

Finance (No.2) Bill (Volume II)

[NOT AMENDED IN THE COMMITTEE AND AS AMENDED IN
STANDING COMMITTEE A]

The Bill is divided into two volumes. Volume I contains the Clauses and Schedules
1 to 9 to the Bill. Volume II contains Schedules 10 to 26 to the Bill.

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- (2) On the relevant day –
 - (a) the company is treated as receiving an amount of income, and
 - (b) the accounting period of the company ends.
 - (3) The income –
 - (a) is treated as a receipt of the business, and 5
 - (b) is brought into account in calculating for corporation tax purposes the profits of the business for that accounting period.
 - (4) On the day following the relevant day –
 - (a) the company is treated as incurring an expense, and
 - (b) a new accounting period of the company begins. 10
 - (5) The expense –
 - (a) is treated as an expense of the business, and
 - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of the business for that new accounting period.
 - (6) This paragraph is supplemented by paragraphs 4 and 5. 15
- Amount of income and expense*
- 4 (1) The amount of the income is calculated in accordance with paragraphs 16 to 21.
 - (2) The amount of the expense is the same as the amount of the income.
- No carry back of the expense* 20
- 5 (1) This paragraph applies if the business carried on by the company is a trade the profits of which are chargeable to corporation tax under Case I of Schedule D.
 - (2) No relief is to be given by virtue of section 393A(1)(b) of ICTA (set off of trading losses against profits of earlier accounting periods) in respect of so much of any loss as derives from the expense. 25
 - (3) For the purpose of determining how much of a loss derives from the expense, the loss is to be calculated on the basis that the expense is the final amount to be deducted.
- Meaning of “business of leasing plant or machinery”* 30
- 6 (1) This paragraph determines for the purposes of this Part of this Schedule whether, on any day (“the relevant day”), a company (“the relevant company”) carries on a business of leasing plant or machinery.
 - (2) A business carried on by the relevant company is a business of leasing plant or machinery on the relevant day if condition A or B is met. 35
 - (3) Condition A is that at least half of the accounting value of the plant or machinery owned by the relevant company on the relevant day relates to qualifying leased plant or machinery.
 - (4) Condition B is that at least half of the relevant company’s income in the period of 12 months ending with the relevant day derives from qualifying leased plant or machinery. 40

- (5) For the purposes of this Part of this Schedule, plant or machinery is “qualifying leased plant or machinery”, in relation to any company, if—
- (a) expenditure is incurred (or treated as incurred) by the company on the provision of the plant or machinery wholly or partly for the purposes of the business, 5
 - (b) the company is (or has at any time been) entitled, on the relevant assumptions, to an allowance under Part 2 of CAA 2001 in respect of that expenditure, and
 - (c) at any time in the period of 12 months ending with the relevant day the plant or machinery has been subject to a plant or machinery lease which is not an excluded lease of background plant or machinery for a building (see paragraph 41). 10
- (6) “The relevant assumptions” are—
- (a) that sections 34A and 70A of CAA 2001 (lessees, and not lessors, under long funding leases to be entitled to capital allowances) are ignored, and 15
 - (b) that any claim that could be made for an allowance under Part 2 of that Act is made.

Provision for the purposes of condition A in paragraph 6

- 7 (1) This paragraph applies for the purposes of condition A in paragraph 6. 20
- (2) The accounting value of the plant or machinery owned by the relevant company on the relevant day is taken to be the amount found by adding together the following amounts.
- (3) The amounts are—
- (a) the amounts (if any) shown in the appropriate balance sheet of the relevant company in respect of plant or machinery which it owns at the start of the relevant day, and 25
 - (b) the amounts (if any) shown in the appropriate balance sheet of each associated company in respect of plant or machinery which it transfers to the relevant company on the relevant day, 30
- and the reference here to an associated company is to a company which is an associated company of the relevant company on the relevant day (as to which, see paragraph 9).
- (4) For this purpose the amounts shown in the appropriate balance sheet of any company in respect of any plant or machinery are— 35
- (a) the amounts shown in that balance sheet as the net book value (or carrying amount) in respect of the plant or machinery, and
 - (b) the amounts shown in that balance sheet as the net investment in respect of finance leases of the plant or machinery.
- (5) If— 40
- (a) any of the plant or machinery is a fixture in any land, and
 - (b) the amount which falls (or would fall) to be shown in an appropriate balance sheet as the net book value (or carrying amount) of the land includes (or would include) an amount in respect of the fixture, 45
- the amount of the net book value (or carrying amount) in respect of the fixture is determined on a just and reasonable basis.
- (6) If—

- (a) any of the plant or machinery is subject to a finance lease, and
 - (b) any land or other asset which is not plant or machinery is subject to that lease,
- the amount of the net investment in respect of the finance lease of that plant or machinery is determined on a just and reasonable basis. 5
- (7) In this paragraph any reference to any amount shown in the appropriate balance sheet of a company is to the amount which, on the following assumptions, falls (or would fall) to be shown in a balance sheet of the company.
- (8) The assumptions are – 10
- (a) that the balance sheet is drawn up as at the start of the relevant day in accordance with generally accepted accounting practice, and
 - (b) that, if the company acquires any plant or machinery directly or indirectly from a person who is connected with the company, the plant or machinery had been acquired for an amount equal to its market value as at the relevant day. 15
- (9) Sub-paragraph (8)(b) does not apply if the relevant day falls before 22nd March 2006.

Provision for the purposes of condition B in paragraph 6

- 8 (1) This paragraph applies for the purposes of condition B in paragraph 6. 20
- (2) The reference to the relevant company’s income is to its income as calculated for corporation tax purposes.
- (3) Any apportionment necessary to determine the amount of the relevant company’s income attributable to the period of 12 months ending with the relevant day is to be made on a time basis. 25
- (4) But –
- (a) that basis does not apply if it would work in an unjust or unreasonable manner in relation to any person, and
 - (b) in that case the apportionment is to be made instead on a just and reasonable basis. 30
- (5) The proportion of the income that derives from qualifying leased plant or machinery is to be determined on a just and reasonable basis.

Meaning of “associated company”

- 9 (1) A company is an “associated company” of another company on any day if, at the start of that day, – 35
- (a) one of the two has control of the other, or
 - (b) both are under the control of the same person or persons,
- and for this purpose “control” is to be read in accordance with section 416 of ICTA.
- (2) If, at the start of any day, a company (“the consortium company”) is owned by a consortium or is a qualifying 90% subsidiary of a company owned by a consortium, references to an associated company of the consortium company on that day include – 40
- (a) any relevant member of the consortium on that day, and

- (b) any company which is an associated company of any relevant member of the consortium on that day.
- (3) For this purpose a member of the consortium is a “relevant” member on any day if—
- (a) it is a member of the consortium at the start of the day, 5
 - (b) one or more qualifying changes of ownership occur in relation to the consortium company on that day, and
 - (c) any of those changes occur in a case where the member of the consortium is regarded as “company E” for the purposes of paragraph 12 (consortium relationships). 10
- (4) This paragraph applies for the purposes of this Part of this Schedule.

Meaning of “a qualifying change of ownership” in relation to a company

- 10 (1) For the purposes of this Schedule, there is a qualifying change of ownership in relation to a company (“company A”) on any day if there is a relevant change in the relationship on that day between— 15
- (a) company A, and
 - (b) a principal company of company A,
- but see paragraph 13 for an exception (no qualifying change of ownership in the case of certain intra-group reorganisations).
- (2) For the purposes of this Schedule, there is a relevant change in the relationship between company A and a principal company of company A on any day in any of the circumstances in paragraphs 11 and 12 (qualifying 75% subsidiaries and consortium relationships). 20

Qualifying 75% subsidiaries

- 11 (1) A company (“company B”) is a principal company of company A if— 25
- (a) company A is a qualifying 75% subsidiary of company B, and
 - (b) company B is not a qualifying 75% subsidiary of another company.
- (2) There is a relevant change in the relationship between company A and company B (as a principal company) on any day if company A ceases to be a qualifying 75% subsidiary of company B on that day. 30
- (3) A company (“company C”) is a principal company of company A if—
- (a) company A is a qualifying 75% subsidiary of company B,
 - (b) company B is a qualifying 75% subsidiary of company C, and
 - (c) company C is not a qualifying 75% subsidiary of another company.
- (4) There is a relevant change in the relationship between company A and company C (as a principal company) on any day if— 35
- (a) company A ceases to be a qualifying 75% subsidiary of company B on that day, or
 - (b) company B ceases to be a qualifying 75% subsidiary of company C on that day. 40
- (5) If company C is a qualifying 75% subsidiary of another company (“company D”), company D is a principal company of company A unless company D is a qualifying 75% subsidiary of another company, and so on.

- (6) Accordingly, there is a relevant change in the relationship between company A and a principal company of company A on any day if—
- (a) in determining which company is a principal company, regard is had to any company which is a qualifying 75% subsidiary of another, and
 - (b) that company ceases to be a qualifying 75% subsidiary of the other on that day.
- (7) This paragraph is supplemented by paragraph 15 (meaning of a qualifying 75% subsidiary).

Consortium relationships

- 12 (1) A company (“company E”) is a principal company of company A if—
- (a) company A is owned by a consortium of which company E is a member, or
 - (b) company A is a qualifying 90% subsidiary of a company owned by a consortium of which company E is a member,
- and company E is not a qualifying 75% subsidiary of another company.
- (2) There is a relevant change in the relationship between company A and company E (as a principal company) on any day if the relevant fraction at the end of the day is less than the relevant fraction at the start of the day.
- (3) In this paragraph “the relevant fraction” is whichever is the lowest of the following percentages—
- (a) the percentage of the ordinary share capital of company A that is beneficially owned by company E,
 - (b) the percentage to which company E is beneficially entitled of any profits available for distribution to equity holders of company A,
 - (c) the percentage to which company E would be beneficially entitled of any assets of company A available for distribution to its equity holders on a winding-up.
- (4) In any case where company A is a qualifying 90% subsidiary of a company, sub-paragraph (3) is to be read as if for references to company A there were substituted references to that company.
- (5) A company (“company F”) is a principal company of company A if—
- (a) company A is owned by a consortium of which company E is a member, or
 - (b) company A is a qualifying 90% subsidiary of a company owned by a consortium of which company E is a member,
- and company E is a qualifying 75% subsidiary of company F, but company F is not a qualifying 75% subsidiary of another company.
- (6) There is a relevant change in the relationship between company A and company F (as a principal company) on any day if—
- (a) the relevant fraction at the end of the day is less than the relevant fraction at the start of the day, or
 - (b) company E ceases to be a qualifying 75% subsidiary of company F on that day.
- (7) If company F is a qualifying 75% subsidiary of another company (“company G”), company G is a principal company of company A unless company G is a qualifying 75% subsidiary of another company, and so on.

- (8) Accordingly, there is a relevant change in the relationship between company A and a principal company of company A on any day if—
- (a) in determining which company is a principal company, regard is had to any company which is a qualifying 75% subsidiary of another, and
 - (b) that company ceases to be a qualifying 75% subsidiary of the other on that day, 5
- (as well as if the relevant fraction at the end of the day is less than the relevant fraction at the start of the day).
- (9) This paragraph is supplemented by—
- (a) paragraph 14 (meaning of consortium member etc), and 10
 - (b) paragraph 15 (meaning of a qualifying 75% or 90% subsidiary).

No qualifying change of ownership in the case of certain intra-group reorganisations

- 13 (1) This paragraph applies if—
- (a) a relevant change in the relationship between a company (“company A”) and a principal company of company A occurs on any day, 15
 - (b) that change occurs by reference to company A or any other company ceasing to be a qualifying 75% subsidiary on that day, and
 - (c) company A, and every company by reference to which that change occurs, are qualifying 75% subsidiaries of the principal company concerned at the start and end of that day. 20
- (2) For the purposes of this Schedule, there is no qualifying change of ownership in relation to company A on that day as a result of that change in the relationship.

Meaning of “company owned by a consortium” etc

- 14 (1) A company is owned by a consortium if— 25
- (a) it is not a qualifying 75% subsidiary of any company,
 - (b) 75% or more of its ordinary share capital is beneficially owned between them by other companies, and
 - (c) none of those other companies owns less than 5% of that capital.
- (2) Those other companies are the members of the consortium. 30
- (3) This paragraph applies for the purposes of this Schedule.

Meaning of qualifying 75% or 90% subsidiary etc

- 15 (1) In this Schedule a company (“the subsidiary company”) is a qualifying 75% subsidiary of another company (“the parent company”) if—
- (a) the subsidiary company is a 75% subsidiary of the parent company within the meaning of section 838 of ICTA (if the subsidiary company has ordinary share capital), or 35
 - (b) the parent company has control of the subsidiary company within the meaning of section 840 of ICTA (if the subsidiary company does not have ordinary share capital), 40
- and the parent company is beneficially entitled to the appropriate proportion of profits and assets.

- (2) The parent company is beneficially entitled to the appropriate proportion of profits and assets if (and only if) it—
- (a) is beneficially entitled to at least 75% of any profits available for distribution to equity holders of the subsidiary company, and
 - (b) would be beneficially entitled to at least 75% of any assets of the subsidiary company available for distribution to its equity holders on a winding-up. 5
- (3) In this Schedule references to a qualifying 90% subsidiary are to be read in the same way as references to a qualifying 75% subsidiary, but as if the references to 75% were to 90%. 10
- (4) A company (“company A”) cannot be a qualifying 90% subsidiary of another company for the purposes of this Schedule if company A is a qualifying 75% subsidiary of a third company.
- (5) Schedule 18 to ICTA (equity holders and profits or assets etc) applies for the purposes of any provision of this Part of this Schedule as it applies for the purposes of any corresponding provision of Chapter 4 of Part 10 of that Act (group relief). 15
- (6) But, in a case where the subsidiary company does not have ordinary share capital, that Schedule applies for those purposes as if the members of that company were equity holders of that company for the purposes of that Schedule. 20

The amount of the income: the basic amount

- 16 (1) This paragraph determines the amount of the income under paragraph 3 when a qualifying change of ownership in relation to a company (“the relevant company”) carrying on a business of leasing plant or machinery occurs on any day (“the relevant day”). 25
- (2) The amount of the income is found by—
- (a) applying the following formula to give the basic amount, and
 - (b) making any adjustment in accordance with any of paragraphs 19 to 21 to the basic amount. 30
- (3) The formula is—
- $$PM - TWDV$$
- (4) For this purpose—
- “PM” has the meaning given by paragraph 17, and
 - “TWDV” has the meaning given by paragraph 18. 35

Meaning of “PM” in paragraph 16

- 17 (1) For the purposes of this paragraph references to plant or machinery, in the case of any company, do not include any plant or machinery—
- (a) on the provision of which the company has incurred expenditure which is not, as a result of section 34A of CAA 2001 (expenditure for long funding leasing), qualifying expenditure for the purposes of Part 2 of that Act, or 40

- (b) which is, as a result of section 67 of that Act (hire-purchase and similar contracts), treated for the purposes of that Part as owned by a person other than the company,
but, apart from that, include all other plant or machinery, whether or not subject to a lease. 5
- (2) For the purposes of paragraph 16, “PM” means the amount found by adding together –
- (a) the amounts (if any) shown in the appropriate balance sheet of the relevant company in respect of plant or machinery which it owns at the start of the relevant day, and 10
- (b) the amounts (if any) shown in the appropriate balance sheet of each associated company in respect of plant or machinery which it transfers to the relevant company on the relevant day,
and the reference here to an associated company is to a company which is an associated company of the relevant company on the relevant day. 15
- (3) For this purpose the amounts shown in the appropriate balance sheet of any company in respect of any plant or machinery are –
- (a) the amounts shown in that balance sheet as the net book value (or carrying amount) in respect of the plant or machinery, and
- (b) the amounts shown in that balance sheet as the net investment in respect of finance leases of the plant or machinery. 20
- (4) If –
- (a) any of the plant or machinery is a fixture in any land, and
- (b) the amount which falls (or would fall) to be shown in an appropriate balance sheet as the net book value (or carrying amount) of the land includes (or would include) an amount in respect of the fixture,
the amount of the net book value (or carrying amount) in respect of the fixture is determined on a just and reasonable basis. 25
- (5) If –
- (a) any of the plant or machinery is subject to a finance lease, and 30
- (b) any land or asset which is not plant or machinery is subject to that lease,
the amount of the net investment in respect of the finance lease of that plant or machinery is determined on a just and reasonable basis.
- (6) In this paragraph any reference to any amount shown in the appropriate balance sheet of a company is to the amount which, on the following assumptions, falls (or would fall) to be shown in a balance sheet of the company. 35
- (7) The assumptions are –
- (a) that the balance sheet is drawn up as at the start of the relevant day in accordance with generally accepted accounting practice, and 40
- (b) that, if the company acquires any plant or machinery directly or indirectly from a person who is connected with the company, the plant or machinery had been acquired for an amount equal to its market value as at the relevant day. 45
- (8) Sub-paragraph (7)(b) does not apply if the relevant day falls before 22nd March 2006.

Meaning of “TWDV” in paragraph 16

- 18 (1) For the purposes of paragraph 16, “TWDV” means the amount found by adding together –
- (a) the total amount of unrelieved qualifying expenditure in single asset pools for the new chargeable period that is carried forward in the pools from the previous chargeable period under section 59 of CAA 2001, 5
 - (b) the total amount of unrelieved qualifying expenditure in class pools for the new chargeable period that is carried forward in the pools from the previous chargeable period under that section, and 10
 - (c) the amount of unrelieved qualifying expenditure in the main pool for the new chargeable period that is carried forward in the pool from the previous chargeable period under that section.
- (2) For the purposes of “TWDV” –
- (a) “the new chargeable period” means the accounting period of the relevant company that begins on the day following the relevant day (see paragraph 3(4)), and 15
 - (b) expenditure incurred by the relevant company in acquiring plant or machinery on the relevant day is to be left out of account unless it is acquired from an associated company, 20
- and the reference here to an associated company is to a company which is an associated company of the relevant company on the relevant day.

Amount to be nil if basic amount negative

- 19 If the basic amount given by the formula is a negative amount, the amount is taken instead to be nil. 25

Adjustment to basic amount: qualifying 75% subsidiaries

- 20 (1) This paragraph applies if –
- (a) the qualifying change of ownership occurs on any day as a result of paragraph 11, and
 - (b) the change occurs by reference to a company (“company A”) ceasing to be a qualifying 75% subsidiary of another company (“company B”) on that day. 30
- (2) There is no adjustment to the basic amount unless, on that day, company A –
- (a) becomes owned by a consortium of which company B is a member, or 35
 - (b) becomes a qualifying 90% subsidiary of a company owned by a consortium of which company B is a member.
- (3) In that case, the amount of the income is limited to the appropriate percentage of the basic amount. 40
- (4) The appropriate percentage is found by subtracting the relevant fraction at the end of the day from 100%.
- (5) For this purpose “the relevant fraction” is whichever is the lowest of the following percentages –

- (a) the percentage of the ordinary share capital of company A that is beneficially owned by company B,
 - (b) the percentage to which company B is beneficially entitled of any profits available for distribution to equity holders of company A,
 - (c) the percentage to which company B would be beneficially entitled of any assets of company A available for distribution to its equity holders on a winding-up. 5
- (6) In any case where company A becomes a qualifying 90% subsidiary of a company, sub-paragraph (5) is to be read as if for references to company A there were substituted references to that company. 10

Adjustment to the basic amount: consortium relationships

- 21 (1) This paragraph applies if the qualifying change of ownership occurs on any day as a result of paragraph 12.
- (2) In a case where that change arises only because the relevant fraction at the end of the day is less than the relevant fraction at the start of the day, the amount of the income is limited to the appropriate percentage of the basic amount. 15
- (3) The appropriate percentage is found by subtracting the relevant fraction at the end of the day from the relevant fraction at the start of the day.
- (4) In any other case, the amount of the income is limited to the relevant fraction at the start of that day of the basic amount. 20
- (5) In this paragraph “the relevant fraction” has the same meaning as in paragraph 12.

Migration

- 22 (1) This paragraph applies if – 25
- (a) on any day (“the relevant day”) a company begins to be within the charge to corporation tax in respect of a business of leasing plant or machinery which it carries on otherwise than in partnership, and
 - (b) there is a qualifying change of ownership in relation to the company which occurs on the relevant day. 30
- (2) For the purposes of this Part of this Schedule, any plant or machinery owned by the company immediately before the relevant day is to be ignored in calculating the amount of the income treated as received on that day.

PART 3

LEASING BUSINESS CARRIED ON BY A COMPANY IN PARTNERSHIP 35

Change in company’s interest in business: income treated as received etc

- 23 (1) This paragraph applies for corporation tax purposes if –
- (a) on any day (“the relevant day”) a company (“the partner company”) carries on a business of leasing plant or machinery in partnership with other persons (see paragraph 25), 40
 - (b) the partner company is within the charge to corporation tax in respect of the business, and

- (c) there is a qualifying change in the partner company’s interest in the business on the relevant day (see paragraphs 27 and 28).
- (2) On the relevant day –
 - (a) the partner company is treated as receiving an amount of income, and 5
 - (b) any other company which carries on the business on that day and which is within the charge to corporation tax in respect of the business is treated as incurring an expense.
- (3) The income –
 - (a) is treated as a receipt of the partner company’s notional business, and 10
 - (b) is brought into account in calculating for corporation tax purposes the profits of that business for the accounting period in which it is treated as received.
- (4) The expense – 15
 - (a) is treated as an expense of the other company’s notional business, and
 - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of that business for the accounting period in which it is treated as incurred. 20
- (5) In this Part of this Schedule a company’s “notional business” means the business –
 - (a) from which the company’s share in the profits or loss of the business carried on by the partnership is treated under section 114(2) of ICTA as deriving for the purposes of the charge to corporation tax, and 25
 - (b) which is treated under that provision as carried on alone by the company for those purposes.
- (6) This paragraph is supplemented by paragraph 24.

Amount of income and expense

- 24 (1) The amount of the income is calculated in accordance with paragraphs 29 to 31. 30
- (2) The amount of the expense of the other company is calculated in accordance with paragraph 32. 40

Meaning of “business of leasing plant or machinery”

- 25 (1) For purposes of this Part of this Schedule whether, on any day (“the relevant day”), a company (“the partner company”) carries on a business of leasing plant or machinery in partnership with other persons is determined in accordance with paragraphs 6 to 8 (but modified as follows). 35
- (2) Any reference in those paragraphs to the relevant company is to be read as a reference to the partnership. 40
- (3) Any reference in those paragraphs to an associated company of the relevant company on the relevant day is to be read as a reference to each of the following –
 - (a) the partner company,

- (b) any company which is an associated company (see paragraph 26) of the partner company on the relevant day,
 - (c) any other partner company in relation to whose interest in the business there is a qualifying change on the relevant day,
 - (d) any other partner company in relation to which there is a qualifying change of ownership on the relevant day, and 5
 - (e) any company which is an associated company of any other partner company mentioned in paragraph (c) or (d) on the relevant day.
- (4) For this purpose “any other partner company” means a company –
- (a) which carries on the business at the start of the relevant day, and 10
 - (b) which is within the charge to corporation tax in respect of the business.

Meaning of “associated company”

- 26 (1) A company is an “associated company” of another company on any day if, at the start of that day, – 15
- (a) one of the two has control of the other, or
 - (b) both are under the control of the same person or persons,
- and for this purpose “control” is to be read in accordance with section 416 of ICTA.
- (2) Sub-paragraphs (3) and (4) apply if, at the start of any day, a company (“the consortium company”) – 20
- (a) is owned by a consortium, or
 - (b) is a qualifying 90% subsidiary of a company owned by a consortium.
- (3) If there is any qualifying change in the consortium company’s interest in a business on that day, references to an associated company of the consortium company on that day include – 25
- (a) any member of the consortium at the start of that day, and
 - (b) any company which is an associated company of any such member on that day.
- (4) If there is any qualifying change of ownership in relation to the consortium company on that day but there is no qualifying change in its interest in a business on the relevant day, references to an associated company of the consortium company on that day include – 30
- (a) any relevant member of the consortium on that day, and
 - (b) any company which is an associated company of any relevant member of the consortium on that day. 35
- (5) For this purpose a member of the consortium is a “relevant” member on any day if –
- (a) it is a member of the consortium at the start of the day, and
 - (b) the qualifying change of ownership occurs on that day in a case where the member of the consortium is regarded as “company E” for the purposes of paragraph 12 (consortium relationships). 40
- (6) This paragraph applies for the purposes of this Part of this Schedule.

Meaning of “qualifying change” in company’s interest in a business

- 27 (1) For the purposes of this Schedule there is a qualifying change in a company’s interest in a business on any day if its relevant percentage share at the end of the day is less than its relevant percentage share at the start of the day. 5
- (2) In this paragraph “relevant percentage share”, in relation to a company’s interest in a business, means its percentage share in the profits or loss of the business (determined in accordance with paragraph 28).
- (3) For the purposes of this paragraph any reference to a company’s share in the profits or loss of the business includes a nil share (whether as a result of the dissolution of the partnership or otherwise). 10

Determining the percentage share in the profits or loss of business

- 28 (1) For the purposes of this Part of this Schedule a company’s percentage share in the profits or loss of a business at any time is determined on a just and reasonable basis. 15
- (2) In making that determination, regard must be had, in particular, to –
- (a) any matter that would be taken into account in determining under section 114(2) of ICTA the company’s share at that time in the profits or loss of the business, and
- (b) any matter that would be taken into account in determining under that provision the company’s share at that time in any capital allowances and charges under CAA 2001. 20

The amount of the income: the basic amount

- 29 (1) This paragraph determines the amount of the income under paragraph 23 when a qualifying change in the interest of a company (“the partner company”) in a business of leasing plant or machinery occurs on any day (“the relevant day”). 25
- (2) The amount of the income is found by –
- (a) applying the following formula to give the basic amount, and
- (b) making the adjustment in accordance with paragraph 30 or 31 to the basic amount. 30
- (3) The formula is –

PM – TWDV

- (4) In this paragraph “PM” has the meaning given by paragraph 17, but – 35
- (a) reading any reference in that paragraph to the relevant company as a reference to the partnership, and
- (b) reading any reference in that paragraph to an associated company of the relevant company on the relevant day as a reference to a qualifying company (see sub-paragraph (7)).
- (5) In this paragraph “TWDV” means the amount found by adding together – 40
- (a) the total amount of unrelieved qualifying expenditure in single asset pools for the new chargeable period that would be carried forward

- in the pools from the old chargeable period under section 59 of CAA 2001,
- (b) the total amount of unrelieved qualifying expenditure in class pools for the new chargeable period that would be carried forward in the pools from the old chargeable period under that section, and 5
 - (c) the amount of unrelieved qualifying expenditure in the main pool for the new chargeable period that would be carried forward in the pool from the old chargeable period under that section.
- (6) For the purposes of “TWDV” –
- (a) it is to be assumed that the chargeable period (within the meaning of CAA 2001) of the partnership ends on the relevant day (“the old chargeable period”) and a new one begins on the following day (“the new chargeable period”), and 10
 - (b) expenditure incurred by the partnership in acquiring plant or machinery on the relevant day is to be left out of account unless it is acquired from a qualifying company. 15
- (7) In this paragraph “qualifying company” means each of the following –
- (a) the partner company,
 - (b) any company which is an associated company of the partner company on the relevant day, 20
 - (c) any other partner company in relation to whose interest in the business there is a qualifying change on the relevant day,
 - (d) any other partner company in relation to which there is a qualifying change of ownership on the relevant day, and
 - (e) any company which is an associated company of any other partner company mentioned in paragraph (c) or (d) on the relevant day. 25
- (8) For this purpose “any other partner company” means a company –
- (a) which carries on the business at the start of the relevant day, and
 - (b) which is within the charge to corporation tax in respect of the business. 30

Amount to be nil if basic amount negative

- 30 If the basic amount given by the formula is a negative amount, the amount is taken instead to be nil.

Adjustment of basic amount

- 31 (1) The amount of the company’s income under paragraph 23 is limited to the appropriate percentage of the basic amount. 35
- (2) The appropriate percentage is found by subtracting the company’s relevant percentage share at the end of the day from its relevant percentage share at the start of the day.
- (3) In this paragraph “relevant percentage share” has the same meaning as it has for the purposes of paragraph 27. 40

Amount of expense

- 32 (1) This paragraph applies if, as a result of a qualifying change in a company’s interest in a business on any day, –

- (a) the company (“the partner company”) is treated as receiving an amount of income under paragraph 23 on that day,
 - (b) any other company is treated as incurring an expense under that paragraph on that day,
 - (c) the other company’s percentage share in the profits or loss of the business increases at any time on that day, and 5
 - (d) the increase at that time (or any part of the increase at that time) is wholly attributable to the change in the partner company’s interest in the business.
- (2) The amount of the expense of the other company is limited to the appropriate percentage of the amount of the income. 10
- (3) The appropriate percentage is the percentage of the other company’s percentage share in the profits or loss of the business immediately after the change that is wholly attributable to the change.
- (4) For the purposes of this paragraph any reference to an increase in the other company’s percentage share in any profits or loss of the business includes an increase from a nil share (whether as a result of its becoming a partner or otherwise). 15

Income and matching expense in different accounting periods

- 33 (1) This paragraph applies for corporation tax purposes if – 20
- (a) on any day (“the relevant day”) a company carries on a business of leasing plant or machinery in partnership with other persons,
 - (b) the company is within the charge to corporation tax in respect of the business, and
 - (c) there is a qualifying change of ownership in relation to the company on the relevant day. 25
- (2) On the relevant day –
- (a) the company is treated as receiving an amount of income, and
 - (b) the accounting period of the company ends.
- (3) The income – 30
- (a) is treated as a receipt of the company’s notional business, and
 - (b) is brought into account in calculating for corporation tax purposes the profits of that business for that accounting period.
- (4) On the day following the relevant day – 35
- (a) the company is treated as incurring an expense, and
 - (b) a new accounting period of the company begins.
- (5) The expense –
- (a) is treated as an expense of the company’s notional business, and
 - (b) is allowed as a deduction in calculating for corporation tax purposes the profits of that business for that new accounting period. 40
- (6) This paragraph is supplemented by paragraphs 34 and 35.

Amount of income and expense

- 34 (1) The amount of the income is calculated in accordance with paragraph 36.

- (2) The amount of the expense is the same as the amount of the income.

No carry back of the expense

- 35 (1) This paragraph applies if the notional business carried on by the company is a trade the profits of which are chargeable to corporation tax under Case I of Schedule D. 5
- (2) No relief is to be given by virtue of section 393A(1)(b) of ICTA (set off of trading losses against profits of earlier accounting periods) in respect of so much of any loss as derives from the expense.
- (3) For the purpose of determining how much of a loss derives from the expense, the loss is to be calculated on the basis that the expense is the final amount to be deducted. 10

Amount of the income

- 36 (1) This paragraph determines the amount of the income under paragraph 33 when a qualifying change of ownership in relation to a company carrying on a business of leasing plant or machinery occurs on any day (“the relevant day”). 15
- (2) The amount of the income is found by first—
- (a) applying the formula in paragraph 29 to give the basic amount (as if the company were “the partner company” mentioned in that paragraph), and 20
- (b) making any adjustment in accordance with any of paragraphs 19 to 21 to the basic amount.
- (3) The amount is then limited to the appropriate percentage of the amount given as a result of sub-paragraph (2).
- (4) If there is no qualifying change in the company’s interest in the business on the relevant day, the appropriate percentage is the percentage share of the company in the profits or loss of the business on the relevant day. 25
- (5) If there is a qualifying change in the company’s interest in the business on the relevant day, the appropriate percentage is the percentage share of the company in the profits or loss of the business at the end of the relevant day. 30

Meaning of “profits” etc

- 37 In this Part of this Schedule “profits” does not include chargeable gains, and references to “loss” are to be read accordingly.

PART 4

MISCELLANEOUS 35

Anti-avoidance

- 38 (1) This paragraph applies if—
- (a) a company is treated as incurring an expense under any provision of this Schedule,

-
- (b) the expense arises directly or indirectly in consequence of, or otherwise in connection with, any arrangements, and
- (c) the main purpose, or one of the main purposes, of the arrangements is to secure that the company is treated as incurring the expense.
- (2) The following restrictions apply in respect of so much of any loss incurred by the company as derives from the expense (“the restricted part of the loss”). 5
- (3) Apart from by way of set off against any relevant leasing income, relief is not to be given to the company under any relevant loss relief provision in respect of the restricted part of the loss. 10
- (4) If the business carried on by the company is a trade, relief is not to be given to the company under section 393A(1) of ICTA in respect of the restricted part of the loss.
- (5) The restricted part of the loss is not available for set off by way of group relief in accordance with section 403 of ICTA. 15
- (6) For the purpose of determining how much of a loss derives from the expense, the loss is to be calculated on the basis that the expense is the final amount to be deducted.
- (7) In this paragraph “arrangements” includes any agreement, understanding, scheme, transaction or series of transactions – 20
- (a) whether or not legally enforceable, and
- (b) whether or not the company is a party to the arrangements.
- (8) In this paragraph “relevant leasing income” means any income deriving from any plant or machinery lease – 25
- (a) which is not an excluded lease of background plant or machinery for a building, and
- (b) which is entered into before the day on which the company is treated as incurring the expense.
- (9) In this paragraph “relevant loss relief provision” means any of the following provisions of ICTA – 30
- (a) section 392A (Schedule A losses),
- (b) section 392B (losses from overseas property businesses),
- (c) section 393 (trade losses),
- (d) section 396 (Case VI losses).
- Relief for expense under paragraph 3 or 33 otherwise giving rise to carried forward loss* 35
- 39 (1) This paragraph applies if –
- (a) there is a qualifying change of ownership in relation to a company on any day (“the relevant day”),
- (b) on the following day the company is, accordingly, treated under paragraph 3 or 33 as incurring an expense of a business and an accounting period of the company begins, 40
- (c) the company makes a loss in that accounting period,
- (d) some or all of that loss would otherwise be carried forward to the next accounting period of the company (“the subsequent accounting period”), and 45

- (e) the subsequent accounting period starts within the period of 12 months beginning with the relevant day and does not start as a result of paragraph 3 or 33.
- (2) So much of the loss (or part of the loss) that would otherwise be so carried forward as derives from the expense under paragraph 3 or 33 is instead to be treated for corporation tax purposes as an expense. 5
- (3) The expense under this paragraph is allowed as a deduction in calculating for corporation tax purposes the profits of the business for the subsequent accounting period.
- (4) For the purpose of determining how much of a loss derives from an expense under paragraph 3 or 33, the loss is to be calculated on the basis that the expense under that paragraph is the final amount to be deducted. 10

Relationship of Schedule with section 228K of CAA 2001

- 40 (1) This paragraph applies if—
- (a) on any day (“the relevant day”) a company carries on a business of leasing plant or machinery (whether alone or in partnership), 15
- (b) on the relevant day there is a qualifying change of ownership in relation to the company or a qualifying change in its interest in the business,
- (c) on the relevant day the company, or the partnership of which the company is a member, disposes of any relevant plant or machinery subject to a lease, and 20
- (d) section 228K of CAA 2001 (disposal of plant or machinery subject to lease where income retained) applies in relation to the disposal.
- (2) No person is to be treated as receiving an amount of income, or as incurring an expense, as a result of any provision of this Schedule in so far as the income or expense arises by reference to the relevant plant or machinery subject to a lease which is disposed of. 25
- (3) If, as a result of sub-paragraph (2), no income is treated as received by a company, no accounting period of the company ends or begins as a result of any provision of this Schedule. 30
- (4) In relation to any disposal made before 2nd June 2006—
- (a) sub-paragraph (2) applies as if the words from “in so far as” to the end were omitted, and
- (b) sub-paragraph (3) applies as if the words from “If” to “a company,” and the words “of the company” were omitted. 35
- (5) In this paragraph—
- “business of leasing plant or machinery” has the meaning given by Part 2 or (as the case may be) Part 3,
- “relevant plant or machinery subject to a lease” has the same meaning as it has for the purposes of section 228K of CAA 2001 (see section 228M). 40

Definitions for purposes of Schedule

- 41 (1) This paragraph applies for the purposes of this Schedule.

- (2) “Company” means a body corporate.
- (3) “Excluded lease of background plant or machinery for a building” has the meaning given in Chapter 6A of Part 2 of CAA 2001.
- (4) “Finance lease”, in the case of any person, means a lease which, under generally accepted accounting practice, falls or (would fall) to be treated as a finance lease or loan in the accounts of that person. 5
- (5) “Fixture” –
- (a) means any plant or machinery that is so installed or otherwise fixed in or to a building or other description of land as to become, in law, part of that building or other land, and 10
- (b) includes any boiler or water-filled radiator installed in a building as part of a space or water heating system.
- (6) “Plant or machinery” has the same meaning as in Part 2 of CAA 2001.
- (7) “Plant or machinery lease” has the meaning given in Chapter 6A of that Part.
- (8) The market value of any plant or machinery at any time is to be determined on the assumption of a disposal by an absolute owner free from – 15
- (a) all leases (including any agreement or arrangement which is or includes a plant or machinery lease), and
- (b) other encumbrances.
- (9) Section 839 of ICTA (connected persons) applies. 20

Index of definitions

- 42 The following table lists the places where expressions used in this Schedule are defined or otherwise explained in this Schedule for the purposes of this Schedule or a Part of this Schedule –

<i>Expression</i>	<i>Provision</i>	
associated company (in Part 2)	paragraph 9	
associated company (in Part 3)	paragraph 26	
business of leasing plant or machinery (in Part 2)	paragraphs 6 to 8	
business of leasing plant or machinery (in Part 3)	paragraphs 6 to 8 and 25	30
company	paragraph 41	
company’s percentage share in any profits or loss of a business (in Part 3)	paragraph 28	
connected persons	paragraph 41	35
consortium and related expressions	paragraph 14	

<i>Expression</i>	<i>Provision</i>	
excluded lease of background plant or machinery for a building	paragraph 41	
profits or assets available for distribution to equity holders (in Part 2)	paragraph 15	5
finance lease	paragraph 41	
fixture	paragraph 41	
loss (in Part 3)	paragraph 37	10
market value (in relation to plant or machinery)	paragraph 41	
notional business (in Part 3)	paragraph 23	
plant or machinery	paragraph 41	
plant or machinery lease	paragraph 41	15
profits (in Part 3)	paragraph 37	
qualifying change in a company's interest in a business (in Part 3)	paragraphs 27 and 28	
qualifying change of ownership in relation to a company	paragraphs 10 to 13	20
qualifying leased plant or machinery (in Part 2)	paragraph 6	
qualifying 75% subsidiary	paragraph 15	25
qualifying 90% subsidiary	paragraph 15	
relevant change in the relationship between companies	paragraph 10	

Consequential amendments 30

- 43 (1) ICTA is amended as follows.
- (2) In section 12 (basis of, and periods for, assessment), at the end insert –
- “(9) This section is subject to Schedule 10 to the Finance Act 2006.”.
- (3) In section 403 (amounts which may be surrendered by way of group relief), in subsection (4) (section 403 subject to certain exceptions), at the end insert
- “and paragraph 38 of Schedule 10 to the Finance Act 2006 (sale etc of lessor companies etc: anti-avoidance)”.
- 35

SCHEDULE 11

Section 86

INSURANCE COMPANIES

Continuing the effect of orders under section 431A(3) of ICTA

- 1 (1) The amendments made by orders under section 431A(3) of ICTA (power to amend provisions in relation to periods of account ending before 1st October 2006) are to continue to have effect in relation to periods of account ending on or after 1st October 2006 as if those amendments were made by this Act. 5
- (2) Accordingly –
 - (a) in section 431A of ICTA omit subsection (5) (power to extend orders under subsection (3) in relation to periods of account ending before 1st October 2007), and 10
 - (b) in section 432B of ICTA (apportionment of receipts brought into account), as it has effect in relation to periods of account ending on or after 1st October 2006 as a result of sub-paragraph (1), in subsection (4)(b) (application confined to period of accounts ending before 1st October 2006), omit “and ending before 1st October 2006”. 15

Section 432B apportionment: participating funds

- 2 (1) Section 432E of ICTA is amended as follows.
- (2) In subsection (2A) (increase in amount determined under subsection (2) where amount is taken into account under subsection (2) of section 83 of FA 1989 by virtue of subsection (2B) of that section etc) in the opening words, after “section 444ACA(2)” insert “, 444AF(2) or 444AK(2)”. 20
- (3) In that subsection, in the definition of “RP”, after paragraph (b) insert –
 - “(c) subsection (2) of section 444AF of this Act (and see subsections (5) and (6) of that section); 25
 - (d) subsection (2) of section 444AK of this Act (but only for the purposes mentioned in subsection (3) of that section).”.
- (4) The amendments made by this paragraph have effect in relation to periods of account ending on or after 29th September 2005. 30

Transfers of business: excess of assets or liabilities

- 3 (1) Section 444AC is amended as follows.
- (2) In subsection (2B) (excess of liabilities transferred over transferee’s line 31 figure) –
 - (a) in paragraph (a) (excess to be taken into account as receipt of the transferee’s life assurance business) for “the excess” substitute “the life assurance part of the excess”, and 35
 - (b) in the words after paragraph (b) after “for this purpose,” insert ““the life assurance part of the excess” means the proportion of the excess that the liabilities of the transferee’s life assurance business that are transferred bear to the total liabilities transferred and”. 40

- (3) In subsection (2C) (case in which subsection (2B) does not require excess to be taken into account as a receipt of the transferee) for “the excess”, in both places, substitute “the life assurance part of the excess”.
- (4) In subsection (5) (reduction of amount of relevant debts), in paragraph (a) (fair value of assets becoming assets of transferee’s long-term insurance fund) at the beginning insert “the aggregate amount of any relevant reinsurance amounts and of”.
- (5) After that subsection insert –
- “(5A) In subsection (5)(a) above “relevant reinsurance amounts” means –
- (a) amounts which are comprised in line 16 of Form 14 in the periodical return of the transferor covering the period ending immediately before the transfer (or would be so comprised if the transferor drew up a periodical return covering that period), or
- (b) other amounts which arise under contracts of reinsurance in relation to which the reinsurer is the transferee and which, as at the date of the transfer, have fallen due to the transferor, and which (in either case) do not become assets of the transferee’s long-term insurance fund as a result of the transfer because (and only because) they arise under contracts of reinsurance in relation to which the reinsurer is the transferee.”.
- (6) The amendments made by sub-paragraphs (2) and (3) have effect in relation to transfers taking place on or after 22nd March 2006.
- (7) The amendments made by sub-paragraphs (4) and (5) have effect (and are deemed always to have had effect) in relation to transfers taking place on or after 2nd December 2004.

Transfers of business: modification of s. 83(2B) of FA 1989

- 4 (1) Section 444AD is amended as follows.
- (2) At the end insert –
- “(6) For the purposes of this section “insurance business transfer scheme” includes a scheme which would be such a scheme but for section 105(1)(b) of the Financial Services and Markets Act 2000 (which requires the business transferred to be carried on in an EEA State).”.
- (3) The amendment made by this paragraph has effect in relation to schemes taking place on or after 22nd March 2006.

Surpluses of mutual and former mutual businesses

- 5 (1) After section 444AE of ICTA insert –

“Surpluses of mutual and former mutual businesses

444AF Demutualisation surplus: life assurance business

- (1) This section applies in relation to a period of account of an insurance company (“the relevant period”) if –

- (a) at any time in the relevant period the company carries on life assurance business that is not mutual business,
 - (b) the company has an amount of undistributed demutualisation surplus for the relevant period (see subsection (7)), and 5
 - (c) there is a reduction in the amount of the company's unappropriated surplus over the relevant period (see section 444AI).
- (2) Where this section applies in relation to the relevant period, there shall be deemed for the purposes of section 83(2) of the Finance Act 1989 to be brought into account for the relevant period as an increase in the value of the assets of the company's long-term insurance fund whichever of the following amounts is the smallest – 10
 - (a) the amount of the reduction mentioned in subsection (1)(c) above; 15
 - (b) the amount of the company's undistributed demutualisation surplus for the relevant period;
 - (c) the amount of the company's relevant receipts reduction for the relevant period (see section 444AJ).
- (3) If the company prepares for the relevant period one or more such separate revenue accounts as are mentioned in section 83A(2)(b) of the Finance Act 1989 – 20
 - (a) subsection (2) above shall apply separately in relation to each separate revenue account which is recognised for the purposes of section 83 of that Act; and 25
 - (b) for that purpose, any amount that falls to be determined in order to determine –
 - (i) whether that subsection applies in relation to any such separate revenue account, and
 - (ii) if so, the amount to be brought into account under that subsection in relation to that account, 30shall be determined using only amounts or items which relate to the separate revenue account concerned.
- (4) In applying subsection (2) above in relation to a revenue account or separate revenue account which – 35
 - (a) is recognised for the purposes of section 83 of that Act, and
 - (b) is one in relation to which sections 432C and 432D apply,that subsection shall have effect as if for “smallest” there were substituted “smaller” and as if paragraph (c) were omitted.
- (5) This section shall have effect – 40
 - (a) for the purposes of computing in accordance with the provisions of this Act applicable to Case I of Schedule D the profits of the company's life assurance business, and
 - (b) for the purposes of so computing the profits of any category of the company's life assurance business chargeable to tax under Case VI of Schedule D. 45
- (6) But for the purposes mentioned in subsection (5)(b) above, this section and section 444AG have effect subject to the modification in

section 444AH; and the Corporation Tax Acts have effect accordingly (so that there may, in particular, be a difference between –

- (a) the amount deemed to be brought into account by virtue of subsection (2) above for a period of account for those purposes, and 5
 - (b) the amount so deemed to be brought into account for that period of account for the purposes mentioned in subsection (5)(a) above).
- (7) For the purposes of this section, the undistributed demutualisation surplus of an insurance company for the relevant period is – 10
- (a) an amount equal to (UDSP - AD + DTSI - DTSO); or
 - (b) if that amount is a negative amount, nil.

For this purpose –

UDSP is the undistributed demutualisation surplus of the company for the period of account immediately preceding the relevant period, 15

AD is any amount deemed under this section to be brought into account for the period of account immediately preceding the relevant period as an increase in the value of the assets of the company's long-term insurance fund, 20

DTSI is the total amount of any demutualisation transfer surpluses accruing to the company during the relevant period (see section 444AG),

DTSO is the total amount of any demutualisation transfer surpluses accruing to any other company (or companies) during the relevant period on a transfer (or transfers) of life assurance business by the company to that other company (or companies). 25

444AG Section 444AF: “demutualisation transfer surplus”

- (1) For the purposes of section 444AF and this section, a demutualisation transfer surplus accrues to an insurance company where – 30
- (a) life assurance business is transferred to the company by a person (“the transferor”),
 - (b) after the transfer, the company carries on the transferred business otherwise than as mutual business, and 35
 - (c) the condition in subsection (2) below is satisfied in relation to the transfer.
- (2) The condition is that –
- (a) immediately before the transfer, the transferor carried on the transferred business as mutual business, or 40
 - (b) where paragraph (a) above does not apply, some or all of the transferred business was carried on by an insurance company as mutual business at a time on or after 1st January 1990 and before the transfer (“former mutual business”). 45
- (3) The demutualisation transfer surplus accrues to the company on the date of the transfer.
- (4) The amount of the demutualisation transfer surplus is given by subsection (5) or (6) below.

-
- (5) Where subsection (2)(a) above applies, the amount of the demutualisation transfer surplus is –
- (a) where the whole of the transferor’s life assurance business was transferred to the company under the transfer, the aggregate of –
 - (i) the unappropriated surplus of the transferor at the end of the period of account of the transferor ending immediately before the transfer, and 5
 - (ii) the amount of any added surplus accruing to the company in connection with the transfer (see subsection (10)); 10
 - (b) otherwise, a just and reasonable portion of that aggregate amount, having regard to how much of the transferor’s life assurance business was transferred to the company under the transfer. 15
- (6) Where subsection (2)(b) above applies, the amount of the demutualisation transfer surplus is –
- (a) where the whole of the transferor’s life assurance business was transferred to the company under the transfer and all of the transferred business is former mutual business, the former mutual surplus of the transferor on the transfer date (see subsection (7)); 20
 - (b) otherwise, so much of that former mutual surplus as it is just and reasonable to attribute to the company, having regard in particular to –
 - (i) how much of the transferor’s life assurance business was transferred to the company under the transfer, and 25
 - (ii) how much of the transferred business is former mutual business. 30
- (7) For the purposes of subsection (6) above, the former mutual surplus of the transferor on the transfer date is –
- (a) the amount given by subsection (8) below, or
 - (b) if less, the amount given by subsection (9) below.
- (8) The amount given by this subsection is the total amount of any demutualisation transfer surpluses accruing to the transferor – 35
- (a) on or after 1st January 1990, and
 - (b) on or before the date of the transfer.
- (9) The amount given by this subsection is the lowest amount of unappropriated surplus of the transferor at the end of any period of account ending – 40
- (a) on or after the date of the last occasion on which a demutualisation transfer surplus accrued to it as mentioned in subsection (8) above, and
 - (b) on or before the date of the transfer. 45
- (10) For the purposes of this section, added surplus accrues to the company in connection with the transfer if –

- (a) an amount of assets is received by the company in connection with the transfer, no later than six months after the date of the transfer,
- (b) the amount is not brought into account by the company,
- (c) the amount is added to the unappropriated surplus of the company, and
- (d) the amount does not derive from any unappropriated surplus of the transferor;
- and the amount of the added surplus is the amount referred to in paragraphs (a) to (d) above.
- 444AH Modification of section 444AG etc for Case VI businesses**
- (1) The modification in this section has effect for the purposes mentioned in section 444AF(5)(b) only.
- (2) In relation to any demutualisation transfer surplus accruing to a company in a post-2002 period of account –
- (a) the references in section 444AG(5) to the unappropriated surplus of the transferor at the end of the period of account of the transferor ending immediately before the transfer shall be taken to be references to –
- (i) the amount of that unappropriated surplus, or
- (ii) if less, the unappropriated surplus of the transferor at the end of the period of account immediately preceding the first post-2002 period of account of the transferor; and
- (b) the references in sections 444AF and 444AG to the amount of any demutualisation transfer surplus are to have effect accordingly.
- (3) In this section “post-2002 period of account”, in relation to an insurance company, means a period of account of the company beginning on or after 1st January 2003 and ending on or after 9th April 2003.
- 444AI Section 444AF: “reduction in company’s unappropriated surplus”**
- (1) For the purposes of section 444AF –
- (a) there is a reduction in the amount of the company’s unappropriated surplus over the relevant period if CUS is less than $(OUS + TSI - TSO)$;
- (b) the amount of that reduction is the amount by which CUS is less than $(OUS + TSI - TSO)$.
- (2) In this section –
- CUS is the amount of the company’s unappropriated surplus at the end of the relevant period,
- OUS is the amount of the company’s unappropriated surplus at the end of the period of account immediately preceding the relevant period,
- TSI is the total amount of any transfer surpluses accruing to the company during the relevant period (see subsections (3) to (7)),

TSO is the total amount of any transfer surpluses accruing to any other company (or companies) during the relevant period on a transfer (or transfers) of life assurance business by the company to that other company (or companies).

- (3) For the purposes of this section, a transfer surplus accrues to an insurance company where life assurance business is transferred to the company by a person (“the transferor”). 5
- (4) The transfer surplus accrues to the company on the date of the transfer.
- (5) The amount of the transfer surplus is equal to so much of the unappropriated surplus of the transferor at the end of the period of account of the transferor ending immediately before the transfer as is transferred to the company under the transfer. 10
- (6) But if, immediately before the transfer, the transferor carried on the transferred business as mutual business, the amount of the transfer surplus is the aggregate of – 15
 - (a) the amount given by subsection (5) above, and
 - (b) the amount of any added surplus accruing to the company in connection with the transfer.
- (7) Subsection (10) of section 444AG applies for the purposes of subsection (6) above as it applies for the purposes of that section. 20

444AJ Sections 444AF and 444AK: “relevant receipts reduction”

- (1) For the purposes of sections 444AF and 444AK, the amount of the company’s relevant receipts reduction for the relevant period is to be calculated by – 25
 - (a) determining, in the case of each with-profits fund of the company, the amount given by subsection (2) or (6) below for the relevant period, and
 - (b) aggregating each of those amounts.
- (2) The amount, in the case of a fund other than a policy holder participation fund, is – 30
 - (a) where the gross transfer to non-technical account for the fund for the relevant period (see subsections (3) and (4)) is greater than the post-policy holder surplus for the fund for the relevant period (see subsection (5)), the amount of the difference; 35
 - (b) otherwise, nil.
- (3) In this section “the gross transfer to non-technical account” means the amount shown in line 13 of Form 58 for the fund.
- (4) But if – 40
 - (a) there is a transfer from a with-profits fund of the company to another fund of the company (“the initial transfer”) which is shown in (or included in an amount shown in) line 14 of Form 58 for the with-profits fund,
 - (b) there is a transfer from a fund of the company (whether or not the other fund mentioned in paragraph (a) above) to the non- 45

- technical account which is shown in (or included in an amount shown in) line 13 of Form 58 for that fund, and
- (c) the transfer to the non-technical account can reasonably be regarded as connected with the initial transfer,
- the amount of the gross transfer to non-technical account for the relevant period given by subsection (3) above in the case of the with-profits fund is to be increased by the amount transferred to the non-technical account. 5
- (5) In this section “post-policy holder surplus” means an amount equal to – 10
- SA – TAP**
- where –
- SA is –
- (a) the amount shown in line 34 of Form 58 for the fund (surplus arising since last valuation), or 15
- (b) if that amount is a negative amount, nil;
- TAP is the amount shown in line 46 of Form 58 for the fund (total allocated to policy holders).
- (6) The amount, in the case of a policy holder participation fund, is – 20
- (a) where TAP is greater than SA, the amount of the difference;
- (b) otherwise, nil;
- and for this purpose “SA” and “TAP” have the same meaning as in subsection (5) above.
- (7) References in this section to Form 58 are references to that Form in the periodical return of the company for the relevant period. 25
- (8) In this section “policy holder participation fund” means a fund in the case of which an amount equal to the amount shown in line 34 of Form 58 for the fund is allocated to policy holders for the relevant period.
- 444AK Mutual surplus: Case VI categories of life assurance business 30**
- (1) This section applies if at any time in a period of account of an insurance company (“the relevant period”) –
- (a) the company carries on life assurance business as mutual business, and
- (b) the company carries on one or more categories of life assurance business chargeable to tax under Case VI of Schedule D. 35
- (2) If there is a reduction in the amount of the company’s unappropriated surplus over the relevant period, there shall be deemed for the purposes of section 83(2) of the Finance Act 1989 to be brought into account for the relevant period as an increase in the value of the assets of the company’s long-term insurance fund – 40
- (a) the amount of that reduction, or
- (b) if less, the amount of the company’s relevant receipts reduction for the relevant period (see section 444AJ). 45
- (3) But subsection (2) above shall have effect only for the purposes of computing in accordance with the provisions of this Act applicable

to Case I of Schedule D the profits for the relevant period of any category of the company's life assurance business chargeable to tax under Case VI of Schedule D.

