



Finance Act 1996

1996 CHAPTER 8

PART IV

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER VI

MISCELLANEOUS PROVISIONS

Reliefs

143 Annual payments under certain insurance policies.

(1) After section 580 of the Taxes Act 1988 there shall be inserted the following sections—

“580A Relief from tax on annual payments under certain insurance policies.

- (1) This section applies (subject to subsection (7)(b) below) in the case of any such annual payment under an insurance policy as—
 - (a) apart from this section, would be brought into charge under Case III of Schedule D; or
 - (b) is equivalent to a description of payment brought into charge under Case III of that Schedule but (apart from this section) would be brought into charge under Case V of that Schedule.
- (2) Subject to the following provisions of this section, the annual payment shall be exempt from income tax if—
 - (a) it constitutes a benefit provided under so much of an insurance policy as provides insurance against a qualifying risk;
 - (b) the provisions of the policy by which insurance is provided against that risk are self-contained (within the meaning of section 580B);

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- (c) the only annual payments relating to that risk for which provision is made by that policy are payments in respect of a period throughout which the relevant conditions of payment are satisfied; and
 - (d) at all times while the policy has contained provisions relating to that risk, those provisions have been of a qualifying type.
- (3) For the purposes of this section and section 580B a qualifying risk is any risk falling within either of the following descriptions, that is to say—
- (a) a risk that the insured will (or will in any specified way) become subject to, or to any deterioration in a condition resulting from, any physical or mental illness, disability, infirmity or defect;
 - (b) a risk that circumstances will arise as a result of which the insured will cease to be employed or will cease to carry on any trade, profession or vocation carried on by him.
- (4) For the purposes of this section the relevant conditions of payment are satisfied in relation to payments under an insurance policy for so long as any of the following continues, that is to say—
- (a) an illness, disability, infirmity or defect which is insured against by the relevant part of the policy, and any related period of convalescence or rehabilitation;
 - (b) any period during which the insured is, in circumstances insured against by the relevant part of the policy, either unemployed or not carrying on a trade, profession or vocation;
 - (c) any period during which the income of the insured (apart from any benefits under the policy) is less, in circumstances so insured against, than it would have been if those circumstances had not arisen; or
 - (d) any period immediately following the end, as a result of the death of the insured, of any period falling within any of paragraphs (a) to (c) above;
- and in this subsection “the relevant part of the policy” means so much of it as relates to insurance against one or more risks mentioned in subsection (3) above.
- (5) For the purposes of subsection (2)(d) above provisions relating to a qualifying risk are of a qualifying type if they are of such a description that their inclusion in any policy of insurance containing provisions relating only to a comparable risk would (apart from any reinsurance) involve the possibility for the insurer that a significant loss might be sustained on the amounts payable by way of premiums in respect of the risk, taken together with any return on the investment of those amounts.
- (6) An annual payment shall not be exempt from income tax under this section if it is paid in accordance with a contract the whole or any part of any premiums under which have qualified for relief for the purposes of income tax by being deductible either—
- (a) in the computation of the insured’s income from any source; or
 - (b) from the insured’s income.
- (7) Where a person takes out any insurance policy wholly or partly for the benefit of another and that other person pays or contributes to the payment of the premiums under that policy, then to the extent only that the benefits under

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the policy are attributable, on a just and reasonable apportionment, to the payments or contributions made by that other person—

- (a) that other person shall be treated for the purposes of this section and section 580B as the insured in relation to that policy;
- (b) this section shall have effect in relation to those benefits, so far as comprised in payments to that other person or his spouse, as if the reference in subsection (1)(a) above to Case III of Schedule D included a reference to Schedule E; and
- (c) subsection (6) above shall have effect as if the references to the premiums under the policy were references only to the payments or contributions made by that other person in respect of the premiums.

(8) Where—

- (a) payments are made to or in respect of any person (“the beneficiary”) under any insurance policy (“the individual policy”),
- (b) the rights under the individual policy in accordance with which the payments are made superseded, with effect from the time when another policy (“the employer’s policy”) ceased to apply to that person, any rights conferred under that other policy,
- (c) the employer’s policy is or was a policy entered into wholly or partly for the benefit of persons holding office or employment under any person (“the employer”) against risks falling within subsection (3)(a) above,
- (d) the individual policy is one entered into in pursuance of, or in accordance with, any provisions contained in the employer’s policy, and
- (e) the beneficiary has ceased to hold office or employment under the employer as a consequence of the occurrence of anything insured against by so much of the employer’s policy as related to risks falling within subsection (3)(a) above,

this section shall have effect as if the employer’s policy and the individual policy were one policy.

