

*Status: Point in time view as at 10/07/2003.*

*Changes to legislation: There are currently no known outstanding effects for the Finance Act 1996, SCHEDULE 6. (See end of Document for details)*

## SCHEDULES

### SCHEDULE 6

Section 73.

#### TAXATION OF SAVINGS AT THE LOWER RATE

##### *The Taxes Management Act 1970 (c. 9)*

- 1 In section 86 of the Taxes Management Act 1970 (interest on tax assessed in addition to deducted tax etc.), so far as it has effect without the substitutions made by paragraph 23 of Schedule 19 to the <sup>M1</sup>Finance Act 1994 and section 110 of the <sup>M2</sup>Finance Act 1995, in subsection (2)(b) after “the basic rate” there shall be inserted “ or the lower rate ”.

#### Marginal Citations

- M1** 1994 c. 9.  
**M2** 1995 c. 4.

##### *The Taxes Act 1988*

- 2 In section 4(2) of the Taxes Act 1988 (meaning of “relevant year of assessment” for the purposes of deductions etc.), for “subsection (1) above” there shall be substituted “ this section ”.
- 3 In section 5(4) of that Act (time when tax in addition to deducted tax etc. becomes due), after “basic rate” there shall be inserted “ or the lower rate ”.
- [<sup>F14</sup> (1) Subject to sub-paragraph (2) below, in subsection (1)(b) of section 51B of that Act (periodic returns of tax on gilts), for “basic rate” there shall be substituted “ lower rate ”.
- (2) Sub-paragraph (1) above has effect for the purposes only of the exercise on or after the day on which this Act is passed of the Treasury’s power to make regulations under that section; but that power may be exercised on or after that day for the purpose of making provision, with retrospective effect, on the basis that the assumption to be applied in relation to all payments made on or after 6th April 1996 was an assumption that such payments bear tax at the lower rate.]

#### Textual Amendments

- F1** Sch. 6 para. 4 repealed (31.7.1998 with effect as mentioned in Sch. 27 Pt. III(3), Note) by 1998 c. 36, s. 165, Sch. 27 Pt. III(3)

- [<sup>F25</sup> In paragraph (c) of section 246D(2) of that Act (application of section 207A to certain foreign income dividends), for the words from “as income” to the end of the paragraph there shall be substituted “ (without prejudice to paragraph (a) above) as if it were income to which section 1A applies; ”.]

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### Textual Amendments

**F2** Sch. 6 para. 5 repealed (31.7.1997 with effect as mentioned in Sch. 8 Pt. II(11), Note) by 1997 c. 58, s. 52, Sch. 8 Pt. II(11)

- 6 In section 249(4)(c) of that Act (application of section 207A), for the words from “as income” to “but” there shall be substituted “ (without prejudice to paragraph (a) above) as if it were income to which section 1A applies, but ”.
- 7 (1) In subsection (2)(b)(ii) of section 326B of that Act (loss of exemption for TESSAs), for the words from “basic rate on” to the end of the sub-paragraph there shall be substituted “ applicable rate on any interest or bonus paid on the account before that time; ”.
- (2) After subsection (2) of that section there shall be inserted the following subsection—
- “(2A) In subsection (2)(b)(ii) above “the applicable rate” means—
- (a) in the case of interest or bonus paid before 6th April 1996, the basic rate for the year of assessment in which the payment was made; and
- (b) in any other case, the lower rate for the year of assessment in which it was made.”
- (3) This paragraph has effect as respects withdrawals on or after 6th April 1996.
- 8 In section 350 of that Act (charge to tax where payments made subject to deduction), in subsection (1) for “basic rate” there shall be substituted “ applicable rate ”; and after that subsection there shall be inserted the following subsection—
- “(1A) In subsection (1) above “the applicable rate” means the rate which is applicable to the payment under section 4.”
- 9 In section 421(1)(c) of that Act (application of section 207A), for the words from “as income” to “but” there shall be substituted “ (without prejudice to paragraph (b) above) as if it were income to which section 1A applies, but ”.
- 10 (1) In section 468 of that Act (authorised unit trusts to be subject to corporation tax), the following subsection shall be inserted after subsection (1)—
- “(1A) In relation to any authorised unit trust the rate of corporation tax for the financial year 1996 and subsequent financial years shall be deemed to be the rate at which income tax at the lower rate is charged for the year of assessment which begins on 6th April in the financial year concerned.”
- (2) Sub-paragraph (1) above has effect in relation to any accounting period ending after 31st March 1996.
- (3) Sections 468E and 468EE of that Act (rate of corporation tax on authorised unit trusts) shall not apply in relation to any accounting period ending after 31st March 1996 except so far as those sections relate to the financial year 1995.
- 11 (1) In section 468L of that Act (interest distributions), after subsection (1) there shall be inserted the following subsection—
- “(1A) For the purposes of this Chapter no amount shall be shown as so available unless the authorised unit trust in question satisfies the qualifying investments test throughout the distribution period.”