- (4) If the company prepares for the relevant period one or more such separate revenue accounts as are mentioned in section 83A(2)(b) of the Finance Act 1989 – 5
- (a) subsection (2) above shall apply separately in relation to each separate revenue account which is recognised for the purposes of section 83 of that Act; and
 - (b) for that purpose, any amount that falls to be determined in order to determine – 10
 - (i) whether that subsection applies in relation to any such separate revenue account, and
 - (ii) if so, the amount to be brought into account under that subsection in relation to that account, 15shall be determined using only amounts or items which relate to the separate revenue account concerned.
- (5) In applying subsection (2) above in relation to a revenue account or separate revenue account which – 20
- (a) is recognised for the purposes of section 83 of that Act, and
 - (b) is one in relation to which sections 432C and 432D apply,
- that subsection shall have effect as if paragraph (b) and the word “or” before it were omitted.
- (6) For the purposes of this section, there is a reduction in the amount of the company's unappropriated surplus over the relevant period if – 25
- (a) CUS is less than OUS, and
 - (b) CUS is less than UUS.
- (7) The amount of that reduction is – 30
- (a) the amount by which CUS is less than OUS, or
 - (b) if OUS is greater than UUS, the amount by which CUS is less than UUS.
- (8) In this section –
- CUS is the amount of the company's unappropriated surplus at the end of the relevant period,
 - OUS is the amount of the company's unappropriated surplus at the end of the period of account immediately preceding the relevant period, 35
 - UUS is the amount of the company's unappropriated surplus at the end of the period of account immediately preceding the first period of account of the company to begin on or after 1st January 2003 and to end on or after 9th April 2003. 40

444AL Interpretation of sections 444AF to 444AK

- (1) This section applies for the purposes of sections 444AF to 444AK.
- (2) References to mutual business, in relation to any time, include business which at that time is treated for the purposes of section 432E as mutual business. 45

- (3) “Unappropriated surplus”, in relation to a period of account of an insurance company, means an unappropriated surplus on valuation as shown in the periodical return of the company for the period of account.
- (4) References to the unappropriated surplus of the transferor at the end of the period of account of the transferor ending immediately before the transfer are, where a period of account of the transferor does not end at that time, references to the unappropriated surplus on valuation that would have been shown in a periodical return of the transferor for that period had such a return been drawn up.” 5
10
- (2) The amendment made by this paragraph has effect in relation to periods of account ending on or after 29th September 2005.
- (3) In determining for the purposes of section 444AF of ICTA the undistributed demutualisation surplus of an insurance company for the first period of account of the company to end on or after 29th September 2005 and before 22nd March 2006 (“the transitional period”), the value of UDSP in subsection (7) of that section is to be taken to be – 15
- (a) the amount given by sub-paragraph (4), or
- (b) if less, the amount given by sub-paragraph (5).
- (4) The amount given by this sub-paragraph is the total amount of any demutualisation transfer surpluses accruing to the company – 20
- (a) on or after 1st January 1990, and
- (b) before the beginning of the transitional period.
- (5) The amount given by this sub-paragraph is the lowest amount of unappropriated surplus of the company at the end of any period of account ending – 25
- (a) on or after the date of the last occasion on which a demutualisation transfer surplus accrued to it as mentioned in sub-paragraph (4), and
- (b) before the beginning of the transitional period.
- (6) Sections 444AF(3), 444AG, 444AH and 444AL of ICTA apply for the purposes of sub-paragraphs (3) to (5), but section 444AG has effect subject to the following modifications – 30
- (a) in subsection (5)(a), omit –
- (i) the words “the aggregate of”,
- (ii) sub-paragraph (ii), and 35
- (iii) the word “and” before that sub-paragraph;
- (b) in subsection (5)(b), for “that aggregate amount” substitute “that unappropriated surplus”;
- (c) omit subsection (10).
- (7) In determining the value of DTSI for the purposes of section 444AF(7) of ICTA where the relevant period ends on or after 29th September 2005 and before 22nd March 2006, section 444AG of ICTA has effect subject to the modifications specified in sub-paragraph (6). 40
- (8) Where the relevant period ends on or after 29th September 2005 and before 22nd March 2006, section 444AI of ICTA has effect as if subsections (6) and (7) of that section were omitted. 45
- (9) Sub-paragraphs (10) to (12) apply in relation to an insurance company if –

- (a) a period of account of the company did not end on or after 29th September 2005 and before 22nd March 2006;
 - (b) any value of UDSP given by sub-paragraph (3) in relation to the company is lower than it would have been if the words from “but” in sub-paragraph (6) to the end of that sub-paragraph had been omitted; or 5
 - (c) any value of DTSI in section 444AF(7) of ICTA for any period of account of the company ending on or after 29th September 2005 and before 22nd March 2006 is, by virtue of sub-paragraph (7), lower than it would have been if that sub-paragraph had been omitted. 10
- (10) In determining for the purposes of section 444AF of ICTA the undistributed demutualisation surplus of an insurance company for the first period of account of the company to end on or after 22nd March 2006 (“the initial period”), the value of UDSP in subsection (7) of that section is to be taken to be – 15
- (a) the amount given by sub-paragraph (11), or
 - (b) if less, the amount given by sub-paragraph (12).
- (11) The amount given by this sub-paragraph is the total amount of any demutualisation transfer surpluses accruing to the company – 20
- (a) on or after 1st January 1990, and
 - (b) before the beginning of the initial period.
- (12) The amount given by this sub-paragraph is the lowest amount of unappropriated surplus of the company at the end of any period of account ending – 25
- (a) on or after the date of the last occasion on which a demutualisation transfer surplus accrued to it as mentioned in sub-paragraph (11), and
 - (b) before the beginning of the initial period.
- (13) Sections 444AF(3), 444AG, 444AH and 444AL of ICTA apply for the purposes of sub-paragraphs (10) to (12). 30
- (14) In relation to any period of account ending before 31st December 2005, the references in section 444AJ(5) and (8) of ICTA to line 34 of Form 58 are to be taken to be references to line 35 of Form 58.

Receipts to be taken into account

- 6 (1) Section 83 of FA 1989 is amended as follows. 35
- (2) In subsection (2B) (circumstances in which fair value of assets of long-term insurance fund which are transferred are to be brought into account) –
- (a) for “unless the assets” substitute “except to the extent that the assets (or their value)”, and
 - (b) in paragraph (a) for “or (2D)” substitute “, (2D) or (2DA)”. 40
- (3) After subsection (2D) (exclusion if assets transferred for fair value and consideration forms part of long-term insurance fund) insert –
- “(2DA) If –
- (a) assets of the company’s long-term insurance fund are transferred by the company to another person (“the transferee”), 45

- (b) the transferee assumes, as a result of the transfer, a liability representing a debenture loan which, immediately before the transfer, was a liability of that fund, and
- (c) the liability does not, as a result of the transfer, become a liability of any long-term insurance fund of the transferee, so much of the fair value of the assets as does not exceed the fair value of the liability is excluded from subsection (2B) above.”. 5
- (4) In subsection (8) (definitions), in the definition of “fair value”, for “, in relation to assets,” to “its amount;” substitute “ –
- (a) in relation to assets, means the amount which would be obtained from an independent person purchasing them or, if the assets are money, its amount; 10
- (b) in relation to liabilities, means the amount which would be paid to an independent person assuming them;” 15
- (5) The amendments made by this paragraph have effect in relation to transfers taking place on or after 22nd March 2006.

Changes in value of assets brought into account: non-profit companies

- 7 (1) After section 83 of FA 1989 insert –
- “83YA Changes in value of assets brought into account: non-profit companies 20**
- (1) This section applies if, in the case of any non-profit company, –
- (a) the amount shown in line 51 of Form 14 of its periodical return in respect of the whole of its long-term business for any period of account (“the current period of account”), exceeds 25
- (b) the aggregate amount of the amounts shown in line 51 of Form 14 of its periodical return in respect of its with-profits funds (if any) for that period.
- (2) A comparison shall be made between – 30
- (a) the appropriate line 51 amount of the company for the current period of account (“the current line 51 amount”), and
- (b) the aggregate amount of the appropriate line 51 amount of the company for the previous period of account (if any) and the amount of any transfer-in amount of the company for that period. 35
- (3) If the current line 51 amount is greater than that aggregate amount, an amount equal to the difference shall be deemed for the purposes of section 83(2) to be brought into account for the current period of account as an increase in the value of non-linked assets. 40
- (4) If the current line 51 amount is less than that aggregate amount, an amount equal to the difference shall be deemed for the purposes of section 83(2) to be brought into account for the current period of account as a decrease in the value of non-linked assets.

- (5) The amount brought into account by virtue of this section shall be deemed for the purposes of section 83(2) to be brought into account—
- (a) in the revenue account mentioned in section 83A(2)(a), or
 - (b) if section 83A(4) is applicable, in the separate revenue account treated as prepared by virtue of that provision.
- (6) Any amount brought into account by virtue of this section is in addition to any amount brought into account for the purposes of section 83(2) for the current period of account as an increase or decrease in the value of non-linked assets apart from this section.
- (7) For the purposes of this section a company has a transfer-in amount for any period of account (“the previous period of account”) if—
- (a) a transfer takes place in the following period of account, and
 - (b) the company, as the transferee, is a party to an election under section 444AD of the Taxes Act 1988 (transfers of business: modification of section 83(2B)),
- and the amount of the transfer-in amount for the previous period of account is the amount specified in subsection (4) of that section.
- (8) For the purposes of this section and section 83YB “non-profit company”, in relation to a period of account, means a company carrying on long-term business where, at the end of that period,—
- (a) none of the liabilities of that business, or
 - (b) none but an insignificant proportion of those liabilities, are with-profits liabilities.
- (9) But if a company considers that, in relation to a period of account, it is no longer such a company, it may elect to be treated for the purposes of this section and section 83YB as if, in relation to that period of account and every subsequent period of account, it were a non-profit company.
- (10) Any such election—
- (a) is irrevocable, and
 - (b) must be made by notice to an officer of the Board on or before the end of the period of 6 months beginning with the day on which that period of account ends.
- (11) For the purposes of this section and section 83YB—
- “amount”, in relation to line 51 of Form 14 of the company’s periodical return, includes a nil amount;
 - “with-profits fund” has the same meaning as in the Integrated Prudential Sourcebook.
- 83YB Meaning of “appropriate line 51 amount” for purposes of s.83YA**
- (1) For the purposes of section 83YA, the appropriate line 51 amount of a non-profit company for any period of account is determined as follows.
- Step 1*
Find the company’s basic line 51 amount for the period of account.
- Step 2*

- Reduce that amount (but not below nil) by the amount of any unrecognised capital amount of the company for the period of account.
- But this step applies only if the period of account for which the appropriate line 51 amount of the company is being determined is the current period of account for the purposes of section 83YA. 5
- Step 3*
- Increase the resulting amount by the amount of any relevant loan repayment made by the company in the period of account.
- (2) For the purposes of step 1, the company's basic line 51 amount for any period of account is – 10
- (a) in the case where no with-profits funds form part of its long-term business for that period, the amount shown in line 51 of Form 14 of its periodical return in respect of the whole of its long-term business for that period, and 15
- (b) in any other case, so much of that amount as exceeds the aggregate amount of the amounts shown in line 51 of Form 14 of its periodical return in respect of its with-profits funds for that period.
- (3) For the purposes of step 2, the company has an unrecognised capital amount for any period of account if – 20
- (a) any assets ("the added assets") become assets of its long-term insurance fund but do not become assets of any of its with-profits funds,
- (b) the consideration for the acquisition of the added assets does not comprise any assets which, immediately before the acquisition, were assets of its long-term insurance fund, 25
- (c) no amount is shown in respect of the added assets in any of lines 17 to 41 of Form 14 of its periodical return in respect of the whole of its long-term business for the period of account, and 30
- (d) no amount is brought into account for the period of account in consequence of the acquisition of the added assets.
- (4) For the purposes of step 2, the amount of the unrecognised capital amount for the period of account is the amount equal to the fair value of the added assets. 35
- (5) For this purpose the "fair value of the added assets" means –
- (a) the amount which would be obtained from an independent person purchasing them, or
- (b) if the assets are money, its amount. 40
- (6) For the purposes of step 3, a relevant loan repayment is made by the company in any period of account if –
- (a) a repayment in respect of a loan is made by the company in the period of account, and
- (b) the loan is one in relation to which the company has, for the purposes of step 2, an unrecognised capital amount for that or any other period of account." 45
- (2) The amendment made by this paragraph has effect in relation to periods of account ending on or after 29th September 2005.

- (3) There are the following modifications of sections 83YA and 83YB of FA 1989 in the case of any period of account of a company (“the straddling period of account”) –
- (a) beginning before 29th September 2005, and
 - (b) ending on or after that date. 5
- (4) The modifications are that sections 83YA and 83YB of FA 1989 have effect in relation to the straddling period of account (as “the current period of account”) as follows.
- First modification*
- Determine the company’s basic line 51 amount for the previous period of account by reference to the last period of account (if any) of the company ending before 1st January 2004. 10
- Second modification*
- Increase the amount of any transfer-in amount of the company for the previous period of account by the aggregate amounts of any transfer-in amounts of the company for any period of account beginning on or after 1st January 2004 and ending before the previous period of account. 15
- Third modification*
- Increase the amount of any unrecognised capital amount of the company for the straddling period of account by the aggregate amounts of unrecognised capital amounts of the company for any period of account beginning on or after 1st January 2004 and ending before the straddling period of account. 20
- Fourth modification*
- Reduce (but not below nil) the company’s basic line 51 amount for the straddling period of account by the appropriate amount of any resilience capital for the straddling period of account. 25
- For this purpose “the appropriate amount of any resilience capital for the straddling period of account” means the amount by which –
- (a) the amount shown in line 32 of Form 2 of the company’s periodical return in respect of the whole of its long-term business for the straddling period of account, exceeds 30
 - (b) the amount of any unrecognised capital amount of the company for that period as determined in accordance with the third modification.
- (5) In any case where any of the above modifications apply –
- (a) no amount is to be brought into account for the straddling period of account by virtue of subsection (4) of section 83YA of FA 1989, and 35
 - (b) no amount is to be brought into account for subsequent periods of account by virtue of that subsection, except so far as an amount has been brought into account for a previous period of account by virtue of subsection (3) of that section (and has not previously been taken into account under this paragraph). 40
- (6) If, as a result of the fourth modification, the company’s basic line 51 amount for the straddling period of account is reduced by an amount (“the reduction”) –
- (a) sections 83YA and 83YB of FA 1989 have effect in relation to the company’s next period of account after the straddling period of account as if the appropriate line 51 amount of the company for the straddling period of account were determined without making the fourth modification, and 45
 - (b) the following adjustments are made. 50

- (7) An amount equal to two-thirds of the reduction is to be deemed to be brought into account for the company's first period of account beginning on or after 1st January 2007 by virtue of subsection (3) of section 83YA of FA 1989.
- (8) An amount equal to one-third of the reduction is to be deemed to be brought into account for the company's next period of account by virtue of subsection (3) of section 83YA of FA 1989. 5
- (9) But if the company ceases to carry on long-term business at any time –
- (a) before 1st January 2007, or
- (b) before the end of its first period of account beginning on or after 1st January 2007, 10
- the whole of the reduction is to be deemed to be brought into account for the company's period of account ending immediately before that time by virtue of subsection (3) of section 83YA of FA 1989.
- (10) Any amount brought into account by virtue of any of sub-paragraphs (7) to (9) is in addition to – 15
- (a) any amount that, apart from those sub-paragraphs, is brought into account by virtue of subsection (3) of section 83YA of FA 1989, or
- (b) any amount that is brought into account by virtue of subsection (4) of that section. 20
- (11) Any expression which is used in this paragraph and in section 83YA or 83YB of FA 1989 has the same meaning in this paragraph as it has in that section.

Contingent loans

- 8 (1) Section 83ZA of FA 1989 is amended as follows.
- (2) In subsection (7) (meaning of appropriate amount for a period of account) – 25
- (a) in the opening words omit “the aggregate of”, and
- (b) omit paragraph (b) (deficiencies of assets over liabilities received on relevant transferred business) and the “and” before that paragraph.
- (3) Omit subsection (10) (meaning of “deficiencies of assets over liabilities received on relevant transferred business”). 30
- (4) In subsection (11) (meaning of “the relevant contingent loan”) for “subsections (8) and (10)” substitute “subsection (8)”.
- (5) Omit subsection (12) (definition in relation to subsection (10)(b)).
- (6) In subsection (15) (references in subsections (8), (12) and (13) to an amount being brought into account) omit “, (12)”. 35
- (7) The amendments made by this paragraph have effect (and are deemed always to have had effect) in relation to transfers taking place on or after 2nd December 2004.

SCHEDULE 12

Section 88

SETTLEMENTS: AMENDMENT OF TCGA 1992 ETC

PART 1

SETTLORS, TRUSTEES AND SETTLEMENTS

<i>Basic trust concepts</i>	5
1 (1) In section 68 of TCGA 1992 for the definition of “settled property” substitute ““settled property” means any property held in trust other than property to which section 60 applies (and references, however expressed, to property comprised in a settlement are references to settled property).”	
(2) After section 68 of TCGA 1992 insert –	10
“68A Meaning of “settlor”	
(1) In this Act, unless the context otherwise requires –	
(a) “settlor” in relation to a settlement means the person, or any of the persons, who has made, or is treated for the purposes of this Act as having made, the settlement, and	15
(b) a person is a settlor of property which –	
(i) is settled property by reason of his having made the settlement (or by reason of an event which causes him to be treated under this Act as having made the settlement), or	20
(ii) derives from property to which sub-paragraph (i) applies.	
(2) A person is treated for the purposes of this Act as having made a settlement if –	
(a) he has made or entered into the settlement, directly or indirectly, or	25
(b) the settled property, or property from which the settled property is derived, is or includes property of which he was competent to dispose immediately before his death, and the settlement arose on his death, whether by will, on his intestacy, or otherwise.	30
(3) A person is, in particular, treated for the purposes of this Act as having made a settlement if –	
(a) he has provided property directly or indirectly for the purposes of the settlement, or	35
(b) he has undertaken to provide property directly or indirectly for the purposes of the settlement.	
(4) Where one person (A) makes or enters into a settlement in accordance with reciprocal arrangements with another person (B), for the purposes of this Act –	40
(a) B shall be treated as having made the settlement, and	
(b) A shall not be treated as having made the settlement by reason only of the reciprocal arrangements.	

-
- (5) In subsection (2)(b) “property of which he was competent to dispose immediately before his death” shall be construed in accordance with section 62(10) (reading each reference to “assets” as a reference to “property”).
- (6) A person who has been a settlor in relation to a settlement shall be treated for the purposes of this Act as having ceased to be a settlor in relation to the settlement if – 5
- (a) no property of which he is a settlor is comprised in the settlement,
 - (b) he has not undertaken to provide property directly or indirectly for the purposes of the settlement in the future, and 10
 - (c) he has not made reciprocal arrangements with another person for that other person to enter into the settlement in the future.
- (7) For the purpose of this section and sections 68B and 68C property is derived from other property – 15
- (a) if it derives (directly or indirectly and wholly or partly) from that property or any part of it, and
 - (b) in particular, if it derives (directly or indirectly and wholly or partly) from income from that property or any part of it. 20
- (8) In this section “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable.
- 68B Transfer between settlements: identification of settlor**
- (1) This section applies in relation to a transfer of property from the trustees of one settlement (“Settlement 1”) to the trustees of another (“Settlement 2”) otherwise than – 25
- (a) for full consideration, or
 - (b) by way of a bargain made at arm’s length.
- (2) In this section “transfer of property” means – 30
- (a) a disposal of property by the trustees of Settlement 1, and
 - (b) the acquisition by the trustees of Settlement 2 of – 35
 - (i) property disposed of by the trustees of Settlement 1, or
 - (ii) property created by the disposal;
 and a reference to transferred property is a reference to property acquired by the trustees of Settlement 2 on the disposal.
- (3) For the purposes of this Act, except where the context otherwise requires – 40
- (a) the settlor (or each settlor) of the property disposed of by the trustees of Settlement 1 shall be treated from the time of the disposal as having made Settlement 2, and 40
 - (b) if there is more than one settlor of the property disposed of by the trustees of Settlement 1, each settlor shall be treated in relation to Settlement 2 as the settlor of a proportionate part of the transferred property. 45
- (4) For the purposes of this Act, except where the context otherwise requires, if and to the extent that the property disposed of by the

trustees of Settlement 1 was provided for the purposes of Settlement 1, or is derived from property provided for the purposes of Settlement 1, the transferred property shall be treated from the time of the disposal as having been provided for the purposes of Settlement 2.

5

(5) If transferred property is treated by virtue of subsection (4) as having been provided for the purposes of Settlement 2 –

(a) the person who provided the property disposed of by the trustees of Settlement 1, or property from which it was derived, for the purposes of Settlement 1 shall be treated as having provided the transferred property, and

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(b) if more than one person provided the property disposed of by the trustees of Settlement 1, or property from which it was derived, for the purposes of Settlement 1, each of them shall be treated as having provided a proportionate part of the transferred property.

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(6) But subsections (3) and (4) do not apply in relation to a transfer of property –

(a) which occurs by reason only of the assignment or assignation by a beneficiary under Settlement 1 of an interest in that settlement to the trustees of Settlement 2,

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(b) which occurs by reason only of the exercise of a general power of appointment, or

(c) to which section 68C(6) applies.

(7) In determining whether this section applies in relation to a transfer of property between settlements, section 18(2) shall be disregarded.

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68C Variation of will or intestacy, etc: identification of settlor

(1) This section applies where –

(a) a disposition of property following a person's death is varied, and

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(b) section 62(6) applies in respect of the variation.

(2) Where property becomes settled property in consequence of the variation (and would not, but for the variation, have become settled property), a person mentioned in subsection (3) shall be treated for the purposes of this Act, except where the context otherwise requires –

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(a) as having made the settlement, and

(b) as having provided the property for the purposes of the settlement.

(3) Those persons are –

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(a) a person who immediately before the variation was entitled to the property, or to property from which it derives, absolutely as legatee,

(b) a person who would have become entitled to the property, or to property from which it derives, absolutely as legatee but for the variation,

45

(c) a person who immediately before the variation would have been entitled to the property, or to property from which it

-
- derives, absolutely as legatee but for being an infant or other person under a disability, and
- (d) a person who would, but for the variation, have become entitled to the property, or to property from which it derives, absolutely as legatee if he had not been an infant or other person under a disability. 5
- (4) In subsection (3) references to a person being entitled to property absolutely as legatee shall be construed in accordance with section 64(3) (reading the references to “an asset” and “any asset” as references to “property”). 10
- (5) Where –
- (a) property would have become comprised in a settlement –
- (i) which arose on the deceased person’s death (whether in accordance with his will, on his intestacy or otherwise), or 15
- (ii) which was already in existence on the deceased person’s death (whether or not the deceased person was a settlor in relation to that settlement), but
- (b) in consequence of the variation the property, or property derived from it, becomes comprised in another settlement, 20
- the deceased person shall be treated for the purposes of this Act, except where the context otherwise requires, as having made the other settlement.
- (6) Where –
- (a) immediately before the variation property is comprised in a settlement and is property of which the deceased person is a settlor, and 25
- (b) immediately after the variation the property, or property derived from it, becomes comprised in another settlement, 30
- the deceased person shall be treated for the purposes of this Act, except where the context otherwise requires, as having made the other settlement.
- (7) If a person is treated as having made a settlement under subsection (5) or (6), for the purposes of this Act he shall be treated as having made the settlement immediately before his death. 35
- (8) But subsection (7) does not apply in relation to a settlement which arose on the person’s death.”
- (3) The amendment of section 68 made by sub-paragraph (1) shall come into force on 6th April 2006 (in relation to settlements whenever created).
- (4) Sections 68A and 68B (as inserted by sub-paragraph (2)) shall come into force on 6th April 2006 (in relation to settlements whenever created). 40
- (5) Section 68C (as inserted by sub-paragraph (2)) shall have effect in respect of variations occurring on or after 6th April 2006 (irrespective of the date on which the deceased person died).
- 2 (1) For section 69(1) and (2) of TCGA 1992 (residence of trustees, etc) substitute – 45

- “(1) For the purposes of this Act the trustees of a settlement shall, unless the context otherwise requires, together be treated as if they were a single person (distinct from the persons who are trustees of the settlement from time to time).
- (2) The deemed person referred to in subsection (1) shall be treated for the purposes of this Act as resident and ordinarily resident in the United Kingdom at any time when a condition in subsection (2A) or (2B) is satisfied. 5
- (2A) Condition 1 is that all the trustees are resident in the United Kingdom. 10
- (2B) Condition 2 is that –
- (a) at least one trustee is resident in the United Kingdom,
 - (b) at least one is not resident in the United Kingdom, and
 - (c) a settlor in relation to the settlement was resident, ordinarily resident or domiciled in the United Kingdom at a time which is a relevant time in relation to him. 15
- (2C) In subsection (2B)(c) “relevant time” in relation to a settlor –
- (a) means, where the settlement arose on the settlor’s death (whether by will, intestacy or otherwise), the time immediately before his death, and
 - (b) in any other case, means a time when the settlor made the settlement (or was treated for the purposes of this Act as making the settlement); 20
- and, in the case of a transfer of property from Settlement 1 to Settlement 2 in relation to which section 68B applies, “relevant time” in relation to a settlor of the transferred property in respect of Settlement 2 includes any time which, immediately before the time of the disposal by the trustees of Settlement 1, was a relevant time in relation to that settlor in respect of Settlement 1. 25
- (2D) A trustee who is not resident in the United Kingdom shall be treated for the purposes of subsections (2A) and (2B) as if he were resident in the United Kingdom at any time when he acts as trustee in the course of a business which he carries on in the United Kingdom through a branch, agency or permanent establishment there. 30
- (2E) If the deemed person referred to in subsection (1) is not treated for the purposes of this Act as resident and ordinarily resident in the United Kingdom, then for the purposes of this Act it shall be treated as neither resident nor ordinarily resident in the United Kingdom.” 35
- (2) This paragraph shall have effect –
- (a) for the purposes of determining the residence status of the trustees of a settlement (whenever created), from 6th April 2007, and
 - (b) for any other purpose (in relation to settlements whenever created), from 6th April 2006. 40

Interests in settlements

- 3 (1) In section 77 of TCGA 1992 (charge on settlor with interest in settlement) – 45
- (a) in subsection (2)(a) after “any property which” insert “is or”,
 - (b) after subsection (2) insert –

- “(2A) A settlor shall also be regarded as having an interest in a settlement (subject to the following provisions of this section) if –
- (a) any property which is or may at any time be comprised in the settlement, or any derived property, is, or will or may become, payable to or applicable for the benefit of a child of the settlor, at a time when that child is a dependent child of his, in any circumstances whatsoever, or 5
 - (b) a dependent child of the settlor enjoys a benefit deriving directly or indirectly from any property which is comprised in the settlement or any derived property.”, 10
- (c) after subsection (3) insert –
- “(3A) In this section – 15
- (a) “dependent child” means a child who –
 - (i) is under the age of 18 years,
 - (ii) is unmarried, and
 - (iii) does not have a civil partner, and
 - (b) “child” includes a stepchild. 20
- (3B) For the purposes of subsection (2A) above no account shall be taken of a term of a settlement relating to dependent children of a settlor in respect of any time at which he has no dependent child.”,
- (d) in subsection (6) – 25
- (i) omit “or” at the end of paragraph (a), and
 - (ii) after paragraph (b) insert – “; or
 - (c) in a case where the settlor is regarded as having an interest in a settlement by reason only of – 30
 - (i) the fact that property is, or will or may become, payable to or applicable for the benefit of a dependent child of his, or
 - (ii) the fact that a benefit is enjoyed by such a child,

where the settlor ceases during the year to have (and does not in that year subsequently come to have) any dependent child in relation to whom subsection (2A)(a) or (b) above applies.”, and 35
- (e) after subsection (8) insert –
- “(9) This section shall have effect subject to the provisions of section 30 of the Finance Act 2005.” 40
- (2) Sub-paragraph (1) shall have effect for the purpose of determining whether for the purposes of section 77 a settlor is regarded as having an interest in a settlement (whenever created) on or after 6th April 2006.
- 4 (1) In section 169F of TCGA 1992 (meaning of “interest in a settlement” for purposes of sections 169B to 169D) – 45
- (a) in subsection (1) for “or (3)” substitute “, (3) or (3A)”,
 - (b) in subsection (2)(a) after “any property which” insert “is or”,
 - (c) after subsection (3) insert –

- “(3A) This subsection applies if –
- (a) any property which is or may at any time be comprised in the settlement, or any derived property, is, or will or may become, payable to or applicable for the benefit of a child of the individual, at a time when that child is a dependent child of his, in any circumstances whatsoever, or 5
 - (b) a dependent child of the individual enjoys a benefit deriving directly or indirectly from any property which is comprised in the settlement or any derived property.”, and 10
- (d) after subsection (4) insert –
- “(4A) In this section –
- (a) “dependent child” means a child who – 15
 - (i) is under the age of 18 years,
 - (ii) is unmarried, and
 - (iii) does not have a civil partner, and
 - (b) “child” includes a stepchild.
- (4B) For the purposes of subsection (3A) above no account shall be taken of a term of a settlement relating to dependent children of an individual in respect of any time at which he has no dependent child.” 20
- (2) Sub-paragraph (1) shall have effect for the purpose of determining whether for the purposes of sections 169B to 169D and 169F an individual is to be regarded as having an interest in a settlement (whenever created) on or after 6th April 2006. 25
- (3) But sub-paragraph (1) shall not have effect in relation to section 169C if the relevant disposal (within the meaning of section 169C(1)) is made on or before 5th April 2006.
- 5 (1) In paragraph 7(5) of Schedule 4A to TCGA 1992 (disposal of interest in settled property) – 30
- (a) leave out “or” at the end of paragraph (a), and
 - (b) after paragraph (b) insert – “, or
 - (c) in a case where the settlor is regarded as having an interest in a settlement by reason only of – 35
 - (i) the fact that property is, or will or may become, payable to or applicable for the benefit of a dependent child of his, or
 - (ii) the fact that a benefit is enjoyed by such a child, where the settlor ceases during the year to have (and does not in that year subsequently come to have) any dependent child in relation to whom section 77(2A)(a) or (b) applies.” 40
- (2) Sub-paragraph (1) shall have effect for the purpose of determining whether a settlor is regarded as having an interest in a settlement (whenever created) for the purposes of Schedule 4A to TCGA 1992 on or after 6th April 2006. 45

PART 2

SUB-FUND SETTLEMENTS

- 6 (1) After section 69 of TCGA 1992 insert –

“69A Sub-fund settlements

Schedule 4ZA (which makes provision about sub-fund settlements) 5
shall have effect.”

- (2) After Schedule 4 to TCGA 1992 insert –

“SCHEDULE 4ZA

SUB-FUND SETTLEMENTS

Making a sub-fund election 10

1 The trustees of a settlement (the “principal settlement”) may elect that a fund or other specified portion of the settled property (the “sub-fund”) be treated, unless the context otherwise requires, as a separate settlement (the “sub-fund settlement”) for the purposes of this Act, and the election shall have effect. 15

2 (1) An election under paragraph 1 (a “sub-fund election”) must specify the date on which it is to be treated as having taken effect, which must not be later than the date on which it is made.

(2) The election shall be treated as having taken effect – 20

(a) at the beginning of the specified date, or

(b) if there is a deemed disposal of an asset by the trustees of the principal settlement under section 71(1) (by virtue of paragraph 19) or section 80(2) (by virtue of paragraph 18(2)), on the specified date immediately after the deemed disposal. 25

3 Trustees may make a sub-fund election only if –

(a) Conditions 1 to 4 are satisfied when the election is made, and

(b) Conditions 2 to 4 were satisfied throughout the period beginning with the time when the election is to be treated as having taken effect and ending immediately before the election is made. 30

4 Condition 1 is that the principal settlement is not itself a sub-fund settlement.

5 Condition 2 is that the sub-fund is not the whole of the property comprised in the principal settlement. 35

6 Condition 3 is that, if the sub-fund election had taken effect, the sub-fund settlement would not consist of or include an interest in an asset any other interest in which would be comprised in the principal settlement. 40

7 For the purpose of Condition 3 –

(a) sections 104(1) and 109(2)(a) shall not have effect, and

- (b) “interest”, in relation to any asset, means an interest as a co-owner of the asset (whether the asset is owned jointly or in common and whether or not the interests of the co-owners are equal).
- 8 Condition 4 is that, if the sub-fund election had taken effect, no person would be a beneficiary under both the sub-fund settlement and the principal settlement. 5
- 9 (1) For the purpose of Condition 4 a person is a beneficiary under a settlement –
- (a) if – 10
- (i) any property which is or may at any time be comprised in the settlement, or
- (ii) any derived property, is, or will or may become, payable to him or applicable for his benefit in any circumstances whatsoever, or 15
- (b) if he enjoys a benefit deriving directly or indirectly from –
- (i) any property which is comprised in the settlement, or
- (ii) any derived property.
- (2) But for the purpose of Condition 4 a person is not to be regarded as a beneficiary under a settlement if property comprised in the settlement, or any derived property, will or may become payable to him or applicable for his benefit by reason only of –
- (a) his marrying, or entering into a civil partnership with, a beneficiary under the settlement, 25
- (b) the death of a beneficiary under the settlement,
- (c) the exercise by the trustees of the settlement of –
- (i) a power conferred by section 32 of the Trustee Act 1925 (c.19) or section 33 of the Trustee Act (Northern Ireland) 1958 (c. 23 (N.I.)) (powers of advancement), 30
- (ii) a power conferred by the law of a jurisdiction other than England and Wales or Northern Ireland which makes provision similar to the provisions specified in sub-paragraph (i), or 35
- (iii) a power of advancement which is conferred by the instrument creating the principal settlement, or by another instrument made in accordance with the terms of the principal settlement, and which is subject to the same restrictions as those specified in section 32(1)(a) and (c) of the Trustee Act 1925, or 40
- (d) the failure or determination of trusts of the kind described in section 33 of the Trustee Act 1925 (protective trusts).
- (3) In this paragraph “derived property”, in relation to any property, means – 45
- (a) income from that property,
- (b) property directly or indirectly representing –
- (i) proceeds of that property, or
- (ii) proceeds of income from that property, or

- (c) income from property which is derived property by virtue of paragraph (b).

Sub-fund elections: procedure

- 10 A sub-fund election must be made –
- (a) by notice to an officer of Revenue and Customs, and 5
 - (b) in such form as the Commissioners for Her Majesty’s Revenue and Customs may require.
- 11 A sub-fund election may not be made after the second 31st January after the year of assessment in which the date on which the election is to be treated as having taken effect falls. 10
- 12 A sub-fund election must contain –
- (a) a declaration by each trustee of the principal settlement that he consents to the election,
 - (b) a statement by the trustees of the principal settlement that the requirement in paragraph 3 is satisfied, 15
 - (c) such information as the Commissioners for Her Majesty’s Revenue and Customs may require in relation to the principal settlement (which may, in particular, include information relating to the trustees, the trusts, property which is or has been comprised in the settlement, the settlors or the beneficiaries), 20
 - (d) a declaration by the trustees of the principal settlement that the information given in the election is correct, to the best of their knowledge and belief, and
 - (e) such other declarations as the Commissioners for Her Majesty’s Revenue and Customs may require. 25
- 13 A sub-fund election may not be revoked.

Power to make enquiries

- 14 Where a sub-fund election has been made, an officer of Revenue and Customs may by notice require a person specified in paragraph 16 to supply information for the purposes of determining whether paragraph 3 was satisfied. 30
- 15 The notice shall specify a period of not less than 60 days within which the information must be supplied.
- 16 (1) The persons mentioned in paragraph 14 are – 35
- (a) a person who is or has been a trustee of a relevant settlement;
 - (b) a person who is or has been a beneficiary under a relevant settlement;
 - (c) a person who is or has been a settlor in relation to a relevant settlement. 40
- (2) For the purposes of sub-paragraph (1) a settlement is a relevant settlement if it is –
- (a) the sub-fund settlement, or
 - (b) the principal settlement. 45

Consequences of a sub-fund election

- 17 The sub-fund settlement shall be treated, for the purposes of this Act, as having been created at the time when the sub-fund election is treated as having taken effect.
- 18 (1) Each trustee of the trusts on which the property comprised in the sub-fund settlement is held shall be treated as a trustee of the sub-fund settlement for the purposes of this Act. 5
- (2) A person who is a trustee of the sub-fund settlement shall be treated for the purposes of this Act, from the time when the election is treated as having taken effect, as having ceased to be a trustee of the principal settlement unless he is also a trustee of trusts on which property comprised in the principal settlement is held. 10
- (3) A person who is a trustee of the principal settlement shall not be treated for the purposes of this Act as a trustee of the sub-fund settlement unless he is also a trustee of trusts on which property comprised in the sub-fund settlement is held. 15
- 19 The trustees of the sub-fund settlement shall be treated for the purposes of this Act as having become absolutely entitled, at the time when the sub-fund election is treated as having taken effect, to the property comprised in that settlement as against the trustees of the principal settlement. 20
- 20 (1) A deemed disposal by the trustees of the principal settlement of an asset under section 71(1) (by virtue of paragraph 19) or section 80(2) (by virtue of paragraph 18(2)) shall be treated as having been made at the beginning of the date on which the sub-fund election is treated as having taken effect. 25
- (2) If the trustees of the sub-fund settlement have acquired an asset of which the trustees of the principal settlement are deemed to have disposed under section 71(1) (by virtue of paragraph 19), they shall be deemed to have acquired it at the time when the election is treated as having taken effect. 30
- (3) The trustees of the principal settlement shall not be treated as having disposed of an asset under section 80(2) by virtue of paragraph 18(2) if they are treated as having disposed of the same asset under section 71(1) by virtue of paragraph 19. 35
- 21 If the trustees of the sub-fund settlement are treated by virtue of paragraph 19 as having become absolutely entitled to money expressed in sterling, for the purposes of this Act –
- (a) the trustees of the principal settlement shall be treated as having disposed of the money at the beginning of the day on which the sub-fund election is treated as having taken effect, and 40
- (b) the trustees of the sub-fund settlement shall be treated as having acquired the money at the time when the election is treated as having taken effect. 45
- 22 (1) If the trustees of the principal settlement are deemed to have disposed of an asset under section 71(1) (by virtue of paragraph

- 19), the trustees of the principal settlement shall be treated for the purposes of sections 90 and 94 as having transferred the asset to the trustees of the sub-fund settlement.
- (2) Sub-paragraph (1) also applies where the trustees of the principal settlement would be deemed to have disposed of money expressed in sterling under subsection (1) of section 71 if in that subsection –
- (a) the reference to “assets” were a reference to “property”, and
- (b) for “their” there were substituted “its”.
- (3) This paragraph shall have effect in relation to years of assessment beginning on or after 6th April 2006 (but a sub-fund election may not be treated as having taken effect before 6th April 2006).

PART 3

CONSEQUENTIAL AND MINOR AMENDMENTS 15

Introduction

- 7 Paragraphs 8 to 45 amend TCGA 1992.

General

- 8 (1) In section 13(10) (participators in non-resident companies) for “trustees who are participators” substitute “the trustees of a settlement who are participators”. 20
- (2) This paragraph shall have effect in relation to gains accruing on or after 6th April 2006.
- 9 For section 21(1)(b) (definition of “asset”) substitute –
- “(b) currency, with the exception (subject to express provision to the contrary) of sterling.”. 25
- 10 (1) In section 60(1) (nominees and bare trustees) in each place for “assets” substitute “property”.
- (2) In section 60(2) (interpretation: property held for person absolutely entitled) in each place for “asset” substitute “property”. 30
- (3) This paragraph shall have effect from 6th April 2006.
- 11 (1) In section 63 (death: application of law in Scotland) –
- (a) in subsection (1) omit the words “an heir of entail in possession of any property in Scotland subject to an entail, whether sui juris or not, or of”, and 35
- (b) in subsection (2) –
- (i) omit the words “For the purposes of this Act,”,
- (ii) omit the words “heir or” before “liferenter”, and
- (iii) omit the words “the heir of entail next entitled to the entailed property under the entail or, as the case may be,”. 40
- (2) After section 63 insert –

“63A Death: application of law in Northern Ireland

- (1) The provisions of this Act, so far as relating to the consequences of the death of a person to whom property in Northern Ireland stands limited for life (“the deceased”), shall have effect subject to the provisions of this section. 5
- (2) A person who acquires property in fee simple absolute or fee tail in possession as a consequence of the deceased’s death shall be deemed to have acquired all the assets forming part of the property at the date of the deceased’s death for a consideration equal to their market value at that date.” 10
- (3) The provisions of this paragraph shall have effect in relation to a death occurring on or after 6th April 2006.
- 12 (1) In section 64(1) (expenses in administration) –
- (a) for the words from “an asset” to the beginning of paragraph (a) substitute “an asset held by another person as trustee, or as a personal representative of a deceased person, to which he became absolutely entitled as legatee or as against the trustee”, and 15
- (b) in paragraphs (a) and (b) for “personal representatives or trustees” substitute “personal representative or trustee”.
- (2) This paragraph shall have effect in relation to disposals made on or after 6th April 2006. 20
- 13 (1) In section 77(1) (charge on settlor with interest in settlement), in the words following paragraph (c), after “those” insert “gains”.
- (2) For section 77(8) (meaning of “derived property”) substitute –
- “(8) In this section “derived property”, in relation to any property, means – 25
- (a) income from that property,
- (b) property directly or indirectly representing –
- (i) proceeds of that property, or
- (ii) proceeds of income from that property, or 30
- (c) income from property which is derived property by virtue of paragraph (b) above.”
- (3) This paragraph shall be deemed always to have had effect.
- 14 (1) In section 79B(1) (attribution to trustees of gains of non-resident company) before “trustees of a settlement” insert “the”. 35
- (2) This paragraph shall have effect in relation to gains accruing on or after 6th April 2006.
- 15 (1) In section 97(7) (supplementary provisions for offshore settlements: interpretation) –
- (a) omit “the preceding provisions of”, 40
- (b) for the definition of “settlement” and “settlor” substitute –
- ““settlement” has the meaning given by section 620 of ITTOIA 2005, and

“settled property” and references (however expressed) to property comprised in a settlement shall be construed accordingly.”

- (2) After section 97(7) insert –
- “(7A) In this section, sections 86A to 96 and Schedule 4C “trustee”, in relation to a settlement in relation to which there would be no trustees apart from this subsection, means any person in whom the settled property or its management is for the time being vested (and a person who is treated as a trustee of the settlement by virtue of this subsection shall be treated as a trustee of the settlement for the purposes of section 69).”
- (3) This paragraph shall come into force on 6th April 2006 (in relation to settlements whenever created).
- 16 (1) In section 98(2) (information: application of section 745 of ICTA) –
- (a) for “(2) to (5)” substitute “(2) to (6)”,
- (b) omit “and” at the end of paragraph (a), and
- (c) omit paragraph (b).
- (2) This paragraph shall come into force on 6th April 2006 (in relation to settlements whenever created).
- 17 (1) In section 104(1) (share pooling) after “for the purposes of this Act” insert “(subject to express provision to the contrary)”.
- (2) This paragraph shall come into force on 6th April 2006.
- 18 (1) In section 109(2)(a) (share pooling: pre-1982 holdings) after “for the purposes of this Act” insert “(subject to express provision to the contrary)”.
- (2) This paragraph shall come into force on 6th April 2006.
- 19 (1) In section 169D(5) after “(3)” insert “and to an individual’s dependent child in section 169F(2A)”.
- (2) This paragraph shall come into force on 6th April 2006.
- 20 (1) In section 217 (building societies: successor companies) –
- (a) in subsection (3)(a) –
- (i) for “trustees” substitute “the trustees of a settlement”, and
- (ii) omit the word “and” at the end of the paragraph,
- (b) omit subsection (3)(b), and
- (c) in subsection (5) for “arising” substitute “accruing”.
- (2) This paragraph shall have effect in relation to a transfer falling within section 216(1) which is effected on or after 6th April 2006.
- 21 (1) In section 227(2) (employee share ownership trusts: conditions for roll-over relief) for “the trustees of a trust” substitute “the trustees of a settlement”.
- (2) This paragraph shall have effect in relation to disposals made on or after 6th April 2006.
- 22 (1) In section 228(5)(b) (employee share ownership trusts: unauthorised arrangement) for “a beneficiary under the trust” substitute “a beneficiary under the settlement”.

- (2) In section 228(7) (qualifying employee share ownership trust) for “whether a trust is” substitute “whether a settlement is”.
- (3) Sub-paragraph (1) shall have effect in relation to arrangements which allow an acquisition to be made on or after 6th April 2006 (irrespective of when the arrangements were made). 5
- (4) Sub-paragraph (2) shall have effect for the purposes of determining what constitutes a qualifying share ownership trust for the purpose of section 227 on or after 6th April 2006.
- 23 (1) In section 251(5) (debts: trustee creditors) –
- (a) for “Where the original creditor is a trustee and the debt, when created, is settled property” substitute “Where the trustees of a settlement are the original creditor”, and 10
- (b) for “as against the trustee” substitute “as against the trustees”.
- (2) This paragraph shall have effect in relation to debts created on or after 6th April 2006. 15
- 24 (1) In section 283(4) (repayment supplements) –
- (a) for “a trust or,” substitute “the trustees of a settlement or”, and
- (b) omit “as such (within the meaning of section 701(4) of that Act)”.
- (2) Sub-paragraph (1)(a) shall have effect in relation to a repayment made on or after 6th April 2006. 20
- (3) Sub-paragraph (1)(b) shall have effect in relation to a repayment made on or after 6th April 2006 (irrespective of the date on which the deceased person died).
- 25 (1) In section 286(3) (connected persons: trustees) omit the words following paragraph (c). 25
- (2) After section 286(3) insert –
- “(3ZA) For the purpose of subsection (3) above –
- (a) “settlement” has the same meaning as in section 620 of ITTOIA 2005, and
- (b) “trustee”, in relation to a settlement in relation to which there would be no trustees apart from this paragraph, means any person in whom the settled property or its management is for the time being vested.” 30
- (3) This paragraph shall come into force (in relation to settlements whenever created) on 6th April 2006. 35
- 26 (1) In section 288(8) (interpretation) at the appropriate places insert –
- ““Principal settlement”... .. Sch.4ZA para. 1”,
- ““Settlor” S.68A”,
- ““Settlor of property”... .. S.68A”,
- ““Sub-fund”... .. Sch.4ZA para. 1”, 40

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- ““Sub-fund election”... .. Sch.4ZA para. 2”,
 ““Sub-fund settlement” Sch.4ZA para. 1”.
- (2) This paragraph shall come into force on 6th April 2006 (in relation to settlements whenever created).
- 27 (1) For paragraph 17(4) of Schedule A1 (taper relief: meaning of “derived property”) substitute – 5
- “(4) In this paragraph “derived property”, in relation to any property, means –
- (a) income from that property,
 (b) property directly or indirectly representing – 10
- (i) proceeds of that property, or
 (ii) proceeds of income from that property, or
 (c) income from property which is derived property by virtue of paragraph (b) above.”
- (2) In paragraph 17(5) of Schedule A1 (property settled by company) for “section” substitute “paragraph”. 15
- (3) Paragraph 17(6) of Schedule A1 (meaning of “settlor”) shall cease to have effect.
- (4) In paragraph 20(2) of Schedule A1 (application of section 79 to paragraph 20(1)) for “Subsections (1) to (5)” substitute “Subsections (1) to (5A)”. 20
- (5) Sub-paragraphs (1) and (3) shall have effect for the purpose of determining whether a company which is a settlor in relation to a settlement (whenever created) is to be regarded as having an interest in the settlement for the purposes of paragraph 17(1) of Schedule A1 on or after 6th April 2006.
- (6) Sub-paragraph (4) shall have effect to determine any question arising on or after 6th April 2006 as to whether, for the purposes of Schedule A1, settled property in relation to a settlement (whenever created) originated from more than one settlor (irrespective of when the property was provided). 25
- 28 (1) In paragraph 1(6) of Schedule 1 (exempt amount: interpretation) for the words ““settlor” and “excluded settlement” have the same meanings” substitute ““excluded settlement” has the same meaning”. 30
- (2) In paragraph 2(7) of that Schedule (meaning of “settlor” and “excluded settlement”) omit the words from “settlor” to “intestate and”.
- (3) This paragraph shall have effect for the purposes of determining, for the purposes of Schedule 1, whether a person is a settlor in relation to a settlement (whenever created) on or after 6th April 2006. 35
- 29 (1) In paragraph 12 of Schedule 4A (meaning of “settlor”) for “(3) to (5)” substitute “(3) to (5A)”. 40
- (2) This paragraph shall have effect to determine any question arising on or after 6th April 2006 as to whether, for the purposes of Schedule 4A, a person is a settlor in relation to a settlement (whenever created).

Residence of trustees

- 30 (1) In each of the provisions set out in sub-paragraph (2) for “not resident or ordinarily resident in the United Kingdom” substitute “neither resident nor ordinarily resident in the United Kingdom”.
- (2) Those provisions are – 5
- (a) section 76(1B)(a) (disposal of interest in settled property),
 - (b) section 86(2)(a) (attribution of gains to settlors: residence condition), and
 - (c) paragraphs 2(1)(c), 3(1)(a) and 4(1)(a) of Schedule 5A (settlements with foreign element). 10
- (3) In paragraph (2)(1)(d) of Schedule 5A for “resident or ordinarily resident” substitute “resident and ordinarily resident”.
- (4) The amendments to sections 76(1B)(a) and 86(2)(a) shall come into force on 6th April 2007 (in relation to settlements whenever created).
- (5) The amendments to paragraph 2(1)(c) and (d) of Schedule 5A shall have effect in relation to transfers of property made on or after 6th April 2007 (in relation to settlements whenever created). 15
- (6) The amendments to paragraphs 3(1)(a) and 4(1)(a) of Schedule 5A shall have effect in relation to settlements created on or after 6th April 2007.
- 31 In section 77(7) (settlor with interest in settlement) for “the settlor is, and the trustees are, either resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year” substitute “ – 20
- (a) the settlor is either resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year, and 25
 - (b) the trustees are resident and ordinarily resident in the United Kingdom during any part of the year.”
- 32 In section 83A(3) (trustee residence: split years) – 30
- (a) in paragraph (a) –
 - (i) after “resident” insert “and ordinarily resident”, and
 - (ii) at the end omit “or”, and
 - (b) omit paragraph (b).
- 33 Paragraphs 31 and 32 shall come into force on 6th April 2007 (in relation to settlements whenever created). 35
- 34 (1) In each of the provisions set out in sub-paragraph (2) for “resident or ordinarily resident in the United Kingdom” substitute “resident and ordinarily resident in the United Kingdom”.
- (2) Those provisions are – 40
- (a) section 83A(4)(b) (trustees to be treated as non-resident),
 - (b) section 85A(3) (attribution of gains to beneficiaries on transfer of value to trustees),
 - (c) section 86(3) (assumption as to residence),
 - (d) section 87(2) (computation of gains),
 - (e) paragraph 5(2) of Schedule 4A (dual resident trustees), 45

-
- (f) paragraphs 4(2) and 10(1) and (3) of Schedule 4C (trustees: chargeable amount and residence), and
- (g) paragraphs 3(1)(b) and 4(1)(b) of Schedule 5A (settlement with foreign element: information).
- (3) The amendments to sections 83A(4)(b), 85A(3), 86(3) and 87(2), paragraph 5(2) of Schedule 4A and paragraphs 4(2) and 10(1) and (3) of Schedule 4C shall come into force on 6th April 2007 (in relation to settlements whenever created). 5
- (4) The amendments to paragraphs 3(1)(b) and 4(1)(b) of Schedule 5A shall have effect in relation to settlements created on or after 6th April 2007. 10
- 35 (1) In each of the provisions set out in sub-paragraph (2) –
- (a) for “resident in the United Kingdom during any part of the year or ordinarily resident in the United Kingdom during the year” substitute “resident and ordinarily resident in the United Kingdom during any part of the year”, and 15
- (b) for “such residence or ordinary residence” substitute “such residence and ordinary residence”.
- (2) Those provisions are –
- (a) section 86(2)(b) (trustees resident outside United Kingdom),
- (b) section 88(1) (gains of dual resident settlements), and 20
- (c) paragraph 5(1) of Schedule 4C (chargeable amount: dual resident settlement).
- (3) Sub-paragraph (2)(c) shall have effect in relation to a transfer of value made on or after 6th April 2007 (in relation to settlements whenever created).
- 36 (1) In each of the provisions set out in sub-paragraph (2) for “at no time resident or ordinarily resident in the United Kingdom” substitute “at no time resident and ordinarily resident in the United Kingdom”. 25
- (2) Those provisions are –
- (a) section 87(1) (attribution of gains to beneficiaries), and
- (b) paragraph 4(1) of Schedule 4C (chargeable amount: non-resident settlement). 30
- (3) Sub-paragraph (2)(b) shall have effect in relation to a transfer of value made on or after 6th April 2007 (in relation to settlements whenever created).
- 37 (1) In section 169(3)(a) (availability of hold-over relief) –
- (a) for “fall to be treated, under section 69, as” substitute “are”, and 35
- (b) omit the words from “, although” to the end of the paragraph.
- (2) In section 169(3)(b)(ii) (notional disposal) for “arising” substitute “accruing”.
- (3) This paragraph shall have effect in relation to relevant disposals (within the meaning given by section 169(2)) made on or after 6th April 2007 (in relation to settlements whenever created). 40
- 38 In paragraph 2(7)(a) of Schedule 1 (meaning of “excluded settlement”) omit “treated under section 69(1) as”. 40
- 39 In paragraph 5(1) of Schedule 4A (residence of trustees) for the words from “either” to the end of the sub-paragraph substitute “resident and ordinarily resident in the United Kingdom during any part of the year”. 45

40 In paragraph 10(2) of Schedule 4C (capital payments received by beneficiaries when trustees resident in United Kingdom) for paragraphs (a) and (b) substitute “during the whole of which the trustees are resident and ordinarily resident in the United Kingdom”.