(9) In the preceding provisions of this section references to the insured, in relation to any insurance policy, include references to—

- (a) the insured’s spouse; and
- (b) in the case of a policy entered into wholly or partly for purposes connected with the meeting of liabilities arising from an actual or proposed transaction identified in the policy, any person on whom any of those liabilities will fall jointly with the insured or his spouse.

(10) References in this section and section 580B to insurance against a risk include references to any insurance for the provision (otherwise than by way of indemnity) of any benefits against that risk, and references to what is insured against by a policy shall be construed accordingly.

580B Meaning of “self-contained” for the purposes of s.580A.

(1) For the purposes of section 580A the provisions of an insurance policy by which insurance is provided against a qualifying risk are self-contained unless subsection (2) or (3) below applies to the provisions of that policy so far as they relate to that risk; but, in determining whether either of those subsections

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so applies, regard shall be had to all the persons for whose benefit insurance is provided by that policy against that risk.

(2) This subsection applies to the provisions of an insurance policy so far as they relate to a qualifying risk if—

- (a) that insurance policy contains provision for the payment of benefits other than those relating to that risk;
- (b) the terms of the policy so far as they relate to that risk, or the manner in which effect is given to those terms, would have been significantly different if the only benefits under the policy had been those relating to that risk; and
- (c) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the policy is applied for reducing the amount of other benefits payable to or in respect of that person under the policy.

(3) This subsection applies to the provisions of an insurance policy (“the relevant policy”) so far as they relate to a qualifying risk if—

- (a) the insured under that policy is, or has been, the insured under one or more other policies;
- (b) that other policy, or each of those other policies, is in force or has been in force at a time when the relevant policy was in force or at the time immediately before the relevant policy was entered into;
- (c) the terms of the relevant policy so far as relating to that risk, or the manner in which effect is given to those terms, would have been significantly different if the other policy or policies had not been entered into; and
- (d) that difference is not one relating exclusively to the fact that the amount of benefits receivable by or in respect of any person under the other policy, or any of the other policies, is applied for reducing the amount of benefits payable to or in respect of that person under the relevant policy.

(4) In subsections (2)(b) and (3)(c) above the references to the terms of a policy so far as they relate to a risk include references to the terms fixing any amount payable by way of premium or otherwise in respect of insurance against that risk.”

(2) This section has effect for the year 1996-97 and subsequent years of assessment in relation to—

- (a) any payment which under the policy in question falls to be paid at any time on or after 6th April 1996; and
- (b) any payment not falling within paragraph (a) above in relation to which the conditions mentioned in subsection (3)(a) and (b) below are satisfied.

(3) This section shall also be deemed to have had effect for earlier years of assessment in relation to any payment in relation to which the following conditions are satisfied, that is to say—

- (a) the payment was made under a policy in relation to which the requirements of subsection (4) below were fulfilled; and
- (b) the policy in question provided for the right to annual payments under the policy to cease when all the liabilities in question were discharged.

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- (4) The requirements of this subsection are fulfilled in relation to any policy if—
- (a) the only or main purpose of the insurance under the policy was to secure that the insured would be able to meet (in whole or in part) liabilities that would or might arise from any transaction;
 - (b) the policy expressly identified the transaction or, as the case may be, all the transactions (whether actual or proposed) by reference to which the insurance was taken out; and
 - (c) none of the transactions which would or might give rise to the liabilities mentioned in paragraph (a) above could be one entered into after any of the circumstances insured against arose.
- (5) In subsection (4) above “transaction” includes any arrangements for the provision of credit or for the supply of services to residential premises.

[^{F1}144 Vocational training.

- (1) Section 32 of the ^{M1}Finance Act 1991 (vocational training relief) shall be amended in accordance with the following provisions of this section.
- (2) In subsection (1) (application of section) for paragraph (ca) (individual has attained school leaving age etc at time of paying for the course) there shall be substituted—
- “*(ca)* at the time the payment is made, the individual—
- (i) in a case where the qualifying course of vocational training is such a course by virtue only of paragraph (b) of subsection (10) below, has attained the age of thirty, or
 - (ii) in any other case, has attained school-leaving age and, if under the age of nineteen, is not a person who is being provided with full-time education at a school.”
- (3) For subsection (10) (meaning of “qualifying course of vocational training”) there shall be substituted—
- “(10) In this section “qualifying course of vocational training” means—
- (a) any programme of activity capable of counting towards a qualification—
 - (i) accredited as a National Vocational Qualification by the National Council for Vocational Qualifications; or
 - (ii) accredited as a Scottish Vocational Qualification by the Scottish Vocational Education Council; or
 - (b) any course of training which—
 - (i) satisfies the conditions set out in the paragraphs of section 589(1) of the Taxes Act 1988 (qualifying courses of training etc),
 - (ii) requires participation on a full-time or substantially full-time basis, and
 - (iii) extends for a period which consists of or includes four consecutive weeks,but treating any time devoted to study in connection with the course as time devoted to the practical application of skills or knowledge.”
- (4) This section applies to payments made on or after 6th May 1996.]