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(2) After subsection (7) of that section there shall be inserted the following subsections—

“(8) For the purposes of this section an authorised unit trust satisfies the qualifying investments test throughout a distribution period (“the relevant period”) if at all times in that period, the market value of the qualifying investments exceeds 60 per cent. of the market value of all the investments of that trust.

(9) Subject to subsection (13) below, in this section “qualifying investments”, in relation to an authorised unit trust, means the investments of that trust which are of any of the following descriptions—

- (a) money placed at interest;
- (b) securities;
- (c) shares in a building society;
- (d) qualifying entitlements to a share in the investments of another authorised unit trust.

(10) For the purposes of subsection (9) above an entitlement to a share in the investments of another authorised unit trust is a qualifying entitlement at any time in the relevant period if, and only if, the other authorised unit trust would itself (on the relevant assumption) satisfy the qualifying investments test throughout that period.

(11) For the purposes of subsection (10) above the relevant assumption is that the only investments of the other authorised unit trust which are to be regarded as qualifying investments are those falling within paragraphs (a) to (c) of subsection (9) above.

(12) In this section “security” does not include shares in a company; and references in this section to investments of an authorised unit trust are references to investments subject to the trusts of that authorised unit trust but do not include references to cash awaiting investment.

(13) The Treasury may by order amend subsection (9) above so as to extend or restrict the descriptions of investments of an authorised unit trust that are qualifying investments.

(14) An order made by the Treasury under subsection (13) above may—

- (a) make different provision for different cases; and
- (b) contain such incidental, supplemental, consequential and transitional provision as the Treasury may think fit;

and, without prejudice to the generality of paragraph (b) above, such an order may make such incidental modifications of subsection (11) above as the Treasury may think fit.”

(3) This paragraph has effect in relation to distribution periods ending on or after 1st April 1996.

12 In section 469(2) of that Act (taxation of income of unauthorised unit trusts), after the words “unit holders”, in the first place where they occur, there shall be inserted “ and, in the case of income to which section 1A applies, chargeable to income tax at the basic rate, instead of at the lower rate ”.

*Status: Point in time view as at 10/07/2003.*

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- 13 In sections 549(2), 686(1), 699(2) and 819(2) of that Act (which refer to income tax being chargeable at the lower rate in accordance with section 207A), for “section 207A” there shall be substituted “ section 1A ”.
- 14 (1) In paragraph (a)(i) of subsection (2) of section 582 of that Act (funding bonds), for “basic” there shall be substituted “ applicable ”.
- (2) After that subsection there shall be inserted the following subsection—
- “(2A) In subsection (2) above “the applicable rate”, in relation to a year of assessment, means whichever of the basic rate and the lower rate for that year is the rate at which the person by or through whom the bonds are issued would have had to deduct income tax from the amount of interest in question if that amount had been actually paid by or through him.”
- 15 In section 686 of that Act (liability to additional rate in the case of trustees of discretionary trusts), after subsection (2A) there shall be inserted the following subsection—
- “(2B) For the purposes of subsection (2A) above where the income tax borne by any income arising to trustees is limited in accordance with section 128 of the <sup>M3</sup>Finance Act 1995 (limit on income chargeable on non-residents), the income arising to the trustees which shall be taken not to bear tax by reason wholly or partly of their not having been resident in the United Kingdom shall include so much of any income arising to them as—
- (a) is excluded income within the meaning of that section; and
  - (b) is not income which is treated for the purposes of subsection (1)(b) of that section as income the tax on which is deducted at source.”