41 Paragraphs 35 to 40 shall, unless otherwise expressly provided, come into force on 6th April 2007 (in relation to settlements whenever created). 5

Sub-fund settlements

42 After section 73(1) of TCGA 1992 (death of life tenant: exclusion of chargeable gain) insert –

“(1A) Subsection (1)(b) above shall be treated as having effect in relation to a sub-fund settlement if the property does not revert to the trustees of the principal settlement in relation to that sub-fund settlement by reason only that – 10

(a) a sub-fund election is or has been made in respect of another sub-fund of the principal settlement, and 15

(b) the property becomes comprised in that other sub-fund settlement on the death of the person entitled to the interest in possession.”

43 In section 286(3) of TCGA 1992 (connected persons: trustees) –

(a) omit “and” at the end of paragraph (b), and 20

(b) after paragraph (c) insert –

“(d) if the settlement is the principal settlement in relation to one or more sub-fund settlements, the trustees of the sub-fund settlements, and

(e) if the settlement is a sub-fund settlement in relation to a principal settlement, the trustees of any other sub-fund settlements in relation to the principal settlement.” 25

44 (1) At the beginning of Schedule 1 to TCGA 1992 (trustees: exempt amount, etc) insert – 30

“A1 (1) In determining the exempt amount available to the trustees of a settlement in relation to a year of assessment –

(a) a principal settlement and its sub-fund settlements shall be treated, for the purposes of paragraphs 1 and 2 below, as if no sub-fund elections had been made, and 35

(b) paragraph 3 below shall apply for the purposes of determining the exempt amount available to each member of the class consisting of a principal settlement and its sub-fund settlements.

(2) The reference in sub-paragraph (1) above to a principal settlement and its sub-fund settlements means a principal settlement in respect of which one or more sub-fund elections are treated as having taken effect.” 40

(2) After paragraph 2 of Schedule 1 to TCGA 1992 insert –

“3 (1) The exempt amount available in relation to a year of assessment to the trustees of each settlement in the class consisting of a principal 45

	settlement and its sub-fund settlements shall be the exempt amount available to the trustees of the principal settlement in relation to the year, determined in accordance with paragraph 1 or 2 above as if no sub-fund elections had been made.	
	(2) But if there are two or more non-excluded settlements in the class consisting of a principal settlement and its sub-fund settlements, the exempt amount available to the trustees of each settlement in the class in relation to the year shall be the amount specified in sub-paragraph (1) above divided by the number of non-excluded settlements in the class.	5 10
	(3) In this paragraph— “excluded settlement” has the meaning given by paragraph 2(7) above, and references to a settlement having sub-fund settlements, and similar expressions, are references to a settlement being the principal settlement in respect of which one or more sub-fund elections are treated as having taken effect.”	15
45	Paragraphs 42 to 44 shall have effect in relation to years of assessment beginning on or after 6th April 2006.	
	<i>Amendments of other Acts</i>	20
46	(1) In the first column of the table in section 98 of TMA 1970 (failure to make required returns, etc) insert at the appropriate place— “paragraph 14 of Schedule 4ZA to the 1992 Act”.	
	(2) In the second column of the table in section 98 of TMA 1970 insert at the appropriate place— “paragraph 12 of Schedule 4ZA to the 1992 Act”.	25
	(3) This paragraph shall come into force on 6th April 2006.	
47	(1) For section 761(7)(b) of ICTA (offshore income gain: trustee residence condition) substitute— “(b) at the time of the disposal referred to in paragraph (a) above the trustees of the settlement are neither resident nor ordinarily resident in the United Kingdom for the purposes of the 1992 Act,”.	30
	(2) This paragraph shall have effect in relation to disposals made on or after 6th April 2007 (in relation to settlements whenever created).	35
48	(1) In section 30 of FA 2005 (trusts for vulnerable persons: capital gains)— (a) after subsection (1) insert— “(1A) For the purposes of subsection (1)(b) the effect of section 77(1) of TCGA 1992 shall be disregarded if the settlor is treated as having an interest in the settlement by reason only of the application of section 77(2A) of that Act.”, and (b) after subsection (3) insert— “(3A) If this section has effect in relation to chargeable gains accruing to the trustees of a settlement in a tax year, section 77 of TCGA 1992 shall not have effect in relation to the gains,	40 45

- (but this subsection shall not affect the operation of section 31(2)).”
- (2) In section 34(3) of that Act (disabled persons) for the words from “the powers” to the end of the subsection substitute “—
- (a) a power conferred on the trustees by section 32 of the Trustee Act 1925 or section 33 of the Trustee Act (Northern Ireland) 1958) (powers of advancement), 5
 - (b) a power conferred on the trustees by the law of a jurisdiction other than England and Wales or Northern Ireland which makes provision similar to the provisions specified in paragraph (a), or 10
 - (c) a power of advancement which is conferred on the trustees by the instrument creating the settlement, or by another instrument made in accordance with the terms of the settlement, and which is subject to the same restrictions as those specified in section 32(1)(a) and (c) of the Trustee Act 1925 (c. 19).” 15
- (3) In section 35(4) of that Act (relevant minors) for the words from “the powers” to the end of the subsection substitute “—
- (a) a power conferred on the trustees by section 32 of the Trustee Act 1925 or section 33 of the Trustee Act (Northern Ireland) 1958) (powers of advancement), 20
 - (b) a power conferred on the trustees by the law of a jurisdiction other than England and Wales or Northern Ireland which makes provision similar to the provisions specified in paragraph (a), or 25
 - (c) a power of advancement which is conferred on the trustees by the instrument creating the settlement, or by another instrument made in accordance with the terms of the settlement, and which is subject to the same restrictions as those specified in section 32(1)(a) and (c) of the Trustee Act 1925.” 30
- (4) After section 37(6) of that Act (vulnerable person election) insert—
- “(7) Where—
- (a) a vulnerable person election has effect in relation to qualifying trusts, 35
 - (b) the property held on those trusts is treated for the purposes of TCGA 1992 and of the Tax Acts as comprised in a sub-fund settlement, and
 - (c) the vulnerable person election was not made by the trustees of the sub-fund settlement, 40
- the vulnerable person election shall have effect, in relation to the trusts mentioned in paragraph (a), in respect of matters arising at or after the time when the sub-fund election is treated as having taken effect, as if it had been made by the trustees of the sub-fund settlement and the vulnerable person. 45
- (8) In relation to matters arising before the time when the sub-fund election is treated as having taken effect, nothing in subsection (7)—

- (a) relieves the trustees of the settlement which is the principal settlement in relation to the sub-fund settlement of their obligation under subsection (6), or
- (b) prevents a notice from being given to those trustees under section 40(1) or (3). 5
- (9) In this section –
- (a) “principal settlement” has the meaning given by paragraph 1 of Schedule 4ZA to TCGA 1992,
- (b) “sub-fund election” has the meaning given by paragraph 2 of that Schedule, 10
- (c) “sub-fund settlement” has the meaning given by paragraph 1 of that Schedule, and
- (d) the time when a sub-fund election is treated as having taken effect shall be the time when it is treated as having taken effect under paragraph 2 of that Schedule.” 15
- (5) This paragraph shall come into force on 6th April 2006 (in relation to vulnerable person elections whenever made).

SCHEDULE 13

Section 89

SETTLEMENTS: AMENDMENTS TO ICTA AND ITTOIA 2005 ETC

PART 1 20

PRINCIPAL AMENDMENTS

- 1 (1) Before section 686 of ICTA (rate of tax applicable to trusts) insert –
- “685A Meaning of “settled property”**
- (1) For the purposes of the Tax Acts, unless the context otherwise requires, 25
- (a) “settled property” means any property held in trust other than –
- (i) property held by a person as nominee for another,
- (ii) property held by a person as trustee for another person who is absolutely entitled as against the trustee, and 30
- (iii) property held by a person as trustee for another person who would be absolutely entitled as against the trustee if he were not an infant or otherwise under a disability, and 35
- (b) references, however expressed, to property comprised in a settlement are references to settled property.
- (2) For the purposes of the Tax Acts, a reference to a person who is or would be absolutely entitled to property as against the trustee –
- (a) means a person who has the exclusive right (subject to satisfying the right of the trustees to resort to the property for the payment of duty, taxes, costs or other outgoings) to direct how the property shall be dealt with, and 40

- (b) includes two or more persons who are or would be jointly absolutely entitled as against the trustee.

685B Meaning of “settlor”

- (1) In the Tax Acts, unless the context otherwise requires –
 - (a) “settlor” in relation to a settlement means the person, or any of the persons, who has made or is treated for the purposes of the Tax Acts as having made the settlement, and 5
 - (b) a person is a settlor of property which –
 - (i) is settled property by reason of his having made the settlement (or by reason of an event which causes him to be treated under this Act as having made the settlement), or 10
 - (ii) derives from property to which sub-paragraph (i) applies.
- (2) A person is treated for the purposes of the Tax Acts as having made a settlement if – 15
 - (a) he has made or entered into the settlement, directly or indirectly, or
 - (b) the settled property, or property from which the settled property is derived, is or includes property of which he was competent to dispose immediately before his death and the settlement arose on his death, whether by will, on his intestacy, or otherwise. 20
- (3) A person is, in particular, treated for the purposes of the Tax Acts as having made a settlement if – 25
 - (a) he has provided property directly or indirectly for the purposes of the settlement, or
 - (b) he has undertaken to provide property directly or indirectly for the purposes of the settlement.
- (4) Where one person (A) makes or enters into a settlement in accordance with reciprocal arrangements with another person (B), for the purposes of the Tax Acts – 30
 - (a) B shall be treated as having made the settlement, and
 - (b) A shall not be treated as having made the settlement by reason only of the reciprocal arrangements. 35
- (5) In subsection (2)(b) the reference to property of which a deceased person was competent to dispose is a reference to property of the deceased which (otherwise than in right of a power of appointment or of the testamentary power conferred by statute to dispose of entailed interests) he could, if of full age and capacity, have disposed of by his will, assuming that all the property were situated in England and, if he was not domiciled in the United Kingdom, that he was domiciled in England, and includes references to his severable share in any property to which, immediately before his death, he was beneficially entitled as a joint tenant. 40 45
- (6) A person who has been a settlor in relation to a settlement shall be treated for the purposes of the Tax Acts as having ceased to be a settlor in relation to the settlement if –

- (a) no property of which he is the settlor is comprised in the settlement,
 - (b) he has not undertaken to provide property directly or indirectly for the purposes of the settlement in the future, and
 - (c) he has not made reciprocal arrangements with another person for that other person to enter into the settlement in the future. 5
- (7) For the purpose of this section and sections 685C and 685D property is derived from other property – 10
- (a) if it derives (directly or indirectly and wholly or partly) from that property or any part of it, and
 - (b) in particular, if it derives (directly or indirectly and wholly or partly) from income from that property or any part of it.
- (8) In this section “arrangements” includes any scheme, agreement or understanding, whether or not legally enforceable. 15

685C Transfer between settlements: identification of settlor

- (1) This section applies in relation to a transfer of property from the trustees of one settlement (“Settlement 1”) to the trustees of another (“Settlement 2”) otherwise than – 20
- (a) for full consideration, or
 - (b) by way of a bargain made at arm’s length.
- (2) In this section “transfer of property” means – 25
- (a) a disposal of property by the trustees of Settlement 1, and
 - (b) the acquisition by the trustees of Settlement 2 of –
 - (i) property disposed of by the trustees of Settlement 1, or
 - (ii) property created by the disposal;
 and a reference to transferred property is a reference to property acquired by the trustees of Settlement 2 on the disposal.
- (3) For the purposes of the Tax Acts, except where the context otherwise requires – 30
- (a) the settlor (or each settlor) of the property disposed of by the trustees of Settlement 1 shall be treated from the time of the disposal as having made Settlement 2, and
 - (b) if there is more than one settlor of the property disposed of by the trustees of Settlement 1, each settlor shall be treated in relation to Settlement 2 as the settlor of a proportionate part of the transferred property. 35
- (4) For the purposes of the Tax Acts, except where the context otherwise requires, if and to the extent that the property disposed of by the trustees of Settlement 1 was provided for the purposes of Settlement 1, or is derived from property provided for the purposes of Settlement 1, the transferred property shall be treated from the time of the disposal as having been provided for the purposes of Settlement 2. 40
- (5) If transferred property is treated by virtue of subsection (4) as having been provided for the purposes of Settlement 2 – 45

- (a) the person who provided the property disposed of by the trustees of Settlement 1, or property from which it was derived, for the purposes of Settlement 1 shall be treated as having provided the transferred property, and
 - (b) if more than one person provided the property disposed of by the trustees of Settlement 1, or property from which it was derived, for the purposes of Settlement 1, each of them shall be treated as having provided a proportionate part of the transferred property. 5
- (6) But subsections (3) and (4) do not apply in relation to a transfer of property – 10
- (a) which occurs by reason only of the assignment or assignation by a beneficiary under Settlement 1 of an interest in that settlement to the trustees of Settlement 2,
 - (b) which occurs by reason only of the exercise of a general power of appointment, or 15
 - (c) to which section 685D(6) applies.
- (7) There is an acquisition or disposal of property for the purposes of this section if there would be an acquisition or disposal of property for the purposes of the 1992 Act. 20

685D Variation of will or intestacy, etc: identification of settlor

- (1) This section applies where –
- (a) a disposition of property following a person’s death is varied, and
 - (b) section 62(6) of the 1992 Act applies in respect of the variation. 25
- (2) Where property becomes settled property in consequence of the variation (and would not, but for the variation, have become settled property), a person mentioned in subsection (3) shall be treated for the purposes of the Tax Acts, except where the context otherwise requires – 30
- (a) as having made the settlement, and
 - (b) as having provided the property for the purposes of the settlement.
- (3) Those persons are – 35
- (a) a person who immediately before the variation was entitled to the property, or to property from which it derives, absolutely as legatee,
 - (b) a person who would have become entitled to the property, or to property from which it derives, absolutely as legatee but for the variation, 40
 - (c) a person who immediately before the variation would have been entitled to the property, or to property from which it derives, absolutely as legatee but for being an infant or other person under a disability, and 45
 - (d) a person who would, but for the variation, have become entitled to the property, or to property from which it derives, absolutely as legatee if he had not been an infant or other person under a disability.

- (4) For the purposes of this section—
- (a) “legatee” includes any person taking under a testamentary disposition or on an intestacy or partial intestacy, whether he takes beneficially or as trustee,
 - (b) property taken under a testamentary disposition or on an intestacy or partial intestacy includes any property appropriated by the personal representatives in or towards satisfaction of a pecuniary legacy or any other interest or share in the property devolving under the disposition or intestacy, and
 - (c) a person taking under a donatio mortis causa shall be treated as a legatee and his acquisition as made at the time of the donor’s death.
- (5) Where—
- (a) property would have become comprised in a settlement—
 - (i) which arose on the deceased person’s death (whether in accordance with his will, on his intestacy or otherwise, or
 - (ii) which was already in existence on the deceased person’s death (whether or not the deceased person was a settlor in relation to that settlement), but
 - (b) in consequence of the variation the property, or property derived from it, becomes comprised in another settlement, the deceased person shall be treated for the purposes of the Tax Acts, except where the context otherwise requires, as having made the other settlement.
- (6) Where—
- (a) immediately before the variation property is comprised in a settlement and is property of which the deceased person is a settlor, and
 - (b) immediately after the variation the property, or property derived from it, becomes comprised in another settlement, the deceased person shall be treated for the purposes of the Tax Acts, except where the context otherwise requires, as having made the other settlement.
- (7) If a person is treated as having made a settlement under subsection (5) or (6), for the purposes of the Tax Acts he shall be treated as having made the settlement immediately before his death.
- (8) But subsection (7) does not apply in relation to a settlement which arose on the person’s death.

685E Trustees of settlements

- (1) For the purposes of the Tax Acts the trustees of a settlement shall, unless the context otherwise requires, together be treated as if they were a single person (distinct from the persons who are the trustees of the settlement from time to time).
- (2) The deemed person referred to in subsection (1) shall be treated for the purposes of the Tax Acts as resident and ordinarily resident in the United Kingdom at any time when a condition in subsection (3) or (4) is satisfied.

- (3) Condition 1 is that all the trustees are resident in the United Kingdom.
- (4) Condition 2 is that –
- (a) at least one trustee is resident in the United Kingdom,
 - (b) at least one is not resident in the United Kingdom, and 5
 - (c) a settlor in relation to the settlement was resident, ordinarily resident or domiciled in the United Kingdom at a time which is a relevant time in relation to him.
- (5) In subsection (4)(c) “relevant time” in relation to a settlor means –
- (a) where the settlement arose on the settlor’s death (whether by will, intestacy or otherwise), the time immediately before his death, and 10
 - (b) in any other case, a time when the settlor made the settlement (or was treated for the purposes of the Tax Acts as making the settlement); 15
- and, in the case of a transfer of property from Settlement 1 to Settlement 2 in relation to which section 685C applies, “relevant time” in relation to a settlor of the transferred property in respect of Settlement 2 includes any time which, immediately before the time of the disposal by the trustees of Settlement 1, was a relevant time in relation to that settlor in respect of Settlement 1. 20
- (6) A trustee who is not resident in the United Kingdom shall be treated for the purposes of subsections (3) and (4) as if he were resident in the United Kingdom at any time when he acts as trustee in the course of a business which he carries on in the United Kingdom through a branch, agency or permanent establishment there. 25
- (7) If the deemed person referred to in subsection (1) is not treated for the purposes of the Tax Acts as resident and ordinarily resident in the United Kingdom, then for the purposes of the Tax Acts it shall be treated as neither resident nor ordinarily resident in the United Kingdom. 30
- (8) If part of the settled property in relation to a settlement is vested in one trustee or body of trustees and another part of the settled property in relation to that settlement is vested in another trustee or body of trustees (and in particular where settled land within the meaning of the Settled Land Act 1925 (c. 18) is vested in the tenant for life and investments representing capital money are vested in the trustees of the settlement) they shall together be treated for the purposes of this section as constituting and, in so far as they act separately, as acting on behalf of a single body of trustees. 35 40
- (9) If the trustees of a settlement are carrying on a trade, profession or vocation, a change in the trustees of the settlement by reason of the coming into force of this section and section 685A shall not result in –
- (a) any of the trustees before the change permanently ceasing to carry on the trade, profession or vocation, or 45
 - (b) any of the trustees after the change starting to carry on the trade, profession or vocation.

685F Application of section 739 and 740

- (1) Section 685E(2) and (7) shall not apply for any of the purposes of section 739 in relation to income payable before 15th June 1989, or for the purposes of subsection (3) of that section in relation to income payable on or after that date if – 5
- (a) the capital sum mentioned in that subsection was received, or the right to receive it was acquired, before that date, and
 - (b) the sum was wholly repaid, or the right to it waived, before 1st October 1989.
- (2) Section 685E shall not apply for any of the purposes of section 740 in relation to benefits received before 15th June 1989; and, in relation to benefits received on or after that date, “relevant income” includes income arising to the trustees of a settlement before 6 April 1989, notwithstanding that one or more trustees was not resident outside the United Kingdom, unless the trustees have been charged to tax in relation to that income. 10
15

685G Sub-funds

- (1) If the trustees of a settlement have made a sub-fund election under paragraph 1 of Schedule 4ZA to the 1992 Act, then for the purposes of the Tax Acts, unless the context otherwise requires – 20
- (a) the sub-fund settlement shall be treated as a settlement,
 - (b) the sub-fund settlement shall be treated as having been created at the time when the sub-fund election is treated as having taken effect,
 - (c) each trustee of the trusts on which the property comprised in the sub-fund settlement is held shall be treated as a trustee of the sub-fund settlement, 25
 - (d) a person who is a trustee of the sub-fund settlement shall be treated, from the time when the election is to be treated as having taken effect, as having ceased to be a trustee of the principal settlement unless he is also a trustee of trusts on which property comprised in the principal settlement is held, 30
 - (e) a person who is a trustee of the principal settlement shall not be treated as a trustee of the sub-fund settlement unless he is also a trustee of trusts on which property comprised in the sub-fund settlement is held, and 35
 - (f) the trustees of the sub-fund settlement shall be treated as having become absolutely entitled, at the time when the sub-fund election is treated as having taken effect, to the property comprised in that settlement as against the trustees of the principal settlement. 40
- (2) References in subsection (1) to the time when the sub-fund election is treated as having taken effect are references to the time when the sub-fund election is treated as having taken effect under paragraph 2 of Schedule 4ZA to the 1992 Act. 45
- (3) In this section –
“principal settlement” has the meaning given by paragraph 1 of Schedule 4ZA to the 1992 Act,

- “sub-fund election” has the meaning given by paragraph 2 of that Schedule, and
“sub-fund settlement” has the meaning given by paragraph 1 of that Schedule.”
- (2) Sections 685A to 685C, inserted by sub-paragraph (1), shall come into force on 6th April 2006 (in relation to settlements whenever created). 5
- (3) Section 685D, inserted by sub-paragraph (1), shall have effect in respect of variations occurring on or after 6th April 2006 (irrespective of the date on which the deceased person died).
- (4) Section 685E, inserted by sub-paragraph (1), shall have effect – 10
- (a) for the purposes of determining the residence status of the trustees of a settlement (whenever created), from 6th April 2007, and
- (b) for any other purpose (in relation to settlements whenever created), from 6th April 2006.
- (5) Section 685F, inserted by sub-paragraph (1), shall come into force on 6th April 2006. 15
- (6) Section 685G, inserted by sub-paragraph (1), shall have effect in relation to years of assessment beginning on or after 6th April 2006.
- 2 (1) In section 686(2)(b) of ICTA – 20
- (a) omit “either”, and
- (b) for sub-paragraphs (i) and (ii) substitute “the income of a person other than the trustees.”
- (2) This paragraph shall come into force on 6th April 2006 (in relation to settlements whenever created).
- 3 (1) For section 686A of ICTA substitute – 25
- “686A Receipts to be treated as income to which section 686 applies**
- (1) Where the trustees of a settlement (other than the trustees of a unit trust scheme) –
- (a) receive or are entitled to a payment of a kind specified in subsection (2), or 30
- (b) are liable for tax in respect of a gain on a chargeable event of a kind specified in subsection (2),
- the payment or gain shall be treated as if it were income to which section 686 applies.
- (2) Those payments and gains are – 35
- (a) a payment made by a company –
- (i) on the redemption, repayment or purchase of its own shares, or
- (ii) on the purchase of rights to acquire its own shares, 40
- (b) a gain arising on a chargeable event in respect of which the trustees are liable for tax under section 467 of ITTOIA 2005 (gains on contracts for life insurance, etc), other than a gain to which subsection (7)(a) of that section applies,
- (c) if the trustees are resident in the United Kingdom, a profit on the disposal of a deeply discounted security in respect of 45

- which the trustees are liable for tax under section 429 of ITTOIA 2005,
- (d) a sum to which Chapter 4 of Part 3 of ITTOIA 2005 applies,
 - (e) a profit on the disposal of a future or option in respect of which the trustees are liable for tax under section 557 of ITTOIA 2005, if none of conditions A to C in section 568 of that Act are met, 5
 - (f) a profit on the disposal of a deposit in respect of which the trustees are liable for tax under section 554 of ITTOIA 2005,
 - (g) the proceeds of sale of a foreign dividend coupon in respect of which the trustees are liable for tax under section 573 of ITTOIA 2005, 10
 - (h) a sum which is chargeable to tax under section 68(2) or 71(4) of the Finance Act 1989 (c. 26) (employee share ownership trusts: chargeable events), 15
 - (i) an offshore income gain (within the meaning of section 761 of this Act), and
 - (j) a gain on a disposal of land to which section 776 of this Act applies.”
- (2) This paragraph shall have effect in respect of payments made, or gains arising, to the trustees of a settlement on or after 6th April 2006. 20
- 4 (1) In section 686D of ICTA –
- (a) in subsection (1) for “trustees of a trust” substitute “trustees of a settlement”, and
 - (b) in subsection (3) for “£500” substitute “£1,000”. 25
- (2) After section 686D of ICTA insert –
- “686E Application of section 686D where settlor has made more than one settlement**
- (1) If a settlor in relation to a settlement has made more than one settlement, section 686D shall have effect in relation to each settlement made by him with the following modification. 30
 - (2) The reference in subsection (3) to £1000 shall be treated as a reference to –
 - (a) £200, or
 - (b) such amount as may be obtained by dividing £1000 by the total number of settlements in the class, provided that the amount is not less than £200. 35
 - (3) If there is more than one settlor in relation to a settlement, the amount shall be the amount obtained under subsection (2)(b) in relation to the largest class of settlements. 40
 - (4) In this section a reference to a class of settlements is a reference to the class of settlements which were made by a settlor and which are in existence during any part of the year of assessment.”
- (3) This paragraph shall come into force on 6th April 2006 (in relation to settlements whenever created). 45
- 5 (1) For section 619(2) to (4) of ITTOIA 2005 (charge to tax on settlor) substitute –

- “(2) For the purposes of sections 1 to 1B of ICTA, where income of another person is treated as income of the settlor and is charged to tax under subsection (1)(a) or (b) above, it shall be charged in accordance with whichever provisions of the Tax Acts would have been applied in charging it if it had arisen directly to the settlor.” 5
- (2) This paragraph shall have effect –
- (a) in relation to income which arises or is treated as arising on or after 6th April 2006, and
 - (b) in relation to income which is paid to a minor child of the settlor, where the child is unmarried and is not in a civil partnership, on or after 6th April 2006 and in relation to which section 631 of ITTOIA 2005 applies (irrespective of when the income arose). 10
- 6 (1) After section 685 of ITTOIA 2005 insert –
- “685A Settlor-interested settlements**
- (1) This section applies if – 15
 - (a) a person receives an annual payment in respect of income from the trustees of a settlement,
 - (b) the payment is made in the exercise of a discretion (whether of the trustees of the settlement or any other person), and
 - (c) a settlor is charged to tax under section 619(1) on the income arising to the trustees of the settlement (whether in the current year of assessment or in a previous year of assessment) out of which the annual payment is made. 20
 - (2) This section applies only in respect of that proportion of the annual payment which corresponds to the proportion of the total income arising to the trustees of the settlement in respect of which a settlor is chargeable to tax under section 619(1). 25
 - (3) If and in so far as this section applies, the recipient of the annual payment shall be treated for the purposes of this Chapter as having paid income tax at the higher rate in respect of the annual payment. 30
 - (4) But –
 - (a) tax which the recipient is treated by virtue of this section as having paid is not repayable,
 - (b) tax which the recipient is treated by virtue of this section as having paid may not be taken into account in relation to a tax liability of the recipient in respect of any other income of his, and 35
 - (c) the annual payment shall be treated for the purposes of sections 348 and 349(1) of ICTA as payable wholly out of profits or gains not brought into charge to income tax. 40
 - (5) If the recipient of the annual payment is a settlor in relation to the settlement, if and in so far as this section applies the annual payment shall not be treated as his income for the purposes of the Income Tax Acts (and subsection (3) does not apply).
 - (6) Section 687 of ICTA shall not apply in relation to an annual payment if and in so far as this section applies.” 45

- (2) This paragraph shall have effect for payments in respect of income made on or after 6th April 2006.

PART 2

MINOR AND CONSEQUENTIAL AMENDMENTS

- | | | |
|----|--|----|
| 7 | Paragraphs 8 to 26 amend ICTA. | 5 |
| 8 | Section 220(2) shall cease to have effect. | |
| 9 | In section 227 – | |
| | (a) in subsection (5) for “trustees (other than bare trustees)” substitute “the trustees of a settlement”, and | |
| | (b) in subsection (9) for “the property held on the trusts” substitute “the settled property”. | 10 |
| 10 | In section 229(2) – | |
| | (a) for “held on trusts (other than bare trusts)” substitute “settled property”, and | |
| | (b) for “trustees” substitute “trustees of the settlement”. | 15 |
| 11 | In section 360A – | |
| | (a) in subsection (2)(b) omit the words after “is or was, a settlor”, and | |
| | (b) in subsections (2) and (8) in each place omit the words “trustee or”. | |
| 12 | In section 417(3) – | |
| | (a) in paragraph (b) omit the words after “is or was, a settlor”, and | 20 |
| | (b) in paragraphs (b) and (c)(i) omit the words “trustee or”. | |
| 13 | In section 421(1) for “trust” in each place substitute “settlement”. | |
| 14 | In section 481 – | |
| | (a) in subsections (4) and (4A) for “trust” in each place substitute “settlement”, and | 25 |
| | (b) in subsection (5)(k)(iii) for “of the trust” substitute “under the settlement”. | |
| 15 | (1) Section 686 shall be amended as follows. | |
| | (2) In subsection (1) for “trustees” substitute “the trustees of a settlement”. | |
| | (3) In subsection (2) for “arising to trustees” substitute “arising to the trustees of a settlement”. | 30 |
| | (4) In subsection (2AA) – | |
| | (a) for “arising to trustees” substitute “arising to the trustees of a settlement”, and | |
| | (b) in paragraph (b) for “provisions of the trust” substitute “terms of the settlement”. | 35 |
| | (5) In subsection (2A)(a) – | |
| | (a) for “any trustees” substitute “the trustees of a settlement”, and | |
| | (b) for “provisions of the trust” substitute “terms of the settlement”. | |
| | (6) In subsection (2B) for “arising to trustees” substitute “arising to the trustees of a settlement”. | 40 |

- (7) In subsection (5A) –
- (a) for “in relation to trustees” substitute “in relation to the trustees of a settlement”, and
 - (b) in paragraph (f) for “686A” substitute “686A(2)(a)”.
- (8) In subsection (6) in each place for “trustees” substitute “the trustees of a settlement”. 5
- 16 In section 686D(7)(b) for “FA 1989” substitute “the Finance Act 1989 (c. 26)”.
- 17 In section 687(1) for “trustees” substitute “the trustees of a settlement”.
- 18 In section 687A(1)(a) for “trustees” substitute “the trustees of a settlement”.
- 19 In section 689A(1)(a) for “to trustees” substitute “to the trustees of a settlement”. 10
- 20 In section 689B(1) for “any trustees” substitute “the trustees of a settlement”.
- 21 In section 720 –
- (a) in subsection (6)(a) for “a trustee of a settlement is” substitute “the trustees of a settlement are”, 15
 - (b) in subsection (6)(b) for “a trustee of a settlement who is” substitute “the trustees of a settlement who are”,
 - (c) in the closing words of subsection (6) for “the trustee is” substitute “the trustees are”,
 - (d) in subsection (7) for “a trustee of a settlement” substitute “the trustees of a settlement”, and 20
 - (e) in subsection (8) omit paragraph (a).
- 22 After section 742(9) insert –
- “(9A) Where the trustees of a settlement are treated, by virtue of section 685E(7), as neither resident nor ordinarily resident in the United Kingdom, then for the purposes of this Chapter they shall be treated as resident and domiciled outside the United Kingdom.” 25
- 23 Section 764 shall cease to have effect.
- 24 In section 809 –
- (a) in subsection (1)(a) for “trustees” substitute “the trustees of a settlement”, and 30
 - (b) in subsections (1)(a) and (2) for “trust” substitute “settlement”.
- 25 In section 839 –
- (a) at the end of subsection (3)(b) omit “and”,
 - (b) for the words after subsection (3)(c) substitute – 35
 - “(d) if the settlement is the principal settlement in relation to one or more sub-fund settlements, the trustees of the sub-fund settlements, and
 - (e) if the settlement is a sub-fund settlement in relation to a principal settlement, the trustees of any other sub-fund settlements in relation to the principal settlement.”, and 40
 - (c) after subsection (3A) insert –
 - “(3B) For the purpose of subsection (3) above –

-
- (a) “settlement” has the same meaning as in section 620 of ITTOIA 2005,
- (b) “trustee”, in relation to a settlement in relation to which there would be no trustees apart from this paragraph, means any person in whom the settled property or its management is for the time being vested, and 5
- (c) “principal settlement” and “sub-fund settlement” have the meaning given by paragraph 1 of Schedule 4ZA to the 1992 Act.” 10
- 26 In paragraph 4(12) of Schedule 28AA for the definitions of “settlement” and “settlor” substitute –
 “settlement” and “settlor” have the same meanings as in section 620 of ITTOIA 2005.”
- 27 (1) Paragraph 7 and paragraphs 9 to 26 shall come into force on 6th April 2006 (in relation to settlements whenever created). 15
- (2) Paragraph 8 shall come into force on 6th April 2007 (in relation to settlements whenever created).
- 28 (1) FA 1989 shall be amended as follows.
- (2) The following provisions shall cease to have effect – 20
- (a) section 68(2)(c),
- (b) section 71(4)(c), and
- (c) section 110.
- (3) In section 68(2) –
- (a) after paragraph (ba) insert “, and”, and 25
- (b) after paragraph (bb) omit “, and”.
- (4) In section 71(4) –
- (a) after paragraph (ba) insert “, and”, and
- (b) after paragraph (bb) omit “, and”.
- (5) Sub-paragraph (2)(a) and (b) shall have effect in relation to payments made on or after 6th April 2006. 30
- (6) Sub-paragraph (2)(c) shall have effect from 6th April 2007 (in relation to settlements whenever created).
- (7) Sub-paragraphs (3) and (4) shall come into force on 6th April 2006.
- 29 (1) In section 151(2)(a) of FA 1989 (assessment of trustees) for “the trustees to whom the income arises” substitute “the trustees of the settlement in the year of assessment in which the income arises”. 35
- (2) This paragraph shall come into force on 6th April 2006.
- 30 (1) In section 25(9)(b) of FA 1990 –
- (a) after sub-paragraph (iii) omit “or”, and 40
- (b) after sub-paragraph (iv) insert – “or
- (v) section 685A(2) of that Act (payments from settlor-interested settlements);”.

- (2) This paragraph shall have effect for payments in respect of income made on or after 6th April 2006.
- 31 (1) In ITTOIA 2005 –
- (a) for “trustees of trusts” in each place in sections 417(2) and 420 substitute “trustees of settlements”, 5
 - (b) in section 420(1)(a) and (c) for “trust” substitute “settlement”,
 - (c) in the title of section 420 for “trust” substitute “settlement”.
- (2) For section 623 of ITTOIA 2005 (calculation of income) substitute –
- “623 Calculation of income**
- For the purpose of calculating liability to tax under this Chapter (but for no other purpose), a settlor shall be allowed the same deductions and reliefs as if any amount treated under this Chapter as income of the settlor had actually been received by the settlor.” 10
- (3) This paragraph shall come into force on 6th April 2006 in respect of settlements whenever created, and in respect of loans or advances whenever made. 15
- 32 (1) The following provisions of ITTOIA 2005 shall cease to have effect –
- (a) section 457(4), and
 - (b) section 568(5).
- (2) In section 457(5) of ITTOIA 2005 for “(2) to (4)” substitute “(2) and (3)”. 20
- (3) In section 467(7) of that Act for paragraph (b) substitute –
- “(b) at the rate applicable by virtue of section 686A of ICTA (payments treated as income) in any other case.”
- (4) This paragraph shall have effect in relation to payments made on or after 6th April 2006 to the trustees of a settlement (whenever created). 25
- 33 (1) In sections 628 and 630 of ITTOIA 2005 for “UK trust” in each place substitute “UK settlement”.
- (2) In section 628(6) of that Act for the definition of “UK trust” substitute –
- ““UK settlement” means a settlement the trustees of which are resident and ordinarily resident in the United Kingdom.” 30
- (3) In section 630(1)(b) of that Act for “terms of the trust” substitute “terms of the settlement”.
- (4) In section 631(5)(e)(ii) of that Act for “provisions of the trust” substitute “terms of the settlement”.
- (5) This paragraph shall come into force on 6th April 2006. 35
- 34 (1) After section 629(7) of ITTOIA 2005 insert –
- “(8) Subsection (1) is subject to section 28A of FA 2005.”
- (2) This paragraph shall have effect in relation to payments made on or after 6th April 2004.
- 35 (1) FA 2005 shall be amended as follows. 40

- (2) In the following provisions for “trustees” substitute “the trustees of a settlement” –
- (a) section 23(1)(a) and (b) (vulnerable persons: introduction),
 - (b) section 24(1) (vulnerable persons: claims),
 - (c) section 25(1)(a) (qualifying trusts: income tax), and
 - (d) section 37(1) (vulnerable person election).
- 5
- (3) In section 25(3) –
- (a) for “section 660G(1) and (2) of ICTA” substitute “section 620(1) of ITTOIA 2005”, and
 - (b) for “section 660A of that Act” substitute “sections 624 and 625 of that Act.”.
- 10
- (4) In section 27(2)(b) (qualifying expenses) for “total income” substitute “income”.
- (5) Section 42(5)(b) shall cease to have effect.
- (6) In section 43(4) (penalties) for the first reference to “trustees” substitute “the trustees of a settlement”.
- 15
- (7) This paragraph shall come into force on 6th April 2006.
- 36 (1) After section 28 of FA 2005 insert –
- “28A Disapplication of section 629 of ITTOIA 2005**
- (1) In a case where this section applies, section 629(1) of ITTOIA 2005 shall not apply in respect of a payment by the trustees of a settlement to a beneficiary under the settlement.
 - (2) This section applies if in a year of assessment –
 - (a) the trustees make a payment to a vulnerable person,
 - (b) the payment is made out of qualifying trusts income,
 - (c) the vulnerable person is a relevant child (within the meaning given by section 629 of ITTOIA 2005) of a settlor in relation to the settlement, and
 - (d) the trustees have made a successful claim for special income tax treatment under section 25.”
- 20
- 25
- 30
- (2) This paragraph shall have effect in relation to payments made on or after 6th April 2004.
- 37 (1) For the purposes of regulations (whenever made) made under a provision of the Tax Acts –
- (a) references to settled property, a settlor or trustees shall be read in accordance with sections 685A to 685G of ICTA (inserted by paragraph 1 of this Schedule), and
 - (b) references to the trustees of a trust shall be treated as references to the trustees of a settlement.
- 35
- (2) This paragraph shall come into force on 6th April 2006.
- 40

SCHEDULE 14

Section 91

INVESTMENT RELIEFS: VENTURE CAPITAL SCHEMES

PART 1

LIMITS ON GROSS ASSETS OF ISSUERS OF SHARES OR SECURITIES

<i>Enterprise investment scheme</i>	5
1 (1) In section 293(6A) of ICTA (enterprise investment scheme: limits on value of gross assets of share-issuing company or its group) –	
(a) in paragraph (a) (value must not exceed £15 million immediately before issue of eligible shares), for “£15 million” substitute “£7 million”, and	10
(b) in paragraph (b) (value must not exceed £16 million immediately after issue of eligible shares), for “£16 million” substitute “£8 million”.	
(2) Sub-paragraph (1) has effect in relation to shares issued on or after 6th April 2006, subject to sub-paragraphs (3) and (4).	15
(3) Sub-paragraph (1) does not have effect in relation to shares issued on or after 6th April 2006 to a person who subscribed for them before 22nd March 2006.	
(4) Sub-paragraph (1) does not have effect in relation to shares issued on or after 6th April 2006 to the managers of an investment fund approved for the purposes of section 311 of ICTA by the Commissioners for Her Majesty’s Revenue and Customs if –	20
(a) the fund was approved before 22nd March 2006,	
(b) investments in the fund have been accepted before 6th April 2006, and	
(c) the shares are issued to the managers as nominee for an individual who has (whether or not before 6th April 2006) invested in the fund.	25
<i>Venture capital trusts</i>	
2 (1) In paragraph 8(1) of Schedule 28B to ICTA (venture capital trusts: limits on value of gross assets of company issuing relevant holding or its group) –	
(a) in paragraph (a) (value must not exceed £15 million immediately before issue of relevant holding), for “£15 million” substitute “£7 million”, and	30
(b) in paragraph (b) (value must not exceed £16 million immediately after issue of relevant holding), for “£16 million” substitute “£8 million”.	35
(2) Sub-paragraph (1) has effect in relation to relevant holdings issued on or after 6th April 2006, subject to sub-paragraph (3).	
(3) Sub-paragraph (1) does not have effect for the purpose of determining whether any shares or securities acquired by a company (“the trust company”) by means of the investment of protected money are, for the purposes of section 842AA of ICTA, to be regarded as comprised in qualifying holdings of the company at any time.	40
(4) In sub-paragraph (3) “protected money” means –	

- (a) money raised by the issue before 6th April 2006 of shares in or securities of the trust company, or
- (b) money derived from the investment by the trust company of any such money.

Corporate venturing scheme 5

- 3 (1) In paragraph 22(1) and (2) of Schedule 15 to FA 2000 (corporate venturing scheme: limits on value of gross assets of share-issuing company or its group) –
- (a) in paragraph (a) (value must not exceed £15 million immediately before issue of relevant shares), for “£15 million” substitute “£7 million”, and 10
 - (b) in paragraph (b) (value must not exceed £16 million immediately after issue of relevant shares), for “£16 million” substitute “£8 million”.
- (2) Sub-paragraph (1) has effect in relation to shares issued on or after 6th April 2006, subject to sub-paragraph (3). 15
- (3) Sub-paragraph (1) does not have effect in relation to shares issued on or after 6th April 2006 to a person who subscribed for them before 22nd March 2006.

PART 2

RATE OF RELIEF FOR INVESTMENTS IN VENTURE CAPITAL TRUSTS 20

- 4 (1) In paragraph 1(5)(a) of Schedule 15B to ICTA (where relief available on shares issued by venture capital trust on or after 6th April 2006, income tax liability reduced by amount not exceeding the sum subscribed multiplied by the lower rate of 20%), for “tax at the lower rate for that year on” substitute “30 per cent of”. 25
- (2) In paragraph 3(4) of that Schedule (where shares in venture capital trust disposed of by bargain at arm’s length within 3 years of their issue, relief given is reduced by reference to consideration for disposal if less than amount subscribed), for “tax at the lower rate for the year of assessment for which the relief was given on” substitute “30 per cent of”. 30
- (3) Sub-paragraphs (1) and (2) have effect in relation to shares issued on or after 6th April 2006.

PART 3

ENTERPRISE INVESTMENT SCHEME: MAXIMUM SUBSCRIPTIONS AND CARRY-BACK OF RELIEF

- 5 (1) In section 289A(4) of ICTA (which limits the amount eligible to be relieved in the previous year), for “£25,000” substitute “£50,000”. 35
- (2) Sub-paragraph (1) has effect in relation to shares issued on or after 6th April 2006.
- 6 (1) In section 290(2) of ICTA (maximum amount eligible for relief in any year), for “£200,000” substitute “£400,000”. 40
- (2) Sub-paragraph (1) has effect for the year 2006-07 and for subsequent years of assessment.

PART 4

LENGTHENING OF PERIODS APPLICABLE TO VENTURE CAPITAL TRUSTS

- 7 (1) Schedule 15B to ICTA (venture capital trusts: relief from income tax) is amended as follows.
- (2) In paragraph 2(3) (no relief for investments linked to loans made within period ending immediately before third anniversary of date on which shares issued), in the definition of “the relevant period”, for “third” substitute “fifth”. 5
- (3) In paragraph 3(1)(b) (loss of investment relief for disposal of shares within three years of issue), for “three” substitute “five”. 10
- (4) In paragraph 6(1) (meaning of “eligible shares”), for “three” substitute “five”.
- (5) Sub-paragraphs (1) to (4) have effect in relation to shares issued on or after 6th April 2006.

PART 5

VENTURE CAPITAL TRUSTS: MEANING OF “INVESTMENTS”

- 8 (1) In section 842AA of ICTA (venture capital trusts: conditions for approval), after subsection (11) insert – 15
- “(11A) A reference in this section, or in section 842(2)(b) as applied by subsection (11)(a) above, to a company’s investments shall be taken to include, so far as it would not otherwise do so, – 20
- (a) money in the company’s possession, and
- (b) any sum owed to the company by another person if the company has account-holder’s rights over that sum.
- (11B) For the purposes of subsection (11A)(b) above, a company has “account-holder’s rights” over a sum owed to the company if – 25
- (a) the company has a right (whether or not the exercise of the right is subject to conditions) to require the other person to pay out the sum, or amounts out of the sum, to the company or at the company’s direction, and
- (b) the sum is owed to the company – 30
- (i) as a result of amounts having been paid to the other person by or for the company, or
- (ii) as a result of the other person having identified a sum in respect of which the company may exercise such a right. 35
- (11C) Subsection (11A) above does not have effect to cause a company’s investments to be taken to include anything to which the company is not beneficially entitled, but for this purpose a company shall be taken to be beneficially entitled to – 40
- (a) sums subscribed for shares issued by it, and
- (b) anything to which it is entitled that (directly or indirectly) represents any such sums.”

- (2) Sub-paragraph (1) has effect for the purposes of determining whether, at a time on or after 6th April 2007, the conditions specified in section 842AA(2) of ICTA are, will be or were fulfilled with respect to a company.

SCHEDULE 15

Section 102

ACCOUNTANCY CHANGE: SPREADING OF ADJUSTMENT

5

PART 1

INCOME TAX

Application of this Part of this Schedule

- 1 (1) This Part of this Schedule applies where –
- (a) there is a change of accounting approach from one period of account to the next in calculating the profits of a business for income tax purposes, 10
 - (b) the later period of account ends on or after 22nd June 2005 and the basis on which the profits for that period are calculated is in accordance with UK GAAP (including SSAP 9 and Application Note G as interpreted by UITF 40), and 15
 - (c) the earlier period of account ended before that date and the basis on which profits for that period were calculated was in accordance with UK GAAP (including SSAP 9 and Application Note G, but not as interpreted by UITF 40), 20
- and has effect in relation to any adjustment income under Chapter 17 of Part 2 of ITTOIA 2005 attributable to the change of basis from that mentioned in paragraph (c) to that mentioned in paragraph (b).
- (2) In relation to a period for which accounts are drawn up in accordance with international accounting standards, the references in sub-paragraph (1) to requirements of UK GAAP shall be read as references to the corresponding requirements of international accounting standards. 25
- (3) In sub-paragraph (1) –
- “SSAP 9” means Statement of Standard Accounting Practice No.9 on Long-term contracts, issued by the Accounting Standards Board; 30
 - “Application Note G” means Application Note G to Financial Reporting Standard 5 issued by the Accounting Standards Board in November 2003;
 - “UITF 40” means Abstract No.40 on Revenue recognition and service contracts, issued by the Urgent Issues Task Force of the Accounting Standards Board on 10th March 2005. 35
- (4) Any reference in this Part of this Schedule to the date on which the change of accounting approach was adopted is to the first day of the first period of account for which it was adopted.
- (5) To determine the amount of adjustment income attributable to the change of basis mentioned in the closing words of sub-paragraph (1), assume that there was no other change of accounting approach. 40

Spreading of adjustment income

- 2 (1) The adjustment income shall be spread in accordance with the following rules.
- (2) In each of the first three tax years beginning with that in which the whole amount of the adjustment income would otherwise be chargeable to tax, an amount equal to whichever is the less of— 5
- (a) one-third of the original amount of the adjustment income, and
 - (b) one-sixth of the profits of the business for that tax year,
- is treated as arising and charged to tax.
- (3) In the fourth and fifth tax years, if the whole of the adjustment income has not been charged to tax in previous tax years, an amount equal to whichever is the least of— 10
- (a) the amount remaining untaxed,
 - (b) one-third of the original amount of the adjustment income, and
 - (c) one-sixth of the profits of the business for that tax year, 15
- is treated as arising and charged to tax.
- (4) In the sixth tax year so much (if any) of the adjustment income as has not previously been charged to tax is treated as arising and is charged to tax.
- (5) For the purposes of this paragraph “the profits of the business” means the profits of the business as calculated for income tax purposes leaving out of account— 20
- (a) any adjustment expenses under Chapter 17 of Part 2 of ITTIOIA 2005, and
 - (b) any allowances or charges under CAA 2001.
- (6) This paragraph has effect subject to— 25
- (a) paragraph 3 (effect of cessation of business), and
 - (b) paragraph 4 (election to accelerate charge).

Effect of cessation of business

- 3 If before the whole of the adjustment income has been charged to tax the person permanently ceases to carry on the business in question, paragraph 2 continues to apply but with the omission of the alternative limit in subparagraph (2)(b) and (3)(c) referring to the profits of the business. 30

Election to accelerate charge

- 4 (1) A person who under paragraph 2 is liable to tax for a tax year on an amount of adjustment income may elect for an additional amount to be treated as arising in that tax year. 35
- (2) The election must be made on or before the first anniversary of the normal self-assessment filing date for the tax year.
- (3) The election must specify the amount to be treated as income arising in the tax year (which may be any amount up to the whole of the adjustment income not previously charged to tax). 40
- (4) If an election is made, paragraph 2 applies in relation to any subsequent tax year as if the original amount of adjustment income (as reduced by the

previous application of this sub-paragraph) were reduced by the additional amount treated as arising in the tax year for which the election is made.

Liability of personal representatives

- 5 (1) This paragraph applies in the case of the death of a person who would otherwise have been liable to tax under this Part of this Schedule on adjustment income. 5
- (2) The tax under this Part of this Schedule for which the person would otherwise have been liable –
- (a) shall be assessed and charged on the personal representatives, and
- (b) is a debt due from and payable out of the deceased’s estate. 10
- (3) The personal representatives may make any election under this Part of this Schedule that the deceased might have made.

Meaning of “business”

- 6 In this Part of this Schedule “business” means –
- (a) a trade, profession or vocation, or 15
- (b) a UK property business or overseas property business.

Application of provisions to partnerships

- 7 (1) This paragraph applies where the business is carried on by the person in partnership.
- (2) The amounts chargeable to tax under this Part of this Schedule for any tax year are calculated as if the partnership were an individual resident in the United Kingdom. 20
- (3) The person’s share of the amount charged to tax is determined –
- (a) for the first tax year, according to the profit-sharing arrangements for the twelve months ending immediately before the date on which the change of accounting practice was adopted; 25
- (b) for any subsequent tax year, according to the profit-sharing arrangements for the twelve months immediately following the twelve months used to determine the person’s share for the previous year. 30
- An election under paragraph 4 (election to accelerate charge) in relation to a tax year must be made jointly by all the persons who have been members of the partnership in the relevant twelve month period and are chargeable to income tax.
- (4) If paragraph 3 applies (effect of cessation of business), each partner’s share of any amount charged to tax on or after the cessation is determined as follows – 35
- (a) if the cessation occurs on the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the twelve months ending immediately before that date; 40
- (b) if the cessation occurs after that date, but on or before the first anniversary of that date, according to the profit-sharing

- arrangements for the period between that date and the date of cessation;
- (c) if the cessation occurs after the first anniversary of the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the period between the immediately preceding anniversary of that date and the date of cessation. 5
- An election under paragraph 4 after the cessation must be made by each former partner separately.
- (5) For the purposes of this paragraph “profit-sharing arrangements” means the rights of the partners to share in the profits of the business for the period in question. 10
- (6) In the case of a business carried on by a limited liability partnership the operation of this Part of this Schedule is not affected by the partnership’s ceasing to be one carrying on a trade, profession or other business with a view to profit. 15

Cases where spreading already available

- 8 This Part of this Schedule does not apply to adjustment income to which section 238 of that Act applies (spreading on ending of special provision for barristers and advocates in early years of practice).

PART 2 20

CORPORATION TAX

Application of this Part of this Schedule

- 9 (1) This Part of this Schedule applies where—
- (a) there is a change of accounting approach from one period of account to the next in calculating the profits of a business for corporation tax purposes, 25
- (b) the later period of account ends on or after 22nd June 2005 and the basis on which the profits for that period are calculated is in accordance with UK GAAP (including SSAP 9 and Application Note G as interpreted by UITF 40), and 30
- (c) the earlier period of account ended before that date and the basis on which profits for that period were calculated was in accordance with UK GAAP (including SSAP 9 and Application Note G, but not as interpreted by UITF 40), 35
- and has effect in relation to any positive adjustment under section 64 of and Schedule 22 to FA 2002 attributable to the change of basis from that mentioned in paragraph (c) to that mentioned in paragraph (b).
- (2) In relation to a period for which accounts are drawn up in accordance with international accounting standards, the references in sub-paragraph (1) to requirements of UK GAAP shall be read as references to the corresponding requirements of international accounting standards. 40
- (3) In this paragraph—
“SSAP 9” means Statement of Standard Accounting Practice No.9 on Long-term contracts, issued by the Accounting Standards Board;

“Application Note G” means Application Note G to Financial Reporting Standard 5 issued by the Accounting Standards Board in November 2003;

“UITF 40” means Abstract No.40 on Revenue recognition and service contracts, issued by the Urgent Issues Task Force of the Accounting Standards Board on 10th March 2005. 5

(4) Any reference in this Part of this Schedule to the date on which the change of accounting approach was adopted is to the first day of the first period of account for which it was adopted.

(5) To determine the amount of positive adjustment attributable to the change of basis mentioned in the closing words of sub-paragraph (1), assume that there was no other change of accounting approach. 10

Spreading of adjustment

10 (1) The adjustment shall be spread in accordance with the following rules.

(2) In each of the first three accounting periods beginning with that in which the whole of the adjustment would otherwise be charged to tax, an amount equal to whichever is the less of – 15

(a) one-third of the amount of the original adjustment, and

(b) one-sixth of the profits of the business for that period,

is treated as arising and charged to tax. 20

(3) In the fourth and fifth accounting periods, if the whole of the adjustment has not been charged to tax in the previous periods, an amount equal to whichever is the least of –

(a) the amount remaining untaxed,

(b) one-third of the amount of the original adjustment, and 25

(c) one-sixth of the profits of the business for that period,

is treated as arising and charged to tax.

(4) In the sixth accounting period so much (if any) of the adjustment as has not previously been charged to tax is treated as arising and is charged to tax.