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Textual Amendments

- F1** S. 144 repealed (27.7.1999 with effect as mentioned in Sch. 20 Pt. III(15), Note of the amending Act) by 1999 c. 16, s. 139, **Sch. 20 Pt. III(15)**

Marginal Citations

- M1** 1991 c. 31.

145 Personal reliefs for non-resident EEA nationals.

- (1) In section 278(2)(a) of the Taxes Act 1988 (exclusion of non-residents from entitlement to personal reliefs not to apply to Commonwealth citizens or citizens of the Republic of Ireland), for “a citizen of the Republic of Ireland” there shall be substituted “an EEA national”.
- (2) After subsection (8) of that section (claims to be made to the Board) there shall be added the following subsection—
 - “(9) In this section “EEA national” means a national of any State, other than the United Kingdom, which is a Contracting Party to the Agreement on the European Economic Area signed at Oporto on 2nd May 1992, as adjusted by the Protocol signed at Brussels on 17th March 1993.”
- (3) This section has effect for the year 1996-97 and subsequent years of assessment.

146 Exemptions for charities.

- (1) Section 505(1) of the Taxes Act 1988 (exemptions for charities) shall be amended as follows.
- (2) For paragraph (a) (rents etc.) there shall be substituted the following paragraph—
 - “(a) exemption from tax under Schedules A and D in respect of any profits or gains arising in respect of rents or other receipts from an estate, interest or right in or over any land (whether situated in the United Kingdom or elsewhere) to the extent that the profits or gains—
 - (i) arise in respect of rents or receipts from an estate, interest or right vested in any person for charitable purposes; and
 - (ii) are applied to charitable purposes only;”.
- (3) For sub-paragraph (ii) of paragraph (c) (yearly interest and annual payments) there shall be substituted the following sub-paragraphs—
 - “(ii) from tax under Case III of Schedule D,
 - (ia) from tax under Case IV or V of Schedule D in respect of income equivalent to income chargeable under Case III of that Schedule but arising from securities or other possessions outside the United Kingdom,
 - (iib) from tax under Case V of Schedule D in respect of income consisting in any such dividend or other distribution of a company not resident in the United Kingdom as would be chargeable to tax under Schedule F if the company were so resident, and”.

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- (4) In paragraph (e) (trading profits), after “by a charity” there shall be inserted “ (whether in the United Kingdom or elsewhere) ”.
- (5) This section has effect—
 - (a) for the purposes of income tax, for the year 1996-97 and subsequent years of assessment; and
 - (b) for the purposes of corporation tax, in relation to accounting periods ending after 31st March 1996.

147 Withdrawal of relief for Class 4 contributions.

- (1) In section 617 of the Taxes Act 1988 (social security benefits and contributions), subsection (5) (relief for Class 4 contributions) shall cease to have effect.
- (2) In consequence of the provision made by subsection (1) above, in paragraph 3(2) of Schedule 2 to—
 - (a) the ^{M2}Social Security Contributions and Benefits Act 1992, and
 - (b) the ^{M3}Social Security Contributions and Benefits (Northern Ireland) Act 1992, the words “ (e) section 617(5) (relief for Class 4 contributions); ” shall be omitted.
- (3) This section shall have effect in relation to the year 1996-97 and subsequent years of assessment.

Marginal Citations

- M2** 1992 c. 4.
M3 1992 c. 7.

148 Mis-sold personal pensions etc.

- (1) Income tax shall not be chargeable on any payment falling within subsection (3) or (5) below.
- (2) Receipt of a payment falling within subsection (3) below shall not be regarded for the purposes of capital gains tax as the disposal of an asset.
- (3) A payment falls within this subsection if it is a capital sum by way of compensation for loss suffered, or reasonably likely to be suffered, by a person in a case where that person, or some other person, acting in reliance on bad investment advice at least some of which was given during the period beginning with 29th April 1988 and ending with 30th June 1994,—
 - (a) has, while eligible, or reasonably likely to become eligible, to be a member of an occupational pension scheme, instead become a member of a personal pension scheme or entered into a retirement annuity contract;
 - (b) has ceased to be a member of, or to pay contributions to, an occupational pension scheme and has instead become a member of a personal pension scheme or entered into a retirement annuity contract;
 - (c) has transferred to a personal pension scheme accrued rights of his under an occupational pension scheme; or
 - (d) has ceased to be a member of an occupational pension scheme and has instead (by virtue of such a provision as is mentioned in section 591(2)(g) of the Taxes

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Act 1988) entered into arrangements for securing relevant benefits by means of an annuity contract.

