



Finance Act 1956

1956 CHAPTER 54

PART IV

THE PROFITS TAX

29 Increase of profits tax

- (1) As from the end of March, nineteen hundred and fifty-six, the enactments relating to the profits tax shall be amended by substituting—
 - (a) thirty per cent. for twenty-seven and a half per cent. as the rate of any tax not being a distribution charge; and
 - (b) twenty-seven per cent. for twenty-five per cent. as the rate of any relief for non-distribution.
- (2) As from the end of that month, the rate of any distribution charge under the said enactments shall be twenty-seven per cent.:

Provided that—

- (a) the amount on which the charge is at that rate for any chargeable accounting period of a trade or business shall not, when added to the total of the amounts, if any, on which for previous chargeable accounting periods there have fallen to be made distribution charges at that rate (including so much of any distribution charge partly at that rate and partly not as is at that rate), exceed the total of the amounts on which reliefs for non-distribution have been given at that rate for previous chargeable accounting periods ; and
 - (b) on the amount on which under the foregoing proviso the charge cannot be at that rate, it shall be at the rate or rates determined in accordance with paragraph 1 of the Second Schedule to the Finance (No. 2) Act, 1955.
- (3) As respects accounting periods of a trade or business ending after the end of the said month, the said enactments shall have effect subject to the provisions contained in the Fourth Schedule to this Act.

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30 Groups of companies

- (1) A grouping notice may not be given by a principal company as respects a subsidiary of it unless each of them is engaged in carrying on a trade or business, or each of them was so engaged at the beginning of the chargeable accounting period specified in the notice as the first of the periods as respects which the notice is to have effect; nor shall a grouping notice validly given by a principal company as respects a subsidiary of it continue in force after either of them has ceased to be so engaged or to be resident in the United Kingdom (but so that its lapsing shall not revive any previous notice which had ceased to be in force by reason of the giving thereof).
- (2) The chargeable accounting period specified in a grouping notice as the first of the periods as respects which the notice is to have effect may not be a period ending before the date on which the principal company became entitled to give the notice; and if, when a grouping notice has been given, the Commissioners of Inland Revenue, under subsection (4) of section thirty-eight of the Finance Act, 1947, divide the period so specified therein, the notice shall have effect as if for the period so specified there were substituted the first of the periods into which it is divided which ends on or after that date.
- (3) Where, as respects a chargeable accounting period of a body corporate.—
 - (a) there is in force a grouping notice given by it as a principal company or given as respects it as a subsidiary; but
 - (b) it is within the exemption from profits tax conferred by subsection (2) or (3) of section thirty-one of the Finance Act, 1947 (which relate to bodies corporate whose income is apportioned to their members for purposes of surtax);then as respects that chargeable accounting period of the said body corporate, and as respects the corresponding chargeable accounting period of the other body corporate by or as respects which the notice was given, the following enactments shall not have effect by virtue of the notice in relation to the profits or losses, franked investment income or distributions of those bodies corporate, namely.—
 - (i) subsection (2) of section twenty-two of the Finance Act 1937 (which provides for profits or losses of a subsidiary to be treated as profits or losses of the principal company); and
 - (ii) subsection (1) of section thirty-eight of the Finance Act, 1947 (which makes complementary provision about franked investment income and about distributions).
- (4) Where a grouping notice given by a principal company as respects a subsidiary of it is in force for any chargeable accounting period of the subsidiary, but (by virtue of the last foregoing subsection) subsection (1) of the said section thirty-eight does not apply as respects that period by reason of the principal company being within the said exemption for its corresponding chargeable accounting period, then subsection (2) of the said section thirty-eight (which in certain circumstances treats non-distribution reliefs given to a subsidiary as given to the principal company), shall, as respects any subsequent chargeable accounting period of the principal company, have effect in relation to the said chargeable accounting period of the subsidiary as it would have effect in relation to a chargeable accounting period before the notice came into force.
- (5) For the purposes of section sixty-nine of the Finance Act, 1948 (which relates to payments between interconnected companies)—

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- (a) any grouping notice given by or as respects a body corporate shall be disregarded in relation to payments made by that body corporate while it is within the said exemption; and
 - (b) any grouping notice given as respects a body corporate shall be disregarded in relation to payments made to it during any chargeable accounting period if the principal company giving the notice is within the said exemption for its corresponding chargeable accounting period.
- (6) A body corporate shall not be within the said exemption for any chargeable accounting period if, as respects that period.—
- (a) there is in force a grouping notice given by it as a principal company or given as respects it as a subsidiary; and
 - (b) the principal company giving that notice so elects by notice in writing given to the Commissioners of Inland Revenue.

A notice of election under this subsection shall be given within six months of the end of the chargeable accounting period for which the election is made or such longer time as those Commissioners may allow; but any election made under this subsection shall have effect not only for the chargeable accounting period for which it is made but also for any subsequent chargeable accounting period of the same body corporate, until such time as no grouping notice given by it or as respects it is in force, and where a new grouping notice is given as respects that body corporate by a different principal company while the election is in force, the election shall have effect as if duly made by the principal company giving the new grouping notice.