(5) For the purposes of this paragraph “the profits of the business” means the profits of the business as calculated for corporation tax purposes leaving out of account – 30

(a) any adjustment under Schedule 22 to FA 2002, and

(b) any allowances or charges under CAA 2001.

(6) This paragraph has effect subject to – 35

(a) paragraph 11 (accounting periods of less than twelve months),

(b) paragraph 12 (effect of other events bringing accounting period to an end), and

(c) paragraph 13 (election to accelerate charge).

Accounting periods of less than twelve months 40

11 (1) This paragraph applies where by reason of –

(a) a change of accounting date,

(b) the company entering administration (see section 12(7ZA) of ICTA),

or

- (c) an insurance business transfer scheme (see section 12(7A) and (7B) of that Act),
an accounting period to which paragraph 10 applies is a period of less than twelve months (a “short period”).
- (2) In relation to a short period the references in that paragraph to one-third of the amount of the original adjustment shall be read as references to the proportion of that amount that the period bears to twelve months. 5
- (3) Where any of the accounting periods of the company falling within the period of six years following the change of accounting approach is a short period – 10
- (a) the rule in paragraph 10(3) applies in relation to every accounting period after the third and before that in which the sixth anniversary of the change of accounting approach falls, and
- (b) the rule in paragraph 10(4) applies in relation to the accounting period in which that anniversary falls. 15

Effect of other events bringing accounting period to an end

- 12 (1) If before the whole of the adjustment has been charged to tax an accounting period of the company ends by reason of –
- (a) the company ceasing to be within the charge to corporation tax,
- (b) the commencement of winding-up proceedings in respect of the company (see section 12(7) of ICTA), 20
- the rule in paragraph 10(4) applies in relation to that accounting period.
- (2) If the company permanently ceases to carry on the business in question (without there being any event within sub-paragraph (1) above), paragraph 10 continues to apply but with the omission of the alternative limit in sub-paragraph (2)(b) and (3)(c) referring to the profits of the business. 25

Election to accelerate charge

- 13 (1) A company that under paragraph 10 is liable to tax for an accounting period on any amount may elect for an additional amount to be treated as arising in that period. 30
- (2) The election must be made on or before the first anniversary of the filing date for the company’s company tax return for the accounting period for which the election is made.
- (3) The election must specify the amount to be treated as arising in the accounting period (which may be any amount up to the whole of the adjustment not previously charged to tax). 35
- (4) If an election is made, paragraph 10 applies in relation to any subsequent accounting period as if the amount of the original adjustment (as reduced by any previous application of this sub-paragraph) were reduced by the additional amount treated as arising in the accounting period for which the election is made. 40

Meaning of “business” etc

- 14 (1) In this Part of this Schedule “business” means –
- (a) a trade or vocation, or

- (b) a Schedule A business or overseas property business.

Application of provisions to partnerships

- 15 (1) This paragraph applies where the business is carried on by the company in partnership.
- (2) The amounts chargeable to tax under this Part of this Schedule are calculated as if the partnership were a company resident in the United Kingdom. 5
- (3) The company’s share of any such amount is determined by reference to the profit-sharing arrangements for the previous accounting period.
 An election under paragraph 13 (election to accelerate charge) must be made jointly by all the persons who have been members of the partnership in the previous accounting period and are chargeable to corporation tax. 10
- (4) If paragraph 12(2) applies (effect of cessation of business), each partner’s share of any amount charged to tax on or after the cessation is determined as follows –
- (a) if the cessation occurs on the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the twelve months ending immediately before that date; 15
- (b) if the cessation occurs after that date, but on or before the first anniversary of that date, according to the profit-sharing arrangements for the period between that date and the date of cessation; 20
- (c) if the cessation occurs after the first anniversary of the date on which the change of accounting approach was adopted, according to the profit-sharing arrangements for the period between the immediately preceding anniversary of that date and the date of cessation. 25
- An election under paragraph 13 after the cessation must be made by each former partner separately.
- (5) For the purposes of this paragraph “profit-sharing arrangements” means the rights of the partners to share in the profits of the business for the period in question. 30
- (6) A change in the persons carrying on a business does not constitute the permanent cessation of the business for the purposes of this Part of this Schedule so long as a person carrying on the business immediately before the change continues to carry on the business immediately after the change. 35
- (7) In the case of a business carried on by a limited liability partnership the operation of this Part of this Schedule is not affected by the partnership’s ceasing to be one carrying on a trade, profession or other business with a view to profit.
- (8) Nothing in this paragraph shall be read as affecting the operation of – 40
- (a) paragraph 19 of Schedule 9 to FA 1996 (loan relationships), or
- (b) paragraph 49 of Schedule 26 to FA 2002 (derivative contracts),
 (under which certain debits and credits are not to be brought into account as if the partnership were a company).

SCHEDULE 16

Section 104

REAL ESTATE INVESTMENT TRUSTS: EXCLUDED BUSINESS AND INCOME

PART 1

CLASSES OF BUSINESS

- | | | |
|---|---|--------------------------|
| 1 | (1) Incidental letting of property (whether in the United Kingdom or outside) which is held in connection with a property development trade. | 5 |
| | (2) In sub-paragraph (1) “property development” means the development of land with the sole or main object of realising a gain from the disposal of an interest in the land. | |
| 2 | Letting of property which is held for use for administrative purposes in carrying on property rental business but is temporarily surplus to requirements for those purposes, provided that –
(a) the space let is comparatively small compared to the space occupied for administrative purposes, and
(b) the letting is for a term of not more than three years. | 10

15 |
| 3 | The provision of services in connection with property outside the United Kingdom where the services would not fall within Schedule A if provided in connection with property in the United Kingdom. | |
| 4 | Entering into finance agreements to which sections 43A to 43G of ICTA apply (rent factoring). | 20 |

PART 2

CLASSES OF INCOME OR PROFIT

- | | | |
|----|---|----|
| 5 | All income in connection with the operation of a caravan site, if section 20(1) of ITTOIA 2005 (caravan sites) would apply in respect of any receipts in connection with the operation of the site. | 25 |
| 6 | Rent in respect of an electric-line wayleave. | |
| 7 | Rent in respect of the siting of a pipeline for gas. | |
| 8 | Rent in respect of the siting of a pipeline for oil. | |
| 9 | Rent in respect of the siting of a mast or similar structure designed for use in a mobile telephone network or other system of electronic communication. | 30 |
| 10 | Rent in respect of the siting of a wind turbine. | |
| 11 | Dividends from shares in a company to which this Part of this Act applies. | |
| 12 | Income arising out of an interest in a limited liability partnership where section 118ZA(4) of ICTA (winding-up) applies. | |

PART 3

POWER TO AMEND

- 13 The Commissioners for Her Majesty’s Revenue and Customs may by regulations –
- (a) add a paragraph to Part 1 or 2 of this Schedule, 5
 - (b) amend a paragraph of Part 1 or 2 of this Schedule, or
 - (c) repeal a paragraph of Part 1 or 2 of this Schedule.

SCHEDULE 17

Section 134

GROUP REAL ESTATE INVESTMENT TRUSTS: MODIFICATIONS

Introduction 10

- 1 This Schedule sets out the modifications of Part 4 in its application to groups.
- 2 In this Schedule, in relation to a group –
- (a) “G (pre-entry)” means the group before Part 4 begins to apply to it,
 - (b) “G (property rental business)” means the group in so far as it carries on property rental business which satisfies Conditions 1 to 3 of section 107 (as modified by paragraph 6 below) while Part 4 applies to it, 15
 - (c) “G (residual)” means the group in so far as it carries on other business while Part 4 applies to it, and
 - (d) “G (post-cessation)” means the group after Part 4 has ceased to apply to it. 20
- 3 (1) A reference in this Schedule to a UK resident company is a reference to a company which –
- (a) is resident in the United Kingdom, and
 - (b) is not resident in another place in accordance with the law of that place relating to taxation. 25
- (2) A reference in this Schedule to UK profits of a group is a reference to –
- (a) amounts shown in the financial statements of G (property rental business) as profits of UK resident members of the group, and
 - (b) amounts shown in the financial statements of G (property rental business) as profits of business in the United Kingdom of other members. 30
- (3) A reference to UK business of a group is a reference to –
- (a) the business of UK resident members of the group, and
 - (b) business in the United Kingdom of other members. 35

General modification

- 4 Except where the context otherwise requires and subject to the provisions of this Schedule, a reference to a company shall be treated as a reference to a group.

Conditions

- 5 (1) In section 106 a reference to a company shall be treated as a reference to the principal company.
- (2) The requirement in section 106(2) shall be treated as including a requirement that the principal company prepare for the accounting period, and submit to the Commissioners for Her Majesty’s Revenue and Customs, financial statements in accordance with paragraph 31 (“the financial statements”). 5
- 6 (1) For the purposes of section 107(1) the property rental businesses of the members of the group shall be treated as a single business.
- (2) For section 107(7)(a) substitute – 10
- “(a) the members of the group shall be treated as a single company, and
- (aa) if the shares of a member of the group are stapled to the shares of another company, the stapled company and the members of the group shall be treated as a single company;”. 15
- (3) For section 107(8) substitute –
- “(8) Condition 4 is that at least 90% of the UK profits of the property rental business arising in the accounting period are distributed –
- (a) by the principal company,
- (b) by way of dividend, and 20
- (c) on or before the filing date for the principal company’s tax return for the accounting period (see paragraph 14 of Schedule 18 to FA 1998);
- and for the purposes of this Condition “UK profits” means amounts shown in the financial statements of G (property rental business) as profits of UK resident members of the group.” 25
- (4) In the application of section 107(9) compliance with Condition 4 shall be treated as unlawful in so far as –
- (a) the Condition applies to the profits of the property rental business attributable to a member, and 30
- (b) compliance with the Condition by the member would (if the Condition applied to it) be unlawful as described in section 107(9)(a)(i) or (ii).
- 7 In the application of section 108 –
- (a) the aggregate amount shown in the financial statement as profits of members of G (property rental business), calculated in accordance with international accounting standards, shall be treated as the amount of the income accruing from tax-exempt business, 35
- (b) the aggregate amount shown in the financial statements as the amount of the profits of members of G (residual) shall be treated as the amount of the income accruing from non-tax-exempt business, 40
- (c) the amount shown in the financial statements as the amount of the assets of G (property rental business) shall be treated as the amount of the assets involved in tax-exempt business, and
- (d) the amount shown in the financial statements as the amount of the assets of G (residual) shall be treated as the amount of the assets involved in non-tax-exempt business. 45

Entering Real Estate Investment Trust Regime

- 8 (1) A notice under section 109 must be given by the principal company.
- (2) For the purposes of the requirement under section 109(2)(c) a reference to the company shall be treated as a reference to the principal company.
- 9 (1) In section 111(1) a reference to C (pre-entry) shall be treated as a reference to a UK resident member of G (pre-entry). 5
- (2) Section 111(2) shall have effect in relation to each UK resident company which is a member of the group; and for that purpose—
- (a) a reference to C (pre-entry) (in subsection (2) or (4)) shall be treated as a reference to the company as a member of G (pre-entry), and 10
- (b) a reference to C (tax-exempt) (in subsection (2) or (4)) shall be treated as a reference to the company as a member of G (property rental business).
- (3) In section 111(5) the reference to the company shall be treated as a reference to each UK resident member. 15
- (4) Where a percentage of the assets of a member of G (property rental business) is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be disregarded for the purposes of section 111.
- 10 (1) If a UK resident company becomes a member of a group to which Part 4 applies, section 111 shall apply to the company as if— 20
- (a) references to entry were references to becoming a member of the group,
- (b) references to C (pre-entry) were references to the company before becoming a member of the group, and
- (c) references to C (tax-exempt) were references to the company as a member of G (property rental business). 25
- (2) Where a percentage of the assets of the company would be excluded from a financial statement in accordance with paragraph 31(5), the percentage which would be excluded shall be disregarded in applying section 111 to the company. 30
- 11 (1) In the application of section 112—
- (a) a reference to a company to which Part 4 applies shall be treated as a reference to each member of a group to which Part 4 applies,
- (b) a reference to C (residual) shall be treated as a reference to the company as a member of G (residual), 35
- (c) in subsection (3) the reference to assets treated as sold and re-acquired under section 111(2) shall be construed in accordance with paragraph 9(4) or 10(2), and
- (d) the section shall apply to non-UK resident members—
- (i) as if section 111 applied to UK property rental business (within the meaning given by paragraph 32(1)) carried on by them, 40
- (ii) as if a reference to a charge to corporation tax under Case VI of Schedule D were a reference to a charge to income tax, and
- (iii) as if a reference to the rate at which the company pays tax on income were, where relevant, a reference to the rate at which 45

the company would pay tax on the notional income if it were the highest part of the company's income.

- (2) Where a company joins a group to which Part 4 applies, section 112 shall apply to the company as if joining the group amounted to becoming a company to which Part 4 applies (but with a reference to C (residual) being treated as a reference to the company as a member of G (residual)). 5
- 12 (1) Section 113(1) to (4) shall apply in relation to G (property rental business), G (pre-entry), G (residual) and G (post-cessation) as they apply in relation to C (tax-exempt), C (pre-entry), C (residual) and C (post-cessation).
- (2) Section 113(1) to (6) shall also apply in relation to each UK resident company which is a member of the group; for which purpose – 10
- (a) a reference to C (tax-exempt) is a reference to the company if or in so far as it is a member of G (property rental business),
 - (b) a reference to C (pre-entry) is a reference to the company as a member of G (pre-entry) (or, in the case of a company which joins a group to which Part 4 applies, a reference to the company before joining), 15
 - (c) a reference to C (residual) is a reference to the company if or in so far as it is a member of G (residual), and
 - (d) a reference to C (post-cessation) is a reference to the company as a member of G (post-cessation) (or, in the case of a company which leaves a group to which Part 4 applies, a reference to the company after leaving). 20
- (3) Where a percentage of the profits of a member of G (property rental business) is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be treated for the purposes of section 113 as profits of G (residual). 25
- 13 Regulations under section 114 may make provision in relation to a group to which Part 4 applies as if references to the company were references to the principal company. 30
- 14 Section 115 shall apply as if for subsection (2) there were substituted –
- “(2) That sum is –

$$\frac{\text{Profits} + \text{FinancingCosts(all)}}{\text{FinancingCosts(external)}}$$

where –

- (a) Profits means the aggregate of the UK profits of G (property rental business) arising in the accounting period as set out in the financial statement under paragraph 31(2)(b) (before the offset of capital allowances), 35
- (b) Financing Costs (all) means the amount of the financing costs incurred in respect of the property rental business of G (property rental business) as set out in the financial statement under paragraph 31(2)(b), and 40
- (c) Financing Costs (external) means the amount of the financing costs incurred in respect of the UK business of G (property

rental business), excluding financing costs owed by one member of G (property rental business) to another, as set out in the financial statement under paragraph 31(2)(a).”

Assets, etc

- 15 (1) In section 117(1) the reference to the company shall be treated as a reference to a member of the group. 5
- (2) An appeal under section 117(6) may be made by the member of the group on which the assessment is made.
- 16 Section 118 shall apply as if –
- (a) a reference to C (residual) were a reference to G (residual), and 10
- (b) a reference to C (tax-exempt) were a reference to G (property rental business).

Profits

- 17 (1) Section 119 shall apply only in relation to each UK resident company which is a member of the group; for which purpose – 15
- (a) a reference to C (tax-exempt) is a reference to the company if or in so far as it is a member of G (property rental business), and
- (b) a reference to C (residual) is a reference to the company if or in so far as it is a member of G (residual).
- (2) Where a percentage of the profits of a member of G (property rental business) is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be treated for the purposes of corporation tax as profits of the member in so far as it is a member of G (residual). 20
- 18 (1) In the application of section 121(1) – 25
- (a) the reference to a company to which Part 4 applies shall be treated as a reference to the principal company of a group to which Part 4 applies, and
- (b) the reference to the profits of C (tax-exempt) shall be treated as a reference to amounts shown in the financial statements of G (property rental business) as – 30
- (i) the profits of the UK resident members of the group, and
- (ii) gains accruing to UK resident members of the group.
- (2) In section 121(5) the reference to a company to which Part 4 applies shall be treated as a reference to the principal company of a group to which Part 4 applies. 35
- (3) In the application of section 121(8) –
- (a) for paragraph (a) substitute – 40
- “(a) the reference to the principal company of a group to which this Part applies includes a reference to the principal company of G (post-cessation),” and
- (b) disregard paragraph (b).
- 19 (1) In the application of section 122(1)(a) –

- (a) the reference to a company to which Part 4 applies shall be treated as a reference to the principal company of a group to which Part 4 applies, and
 - (b) the reference to profits of a company's tax-exempt business shall be treated as a reference to amounts shown in the financial statements of G (property rental business) as –
 - (i) the profits of the UK resident members of the group, and
 - (ii) gains accruing to UK resident members of the group.
 - (2) In the application of section 122(2)(n), (o) and (p) a reference to a company shall be treated as a reference to the principal company.
 - (3) In the application of section 122 disregard subsection (5).
- 20 In the application of section 123 –
- (a) the reference to a company to which Part 4 applies shall be treated as a reference to the principal company of a group to which Part 4 applies, and
 - (b) the reference to C (tax-exempt) shall be treated as a reference to a member of G (property rental business).

Capital gains

- 21 (1) Sections 124 to 126 shall apply only in relation to each UK resident company which is a member of the group; for which purpose –
- (a) a reference to C (tax-exempt) is a reference to the company if or in so far as it is a member of G (property rental business), and
 - (b) a reference to C (residual) is a reference to the company if or in so far as it is a member of G (residual).
- (2) Where a percentage of the gains of a member of G (property rental business) is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be treated for the purposes of corporation tax as gains of the member in so far as it is a member of G (residual).
- 22 In the application of section 125(7) a reference to the company shall be treated as a reference to a member of the group.

Leaving Real Estate Investment Trust Regime

- 23 In sections 128 to 130 a reference to the giving of a notice by or to a company shall be treated as a reference to the giving of a notice by or to the principal company.
- 24 An appeal under section 129(6) may be made by the principal company.
- 25 (1) Section 131 shall apply in relation to each UK resident company which is a member of the group; for which purpose –
- (a) a reference to C (tax-exempt) is a reference to the company if or in so far as it is a member of G (property rental business),
 - (b) a reference to C (residual) is a reference to the company if or in so far as it is a member of G (residual), and
 - (c) a reference to C (post-cessation) is a reference to the company as a member of G (post-cessation).

- (2) Where a percentage of the assets of a member of G (property rental business) is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be disregarded for the purposes of section 131.
- 26 (1) If a UK resident company ceases to be a member of a group to which Part 4 applies section 131 shall apply to the company as if – 5
- (a) references to C (tax-exempt) were references to the company as a member of G (property rental business),
 - (b) references to C (post-cessation) were references to the company after ceasing to be a member of the group, and
 - (c) the reference to C (residual) were a reference to the company as a member of G (residual). 10
- (2) Where a percentage of the assets of the company is excluded from a financial statement in accordance with paragraph 31(5), the excluded percentage shall be disregarded in applying section 131 to the company.
- Anti-avoidance* 15
- 27 In section 132 –
- (a) the reference in subsection (2) to disposal by the company shall be treated as a reference to disposal by a member of the group, and
 - (b) the reference in subsection (3)(a) to C (tax-exempt) shall be treated as a reference to G (property rental business). 20
- 28 (1) Section 132(2) and (3) shall apply where a UK resident company ceases to be a member of a group to which Part 4 applies if –
- (a) Part 4 had applied to the group for a continuous period of less than ten years, or
 - (b) the company had been a member of the group for a continuous period of less than ten years. 25
- (2) In the application of section 132(2) and (3) by virtue of sub-paragraph (1) –
- (a) a reference to C (tax-exempt) shall be treated as a reference to the company as a member of G (property rental business), and
 - (b) a reference to the date of cessation shall be treated as a reference to the date on which the company ceases to be a member of the group. 30
- 29 (1) A direction under section 133(2) –
- (a) may relate to the group as a whole or to one or more members;
 - (b) may, in particular, alter the effect of this Schedule.
- (2) In the application of section 133(5), an appeal may be brought by the principal company. 35

Manufactured dividends

- 30 Section 139 shall apply –
- (a) as if in subsection (1) the reference to a company to which Part 4 applies were a reference to the principal company of a group to which that Part applies, and 40
 - (b) as if, in the amendment effected by subsection (2), in sub-paragraph (2E) the reference to “the company” were a reference to the principal company of the group.

Financial statements

- 31 (1) This paragraph sets out the requirements referred to in paragraph 5(2) for financial statements in respect of a group to which Part 4 applies in relation to an accounting period of the principal company.
- (2) The principal company shall prepare – 5
- (a) a financial statement for G (property rental business) for the accounting period,
 - (b) a financial statement for G (property rental business) in respect of its UK business, and
 - (c) a financial statement for G (residual) for the accounting period. 10
- (3) A financial statement under sub-paragraph (2)(a) or (c) shall specify, in relation to each member –
- (a) income (calculated in accordance with international accounting standards),
 - (b) expenses (calculated in accordance with international accounting standards), 15
 - (c) profits before tax excluding gains or losses on property (whether realised or not) calculated in accordance with international accounting standards, and
 - (d) assets valued – 20
 - (i) at the beginning of the accounting period,
 - (ii) in accordance with international accounting standards,
 - (iii) using fair value where there is a choice, and
 - (iv) disregarding liabilities secured against or otherwise relating to the assets. 25
- (4) A financial statement under sub-paragraph (2)(b) shall specify, in relation to each member, profits calculated in accordance with section 120.
- (5) Where a non-member of the group holds a percentage of the beneficial interest in a member (other than the principal company), the financial statements for G (property rental business) and G (residual) shall exclude that percentage of income, expenses, gains, losses, assets and liabilities of the member. 30
- (6) Percentages of beneficial interest for the purpose of sub-paragraph (5) shall be determined by reference to beneficial entitlement to profits available for distribution to equity holders. 35
- (7) The Commissioners for Her Majesty’s Revenue and Customs may by regulations –
- (a) make further provision relating to the content of a financial statement (which may, in particular – 40
 - (i) permit or require apportionment or otherwise prescribe or refer to accounting practice,
 - (ii) provide for the inclusion or exclusion of specified income, expenses, gains, losses, assets and liabilities,
 - (iii) make provision about the treatment of an interest in a business held by a member), 45
 - (b) prescribe the form of a financial statement, and

- (c) specify a time before which a financial statement must be supplied to the Commissioners.

Non-UK resident members

- 32 (1) This paragraph applies to a non-UK resident company which is a member of a group to which Part 4 applies if – 5
- (a) the company has property rental business in the United Kingdom (“the UK property rental business”), and
- (b) the profits of that business would be chargeable to tax under Chapter 3 of Part 3 of ITTOIA 2005 or as profits of a Schedule A business.
- (2) Business carried on by a non-UK resident company is property rental business for the purposes of this Part if the business would be property rental business within the meaning given by section 104 if it were carried on by a UK resident company. 10
- (3) The property rental business of the company in the United Kingdom shall be treated as if it were (subject to the application of this Part) chargeable to corporation tax. 15
- (4) Section 119(1) shall apply to the company as if the reference to the business of C (tax-exempt) were a reference to the UK property rental business.
- (5) Profits arising from the UK property rental business shall not be charged to income tax. 20
- (6) Sections 124 to 126 shall apply to the company as if –
- (a) a reference to C (tax-exempt) were a reference to the company in so far as it carries on the UK property rental business,
- (b) a reference to tax-exempt business were a reference to the UK property rental business, and 25
- (c) a reference to C (residual) were a reference to the company in so far as it carries on other business in the United Kingdom.
- (7) If a UK resident member of a group to which Part 4 applies receives a dividend which represents (wholly or partly and directly or indirectly) profits of UK property rental business of a non-UK resident member of the group, such proportion of the dividend as represents those profits shall be treated for the purposes of the Corporation Tax Acts as a dividend from a UK resident company. 30
- (8) Profits and gains of the UK property rental business shall be treated as profits and gains of a UK resident member of the group for the purposes of – 35
- (a) section 107(8) (as modified by paragraph 6),
- (b) section 121 (as modified by paragraph 18),
- (c) section 122 (as modified by paragraph 19), and
- (d) a financial statement for G (property rental business) under paragraph 31. 40

Takeovers

- 33 (1) This paragraph applies if a company to which Part 4 applies, or a member of a group to which Part 4 applies, becomes a member of a group (or of another group) to which Part 4 applies.

- (2) Where this paragraph applies, the following provisions of Part 4 shall not have effect –
- (a) section 111 (as modified by paragraphs 9 and 10 above),
 - (b) section 112 (as modified by paragraph 11 above), and
 - (c) section 131 (or section 131 as modified by paragraphs 25 and 26 above). 5

SCHEDULE 18

Section 146

OIL TAXATION: MARKET VALUE OF OIL

PART 1

AMENDMENTS OF THE OIL TAXATION ACT 1975 10

Introductory

- 1 OTA 1975 is amended as follows.

Assessable profits and allowable losses

- 2 (1) Section 2 is amended as follows.
- (2) In subsection (4)(b) (one-half of the market value in the last calendar month of the preceding period) for “in the last calendar month” substitute “on the last business day”. 15
- (3) In subsection (5)(d) (one-half of the market value in the last calendar month of the period) for “in the last calendar month” substitute “on the last business day”. 20
- (4) In subsection (5A), in the opening words, after “or another country” insert “, or from its place of extraction (where that is in the territorial sea of the United Kingdom or a designated area),”.
- (5) In subsection (9)(a)(i) (5% provisional allowance: deliveries) –
- (a) for “in the calendar month in which the delivery was made” substitute “as determined in accordance with Schedule 3 to this Act for each of the deliveries”; 25
 - (b) for “Schedule 3 to this Act” substitute “that Schedule”.
- (6) In subsection (9)(a)(ii) (5% provisional allowance: relevant appropriations) – 30
- (a) for “in the calendar month in which the appropriation was made” substitute “as determined in accordance with Schedule 3 to this Act for each of the appropriations”;
 - (b) for “Schedule 3 to this Act” substitute “that Schedule”.

Allowance of exploration and appraisal expenditure 35

- 3 (1) Section 5A is amended as follows.
- (2) In subsection (5B) (oil to be treated as disposed of at its market value in the calendar month) for “in the calendar month in which it was disposed of or

appropriated as mentioned” substitute “determined in accordance with Schedule 3 to this Act for the disposal or appropriation mentioned”.

- (3) Amend subsection (5C) (application of Schedule 3 with modifications for ascertaining market value for the purposes of subsection (5B)) as follows.
- (4) Omit paragraph (a) (modification of paragraph 2(2)(f)). 5
- (5) In paragraph (b) (omission of sub-paragraphs (3) and (4)) for “sub-paragraphs (3) and (4)” substitute “sub-paragraph (4)”.
- (6) At the end of paragraph (c) insert “; and
 - (d) any reference in paragraph 2 to the notional delivery day for the actual oil shall be construed as a reference to the day on which the oil is disposed of or appropriated as mentioned in subsection (5A)(a) above.” 10

Interpretation

- 4 (1) In section 12 (interpretation of Part 1 of the Act) subsection (1) (general definitions) is amended as follows. 15
- (2) Insert each of the following definitions at the appropriate place –
 - ““business day” has the same meaning as in the Bills of Exchange Act 1882;”;
 - ““Category 1 oil” and “Category 2 oil” have the meaning given by paragraph 2(1B) of Schedule 3 to this Act;” 20
- (3) For the definition of “calendar month” substitute –
 - ““calendar month” (where those words are used) means a month of the calendar year;”.

Date of delivery or appropriation for shipped oil not disposed of in sales at arm’s length

- 5 (1) After section 12, insert – 25
- “12A Date of delivery or appropriation: shipped oil not sold at arm’s length**
- (1) This section has effect for the purpose of determining the date on which any oil to which it applies is to be regarded for the purposes of this Part as delivered or relevantly appropriated.
- (2) This section applies to – 30
 - (a) oil (not being light gases) won from a field and disposed of crude by a participator otherwise than in sales at arm’s length, and
 - (b) oil (not being light gases) so won and relevantly appropriated by a participator, 35
 if the condition in subsection (3)(a) or (b) below is met.
- (3) The condition is that the oil is or has been, or is to be, –
 - (a) transported by ship from the place of extraction to a place in the United Kingdom or elsewhere, or
 - (b) transported by pipeline to a place in the United Kingdom and loaded on to a ship there. 40

-
- (4) The date on which the oil is to be taken to be delivered, or (as the case may be) relevantly appropriated, by the participator is –
- (a) the date of completion of load, in a case where the condition in subsection (3)(a) above is met,
 - (b) the date of the bill of lading, in a case where the condition in subsection (3)(b) above is met.”. 5
- (2) The amendment made by this paragraph has effect in relation to oil which would (apart from this paragraph) fall to be regarded for the purposes of Part 1 of OTA 1975 as delivered or appropriated on a date after 30th June 2006. 10
- “The Board”*
- 6 (1) In section 21 (citation, interpretation and construction of the Act) subsection (2) is amended as follows.
- (2) In consequence of the Commissioners for Revenue and Customs Act 2005 (c. 11), for the definition of “the Board” substitute – 15
- ““the Board” means the Commissioners for Her Majesty’s Revenue and Customs;”.
- (3) The amendment made by this paragraph comes into force on the day on which this Act is passed.
- Returns by participators* 20
- 7 (1) In Schedule 2 (management and collection) paragraph 2 is amended as follows.
- (2) In sub-paragraph (2)(a)(iii) (market value of oil disposed of otherwise than by sale at arm’s length) for “in the calendar month in which the delivery was made” substitute “as determined in accordance with Schedule 3 to this Act in the case of the delivery”. 25
- (3) In sub-paragraph (2)(b)(ii) (market value of oil relevantly appropriated) for “in the calendar month in which the delivery was made” substitute “as determined in accordance with Schedule 3 to this Act in the case of the appropriation”. 30
- (4) In sub-paragraph (2)(d)(ii) (market value of oil not disposed of etc at end of period) for “in the last calendar month” substitute “on the last business day”.
- Gas fractionation*
- 8 (1) In Schedule 3 (petroleum revenue tax: miscellaneous provisions) paragraph 2A (market value of oil that consists of or includes gas) is amended as follows. 35
- (2) In sub-paragraph (1) –
- (a) for “(2D)” substitute “(2I)”; 40
 - (b) omit “, or in accordance with those sub-paragraphs as modified by sub-paragraph (3) of that paragraph,”.
- (3) In sub-paragraph (2) –

-
- (a) for the words from the beginning to “paragraph 2 above” where first occurring substitute “Sub-paragraph (2)(d) or (as the case may be) (2AA)(d) of paragraph 2 above”;
- (b) after “in sub-paragraph (2)” insert “or (2AA)”.
- (4) In sub-paragraph (3)– 5
- (a) after “in sub-paragraph (2)” insert “or (2AA)”;
- (b) for “(2D)” substitute “(2I)”;
- (c) omit “(with sub-paragraphs (2)(f) of paragraph 2 applying accordingly)”.
- Aggregate market value of oil for purposes of section 2(5)* 10
- 9 In Schedule 3, for paragraph 3 substitute–
- “3 (1) For the purposes of subsection (5) of section 2 of this Act, the aggregate market value of any oil falling within paragraph (b) or (c) of that subsection is arrived at as follows.
- (2) In the case of oil falling within paragraph (b) of that subsection and delivered as there mentioned in the chargeable period in question– 15
- (a) for each delivery, find (in accordance with paragraph 2 above (read, where applicable, with paragraph 2A above)) the market value of the quantity of oil delivered, and 20
- (b) aggregate the market values so found.
- (3) In the case of oil falling within paragraph (c) of that subsection and appropriated as there mentioned in the chargeable period in question–
- (a) for each appropriation, find (in accordance with paragraph 2 above (read, where applicable, with paragraph 2A above)) the market value of the quantity of oil appropriated, and 25
- (b) aggregate the market values so found.”.
- Power to make regulations* 30
- 10 At the end of Schedule 3 insert–
- “*Power to make regulations under this Schedule*
- 12 (1) Any power to make regulations under this Schedule is exercisable by statutory instrument.
- (2) A statutory instrument containing regulations under this Schedule may not be made unless a draft of the instrument has been laid before, and approved by a resolution of, the House of Commons. 35
- (3) Any power to make regulations under this Schedule includes power– 40
- (a) to make different provision for different Categories or kinds of oil or for different cases, or

- (b) to make incidental, consequential, supplemental, or transitional provision or savings.”.

PART 2

AMENDMENTS OF OTHER ENACTMENTS

Finance (No. 2) Act 1987 5

The designated fraction for the month

- 11 (1) Schedule 8 to F(No.2)A 1987 (amendments of Schedule 10 to FA 1987) is amended as follows.
- (2) Omit paragraph 5 (which contains amendments making provision for certain amounts to be multiplied by a fraction greater than unity, and has not been brought into force). 10
- (3) The amendment made by this paragraph has effect for chargeable periods beginning on or after 1st July 2006.

Income and Corporation Taxes Act 1988

Valuation of oil disposed of or appropriated in certain circumstances. 15

- 12 (1) Section 493 of ICTA (valuation of oil disposed of or appropriated in certain circumstances) is amended as follows.
- (2) Before subsection (1) insert –
- “(A1) Where the conditions in subsection (A2) below are met in the case of a disposal of oil by a person, section 2(5A) of the Oil Taxation Act 1975 (“the 1975 Act”) (transportation etc) is to apply in determining the amount which the person is to bring into account for the purposes of the charge to corporation tax on income in respect of the disposal as it applies (or would apply) for the purposes of petroleum revenue tax. 20
- (A2) The conditions are that –
- (a) the oil is oil won from an oil field in the United Kingdom,
- (b) the disposal is a disposal of the oil by the person crude in a sale at arm’s length, as defined in paragraph 1 of Schedule 3 to the 1975 Act, 30
- (c) the circumstances are such that the price received or receivable –
- (i) falls to be taken into account under section 2(5)(a) of that Act in computing for the purposes of petroleum revenue tax the assessable profit or allowable loss accruing to the person in any chargeable period from the oil field, or 35
- (ii) would fall to be so taken into account, had the oil field been a taxable field, as defined in section 185 of the Finance Act 1993, 40
- (d) the terms of the contract are such as are described in the opening words of section 2(5A) of the 1975 Act,

- (e) apart from subsection (A1) above, the person is not entitled to a transportation allowance in respect of the oil (see subsection (A3)) in computing his ring fence profits,
- (f) the person does not claim a transportation allowance in respect of the oil in computing for the purposes of corporation tax any profits of his that are not ring fence profits. 5
- (A3) In subsection (A2) above “transportation allowance”, in relation to any oil, means any of the following – 10
- (a) a deduction in respect of the expense of transporting the oil as mentioned in the opening words of section 2(5A) of the 1975 Act,
- (b) a deduction in respect of any costs of or incidental to the transportation of the oil as there mentioned,
- (c) any such reduction in the price to be regarded as received or receivable for the oil as would result from the application of section 2(5A) of the 1975 Act, if that provision applied for the purposes of corporation tax.”. 15
- (3) In subsection (1) – 20
- (a) omit “in a particular month”, and
- (b) for “the Oil Taxation Act 1975 (“the 1975 Act”)” substitute “the 1975 Act”.
- (4) In subsection (2), omit “in a particular month”.
- (5) In subsection (3), omit “in the calendar month in which the disposal was made”. 25
- (6) In subsection (4), omit “in the calendar month in which it was appropriated”.
- (7) For subsection (5) substitute –
- “(5) For the purposes of subsections (3) and (4) above, paragraph 2 of Schedule 3 to the 1975 Act shall apply as it applies for the purposes of Part 1 of that Act, but with the following modifications – 30
- (a) sub-paragraph (4) shall be treated as omitted;
- (b) any reference in paragraphs 2 and 2A to oil being relevantly appropriated shall be construed as a reference to its being appropriated as mentioned in section 493(4) of the Taxes Act; and 35
- (c) any reference in paragraph 2 to the notional delivery day for the actual oil shall be construed as a reference to the day on which the oil is disposed of or appropriated as mentioned in subsection (3) or (4) above.”.

SCHEDULE 19

Section 154

SCHEDULE TO BE INSERTED AS SCHEDULE 19C TO ICTA

The following is the Schedule to be inserted as Schedule 19C to ICTA –

“SCHEDULE 19C

Section 496B

PETROLEUM EXTRACTION ACTIVITIES: RING FENCE EXPENDITURE SUPPLEMENT

PART 1

INTRODUCTORY

About this Schedule

5

- 1 (1) This Schedule entitles a company carrying on a ring fence trade, on making a claim in respect of an accounting period beginning on or after 1st January 2006, to a supplement (initially of 6%, but variable by Treasury order) in respect of—

- (a) qualifying pre-commencement expenditure incurred before the trade is set up and commenced,
- (b) losses incurred in the trade, and
- (c) some or all of the supplement allowed in respect of earlier periods.

10

- (2) Part 2 makes provision about the application and interpretation of this Schedule.

15

- (3) Part 3 makes provision about supplement in relation to expenditure incurred by the company—

- (a) with a view to carrying on a ring fence trade, but
- (b) in an accounting period before the company sets up and commences that trade.

- (4) Part 4 makes provision about supplement in relation to losses incurred in carrying on the ring fence trade.

20

- (5) There is a limit on the number of accounting periods (6) in respect of which a company may claim supplement.

- (6) In determining the amount of supplement allowable, reductions fall to be made in respect of—

25

- (a) disposal receipts in respect of any asset representing qualifying pre-commencement expenditure,
- (b) ring fence losses that could be set off under section 393A against ring fence profits of earlier periods,
- (c) ring fence losses incurred in earlier periods that fall to be set off under section 393 against profits of succeeding periods,
- (d) unrelieved group ring fence profits.

30

PART 2

35

APPLICATION AND INTERPRETATION

Qualifying companies

- 2 This Schedule applies in relation to any company which—

- (a) carries on a ring fence trade, or

(b) is engaged in any activities with a view to carrying on a ring fence trade,
 and in this Schedule any such company is referred to as a “qualifying company”.

Accounting periods

- 3 (1) In this Schedule, in the case of any qualifying company, – 5
 “the commencement period” means the accounting period in which the company sets up and commences its ring fence trade;
 “post-commencement period” means any accounting period beginning on or after 1st January 2006 – 10
 (a) which is the commencement period, or
 (b) which ends after the commencement period;
 “pre-commencement period” means any accounting period –
 (a) beginning on or after 1st January 2006, and
 (b) ending before the commencement period. 15
- (2) For the purposes of this Schedule a company not within the charge to corporation tax which incurs any expenditure is to be treated as having such accounting periods as it would have if – 20
 (a) it carried on a trade consisting of the activities in respect of which the expenditure is incurred, and
 (b) it had started to carry on that trade when it started to carry on the activities in the course of which the expenditure is incurred.
- (3) In the case of an accounting period (a “straddling period”) of any qualifying company beginning before 1st January 2006 and ending on or after that date – 25
 (a) so much of the straddling period as falls before 1st January 2006, and
 (b) so much of the straddling period as falls on or after that date, 30
 are treated as separate accounting periods for the purposes of this Schedule.
- (4) But special provision is made elsewhere in this Schedule in relation to straddling periods (see paragraphs 5, 18 and 21(4) to (6)). 35

The relevant percentage

- 4 (1) For the purposes of this Schedule, the relevant percentage for any accounting period beginning on or after 1st January 2006 is 6%.
- (2) The Treasury may by order vary the percentage for the time being specified in sub-paragraph (1) above for such accounting periods as may be specified in the order. 40

Limit on number of accounting periods for which supplement may be claimed

- 5 (1) A company may claim supplement under this Schedule in respect of no more than 6 accounting periods.
- (2) The accounting periods in respect of which claims are made need not be consecutive. 5
- (3) A claim for supplement by the company under Schedule 19B (exploration expenditure supplement) in respect of an accounting period is to count for the purposes of this paragraph as a claim for supplement under this Schedule in respect of that accounting period.
- (4) But, if the company makes a claim for supplement under this Schedule in respect of the deemed accounting period, any claim for supplement by the company under Schedule 19B in respect of the Schedule 19B deemed accounting period is to be ignored for the purposes of this paragraph. 10
- (5) For this purpose – 15
- “the deemed accounting period” means the deemed accounting period under paragraph 3(3) beginning on 1st January 2006, and
- “the Schedule 19B deemed accounting period” means the deemed accounting period under paragraph 3(3) of Schedule 19B ending before 1st January 2006. 20

Qualifying pre-commencement expenditure

- 6 (1) For the purposes of this Schedule, expenditure is “qualifying pre-commencement expenditure” if it meets conditions A to D. 25
- (2) Condition A is that the expenditure is incurred on or after 1st January 2006.
- (3) Condition B is that the expenditure is incurred in the course of oil extraction activities.
- (4) Condition C is that the expenditure is incurred by a person with a view to carrying on a ring fence trade but before the person sets up and commences the ring fence trade. 30
- (5) Condition D is that the expenditure –
- (a) is subsequently allowable as a deduction in calculating the profits of the ring fence trade for the commencement period (whether or not any part of it is so allowable for any post-commencement period), or 35
- (b) is relevant R&D expenditure incurred by an SME.
- (6) For the purposes of this paragraph, expenditure incurred by a company is “relevant R&D expenditure incurred by an SME” if –
- (a) the company makes an election under paragraph 14 of Schedule 20 to the Finance Act 2000 (R&D tax relief for SMEs: alternative treatment of pre-trading expenditure) in respect of that expenditure, but 40

- (b) the company does not make a claim for an R&D tax credit under that Schedule in respect of that expenditure.
- (7) In the case of any qualifying pre-commencement expenditure which is relevant R&D expenditure incurred by an SME, the amount of that expenditure is treated for the purposes of this Schedule as being equal to 150% of its actual amount. 5
- (8) In the case of any qualifying pre-commencement expenditure which is relevant R&D expenditure incurred by a large company, the amount of that expenditure is treated for the purposes of this Schedule as being equal to 125% of its actual amount. 10
- (9) For this purpose “relevant R&D expenditure incurred by a large company” means qualifying expenditure within the meaning given by paragraph 11(3) of Schedule 12 to the Finance Act 2002 (R&D tax relief for large companies). 15
- Unrelieved group ring fence profits for accounting periods*
- 7 (1) There is an amount of unrelieved group ring fence profits for an accounting period of a qualifying company (“company Q”) if—
- (a) the company and any other company (“company X”) are members of the same group of companies, within the meaning given by section 413(3)(a), and 20
- (b) company X has an amount of taxable ring fence profits (see paragraph 8) for a corresponding accounting period.
- (2) An accounting period of company X corresponds to an accounting period of company Q if—
- (a) it coincides with, or falls wholly within, the accounting period of company Q, or 25
- (b) it falls partly within the accounting period of company Q.
- (3) If an accounting period of company X—
- (a) coincides with an accounting period of company Q, or 30
- (b) falls wholly within an accounting period of company Q,
- there is, for the accounting period of company Q, an amount of unrelieved group ring fence profits equal to the whole of company X’s taxable ring fence profits for its accounting period.
- (4) If an accounting period of company X falls partly within an accounting period of company Q— 35
- (a) there is an amount of unrelieved group ring fence profits for the accounting period of company Q, and
- (b) that amount is an amount equal to the part of company X’s taxable ring fence profits for its accounting period that is attributable, on an apportionment in accordance with section 834(4), to the part of that period which falls within the accounting period of company Q. 40
- (5) This paragraph applies for the purposes of this Schedule.

Taxable ring fence profits of an accounting period

- 8 For the purposes of this Schedule, a company has taxable ring fence profits for an accounting period if it has an amount of ring fence profits which is chargeable to corporation tax for that accounting period after any group relief claimed under Chapter 4 of Part 10.

5

PART 3

PRE-COMMENCEMENT SUPPLEMENT

Supplement in respect of a pre-commencement accounting period

10

- 9 (1) If—
(a) a qualifying company incurs qualifying pre-commencement expenditure in respect of a ring fence trade, and
(b) the expenditure is incurred before the commencement period,

the company may claim supplement under this Part of this Schedule (“pre-commencement supplement”) in respect of one or more pre-commencement periods.

15

- (2) Any pre-commencement supplement allowed on a claim in respect of a pre-commencement period is to be treated as expenditure—
(a) which is incurred by the company in the commencement period, and
(b) which is allowable as a deduction in calculating the profits of the ring fence trade for that period.

20

- (3) The amount of the supplement for any pre-commencement period in respect of which a claim under this paragraph is made is the relevant percentage for that period of the reference amount for that period.

25

- (4) If the pre-commencement period is a period of less than twelve months, the amount of the supplement for the period (apart from this sub-paragraph) is to be reduced proportionally.

30

- (5) Paragraphs 10 to 13 have effect for the purpose of determining the reference amount for a pre-commencement period.

The mixed pool of qualifying pre-commencement expenditure and supplement previously allowed

35

- 10 (1) For the purpose of determining the amount of any pre-commencement supplement, a qualifying company is to be taken to have had, at all times in the pre-commencement periods of the company, a continuing mixed pool of—
(a) the relevant amount (if any) which the company carries forward under Schedule 19B,
(b) qualifying pre-commencement expenditure, and
(c) pre-commencement supplement.

40

-
- (2) The pool is to be taken to have consisted of—
- (a) the relevant amount (if any) which the company carries forward under Schedule 19B,
 - (b) the company’s qualifying pre-commencement expenditure, allocated to the pool for each pre-commencement period in accordance with sub-paragraph (3), and 5
 - (c) the company’s pre-commencement supplement, allocated to the pool for each pre-commencement period in accordance with sub-paragraph (4). 10
- (3) To allocate qualifying pre-commencement expenditure to the pool for any pre-commencement period, take the following steps—
- (a) *Step 1*: count as eligible expenditure for that period so much of the qualifying pre-commencement expenditure mentioned in paragraph 9(1) as was incurred in that period, 15
 - (b) *Step 2*: find the total of all the eligible expenditure for that period (amount E),
 - (c) *Step 3*: if paragraph 11 applies, reduce amount E in accordance with that paragraph, 20
 - (d) *Step 4*: if paragraph 12 applies, reduce (or, as the case may be, further reduce) amount E in accordance with that paragraph, 25
- and so much of amount E as remains after making those reductions is to be taken to have been added to the pool in that period.
- (4) If any pre-commencement supplement is allowed on a claim in respect of a pre-commencement period, the amount of that supplement is to be taken to have been added to the pool in that period. 30
- (5) In this paragraph references to the relevant amount (if any) which the company carries forward under Schedule 19B are to the amount in its mixed pool for the purposes of Part 3 of Schedule 19B immediately before 1st January 2006.
- Reduction in respect of disposal receipts under the Capital Allowances Act* 35
- 11 (1) This paragraph applies in the case of the qualifying company if—
- (a) it incurs qualifying pre-commencement expenditure in respect of a ring fence trade in any pre-commencement period,
 - (b) it would, on the relevant assumption, be entitled to an allowance under any provision of the Capital Allowances Act in respect of that expenditure, 40
 - (c) an event occurs in relation to any asset representing the expenditure in any pre-commencement period, and
 - (d) the event would, on the relevant assumption, require a disposal value (the “deductible amount”) to be brought into account under any provision of the Capital Allowances Act for any pre-commencement period. 45

- (2) The relevant assumption is that the company was carrying on the ring fence trade –
 - (a) when the expenditure was incurred, and
 - (b) when the event giving rise to the disposal value occurred.
- (3) For the purpose of allocating qualifying pre-commencement expenditure to the pool for each pre-commencement period –
 - (a) find the total amount of the disposal values in the case of all such events (amount D), and
 - (b) taking later periods before earlier periods, reduce (but not below nil) amount E for any pre-commencement period by setting against it so much of amount D as does not fall to be set against amount E for a later pre-commencement period.

Reduction in respect of unrelieved group ring fence profits

- 12 (1) This paragraph applies if there is an amount of unrelieved group ring fence profits for a pre-commencement period.
- (2) For the purpose of allocating qualifying pre-commencement expenditure to the pool for that period –
 - (a) find so much (if any) of amount E for that period as remains after any reduction falling to be made under paragraph 11, and
 - (b) reduce that amount (but not below nil) by setting against it a sum equal to the aggregate of the amounts of unrelieved group ring fence profits for the period.

The reference amount for a pre-commencement period

- 13 For the purposes of this Part of this Schedule, the reference amount for a pre-commencement period is the amount in the pool at the end of the period –
 - (a) after the addition to the pool of any qualifying pre-commencement expenditure allocated to the pool for that period in accordance with paragraph 10(3), but
 - (b) before determining, and adding to the pool, the amount of any pre-commencement supplement claimed in respect of the period.

Claims for pre-commencement supplement

- 14 (1) Any claim for pre-commencement supplement in respect of a pre-commencement period must be made as a claim for the commencement period.
- (2) Paragraph 74 of Schedule 18 to the Finance Act 1998 (company tax returns etc: time limit for claims for group relief) applies in relation to a claim for pre-commencement supplement as it applies in relation to a claim for group relief.

PART 4

POST-COMMENCEMENT SUPPLEMENT

Supplement in respect of a post-commencement period

- 15 (1) A qualifying company which incurs a ring fence loss (see paragraph 17) in a post-commencement period may claim supplement under this Part of this Schedule (“post-commencement supplement”) in respect of— 5
- (a) that period, or
 - (b) any subsequent accounting period in which it carries on its ring fence trade. 10
- (2) Any post-commencement supplement allowed on a claim in respect of a post-commencement period is to be treated for the purposes of the Corporation Tax Acts (other than this Part of this Schedule or Part 4 of Schedule 19B) as if it were a loss—
- (a) which is incurred in carrying on the ring fence trade in that period, and 15
 - (b) which falls in whole to be set off under section 393 against trading income from the ring fence trade in succeeding accounting periods.
- (3) Paragraph 74 of Schedule 18 to the Finance Act 1998 (company tax returns etc: time limit for claims for group relief) applies in relation to a claim for post-commencement supplement as it applies in relation to a claim for group relief. 20

Amount of post-commencement supplement for a post-commencement period

- 16 (1) The amount of the post-commencement supplement for any post-commencement period in respect of which a claim under paragraph 15 is made is the relevant percentage for that period of the reference amount for that period. 25
- (2) If the post-commencement period is a period of less than twelve months, the amount of the supplement for the period (apart from this sub-paragraph) is to be reduced proportionally. 30
- (3) Paragraphs 19 to 23 have effect for the purpose of determining the reference amount for a post-commencement period.

Ring fence losses

- 17 (1) If— 35
- (a) in any post-commencement period (“the period of the loss”) a qualifying company carrying on a ring fence trade incurs a loss in the trade, and
 - (b) some or all of the loss falls to be set off under section 393 against trading income from the trade in succeeding accounting periods, 40
- so much of the loss as falls to be so set off is a “ring fence loss” of the company.

- (2) In determining for the purposes of this Part of this Schedule how much of a loss incurred in a ring fence trade falls to be set off as mentioned in sub-paragraph (1)(b), the following assumption is to be made.
- (3) The assumption is that every claim is made that could be made by the company under section 393A to set losses incurred in the ring fence trade against ring fence profits of earlier post-commencement periods. 5
- (4) This paragraph is subject to paragraph 18 (special rule for straddling periods). 10
- (5) This paragraph has effect for the purposes of this Part of this Schedule.

Special rule for straddling periods

- 18 (1) This paragraph applies if the period of the loss in which a ring fence loss is incurred is the deemed accounting period under paragraph 3(3) beginning on 1st January 2006 (“the deemed accounting period”). 15
- (2) The amount of the ring fence loss in the deemed accounting period is determined as follows.
- Step 1* 20
Calculate so much of the ring fence loss in the straddling period as, for the purposes of Part 4 of Schedule 19B, is attributable to qualifying E&A allowances for the straddling period.
The amount given by this step is “the qualifying Schedule 19B amount”. 25
- Step 2*
Calculate so much of the ring fence loss in the straddling period as is attributable to allowances for the straddling period under Part 6 of the Capital Allowances Act in respect of relevant expenditure. 30
For the purposes of this step “relevant expenditure” means expenditure incurred by the company on or after 1st January 2006 which, but for that fact, would be qualifying E&A expenditure for the purposes of Schedule 19B.
For the purposes of this step a ring fence loss is attributable to those allowances to the extent that the amount of the loss (less the qualifying Schedule 19B amount) does not exceed the amount of those allowances for that period. 35
The amount given by this step is “the amount of the post-1st January 2006 E&A allowances”.
- Step 3* 40
Deduct the qualifying Schedule 19B amount and the amount of the post-1st January 2006 E&A allowances from the amount of the ring fence loss in the straddling period.
- Step 4*
The amount given by this step is “the amount of the apportioned loss”. 45
- Step 5*

The amount of the ring fence loss in the deemed accounting period is the amount of the apportioned loss plus the amount of the post-1st January 2006 E&A allowances.