- (4) A payment chargeable to income tax apart from subsection (1) above may nevertheless be regarded as a capital sum for the purpose of determining whether it falls within subsection (3) above.
- (5) A payment falls within this subsection if and to the extent that it is a payment of interest, on the whole or any part of a capital sum such as is mentioned in subsection (3) above, for a period ending on or before the earliest date on which a determination (whether or not subsequently varied on an appeal or in any other proceedings) of the amount of the particular capital sum in question is made, whether by agreement or by a decision of—
- (a) a court, tribunal or commissioner,
 - (b) an arbitrator or (in Scotland) arbiter, or
 - (c) any other person appointed for the purpose.
- (6) In this section—
- “bad investment advice” means investment advice in respect of which an action against the person who gave it has been, or may be, brought—
- (a) in or for negligence;
 - (b) for breach of contract;
 - (c) by reason of a breach of a fiduciary obligation; or
 - (d) [^{F2}by reason of a contravention which is actionable—
 - (i) under section 62 of the Financial Services Act 1986; or
 - (ii) under section 150 of the Financial Services and Markets Act 2000;]
- [^{F3}“investment advice”—
- (a) in relation to a time before 1st December 2001, means advice such as is mentioned in paragraph 15 of Schedule 1 to the Financial Services Act 1986; and
 - (b) in relation to a time on or after that date, means advice such as is mentioned in Article 53 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001;]
- “occupational pension scheme” means—
- (a) a scheme approved, or being considered for approval, under Chapter I of Part XIV of the Taxes Act 1988 (retirement benefit schemes);
 - (b) a relevant statutory scheme, as defined in section 611A(1) of that Act; or
 - (c) a fund to which section 608 of that Act applies (superannuation funds approved before 6th April 1980 etc);
- “personal pension scheme” has the meaning given by section 630(1) of the Taxes Act 1988;
- “relevant benefits” has the meaning given by section 612(1) of the Taxes Act 1988;
- “retirement annuity contract” means a contract made before 1st July 1988 and approved by the Board under or by virtue of any provision of Chapter III of Part XIV of the Taxes Act 1988.
- (7) This section shall have effect, and be taken always to have had effect, in relation to any payment falling within subsection (3) or (5) above, whether made before or after the passing of this Act.

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Textual Amendments

- F2** S. 148(6): para. (d) in the definition of “bad investment advice” substituted (1.12.2001) by [S.I. 2001/3629, art. 93\(2\)](#)
- F3** S. 148(6): definition of “investment advice” substituted (1.12.2001) by [S.I. 2001/3629, art. 93\(3\)](#)

[^{F4}149 Annual payments in residuary cases.

- (1) Section 347A of the Taxes Act 1988 (annual payments not a charge on the income of a payer) shall apply to any payment made on or after 6th April 1996—
- (a) in pursuance of any obligation which falls within section 36(4)(a) of the ^{M4}Finance Act 1988 (existing obligations under certain court orders), and
 - (b) for the benefit, maintenance or education of a person (whether or not the person to whom the payment is made) who attained the age of 21 before 6th April 1994,
- as if that obligation were not an existing obligation within the definition contained in section 36(4) of the Finance Act 1988.
- (2) Subsection (1) above does not apply to any payment to which section 38 of the Finance Act 1988 (treatment of certain maintenance payments under existing obligations) applies.]

Textual Amendments

- F4** [S. 149](#) repealed (27.7.1999 with effect as mentioned in Sch. 20 Pt. III(6), Note of the amending Act) by [1999 c. 16, s. 139, Sch. 20 Pt. III\(6\)](#)

Marginal Citations

- M4** [1988 c. 39](#).

150 Income tax exemption for periodical payments of damages and compensation for personal injury.

- (1) The sections set out in Schedule 26 to this Act shall be inserted after section 329 of the ^{M5}Taxes Act 1988.
- (2) The first of those sections supersedes sections 329A and 329B inserted by the Finance Act 1995 and applies to payments received after the passing of this Act irrespective of when the agreement or order referred to in that section was made or took effect.
- (3) Subsections (1) and (2) of the second of those sections supersede section 329C inserted by the ^{M6}Criminal Injuries Compensation Act 1995 and apply to payments received after the passing of that Act.
- (4) The repeal of sections 329A and 329B does not affect the operation of those sections in relation to payments received before the passing of this Act.

Marginal Citations

- M5** [1995 c. 4](#).

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M6 1995 c. 53.

Status:

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