#### Marginal Citations

M3 1995 c. 4.

- 16 In Part XV of that Act (settlements), at the end of Chapter IC there shall be inserted the following Chapter—

### “CHAPTER ID

#### TRUST MANAGEMENT EXPENSES

#### **Disregard of expenses where beneficiary non-resident.**

689A1) This section applies where—

- (a) there is income (“the distributed income”) arising to trustees in any year of assessment which (before being distributed) is income of a person (“the beneficiary”) other than the trustees;
- (b) the trustees have any expenses in that year (“the management expenses”) which are properly chargeable to that income or would be so chargeable but for any express provisions of the trust; and
- (c) the beneficiary is not liable to income tax on an amount of the distributed income (“the untaxed income”) by reason wholly or partly of—

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*Status: Point in time view as at 10/07/2003.*

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- (i) his not having been resident in the United Kingdom, or
  - (ii) his being deemed under any arrangements under section 788, or any arrangements having effect by virtue of that section, to have been resident in a territory outside the United Kingdom.
- (2) Where this section applies, there shall be disregarded in computing the income of the beneficiary for the purposes of the Income Tax Acts such part of the management expenses as bears the same proportion to all those expenses as the untaxed income bears to the distributed income.
- (3) For the purpose of computing the proportion mentioned in subsection (2) above, the amounts of the distributed income and of the untaxed income shall not, in either case, include so much (if any) of the income as is equal to the amount of income tax, or of any foreign tax, chargeable on the trustees (by way of deduction or otherwise) in respect of that income.
- (4) In subsection (3) above, “foreign tax” means any tax which is—
- (a) of a similar character to income tax; and
  - (b) imposed by the laws of a territory outside the United Kingdom.
- (5) For the purposes of this section, where the income tax chargeable on any person is limited in accordance with section 128 of the <sup>M4</sup>Finance Act 1995 (limit on income chargeable on non-residents), the income of that person on which he is not liable to tax by reason of not having been resident in the United Kingdom shall be taken to include so much of any income of his as—
- (a) is excluded income within the meaning of that section; and
  - (b) is not income which is treated for the purposes of subsection (1)(b) of that section as income the tax on which is deducted at source.

**Order in which expenses to be set against income.**

- 689B) The expenses of any trustees in any year of assessment, so far as they are properly chargeable to income (or would be so chargeable but for any express provisions of the trust), shall be treated—
- (a) as set against so much (if any) of any income as is income falling within subsection (2) or (3) below before being set against other income; and
  - (b) as set against so much (if any) of any income as is income falling within subsection (2) below before being set against income falling within subsection (3) below.
- (2) Income falls within this subsection if it is—
- (a) so much of the income of the trustees as is income the amount or value of which is determined in accordance with section 233(1A);
  - (b) income which is treated as having arisen to the trustees by virtue of section 246D(4) or 249(6); or
  - (c) income which is treated as received by the trustees by virtue of section 421(1)(a).
- (3) Income falls within this subsection if it is income to which section 1A applies but which does not fall within subsection (2) above.

*Status: Point in time view as at 10/07/2003.*

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- (4) This section has effect—
- (a) subject to sections 686(2A) and 689A, but
  - (b) notwithstanding anything in section 1A(5) and (6).”

**Marginal Citations**

**M4** 1995 c. 4.

17 In section 698A of that Act (taxation at the lower rate of the income of beneficiaries)

- (a) in subsection (1), for the words from “section 207A” to the end there shall be substituted “ section 1A shall have effect as if that income were income to which that section applies. ”; and
- (b) in subsection (2), for the words from “section 207A” to the end there shall be substituted “ section 1A shall have effect as if the payment made to the trustee were income of the trustee to which that section applies. ”

[<sup>F3</sup>18 (1) In subsection (1) of section 737 of that Act (deductions from manufactured payments), after “shall apply” there shall be inserted “ (subject to subsection (1A) below) ”, and for subsection (1A) of that section there shall be substituted the following subsection—

“(1A) The deduction of tax which is deemed to have been made under subsection (1) above shall be taken to have been made at the lower rate as if the deemed annual payment were income to which section 1A applied; and—

- (a) the reference to the applicable rate in subsection (1) of section 350, so far as it has effect by virtue of subsection (1) above, and
- (b) Schedule 16, so far as it so has effect,

shall be construed accordingly.”