- (3) In this paragraph “the straddling period”, in relation to a qualifying company, means an accounting period of the company – 5
- (a) beginning before 1st January 2006, and
 - (b) ending on or after that date,
- disregarding paragraph 3(3). 10
- (4) In this paragraph references to the ring fence loss in the straddling period are to that loss determined on the assumption that the straddling period is the period of the loss for the purposes of paragraph 17. 10
- (5) This paragraph has effect for the purposes of this Part of this Schedule. 15

The pool of ring fence losses and the pool of non-qualifying Schedule 19B losses

- 19 (1) For the purpose of determining the amount of any post-commencement supplement, a qualifying company is to be taken at all times in its post-commencement periods to have a continuing mixed pool (the “ring fence pool”) of – 20
- (a) the carried forward qualifying Schedule 19B amount,
 - (b) the company’s ring fence losses, and
 - (c) post-commencement supplement.
- (2) The ring fence pool continues even if the amount in it is nil. 25
- (3) For the purpose of determining the amount of any post-commencement supplement, a qualifying company is also to be taken in its post-commencement periods to have a non-qualifying pool consisting of the carried forward non-qualifying Schedule 19B amount.
- (4) But the non-qualifying pool ceases to exist when the amount in it is reduced to nil. 30
- (5) In this paragraph –
- “the carried forward qualifying Schedule 19B amount”, in relation to a qualifying company, means the amount in its qualifying pool for the purposes of Part 4 of Schedule 19B immediately before 1st January 2006, and 35
 - “the carried forward non-qualifying Schedule 19B amount”, in relation to a qualifying company, means the amount in its non-qualifying pool for the purposes of Part 4 of Schedule 19B immediately before 1st January 2006. 40

The ring fence pool

- 20 (1) The ring fence pool consists of –
- (a) the carried forward qualifying Schedule 19B amount,
 - (b) the company’s ring fence losses, allocated to the pool in accordance with sub-paragraph (2)(a), and 45

- (c) the company's post-commencement supplement, allocated to the pool in accordance with sub-paragraph (2)(b).
- (2) The allocation of ring fence losses and post-commencement supplement to the pool is as follows – 5
 - (a) the amount of a ring fence loss is added to the pool in the period of the loss, and
 - (b) if any post-commencement supplement is allowed on a claim in respect of a post-commencement period, the amount of that supplement is added to the pool in that period. 10
- (3) The amount in the ring fence pool is subject to reductions in accordance with the following provisions of this Part of this Schedule. 15
- (4) If a reduction in the amount in the ring fence pool falls to be made in any accounting period, the reduction is to be made – 15
 - (a) after the addition to the pool of the amount of any ring fence losses allocated to the pool in that period in accordance with sub-paragraph (2)(a), but
 - (b) before determining, and adding to the pool, the amount of any supplement claimed in respect of the period, 20and references to the amount in the pool are to be read accordingly.
- (5) In this paragraph “the carried forward qualifying Schedule 19B amount”, in relation to a qualifying company, means the amount in its qualifying pool for the purposes of Part 4 of Schedule 19B immediately before 1st January 2006. 25

Reductions in respect of utilised ring fence losses

- 21 (1) If one or more ring fence losses are set off under section 393 against any profits of a post-commencement period, reductions are to be made in that period in accordance with this paragraph. 30
- (2) If the company has a non-qualifying pool, the amount in the non-qualifying pool is to be reduced (but not below nil) by setting against it a sum equal to the total amount so set off.
- (3) If – 35
 - (a) any of that sum remains after being so set against the amount in the non-qualifying pool, or
 - (b) the company does not have a non-qualifying pool, the amount in the ring fence pool is to be reduced (but not below nil) by setting against it so much of that sum as so remains or (as the case may be) a sum equal to the total amount set off as mentioned in sub-paragraph (1). 40
- (4) If the post-commencement period is the deemed accounting period under paragraph 3(3) beginning on 1st January 2006 (“the deemed accounting period”), the amount of the profits of the deemed accounting period is determined as follows. 45

- (5) The amount of the profits of the straddling period is apportioned to the deemed accounting period in proportion to the number of days in the deemed accounting period that fall in the straddling period.
- (6) The apportioned amount is taken for the purposes of this paragraph to be the amount of the profits of the deemed accounting period. 5
- (7) In this paragraph “the straddling period”, in relation to a qualifying company, means an accounting period of the company – 10
- (a) beginning before 1st January 2006, and
- (b) ending on or after that date,
- disregarding paragraph 3(3).

Reductions in respect of unrelieved group ring fence profits 15

- 22 (1) If there is an amount of unrelieved group ring fence profits for a post-commencement period, reductions are to be made in that period in accordance with this paragraph.
- (2) If, after making any reductions that fall to be made in accordance with paragraph 21, the company does not have a non-qualifying pool, the remaining amount in the ring fence pool is to be reduced (but not below nil) by setting against it a sum equal to the aggregate of the amounts of unrelieved group ring fence profits for the period. 20
- (3) If, after making any reductions that fall to be made in accordance with paragraph 21, the company has an amount in a non-qualifying pool, the amount in that pool is to be reduced (but not below nil) by setting against it a sum equal to the aggregate of the amounts of unrelieved group ring fence profits for the period. 25
- (4) If any of that sum remains after being so set against the amount in the non-qualifying pool, the remaining amount in the ring fence pool is to be reduced (but not below nil) by setting against it so much of that sum as so remains. 30
- (5) For the purposes of this paragraph references to the remaining amount in the ring fence pool are references to so much (if any) of the amount in the ring fence pool as remains after making any reductions that fall to be made in accordance with paragraph 21. 35

The reference amount for a post-commencement period

- 23 For the purposes of this Part of this Schedule the reference amount for a post-commencement period is so much of the amount in the ring fence pool as remains after making any reductions required by paragraph 21 or 22.”. 40

SCHEDULE 20

Section 156

INHERITANCE TAX: RULES FOR TRUSTS ETC

PART 1

“TRUSTS FOR BEREAVED MINORS”, “AGE 18-TO-25 TRUSTS” AND “ACCUMULATION AND MAINTENANCE” TRUSTS

5

Trusts for bereaved minors and Age 18-to-25 trusts

1 (1) In IHTA 1984, after section 71 insert –

“71A Trusts for bereaved minors

(1) This section applies to settled property (including property settled before 22nd March 2006) if – 10

(a) it is held on statutory trusts for the benefit of a bereaved minor under sections 46 and 47(1) of the Administration of Estates Act 1925 (succession on intestacy and statutory trusts in favour of issue of intestate), or

(b) it is held on trusts for the benefit of a bereaved minor and subsection (2) below applies to the trusts, 15

but this section does not apply to property in which a disabled person’s interest subsists.

(2) This subsection applies to trusts –

(a) established under the will of a deceased parent of the bereaved minor, or 20

(b) established under the Criminal Injuries Compensation Scheme,

which secure that the conditions in subsection (3) below are met.

(3) Those conditions are – 25

(a) that the bereaved minor, if he has not done so before attaining the age of 18, will on attaining that age become absolutely entitled to –

(i) the settled property,

(ii) any income arising from it, and 30

(iii) any income that has arisen from the property held on the trusts for his benefit and been accumulated before that time,

(b) that, for so long as the bereaved minor is living and under the age of 18, if any of the settled property is applied for the benefit of a beneficiary, it is applied for the benefit of the bereaved minor, and 35

(c) that, for so long as the bereaved minor is living and under the age of 18, either –

(i) the bereaved minor is entitled to all of the income (if there is any) arising from any of the settled property, or 40

(ii) no such income may be applied for the benefit of any other person.

- (4) Trusts such as are mentioned in paragraph (a) or (b) of subsection (2) above are not to be treated as failing to secure that the conditions in subsection (3) above are met by reason only of—
- (a) the trustees’ having the powers conferred by section 32 of the Trustee Act 1925 (powers of advancement), 5
 - (b) the trustees’ having those powers but free from, or subject to a less restrictive limitation than, the limitation imposed by proviso (a) of subsection (1) of that section,
 - (c) the trustees’ having the powers conferred by section 33 of the Trustee Act (Northern Ireland) 1958 (corresponding provision for Northern Ireland), 10
 - (d) the trustees’ having those powers but free from, or subject to a less restrictive limitation than, the limitation imposed by subsection (1)(a) of that section, or
 - (e) the trustees’ having powers to the like effect as the powers mentioned in any of paragraphs (a) to (d) above. 15
- (5) In this section “the Criminal Injuries Compensation Scheme” means—
- (a) the schemes established by arrangements made under the Criminal Injuries Compensation Act 1995, 20
 - (b) arrangements made by the Secretary of State for compensation for criminal injuries in operation before the commencement of those schemes, and
 - (c) the scheme established under the Criminal Injuries Compensation (Northern Ireland) Order 2002. 25
- (6) The preceding provisions of this section apply in relation to Scotland as if, in subsection (2) above, before “which” there were inserted “the purposes of”.

71B Charge to tax on property to which section 71A applies

- (1) Subject to subsections (2) and (3) below, there shall be a charge to tax under this section—
- (a) where settled property ceases to be property to which section 71A above applies, and
 - (b) in a case where paragraph (a) above does not apply, where the trustees make a disposition as a result of which the value of settled property to which section 71A above applies is less than it would be but for the disposition. 35
- (2) Tax is not charged under this section where settled property ceases to be property to which section 71A applies as a result of—
- (a) the bereaved minor attaining the age of 18 or becoming, under that age, absolutely entitled as mentioned in section 71A(3)(a) above, or 40
 - (b) the death under that age of the bereaved minor, or
 - (c) being paid or applied for the advancement or benefit of the bereaved minor. 45
- (3) Subsections (3) to (8) and (10) of section 70 above apply for the purposes of this section as they apply for the purposes of that section, but—

- (a) with the substitution of a reference to subsection (1)(b) above for the reference in subsection (4) of section 70 above to subsection (2)(b) of that section,
- (b) with the substitution of a reference to property to which section 71A above applies for each of the references in subsections (3), (5) and (8) of section 70 above to property to which that section applies, 5
- (c) as if, for the purposes of section 70(8) above as applied by this subsection, property –
- (i) which is property to which section 71A above applies, 10
- (ii) which, immediately before it became property to which section 71A above applies, was property to which section 71 above applied, and
- (iii) which, by the operation of section 71(1B) above, ceased on that occasion to be property to which section 71 above applied, 15
- had become property to which section 71A above applies not on that occasion but on the occasion (or last occasion) before then when it became property to which section 71 above applied, and 20
- (d) as if, for the purposes of section 70(8) above as applied by this subsection, property –
- (i) which is property to which section 71A above applies,
- (ii) which, immediately before it became property to which section 71A above applies, was property to which section 71D below applied, and 25
- (iii) which, by the operation of section 71D(5)(a) below, ceased on that occasion (“the 71D-to-71A occasion”) to be property to which section 71D below applied, 30
- had become property to which section 71A above applies not on the 71D-to-71A occasion but on the relevant earlier occasion. 30
- (4) In subsection (3)(d) above –
- (a) “the relevant earlier occasion” means the occasion (or last occasion) before the 71D-to-71A occasion when the property became property to which section 71D below applied, but 35
- (b) if the property, when it became property to which section 71D below applied, ceased at the same time to be property to which section 71 above applied without ceasing to be settled property, “the relevant earlier occasion” means the occasion (or last occasion) when the property became property to which section 71 above applied. 40

71C Sections 71A and 71B: meaning of “bereaved minor”

In sections 71A and 71B above “bereaved minor” means a person –

- (a) who has not yet attained the age of 18, and 45
- (b) at least one of whose parents has died.

71D Age 18-to-25 trusts

- (1) This section applies to settled property (including property settled before 22nd March 2006), but subject to subsection (5) below, if –

- (a) the property is held on trusts for the benefit of a person who has not yet attained the age of 25,
- (b) at least one of the person’s parents has died, and
- (c) subsection (2) below applies to the trusts.
- (2) This subsection applies to trusts – 5
- (a) established under the will of a deceased parent of the person mentioned in subsection (1)(a) above, or
- (b) established under the Criminal Injuries Compensation Scheme,
- which secure that the conditions in subsection (6) below are met. 10
- (3) Subsection (4) has effect where –
- (a) at any time on or after 22nd March 2006 but before 6th April 2008, or on the coming into force of paragraph 3(1) of Schedule 20 to the Finance Act 2006, any property ceases to be property to which section 71 above applies without ceasing to be settled property, and 15
- (b) immediately after the property ceases to be property to which section 71 above applies –
- (i) it is held on trusts for the benefit of a person who has not yet attained the age of 25, and 20
- (ii) the trusts secure that the conditions in subsection (6) below are met.
- (4) From the time when the property ceases to be property to which section 71 above applies, but subject to subsection (5) below, this section applies to the property (if it would not apply to the property by virtue of subsection (1) above) for so long as – 25
- (a) the property continues to be settled property held on trusts such as are mentioned in subsection (3)(b)(i) above, and
- (b) the trusts continue to secure that the conditions in subsection (6) below are met. 30
- (5) This section does not apply –
- (a) to property to which section 71A above applies,
- (b) to property to which section 71 above, or section 89 below, applies, or
- (c) to settled property if a person is beneficially entitled to an interest in possession in the settled property and – 35
- (i) the person became beneficially entitled to the interest in possession before 22nd March 2006, or
- (ii) the interest in possession is an immediate post-death interest, or a transitional serial interest, and the person became beneficially entitled to it on or after 22nd March 2006. 40
- (6) Those conditions are –
- (a) that the person mentioned in subsection (1)(a) or (3)(b)(i) above (“B”), if he has not done so before attaining the age of 25, will on attaining that age become absolutely entitled to – 45
- (i) the settled property,
- (ii) any income arising from it, and

- (iii) any income that has arisen from the property held on the trusts for his benefit and been accumulated before that time,
- (b) that, for so long as B is living and under the age of 25, if any of the settled property is applied for the benefit of a beneficiary, it is applied for the benefit of B, and 5
- (c) that, for so long as B is living and under the age of 25, either –
- (i) B is entitled to all of the income (if there is any) arising from any of the settled property, or
- (ii) no such income may be applied for the benefit of any other person. 10
- (7) For the purposes of this section, trusts are not to be treated as failing to secure that the conditions in subsection (6) above are met by reason only of –
- (a) the trustees’ having the powers conferred by section 32 of the Trustee Act 1925 (powers of advancement), 15
- (b) the trustees’ having those powers but free from, or subject to a less restrictive limitation than, the limitation imposed by proviso (a) of subsection (1) of that section,
- (c) the trustees’ having the powers conferred by section 33 of the Trustee Act (Northern Ireland) 1958 (corresponding provision for Northern Ireland), 20
- (d) the trustees’ having those powers but free from, or subject to a less restrictive limitation than, the limitation imposed by subsection (1)(a) of that section, or 25
- (e) the trustees’ having powers to the like effect as the powers mentioned in any of paragraphs (a) to (d) above.
- (8) In this section “the Criminal Injuries Compensation Scheme” means –
- (a) the schemes established by arrangements made under the Criminal Injuries Compensation Act 1995, 30
- (b) arrangements made by the Secretary of State for compensation for criminal injuries in operation before the commencement of those schemes, and
- (c) the scheme established under the Criminal Injuries Compensation (Northern Ireland) Order 2002. 35
- (9) The preceding provisions of this section apply in relation to Scotland –
- (a) as if, in subsection (2) above, before “which” there were inserted “the purposes of”, and 40
- (b) as if, in subsections (3)(b)(ii) and (4)(b) above, before “trusts” there were inserted “purposes of the”.

71E Charge to tax on property to which section 71D applies

- (1) Subject to subsections (2) to (4) below, there shall be a charge to tax under this section – 45
- (a) where settled property ceases to be property to which section 71D above applies, or
- (b) in a case where paragraph (a) above does not apply, where the trustees make a disposition as a result of which the value

of the settled property to which section 71D above applies is less than it would be but for the disposition.

- (2) Tax is not charged under this section where settled property ceases to be property to which section 71D above applies as a result of –
- (a) B becoming, at or under the age of 18, absolutely entitled as mentioned in section 71D(6)(a) above, 5
 - (b) the death, under the age of 18, of B,
 - (c) becoming, at a time when B is living and under the age of 18, property to which section 71A above applies, or
 - (d) being paid or applied for the advancement or benefit of B – 10
 - (i) at a time when B is living and under the age of 18, or
 - (ii) on B’s attaining the age of 18.
- (3) Tax is not charged under this section in respect of –
- (a) a payment of costs or expenses (so far as they are fairly attributable to property to which section 71D above applies), 15
or
 - (b) a payment which is (or will be) income of any person for any of the purposes of income tax or would for any of those purposes be income of a person not resident in the United Kingdom if he were so resident, 20
- or in respect of a liability to make such a payment.
- (4) Tax is not charged under this section by virtue of subsection (1)(b) above if the disposition is such that, were the trustees beneficially entitled to the settled property, section 10 or section 16 above would prevent the disposition from being a transfer of value. 25
- (5) For the purposes of this section the trustees shall be treated as making a disposition if they omit to exercise a right (unless it is shown that the omission was not deliberate) and the disposition shall be treated as made at the time or latest time when they could have exercised the right. 30

71F Calculation of tax charged under section 71E in certain cases

- (1) Where –
- (a) tax is charged under section 71E above by reason of the happening of an event within subsection (2) below, and
 - (b) that event happens after B has attained the age of 18, 35
- the tax is calculated in accordance with this section.
- (2) Those events are –
- (a) B becoming absolutely entitled as mentioned in section 71D(6)(a) above,
 - (b) the death of B, and 40
 - (c) property being paid or applied for the advancement or benefit of B.
- (3) The amount of the tax is given by –

Chargeable amount × Relevant fraction × Settlement rate

- (4) For the purposes of subsection (3) above, the “Chargeable amount” is –
- (a) the amount by which the value of property which is comprised in the settlement and to which section 71D above applies is less immediately after the event giving rise to the charge than it would be but for the event, or 5
 - (b) where the tax is payable out of settled property to which section 71D above applies immediately after the event, the amount which, after deducting the tax, is equal to the amount on which tax would be charged by virtue of paragraph (a) above. 10
- (5) For the purposes of subsection (3) above, the “Relevant fraction” is three tenths multiplied by so many fortieths as there are complete successive quarters in the period –
- (a) beginning with the day on which B attained the age of 18 or, if later, the day on which the property became property to which section 71D above applies, and 15
 - (b) ending with the day before the occasion of the charge.
- (6) Where the whole or part of the Chargeable amount is attributable to property that was excluded property at any time during the period mentioned in subsection (5) above then, in determining the “Relevant fraction” in relation to that amount or part, no quarter throughout which that property was excluded property shall be counted. 20
- (7) For the purposes of subsection (3) above, the “Settlement rate” is the effective rate (that is to say, the rate found by expressing the tax chargeable as a percentage of the amount on which it is charged) at which tax would be charged on the value transferred by a chargeable transfer of the description specified in subsection (8) below. 25
- (8) The chargeable transfer postulated in subsection (7) above is one – 30
- (a) the value transferred by which is equal to an amount determined in accordance with subsection (9) below,
 - (b) which is made at the time of the charge to tax under section 71E above by a transferor who has in the period of seven years ending with the day of the occasion of the charge made chargeable transfers having an aggregate value equal to that of any chargeable transfers made by the settlor in the period of seven years ending with the day on which the settlement commenced, disregarding transfers made on that day, and 35
 - (c) on which tax is charged in accordance with section 7(2) above. 40
- (9) The amount referred to in subsection (8)(a) above is equal to the aggregate of –
- (a) the value, immediately after the settlement commenced, of the property then comprised in it, 45
 - (b) the value, immediately after a related settlement commenced, of the property then comprised in it, and
 - (c) the value, immediately after it became comprised in the settlement, of any property which became so comprised after the settlement commenced and before the occasion of the 50

charge under section 71E above (whether or not it has remained so comprised).

71G Calculation of tax charged under section 71E in all other cases

- (1) Where—
- (a) tax is charged under section 71E above, and 5
 - (b) the tax does not fall to be calculated in accordance with section 71F above,
the tax is calculated in accordance with this section.
- (2) The amount on which the tax is charged is—
- (a) the amount by which the value of property which is comprised in the settlement and to which section 71D above applies is less immediately after the event giving rise to the charge than it would be but for the event, or 10
 - (b) where the tax is payable out of settled property to which section 71D above applies immediately after the event, the amount which, after deducting the tax, is equal to the amount on which tax would be charged by virtue of paragraph (a) above. 15
- (3) The rate at which the tax is charged is the rate that would be given by subsections (6) to (8) of section 70 above— 20
- (a) if the reference to section 70 above in subsection (8)(a) of that section were a reference to section 71D above,
 - (b) if the other references in those subsections to section 70 above were references to section 71E above, and
 - (c) if, for the purposes of section 70(8) above, property— 25
 - (i) which is property to which section 71D above applies,
 - (ii) which, immediately before it became property to which section 71D above applies, was property to which section 71 applied, and
 - (iii) which ceased on that occasion to be property to which section 71 above applied without ceasing to be settled property, 30
had become property to which section 71D above applies not on that occasion but on the occasion (or last occasion) before then when it became property to which section 71 above applied. 35

71H Sections 71A to 71G: meaning of “parent”

In sections 71A to 71G above “parent” includes step-parent.”

- (2) Sub-paragraph (1) shall be deemed to have come into force on 22nd March 2006. 40

Section 71 of IHTA 1984 not to apply to property settled on or after 22nd March 2006

- 2 (1) Section 71 of IHTA 1984 (accumulation and maintenance trusts) is amended as follows.
- (2) In subsection (1) (settled property to which section applies, subject to subsection (2)), for “subsection” substitute “subsections (1A) to”. 45

(3) After subsection (1) insert—

“(1A) This section does not apply to settled property at any particular time on or after 22nd March 2006 unless this section—

- (a) applied to the settled property immediately before 22nd March 2006, and
- (b) has applied to the settled property at all subsequent times up to the particular time.

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(1B) This section does not apply to settled property at any particular time on or after 22nd March 2006 if, at that time, section 71A below applies to the settled property.”

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(4) Where a chargeable transfer to which section 54A of IHTA 1984 applies was made before 22nd March 2006, that section has effect in relation to that transfer as if references in that section to section 71 of IHTA 1984 were to section 71 of IHTA 1984 without the amendments made by sub-paragraphs (2) and (3).

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(5) There is no charge to tax under section 71 of IHTA 1984 in a case where settled property ceases, by the operation of the subsection (1B) inserted into that section by this paragraph, to be property to which that section applies.

(6) Sub-paragraphs (1) to (5) shall be deemed to have come into force on 22nd March 2006.

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Section 71 of IHTA 1984 to cease to apply to certain settled property from 6th April 2008

3 (1) In section 71(1)(a) of IHTA 1984 (section applies to settled property only if one or more persons will become beneficially entitled on or before reaching a specified age not exceeding 25) —

- (a) for “twenty-five” substitute “eighteen”, and
- (b) omit “or to an interest in possession in it”.

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(2) Sub-paragraph (1) comes into force on 6th April 2008 but only for the purpose of determining whether, at a time on or after that day, section 71 of IHTA 1984 applies to settled property.

(3) There is no charge to tax under section 71 of IHTA 1984 in a case where —

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- (a) settled property ceases, on the coming into force of sub-paragraph (1), to be property to which that section applies, but
- (b) that section would immediately after the coming into force of sub-paragraph (1) apply to the settled property but for the amendments made by sub-paragraph (1).

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PART 2

INTERESTS IN POSSESSION: WHEN SETTLED PROPERTY IS PART OF BENEFICIARY’S ESTATE

Aggregation with person’s estate of property in which interest in possession subsists

4 (1) In section 49 of IHTA 1984, after subsection (1) insert—

“(1A) Where the interest in possession mentioned in subsection (1) above is one to which the person becomes beneficially entitled on or after 22nd March 2006, subsection (1) above applies in relation to that interest only if, and for so long as, it is —

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- (a) an immediate post-death interest,
- (b) a disabled person's interest, or
- (c) a transitional serial interest.

(1B) Where the interest in possession mentioned in subsection (1) above is one to which the person became beneficially entitled before 22nd March, subsection (1) above does not apply in relation to that interest at any time when section 71A below applies to the property in which the interest subsists.” 5

(2) Sub-paragraph (1) shall be deemed to have come into force on 22nd March 2006. 10

“Immediate post-death interests” and “transitional serial interests”

5 (1) In IHTA 1984, after section 49 insert –

“49A Immediate post-death interest

(1) Where a person (“L”) is beneficially entitled to an interest in possession in settled property, for the purposes of this Chapter that interest is an “immediate post-death interest” only if the following conditions are satisfied. 15

(2) Condition 1 is that the settlement was effected by will or under the law relating to intestacy.

(3) Condition 2 is that L became beneficially entitled to the interest in possession on the death of the testator or intestate. 20

(4) Condition 3 is that –

- (a) section 71A below does not apply to the property in which the interest subsists, and
- (b) the interest is not a disabled person's interest. 25

(5) Condition 4 is that Condition 3 has been satisfied at all times since L became beneficially entitled to the interest in possession.

49B Transitional serial interest

(1) Where a person (“B”) is beneficially entitled to an interest in possession in settled property (“the current interest”), for the purposes of this Chapter that interest is a “transitional serial interest” only – 30

- (a) if the following conditions are met, or
- (b) if, and to the extent that, section 49C below so provides.

(2) Condition 1 is that – 35

- (a) the settlement commenced before 22nd March 2006, and
- (b) immediately before 22nd March 2006, the property then comprised in the settlement was property in which B, or some other person, was beneficially entitled to an interest in possession (“the prior interest”). 40

(3) Condition 2 is that the prior interest came to an end at a time on or after 22nd March 2006 but before 6th April 2008.

- (4) Condition 3 is that B became beneficially entitled to the current interest at that time.
- (5) Condition 4 is that –
- (a) section 71A below does not apply to the property in which the interest subsists, and
 - (b) the interest is not a disabled person's interest.

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49C Transitional serial interest: contracts of life insurance

- (1) Where –
- (a) a person (“C”) is beneficially entitled to an interest in possession in settled property (“the present interest”), and
 - (b) on C's becoming beneficially entitled to the present interest, the settled property consisted of, or included, rights under a contract of life insurance entered into before 22nd March 2006,
- the present interest so far as subsisting in rights under the contract, or in property comprised in the settlement that directly or indirectly represents rights under the contract, is a “transitional serial interest” for the purposes of this Chapter if the following conditions are met.
- (2) Condition 1 is that –
- (a) the settlement commenced before 22nd March 2006, and
 - (b) immediately before 22nd March 2006 –
 - (i) the property then comprised in the settlement consisted of, or included, rights under the contract, and
 - (ii) those rights were property in which C, or some other person, was beneficially entitled to an interest in possession (“the earlier interest”).
- (3) Condition 2 is that –
- (a) the earlier interest came to an end at a time on or after 6th April 2008 (“the earlier-interest end-time”) on the death of the person beneficially entitled to it and C became beneficially entitled to the present interest –
 - (i) at the earlier-interest end-time, or
 - (ii) on the coming to an end, on the death of the person beneficially entitled to it, of an interest in possession to which that person became beneficially entitled at the earlier-interest end-time, or
 - (iii) on the coming to an end of the second or last in an unbroken sequence of two or more consecutive interests in possession to the first of which a person became beneficially entitled at the earlier-interest end-time and each of which ended on the death of the person beneficially entitled to it, or
 - (b) C became beneficially entitled to the present interest –
 - (i) on the coming to an end, on the death of the person entitled to it, of an interest in possession that is a transitional serial interest under section 49B(1)(a) above, or

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- (ii) on the coming to an end of the second or last in an unbroken sequence of two or more consecutive interests in possession the first of which was a transitional serial interest under section 49B(1)(a) above and each of which ended on the death of the person beneficially entitled to it. 5
- (4) Condition 3 is that rights under the contract were comprised in the settlement throughout the period beginning with 22nd March 2006 and ending with C's becoming beneficially entitled to the present interest. 10
- (5) Condition 4 is that—
- (a) section 71A below does not apply to the property in which the present interest subsists, and
- (b) the present interest is not a disabled person's interest.”
- (2) Sub-paragraph (1) shall be deemed to have come into force on 22nd March 2006. 15

Disabled persons' trusts: meaning of "disabled person's interest" and "disabled person"

- 6 (1) After section 89 (trusts for disabled persons) insert—

“89A Self-settlement by person with condition expected to lead to disability

- (1) This section applies to property transferred by a person (“A”) into settlement on or after 22nd March 2006 if— 20
- (a) A was beneficially entitled to the property immediately before transferring it into settlement,
- (b) A satisfies the Commissioners for Her Majesty's Revenue and Customs that, when the property was transferred into settlement, A had a condition that it was at that time reasonable to expect would have such effects on A as to lead to A becoming— 25
- (i) a person falling within section 89(4)(a) above,
- (ii) in receipt of an attendance allowance mentioned in section 89(4)(b) above, or 30
- (iii) in receipt of a disability living allowance mentioned in section 89(4)(c) above by virtue of entitlement to the care component at the highest or middle rate, and
- (c) the property is held on trusts— 35
- (i) under which, during the life of A, no interest in possession in the settled property subsists, and
- (ii) which secure that Conditions 1 and 2 are met.
- (2) Condition 1 is that if any of the settled property is applied during A's life for the benefit of a beneficiary, it is applied for the benefit of A. 40
- (3) Condition 2 is that any power to bring the trusts mentioned in subsection (1)(c) above to an end during A's life is such that, in the event of the power being exercised during A's life, either—
- (a) A or another person will, on the trusts being brought to an end, be absolutely entitled to the settled property, or 45

- (b) on the trusts being brought to an end, a disabled person's interest within section 89B(1)(a) or (c) below will subsist in the settled property.
- (4) If this section applies to settled property transferred into settlement by a person, the person shall be treated as beneficially entitled to an interest in possession in the settled property. 5
- (5) For the purposes of subsection (1)(b)(ii) above, assume –
- (a) that A will meet the conditions as to residence under section 64(1) of whichever of the 1992 Acts is applicable, and
- (b) that there will be no provision made by regulations under section 67(1) and (2) of that Act. 10
- (6) For the purposes of subsection (1)(b)(iii) above, assume –
- (a) that A will meet the prescribed conditions as to residence under section 71(6) of whichever of the 1992 Acts is applicable, and 15
- (b) that there will be no provision made by regulations under section 72(8) of that Act.
- (7) For the purposes of subsection (3) above, ignore –
- (a) power to give directions as to the settled property that is exercisable jointly by the persons who between them are entitled to the entire beneficial interest in the property, and 20
- (b) anything that could occur as a result of exercise of any such power.
- (8) In this section “the 1992 Acts” means – 25
- the Social Security Contributions and Benefits Act 1992, and
- the Social Security Contributions and Benefits (Northern Ireland) Act 1992.

89B Meaning of “disabled person's interest”

- (1) In this Act “disabled person's interest” means –
- (a) an interest in possession to which a person is under section 89(2) above treated as beneficially entitled, 30
- (b) an interest in possession to which a person is under section 89A(4) above treated as beneficially entitled,
- (c) an interest in possession in settled property (other than an interest within paragraph (a) or (b) above) to which a disabled person is beneficially entitled if the settled property was transferred into settlement on or after 22nd March 2006, or 35
- (d) an interest in possession in settled property (other than an interest within paragraph (a) or (b) above) to which a person (“A”) is beneficially entitled if – 40
- (i) A is the settlor,
- (ii) A was beneficially entitled to the property immediately before transferring it into settlement,
- (iii) A satisfies Her Majesty's Commissioners for Revenue and Customs as mentioned in section 89A(1)(b) above, 45

-
- (iv) the settled property was transferred into settlement on or after 22nd March 2006, and
 - (v) the trusts on which the settled property is held secure that, if any of the settled property is applied during A's life for the benefit of a beneficiary, it is applied for the benefit of A. 5
 - (2) Subsections (4) to (6) of section 89 above (meaning of "disabled person" in subsection (1) of that section) have effect for the purposes of subsection (1)(c) above as they have effect for the purposes of subsection (1) of that section. 10
 - (3) Section 71D above does not apply to property in which there subsists a disabled person's interest within subsection (1)(c) above (but see also section 71D(5) above)."
 - (2) In section 89, after subsection (4) insert –
 - “(5) The reference in subsection (1) above to a disabled person includes, in relation to any settled property, a reference to a person who, when the property was transferred into settlement, –
 - (a) would have been in receipt of attendance allowance under section 64 of either of the Acts mentioned in subsection (4)(b) above had provision made by regulations under section 67(1) or (2) of that Act (non-satisfaction of conditions for attendance allowance where person is undergoing treatment for renal failure in a hospital or is provided with certain accommodation) been ignored, or 20
 - (b) would have been in receipt of disability living allowance by virtue of entitlement to the care component at the highest or middle rate had provision made by regulations under section 72(8) of either of the Acts mentioned in subsection (4)(c) above (no payment of disability living allowance for persons for whom certain accommodation is provided) been ignored. 25 30
 - (6) The reference in subsection (1) above to a disabled person also includes, in relation to any settled property, a reference to a person who satisfies the Commissioners for Her Majesty's Revenue and Customs –
 - (a) that he would, when the property was transferred into settlement, have been in receipt of attendance allowance under section 64 of either of the Acts mentioned in subsection (4)(b) above –
 - (i) had he met the conditions as to residence under section 64(1) of that Act, and 40
 - (ii) had provision made by regulations under section 67(1) or (2) of that Act been ignored, or
 - (b) that he would, when the property was transferred into settlement, have been in receipt of a disability living allowance by virtue of entitlement to the care component at the highest or middle rate –
 - (i) had he met the prescribed conditions as to residence under section 71(6) of either of the Acts mentioned in subsection (4)(c) above, and 45

- (ii) had provision made by regulations under section 72(8) of that Act been ignored.”
- (3) Sub-paragraph (1) shall be deemed to have come into force on 22nd March 2006.
- (4) Sub-paragraph (2) shall be deemed to have come into force on 22nd March 2006, but only in respect of property transferred into settlement on or after that day. 5

PART 3

RELATED AMENDMENTS IN IHTA 1984

Commencement 10

- 7 The following paragraphs of this Part of this Schedule shall be deemed to have come into force on 22nd March 2006.

Deemed disposition where omission to exercise a right increases value of another person's estate or of settled property not aggregated with a person's estate

- 8 In section 3(3) of IHTA 1984 (failure to exercise a right treated as disposition if the omission increases the value of another person's estate or the value of settled property in which no interest in possession subsists), for the words from the beginning to “increased” substitute – 15

“Where the value of a person's estate is diminished, and the value –

(a) of another person's estate, or 20

(b) of any settled property, other than settled property treated by section 49(1) below as property to which a person is beneficially entitled,

is increased”.

Potentially exempt transfers: provision in consequence of section 71 of IHTA 1984 not applying to property settled on or after 22nd March 2006 25

- 9 (1) Section 3A of IHTA 1984 (potentially exempt transfers) is amended as follows.

- (2) In subsection (1)(a) (transfer must be one made on or after 18th March 1986), after “1986” insert “but before 22nd March 2006”. 30

- (3) After subsection (1) insert –

“(1A) Any reference in this Act to a potentially exempt transfer is also a reference to a transfer of value –

- (a) which is made by an individual on or after 22nd March 2006, 35
- (b) which, apart from this section, would be a chargeable transfer (or to the extent to which, apart from this section, it would be such a transfer), and

(c) to the extent that it constitutes –

- (i) a gift to another individual, 40
- (ii) a gift into a disabled trust, or
- (iii) a gift into a bereaved minor's trust on the coming to an end of an immediate post-death interest.

- (1B) Subsections (1) and (1A) above have effect subject to any provision of this Act which provides that a disposition (or transfer of value) of a particular description is not a potentially exempt transfer.”
- (4) In subsection (2) (extent to which transfer is a gift to another individual), after “subsection (1)(c)” insert “or (1A)(c)(i)”. 5
- (5) After subsection (3) insert –
- “(3A) Subject to subsection (6) below, a transfer of value falls within subsection (1A)(c)(ii) above to the extent that the value transferred is attributable to property which, by virtue of the transfer, becomes settled property to which section 89 or 89A below applies. 10
- (3B) A transfer of value falls within subsection (1A)(c)(iii) above to the extent that the value transferred is attributable to settled property (whenever settled) that becomes property to which section 71A below applies in the following circumstances –
- (a) under the settlement, a person (“L”) is beneficially entitled to an interest in possession in the settled property, 15
- (b) the interest in possession is an immediate post-death interest,
- (c) on or after 22nd March 2006, but during L’s life, the interest in possession comes to an end,
- (d) L is beneficially entitled to the interest in possession immediately before it comes to an end, and 20
- (e) on the interest in possession coming to an end, the property –
- (i) continues to be held on the trusts of the settlement, and 25
- (ii) becomes property to which section 71A below applies.”
- (6) In subsection (7) (application of section in relation to charge to tax under section 52), after “subsection (1)(a)” insert “or (1A)(a)”. 30
- Person’s “estate” not to include certain interests in possession*
- 10 (1) Section 5 of IHTA 1984 (meaning of “estate”) is amended as follows.
- (2) In subsection (1) (person’s estate is aggregate of all property to which person beneficially entitled, except that person’s estate immediately before death does not include excluded property), for “except that the” substitute “except that – 35
- (a) the estate of a person –
- (i) does not include an interest in possession in settled property to which section 71A or 71D below applies, and
- (ii) does not include an interest in possession that falls within subsection (1A) below, and 40
- (b) the”.
- (3) After subsection (1) insert –
- “(1A) An interest in possession falls within this subsection if –
- (a) it is an interest in possession in settled property, 45

- (b) the settled property is not property to which section 71A or 71D below applies,
- (c) the person is beneficially entitled to the interest in possession,
- (d) the person became beneficially entitled to the interest in possession on or after 22nd March 2006, and 5
- (e) the interest in possession is –
 - (i) not an immediate post-death interest,
 - (ii) not a disabled person’s interest, and
 - (iii) not a transitional serial interest.”

Life assurance policies entered into before 22nd March 2006 10

11 (1) After section 46 of IHTA 1984 insert –

“46A Contract of life insurance entered into before 22nd March 2006 which on that day is settled property in which interest in possession subsists

- (1) Subsections (2) and (4) below apply where –
 - (a) a settlement commenced before 22nd March 2006, 15
 - (b) a contract of life insurance was entered into before that day,
 - (c) a premium payable under the contract is paid, or an allowed variation is made to the contract, at a particular time on or after that day,
 - (d) immediately before that day, and at all subsequent times up to the particular time, there were rights under the contract that – 20
 - (i) were comprised in the settlement, and
 - (ii) were settled property in which a transitionally-protected interest (whether or not the same such interest throughout that period) subsisted, 25
 - (e) rights under the contract become, by reference to payment of the premium or as a result of the variation, –
 - (i) comprised in the settlement, and
 - (ii) part of the settled property in which the then-current transitionally-protected interest subsists, and 30
 - (f) any variation of the contract on or after 22nd March 2006 but before the particular time, so far as it is a variation that –
 - (i) increased the benefits secured by the contract, or
 - (ii) extended the term of the insurance provided by the contract, 35was an allowed variation.
- (2) For the purposes of the provisions mentioned in subsection (3) below –
 - (a) the rights mentioned in subsection (1)(e) above shall be taken to have become comprised in the settlement, and 40
 - (b) the person beneficially entitled to the then-current transitionally-protected interest shall be taken to have become beneficially entitled to his interest in possession so far as it subsists in those rights, 45before 22nd March 2006.
- (3) Those provisions are –

-
- section 3A(2) above;
 section 5(1A) above;
 section 49(1A) and (1B) below;
 section 51(1A) and (1B) below;
 section 52(2A) and (3A) below; 5
 section 53(1A) and (2A) below;
 section 54(2A) and (2B) below;
 section 54A(1A) below;
 section 57A(1A) below;
 section 58(1B) and (1C) below; 10
 section 59(1) and (2) below;
 section 80(4) below;
 section 100(1A) below;
 section 101(1A) below;
 section 102ZA(1) of the Finance Act 1986 (gifts with 15
 reservation); and
 sections 72(1A) and (2A) and 73(2A) of the 1992 Act.
- (4) If payment of the premium is a transfer of value made by an individual, that transfer of value is a potentially exempt transfer.
- (5) In this section – 20
 “allowed variation”, in relation to a contract, means a variation that takes place by operation of, or as a result of exercise of rights conferred by, provisions forming part of the contract immediately before 22nd March 2006;
 “transitionally-protected interest” means – 25
 (a) an interest in possession to which a person was beneficially entitled immediately before, and on, 22nd March 2006, or
 (b) a transitional serial interest.
- 46B Contract of life insurance entered into before 22nd March 2006 which immediately before that day is property to which section 71 applies** 30
- (1) Subsections (2) and (5) below apply where –
 (a) a settlement commenced before 22nd March 2006,
 (b) a contract of life insurance was entered into before that day,
 (c) a premium payable under the contract is paid, or an allowed variation is made to the contract, at a particular time on or after that day, 35
 (d) immediately before that day, and at all subsequent times up to the particular time, there were rights under the contract that – 40
 (i) were comprised in the settlement, and
 (ii) were settled property to which section 71 below applied,
 (e) rights under the contract become, by reference to payment of the premium or as a result of the variation, comprised in the settlement, and 45
 (f) any variation of the contract on or after 22nd March 2006 but before the particular time, so far as it was a variation that –

- (i) increased the benefits secured by the contract, or
 - (ii) extended the term of the insurance provided by the contract,was an allowed variation.
- (2) If the rights mentioned in subsection (1)(e) above would, but for subsection (1A) of section 71 below, become property to which that section applies, those rights shall become settled property to which that section applies when they become comprised in the settlement. 5
- (3) Subsection (5) below also applies where –
 - (a) a settlement commenced before 22nd March 2006, 10
 - (b) a contract of life insurance was entered into before that day,
 - (c) a premium payable under the contract is paid, or an allowed variation is made to the contract, at a particular time on or after that day when there are rights under the contract –
 - (i) that are comprised in the settlement and are settled property to which section 71A or 71D below applies, 15
 - (ii) that immediately before that day were settled property to which section 71 below applied, and
 - (iii) that on or after that day, but before the particular time, became property to which section 71A or 71D below applies in circumstances falling within subsection (4) below, 20
 - (d) rights under the contract become, by reference to payment of the premium or as a result of the variation, comprised in the settlement, and 25
 - (e) any variation of the contract on or after 22nd March 2006 but before the particular time, so far as it was a variation that –
 - (i) increased the benefits secured by the contract, or
 - (ii) extended the term of the insurance provided by the contract, 30was an allowed variation.
- (4) The circumstances referred to in subsection (3)(c)(iii) above are –
 - (a) in the case of property to which section 71D below applies, that the property on becoming property to which section 71D below applies ceased to be property to which section 71 below applied without ceasing to be settled property; 35
 - (b) in the case of property to which section 71A below applies –
 - (i) that the property on becoming property to which section 71A below applies ceased, by the operation of section 71(1B) below, to be property to which section 71 below applied, or 40
 - (ii) that the property, having become property to which section 71D below applied in circumstances falling within paragraph (a) above, on becoming property to which 71A below applies ceased, by the operation of section 71D(5)(a) below, to be property to which section 71D below applied. 45
- (5) If payment of the premium is a transfer of value made by an individual, that transfer of value is a potentially exempt transfer.

(6) In this section “allowed variation”, in relation to a contract, means a variation that takes place by operation of, or as a result of exercise of rights conferred by, provisions forming part of the contract immediately before 22nd March 2006.”

(2) Sub-paragraph (1) shall be deemed to have come into force on 22nd March 2006. 5

Tax where interest in possession ends, or is treated as ending, during beneficiary’s life

12 In section 51 of IHTA 1984 (disposal of interest in possession not a transfer of value, but treated as coming to end of interest), after subsection (1) insert – 10

“(1A) Where the interest disposed of is one to which the person became beneficially entitled on or after 22nd March 2006, subsection (1) above applies in relation to the disposal only if the interest is –
 (a) an immediate post-death interest, or
 (b) a transitional serial interest. 15

(1B) Where the interest disposed of is one to which the person became beneficially entitled before 22nd March 2006, subsection (1) above does not apply in relation to the disposal if, immediately before the disposal, section 71A or 71D below applies to the property in which the interest subsists.” 20

13 (1) Section 52 of IHTA 1984 (tax on termination of interest in possession) is amended as follows.

(2) After subsection (2) insert –

“(2A) Where the interest mentioned in subsection (1) or (2) above is one to which the person became beneficially entitled on or after 22nd March 2006, that subsection applies in relation to the coming to an end of the interest only if the interest is –
 (a) an immediate post-death interest,
 (b) a disabled person’s interest, or
 (c) a transitional serial interest.” 25
30

(3) After subsection (3) insert –

“(3A) Where the interest mentioned in paragraph (a) of subsection (3) above is one to which the person mentioned in that paragraph became beneficially entitled on or after 22nd March 2006, that subsection applies in relation to the transaction only if the interest is –
 (a) an immediate post-death interest,
 (b) a disabled person’s interest, or
 (c) a transitional serial interest.” 35

14 (1) Section 53 of IHTA 1984 (exceptions from tax charge under section 52) is amended as follows. 40

(2) After subsection (1) insert –

“(1A) Tax shall not be chargeable under section 52 above if –

- (a) the person whose interest comes to an end became beneficially entitled to the interest before 22nd March 2006,
(b) the interest comes to an end on or after that day, and
(c) immediately before the interest comes to an end, section 71A or 71D below applies to the property in which the interest subsists.” 5
- (3) After subsection (2) insert –
- “(2A) Where –
- (a) a person becomes beneficially entitled on or after 22nd March 2006 to an interest in possession in settled property, and 10
(b) the interest is not a disabled person’s interest,
subsection (2) above applies in relation to the coming to an end of the interest with the omission of the words “or to another interest in possession in the property”.”
- Non-aggregation with deceased person’s estate of property in which he had interest in possession if property reverts to settlor or passes to settlor’s spouse or civil partner etc* 15
- 15 (1) Section 54 of IHTA 1984 (exceptions from charge on death) is amended as follows.
- (2) After subsection (2) insert –
- “(2A) Where a person becomes beneficially entitled on or after 22nd March 2006 to an interest in possession in settled property, subsections (1) and (2) above apply in relation to the interest only if it is – 20
(a) a disabled person’s interest, or
(b) a transitional serial interest.
- (2B) Where – 25
(a) a person (“B”) becomes beneficially entitled on or after 22nd March 2006 to an interest in possession in settled property,
(b) B dies,
(c) the interest in possession, throughout the period beginning with when B becomes beneficially entitled to it and ending with B’s death, is an immediate post-death interest, 30
(d) the settlor died before B’s death but less than two years earlier, and
(e) on B’s death, the settlor’s widow or widower, or surviving civil partner, becomes beneficially entitled to the settled property and is domiciled in the United Kingdom, 35
the value of the settled property shall be left out of account in determining for the purposes of this Act the value of B’s estate immediately before his death.”
- (3) In subsection (3) (section 53(5) and (6) apply in relation to subsections (1) and (2)) – 40
(a) for “(1) and (2)” substitute “(1), (2) and (2B)”, and
(b) at the end add “, but as if the reference in section 53(5)(a) above to section 53(4)(b) above were to subsection (2)(b) or (2B) above.”

Rate of tax on ending of interest in possession in property settled during settlor's life

- 16 (1) Section 54A of IHTA 1984 (special rate of charge on coming to end of interest in possession in settled property affected by potentially exempt transfer) is amended as follows.
- (2) After subsection (1) insert – 5
- “(1A) Where a person becomes beneficially entitled on or after 22nd March 2006 to an interest in possession in settled property, subsection (1)(b) above applies in relation to the person's death only if the interest is –
- (a) a disabled person's interest, or
- (b) a transitional serial interest.” 10
- (3) In subsection (2) (circumstances in which section applies to a chargeable transfer) –
- (a) in paragraph (c), omit “, other than property to which section 71 below applies”, and
- (b) in paragraph (d)(i), omit “or to which section 71 below applies”. 15
- (4) Where a chargeable transfer to which section 54A of IHTA 1984 applies was made before 22nd March 2006, that section has effect in relation to that transfer without the amendments made by sub-paragraph (3).

Property entering maintenance fund after death of person entitled to interest in possession

- 17 In section 57A of IHTA 1984 (relief where property enters fund for maintenance of historic buildings etc), after subsection (1) insert – 20
- “(1A) Where the interest mentioned in subsection (1)(a) above is one to which the person became beneficially entitled on or after 22nd March 2006, subsection (2) below does not apply unless, immediately before the person's death, the interest was –
- (a) an immediate post-death interest,
- (b) a disabled person's interest, or
- (c) a transitional serial interest.” 25

“Relevant property” not to include property held on trust for a bereaved child

- 18 In section 58(1)(b) of IHTA 1984 (property to which certain sections apply is not relevant property for purposes of Chapter 3 of Part 3), after “71,” insert “71A, 71D,”. 30

“Relevant property” to include property held on employee trusts or newspaper trusts if certain interests in possession subsist in the property

- 19 (1) Section 58 of IHTA 1984 (meaning of “relevant property” in Chapter 3 of Part 3) is amended as follows. 35
- (2) In subsection (1)(b) (which provides that property to which section 86 applies is not relevant property), after “86 below applies” insert “(but see subsection (1A) below)”.
- (3) After subsection (1) insert – 40
- “(1A) Settled property to which section 86 below applies is “relevant property” for the purposes of this Chapter if –

- (a) an interest in possession subsists in that property, and
 - (b) that interest falls within subsection (1B) or (1C) below.
- (1B) An interest in possession falls within this subsection if –
- (a) an individual is beneficially entitled to the interest in possession, 5
 - (b) the individual became beneficially entitled to the interest in possession on or after 22nd March 2006, and
 - (c) the interest in possession is –
 - (i) not an immediate post-death interest,
 - (ii) not a disabled person’s interest, and 10
 - (iii) not a transitional serial interest.
- (1C) An interest in possession falls within this subsection if –
- (a) a company is beneficially entitled to the interest in possession,
 - (b) the business of the company consists wholly or mainly in the acquisition of interests in settled property, 15
 - (c) the company has acquired the interest in possession for full consideration in money or money’s worth from an individual who was beneficially entitled to it,
 - (d) the individual became beneficially entitled to the interest in possession on or after 22nd March 2006, and 20
 - (e) immediately before the company acquired the interest in possession, the interest in possession was neither an immediate post-death interest nor a transitional serial interest.” 25

Certain interests in possession to which a person becomes entitled on or after 22nd March 2006 not to be “qualifying interests in possession” for purposes of Chapter 3 of Part 3 of IHTA 1984

- 20 (1) Section 59 of IHTA 1984 (settlements without interests in possession: meaning of “qualifying interest in possession”) is amended as follows.
- (2) For subsection (1) substitute – 30
- “(1) In this Chapter “qualifying interest in possession” means –
- (a) an interest in possession –
 - (i) to which an individual is beneficially entitled, and
 - (ii) which, if the individual became beneficially entitled to the interest in possession on or after 22nd March 2006, is an immediate post-death interest, a disabled person’s interest or a transitional serial interest, or 35
 - (b) an interest in possession to which, where subsection (2) below applies, a company is beneficially entitled.”
- (3) In subsection (2) (cases where interest in possession to which a company is entitled is a “qualifying” interest), after paragraph (b) insert “, and
- (c) if the individual became beneficially entitled to the interest in possession on or after 22nd March 2006, the interest is an immediate post-death interest, or a transitional serial interest, immediately before the company acquires it.” 40 45

- (4) Where a chargeable transfer to which section 54A of IHTA 1984 applies was made before 22nd March 2006, that section has effect in relation to that transfer as if in that section “qualifying interest in possession” has the meaning it would have apart from sub-paragraphs (1) to (3).
- (5) In the heading to Chapter 3 of Part 3 of IHTA 1984, at the end add “, AND CERTAIN SETTLEMENTS IN WHICH INTERESTS IN POSSESSION SUBSIST”.

5

New meaning of “qualifying interest in possession” not to apply in section 72 of IHTA 1984

- 21 (1) Section 72 of IHTA 1984 (property leaving employee trusts and newspaper trusts) is amended as follows.

- (2) In subsection (1) (section 72 applies to property to which section 86 applies if no qualifying interest in possession subsists in it), for “if no qualifying interest in possession subsists in it” substitute “if –

10

(a) no interest in possession subsists in it to which an individual is beneficially entitled, and

(b) no company-purchased interest in possession subsists in it.”

15

- (3) After subsection (1) insert –

“(1A) For the purposes of subsection (1)(b) above, an interest in possession is “company-purchased” if –

(a) a company is beneficially entitled to the interest in possession,

20

(b) the business of the company consists wholly or mainly in the acquisition of interests in settled property, and

(c) the company has acquired the interest in possession for full consideration in money or money’s worth from an individual who was beneficially entitled to it.

25

- (1B) Section 59(3) and (4) above apply for the purposes of subsection (1A)(c) above as for those of section 59(2)(b) above, but as if the references to the condition set out in section 59(2)(a) above were to the condition set out in subsection (1A)(b) above.”

No charge under sections 71B, 71E etc where property held on trusts for bereaved child becomes held on trusts for charitable purposes etc

30

- 22 In section 76(1) of IHTA 1984 (which provides for tax not to be charged under certain provisions of Chapter 3 of Part 3 where property becomes held for charitable purposes etc), after “71,” insert “71A, 71D,”.

No postponement of commencement date of settlement where property settled on or after 22nd March 2006 unless settlor, or spouse or civil partner, has immediate post-death interest

35

- 23 In section 80 of IHTA 1984 (postponement of commencement date of settlement where settlor, or spouse or civil partner or surviving spouse or surviving civil partner, has interest in possession at outset), after subsection (3) insert –

40

“(4) Where the occasion first referred to in subsection (1) above occurs on or after 22nd March 2006, this section applies only if the interest in possession first referred to in that subsection is an immediate post-death interest.”

Protective trusts

- 24 In section 88 of IHTA 1984 (protective trusts), after subsection (2) insert –
- “(3) Where –
- (a) settled property became held before 22nd March 2006 on trusts to the like effect as those specified in section 33(1)(i) of the Trustee Act 1925, and 5
 - (b) as a result of the failure or determination of those trusts on or after 22nd March 2006, the principal beneficiary is treated by subsection (2)(b) above as beneficially entitled to an interest in possession, 10
- this Act shall apply in relation to that interest in possession as if the principal beneficiary became beneficially entitled to that interest in possession before 22nd March 2006.
- (4) Subsection (5) below applies where –
- (a) settled property becomes held on or after 22nd March 2006 on trusts to the like effect as those specified in section 33(1)(i) of the Trustee Act 1925, 15
 - (b) the interest of the principal beneficiary under those trusts is –
 - (i) an immediate post-death interest, or 20
 - (ii) a transitional serial interest, and
 - (c) as a result of the failure or determination of those trusts, the principal beneficiary is treated by subsection (2)(b) above as beneficially entitled to an interest in possession.
- (5) This Act shall apply – 25
- (a) as if that interest in possession were a continuation of the immediate post-death interest or transitional serial interest, and
 - (b) as if the immediate post-death interest, or transitional serial interest, had not come to an end on the failure or determination of the trusts. 30
- (6) Subsection (2) above does not apply in a case where –
- (a) settled property becomes held on or after 22nd March 2006 on trusts to the like effect as those specified in section 33(1)(i) of the Trustee Act 1925, and
 - (b) the interest of the principal beneficiary under those trusts is neither an immediate post-death interest nor a transitional serial interest.” 35

Alterations of capital etc of close company where participator holds shares etc in company as trustee of settled property in which an interest in possession subsists

- 25 In section 100 of IHTA 1984 (alteration of close company’s capital etc where participator is trustee of settlement under which an individual is beneficially entitled to an interest in possession), after subsection (1) insert –
- “(1A) Where the interest in possession is one to which the individual became beneficially entitled on or after 22nd March 2006, this section applies only if the interest in possession is –
- (a) an immediate post-death interest,

- (b) a disabled person’s interest, or
- (c) a transitional serial interest.”

