and the person entitled to the interest are both bodies of persons, and some other person has control over both of them.

In this subsection the references to a body of persons include references to a partnership, and " control" has the meaning assigned to it by section 87(1) of the Capital Allowances Act 1968.

- (3) In section 138(1) of the Income Tax Act 1952 (income tax provisions comparable to the said section 52(5)(b)) for paragraph (b) (payment of interest to be secured on trading assets abroad) there shall be substituted the following paragraph—

- “(b) that either—
- (i) the liability to pay the interest was incurred wholly or mainly for the purposes of activities of the trade carried on outside the United Kingdom, or
 - (ii) the interest is payable in the currency of a territory outside the scheduled territories, and”.

- (4) In this section (including the amendments made by this section) " the scheduled territories " means the territories specified in Schedule 1 to the Exchange Control Act 1947 as for the time being in force.
- (5) This section shall apply for income tax purposes for the year 1968-69 and subsequent years of assessment, and for corporation tax purposes to accounting periods ending on or after 6th April 1968.

23 Stock dividend options

- (1) Any share capital, other than redeemable share capital, issued by a company (whether before or after the passing of this Act) in consequence of the exercise by any person of an option conferred on him on or after 19th March 1968 to receive in respect of shares in the company either a dividend in cash or additional share capital shall be treated for the purposes of the Corporation Tax Acts as a distribution by the company, and the income tax chargeable in respect of it by virtue of section 47 of the Finance Act 1965 shall be tax on the sum on which tax would have been chargeable by virtue of that section if the person in question had accepted the cash dividend instead.
- (2) For the purposes of paragraphs 1(3) and 2(1) of Schedule 11 to the Finance Act 1965 (matters to be treated as distributions), share capital issued as mentioned in subsection (1) above shall not be treated as issued as paid up otherwise than by the receipt of new consideration.
- (3) In applying—

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- (a) paragraph 4(3) of Schedule 7 to the Finance Act 1965 (chargeable gains: reorganisation of share capital), and
- (b) paragraph 10(3) of Schedule 9 to the Finance Act 1962 (corresponding provision for tax on short-term gains),

in relation to the issue of the share capital to which subsection (1) above applies, as involving a reorganisation of the company's share capital, there shall be allowed, as consideration given for the new holding which includes that share capital, the sum referred to in subsection (1) above less income tax at the standard rate; and this subsection shall have effect notwithstanding the proviso to the said paragraph 4(3) and the proviso to the said paragraph 10(3).

- (4) For the purposes of subsection (1) above, an option to receive either a dividend in cash or additional share capital is conferred on a person not only where he is required to choose one or the other, but also where he is offered the one subject to a right, however expressed, to choose the other instead, and a person's abandonment of, or failure to exercise, such a right is to be treated for those purposes as an exercise of the option.
- (5) Part I of Schedule 11 to the said Act of 1965 shall have effect as if this section were contained in that Part.

24 Shortfall in distributions of close company: amendment as respects time limit for dividends

- (1) Paragraph 9(1)(a) of Schedule 18 to the Finance Act 1965 (under which, in determining for any accounting period whether there has been a shortfall in the distributions of a close company, dividends may be treated as distributions for that period only if they are paid for the period and during or within twelve months after it) shall be amended so as to read—

“(a) any dividends which are declared in respect of the period, and are paid during the period or within eighteen months after it; and”.

- (2) The preceding subsection shall not have effect as respects any accounting period ending before 20th March 1967.

25 Dividends paid out of pre-1966-67 profits

- (1) This section has effect as respects the calculation of the three year surplus under section 85 of the Finance Act 1965.
- (2) If the company's dividends paid in the years 1966-67, 1967-68 and 1968-69 are related to periods of accounts exceeding three years in total, the amount at which those dividends are brought into the calculation shall not exceed the amount of the company's dividends which are related to the first three years of that total period, and which were paid in the years 1966-67, 1967-68 and 1968-69, or earlier:

Provided that if any of the dividends paid in 1966-67, 1967-68 and 1968-69 are related to any period of account ending before 6th April 1965, this subsection shall apply with the substitution, for the first three years of that total period, of a period of three years beginning with the period of account in which that date falls.

- (3) This section shall not apply to a company if before 21st June 1968 a resolution was passed or an order was made for the winding-up of the company, or any other act was done for a like purpose in the case of a winding-up otherwise than under the Companies Act 1948, and, subject to that, subsection (2) above shall apply where,

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under subsection (7) of the said section 85, the three year surplus is to be computed by reference to the period ending with the last accounting period of a company which is wound up, as if for references to three years there were substituted references to a period equal in length to the period beginning with the financial year 1966 and ending with its last accounting period.