- (7) For the purposes of this section, " grouping notice " means a notice given under subsection (1) of section twenty-two of the Finance Act, 1937, but a grouping notice given by a principal company as respects more than one subsidiary shall be treated as a separate notice as respects each subsidiary.
- (8) Subsections (1) and (2) of this section shall be deemed to have had effect as from the eighteenth day of April, nineteen hundred and fifty-six; and subsections (3) to (6) of this section shall have effect as respects all chargeable accounting periods of any body corporate in so far as those periods are affected either—
- (a) by a grouping notice given on or after the said eighteenth day of April; or
 - (b) by the operation of subsection (2) or (3) of section thirty one of the Finance Act, 1947, as respects a chargeable accounting period of a body corporate ending on or after that day.

31 Extent to which sums applied in reducing share capital etc are to be treated as distributions

- (1) Subject to the following provisions of this section, the proviso to subsection (1) of section thirty-six of the Finance Act, 1947 (which directs that sums applied in repaying loans or in reducing share capital shall not be treated as distributions for the purposes of the profits tax), shall not have effect in relation to any sum applied on or after the relevant date in reducing a body corporate's share capital, in so far as that sum exceeds the amount of the reduction made in the total nominal amount of the body's paid-up share capital.
- (2) Subject as aforesaid, the said proviso, in the case of a body corporate the directors whereof have a controlling interest therein, shall not have effect in relation to any sum applied on or after the relevant date in or towards repayment of a loan, in so far

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as that sum exceeds the amount of the loan (that is to say, the net amount or value received by the borrower) or so much of that amount as remains after deducting any sums previously applied in or towards repayment of the loan.

- (3) Sums which by virtue of subsection (1) or subsection (2) of this section are to be treated as part of the gross relevant distributions to proprietors of a body corporate shall not be treated as applied in reducing capital for the purposes of section thirty-one of the Finance Act, 1951 (under which a capitalisation of distributable sums and a reduction of capital are in certain cases to be treated as together amounting to a distribution).
- (4) Where a body corporate having a share premium account applies the whole or part of that account in providing for premiums payable on redemption of any redeemable preference shares, then—
 - (a) the part so provided of the sum applied in redeeming those shares shall be left out of account in determining under subsection (1) of this section to what extent (if any) the said sum exceeds the amount of the reduction made in the total nominal amount of the body's paid-up share capital; but
 - (b) if in consequence of the foregoing paragraph there is a reduction in the amount of the body's gross relevant distributions to proprietors for the chargeable accounting period in question, then a reduction of the same amount shall be made in the amount of the premiums which fall to be taken into account under subsection (1) of section thirty-five of the Finance Act, 1947, for the purpose of arriving at the limitation imposed by that subsection on the distributions which are to be treated for the purposes of paragraph (c) thereof as distributions of capital.

In this subsection, " share premium account" means, in relation to a body corporate which is not a company within the meaning of the Companies Act, 1948, any separate reserve or account or part thereof which represents premiums received on the issue of shares and which under the law governing the management of the body's affairs has a purpose corresponding to that of a share premium account under section fifty-six of the last-mentioned Act.

- (5) Where immediately before the sixteenth day of April, nineteen hundred and forty-seven, the terms on which any redeemable preference shares had been issued by a body corporate, or on which any loan had been made to a body corporate, (or if those terms had been varied before that day, the terms as so varied) conferred on the body corporate a right or imposed on the body corporate an obligation to redeem the shares or repay the loan at a premium, and the body corporate in pursuance of that right or obligation applies any sum on or after the relevant date in redeeming the shares or in or towards repayment of the loan, the foregoing provisions of this section shall apply as if the nominal amount of the shares or the amount of the loan, as the case may be, had been equal to the total amount required in pursuance of that right or obligation to be paid on redemption or repayment:

Provided that, where the said right or obligation is or has been varied on or after the said sixteenth day of April, this subsection shall not apply unless the variation is or was limited to increasing or reducing the said total amount, and shall apply in that case as if the said total amount had at no time exceeded the least amount required in pursuance of the said right or obligation as in force immediately before the said sixteenth day of April or at any time subsequently.

- (6) Where immediately before the sixteenth day of April, nineteen hundred and forty-seven, the rights attached to any issued shares of a body corporate included any right

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of priority as respects capital for a sum in excess of the nominal amount of the shares (not being, in the case of redeemable preference shares, a right only to a premium on redemption), and by virtue of that right a sum in excess of the said nominal amount is paid in respect of the shares, then for the purposes of subsection (1) of this section or of subsection (1) of section thirty-five of the Finance Act, 1947, those shares shall be taken as being of a nominal amount equal to the sum so paid, but for the purposes of subsection (1) of the said section thirty-five the excess of that sum over the nominal amount of the shares shall, if those or any other shares were or are issued by the body corporate at a premium for cash, be deducted from the amounts of the premiums:

Provided that, where the rights as respects capital attached to the shares are or have been varied on or after the said sixteenth day of April, this subsection shall not apply so as to treat them as being of a nominal amount greater than the -least amount for which a right of priority shall have attached thereto on that day or at any time subsequently.

- (7) In this section, " the relevant date " means the eighteenth day of April, nineteen hundred and fifty-six.