Close company’s interest in possession treated as interest of its participators

- | | | |
|----|--|--------------|
| 26 | In section 101 of IHTA 1984 (where close company has interest in possession in settled property, its participators are treated for purposes of IHTA 1984 as the persons entitled to the interest), after subsection (1) insert – | 5 |
| | “(1A) Where the interest in possession mentioned in subsection (1) above is one to which the company became entitled on or after 22nd March 2006 (whether or not the company was a close company when it became entitled to the interest), subsection (1) above applies in relation to the interest only if it is – | 10 |
| | <ul style="list-style-type: none"> (a) an immediate post-death interest, or (b) a transitional serial interest. | |
| | (1B) Subsection (1C) below applies where any of the participators mentioned in subsection (1) above (“the prior participator”) disposes of rights and interests of his in the company to another person (“the later participator”). | 15 |
| | (1C) If and so far as the later participator is a participator in the company by virtue of having any of the rights and interests disposed of, subsection (1) above is to be applied to him only as a participator in his own right (in particular, he is not to be treated by virtue of that subsection as having entitlement to the interest in possession as a result of disposal to him of entitlement that the prior participator was treated as having by virtue of that subsection, but this is without prejudice to the application of this Act in relation to the prior participator as the person making the disposal).” | 20

25 |

Distributions within two years of person’s death out of property settled by his will

- | | | |
|----|--|----|
| 27 | (1) Section 144 of IHTA 1984 (distribution etc from property settled by will) is amended as follows. | 30 |
| | (2) In subsection (1) – | |
| | <ul style="list-style-type: none"> (a) for “This section applies” substitute “Subsection (2) below applies”, and (b) in paragraph (a), for “(apart from this section)” substitute “(apart from subsection (2) below)”. | |
| | (3) After subsection (1) insert – | 35 |
| | “(1A) Where the testator dies on or after 22nd March 2006, subsection (1) above shall have effect as if the reference to any interest in possession were a reference to any interest in possession that is – | |
| | <ul style="list-style-type: none"> (a) an immediate post-death interest, or (b) a disabled person’s interest.” | 40 |
| | (4) In subsection (2), for “this section” (in both places) substitute “this subsection”. | |
| | (5) After subsection (2) insert – | |
| | “(3) Subsection (4) below applies where – | 45 |

- (a) a person dies on or after 22nd March 2006,
- (b) property comprised in the person’s estate immediately before his death is settled by his will, and
- (c) within the period of two years after his death, but before an immediate post-death interest or a disabled person’s interest has subsisted in the property, there occurs an event that involves causing property comprised in the testator’s estate to be held on trusts that would, if they had in fact been established by the testator’s will, have resulted in –
 - (i) an immediate post-death interest subsisting in the property, or
 - (ii) section 71A or 71D above applying to the property.
- (4) Where this subsection applies by virtue of an event –
 - (a) this Act shall have effect as if the will had provided that on the testator’s death the property should be held as it is held after the event, but
 - (b) tax shall not be charged on that event under any provision of Chapter 3 of Part 3 of this Act.”

Interpretation of IHTA 1984

- 28 In section 272 of IHTA 1984 (general interpretation), in the appropriate place insert –
- ““disabled person’s interest” has the meaning given by section 89B above;”
 - ““immediate post-death interest” means an immediate post-death interest for the purposes of Chapter 2 of Part 3 (see section 49A above);”
 - ““transitional serial interest” means a transitional serial interest for the purposes of Chapter 2 of Part 3 (see section 49B above);”.

PART 4

RELATED AMENDMENTS IN TCGA 1992

- 29 (1) TCGA 1992 is amended in accordance with the following paragraphs of this Part of this Schedule.
- (2) The following paragraphs of this Part of this Schedule shall be deemed to have come into force on 22nd March 2006.
- 30 (1) Section 72 (death of person entitled to an interest in possession) is amended as follows.
- (2) After subsection (1) insert –
- “(1A) Where the interest in possession mentioned in subsection (1) above is one to which the person becomes entitled on or after 22nd March 2006, the first sentence of that subsection applies in relation to that interest only if, immediately before the person’s death, the interest falls within subsection (1B) below.
- (1B) An interest falls within this subsection if –

- (a) the interest is –
- (i) an immediate post-death interest, within the meaning given by section 49A of the Inheritance Tax Act 1984, or
- (ii) a transitional serial interest, within the meaning given by section 49B of that Act, or
- (b) section 71A of that Act (trusts for bereaved minors) applies to the property in which the interest subsists. 5
- (1C) Subsection (1A) above does not have effect in relation to the operation of subsection (1) above as applied by subsection (2) below (but see subsection (2A) below).” 10
- (3) After subsection (2) insert –
- “(2A) Where the interest in possession mentioned in subsection (2) above is one to which the person becomes entitled on or after 22nd March 2006 – 15
- (a) subsection (2) above, and
- (b) the first sentence of subsection (1) above as applied by subsection (2) above,
- apply in relation to that interest only if, immediately before the person’s death, the interest falls within subsection (1B) above.” 20
- 31 In section 73 (no chargeable gain on deemed disposal under section 71(1) where person becomes absolutely entitled on death of person entitled to interest in possession), after subsection (2) insert –
- “(2A) Where the interest in possession referred to in subsection (1) above is one to which the person becomes entitled on or after 22nd March 2006, subsections (1) and (2) above apply in relation to that interest only if, immediately before the person’s death, the interest falls within section 72(1B).” 25
- 32 In section 260(2) (disposals where gain may be held over), after paragraph (d) insert – 30
- “(da) by virtue of subsection (2) of section 71B of that Act (trusts for bereaved minors) does not constitute an occasion on which inheritance tax is chargeable under that section.”
- PART 5 35
- PROPERTY SUBJECT TO A RESERVATION
- 33 (1) FA 1986 is amended as follows.
- (2) After section 102 (gifts with reservation) insert –
- “102ZA Gifts with reservation: termination of interests in possession**
- (1) Subsection (2) below applies where – 40
- (a) an individual is beneficially entitled to an interest in possession in settled property,
- (b) either –
- (i) the individual became beneficially entitled to the interest in possession before 22nd March 2006, or

- (ii) the individual became beneficially entitled to the interest in possession on or after 22nd March 2006 and the interest is an immediate post-death interest, a disabled person’s interest or a transitional serial interest, and 5
- (c) the interest in possession comes to an end during the individual’s life. 5
- (2) For the purposes of—
- (a) section 102 above, and 10
- (b) Schedule 20 to this Act,
- the individual shall be taken (if, or so far as, he would not otherwise be) to dispose, on the coming to an end of the interest in possession, of the no-longer-possessed property by way of gift.
- (3) In subsection (2) above “the no-longer-possessed property” means the property in which the interest in possession subsisted immediately before it came to an end, other than any of it to which the individual becomes absolutely and beneficially entitled in possession on the coming to an end of the interest in possession.” 15
- (3) In Schedule 20 (supplementary rules about gifts with reservation), after paragraph 4 insert— 20
- “Termination of interests in possession*
- 4A (1) This paragraph applies where—
- (a) under section 102ZA of this Act, an individual (“D”) is taken to dispose of property by way of gift, and 25
- (b) the property continues to be settled property immediately after the disposal.
- (2) Paragraphs 2 to 4 above shall not apply but, subject to the following provisions of this paragraph, the principal section and the following provisions of this Schedule shall apply as if the property comprised in the gift consisted of the property comprised in the settlement on the material date, except in so far as that property neither is, nor represents, nor is derived from, property originally comprised in the gift. 30
- (3) Any property which—
- (a) on the material date is comprised in the settlement, and 35
- (b) is derived, directly or indirectly, from a loan made by D to the trustees of the settlement,
- shall be treated for the purposes of sub-paragraph (2) above as derived from property originally comprised in the gift. 40
- (4) If the settlement comes to an end at some time before the material date as respects all or any of the property which, if D had died immediately before that time, would be treated as comprised in the gift,—
- (a) the property in question, other than property to which D then becomes absolutely and beneficially entitled in possession, and 45

- (b) any consideration (not consisting of rights under the settlement) given by D for any of the property to which D so becomes entitled,
shall be treated as comprised in the gift (in addition to any other property so comprised). 5
- (5) Where, under any trust or power relating to settled property, income arising from that property after the material date is accumulated, the accumulations shall not be treated for the purposes of sub-paragraph (2) above as derived from that property.” 10
- (4) Sub-paragraphs (1) to (3) shall be deemed to have come into force on 22nd March 2006, but only as respects cases where an interest in possession comes to an end on or after that day. 15

PART 6

CONDITIONAL EXEMPTION: RELIEF FROM CHARGES

- 34 (1) Section 79 of IHTA 1984 (subsection (3) of which provides for charges to tax where, in the case of settled property designated under section 31 on a claim under section 79, an event occurs that would be chargeable under section 32 or 32A if the claim had been under section 30) is amended as follows. 20
- (2) After subsection (5) (amount on which tax charged under subsection (3)) insert –
- “(5A) Where the event giving rise to a charge to tax under subsection (3) above is a disposal on sale, and the sale –
- (a) was not intended to confer any gratuitous benefit on any person, and 25
- (b) was either a transaction at arm’s length between persons not connected with each other or a transaction such as might be expected to be made at arm’s length between persons not connected with each other,
- the value of the property at the time of that event shall be taken for the purposes of subsection (5) above to be equal to the proceeds of the sale.” 30
- (3) For subsection (7) (which provides that the “relevant period” mentioned in subsection (6) begins with the latest of certain listed days and ends with the day before the event giving rise to the charge under subsection (3)) substitute – 35
- “(7) In subsection (6) above “the relevant period” means the period given by subsection (7A) below or, if shorter, the period given by subsection (7B) below. 40
- (7A) The period given by this subsection is the period beginning with the latest of –
- (a) the day on which the settlement commenced,
- (b) the date of the last ten-year anniversary of the settlement to fall before the day on which the property became comprised in the settlement, 45

- (c) the date of the last ten-year anniversary of the settlement to fall before the day on which the property was designated under section 31 above on a claim under this section, and
 - (d) 13th March 1975,
and ending with the day before the event giving rise to the charge. 5
- (7B) The period given by this subsection is the period equal in length to the number of relevant-property days in the period –
 - (a) beginning with the day that is the latest of those referred to in paragraphs (a) to (d) of subsection (7A) above, and
 - (b) ending with the day before the event giving rise to the charge. 10
- (7C) For the purposes of subsection (7B) above, a day is a “relevant-property day” if at any time on that day the property was relevant property.
- (4) After subsection (9) insert – 15
 - “(9A) Subsection (9B) below applies where the same event gives rise –
 - (a) to a charge under subsection (3) above in relation to any property, and
 - (b) to a charge under section 32 or 32A above in relation to that property.
 - (9B) If the amount of each of the charges is the same, each charge shall have effect as a charge for one half of the amount that would be charged apart from this subsection; otherwise, whichever of the charges is lower in amount shall have effect as if it were a charge the amount of which is nil.” 20

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SCHEDULE 21

Section 158

TAXABLE PROPERTY HELD BY INVESTMENT-REGULATED PENSION SCHEMES

- 1 In section 271 of TCGA 1992 (exemptions), after subsection (1A) insert –
 - “(1B) But subsection (1A) does not prevent such a gain from being treated as a chargeable gain for the purposes of sections 185F to 185I of the Finance Act 2004 (scheme chargeable payments: gains from taxable property).” 30
- 2 Part 4 of FA 2004 (pension schemes) is amended as follows.
- 3 (1) Section 160 (payments by registered pension schemes) is amended as follows. 35
 - (2) After subsection (7) insert –
 - “(7A) Sections 185A to 185I contain provision about the receipt of income and gains from taxable property.”
 - (3) In subsection (8), after “borrowing” insert “and the receipt of income and gains from taxable property.” 40
- 4 In section 173 (benefits), after subsection (7) insert –

- “(7A) This section does not apply if –
- (a) the pension scheme is an investment-regulated pension scheme, and
 - (b) the asset consists of taxable property.”
- 5 After section 174 insert – 5
- “174A Taxable property held by investment-regulated pension schemes**
- (1) An investment-regulated pension scheme is to be treated as making an unauthorised payment to a member of the pension scheme if –
 - (a) the pension scheme acquires an interest in taxable property, and
 - (b) the interest is held by the pension scheme for the purposes of an arrangement under the pension scheme relating to the member. 10
 - (2) An investment-regulated pension scheme is to be treated as making an unauthorised payment to a member of the pension scheme if –
 - (a) an interest in taxable property is held by the pension scheme for the purposes of an arrangement under the pension scheme relating to the member, and 15
 - (b) the property is improved.
 - (3) An investment-regulated pension scheme is to be treated as making an unauthorised payment to a member of the pension scheme if –
 - (a) an interest in property which is not residential property is held by the pension scheme for the purposes of an arrangement under the pension scheme relating to the member, and 20
 - (b) the property is converted or adapted to become residential property. 25
 - (4) Schedule 29A makes provision supplementing this section; and in that Schedule –
 - (a) Part 1 defines “investment-regulated pension scheme”, 30
 - (b) Part 2 defines “taxable property” (and “residential property”),
 - (c) Part 3 explains what it means to acquire, and to hold, an interest in taxable property, and
 - (d) Part 4 contains provision for calculating the amounts of unauthorised payments treated as made by this section and explains when the unauthorised payments are treated as made.” 35
- 6 After section 185 insert – 40
- “Income and gains from taxable property*
- 185A Income from taxable property**
- (1) An investment-regulated pension scheme is to be treated as having made a scheme chargeable payment if the pension scheme holds an interest in taxable property in a tax year.

- (2) The amount of the scheme chargeable payment depends on whether a person who holds the interest in the property directly receives profits arising from the interest in the tax year.
- (3) If a person who holds the interest in the property directly receives such profits in the tax year, the amount of the scheme chargeable payment is the greater of –
 - (a) an amount equal to the amount of the annual profits from the interest in the property (see section 185B(1)), and
 - (b) the amount of the deemed profits from the interest in the property for the year (see sections 185B(2) and 185C).
- (4) If no person who holds the interest in the property directly receives such profits in the tax year, the amount of the scheme chargeable payment is the amount of the deemed profits from the interest in the property for the year (see sections 185B(2) and 185C).
- (5) But where section 185D applies, the amount of the scheme chargeable payment is the amount found under subsection (3) or (4) as apportioned to the pension scheme in accordance with that section.
- (6) Section 185E makes provision for credits against income tax charged under section 239 (scheme sanction charge) in respect of a scheme chargeable payment treated as made by virtue of this section.

185B Annual profits and deemed profits

- (1) For the purposes of section 185A(3) the amount of the annual profits from the interest in the property is the total amount of profits received from the interest in the tax year –
 - (a) by each person who holds the interest directly, and
 - (b) at a time when the property is scheme-held taxable property.
- (2) For the purposes of section 185A(3) and (4) the amount of the deemed profits from the interest in the property for the tax year is –
$$\frac{\text{DMV}}{10} \times \frac{\text{DTP}}{\text{DY}}$$
where –
 - DMV is the deemed market value of the interest in the property for the year (see section 185C),
 - DTP is the number of days in the year for which the property is scheme-held taxable property, and
 - DY is the number of days in the year.
- (3) In this Part “scheme-held taxable property” means property –
 - (a) which is taxable property, and
 - (b) an interest in which is held by the pension scheme.

185C Deemed market value

- (1) For the purposes of section 185B(2), where no person who holds the interest in the property directly during the tax year does so by virtue of a lease of residential property, the deemed market value of the interest for the year is –
$$(\text{MV} + \text{UP}) \times (1 + \text{RPI})$$

where –

MV is the opening market value (see subsection (2)),

UP is the total of any unauthorised payments treated as made by the pension scheme under section 174A in relation to the property in the tax year, other than any such payment treated as made by virtue of the property becoming scheme-held taxable property in the year, and

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RPI is the figure expressed as a decimal which represents the percentage increase in the retail prices index between the first day in the tax year on which the property is scheme-held taxable property and the last such day (or, if there is no such increase, is nil).

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(2) In subsection (1) “the opening market value” means –

(a) if the property is not scheme-held taxable property immediately before the beginning of the tax year, the market value of the interest in the property immediately after the time during the year when the property first becomes scheme-held taxable property, and

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(b) otherwise, the deemed market value of the interest for the previous tax year.

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(3) For the purposes of section 185B(2), where a person who holds the interest in the property directly during the tax year does so by virtue of a lease of residential property, the deemed market value of the interest for the year is the relevant rental value of the property calculated in accordance with paragraph 34 of Schedule 29A on the following assumptions –

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(a) that the lease was granted when the property first became scheme-held taxable property;

(b) that the term of the lease is 50 years;

(c) that a fully commercial rent is payable for the first five years of that term;

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(d) that afterwards the rent is reviewed on an upwards-only basis.

185D Apportionment to pension scheme

(1) This section applies where the pension scheme holds the interest in the property indirectly for the whole of the period in the tax year for which the property is scheme-held taxable property.

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(2) The amount that would otherwise be the amount of the scheme chargeable payment is to be apportioned to the pension scheme by applying paragraphs 41 to 43 of Schedule 29A to it as if it were the total taxable amount in relation to an unauthorised payment treated as made –

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(a) by the pension scheme,

(b) in connection with the acquisition of the interest in the property, and

(c) at the end of the last day in the tax year on which the property is scheme-held taxable property.

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(3) But where –

- (a) the amount found in relation to the pension scheme on the day mentioned in paragraph (c) of subsection (2), differs from
 - (b) the amount that would be found in relation to the pension scheme under that subsection on another day in the tax year on which the property is scheme-held taxable property, 5
- the amount to be apportioned to the pension scheme under this section is the average of the amounts produced by applying subsection (2) in relation to the pension scheme on each day in the tax year on which the property is scheme-held taxable property.

185E Credit for tax paid 10

- (1) This section applies where –
 - (a) the pension scheme holds the interest in the property indirectly in the tax year,
 - (b) a person who holds the interest directly receives profits arising from the interest at a time in the tax year when the property is scheme-held taxable property, 15
 - (c) tax is payable on those profits by that person (assuming them to be the highest part of the person’s income for the tax year in which they are received), and
 - (d) that tax has been paid. 20
- (2) The amount determined under subsection (3) is to be allowed as a credit against any income tax charged under section 239 in respect of the scheme chargeable payment treated as made by virtue of the pension scheme holding the interest in the property in the tax year.
- (3) That amount is a proportion of the tax payable and paid determined by reference to the proportion of the amount that would otherwise be the amount of the scheme chargeable payment that is apportioned to the pension scheme under section 185D. 25
- (4) Where –
 - (a) by virtue of this section an amount is allowed as a credit against income tax charged under section 239, and 30
 - (b) the amount of tax payable and paid by reference to which the amount of the credit was calculated is subsequently varied, the amount of the credit is to be varied accordingly, and any necessary adjustments are to be made to give effect to the variation (whether by making assessments or otherwise). 35

185F Gains from taxable property

- (1) An investment-regulated pension scheme is to be treated as having made a scheme chargeable payment where –
 - (a) in a tax year the pension scheme holds an interest in property which is taxable property or which has been taxable property at any time whilst the interest has been held by the pension scheme (a “taxable interest”), 40
 - (b) a gain is treated as accruing to the pension scheme in respect of the taxable interest in the tax year, and
 - (c) the total amount of gains treated as accruing to the pension scheme in respect of taxable interests in the tax year exceeds 45

- the total amount of losses treated as accruing to the pension scheme in respect of taxable interests in the tax year.
- (2) The amount of the scheme chargeable payment is an amount equal to the difference between—
- (a) the total amount of gains treated as accruing to the pension scheme in respect of taxable interests in the tax year, and
 - (b) the total amount of losses treated as accruing to the pension scheme in respect of taxable interests in the tax year,
- (but this is subject to section 185G(10)).
- (3) A gain or loss is treated as accruing to a pension scheme in respect of a taxable interest in a tax year if—
- (a) by virtue of section 185G a chargeable gain or allowable loss is treated for the purposes of this section as accruing in the tax year to the person who holds the taxable interest directly, or
 - (b) in the tax year the pension scheme or another vehicle ceases to hold all or part of an interest in a vehicle through which the pension scheme holds the taxable interest indirectly (see section 185H).

185G Disposal by person holding directly

- (1) For the purposes of this section the person (“the transferor”) who holds the taxable interest directly is to be treated as holding an asset (a “taxable asset”) consisting of the interest.
- (2) For the purpose of determining—
- (a) whether the transferor disposes of the taxable asset,
 - (b) when such a disposal takes place, and
 - (c) whether a chargeable gain or allowable loss is treated for the purposes of section 185F as accruing to the transferor on a disposal of the taxable asset in a tax year and, if so, the amount of the chargeable gain or allowable loss,
- TCGA 1992 is to be treated as applying to the transferor and the taxable asset, but subject as follows.
- (3) TCGA 1992 is to be treated as applying as if—
- (a) throughout the tax year the transferor were resident, ordinarily resident and domiciled in the United Kingdom,
 - (b) no allowable losses accrued to the transferor in any previous tax year,
 - (c) for the purposes of section 2A (taper relief) of that Act the transferor were not chargeable to corporation tax in respect of any chargeable gain accruing to the transferor from a disposal of the taxable asset and the taxable asset were at all relevant times a non-business asset,
 - (d) notice under section 16(2A) (losses) of that Act were given by the transferor in relation to the year in respect of any loss treated as accruing to the transferor in the year from a disposal of the taxable asset,
 - (e) section 45(1) (wasting assets) of that Act did not apply to a disposal of the taxable asset,
 - (f) for the purposes of section 53 (indexation allowance) of that Act the transferor were not chargeable to corporation tax in

- respect of any chargeable gain accruing to the transferor from a disposal of the taxable asset,
- (g) section 171(1) (transfers within a group) of that Act did not apply to a disposal of the taxable asset (so that no election could be made in relation to such a disposal under section 171A (notional transfers within a group) of that Act), and 5
- (h) sections 222 to 224 (relief on disposal of private residence) of that Act did not apply to a gain on a disposal of the taxable asset by virtue of section 225 (private residence occupied under terms of settlement) of that Act. 10
- (4) Where the taxable asset became taxable property whilst held directly by the pension scheme, TCGA 1992 is to be treated as applying to a disposal of the asset as if –
- (a) the asset had been acquired by the transferor at the time it became taxable property, and 15
- (b) the amount deductible under section 38(1)(a) (consideration for acquisition of asset) of that Act in respect of the disposal were the amount of the unauthorised payment treated as made by the pension scheme at that time. 20
- (5) Subsections (6) to (8) apply where the pension scheme holds the taxable asset indirectly. 20
- (6) TCGA 1992 is to be treated as applying to a disposal of the asset as if the amount deductible under section 38(1) of that Act in respect of the disposal were – 25
- (a) the total amount of unauthorised payments treated as made by the pension scheme in respect of the taxable asset up to the time of the disposal, less
- (b) the amount found under paragraph (a) to the extent that it has already been taken into account in calculating the gains or losses accruing to the pension scheme in respect of the taxable asset by virtue of this section or section 185H. 30
- (7) The amount that would otherwise be the amount of the consideration for which the disposal is made (or treated as made) is to be scaled down by applying paragraphs 41 to 43 of Schedule 29A to it as if it were the total taxable amount in relation to an unauthorised payment treated as made – 35
- (a) by the pension scheme,
- (b) in connection with the acquisition of the interest in the property which constitutes the taxable asset, and 40
- (c) at the time of the disposal. 40
- (8) Subsection (6) is subject to section 42 of TCGA 1992 (part disposals); but in the application of that section in relation to the taxable asset the amount of the consideration for the disposal is to be taken to be that amount apart from subsection (7). 45
- (9) Where the taxable asset was not taxable property for the whole period beginning with –
- (a) the time when the pension scheme acquired the asset, or
- (b) if later, the time when the asset first became taxable property, 50

and ending with the disposal, the amount that would otherwise be the amount of any chargeable gain or allowable loss treated as accruing on a disposal of the asset is to be reduced by reference to the proportion of the period for which the asset was not taxable property.

- (10) Where – 5
- (a) the taxable asset is a wasting asset consisting of tangible moveable property, and
 - (b) by virtue of section 185F, a loss is treated as accruing to the pension scheme from a disposal of the asset in a tax year, 10
- the loss is only to be allowed as a deduction from any gains treated as accruing to the pension scheme by virtue of that section from other disposals in the year of taxable assets which are wasting assets consisting of tangible moveable property.

185H Disposal of interest in vehicle 15

- (1) This section applies for the purposes of section 185F where the pension scheme or another vehicle ceases to hold all or part of an interest in a vehicle through which the pension scheme holds the taxable interest indirectly. 20
- (2) The pension scheme is to be treated as disposing of the interest in the vehicle through which the pension scheme holds the taxable interest indirectly. 25
- (3) The amount of the gain or loss treated as accruing to the pension scheme on the disposal of the interest in the vehicle is the difference between – 25
 - (a) the deemed consideration received for the disposal of the interest, and
 - (b) the deemed consideration given for the interest.
- (4) The deemed consideration received for the disposal of the interest in the vehicle is the difference between – 30
 - (a) the market value of the taxable interest at the time of the disposal, apportioned to the pension scheme in accordance with subsection (5) immediately before that time, and
 - (b) the market value of the taxable interest at the time of the disposal, apportioned to the pension scheme in accordance with subsection (5) immediately after that time. 35
- (5) An amount mentioned in subsection (4) is to be apportioned to the pension scheme by applying paragraphs 41 to 43 of Schedule 29A to it as if it were the total taxable amount in relation to an unauthorised payment treated as made – 40
 - (a) by the pension scheme,
 - (b) in connection with the acquisition of the taxable interest, and
 - (c) at the time at which the amount is to be apportioned to the pension scheme in accordance with that subsection.
- (6) The deemed consideration given for the interest in the vehicle is – 45
 - (a) the total amount of unauthorised payments treated as made by the pension scheme in respect of the taxable interest up to the time of the disposal, less

- (b) the amount found under paragraph (a) to the extent that it has already been taken into account in calculating the gains or losses accruing to the pension scheme in respect of the taxable interest by virtue of section 185G or this section.

185I Credit for tax paid 5

- (1) This section applies where by virtue of section 185F a pension scheme is to be treated as making a scheme chargeable payment which is to any extent attributable –
 - (a) to a chargeable gain treated by virtue of section 185G as accruing to another person on a disposal of a taxable asset, or 10
 - (b) to a gain treated by virtue of section 185H as accruing to the pension scheme as a result of another person disposing of an interest in a vehicle through which the pension scheme holds a taxable interest indirectly.
- (2) Where – 15
 - (a) tax is payable in respect of the disposal by the person who makes the disposal, and
 - (b) that tax has been paid,the amount determined under subsection (3) or (4) (as appropriate) is to be allowed as a credit against any income tax charged under section 239 in respect of the scheme chargeable payment. 20
- (3) In a case within paragraph (a) of subsection (1), that amount is a proportion of the amount of tax paid and payable determined by reference to the proportion of the amount of consideration for the disposal that is apportioned under section 185G(7). 25
- (4) In a case within paragraph (b) of subsection (1), that amount is the amount of tax paid and payable apportioned to the pension scheme by applying paragraphs 41 to 43 of Schedule 29A to it as if it were the total taxable amount in relation to an unauthorised payment treated as made – 30
 - (a) by the pension scheme,
 - (b) in connection with an acquisition of the taxable interest by the person disposing of the interest in the vehicle, and
 - (c) at the time of the disposal.
- (5) Where – 35
 - (a) by virtue of this section an amount is allowed as a credit against income tax charged under section 239, and
 - (b) the amount of tax payable and paid by reference to which the amount of the credit was calculated is subsequently varied, 40the amount of the credit is to be varied accordingly, and any necessary adjustments are to be made to give effect to the variation (whether by making assessments or otherwise).”

7 In section 186 (relief for income derived from scheme investments), after subsection (2) insert –

“(2A) The exemption provided by subsection (1) does not prevent the income from being charged to tax by virtue of section 185A.” 45

8 In section 239 (scheme sanction charge), after subsection (5) insert –

- “(6) This section is subject to provision made by regulations under section 273ZA (income and gains from taxable property).”
- 9 In section 241(1) (scheme chargeable payments) insert at the end “, and
 (c) a scheme chargeable payment which the pension scheme is to be treated as having made by section 185A (income from taxable property) or 185F (gains from taxable property).” 5
- 10 After section 273 insert –
- “273ZA Income and gains from taxable property**
- (1) The Treasury may make regulations in relation to cases where – 10
 (a) an investment-regulated pension scheme holds an interest in taxable property,
 (b) the pension scheme is non-UK resident, and
 (c) the property is not located in the United Kingdom.
- (2) The regulations may make provision for a member of the pension scheme for the purposes of whose arrangement the interest is held to be liable to the scheme sanction charge so far as relating to a scheme chargeable payment treated as made by the pension scheme – 15
 (a) under section 185A (income from taxable property) by virtue of the pension scheme holding the interest in the property, or
 (b) under section 185F (gains from taxable property) by virtue of a gain treated as accruing to the pension scheme in respect of the interest in the property. 20
- (3) The regulations may make provision –
 (a) for the member to be liable to all of the scheme sanction charge arising by virtue of the scheme chargeable payment or to the charge to such extent as the regulations may provide, 25
 (b) for the charge to be apportioned between members of the pension scheme where the interest in the property is held for the purposes of more than one arrangement under the pension scheme, and
 (c) for the scheme administrator not to be liable to the scheme sanction charge or not to be liable to the charge to such extent as the regulations may provide. 30
- (4) The regulations may make provision for cases where –
 (a) a member of a pension scheme would otherwise be liable to the scheme sanction charge arising by virtue of a scheme chargeable payment treated as made by the pension scheme under section 185F in a tax year, 35
 (b) the member does not meet such conditions as to residence in the tax year as the regulations may prescribe,
 (c) the member meets those conditions in a subsequent tax year, and 40
 (d) such other conditions as the regulations may prescribe are met.
- (5) The regulations may make provision for the member – 45

- (a) not to be liable to the scheme sanction charge in the tax year in which the scheme chargeable payment is treated as made, but
- (b) to be liable in a subsequent tax year to such extent as the regulations may provide to the scheme sanction charge arising by virtue of the payment. 5
- (6) The regulations may –
- (a) amend this Part (apart from this section),
- (b) include provision having effect in relation to times before they are made, 10
- (c) contain transitional provisions and savings, and
- (d) make different provision for different cases.
- (7) For the purposes of this section a pension scheme is non-UK resident if it is established in a country or territory outside the United Kingdom.” 15
- 11 In section 278 (market value), after subsection (3) insert –
- “(3A) For the purposes of this Part the market value of taxable property, or of an interest in taxable property, is to be determined in accordance with section 272 of TCGA 1992. 20
- (3B) Subsection (3A) is subject to any provision made by regulations under paragraph 36(2) of Schedule 29A.”
- 12 In section 280(2) (index of defined expressions), in the table, insert the following entries at the appropriate places – 25
- | | | |
|--|--|----|
| “acquiring an interest in property (for the purposes of the taxable property provisions) | paragraphs 12 and 27 to 29 of Schedule 29A”; | 25 |
| “building (for the purposes of the taxable property provisions) | paragraph 7(2) of Schedule 29A”; | 30 |
| “holding an interest in a person (for the purposes of the taxable property provisions) | paragraph 16(2) to (4) of Schedule 29A”; | |
| “holding an interest in property (for the purposes of the taxable property provisions) | paragraph 13 of Schedule 29A”; | 35 |
| “holding directly an interest in a vehicle (for the purposes of the taxable property provisions) | paragraph 20(3) of Schedule 29A”; | 40 |
| “holding directly an interest in property (for the purposes of the taxable property provisions) | paragraphs 14 and 15 of Schedule 29A”; | |

	“holding indirectly an interest in a vehicle (for the purposes of the taxable property provisions)”	paragraph 20(4) of Schedule 29A”;	
	“holding indirectly an interest in property (for the purposes of the taxable property provisions)”	paragraph 16(1) of Schedule 29A”;	5
	“investment-regulated pension scheme (for the purposes of the taxable property provisions)”	paragraphs 1 to 3 of Schedule 29A”;	10
	“residential property (for the purposes of the taxable property provisions)”	paragraphs 7(1), 8 and 9 of Schedule 29A”;	
	“scheme-held taxable property	section 185B(3)”;	15
	“sums and assets held for the purposes of an arrangement (for the purposes of the taxable property provisions)”	paragraph 5 of Schedule 29A”;	
	“taxable property (for the purposes of the taxable property provisions)”	paragraphs 6, 10 and 11 of Schedule 29A”;	20
	“the taxable property provisions	paragraph 1(3) of Schedule 29A”;	
	“vehicle (in the taxable property provisions)”	paragraph 20(2) of Schedule 29A”.	25
13	After Schedule 29 insert –		
		“SCHEDULE 29A	Section 174A 30

TAXABLE PROPERTY HELD BY INVESTMENT-REGULATED PENSION SCHEMES

PART 1

INVESTMENT-REGULATED PENSION SCHEMES

Schemes other than occupational pension schemes

- 1 (1) For the purposes of the taxable property provisions a registered pension scheme which is not an occupational pension scheme is an investment-regulated pension scheme if one or more of its members meets the condition in sub-paragraph (2).
- (2) The condition is that either –
 - (a) the member, or
 - (b) a person related to the member,
 is or has been able (directly or indirectly) to direct, influence or advise on the manner of investment of any of the sums and assets

held for the purposes of an arrangement under the pension scheme relating to the member.

- (3) In this Part “the taxable property provisions” means –
- (a) section 173(7A) (exception from benefit charge where taxable property held by investment-regulated pension scheme),
 - (b) section 174A and this Schedule,
 - (c) sections 185A to 185I (income and gains from taxable property),
 - (d) section 273ZA (member liability for scheme sanction charge where pension scheme non-UK resident), and
 - (e) paragraphs 37A to 37I of Schedule 36 (transitional provisions).

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Occupational pension schemes

- 2 (1) For the purposes of the taxable property provisions a registered pension scheme which is an occupational pension scheme is an investment-regulated pension scheme if –

- (a) there are 50 or fewer members of the pension scheme, and one or more of those members meets the condition in sub-paragraph (2), or
- (b) at least 10% of the members of the pension scheme meet that condition.

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- (2) The condition is that either –

- (a) the member, or
- (b) a person related to the member,

is or has been able (directly or indirectly) to direct, influence or advise on the manner of investment of any of the sums and assets held for the purposes of the pension scheme.

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Separate self-controlled section

- 3 (1) This paragraph applies in the case of an arrangement under a registered pension scheme if –

- (a) the pension scheme is an occupational pension scheme,
- (b) the pension scheme is not an investment-regulated pension scheme by virtue of paragraph 2, and
- (c) one or more members of the pension scheme meet the condition in sub-paragraph (2).

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- (2) The condition is that either –

- (a) the member, or
- (b) a person related to the member,

is or has been able (directly or indirectly) to direct, influence or advise on the manner of investment of any sums or assets which are linked to an arrangement relating to the member.

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- (3) For the purposes of sub-paragraph (2) sums or assets are linked to an arrangement relating to a member if –

- (a) they are held for the purposes of an arrangement under the pension scheme relating to the member, but

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- (b) they are not held for the purposes of the arrangement merely by virtue of a just and reasonable apportionment of the sums and assets held for the purposes of the pension scheme.
- (4) Where this paragraph applies the arrangement is to be treated for the purposes of this Part as if it were an investment-regulated pension scheme. 5
- (5) The Treasury may by regulations –
- (a) amend sub-paragraph (3), and
- (b) provide for any of the provisions of this Part to apply to the arrangement with modifications. 10

Related persons

- 4 (1) For the purposes of this Part of this Schedule a person is related to a member of a pension scheme if –
- (a) the person and the member are connected persons, or 15
- (b) the person acts on behalf of the member or a person connected with the member.
- (2) Section 839 of ICTA (connected persons) applies for the purposes of sub-paragraph (1). 20

Arrangements

- 5 Where sums or assets held for the purposes of an investment-regulated pension scheme –
- (a) are held otherwise than for the purposes of the administration or management of the pension scheme, and 25
- (b) would not, apart from this paragraph, be treated as held for the purposes of any arrangement relating to a member under the pension scheme,
- for the purposes of the taxable property provisions the sums or assets are to be treated as held for the purposes of the arrangements under the pension scheme by reference to the respective rights under the scheme of the members to which the arrangements relate. 30

PART 2

TAXABLE PROPERTY 35

Taxable property

- 6 For the purposes of the taxable property provisions property is taxable property if –
- (a) it is residential property (see paragraphs 7 to 10), or
- (b) it is tangible moveable property (but subject to paragraph 11). 40

Residential property

- 7 (1) Subject as follows, for the purposes of the taxable property provisions “residential property” means –
- (a) a building that is used or suitable for use as a dwelling, 5
 - (b) any land consisting of, or forming part of, the garden or grounds of such a building (including a building on any such land) which is used or intended for use for a purpose connected with the enjoyment of the building,
 - (c) hotel or similar accommodation (but see paragraph 14(2)), or
 - (d) a beach hut, 10
- in the United Kingdom or elsewhere.
- (2) For the purposes of the taxable property provisions “building” includes –
- (a) a structure, and
 - (b) part of a building or structure. 15
- 8 (1) For the purposes of the taxable property provisions a building used for any of the following purposes is not residential property –
- (a) a home or other institution providing residential accommodation for children;
 - (b) a hall of residence for students;
 - (c) a home or other institution providing residential accommodation with personal care for persons in need of personal care by reason of old age, disability, past or present dependence on alcohol or drugs or past or present mental disorder; 20
 - (d) a hospital or hospice; 25
 - (e) a prison or similar establishment.
- (2) Where –
- (a) a building is used for a purpose specified in sub-paragraph (1),
 - (b) a building which is not in use was, immediately before it ceased to be in use, used for such a purpose, or
 - (c) a building which has never been in use is more suitable for use for such a purpose than for use for any other purpose, no account is to be taken for the purposes of the taxable property provisions of its suitability for use as a dwelling. 35
- 9 (1) The Treasury may by order amend this Part of this Schedule to specify descriptions of buildings which are, or are not, to be treated as residential property.
- (2) An order under this paragraph which amends this Part of this Schedule in a way that results in buildings becoming treated as not being residential property may provide that the amendment has effect from a date earlier than that on which the order was made. 40
- 10 (1) Residential property is not taxable property in relation to a pension scheme if Condition A or B is met. 45

- (2) Condition A is met if the property is (or, if unoccupied, is to be) occupied by an employee who –
- (a) is neither a member of the pension scheme nor connected with such a member,
 - (b) is not connected with the employer, and 5
 - (c) is required as a condition of employment to occupy the property.
- (3) Condition B is met if the property is (or, if unoccupied, is to be) –
- (a) occupied by a person who is neither a member of the pension scheme nor connected with such a member, and 10
 - (b) used in connection with business premises held as an investment of the pension scheme.
- (4) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph. 15

Tangible moveable property

- 11 (1) The Treasury may by order provide that, for the purposes of the taxable property provisions, any specified description of tangible moveable property is treated as not being taxable property.
- (2) An order under this paragraph may include provision having effect in relation to times before it is made. 20

PART 3

ACQUISITION AND HOLDING OF TAXABLE PROPERTY 25

Acquisition

- 12 (1) For the purposes of the taxable property provisions an investment-regulated pension scheme acquires an interest in property if it comes to hold the interest. 30
- (2) Sub-paragraph (1) applies however the pension scheme comes to hold the interest, whether that is –
- (a) by act of the parties to a transaction,
 - (b) by order of a court or other authority,
 - (c) by or under any statutory provision, or
 - (d) by operation of law. 35
- (3) For instances of deemed acquisition, see paragraphs 27 to 29.

Holding

- 13 (1) For the purposes of the taxable property provisions an investment-regulated pension scheme holds an interest in property if the scheme holds the interest directly or indirectly.
- (2) In the taxable property provisions references to a person holding an interest in property include, in the case of –
- (a) an investment-regulated pension scheme,
 - (b) an arrangement under a pension scheme, or

- (c) a trust which is not a pension scheme, references to the interest in the property being held for the purposes of the pension scheme, the arrangement or the trust.

Direct holding

- 14 (1) For the purposes of the taxable property provisions a person holds an interest in property directly if the person (whether jointly, in common or alone) – 5
 - (a) holds the property or any estate, interest, right or power in or over the property,
 - (b) has the right to use, or participate in arrangements relating to the use of, that property or a description of property to which that property belongs, or 10
 - (c) has the benefit of any obligation, restriction or condition affecting the value of any estate, interest, right or power in or over the property, under the law of any country or territory.
- (2) But a person does not hold an interest in residential property consisting of hotel accommodation directly unless – 15
 - (a) the person holds part only of the hotel accommodation or any estate, interest, right or power in or over such a part and, as a result, any person has a right to use or occupy that or any other part of the hotel accommodation, or
 - (b) the person has a right to use, or participate in arrangements relating to the use of, part only of the hotel accommodation or a description of property to which that part belongs. 20
- (3) For the purposes of the taxable property provisions a person holds an interest in property directly if the person is entitled (whether jointly, in common or alone) to receive payments determined by reference to the value of or the income from the property. 25
- (4) Sub-paragraph (3) is subject to paragraph 15.

Exception to direct holding

- 15 (1) A person does not hold an interest in taxable property directly by virtue of paragraph 14(3) where Conditions A to C are met. 30
- (2) Condition A is that –
 - (a) the person is entitled to receive the payments by virtue of a policy of life insurance, a contract for a life annuity or a capital redemption policy, and 35
 - (b) the policy or contract is issued by an insurance company.
- (3) Condition B is that the property –
 - (a) does not constitute a linked asset, or
 - (b) has been appropriated by the insurance company to an internal linked fund. 40
- (4) Condition C is that –

- (a) where the person is an occupational pension scheme, the policy or contract, either by itself or taken together with one or more associated policies, does not entitle the pension scheme, either alone or together with one or more associated persons, to receive payments representing 10% or more of the market value of or the income from the property, 5
- (b) where the person is a pension scheme other than an occupational pension scheme, the policy or contract, either by itself or taken together with one or more associated policies, does not entitle an arrangement under the pension scheme, either alone or together with one or more associated persons, to receive such payments, or 10
- (c) otherwise, the policy or contract does not entitle the person to receive such payments.
- (5) But for the purposes of applying paragraph 14(3) for determining whether a pension scheme holds an interest in taxable property directly or indirectly, this paragraph does not apply if the purpose or one of the purposes for which the person holds rights under the policy or contract is to enable a member of the pension scheme or a person connected with such a member to occupy or use the property. 15
- (6) For the purposes of sub-paragraph (4) “associated policy” means a policy or contract which entitles an associated person to receive payments determined by reference to the value of or the income from the property. 20
- (7) For the definition of “associated person” see paragraph 30.
- (8) For the purposes of this paragraph— 25
- “capital redemption policy” means a contract made in the course of a capital redemption business, as defined in section 458(3) of ICTA;
- “internal linked fund” has the meaning given by—
- (a) the Interim Prudential Sourcebook for Insurers made by the Financial Services Authority under FISMA 2000, or 30
- (b) rules made by the Authority under that Act and having effect for the time being in place of the Sourcebook; and 35
- “linked asset” means an asset of the insurance company which is identified in its records as an asset by reference to the value of which benefits provided for under a policy or contract are to be determined.
- (9) For the purposes of this paragraph an annuity is a life annuity if it is— 40
- (a) granted for consideration in money or money’s worth in the ordinary course of a business of granting annuities on human life, and
- (b) payable for a term ending at a time ascertainable only by reference to the end of a human life, 45

and for this purpose it does not matter that the annuity may in some circumstances end before or after the life.

Indirect holding

- 16 (1) For the purposes of the taxable property provisions a person holds an interest in property indirectly if the person does not hold the interest directly but (whether jointly, in common or alone) – 5
- (a) holds an interest in a person who holds the interest in the property directly, or
 - (b) holds an interest in a person who holds the interest in the property indirectly by virtue of paragraph (a) or this paragraph. 10
- (2) For the purposes of the taxable property provisions a person holds an interest in another person if – 15
- (a) the person holds an interest, right or power in or over that other person, or
 - (b) the person lends money to that other person to fund the acquisition by that other person of an interest in taxable property.
- (3) But sub-paragraph (2)(b) does not apply where – 20
- (a) the loan is an authorised employer loan made by a pension scheme to or in respect of a sponsoring employer (see section 179),
 - (b) the interest in the property is acquired so that the property may be used for the purposes of a trade, profession or vocation carried on by the sponsoring employer or for the purposes of the sponsoring employer’s administration or management, and
 - (c) after the acquisition, the property is not occupied or used by a member of the pension scheme or a person connected with such a member. 25
- (4) In the taxable property provisions references to a person holding an interest in another person include, in the case of – 30
- (a) an investment-regulated pension scheme,
 - (b) an arrangement under a pension scheme, or
 - (c) a trust which is not a pension scheme, 35
- references to the interest in the other person being held for the purposes of the pension scheme, the arrangement or the trust.
- (5) Paragraphs 17 to 19 explain what it means for a person to hold an interest in another person by virtue of sub-paragraph (2)(a) in a case where that other person is a company, collective investment scheme or trust. 40
- (6) The Treasury may by regulations –
- (a) amend paragraphs 17 to 19, or
 - (b) amend this Part of this Schedule for the purposes of explaining what it means for a person to hold an interest, right or power in or over another person in other cases. 45
- (7) This paragraph is subject to paragraphs 20 to 26.

-
- 17 (1) For the purposes of paragraph 16 a person holds an interest in a company if –
- (a) the person has, or is entitled to acquire, share capital or voting rights in the company, 5
 - (b) the person has, or is entitled to acquire, a right to receive or participate in distributions of the company, 5
 - (c) the person is entitled to secure that income or assets (whether present or future) of the company will be applied directly or indirectly for the person’s benefit, or 10
 - (d) the person, either alone or together with other persons, has control of the company. 10
- (2) In sub-paragraph (1) references to a person being entitled to do anything apply where a person –
- (a) is currently entitled to do it at a future date, or 15
 - (b) will at a future date be entitled to do it. 15
- (3) In sub-paragraph (1) “control” has the meaning given by section 416 of ICTA.
- 18 (1) For the purposes of paragraph 16 a person holds an interest in a collective investment scheme if the person is a participant in the scheme. 20
- (2) In this Schedule –
- (a) “collective investment scheme” has the meaning given by section 235 of FISMA 2000, and
 - (b) “participant”, in relation to such a scheme, has the meaning given by subsection (2) of that section. 25
- 19 (1) For the purposes of paragraph 16 a pension scheme holds an interest in a trust if Condition A or B is met.
- (2) Condition A is that –
- (a) the pension scheme has a relevant interest in the trust, 30
 - (b) the pension scheme, a member of the pension scheme or a person connected with such a member has made a payment to the trust on or after the acquisition of the interest, and
 - (c) the payment is not one to which sub-paragraph (7) applies. 35
- (3) Condition B is that –
- (a) a member of the pension scheme or a person connected with such a member has a relevant interest in the trust,
 - (b) the pension scheme has made a payment to the trust on or after the acquisition of the interest, and 40
 - (c) the payment is not one to which sub-paragraph (7) applies.
- (4) For the purposes of applying paragraph 16 for determining whether a pension scheme holds an interest in property indirectly, a person other than the pension scheme holds an interest in a trust if –
- (a) the person has a relevant interest in the trust, 45
 - (b) the person has made a payment to the trust on or after the acquisition of the interest, and

- (c) the payment is not one to which sub-paragraph (7) applies.
- (5) For the purposes of this paragraph a person has a relevant interest in a trust if—
- (a) any property which may at any time be comprised in the trust or any derived property is, or will or may become, payable to or applicable for the benefit of the person in any circumstances, or 5
 - (b) the person enjoys a benefit deriving directly or indirectly from any property which is comprised in the trust or any derived property. 10
- (6) In sub-paragraph (5) “derived property”, in relation to any property, means income from that property or any other property directly or indirectly representing proceeds of, or income from, that property.
- (7) This sub-paragraph applies to a payment if—
- (a) it is made as part of an arm’s length transaction by which property or a benefit is to be provided in return for the payment, and 15
 - (b) it is made otherwise than for the purposes of enabling a member of the pension scheme or a person connected with such a member to occupy or use any property. 20
- (8) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph.
- (9) This paragraph does not apply in relation to a unit trust scheme within the meaning of section 237(1) of FISMA 2000 (but see paragraph 18). 25

Exceptions to indirect holding

- 20 (1) A pension scheme does not hold an interest in property indirectly through a vehicle through which the pension scheme would otherwise hold the interest in the property indirectly where one of the following paragraphs applies in relation to the vehicle, and, in particular—
- (a) paragraph 21 makes provision in relation to holding through vehicles which carry on trading activities, 30
 - (b) paragraph 22 makes provision in relation to holding through Real Estate Investment Trusts, 35
 - (c) paragraphs 23 to 25 make provision in relation to holding through other kinds of vehicles, and
 - (d) paragraph 26 makes provision in relation to holding through a vehicle which holds the interest in the property directly by virtue of paragraph 14(3) (receipt of payments determined by reference to value of or income from property). 40
- (2) In the taxable property provisions “vehicle”, in relation to a pension scheme which holds an interest in taxable property indirectly, means a person through whom the pension scheme holds the interest in the property. 45

- (3) For the purposes of the taxable property provisions a person holds an interest in a vehicle directly if the person holds an interest of the kind mentioned in paragraph 16(2) in the vehicle.
- (4) For the purposes of the taxable property provisions a person holds an interest in a vehicle indirectly if the person does not hold the interest directly but – 5
- (a) holds an interest in a person who holds an interest in the vehicle directly, or
- (b) holds an interest in a person who holds the interest in the vehicle indirectly by virtue of paragraph (a) or this paragraph. 10
- 21 (1) This paragraph applies to a vehicle in which a pension scheme directly or indirectly holds an interest where –
- (a) the vehicle’s main activity is the carrying on of a trade, profession or vocation,
- (b) the pension scheme does not, whether alone or together with one or more associated persons, have control of the vehicle, and 15
- (c) neither a member of the pension scheme nor a person connected with such a member is a controlling director of the vehicle or any other vehicle which holds an interest in the vehicle directly or indirectly. 20
- (2) But this paragraph does not apply if the purpose or one of the purposes for which the pension scheme holds the interest in the vehicle is to enable a member of the pension scheme or a person connected with such a member to occupy or use the property. 25
- (3) In sub-paragraph (1) –
- (a) “control” has the same meaning as in section 416 of ICTA (reading references in that section to a company as references to the vehicle and references to associates as including associated persons), and
- (b) “controlling director”, in relation to a vehicle, means a director to whom paragraph (b) of section 417(5) of that Act applies (reading the reference to associates in that paragraph as including associated persons). 30
- (4) For the purposes of this paragraph a pension scheme or an arrangement under a pension scheme has control of a vehicle if the pension scheme or the arrangement holds such interest as would, if the pension scheme or the arrangement were a person, mean that the person had control of the vehicle. 35
- (5) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph. 40
- (6) For the definition of “associated person” see paragraph 30.
- 22 (1) This paragraph applies to a vehicle in which a pension scheme directly or indirectly holds an interest where the vehicle is – 45
- (a) a company to which Part 4 of the Finance Act 2006 (Real Estate Investment Trusts) applies, or
- (b) a member of a group to which that Part applies.

- (2) But this paragraph does not apply if the purpose or one of the purposes for which the pension scheme holds the interest in the vehicle is to enable a member of the pension scheme or a person connected with such a member to occupy or use the property. 5
- (3) Section 839 of ICTA (connected persons) applies for the purposes of sub-paragraph (2). 5
- 23 (1) This paragraph applies to a vehicle in which a pension scheme directly or indirectly holds an interest where –
- (a) Conditions A to C are met in relation to the vehicle, and 10
- (b) paragraph 24 applies to the pension scheme’s interest in the vehicle.
- (2) Condition A is that –
- (a) the total value of the assets held directly by the vehicle is at least £1 million, or 15
- (b) the vehicle holds directly at least three assets which consist of an interest in residential property,
- and no asset held directly by the vehicle which consists of an interest in taxable property has a value which exceeds 40% of the total value of the assets held directly by the vehicle. 20
- (3) Condition B is that, if the vehicle is a company –
- (a) it is resident in the United Kingdom and is not a close company, or
- (b) it is not resident in the United Kingdom and would not be a close company if it were resident in the United Kingdom. 25
- (4) Condition C is that the vehicle does not have as its main purpose, or one of its main purposes, the direct or indirect holding of an animal or animals used for sporting purposes.
- (5) For the purposes of sub-paragraph (2) –
- (a) assets must be valued in accordance with generally accepted accounting practice, 30
- (b) no account is to be taken of liabilities secured against or otherwise relating to assets (whether generally or specifically), and
- (c) where generally accepted accounting practice offers a choice of valuation between cost basis and fair value, fair value must be used. 35
- (6) The Treasury may by order –
- (a) increase the amount for the time being specified in paragraph (a) of sub-paragraph (2), or
- (b) increase the percentage for the time being specified in that sub-paragraph. 40
- 24 (1) For the purposes of paragraph 23 this paragraph applies to the interest held directly or indirectly by a pension scheme in a vehicle where –
- (a) Condition A is met, and 45
- (b) Condition B or C is met.