- (4) Any adjustment under the preceding provisions of this section in the amount at which the dividends are brought into the calculation shall be made before taking account, under subsection (6)(a) of the said section 85, of any amount treated under section 83 of the Act as a dividend paid in the year 1966-67, and before applying Part I of Schedule 7 to the Finance Act 1966 (groups of companies) so, however, that—
- (a) this section shall not affect the proportion applicable under paragraph 1 of the said Schedule 7 in reducing a three year surplus as so adjusted,
 - (b) in paragraph 2 (increase of three year surplus of principal company where three year surplus of a subsidiary is reduced) sub-paragraph (2) (which refers to the reductions under paragraph 1) shall have effect as if the preceding provisions of this section had not been enacted,
 - (c) in applying sub-paragraph (3) of the said paragraph 2 (which attributes to the principal company its share of the excess of dividends over distributable profits of subsidiaries) the principal company's dividends shall be brought in at the adjusted amount, but a subsidiary's dividends shall be brought in at the unadjusted amount.
- (5) For the purposes of this section—
- (a) " dividend " does not include a capital dividend,
 - (b) a dividend is related to the period of account for which it is expressed to be payable and, if not expressed to be payable for any period of account, is related to the period of account in which it is paid,
 - (c) where under this section it is necessary to ascertain the dividends related to a period of three years which includes part only of a period of account, the two parts of that period of account shall be treated as separate periods of account, and the amount of the dividends related to the entire period of account shall be apportioned to the respective parts on a time basis according to the respective lengths of the parts,

and in the provisions about paragraph 2 of Schedule 7 to the Finance Act 1966 " the principal company " means the company whose three year surplus is being computed and "subsidiary" means any other member of the group mentioned in that paragraph.

26 Dividends paid out of pre-1966-67 profits: groups of companies

- (1) In applying paragraph 2(3)(a) of Schedule 7 to the Finance Act 1966 (which attributes to the principal company its share of the excess of dividends over distributable profits of subsidiaries) where any subsidiary is itself a company having a notional surplus which is a three year surplus which falls to be increased under the said paragraph 2, that subsidiary's excess of dividends over distributable profits shall be the amount produced by the said paragraph 2 (3) (a) in calculating that increase, so that there is attributed to the principal company the appropriate share of the excess of dividends over distributable profits not only of the subsidiary, but also of some one or more other members of the group paying dividends to the subsidiary.

This subsection applies even if the subsidiary's three year surplus as so increased is then reduced or extinguished under paragraph 1 of the said Schedule 7.

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- (2) In this section " the principal company " means the company whose three year surplus is being computed under the said paragraph 2 and " subsidiary " means any other member of the group mentioned in that paragraph.

27 Dividend stripping: time of acquisition of holding

- (1) ' In sub-paragraph (3) of paragraph 4 of Schedule 17 to the Finance Act 1965 the words " company and that other company " shall be substituted for the words " three companies " in both places where they occur.
- (2) This section applies to a distribution made after 10th April 1968.

28 Prevention of double relief in respect of general annuities paid by non-resident assurance companies

- (1) A company which is not resident in the United Kingdom but carries on through a branch or agency there any general annuity business within the meaning of section 24 of the Finance Act 1956 shall not be entitled to treat any part of the annuities paid by it which are referable to that business (annuities, that is to say, which either are deductible in computing the profits of that business for corporation tax purposes or constitute for those purposes charges on income) as paid out of profits or gains brought into charge to income tax.

In this subsection " branch or agency " has the meaning given by section 89(2)(b) of the Finance Act 1965.

- (2) Subsection (1) above shall have effect as respects annuities deductible in computing profits or, as the case may be, constituting charges on income for corporation tax accounting periods ending before or with, as well as after, the passing of this Act.

29 Double taxation relief: credit for foreign tax

- (1) Paragraphs 2 and 3 of Schedule 16 to the Finance Act 1965 (computation of income subject to foreign tax, and allowance of credit up to marginal rate of United Kingdom income tax) shall have effect in place of paragraphs 5, 6 and 8 of Schedule 16 to the Income Tax Act 1952, and shall be construed and have effect as if contained in that Schedule.
- (2) Where credit for foreign tax falls to be allowed in respect of any income of a company, then in computing the amount of the income for the purposes of corporation tax paragraph 7 of Schedule 16 to the Income Tax Act 1952 shall not apply, but instead paragraph 2 of Schedule 16 to the Finance Act 1965 shall apply as it applies for the purposes of income tax.
- (3) This section has effect as respects relief from income tax or capital gains tax for the year 1968-69 and subsequent years of assessment, and as respects relief from corporation tax for the financial year 1968 and subsequent financial years.

30 Double taxation relief: group investment in overseas company

- (1) This section applies to any provision in arrangements having effect by virtue of section 347 of the Income Tax Act 1952 which—

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- (a) applies to any company which controls, directly or indirectly, not less than a stated fraction of the voting power of a company resident in a specified territory outside the United Kingdom, and
 - (b) in allowing credit against United Kingdom tax on dividends paid to any such company by the company so resident, authorises account to be taken of tax payable by the company so resident in respect of the profits out of which the dividends were paid.
- (2) Credit shall be allowed as if the provision treated the subsidiary of a company which owns, directly or indirectly, the stated fraction of the voting power of a company resident in the specified territory as if that subsidiary also owned that fraction of the voting power of the company so resident.
- (3) Credit shall not be allowable both by virtue of this section and under Schedule 17 to the Income Tax Act 1952 in the case of the same income.
- (4) For the purposes of this section a company is a subsidiary of another if the other company controls, directly or indirectly, not less than fifty per cent, of the voting power of the first company, and this section shall be construed as if it formed part of Schedule 16 to the Income Tax Act 1952.
- (5) This section has effect as respects dividends paid (in the sense of section 89(4) of the Finance Act 1965) on or after 1st April 1968.