(2) This paragraph has effect in relation to payments on or after 6th April 1996.]

**Textual Amendments**

**F3** Sch. 6 para. 18 repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Note 1) by 1997 c. 16, s. 113, Sch. 18 Pt. VI(10); S.I. 1997/991, art. 2

[<sup>F4</sup>19 In section 737C(6) of that Act (computation of amount of deemed manufactured interest), for “basic” there shall be substituted “ lower ”.]

**Textual Amendments**

**F4** Sch. 6 para. 19 repealed (19.3.1997 with effect as mentioned in Sch. 18 Pt. VI(10), Note 1) by 1997 c. 16, s. 113, Sch. 18 Pt. VI(10); S.I. 1997/991, art. 2

20 In section 743(1) of that Act (supplemental provisions relating to transfers of assets abroad)—

- (a) after the words “the basic rate”, in the first place where they occur, there shall be inserted “ or the lower rate ”; and

*Status: Point in time view as at 10/07/2003.*

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- (b) for “income that has borne tax at the basic rate”, there shall be substituted “any income to the extent that it has borne tax at that rate”.
- 21 In section 789(2) of that Act (old double taxation relief agreements), for “to bear income tax at the basic rate and” there shall be substituted “—
- (a) to bear income tax at the basic rate or, where that income is income to which section 1A applies, at the lower rate; and
- (b)”.
- 22 In paragraph (a) of section 821(1) of that Act (under-deductions from payments made before passing of annual Act to be charged under Case VI of Schedule D), for the words from “under Schedule D in respect” to the end of the paragraph there shall be substituted “under Case III of Schedule D in respect of those payments; and”.
- 23 In section 822(1) of that Act (over-deductions from interest on loan capital etc. made before the passing of annual Act where basic rate for the year is lower than in the previous year), for “basic rate lower” there shall be substituted “lower rate less”.
- 24 In section 835(6)(a) of that Act (estimating total income), after “basic rate” there shall be inserted “or the lower rate”.
- 25 (1) In Schedule 3 to that Act (public revenue dividends etc.)—
- (a) in paragraph 1(c), for “basic” there shall be substituted “lower”;
- (b) in paragraph 6A—
- (i) in sub-paragraph (1), for “applicable” there shall be substituted “lower”; and
- (ii) sub-paragraph (4) shall cease to have effect.
- (2) This paragraph has effect in relation to payments made on or after 6th April 1996 and before the day on which this Act is passed.

*The Finance Act 1989 (c. 26)*

F<sup>5</sup>26 .....

**Textual Amendments**

**F5** Sch. 6 para. 26 repealed (with effect in accordance with Sch. 43 Pt. 3(12) Note 3 of the amending Act) by Finance Act 2003 (c. 14), Sch. 43 Pt. 3(12)

*The Taxation of Chargeable Gains Act 1992 (c. 12)*

- [F<sup>6</sup>27 In section 4(3A) of the Taxation of Chargeable Gains Act 1992 (disregard of income chargeable at lower rate in accordance with section 207A of the Taxes Act 1988), for “section 207A” there shall be substituted “section 1A”.]

**Textual Amendments**

**F6** Sch. 6 para. 27 repealed (27.7.1999 with effect as mentioned in Sch. 20 Pt. III(1), Note of the amending Act) by 1999 c. 16, s. 139, Sch. 20 Pt. III(1)

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### *Commencement of Schedule*

28      Subject to any express provisions as to commencement that are contained in the preceding provisions of this Schedule, this Schedule has effect for the year 1996-97 and subsequent years of assessment.



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