- (2) Condition A is that the pension scheme does not hold the interest in the vehicle for the purpose of enabling a member of the pension scheme or a person connected with such a member to occupy or use the property.
- (3) Condition B is that – 5
- (a) the pension scheme is an occupational pension scheme, and
 - (b) the pension scheme does not, either alone or together with one or more associated persons, directly or indirectly hold an interest in the vehicle to which sub-paragraph (5) applies. 10
- (4) Condition C is that –
- (a) the pension scheme is not an occupational pension scheme, and
 - (b) no arrangement under the pension scheme, either alone or together with one or more associated persons, directly or indirectly holds an interest in the vehicle to which sub-paragraph (5) applies. 15
- (5) This sub-paragraph applies to the following interests –
- (a) 10% or more of the share capital or issued share capital of the vehicle; 20
 - (b) 10% or more of the voting rights in the vehicle;
 - (c) a right to receive 10% or more of the income of the vehicle;
 - (d) such interest in the vehicle as gives an entitlement to 10% or more of the amounts distributed on a distribution in relation to the vehicle; 25
 - (e) such interest in the vehicle as gives an entitlement to 10% or more of the assets of the vehicle on a winding-up or in any other circumstances;
 - (f) such interest in the vehicle as gives rise to income or gains from a specific property. 30
- (6) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph.
- (7) For the definition of “associated person” see paragraph 30.
- 25 (1) This paragraph contains provisions supplementary to paragraph 24. 35
- (2) Where –
- (a) paragraph 23(1) does not apply in relation to a vehicle in which the pension scheme directly or indirectly holds an interest merely because Condition C in paragraph 24(4) is not met in relation to an arrangement under the pension scheme, and 40
 - (b) accordingly, the pension scheme holds an interest in property indirectly through the vehicle, 45
- the interest in the property is to be treated as held through the vehicle for the purposes of another arrangement under the pension scheme only if that arrangement, either alone or together

- with one or more associated persons, directly or indirectly holds an interest in the vehicle to which paragraph 24(5) applies.
- (3) Sub-paragraph (4) applies for determining the percentage of an interest held by a person in a vehicle at a time when the person holds that interest indirectly. 5
- (4) That percentage is equal to the percentage of the total taxable amount that would be apportioned to the person under paragraphs 41 to 43 –
- (a) where the person is not the pension scheme, if the person were the pension scheme, and 10
- (b) in any case, if the person were treated as making an unauthorised payment by virtue of the vehicle coming to hold the interest in the property directly at that time.
- (5) For the definition of “associated person” see paragraph 30.
- 26 (1) This paragraph applies to a vehicle in which a pension scheme directly or indirectly holds an interest where – 15
- (a) the vehicle holds the interest in the property directly by virtue of paragraph 14(3) merely because it does not meet Condition C in paragraph 15(4), and
- (b) sub-paragraph (2) applies in relation to the pension scheme. 20
- (2) This sub-paragraph applies in relation to the pension scheme if –
- (a) where the pension scheme is an occupational pension scheme, the pension scheme is not, either alone or together with one or more associated persons, deemed to be entitled to 10% or more of the market value of or the income from the property, or 25
- (b) where the pension scheme is not an occupational pension scheme, no arrangement under the pension scheme, either alone or together with one or more associated persons, is deemed to be so entitled. 30
- (3) For the purposes of this paragraph the percentage of the market value of or the income from the property to which a person is deemed to be entitled at any time is – 35
- $$IG \times TTA$$
- where –
- IG is the percentage of the market value of or the income from the property to which the vehicle that holds the interest in the property directly is entitled at that time, and
- TTA is the percentage of the total taxable amount that would be apportioned to the person at that time on the assumptions mentioned in sub-paragraph (4). 40
- (4) Those assumptions are –
- (a) if the person is not the pension scheme, that the person is the pension scheme, and 45
- (b) in any case, that the person is treated as making an unauthorised payment by virtue of the vehicle coming to hold the interest in the property directly at that time.

(5) For the definition of “associated person” see paragraph 30.

Deemed acquisition

- 27 Where— 5
- (a) an investment-regulated pension scheme holds an interest in property which is not taxable property, and
- (b) that property becomes taxable property otherwise than by reason of its conversion or adaptation as residential property, 10
- the pension scheme is treated for the purposes of the taxable property provisions as acquiring an interest in the property.
- 28 (1) Subject to paragraph 29, this paragraph applies where—
- (a) an investment-regulated pension scheme holds an interest in taxable property indirectly, and 15
- (b) there is an increase in the extent of the interest held directly in a vehicle by the pension scheme or another vehicle.
- (2) The pension scheme is to be treated for the purposes of this Schedule as— 20
- (a) having disposed of the interest in the property immediately before the increase in the extent of the interest in the vehicle, and
- (b) having re-acquired the interest immediately afterwards.
- (3) The extent of the interest held directly in a vehicle by a person is to be determined for the purposes of this paragraph and paragraph 29 in accordance with paragraphs 42 and 43. 25
- 29 (1) Where there is an increase in the extent of the interest held directly in the vehicle otherwise than by reason of the acquisition of a further interest in the vehicle, paragraph 28 does not apply unless the condition in sub-paragraph (2) is met.
- (2) The condition is that the event by which the extent of the interest held directly in the vehicle increases forms part of a scheme or arrangement the main purpose or one of the main purposes of which is— 30
- (a) to enable the amount of the unauthorised payment treated as arising on the original acquisition of the interest in the property by the pension scheme to be lower than it otherwise would have been, or 35
- (b) to prevent an unauthorised payment from being treated as made on that original acquisition.
- (3) Unless that condition is met, the increase in the extent of the interest is also to be disregarded for the purposes of paragraphs 24 to 26. 40

Associated persons

- 30 (1) For the purposes of this Part of this Schedule “associated person”, 45
in relation to a pension scheme, means—
- (a) any member of the pension scheme,

- (b) any person connected with such a member,
 - (c) any arrangement (under that or another pension scheme) relating to a member of the pension scheme,
 - (d) any arrangement (under that or another pension scheme) relating to a person connected with such a member, and
 - (e) any associated pension scheme. 5
- (2) For the purposes of sub-paragraph (1) a pension scheme is associated with another pension scheme if members representing at least 10% by value of one pension scheme are members of the other pension scheme or connected with such members. 10
- (3) The percentage by value represented by a member of a pension scheme is—
- $$\frac{AM}{AA} \times 100$$
- where— 15
- AM is an amount equal to the aggregate of the amount of the sums and the market value of the assets held for the purposes of an arrangement under the pension scheme relating to the member, and
 - AA is an amount equal to the aggregate of the amount of the sums and the market value of the assets held for the purposes of the pension scheme. 20
- (4) For the purposes of this Part of this Schedule “associated person”, in relation to an arrangement under a pension scheme, means—
- (a) the member of the pension scheme to which that arrangement relates, 25
 - (b) any person connected with such a member,
 - (c) any arrangement (under that or another pension scheme) relating to a member of the pension scheme to which that arrangement relates, and
 - (d) any arrangement (under that or another pension scheme) relating to a person connected with such a member. 30

PART 4

AMOUNT AND TIMING OF UNAUTHORISED PAYMENT

Introduction

- 31 (1) This Part of this Schedule has effect for determining—
- (a) the amount of an unauthorised payment treated as made to a member of an investment-regulated pension scheme by virtue of section 174A, and
 - (b) the time when such a payment is treated as made. 40
- (2) The amount is determined by—
- (a) finding the total taxable amount in relation to the unauthorised payment (see paragraphs 32 to 40),
 - (b) apportioning that amount to the pension scheme (see paragraphs 41 to 43), 45

- (c) in a case to which paragraph 28 applies (acquisition etc of further interest in vehicle), making an adjustment under paragraph 44 to the amount mentioned in paragraph (b), and
- (d) apportioning that amount to the member to whom the payment is treated as made in accordance with paragraph 45. 5

Acquisition: basic rules

- 32 (1) This paragraph applies to a case within subsection (1) of section 174A (acquisition of an interest in taxable property). 10
- (2) The unauthorised payment is treated as made when the interest in the property is acquired by the pension scheme.
- (3) If the interest in the property is acquired because the pension scheme or another person comes to hold the interest directly, the total taxable amount in relation to the unauthorised payment is—
 - (a) the amount of consideration, in money or money's worth, given directly or indirectly for the interest, plus 15
 - (b) the amount of any fees and other costs incurred in connection with the acquisition.
- (4) Sub-paragraph (3) is subject to paragraphs 33 to 35.
- (5) If the interest in the property is acquired because the pension scheme or another person comes to hold an interest in a person who already holds the interest in the property directly or indirectly, the total taxable amount in relation to the unauthorised payment is— 20
 - (a) the market value, at the date the interest in the person is acquired, of the interest in the property held by the person who holds it directly, or 25
 - (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 if it were assigned to the person at that time. 30
- (6) If the interest in the property is treated as acquired by the pension scheme by virtue of paragraph 27 or 28, the total taxable amount in relation to the unauthorised payment is—
 - (a) the market value, at the date the interest is treated as acquired, of the interest in the property held by the person who holds it directly, or 35
 - (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 if it were assigned to the person at that time.
- (7) This paragraph is subject to paragraph 36. 40

Acquisition: further provisions

- 33 (1) This paragraph applies where—

- (a) an investment-regulated pension scheme acquires an interest in taxable property because it acquires a chargeable interest in the property within the meaning of section 48(1) of the Finance Act 2003,
- (b) the interest is acquired because the pension scheme or another person comes to hold the interest directly, and 5
- (c) the whole or part of the consideration for the interest is consideration other than rent.
- (2) The provisions of the Finance Act 2003 listed in sub-paragraph (3) apply for determining the amount of the consideration (or the part that is not rent) as they apply for determining the amount of chargeable consideration for a land transaction for the purposes of Part 4 of that Act. 10
- (3) Those provisions are – 15
- (a) paragraphs 2 to 8 and 9 to 16 of Schedule 4 (chargeable consideration);
- (b) section 51 (contingent, uncertain or unascertained consideration);
- (c) section 52 (annuities etc: chargeable consideration limited to twelve years' payments). 20
- (4) The Treasury may by regulations provide –
- (a) for those provisions to apply with modifications to cases to which this paragraph applies, and
- (b) for any other provisions of Part 4 of the Finance Act 2003 to apply (with or without modifications) to such cases. 25
- 34 (1) This paragraph applies where –
- (a) an investment-regulated pension scheme acquires an interest in taxable property because it acquires a chargeable interest in the property within the meaning of section 48(1) of the Finance Act 2003, 30
- (b) the interest is acquired because the pension scheme or another person comes to hold the interest directly, and
- (c) the whole or part of the consideration for the acquisition is rent.
- (2) The amount of the consideration (or the part that is rent) is to be taken to be the relevant rental value of the property; and paragraphs 2(4)(a), 3 and 8 of Schedule 5 (rent) to the Finance Act 2003 apply for determining that value. 35
- (3) The following provisions of the Finance Act 2003 apply for the purposes of sub-paragraph (2) for determining the amount of rent payable as they apply for determining the amount of rent payable under a lease to which that Act applies – 40
- (a) paragraphs 2, 5 to 7A, 9 and 16 of Schedule 17A (further provisions relating to leases);
- (b) (subject to the provisions mentioned in paragraph (a)) the provisions mentioned in paragraph 33(3). 45
- (4) The Treasury may by regulations provide –

-
- (a) for the provisions mentioned in sub-paragraph (2) or (3) to apply with modifications to cases to which this paragraph applies, and
- (b) for any other provisions of Part 4 of the Finance Act 2003 to apply (with or without modifications) to such cases. 5
- (5) For the purposes of this paragraph where on an assignment of a lease the assignee assumes the obligation to pay rent, the assumption counts as consideration for the assignment.
- 35 (1) This paragraph applies where – 10
- (a) an investment-regulated pension scheme acquires an interest in taxable property because the pension scheme or another person comes to hold the interest directly,
- (b) the interest is acquired for less than its market value, and
- (c) immediately before the acquisition the interest was held by a registered pension scheme which was not an investment-regulated pension scheme. 15
- (2) This paragraph also applies where –
- (a) an investment-regulated pension scheme acquires an interest in taxable property because the pension scheme or another person comes to hold the interest directly, 20
- (b) the interest is acquired for less than its market value, and
- (c) tax relief is available under section 188 or 196 in respect of the transfer of the interest.
- (3) The amount of the consideration for the interest is treated as – 25
- (a) the market value, at the date the interest is acquired, of the interest in the property held by the person who holds it directly, or
- (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 if it were assigned to the person at that time. 30
- 36 (1) The Treasury may by regulations make provision with respect to –
- (a) what is to count as consideration for the acquisition of an interest in taxable property, and 35
- (b) the determination of the amount of such consideration.
- (2) The Treasury may by regulations make provision with respect to the determination of the market value of an interest held in taxable property. 40
- (3) Regulations under this paragraph may, in particular, make provision for cases where an investment-regulated pension scheme acquires –
- (a) an interest in taxable property outside the United Kingdom,
- (b) a licence to use or occupy taxable property, or 45
- (c) an interest in taxable property which is tangible moveable property.

- (4) Regulations under this paragraph may –
 - (a) amend this Part of this Schedule, and
 - (b) include provision having effect in relation to times before they are made.

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Post-acquisition unauthorised payments

- 37 (1) The Treasury may by regulations make provision for an investment-regulated pension scheme which has acquired an interest in taxable property to be treated as making one or more further unauthorised payments where –

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- (a) the amount of consideration for the acquisition was determined on the basis of a reasonable estimate, and the actual amount of the consideration turns out to be higher than the estimated amount,
- (b) in the case of an interest which is a lease, there is a variation in the rent payable under the lease, or
- (c) in such a case, the amount of consideration for the acquisition was determined on an assumption about the length of the term of the lease, and the lease continues after the end of the term.

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- (2) Regulations under this paragraph may –

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- (a) amend section 174A or this Schedule (apart from this paragraph), and
- (b) include provision having effect in relation to times before they are made.

- (3) References in the taxable property provisions to unauthorised payments treated as made under section 174A include references to payments treated as made under regulations under this paragraph.

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Improvement of taxable property

- 38 (1) This paragraph applies to a case within subsection (2) of section 174A (improvement of taxable property).

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- (2) An unauthorised payment is treated as made when a payment is made in connection with the improvement works.

- (3) The total taxable amount in relation to the unauthorised payment is the amount of the payment mentioned in sub-paragraph (2).

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Conversion or adaptation as residential property

- 39 (1) This paragraph applies to a case within subsection (3) of section 174A (conversion or adaptation as residential property).

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- (2) The unauthorised payment is treated as made on the occurrence of whichever of the following first occurs after the property has become residential property –

- (a) the substantial completion of the works to convert or adapt the property;

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- (b) the interest in the property ceasing to be held by the pension scheme.
- (3) But if the property becomes residential property after the end of the period of three years beginning with the date on which the first payment was made in connection with the works to convert or adapt the property, the unauthorised payment is treated as made when the property becomes residential property. 5
- (4) If the works began before the end of the period of twelve months beginning with the acquisition of the interest in the property by the pension scheme, the total taxable amount in relation to the unauthorised payment is –
- (a) the amount of consideration for the interest, determined in accordance with paragraphs 32 to 36, plus 10
- (b) the development costs (see sub-paragraph (7)).
- (5) If the works began after the end of that period, the total taxable amount in relation to the unauthorised payment is –
- (a) the relevant market value (see sub-paragraph (6)), plus
- (b) the development costs (see sub-paragraph (7)). 15
- (6) In this paragraph “the relevant market value” means –
- (a) the market value, at the date the works began, of the interest in the property held by the person who holds it directly, or
- (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 if it were assigned to the person at that time. 20
- (7) In this paragraph “the development costs” means the total cost of the works to convert or adapt the property at the time when the unauthorised payment is treated as made. 25
- (8) Where, at the time the unauthorised payment is treated as made –
- (a) an amount will be payable for the works only if some uncertain future event occurs, or
- (b) an amount will cease to be payable for the works if some uncertain future event occurs, 30
- the development costs are to be determined on the assumption that the amount will be payable or, as the case may be, will not cease to be payable.
- (9) Where, at that time, an amount payable for the works – 35
- (a) depends on uncertain future events, or
- (b) cannot otherwise be ascertained,
- that amount is to be determined for the purposes of sub-paragraph (7) on the basis of a reasonable estimate.
- 40 (1) This paragraph applies to a case within subsection (3) of section 174A (conversion or adaptation as residential property). 40
- (2) This paragraph applies if –

- (a) sub-paragraph (8) of paragraph 39 has effect when an unauthorised payment is treated as made under that paragraph,
 - (b) an amount estimated under that sub-paragraph later becomes ascertained, and
 - (c) the ascertained amount is more than the estimated amount. 5
- (3) An unauthorised payment is treated as made when the amount becomes ascertained.
- (4) The total taxable amount in relation to the unauthorised payment is the difference between the ascertained amount and the estimated amount. 10
- (5) References in the taxable property provisions to unauthorised payments treated as made under section 174A include references to payments treated as made under this paragraph. 15

Apportionment to pension scheme

- 41 (1) This paragraph applies for determining –
- (a) whether the amount of an unauthorised payment treated as made by an investment-regulated pension scheme under section 174A consists of the whole of the total taxable amount in relation to the payment, and 20
 - (b) if not, how much of the total taxable amount comprises the amount of the unauthorised payment.
- (2) The pension scheme is treated as making an unauthorised payment equal to the whole of the total taxable amount where Condition A, B or C is met. 25
- (3) Condition A is that the pension scheme directly holds the interest in the taxable property which gives rise to the unauthorised payment. 30
- (4) Condition B is that –
- (a) the pension scheme holds the interest in the property indirectly through one vehicle, and
 - (b) that vehicle is wholly owned by the pension scheme.
- (5) Condition C is that – 35
- (a) the pension scheme holds the interest in the property indirectly through more than one vehicle (a “chain” of vehicles), and
 - (b) each vehicle in the chain is wholly owned by another vehicle in the chain or by the pension scheme.
- (6) Where – 40
- (a) the pension scheme holds the interest in the property indirectly through one vehicle, and
 - (b) the vehicle is not wholly owned by the pension scheme, the amount of the unauthorised payment is a proportion of the total taxable amount determined by reference to the extent of the pension scheme’s interest in the vehicle. 45

- (7) Where—
- (a) the pension scheme holds the interest in the property indirectly through one or more chains of vehicles, and
 - (b) one or more vehicles in such a chain is not wholly owned by another vehicle in the chain or by the pension scheme,
- the amount of the unauthorised payment is the amount or the total of all the amounts found under sub-paragraph (8) for each chain through which the pension scheme owns the interest in the property. 5
- (8) The amount is a proportion of the total taxable amount determined by reference to the extent of the interest held directly by the pension scheme or another vehicle in the chain in each vehicle in the chain— 10
- (a) starting with the vehicle which holds the interest in the property directly, and
 - (b) ending with the vehicle in which the pension scheme directly holds an interest. 15
- (9) For the purposes of this paragraph a vehicle is wholly owned by a person if no other person directly holds an interest in the vehicle.
- (10) This paragraph is subject to paragraph 44. 20
- 42 (1) References in this Schedule to the extent of an interest held directly by a person in a vehicle are references to the proportion of the interests of everyone who directly holds an interest in the vehicle which on a just and reasonable apportionment is represented by that interest. 25
- (2) Sub-paragraph (1) is subject to paragraph 43, which explains how to determine the extent of a person’s interest in a vehicle for the purposes of the taxable property provisions where the vehicle is a company.
- (3) The Treasury may by regulations— 30
- (a) amend paragraph 43, or
 - (b) amend this Part of this Schedule for the purposes of explaining how to determine the extent of a person’s interest in a vehicle in other cases. 35
- (4) Regulations under sub-paragraph (3) may include provision having effect in relation to times before they are made.
- 43 (1) For the purposes of this Schedule, and except in a case to which sub-paragraph (3) applies, the extent of a person’s interest in a company is determined by reference to whichever of the following gives the person the greatest interest in the company— 40
- (a) the percentage of the share capital or issued share capital of the company owned by the person;
 - (b) the percentage of the voting rights in the company owned by the person;
 - (c) the percentage of all the income of the company to which the person has a right; 45
 - (d) the percentage of the amounts distributed on a distribution in relation to the company to which the person has a right;

- (e) the percentage of the assets of the company to which the person has a right on a winding-up or in any other circumstances;
- (f) where the person has a right to a percentage of a particular asset or description of assets of the company, or of the income or gains from such an asset or description (either generally or in particular circumstances), that percentage or the highest of all the percentages found under this paragraph. 5
- (2) For the purposes of sub-paragraph (1) a person is treated as owning or having a right to anything which the person will only acquire— 10
- (a) at some future date,
- (b) if the person exercises a right to acquire it, or
- (c) if some other uncertain future event occurs or does not occur. 15
- (3) Where—
- (a) a person has an interest in a company as a result of lending the company money to fund the acquisition of an interest in taxable property, and
- (b) this sub-paragraph gives the person a greater interest in the company than any interest given by sub-paragraph (1), for the purposes of this Schedule the extent of the person's interest in the company is determined by the proportion that the value of the loan bears to the total value of the assets held directly by the company. 20 25
- (4) For the purposes of sub-paragraph (3)—
- (a) assets must be valued in accordance with generally accepted accounting practice,
- (b) no account is to be taken of liabilities secured against or otherwise relating to assets (whether generally or specifically), and 30
- (c) where generally accepted accounting practice offers a choice of valuation between cost basis and fair value, fair value must be used. 35

Deemed acquisition: adjustment

- 44 (1) This paragraph applies where an investment-regulated pension scheme is treated as acquiring an interest in taxable property by virtue of paragraph 28 (increase in extent of interest in vehicle). 40
- (2) The amount of the unauthorised payment treated as made by the pension scheme is—
- $$UP - UPB$$
- where— 45
- UP is the amount that would have been the amount of the unauthorised payment apart from this paragraph; and
- UPB is the amount that would have been the amount of any unauthorised payment treated as made by the pension scheme if it had acquired the interest in the property

immediately before the increase in the extent of the interest in the vehicle (assuming the total taxable amount in relation to the unauthorised payment to be that given under paragraph 32(5)).

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Apportionment to member

- 45 (1) This paragraph has effect for determining –
- (a) whether the whole of an unauthorised payment treated as made by a pension scheme is to be treated as made to a member of the scheme, and
 - (b) if not, how much of the unauthorised payment is to be treated as made to the member. 10
- (2) If the interest in the taxable property which gives rise to the unauthorised payment is held by the pension scheme for the purposes of –
- (a) the arrangement under the pension scheme relating to the member, and 15
 - (b) at least one other arrangement under the pension scheme, the unauthorised payment is to be apportioned on a just and reasonable basis between all of the arrangements for the purposes of which the interest in the property is held. 20
- (3) Otherwise, the whole of the unauthorised payment is to be treated as made to the member.”
- 14 (1) Schedule 34 (non-UK schemes: application of certain charges) is amended as follows. 25
- (2) In paragraph 1 (member payment charges) –
- (a) in sub-paragraph (3)(a), after “charge” insert “(except as imposed by virtue of section 174A (taxable property held by investment-regulated pension schemes))”, and
 - (b) in sub-paragraph (4), after “Part” insert “(apart from the taxable property provisions)”. 30
- (3) After paragraph 7 insert –
- “Unauthorised payment charge: taxable property*
- 7A (1) The Commissioners for Her Majesty’s Revenue and Customs may by regulations make provision for a transfer member of a relevant non-UK scheme to be liable to the unauthorised payment charge in the same or similar circumstances to those in which –
- (a) a member of a registered pension scheme is liable to that charge by virtue of section 174A and Schedule 29A (taxable property held by investment-regulated pension scheme), 40
 - (b) the scheme administrator of such a scheme is liable to the scheme sanction charge by virtue of section 185A (income from taxable property) or 185F (gains from taxable property), or
 - (c) a member of such a scheme is liable to the scheme sanction charge by virtue of those provisions in consequence of provision made by regulations under section 273ZA. 45

- (2) The regulations may –
- (a) make provision for the application of any or all of the taxable property provisions in relation to a transfer member of a relevant non-UK scheme subject to any omissions, additions and other modifications contained in the regulations, 5
 - (b) include provision having effect in relation to times before they are made,
 - (c) contain transitional provisions and savings, and
 - (d) make different provision for different cases.”
- 15 In Schedule 36 (transitional provisions and savings), after paragraph 37 insert – 10

“Pre-commencement holdings of taxable property

- 37A (1) This paragraph applies in relation to an investment-regulated pension scheme if – 15
- (a) on 6th April 2006 the pension scheme holds an interest in taxable property which it acquired before that date, and
 - (b) immediately before that date the pension scheme was not prohibited from holding the interest in the property, 20
- and, in a case where immediately before that date the interest in the property was held directly by a person other than the pension scheme, if the pension scheme was not prohibited from holding the interest it held in that person at that time.
- (2) This paragraph also applies in relation to an investment-regulated pension scheme if – 25
- (a) before 6th April 2006 a contract to acquire an interest in property was entered into by the pension scheme or a person in whom the pension scheme directly or indirectly held an interest when the contract was entered into,
 - (b) the pension scheme does not acquire the interest in the property before that date, 30
 - (c) the property is taxable property on that date, and
 - (d) immediately before that date the pension scheme would not have been prohibited from holding the interest in the property,
- and, in a case where the contract to acquire the interest in the property was entered into by a person in whom the pension scheme directly or indirectly held an interest, if the pension scheme was not prohibited from holding the interest it held in that person immediately before that date. 35
- (3) The taxable property provisions (apart from this paragraph and paragraphs 37B to 37E) do not apply in relation to the pension scheme and the interest in the property. 40
- (4) For the purposes of this Schedule a pension scheme is to be treated as having been prohibited from holding an interest in property, or in a person, immediately before 6th April 2006 if approval could have been withdrawn under section 591B, 620(7) or 650 of ICTA on the basis of the holding of the interest at that time. 45

- (5) This paragraph is subject to paragraphs 37B to 37E.
- 37B (1) Paragraph 37A ceases to apply to an investment-regulated pension scheme and an interest in taxable property on the relevant date if Condition A, B or C is met. 5
- (2) Condition A is that there is a change in the occupation or use of the property such that, if the change had occurred immediately before 6th April 2006, the pension scheme would have been prohibited from holding the interest in the property at that time.
- (3) Condition B is that – 10
- (a) the taxable property is residential property on 6th April 2006, and
- (b) improvement works on the property are begun on or after that date. 15
- (4) Condition C is that there is a change in the pension scheme’s interest in –
- (a) any person who holds the interest in the property directly, or
- (b) any person who has entered into a contract to acquire the interest in the property, 20
- such that, if the change had occurred immediately before 6th April 2006, the pension scheme would have been prohibited from holding the interest in the person at that time.
- (5) For the purposes of this paragraph the relevant date is –
- (a) where Condition A is met, the date on which the change in the occupation or use of the taxable property takes place, 25
- (b) where Condition B is met, the date on which the improvement works are substantially completed, or
- (c) where Condition C is met, the date on which the change in the pension scheme’s interest in the person takes place, 30
- but where the pension scheme has not acquired the interest in the property by what would otherwise be the relevant date, the relevant date is the date on which it acquires the interest.
- (6) Where Condition A, B or C is met the pension scheme is to be treated for the purposes of the taxable property provisions as acquiring the interest in the property on the relevant date. 35
- (7) For the purposes of Schedule 29A the total taxable amount in relation to any unauthorised payment which the pension scheme is treated as having made by reason of the acquisition is –
- (a) the market value on the relevant date of the interest in the property held by the person who holds it directly, or 40
- (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 of Schedule 29A if it were assigned to the person on that date. 45
- (8) Where –
- (a) the pension scheme holds the interest in the property directly, and
- (b) the interest is not a lease at a rent,

- for the purposes of section 185G (gains from taxable property: disposal by person holding directly) the pension scheme is to be treated as having acquired the interest for a consideration equal to its market value on 6th April 2006.
- (9) For the purposes of sub-paragraph (3)(b) improvement works are to be taken to have been begun before 6th April 2006 only if—
- (a) a binding contract for the works was entered into before that date, or
 - (b) a substantial amount of the works has been carried out before that date.
- (10) For the purposes of this Schedule “improvement works” means, in relation to a property, works which—
- (a) materially improve the property, and
 - (b) are not carried out wholly for the purposes of complying with a statutory requirement or a requirement imposed by a government department, a statutory body or a person holding a statutory office.
- (11) For the purposes of sub-paragraph (10)(a) a property is materially improved by works only if—
- (a) its market value on the date the works are substantially completed (“MVW”) exceeds what would have been its market value on that date if the works had not been carried out (“MV”), and
 - (b) the amount by which MVW exceeds MV is greater than 20% of MV.
- (12) For the purposes of sub-paragraph (10)(b) —
- “statutory body” means a body set up by or under an enactment (including an enactment comprised in, or an instrument made under, an Act of the Scottish Parliament);
- “statutory office” means a body set up by or under such an enactment; and
- “statutory requirement” means a requirement imposed by provision made by or under such an enactment.
- (13) This paragraph is subject to paragraph 37D.
- 37C (1) This paragraph applies where—
- (a) on 6th April 2006 an investment-regulated pension scheme holds an interest in taxable property which it acquired before that date, and
 - (b) immediately before that date the pension scheme was prohibited from holding the interest.
- (2) This paragraph also applies where—
- (a) on 6th April 2006 an investment-regulated pension scheme holds an interest in taxable property indirectly which it acquired before that date, and
 - (b) immediately before that date the pension scheme was prohibited from holding the interest it held in the person that held the interest in the property directly at that time.

- (3) The pension scheme is to be treated for the purposes of the taxable property provisions as acquiring the interest in the property on 6th April 2006.
- (4) For the purposes of Schedule 29A the total taxable amount in relation to any unauthorised payment which the pension scheme is treated as having made by reason of the acquisition is –
- (a) the market value on 6th April 2006 of the interest in the property held by the person who holds it directly, or
 - (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 of Schedule 29A if it were assigned to the person on that date.
- (5) Where –
- (a) the pension scheme holds the interest in the property directly, and
 - (b) the interest is not a lease at a rent,
- for the purposes of section 185G (gains from taxable property: disposal by person holding directly) the pension scheme is to be treated as having acquired the interest for a consideration equal to its market value on 6th April 2006.
- 37D (1) This paragraph applies where –
- (a) sub-paragraph (1) or (2) of paragraph 37A applies in relation to a pension scheme and an interest in property,
 - (b) immediately before 6th April 2006 the pension scheme was a self-invested personal pension scheme or a small self-administered scheme,
 - (c) on that date the pension scheme holds the interest in the property indirectly or (if sub-paragraph (2) of paragraph 37A applies in relation to the pension scheme and the interest in the property) the pension scheme will hold the interest indirectly once it has been acquired pursuant to the contract,
 - (d) the property is residential property on that date, and
 - (e) improvement works on the property were begun after 5th December 2005.
- (2) This paragraph also applies where –
- (a) sub-paragraph (1) or (2) of paragraph 37A applies in relation to a pension scheme and an interest in property,
 - (b) immediately before 6th April 2006 the pension scheme was a small self-administered scheme,
 - (c) on that date the pension scheme holds the interest in the property directly,
 - (d) the pension scheme acquired the interest before 5th August 1991,
 - (e) the property is residential property on 6th April 2006, and
 - (f) improvement works on the property were begun after 5th December 2005.

- (3) If the works are completed on or after 6th April 2006, paragraph 37B applies in relation to the pension scheme and the interest in the property as if the works were begun on or after that date.
- (4) If the works are completed before that date – 5
- (a) paragraph 37A does not apply in relation to the pension scheme and the interest in the property, and
 - (b) unless the pension scheme has still to acquire the interest in the property on that date, sub-paragraphs (3) to (5) of paragraph 37C apply in relation to the pension scheme and the interest. 10
- (5) For the purposes of this paragraph improvement works are to be taken to have been begun before 6th December 2005 only if –
- (a) a binding contract for the works was entered into before that date, or
 - (b) a substantial amount of the works has been carried out before that date. 15
- 37E (1) This paragraph applies where –
- (a) paragraph 37A would otherwise apply in relation to a pension scheme and an interest in property, 20
 - (b) immediately before 6th April 2006 the pension scheme was a retirement benefits scheme approved under section 590 of ICTA, and
 - (c) the pension scheme was approved under that section after 5th December 2005.
- (2) Paragraph 37A does not apply in relation to the pension scheme and the interest in the property. 25
- (3) Unless the pension scheme has still to acquire the interest in the property on 6th April 2006, sub-paragraphs (3) to (5) of paragraph 37C apply in relation to the pension scheme and the interest. 30

Post-commencement acquisitions of taxable property

- 37F (1) This paragraph applies where on or after 6th April 2006 an investment-regulated pension scheme acquires an interest in taxable property consisting of tangible moveable property because a person in whom the pension scheme directly or indirectly holds an interest comes to hold the interest in the property directly. 35
- (2) The taxable property provisions (apart from this paragraph and paragraph 37G) do not apply in relation to the pension scheme and the interest in the property if the conditions in sub-paragraph (3) are met. 40
- (3) Those conditions are that –
- (a) on 6th April 2006 the pension scheme held the interest in the person by virtue of acquiring it before that date, 45
 - (b) immediately before that date the pension scheme was not prohibited from holding the interest in the person,
 - (c) at no time during the period beginning with that date and ending immediately before the acquisition of the interest in

- the property has the pension scheme's interest in the person been such that, if it had held that interest in the person immediately before 6th April 2006, it would have been prohibited from holding that interest at that time, and
- (d) the person acquires the interest in the property so that the property may be used for the purposes of a trade, profession or vocation carried on by the person or for the purposes of its administration or management. 5
- (4) This paragraph is subject to paragraph 37G.
- 37G (1) Where Condition A or B is met in relation to the pension scheme and an interest in property to which paragraph 37F has applied, the pension scheme is to be treated for the purposes of the taxable property provisions as acquiring the interest in the property on the date on which the Condition is met. 10
- (2) Condition A is that there is a change in the pension scheme's interest in the person who holds the interest in the property directly such that, if the change had occurred immediately before 6th April 2006, the pension scheme would have been prohibited from holding the interest in the person at that time. 15
- (3) Condition B is that the property ceases to be used for the purposes of— 20
- (a) a trade, profession or vocation carried on by the person, or
- (b) its administration or management.
- (4) For the purposes of Schedule 29A the total taxable amount in relation to any unauthorised payment which the pension scheme is treated as having made by reason of the acquisition is the market value on the relevant date of the interest in the property held by the person. 25
- 37H (1) This paragraph applies where on or after 6th April 2006 an investment-regulated pension scheme acquires an interest in taxable property consisting of residential property because a person in whom the pension scheme directly or indirectly holds an interest comes to hold the interest in the property directly. 30
- (2) The taxable property provisions (apart from this paragraph and paragraph 37I) do not apply in relation to the pension scheme and the interest in the property if the conditions in sub-paragraph (3) are met. 35
- (3) Those conditions are that—
- (a) on 6th April 2006 the pension scheme held the interest in the person by virtue of acquiring it before that date, 40
- (b) immediately before that date the pension scheme was not prohibited from holding the interest in the person,
- (c) immediately before that date the person had a business involving the holding and letting of residential property and held directly five or more assets consisting of interests in residential property for the purposes of that business, 45
- (d) at no time during the period beginning with that date and ending immediately before the acquisition of the interest in the property has the pension scheme's interest in the

- person been such that, if it had held that interest in the person immediately before 6th April 2006, it would have been prohibited from holding that interest at that time,
- (e) the person acquires the interest in the property for the purposes of its property rental business, and 5
- (f) after the acquisition of the interest in the property, the property is not occupied or used by a member of the pension scheme or a person connected with such a member.
- (4) This paragraph is subject to paragraph 37I. 10
- (5) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph.
- 37I (1) Where Condition A, B or C is met in relation to the pension scheme and an interest in property to which paragraph 37H has applied, the pension scheme is to be treated for the purposes of the taxable property provisions as acquiring, on the date on which the Condition is met, each interest in property – 15
- (a) which it holds on that date, and
- (b) to which paragraph 37H has applied before that date. 20
- (2) Condition A is that there is a change in the pension scheme’s interest in the person who holds the interest in the property directly such that, if the change had occurred immediately before 6th April 2006, the pension scheme would have been prohibited from holding the interest in the person at that time. 25
- (3) Condition B is that the property ceases to be used for the purposes of the person’s property rental business.
- (4) Condition C is that the property is occupied or used by a member of the pension scheme or a person connected with such a member. 30
- (5) For the purposes of Schedule 29A the total taxable amount in relation to any unauthorised payment which the pension scheme is treated as having made by reason of an acquisition of an interest in property treated as made by virtue of this paragraph is –
- (a) the market value on the relevant date of the interest in the property held by the person who holds it directly, or 35
- (b) if the interest in the property is a lease at a rent, the amount of consideration that would be treated as given by the person for the lease by virtue of paragraph 34 of Schedule 29A if it were assigned to the person on that date.” 40

SCHEDULE 22

Section 160

PENSION SCHEMES: INHERITANCE TAX

Introductory

45

- 1 IHTA 1984 is amended as follows.

Dispositions

- 2 In section 12 (dispositions conferring retirement benefits), after subsection (2) insert—
- “(2A) Subsection (2B) below applies where a person who is a member of a registered pension scheme, and who has not reached the age of 75, has omitted to exercise pension rights under the pension scheme and, if the words “(or latest time)” were omitted from subsection (3) of section 3 above,—
- (a) that subsection would have treated the person as having made a disposition by reason of omitting to exercise the pension rights, but
- (b) section 10 above would have prevented the disposition being a transfer of value.
- (2B) Section 3(3) above does not actually treat the person as making a disposition by reason of omitting to exercise the pension rights (at the latest time when the person could have exercised them) unless the condition in subsection (2C) below is satisfied.
- (2C) That condition is that—
- (a) the person makes an actual pensions disposition under the pension scheme which is not prevented from being a transfer of value by section 10 above within the period of two years ending with the date of his death, and
- (b) it is not shown that, when he made the actual pensions disposition, he had no reason to believe that he would die within that period.
- (2D) A disposition treated by virtue of section 3(3) above as made by any person who is a member of a registered pension scheme, and who has not reached the age of 75, by reason of omitting to exercise pension rights under the pension scheme is not a transfer of value to the extent that it results in—
- (a) the provision of a lump sum death benefit or pension death benefit (or both) to a relevant dependant, or
- (b) the making of a payment to a charity.
- (2E) A disposition made by a person who is a member of a registered pension scheme, and who has reached the age of 75, is not a transfer of value if the disposition consists in the person—
- (a) making an actual pensions disposition under the pension scheme, or
- (b) omitting to exercise pension rights under the pension scheme.
- (2F) For the purposes of this section—
- (a) a person omits to exercise pension rights under a pension scheme if he does not become entitled to the whole or any part of a pension or lump sum (or both) under the pension scheme at a time when he was eligible to become so entitled (whether or not he does become entitled to any other benefits under the pension scheme); and

- (b) a person makes an actual pensions disposition under a registered pension scheme if he makes a disposition within section 3(1) above by doing anything in relation to, or to rights under, the pension scheme. 5
- (2G) In this section –
- “entitled”, in relation to a pension or lump sum, shall be construed in accordance with section 165(3) or 166(2) of the Finance Act 2004;
 - “lump sum death benefit” has the same meaning as in Part 4 of that Act (see section 168(2) of that Act); 10
 - “pension” has the same meaning as in that Part of that Act (see section 165(2) of that Act);
 - “pension death benefit” has the meaning given by section 167(2) of that Act; and
 - “relevant dependant”, in relation to a person, means a dependant (within the meaning given by paragraph 15 of Schedule 28 to that Act) who is the person’s spouse or civil partner immediately before his death or someone who is financially dependent on the person at that time.”; 15
- and, in the sidenote, for “retirement benefits” substitute “benefits under pension scheme”. 20

Secured pension funds

- 3 In subsection (2) of section 151 (treatment of pension rights etc) insert at the beginning “Subject to sections 151A and 151C below,”. 25

- 4 After that section insert –

“151A Person dying with alternatively secured pension fund

- (1) This section applies where a member of a registered pension scheme has an alternatively secured pension fund in respect of an arrangement under the pension scheme immediately before his death. 30
- (2) In determining for the purposes of this Act the value of his estate immediately before his death he shall be treated as if he had been beneficially entitled to property with a value equal to the relevant amount. 35
- (3) The relevant amount is –
- (a) the aggregate of the amount of the sums and the value of the assets forming part of the member’s alternatively secured pension fund immediately before his death, less 40
 - (b) the aggregate of the amount of the sums and the value of the assets expended on dependants’ benefits within the period of six months beginning with the end of the month in which his death occurs.
- (4) For this purpose sums or assets are expended on dependants’ benefits at any time if they (or sums or assets directly or indirectly deriving from them) are at that time – 45
- (a) applied towards the provision of a dependants’ scheme pension for a relevant dependant,

- (b) applied towards the provision of a dependants' annuity for a relevant dependant,
 - (c) designated as available for the payment of dependants' unsecured pension to a relevant dependant, or
 - (d) designated as available for the payment of dependants' alternatively secured pension to a relevant dependant, 5
- or if the sums (or sums directly or indirectly deriving from the sums or assets) are at that time paid as a charity lump sum death benefit.

- (5) In this section –
- “alternatively secured pension fund” has the same meaning as in Part 4 of the Finance Act 2004 (see paragraph 11 of Schedule 28 to that Act); 10
 - “charity lump sum death benefit” has the meaning given by paragraph 18 of Schedule 29 to that Act;
 - “dependants' alternatively secured pension” has the meaning given by paragraph 19 of Schedule 28 to that Act; 15
 - “dependants' annuity” has the same meaning as in Part 4 of that Act (see paragraph 17 of that Schedule);
 - “dependants' scheme pension” has the same meaning as in that Part of that Act (see paragraph 16 of that Schedule);
 - “dependants' unsecured pension” has the meaning given by paragraph 18 of that Schedule; and 20
 - “relevant dependant”, in relation to a member of a registered pension scheme who dies, means a dependant (within the meaning of paragraph 15 of that Schedule) who –
 - (a) is the person's spouse or civil partner immediately before his death; or 25
 - (b) is financially dependent on the person at that time.

151B Relevant dependant with pension fund inherited from member over 75

- (1) This section applies where – 30
- (a) a relevant dependant of a person who, immediately before his death, was a member of a registered pension scheme has a dependant's unsecured pension fund, or a dependant's alternatively secured pension fund, in respect of an arrangement under the pension scheme immediately before his death or immediately before ceasing to be a relevant dependant of the member, 35
 - (b) the member had reached the age of 75 at the time of his death and had an alternatively secured pension fund in respect of an arrangement under the pension scheme immediately before his death, and 40
 - (c) sums or assets forming part of that fund were designated as available for the payment of dependants' unsecured pension, or dependants' alternatively secured pension, to the relevant dependant within the period of six months beginning with the end of the month in which the member's death occurs. 45
- (2) Where this section applies tax shall be charged under this section.

- (3) The amount on which tax is charged under this section shall be the aggregate of the amount of the sums and the value of the assets forming part of the dependant’s unsecured pension fund, or the dependant’s alternatively secured pension fund, in respect of the arrangement immediately before the relevant dependant died or ceased to be a relevant dependant of the member. 5
- (4) But where tax is chargeable under this section by reason of the death of the relevant dependant, that amount is reduced by so much of sums forming part of the dependant’s unsecured pension fund, or the dependant’s alternatively secured pension fund, (or sums directly or indirectly deriving from sums or assets forming part of that fund) as are paid to a charity within the period of six months beginning with the end of the month in which his death occurs. 10
- (5) Tax charged under this section shall be charged at the rate or rates at which it would have been charged on the death of the member if – 15
- (a) the amount mentioned in subsection (3) above (as reduced under subsection (4) above) had been included in the value transferred by the chargeable transfer made on his death, and
 - (b) the amount on which the tax is charged had formed the highest part of that value. 20
- (6) In this section –
- “alternatively secured pension fund” has the same meaning as in Part 4 of the Finance Act 2004 (see paragraph 11 of Schedule 28 to that Act);
 - “dependants’ alternatively secured pension” has the meaning given by paragraph 19 of that Schedule; 25
 - “dependant’s alternatively secured pension fund” has the same meaning as in that Part of that Act (see paragraph 25 of that Schedule);
 - “dependants’ unsecured pension” has the meaning given by paragraph 18 of that Schedule; 30
 - “dependant’s unsecured pension fund” has the same meaning as in that Part of that Act (see paragraph 22 of that Schedule); and
 - “relevant dependant”, in relation to a member of a registered pension scheme who dies, means a dependant (within the meaning of paragraph 15 of that Schedule) who – 35
 - (a) is the person’s spouse or civil partner immediately before his death; or
 - (b) is financially dependent on the person at that time. 40

151C Dependant dying with other pension fund 40

- (1) This section applies where –
- (a) a dependant of a member of a registered pension scheme has a dependant’s alternatively secured pension fund in respect of an arrangement under the pension scheme immediately before his death, and 45
 - (b) section 151B above does not apply.
- (2) In determining for the purposes of this Act the value of the dependant’s estate immediately before his death he shall be treated

as if he had been beneficially entitled to property with a value equal to the relevant amount.

- (3) The relevant amount is –
- (a) the aggregate of the amount of the sums and the value of the assets forming part of the dependant’s alternatively secured pension fund immediately before his death, less 5
 - (b) so much of sums forming part of the dependant’s alternatively secured pension fund (or sums directly or indirectly deriving from sums or assets forming part of that fund) as are paid as a charity lump sum death benefit within the period of six months beginning with the end of the month in which his death occurs. 10
- (4) In this section –
- “charity lump sum death benefit” has the meaning given by paragraph 18 of Schedule 29 to the Finance Act 2004; 15
 - “dependant” has the meaning given by paragraph 15 of that Schedule 28 to that Act; and
 - “dependant’s alternatively secured pension fund” has the same meaning as in Part 4 of that Act (see paragraph 25 of Schedule 28 to that Act).” 20

Liability

- 5 (1) Section 200 (liability for tax: transfer on death) is amended as follows.
- (2) In subsection (1), after “any person are” insert “(subject to subsection (1A) below)” 25
- (3) After that subsection insert –
- “(1A) The person liable for tax chargeable by virtue of section 151A or 151C above in relation to any registered pension scheme is the scheme administrator of the pension scheme.” 30
- 6 In section 210 (liability: pension rights etc) re-number the existing provision as subsection (1) of that section and insert after it –
- “(2) The person liable for tax chargeable under section 151B above is the scheme administrator of the registered pension scheme.” 35

Delivery of accounts

- 7 (1) Section 216 (delivery of accounts) is amended as follows.
- (2) In subsection (1), after paragraph (bc) insert – 40
- “(bca) is liable under section 200(1A) or 210(2) above for tax in respect of any amount, or would be so liable if tax were chargeable in respect of that amount, or”.
- (3) In subsection (3)(a), after “death” insert “(or would do apart from section 151A(3)(b) or 151C(3)(b) above)”.
- (4) In subsection (4), insert at the end “(or would be apart from section 151A(3)(b), 151C(3)(b) or 151B(4) above)” 45
- (5) In subsection (6), after paragraph (ab) insert –

“(ac) in the case of an account to be delivered by the scheme administrator of a registered pension scheme, before the expiration of the period of twelve months from the end of the month in which the death occurs or the person ceases to be a relevant dependant of the member;”.

Payment

5

8 In section 226(4) (payment), for “or 126” substitute “, 126 or 151B”.

Interest

9 In section 233(1)(c) (interest on unpaid tax), for “or 126” substitute “, 126 or 151B”.

10

Interpretation

10 (1) Section 272 (general interpretation) is amended as follows.

(2) After the definition of “local authority” insert –

““member”, in relation to a registered pension scheme, has the same meaning as in Part 4 of the Finance Act 2004 (see section 151 of that Act);”.

15

(3) After the definition of “reversionary interest” insert –

““scheme administrator”, in relation to a registered pension scheme, has the same meaning as in Part 4 of the Finance Act 2004 (see sections 270 to 274 of that Act);”.

20

Rates of tax

11 In Schedule 2 (provisions applying on reduction of tax), after paragraph 6 insert –

25

“Relevant dependant with pension fund inherited from member over 75

6A Where tax is chargeable under section 151B of this Act on an occasion after a reduction and the rate or rates at which it is charged fall to be determined by reference to the death of a person which occurred before that reduction (or before that and one or more other reductions) that section applies as if the Table in Schedule 1 as substituted by that reduction (or by the most recent of those reductions) had been in force at the time of that person’s death.”

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Transitional

12 The reference in section 12(2A) of IHTA 1984 (inserted by paragraph 2) to a member of a registered pension scheme having omitted to exercise pension rights under the pension scheme includes an omission before 6th April 2006 in relation to a pension scheme which on that date becomes a registered pension scheme.

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SCHEDULE 23

Section 161

PENSION SCHEMES ETC: MISCELLANEOUS

Introduction

1 Part 4 of FA 2004 (pension schemes etc) is amended as follows.

5

Meaning of “pension credit member” etc: person dying before discharge of liability

2 In section 151(5) (pension credit members), insert at the end “; and, if a person dies having become entitled to pension credits but without having rights attributable to them, the person is to be treated as having acquired, immediately before death, the rights by virtue of which the liability in respect of the pension credits is subsequently discharged.”

10

Unauthorised payments: former members and sponsoring employers etc

3 (1) Section 160 (payments by registered pension schemes) is amended as follows.

15

(2) In subsection (1), before “member” insert “person who is or has been a”.

(3) In subsection (2) –

(a) in paragraphs (a) and (b), before “member” insert “person who is or has been a”, and

(b) in paragraph (b), for “section 172, 173 or 174” substitute “this Part”.

(4) In subsections (3) and (4)(a) and (b), before “sponsoring” insert “person who is or has been a”.

20

4 (1) Section 161 (meaning of “payment” etc) is amended as follows.

(2) In subsection (5) –

(a) before “member”, in the first, third and last places, insert “person who is or has been a”, and

(b) for “a member at the date of the member’s” substitute “such a person at the date of the person’s”.

25

(3) In subsections (6) and (7) –

(a) before “member”, in the first and last places, insert “person who is or has been a”, and

(b) for “a member at the date of the member’s” substitute “such a person at the date of the person’s”.

5 In section 162(3) and (4) (meaning of “loan”) –

30

(a) before “member”, in the first, second and last places, insert “person who is or has been a”, and

(b) for “a member or sponsoring employer of the pension scheme” substitute “such a person”.

6 In section 164 (authorised member payments) –

(a) before “member” insert “person who is or has been a”,

35

(b) in paragraph (a), after “benefit rules” insert “to be paid to or in respect of a member”, and

- (c) in paragraph (b), after “benefit rule” insert “to be paid to or in respect of a member”.
- 7 In section 171(1) and (4) (scheme administration member payments), before “member” insert “person who is or has been a”.
- 8 (1) Section 173 (benefits) is amended as follows. 5
- (2) In subsection (1) –
- (a) before “member”, in the first place, insert “person who is or has been a”,
- (b) for “member”, in the second place, substitute “person”, and 10
- (c) for “member’s” substitute “person’s”.
- (3) In subsection (3) –
- (a) for “member”, in the first place, substitute “person”, and
- (b) for “member’s” substitute “person’s”.
- (4) In subsection (4) – 15
- (a) before “member”, in the first place, insert “person who is or has been a”, and
- (b) for “member’s”, in each place, substitute “person’s”.
- (5) In subsection (7)(b) –
- (a) for “member’s”, in both places, substitute “person’s”, and 20
- (b) for “member”, in the first place, substitute “person”.
- (6) In subsection (9)(a), before “member” insert “person who is or has been a”.
- 9 (1) Section 174 (value shifting) is amended as follows.
- (2) In subsection (1) – 25
- (a) before “member”, in the first place, insert “person who is or has been a”, and
- (b) for “member”, in each other place, substitute “person”.
- (3) In subsection (2) –
- (a) for “member’s” substitute “person’s”, and 30
- (b) for “member”, in both places, substitute “person”.
- 10 In section 175 (authorised employer payments), before “sponsoring” insert “person who is or has been a”.
- 11 In section 179(1), (5) and (6) (authorised employer loan), before “sponsoring” insert “person who is or has been a”. 35
- 12 In section 180(1) and (4) (scheme administration employer payments), before “sponsoring” insert “person who is or has been a”.
- 13 In section 181(1) (value shifting) –
- (a) before “sponsoring employer”, in the first place, insert “person who is or has been a”, and 40
- (b) for “sponsoring employer”, in each other place, substitute “person”.
- 14 In section 208(2) (unauthorised payments charge) –

- (a) in paragraph (a), for the words after “member payment” substitute “made to or in respect of a person before the person’s death, is the person,”,
- (b) in paragraph (b), for “after the member’s” substitute “in respect of a person after the person’s”, and
- (c) in paragraph (c), for “sponsoring employer” substitute “person”. 5
- 15 In section 209(3) (unauthorised payments surcharge) –
- (a) in paragraph (a), for the words after “member payment” substitute “made to or in respect of a person before the person’s death, is the person,”,
- (b) in paragraph (b), for “after the member’s” substitute “in respect of a person after the person’s”, and 10
- (c) in paragraph (c), for “sponsoring employer” substitute “person”.
- 16 (1) Section 210 (surchargeable unauthorised member payments) is amended as follows.
- (2) In subsection (1), for “in respect of an arrangement relating to a member under” substitute “to or in respect of a person who is or has been a member of”. 15
- (3) In subsections (2), (4), (5) and (8), for “in respect of the arrangement” substitute “to or in respect of the person”.
- (4) In subsection (9), in the definition of “VR”, for the words after “equal to the” substitute “aggregate of the value of the member’s rights under arrangements relating to the member under the pension scheme when the unauthorised payment is made (or, if the unauthorised member payment is made after the member has died or has otherwise ceased to be a member of the pension scheme, at the date when the member died or otherwise ceased to be a member).” 20
- (5) In subsection (10), for “the arrangement on that” substitute “an arrangement on any”. 25
- 17 In section 211(1) (valuation of crystallised rights), for “the arrangement”, in the first place, substitute “an arrangement”. 30
- 18 In section 212(3) (valuation of uncrystallised rights), for “the arrangement”, in the first place, substitute “an arrangement”.
- 19 (1) Section 213 (surchargeable unauthorised employer payments) is amended as follows.
- (2) In subsection (1), before “sponsoring” insert “person who is or has been a”. 35
- (3) In subsections (2), (4), (5) and (8), for “employer” substitute “person”.
- “Bridging” pensions*
- 20 (1) Paragraph 2 of Schedule 28 (scheme pension) is amended as follows. 40
- (2) In sub-paragraph (4), for paragraph (c) substitute –
- “(c) a reduction in the rate of the pension, taking effect at a time not earlier than when the member reaches the age of 60 and not later than when the member reaches the age of 65, which does not exceed the relevant state retirement

pension rate at that time (or the pension ceasing to be payable at such a time if at that time that rate is greater than the rate of the pension),”.

(3) For sub-paragraph (5) substitute –

“(5) For the purposes of sub-paragraph (4)(c) “the relevant state retirement pension rate” at any time – 5

(a) where no employment of the member to which the pension scheme relates is or has been other than contracted-out employment by reference to the pension scheme, is 125% of the rate of the basic pension at that time or such higher percentage of that rate as the Treasury may by regulations prescribe, 10

(b) where no such employment of the member is or has been contracted-out employment by reference to the pension scheme, is 250% of the rate of the basic pension at that time or such higher percentage of that rate as the Treasury may by regulations prescribe, and

(c) otherwise, is such percentage of the rate of the basic pension at that time falling between the percentages for the time being specified under or by virtue of paragraphs (a) and (b) as the Treasury by regulations prescribe; 15

and regulations under paragraph (c) may prescribe different percentages for different cases.

(5A) For the purposes of sub-paragraph (5) – 20

(a) for the meaning of “contracted-out employment” see section 8(1) of the Pension Schemes Act 1993 or section 4(1) of the Pension Schemes (Northern Ireland) Act 1993, and

(b) “the basic pension” means the basic pension specified in section 44 of SSCBA 1992 or section 44 of SSCB(NI)A 1992.” 25

(4) In sub-paragraph (8), for “(4)(e) and (h)” substitute “(4)(e) or (h) or (5)”.

21 In paragraph 1(4)(a) of Schedule 29 (pension commencement lump sum: excluded lump sum), for “when the member becomes entitled to state retirement pension” substitute “at a time not earlier than when the member reaches the age of 60 and not later than when the member reaches the age of 65”. 30

Pension commencement lump sum: scheme pensions under money purchase arrangements

22 (1) Paragraph 3 of Schedule 29 (pension commencement lump sum: applicable amount) is amended as follows. 35

(2) In sub-paragraph (6), after “pension” insert “under a defined benefits arrangement”.

(3) After sub-paragraph (7) insert – 40

“(7A) Where the member becomes entitled to a scheme pension under a money purchase arrangement, the applicable amount is one third of the scheme pension purchase price.

(7B) “The scheme pension purchase price” is the aggregate of – 45

- (a) the amount of such of the sums held for the purposes of the pension scheme, and
- (b) the market value of such of the assets held for the purposes of the pension scheme,
- as are applied in (or in connection with) the purchase or provision of the scheme pension and any related dependants' scheme pension, but subject to sub-paragraph (8). 5
- (7C) For the purposes of this Part a dependants' scheme pension is related to a scheme pension payable to a member of a registered pension scheme if –
- (a) the day on which one is purchased or sums or assets are applied for its provision is no earlier than seven days before, and no later than seven days after, the day on which the other is purchased or sums or assets are applied for its provision, and 10
- (b) the dependants' scheme pension will be payable to a dependant of the member.”
- (4) In sub-paragraph (8) – 15
- (a) after “crystallised”, in the first place, insert “or from the scheme pension purchase price”, and
- (b) after “crystallised”, in the second place, insert “or of the scheme pension purchase price”.
- (5) After that sub-paragraph insert – 20
- “(9) Sub-paragraph (10) applies if –
- (a) sums or assets held for the purposes of, or representing accrued rights under, a money purchase arrangement relating to the member under a registered pension scheme (“member money purchase funds”) are subject to a relevant surrender or a relevant transfer, 25
- (b) the sole or main purpose of the relevant surrender or relevant transfer is to increase the applicable amount on the member becoming entitled to a scheme pension, and 30
- (c) the member becomes entitled to a scheme pension under a relevant defined benefits arrangement.
- (10) The pension scheme under which the relevant defined benefits arrangement is an arrangement is to be treated as making an unauthorised payment to the member of any amount by which – 35
- (a) the applicable amount in relation to the scheme pension under sub-paragraph (6), exceeds
- (b) the amount which would be that applicable amount under sub-paragraph (7A) if the arrangement were a money purchase arrangement.
- (11) For the purposes of sub-paragraph (9) – 40
- (a) member money purchase funds are subject to a relevant surrender if they are surrendered and, in consequence of the surrender, there is a corresponding increase in the sums or assets held for the purposes of, or representing rights under, a defined benefits arrangement relating to 45

- the member under the pension scheme (or such an arrangement is established), and
- (b) member money purchase funds are subject to a relevant transfer if they are transferred so as to become held for the purposes of, or to represent rights under, a defined benefits arrangement relating to the member under any other registered pension scheme. 5
- (12) In sub-paragraphs (9) and (10) “relevant defined benefits arrangement” means –
- (a) the defined benefits arrangement mentioned in paragraph (a) or (b) of sub-paragraph (11), or 10
- (b) any other defined benefits arrangement relating to the member (under the pension scheme or any other registered pension scheme) in the case of which any of the sums or assets held for the purposes of, or representing accrued rights under, the arrangement directly or indirectly represent sums or assets previously held for the purposes of, or representing accrued rights under, the defined benefits arrangement so mentioned.” 15
- 23 (1) Paragraph 2 of that Schedule (the permitted maximum) is amended as follows. 20
- (2) In sub-paragraph (6), in the definition of AAC, for “amounts crystallised by” substitute “relevant amount in the case of”.
- (3) After that sub-paragraph insert – 25
- “(6A) Subject to sub-paragraph (6B), the relevant amount in the case of a benefit crystallisation event is the amount crystallised by it.
- (6B) If the benefit crystallisation event is becoming entitled to a scheme pension under a money purchase arrangement, the relevant amount in the case of the benefit crystallisation event is the aggregate of – 30
- (a) the amount of such of the sums held for the purposes of the pension scheme, and
- (b) the market value of such of the assets held for the purposes of the pension scheme, 35
- as are applied in (or in connection with) the purchase or provision of the scheme pension and any related dependants’ scheme pension.”
- (4) In sub-paragraph (7), for “an amount crystallised by” substitute “the relevant amount in the case of”. 40
- 24 (1) Paragraph 29 of Schedule 36 (transitional provisions: applicable amount in cases of enhanced protection) is amended as follows.
- (2) In sub-paragraph (3), for “(7)” substitute “(7A)”.
- (3) In the sub-paragraph (6) of paragraph 3 of Schedule 29 substituted by sub-paragraph (3), after “pension” insert “under a defined benefits arrangement”. 45
- (4) After the sub-paragraph (7) of that paragraph so substituted insert –

- “(7A) Where the member becomes entitled to a scheme pension under a money purchase arrangement, the applicable amount is (subject to sub-paragraph (8)) –
- $$\frac{\text{VULSR}}{\text{VUR}} \times (\text{LS} + \text{SPPP})$$
- 5
- where –
- VULSR, VUR and LS have the same meaning as in sub-paragraph (1), and
- SPPP is the scheme pension purchase price.”
- 25 (1) Paragraph 34 of that Schedule (transitional provisions: entitlement to lump sums exceeding 25% of uncrystallised rights) is amended as follows. 10
- (2) In the sub-paragraph (7A) of paragraph 2 of Schedule 29 substituted by sub-paragraph (2), in the definition of AC, for “sub-paragraph (7B)” substitute “sub-paragraphs (7AA) and (7B)”.
- (3) After that substituted sub-paragraph insert – 15
- “(7AA) Where the pension in connection with which the lump sum is paid is a scheme pension under a money purchase arrangement, AC is the scheme pension purchase price, as it would be defined by paragraph 3 if the words “but subject to sub-paragraph (8)” in sub-paragraph (7A) and sub-paragraph (8) were omitted.”
- (4) In the sub-paragraph (7B) so substituted, for “the lump sum and the amount crystallised” substitute “what would otherwise be LS or AC”. 20
- (5) In sub-paragraph (3), insert at the end “(but without prejudice to its operation for the purposes of paragraph 2(7AA) of Schedule 29 as inserted by sub-paragraph (2)).”
- 26 In section 280(2) (general index), after the entry relating to “related dependants’ annuity” insert – 25
- “related dependants’ scheme paragraph 3(7C) of Schedule 29”.
pension
- 30
- Refund of excess contributions lump sum: excess relief at source*
- 27 (1) Paragraph 6 of Schedule 29 (refund of excess contributions lump sum) is amended as follows.
- (2) In sub-paragraphs (4) and (5), after “year is” insert “(subject to sub-paragraph (7))”. 35
- (3) After sub-paragraph (6) insert –
- “(7) If any relief given in accordance with section 192(1) in relation to any contribution included in RPC is in excess of the maximum amount of relief to which the member is entitled under section 190, RPC is to be taken to be reduced by the amount of that excess.” 40

Annuity protection lump sum death benefit: benefits from unsecured pension fund

- 28 In paragraph 16(3) of Schedule 29 (annuity protection lump sum death benefit: annuity protection limit), in the definition of AC, insert at the end “, but disregarding paragraphs 3 and 4 of Schedule 32,”.

Benefit crystallisation events: reaching 75 after designation for unsecured pension

- 29 In section 216(1) (benefit crystallisation events and amounts crystallised), in the table, after the entry relating to benefit crystallisation event 5, insert – 5

“5A. The individual reaching the age of 75 having designated sums or assets held for the purposes of a money purchase arrangement under any of the relevant pension schemes as available for the payment of unsecured pension to the individual	The aggregate of the amount of the sums and the market value of the assets representing the individual’s unsecured pension fund under the arrangement less the aggregate of amounts crystallised by benefit crystallisation event 1 in relation to the arrangement and the individual”.	10
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Availability of individual’s lifetime allowance: previous benefit crystallisation events 15

- 30 (1) Section 219 (availability of individual’s lifetime allowance) is amended as follows.
- (2) In subsection (4) (previously-used amount) –
- (a) in paragraph (a), for “crystallised by” substitute “which is the relevant untaxed amount in relation to”, and
 - (b) in paragraph (b), for “crystallised by” substitute “which are the relevant untaxed amounts in relation to”. 20
- (3) After that subsection insert –
- “(4A) “The relevant untaxed amount”, in relation to a previous benefit crystallisation event, is – 25
- (a) where no tax was charged in relation to the benefit crystallisation event, the amount in respect of which tax would have been so charged if none of the individual’s lifetime allowance had been available, and
 - (b) where tax was charged in relation to the benefit crystallisation event, so much of the amount in respect of which tax would have been so charged if none of the individual’s lifetime allowance had been available as exceeds the amount in respect of which tax was so charged.” 30
- (4) In subsection (5), for “amount crystallised by” substitute “relevant untaxed amount in relation to”.

Overseas pension schemes: extension of migrant member relief 35

- 31 (1) Paragraph 4 of Schedule 33 (meaning of “relevant migrant member”) is amended as follows.

- (2) The existing provision becomes sub-paragraph (1).
- (3) After that provision insert –
- “(2) The Commissioners for Her Majesty’s Revenue and Customs may by regulations provide that, in circumstances prescribed by the regulations, paragraphs (a), (b) and (c) of sub-paragraph (1) have effect as if the references in those paragraphs to the pension scheme were to either the pension scheme or such other pension scheme as is prescribed by the regulations. 5
- (3) Regulations under sub-paragraph (2) may include provision having effect in relation to times before they are made.” 10

Abatement

- 32 In section 279(1) (definitions), in the definition of “abatement” –
- (a) after “scheme pension” insert “to which a person has become entitled”, and 15
- (b) for “re-employment” substitute “the person’s employment”.

Amendments and transitionals

- 33 (1) Section 281 (minor and consequential amendments) is amended as follows.
- (2) After subsection (2) insert – 20
- “(2A) The Treasury may by order make in any relevant enactment such amendments (including repeals and revocations) as may appear appropriate in consequence of, or otherwise in connection with, any amendment (or repeal or revocation) made in this Part by any enactment contained in an Act passed after this Act (an “amending Act”). 25
- (2B) For this purpose a relevant enactment is –
- (a) an enactment contained in an Act passed, or
- (b) an instrument made,
- before the passing of the amending Act or in the Session in which the amending Act is passed.” 30
- (3) In subsection (3), after “(2)” insert “or (2A)”.
- (4) After that subsection insert –
- “(4) An order under subsection (2) or (2A) may include provision having effect in relation to times before it is made if it does not increase any person’s liability to tax.”
- 34 (1) Section 283 (transitionals and savings) is amended as follows. 35
- (2) After subsection (3) insert –
- “(3A) The Treasury may by order make any transitional provision which may appear appropriate in consequence of, or otherwise in connection with, any amendment (or repeal or revocation) made in this Part by any enactment contained in an Act passed after this Act (an “amending Act”). 40

(3B) An order under subsection (3A) may, in particular, include savings from the effect of any amendment (or repeal or revocation) made by the amending Act.

(3C) An order under subsection (2) or (3A) may include provision having effect in relation to times before it is made if it does not increase any person’s liability to tax.”

5

(3) In subsections (4) and (5), after “(2)” insert “or (3A)”.

Transitional provision: uncrystallised rights under paragraph 9 to include separate lump sums

35 (1) Paragraph 9 of Schedule 36 (uncrystallised rights under arrangement under pension scheme within paragraph 1(1)(a) to (d)) is amended as follows.

10

(2) In sub-paragraph (3), insert at the end “as increased, in a case where sub-paragraph (5A) applies, in accordance with sub-paragraph (5B).”

(3) After sub-paragraph (5) insert –

“(5A) This sub-paragraph applies where, in the case of an arrangement under a pension scheme which immediately before 6th April 2006 was within section 611A(1)(a) of ICTA –

15

(a) a lump sum could be paid to the individual on 5th April 2006 under the pension scheme otherwise than by commutation of pension, and

(b) that lump sum could not be exchanged (in whole or in part) for an increased pension.

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(5B) Where sub-paragraph (5A) applies, the amount arrived at under sub-paragraph (3) is the aggregate of what it otherwise would be and so much of the amount of the lump sum as could not be so exchanged.”

Transitional protection: taking account of death benefits

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

37 After paragraph 11 insert –

“11A(1) This paragraph applies where –

(a) paragraph 7 makes provision for the operation of a lifetime allowance enhancement factor in relation to an individual immediately before the individual’s death (and any calculation required by paragraph 11 does not mean that there is then no longer a primary protection factor),

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(b) a person is paid a defined benefits lump sum death benefit or an uncrystallised funds lump sum death benefit in respect of the individual, and

35

(c) notice of intention to rely on this paragraph is given to an officer of Revenue and Customs by that person in accordance with regulations made by the Commissioners for Her Majesty’s Revenue and Customs.

40

(2) If the value of the individual’s pre-commencement rights to death benefits (see paragraphs 11B to 11D) exceeds RR (as adjusted

- under paragraph 11, where that paragraph applies), the primary protection factor is to be recalculated.
- (3) The re-calculation involves taking RR to be the value of the individual's pre-commencement rights to death benefits and arriving at a revised primary protection factor.
- (4) The revised primary protection factor operates in relation to— 5
- (a) the benefit crystallisation event consisting of the payment of the lump sum death benefit, and
 - (b) any other benefit crystallisation event consisting of the payment of a lump sum death benefit in respect of the individual. 10
- 11B (1) This paragraph and paragraphs 11C and 11D specify the value of the individual's pre-commencement rights to death benefits.
- (2) Subject to paragraphs 11C and 11D, the value of the individual's pre-commencement rights to death benefits is the aggregate of the maximum amounts that could have been paid— 15
- (a) in respect of the individual as uncrystallised rights lump sum death benefits, and
 - (b) under relevant pension arrangements relating to the individual, 20
- if the individual had died on 5th April 2006.
- (3) Lump sum death benefits are “uncrystallised rights lump sum death benefits” if they are attributable to rights in respect of which the individual had not, on 5th April 2006, become entitled to the present payment of benefits. 25
- (4) An arrangement is a “relevant pension arrangement” if it is an arrangement under a pension scheme within paragraph 1(1).
- 11C (1) In arriving at the aggregate mentioned in paragraph 11B(2) the following amounts are to be left out of account—
- (a) in the case of any lump sum death benefit which could have been paid under a pension scheme in the case of which approval could have been withdrawn under section 591B, 620(7) or 650 of ICTA, any amount in excess of the permitted limit (see sub-paragraph (2)), and 30
 - (b) in the case of any lump sum death benefit which could have been paid under an arrangement in the case of which rights to such a benefit are commuted into prospective rights to receive dependants' pensions, any dependants' pension proportion amount (see sub-paragraphs (3) and (4)). 35
- (2) An “amount in excess of the permitted limit” is so much (if any) of the maximum amount of any lump sum death benefit as could not have been paid without having given grounds for withdrawing approval of the pension scheme under section 591B, 620(7) or 650 of ICTA. 40
- (3) A “dependants' pension proportion amount” is so much (if any) of the maximum amount of any lump sum death benefit which could 45

have been paid under the arrangement as is the dependants' pension proportion of the lump sum death benefit.

- (4) The dependants' pension proportion is –

$$\frac{UTA - TA}{UTA}$$

5

where –

TA is the amount which, at the time when a defined benefits lump sum death benefit or uncrystallised funds lump sum death benefit is first paid in respect of the individual, is the aggregate of the maximum amounts of any defined benefits lump sum death benefits or uncrystallised funds lump sum death benefits which could be paid under the arrangement in respect of the individual, and

10

UTA is what TA would be if no prospective rights to the payment of any of those lump sum death benefits had been commuted into prospective rights to receive dependants' pensions.

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- 11D (1) Sub-paragraph (2) applies where any of the lump sum death benefits mentioned in sub-paragraph (2) of paragraph 11B would have been payable under a policy of life insurance held for the purposes of a pension scheme and on 5th April 2006 the pension scheme either –

20

- (a) was not an occupational pension scheme, or
- (b) was an occupational pension scheme with fewer than 20 members.

- (2) The lump sum death benefit is only to be taken into account in arriving at the aggregate mentioned in that sub-paragraph if –

25

- (a) a sum was paid under the policy when the individual actually died, and
- (b) the terms of the policy had not been varied significantly during the period beginning with 5th April 2006 and ending with the death;

30

and any exercise of rights conferred by the policy is to be regarded for this purpose as a variation.

- (3) Sub-paragraph (4) applies where any of the lump sum death benefits mentioned in sub-paragraph (2) of paragraph 11B would have been payable under an occupational pension scheme.

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- (4) The lump sum death benefit is only to be taken into account in arriving at the aggregate mentioned in that sub-paragraph if –

40

- (a) the individual was employed by a person on 5th April 2006 and continued to be employed by that person or a person connected with that person until the time when the individual died,
- (b) that person was a sponsoring employer in relation to the pension scheme on 5th April 2006, and
- (c) the individual had not become entitled to the present payment of benefits in respect of rights under the pension scheme before the time when the individual died.

45

- (5) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph.”
- 38 In paragraph 14 (enhanced protection: relevant contributions), after sub-paragraph (2) insert – 5
- “(3) A contribution is not a relevant contribution for the purposes of paragraph 13(a) if –
- (a) it may only be applied for or towards the payment of premiums under a policy of insurance on the life of the individual,
- (b) the policy is issued, or issued in respect of insurances made, before 6th April 2006, 10
- (c) there is no right to surrender any rights under the policy,
- (d) the terms of the policy are not varied significantly during the period beginning with 6th April 2006 and ending with the individual’s actual death so as to increase the benefits payable under the policy or extend the period during which benefits are so payable, and 15
- (e) no benefits are paid, or other payments made, under (or on the surrender of rights under) the policy except by reason of the individual’s death; 20
- and any exercise of rights conferred by the policy is to be regarded for this purpose as a variation.
- (4) A contribution is not a relevant contribution for the purposes of paragraph 13(a) if it is paid –
- (a) by a sponsoring employer, 25
- (b) under a relevant hybrid arrangement, and
- (c) solely in respect of the provision in respect of the individual of lump sum death benefits which are defined benefits or cash balance benefits.
- (5) A “relevant hybrid arrangement” is a hybrid arrangement under an occupational pension scheme – 30
- (a) which subsequently becomes a money purchase arrangement that is not a cash balance arrangement, and
- (b) under which lump sum death benefits would have been payable in respect of the individual if the individual had died on 5th April 2006.” 35
- 39 (1) Paragraph 15 (enhanced protection: “the relevant crystallised amount”) is amended as follows.
- (2) In sub-paragraph (3), for “paragraph 16” substitute “paragraphs 15A and 16”. 40
- (3) In sub-paragraph (4), for “is the greater” substitute “is (subject to paragraph 15A) the greater”.
- (4) In sub-paragraph (5), after “(4)(a)” insert “and paragraph 15A(2)(a)”. 45
- (5) In sub-paragraph (6), after “(4)(b)” insert “and paragraph 15A(2)(b)”.
- 40 After that paragraph insert –
- “15A(1) This paragraph applies where –

- (a) a person is paid a defined benefits lump sum death benefit or an uncrystallised funds lump sum death benefit in respect of the individual under the arrangement, and
 - (b) notice of intention to rely on this paragraph is given to an officer of Revenue and Customs by that person in accordance with regulations made by the Commissioners for Her Majesty’s Revenue and Customs. 5
- (2) For the purposes of paragraph 13(b), if the amount yielded by sub-paragraph (3) is greater than what would otherwise be the appropriate limit in relation to a relevant event which consists of – 10
 - (a) the payment of the lump sum death benefit, or
 - (b) the payment of any other lump sum death benefit in respect of the individual under the arrangement or another cash balance arrangement or defined benefits arrangement related to the arrangement,that greater amount is the appropriate limit in relation to such a relevant event. 15
- (3) The amount yielded by this sub-paragraph is the greater of –
 - (a) the value of the individual’s pre-commencement rights to death benefits, as increased by the relevant indexation percentage (see sub-paragraph (5) of paragraph 15), or
 - (b) what would be the value of the individual’s pre-commencement rights to death benefits on the assumptions specified in sub-paragraph (6) of that paragraph (but subject to the modifications in sub-paragraph (7) of this paragraph). 20
- (4) The value of the individual’s pre-commencement rights to death benefits is the aggregate of the maximum amounts that could have been paid in respect of the individual as uncrystallised rights lump sum death benefits under – 25
 - (a) the arrangement, or
 - (b) any other cash balance arrangement or defined benefits arrangement related to the arrangement, 30if the individual had died on 5th April 2006.
- (5) Lump sum death benefits are “uncrystallised rights lump sum death benefits” if they are attributable to rights in respect of which the individual had not, on 5th April 2006, become entitled to the present payment of benefits. 35
- (6) Paragraphs 11C and 11D apply in arriving at the aggregate mentioned in sub-paragraph (4) as in arriving at that mentioned in paragraph 11B(2) but as if – 40
 - (a) each of the references to paragraph 11B(2) were to sub-paragraph (4) of this paragraph, and
 - (b) in paragraph 11D(1), for “of a pension scheme” there were substituted “of any arrangement within paragraph 15A(4) under a pension scheme”.
- (7) In their operation for the purposes of this paragraph sub-paragraphs (6) to (11) of paragraph 15 have effect as if – 45

- (a) for the references in sub-paragraphs (6)(a) and (7)(a) and (10) to the time of the first relevant event there were substituted a reference to the time immediately before the individual's death, and
- (b) the words in parentheses in sub-paragraph (6)(a) were omitted.” 5

Transitional protection: right to take benefits before normal pension age

- 41 (1) Paragraph 22 of Schedule 36 (right to take benefits before normal minimum pension age: schemes within paragraph 1(1)(a) to (e) of Schedule 36) is amended as follows. 10
- (2) In sub-paragraph (7), for paragraph (b) substitute –
- “(b) in a case where on 5th April 2006 the member had an actual or prospective right under the pension scheme to any benefit from an age of less than 50, Condition 1 is met or, in any other case, Condition 2 or 3 is met.” 15
- (3) After that sub-paragraph insert –
- “(7A) Condition 1 is met if –
 - (a) the member is not, after becoming entitled to the benefits mentioned in sub-paragraph (7)(a), employed by a person who is a sponsoring employer in relation to the pension scheme and with whom the member is connected, and 20
 - (b) the member's becoming entitled to those benefits is not part of an arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions. 25
 - (7B) Condition 2 is met if –
 - (a) the member is not, after becoming entitled to the benefits mentioned in sub-paragraph (7)(a), employed by a person specified in sub-paragraph (7C), and 30
 - (b) the member's becoming entitled to those benefits is not part of an arrangement the main purpose (or one of the main purposes) of which is the avoidance of tax or national insurance contributions.
 - (7C) The persons referred to in sub-paragraph (7B)(a) are – 35
 - (a) any person who was a sponsoring employer in relation to the pension scheme at any time during the period of six months ending with the day on which the member became entitled to the benefits mentioned in sub-paragraph (7)(a) and by whom the member was employed at any time during that period,
 - (b) any person who is connected with any such person, or 40
 - (c) any person who is a sponsoring employer in relation to the pension scheme and with whom the member is connected.
 - (7D) If the member has become entitled to the benefits payable under arrangements under the pension scheme by reason of service in the armed forces of the Crown, any employment on compulsory recall is to be disregarded for the purposes of sub-paragraph (7B)(a). 45

- (7E) Condition 3 is met if –
- (a) paragraph (a) of sub-paragraph (7B) is not satisfied but one of the re-employment conditions is met, and
 - (b) paragraph (b) of that sub-paragraph is satisfied. 5
- (7F) The re-employment conditions are –
- (a) that the member is not employed as mentioned in sub-paragraph (7B)(a) during the period of six months beginning with the day on which the member becomes entitled to the benefits mentioned in sub-paragraph (7)(a), and 10
 - (b) that the member is not employed as mentioned in sub-paragraph (7B)(a) during the period of one month beginning with that day, but is so employed during the period of five months beginning at the end of that period, and either the pension abatement condition or the materially different employment condition is met. 15
- (7G) The pension abatement condition is met if –
- (a) the pension scheme is a public service pension scheme, and
 - (b) the member’s benefits under the scheme consist of or include a scheme pension which is liable to reduction by abatement while the member is employed as mentioned in sub-paragraph (7B)(a) and is under the age of 55. 20
- (7H) The materially different employment condition is met –
- (a) in a case where the member is employed as mentioned in sub-paragraph (7B)(a) in more than one employment during the period of five months mentioned in sub-paragraph (7F)(b), if each of those employments, and 25
 - (b) otherwise, if the employment in which the member is so employed during that period, 30
- is materially different in nature from the employment in which the member was employed immediately before becoming entitled to the benefits mentioned in sub-paragraph (7)(a).
- (7I) For the purposes of sub-paragraph (7D) “employment on compulsory recall” means permanent service – 35
- (a) under Part 4 of the Reserve Forces Act 1996,
 - (b) under Part 5 of that Act,
 - (c) under a call-out or recall order made under that Act,
 - (d) having been called out or recalled under the Reserve Forces Act 1980, or 40
 - (e) because of any other call-out or recall obligation of an officer.
- (7J) Section 839 of ICTA (connected persons) applies for the purposes of this paragraph.” 45

Transitional provisions: minor corrections

42 Schedule 36 (transitional provisions) is amended as follows.

- | | | |
|----|--|---|
| 43 | In paragraphs 9(4)(a) and 26(3)(a) (primary protection: maximum permitted pension and maximum permitted lump sum), for “611(1)(a)” substitute “611A(1)(a)”. | |
| 44 | In paragraph 54(1)(b) (benefits taxable under Chapter 2 of Part 6 of ITEPA 2003 where contributions taxed pre-commencement: old schemes), for “1st September 1993” substitute “1st December 1993”. | 5 |

SCHEDULE 24

Section 163

10

STAMP DUTY LAND TAX: AMENDMENTS OF SCHEDULE 15 TO FA 2003

Introduction

- | | | |
|---|---|----|
| 1 | Schedule 15 to FA 2003 (stamp duty land tax: partnerships) is amended as follows. | 15 |
|---|---|----|

Transfer of chargeable interest to a partnership

- | | | |
|---|--|----|
| 2 | (1) In paragraph 10 (transfer of chargeable interest to a partnership: general), for sub-paragraphs (2) to (4) substitute –
“(2) The chargeable consideration for the transaction shall (subject to paragraph 13) be taken to be equal to – | 20 |
|---|--|----|

$$MV \times (100 - SLP)\%$$

where –

MV is the market value of the interest transferred, and	25
SLP is the sum of the lower proportions.”	

- | | | |
|-----|---|----|
| (2) | In sub-paragraph (6) of that paragraph, omit “(instead of sub-paragraphs (2) to (5))”. | |
| 3 | In paragraph 11 (transfer of chargeable interest to a partnership: chargeable consideration including rent), for sub-paragraphs (2) to (7) substitute –
“(2) Schedule 5 (amount of tax chargeable: rent) has effect with the modifications set out in sub-paragraphs (2A) to (2C).
(2A) In paragraph 2 –
(a) for “the net present value of the rent payable over the term of the lease” substitute “the relevant chargeable proportion of the net present value of the rent payable over the term of the lease”, and
(b) for “the net present values of the rent payable over the terms of all the leases” substitute “the relevant chargeable proportions of the net present values of the rent payable over the terms of all the leases”. | 30 |
| | (2B) In paragraph 9(2A) –
(a) for “the annual rent” substitute “the relevant chargeable proportion of the annual rent”, and | 35 |

- (b) for “the total of the annual rents” substitute “the relevant chargeable proportion of the total of the annual rents”.
- (2C) For paragraph 9(4) substitute –
- “ (4) Tax chargeable under this Schedule is in addition to any tax chargeable under section 55 as it has effect by virtue of paragraph 10 of Schedule 15.” 5
- (2D) For the purposes of sub-paragraphs (2A) and (2B) the relevant chargeable proportion is –
- (100 – SLP)% 10
- where SLP is the sum of the lower proportions.”
- 4 (1) In paragraph 13 (transfer of chargeable interest to a partnership consisting wholly of bodies corporate), in sub-paragraph (3), for “sub-paragraphs (2) to (5)” substitute “sub-paragraphs (2) and (5)”. 15
- (2) For sub-paragraphs (4) to (7) of that paragraph substitute –
- “ (4A) In paragraph 11(2), for “sub-paragraphs (2) to (2C)” substitute “sub-paragraph (2C)”. 20
- (5) In paragraph 11, omit sub-paragraphs (2A), (2B), (2D) and (8).”
- Transfer of chargeable interest from a partnership*
- 5 (1) In paragraph 18 (transfer of chargeable interest from a partnership: general), for sub-paragraphs (2) to (4) substitute –
- “ (2) The chargeable consideration for the transaction shall (subject to paragraph 24) be taken to be equal to –
- $MV \times (100 - SLP)\%$
- where –
- MV is the market value of the interest transferred, and
SLP is the sum of the lower proportions.” 30
- (2) In sub-paragraph (6) of that paragraph, omit “(instead of sub-paragraphs (2) to (5))”.
- 6 In paragraph 19 (transfer of chargeable interest from a partnership: chargeable consideration including rent), for sub-paragraphs (2) to (7) substitute –
- “ (2) Schedule 5 (amount of tax chargeable: rent) has effect with the modifications set out in sub-paragraphs (2A) to (2C). 35
- (2A) In paragraph 2 –
- (a) for “the net present value of the rent payable over the term of the lease” substitute “the relevant chargeable proportion of the net present value of the rent payable over the term of the lease”, and
- (b) for “the net present values of the rent payable over the terms of all the leases” substitute “the relevant chargeable

proportions of the net present values of the rent payable over the terms of all the leases”.

- (2B) In paragraph 9(2A) –
- (a) for “the annual rent” substitute “the relevant chargeable proportion of the annual rent”, and
 - (b) for “the total of the annual rents” substitute “the relevant chargeable proportion of the total of the annual rents”. 5

- (2C) For paragraph 9(4) substitute –
- “(4) Tax chargeable under this Schedule is in addition to any tax chargeable under section 55 as it has effect by virtue of paragraph 18 of Schedule 15.”.

- (2D) For the purposes of sub-paragraphs (2A) and (2B) the relevant chargeable proportion is – 10

$$(100 - \text{SLP})\%$$

where SLP is the sum of the lower proportions.” 15

- 7 (1) In paragraph 24 (transfer of chargeable interest from a partnership consisting wholly of bodies corporate), in sub-paragraph (3), for “sub-paragraphs (2) to (5)” substitute “sub-paragraphs (2) and (5)”.

- (2) For sub-paragraphs (4) to (8) of that paragraph substitute – 20

“(4A) In paragraph 19(2), for “sub-paragraphs (2) to (2C)” substitute “sub-paragraph (2C)”.

(5) In paragraph 19, omit sub-paragraphs (2A), (2B), (2D) and (8).”

Transfer of chargeable interest from a partnership to a partnership 25

- 8 In paragraph 23 (transfer of chargeable interest from a partnership to a partnership), for sub-paragraphs (2) and (3) substitute –

“(2) Paragraphs 10(2) and 18(2) do not apply.

- (2A) The chargeable consideration for the transaction shall be taken to be what it would have been if paragraph 10(2) had applied or, if greater, what it would have been if paragraph 18(2) had applied. 30

(3) Where the whole or part of the chargeable consideration for the transaction is rent –

- (a) paragraphs 11 and 19 do not apply;
- (b) the tax chargeable in respect of so much of the chargeable consideration as consists of rent shall be taken to be what it would have been if paragraph 11 had applied or, if greater, what it would have been if paragraph 19 had applied; 35
- (c) the disapplication of the 0% band provided for by paragraph 9(2) of Schedule 5 has effect if –
 - (i) it would have had effect if paragraph 11(2B) of this Schedule had applied, or 40

- (ii) it would have had effect if paragraph 19(2B) of this Schedule had applied.”

Transfer of partnership interest: restriction of charge to property-investment partnerships

- 9 (1) In paragraph 14 (transfer of partnership interest: consideration given and chargeable interest held), for the heading substitute – 5
“Transfer for consideration of interest in property-investment partnership”.
- (2) In sub-paragraph (1)(a) of that paragraph, before “partnership” insert “property-investment”.
- (3) After sub-paragraph (7) of that paragraph insert – 10
“(8) In this paragraph –
“property-investment partnership” means a partnership whose sole or main activity is investing or dealing in chargeable interests (whether or not that activity involves the carrying out of construction operations on the land in question); 15
“construction operations” has the same meaning as in Chapter 3 of Part 3 of the Finance Act 2004 (see section 74 of that Act).”

20

Prevention of double charge where money etc withdrawn from partnership

- 10 In paragraph 17A (withdrawal of money etc from partnership after transfer of chargeable interest), after sub-paragraph (7) insert –
“(8) Where – 25
(a) a qualifying event gives rise to a charge under this paragraph, and
(b) the same event gives rise to a charge under paragraph 14 (transfer for consideration of interest in property-investment partnership),
the amount of the charge under this paragraph is reduced (but not below nil) by the amount of the charge under that paragraph.”

Commencement

30

- 11 (1) Paragraphs 2 to 8 have effect in relation to any transfer of which the effective date is on or after the day on which this Act is passed.
- (2) Paragraph 9 has effect in relation to any transfer that has (or, but for the amendment made by that paragraph, would have) an effective date which is on or after that day. 35
- (3) Paragraph 10 has effect in relation to any qualifying event of which the effective date is on or after that day.
- (4) In this paragraph “effective date” has the same meaning as in Part 4 of FA 2003. 40

SCHEDULE 25

Section 164

STAMP DUTY LAND TAX: AMENDMENTS OF SCHEDULE 17A TO FA 2003

- Introduction* 5
- 1 Schedule 17A (stamp duty land tax: further provisions relating to leases) is amended as follows.
- Agricultural tenancies variable under statutory provisions*
- 2 (1) In paragraph 7 (variable or uncertain rent), after sub-paragraph (4) insert— 10
- “(4A) For the purposes of this paragraph and paragraph 8, the cases where the amount of rent payable under a lease is uncertain or unascertained include cases where there is a possibility of that amount being varied under—
- (a) section 12, 13 or 33 of the Agricultural Holdings Act 1986, 15
- (b) Part 2 of the Agricultural Tenancies Act 1995,
- (c) section 13, 14, 15 or 31 of the Agricultural Holdings (Scotland) Act 1991, or
- (d) section 9, 10 or 11 of the Agricultural Holdings (Scotland) Act 2003.”
- (2) In paragraph 13(2), for the words after “increase of rent” substitute “in pursuance of—
- (a) a provision contained in the lease, or
- (b) a provision mentioned in any of paragraphs (a) to (d) of paragraph 7(4A).” 20
- Backdated lease granted to tenant holding over*
- 3 (1) After paragraph 9 insert—
- “*Backdated lease granted to tenant holding over*
- 9A (1) This paragraph applies where— 25
- (a) the tenant under a lease continues in occupation after the date on which, under its terms, the lease terminates (“the contractual termination date”),
- (b) he is granted a new lease of the same or substantially the same premises, and
- (c) the term of the new lease is expressed to begin on or immediately after the contractual termination date. 30
- (2) The term of the new lease is treated for the purposes of this Part as beginning on the date on which it is expressed to begin.
- (3) The rent payable under the new lease in respect of any period falling— 35
- (a) after the contractual termination date, and
- (b) before the date on which the new lease is granted,

is treated for the purposes of this Part as reduced by the amount of taxable rent that is payable in respect of that period otherwise than under the new lease.

(4) For the purposes of sub-paragraph (3) rent is “taxable” if or to the extent that it is taken into account in determining liability to stamp duty land tax.

(5) Sub-paragraph (3) does not have effect so as to require the rent payable under the new lease to be treated as a negative amount.” 5

(2) In paragraph 7(3), for the words after “but disregard” substitute “paragraphs 9(2) and 9A(3) (deemed reduction of rent, where further lease granted, for period during which rents overlap)”.

Disapplication of “single lease” treatment where agreement for lease followed by grant

4 In paragraph 12A (agreement for lease), at the end of sub-paragraph (3) insert –

“Paragraph 5 does not apply so as to treat the notional lease and the lease itself as a single lease.” 15

5 (1) In paragraph 19 (provisions relating to leases in Scotland), at the end of sub-paragraph (2) insert –

“Paragraph 5 does not apply so as to treat the first lease and the second lease as a single lease.” 20

(2) At the end of sub-paragraph (4) of that paragraph insert –

“Paragraph 5 does not apply so as to treat the notional lease and the lease itself as a single lease.”

Disapplication of “new lease” treatment for certain rent increases after fifth year

6 (1) In paragraph 13 (increase in rent treated as grant of new lease: variation of lease), in the heading, after “*variation of lease*” insert “*in first five years*”.

(2) In sub-paragraph (1) of that paragraph, after “to increase the amount of the rent” insert “as from a date before the end of the fifth year of the term of the lease”.

Abnormal rent increase after fifth year

7 (1) In paragraph 14 (increase of rent treated as grant of new lease: abnormal increase after fifth year), in sub-paragraph (1)(a), for “in accordance with the provisions of the lease” substitute “, whether in accordance with the provisions of the lease or otherwise”.

(2) For sub-paragraph (4) of that paragraph substitute –

“(4) Where the provisions of this paragraph have not previously applied to an increase in the rent payable under the lease, the rent previously taxed is –

(a) if paragraph (b) or (c) does not apply, the rent payable under the lease without the increase referred to in sub-paragraph (1); 40

(b) if the amount of rent payable under the lease is determined under paragraph 7 (variable or uncertain rent), the rent

- that is assumed to be payable after the fifth year of the term of the lease (in accordance with paragraph 7(3));
- (c) if there has been a variation in the lease falling within paragraph 13 (increase of rent treated as grant of new lease: variation of lease in first five years), the rent payable as a result of the variation (or, if there has been more than one such variation, the most recent one). 5
- (4A) Where the provisions of this paragraph have previously applied to an increase in the rent payable under the lease, the rent previously taxed is the rent payable as a result of the last increase in relation to which the provisions of this paragraph applied.
- (4B) In determining the rent previously taxed, disregard paragraphs 9(2) and 9A(3) (deemed reduction of rent, where further lease granted, for period during which rents overlap).” 10
- (3) At the end of that paragraph insert –
- “(7) The reference to a lease in sub-paragraph (1) is to –
- (a) a lease actually granted on or after the implementation date, or 15
- (b) a lease that is treated as existing by reason of a deemed grant under paragraph 12A(2) or 19(3) of which the effective date is on or after the implementation date.”
- 8 (1) In paragraph 15 (increase of rent after fifth year: whether regarded as abnormal), for Steps One to Six substitute – 20
- “*Step One*
- Find the start date. 25
- Where the provisions of paragraph 14 have not previously applied to an increase in the rent payable under the lease, the start date is –
- (a) if paragraph (b) or (c) does not apply, the beginning of the term of the lease; 30
- (b) if the amount of rent payable under the lease is determined under paragraph 7 (variable or uncertain rent), the beginning of the period by reference to which the rent assumed to be payable after the fifth year of the term of the lease is determined in accordance with paragraph 7(3);
- (c) if there has been a variation in the lease falling within paragraph 13 (increase of rent treated as grant of new lease: variation of lease in first five years), the date of the variation (or, if there has been more than one such variation, the date of the most recent one). 35
- Where the provisions of paragraph 14 have previously applied to an increase in the rent payable under the lease, the start date is the date of the last increase in relation to which the provisions of that paragraph applied. 40
- Step Two*
- Find the number of whole years in the period between the start date and the date on which the new rent first becomes payable. 45

Step Three

The rent increase is regarded as abnormal if the excess rent (see paragraph 14(3)) is greater than:

$$\frac{R \times Y}{5} \quad 5$$

where—

R is the rent previously taxed (see paragraph 14(4) or (4A)),
and

Y is the number of whole years found under Step Two.”

Commencement

9 (1) Paragraph 2 has effect in relation to any lease granted or treated as granted on or after commencement day. 15

(2) Paragraph 3 has effect in relation to any case where—

(a) the grant of the old lease was chargeable to stamp duty land tax, and

(b) the new lease is granted on or after commencement day. 20

“The old lease” and “the new lease” mean the leases referred to in subparagraphs (1)(a) and (1)(b), respectively, of paragraph 9A of Schedule 17A to FA 2003 (inserted by paragraph 3).

(3) Paragraphs 4 and 5 have effect in relation to any agreement that is substantially performed on or after commencement day.

(4) Paragraph 6 has effect in relation to any variation of a lease made on or after commencement day. 25

(5) Paragraphs 7 and 8 have effect in relation to any increase of rent that takes effect on or after commencement day.

(6) In this paragraph “commencement day” means the day on which this Act is passed. 30

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SCHEDULE 26

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REPEALS

PART 1

EXCISE DUTIES

(1) PROVISIONS OF ALDA 1979 OF NO PRACTICAL UTILITY ETC

5

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Alcoholic Liquor Duties Act 1979 (c. 4)	Section 12(4). Section 14. Section 15(4). Section 18(5). Section 21. Section 24. Section 26. Section 32. Section 35. Section 55A. Section 67. Section 69. Section 71. Section 74. Section 82.	10
Finance Act 1981 (c. 35)	In Schedule 8, paragraphs 13, 17 and 21.	
Finance Act 1985 (c. 54)	In Schedule 3, paragraph 2.	20
Finance Act 1986 (c. 41)	In Schedule 5, paragraph 3(2).	
Territorial Sea Act 1987 (c. 49)	In Schedule 1, paragraph 5(2).	
Finance Act 1988 (c. 39)	In Schedule 1, paragraphs 6 and 10.	25
Finance Act 1994 (c. 9)	In Schedule 4, in paragraph 18(1), the words from “(offence” to the end, and paragraphs 23, 25, 28, 36, 42 to 44 and 48. In Schedule 5, paragraph 3(1)(i) and (n).	
Finance Act 1995 (c. 4)	In Schedule 2, paragraph 4.	
Licensing Act 2003 (c. 17)	In Schedule 6, paragraph 73.	30

(2) AMUSEMENT MACHINE LICENCE DUTY

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Betting and Gaming Duties Act 1981 (c. 63).	Section 22(2)(b). Section 25A.	35
Betting and Gaming Duties Act 1981 (c. 63). – cont.	In section 26(2) – (a) the definition of “video machine”, and (b) in the definition of “two-penny machine”, the words from “and “five-penny machine”” to the end. In Schedule 3, paragraph 6. In Schedule 4, paragraphs 2, 3 and 15.	40

PART 2

VALUE ADDED TAX

GAMING MACHINES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	5
Betting and Gaming Duties Act 1981 (c. 63)	The word “or” immediately after section 2(2)(b).	
Value Added Tax Act 1994 (c. 23)	In section 23(1), the words “to play”.	

10

PART 3

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

(1) ABOLITION OF CORPORATION TAX STARTING RATE AND NON-CORPORATE DISTRIBUTION RATE

<i>Short title and chapter</i>	<i>Extent of repeal</i>	15
Income and Corporation Taxes Act 1988 (c. 1)	Sections 13AA and 13AB. In section 13A(1), the words “or 13AA(8)”. Schedule A2.	
Finance Act 1998 (c. 36)	In Schedule 18, in paragraph 8(1), in the second step, the words “or 13AA(2)”.	
Finance Act 1999 (c. 16)	Section 28.	
Finance Act 2004 (c. 36)	Section 28. Schedule 3.	20

These repeals have effect in accordance with section 26 of this Act.

(2) GROUP RELIEF WHERE SURRENDERING COMPANY NOT RESIDENT IN UK

<i>Short title and chapter</i>	<i>Extent of repeal</i>	25
Finance Act 2000 (c. 17)	In Schedule 27, paragraph 3(a).	

This repeal has effect in accordance with Schedule 1 to this Act.

30

- 2 In consequence of the repeals in ITTOIA 2005 –
- (a) the heading before section 135 of that Act becomes “*Rules for allocating expenditure*”; and
 - (b) the heading to that section becomes “**Allocation of production or acquisition expenditure to relevant periods**”.

5

(5) NON-CHARITABLE EXPENDITURE

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income and Corporation Taxes Act 1988 (c. 1)	In section 506(2), the words “and subsection (1) above”. Section 506(6). Part III of Schedule 20.	10

(6) MOBILE TELEPHONES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income Tax (Earnings and Pensions) Act 2003 (c. 1)	In section 266(2)(b), the word “or”. In section 267(2)(e), the word “and” at the end.	15
Communications Act 2003 (c. 21)	In Schedule 17, paragraph 175(2).	

These repeals have effect in accordance with section 60(4) and (5) of this Act.

(7) COMPUTER EQUIPMENT

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income Tax (Earnings and Pensions) Act 2003 (c. 1)	Section 320.	20
Communications Act 2003 (c. 21)	In Schedule 17, paragraph 175(3).	
Finance Act 2004 (c. 12)	Section 79.	25

These repeals have effect in accordance with section 61(2) and (3) of this Act.

(8) EXEMPTION FOR EMPLOYEES’ EYE TESTS AND SPECIAL GLASSES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income Tax (Earnings and Pensions) Act 2003 (c. 1)	In section 266(3), the word “or” at the end of paragraph (d).	30

This repeal has effect for the year 2006-07 and subsequent years of assessment.

(9) CAPITAL LOSSES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Taxation of Chargeable Gains Act 1992 (c. 12)	In section 104(2)(b), the word “, 106”. In section 105(2)(c), the word “106,”. Section 106. In section 108(8), the words “shall have effect subject to section 106 but”.	5
Finance Act 1998 (c. 36)	Section 177B and the italic cross-heading before it. Schedule 7AA.	10
Finance Act 2000 (c. 17)	Section 137(1), (2) and (5). Schedule 24.	
Finance Act 2003 (c. 14)	In Schedule 29, paragraphs 8 and 18. In Schedule 27, in paragraph 2(3), the words “106(10),”.	15

- 1 The repeals of—
- (a) section 177B of, and Schedule 7AA to, TCGA 1992,
 - (b) section 137(1), (2) and (5) of, and Schedule 24, to FA 1998, and
 - (c) paragraph 8 of Schedule 29 to FA 2000,
- have effect in accordance with section 70(6) to (11) of this Act. 20
- 2 The other repeals have effect in accordance with section 72 of this Act.

(10) POLICIES OF INSURANCE AND NON-DEFERRED ANNUITIES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Taxation of Chargeable Gains Act 1992 (c. 12)	Section 237(b).	25

This repeal has effect in accordance with section 73 of this Act.

(11) EXCEPTION TO “BED AND BREAKFASTING” RULES ETC

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Taxation of Chargeable Gains Act 1992 (c. 12)	Section 10A(9A). Section 83A(5).	30

These repeals have effect in accordance with section 74(6) of this Act.

(12) AVOIDANCE INVOLVING FINANCIAL ARRANGEMENTS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income and Corporation Taxes Act 1988 (c. 1)	Section 730(3).	35
Finance Act 1996 (c. 8)	In section 81(2), the word “or” immediately before paragraph (b).	

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 1996 (c. 8) – cont.	In section 103(1), in the definition of “fair value”, in paragraphs (a) and (b), the words “in respect of amounts which at that time are not yet due and payable”.	5
Finance Act 2002 (c. 23)	In Schedule 26, in paragraph 54(1), in the definition of “fair value”, in paragraphs (a) and (b), the words “in respect of amounts which at that time are not yet due and payable”.	10
Finance (No.2) Act 2005 (c. 22)	In Schedule 7, paragraphs 2(6), 17(3) and 23(2).	

These repeals have effect in accordance with Schedule 6 to this Act.

(13) LEASING OF PLANT OR MACHINERY

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2002 (c. 23)	Section 62.	15
Finance Act 2003 (c. 14)	In Schedule 30, paragraph 4(2).	

These repeals have effect in relation to expenditure incurred on or after 1st April 2006.

(14) INSURANCE COMPANIES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income and Corporation Taxes Act 1988 (c.1)	Section 431A(5). In section 432B(4)(b), the words “and ending before 1st October 2006”.	20
Finance Act 1989 (c. 26)	In section 83ZA – (a) in subsection (7), the words “the aggregate of”, paragraph (b) and the word “and” before that paragraph, (b) subsections (10) and (12), and (c) in subsection (15), the word “, (12)”.	25

The repeals in section 83ZA of FA 1989 have effect in accordance with Schedule 11 to this Act. 30

(15) SETTLEMENTS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income and Corporation Taxes Act 1988 (c. 1)	Section 220(2). In section 360A(2)(b) – (a) the words “trustee or”, and (b) the words from “(“settlement”” to the end. In section 360A(2)(c), the words “trustee or”. In section 360A(8), the words “trustee or”.	35
		40

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Income and Corporation Taxes Act 1988 (c. 1) – cont.	In section 417(3)(b) – (a) the words “trustee or”, and (b) the words from “(“settlement”” to the end.	5
Finance Act 1989 (c. 26)	In section 417(3)(c)(i), the words “trustee or”. In section 686(2)(b), the word “either”. Section 720(8)(a). Section 764. At the end of section 839(3)(b), the word “and”.	10
Finance Act 1990 (c. 29)	At the end of section 68(2)(bb), the word “and”. Section 68(2)(c). At the end of section 71(4)(bb), the word “and”. Section 71(4)(c). Section 110.	15
Taxation of Chargeable Gains Act 1992 (c. 12)	At the end of section 25(9)(b)(iii), the word “or”. In section 63(1), the words “an heir of entail in possession of any property in Scotland subject to an entail, whether sui juris or not, or of”. In section 63(2) – (a) the words “For the purposes of this Act,” (b) the words “heir or” before “liferenter”, and (c) the words “the heir of entail next entitled to the entailed property under the entail or, as the case may be,”.	20
	In section 77(6), the word “or” at the end of paragraph (a). In section 83A(3), the word “or” at the end of paragraph (a). Section 83A(3)(b). In section 97(7), the words “the preceding provisions of”.	30
	In section 98(2), the word “and” at the end of paragraph (a). Section 98(2)(b). In section 169(3)(a), the words from “, although” to the end of the paragraph.	35
	In section 217(3), the word “and” at the end of paragraph (a). Section 217(3)(b). In section 283(4), the words “as such (within the meaning of section 701(4) of that Act)”.	40
	In section 286(3), the word “and” at the end of paragraph (b). In section 286(3), the words following paragraph (c). Paragraph 17(6) of Schedule A1.	45
	In paragraph 2(7) of Schedule 1, the words from “settlor” to “intestate and”.	50
	In paragraph 2(7)(a) of Schedule 1, the words “treated under section 69(1) as”. In paragraph 7(5) of Schedule 4A, the word “or” at the end of paragraph (a).	55

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Income Tax (Trading and Other Income) Act 2005 (c. 5)	Section 457(4). Section 568(5).
Finance Act 2005 (c. 7)	Section 42(5)(b).

These repeals shall come into force in accordance with the provisions of Schedules 12 and 13 to this Act. 5

(16) VENTURE CAPITAL SCHEMES

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 1998 (c. 36)	Section 73(5). In section 73(6), the words from “; and subsection (5)” to the end. In Schedule 13, paragraph 2.
Finance Act 2000 (c. 17)	In Schedule 18, paragraph 1(4).
Finance Act 2004 (c. 12)	In Schedule 18, paragraph 4.

1 The repeals in section 73 of FA 1998 have effect in accordance with paragraph 2(2) to (4) of Schedule 14 to this Act. 15

2 The repeal of paragraph 2 of Schedule 13 to FA 1998 has effect in accordance with paragraph 5(2) of Schedule 14 to this Act.

3 The repeal of paragraph 1(4) of Schedule 18 to FA 2000 has effect in accordance with paragraph 7(5) of Schedule 14 to this Act. 20

4 The repeal of paragraph 4 of Schedule 18 to FA 2004 has effect in accordance with paragraph 6(2) of Schedule 14 to this Act.

(17) ALTERNATIVE FINANCE ARRANGEMENTS

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 2005 (c. 7)	Section 47(5).

(18) NUCLEAR DECOMMISSIONING

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Energy Act 2004 (c. 20)	In section 30(1)(c), the words “on the coming into force of the direction mentioned in paragraph (a),”.

This repeal has effect in relation to accounting periods of the Nuclear Decommissioning Authority ending on or after 22nd March 2006. 30

(19) SECURITISATION COMPANIES

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Finance Act 2005 (c. 7)	In section 83(3), the word “and” at the end of paragraph (c).

35

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2005 (c. 7) – cont.	In section 84 – (a) subsection (3)(d)(ii) and the word “and” following it; (b) subsection (5)(a).	5

These repeals have effect in accordance with section 101(6) and (7) of this Act.

PART 4

REAL ESTATE INVESTMENT TRUSTS

<i>Short title and chapter</i>	<i>Repeal</i>	
Income and Corporation Taxes Act 1988 (c. 1).	Sections 508A, 508B and 842(1AA).	10
Finance Act 1996 (c. 8).	Schedule 30.	

PART 5

OIL

15

(1) NEW BASIS FOR DETERMINING THE MARKET VALUE OF OIL

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Oil Taxation Act 1975 (c. 22)	In section 5A(5C), paragraph (a) and the word “and” at the end of paragraph (b). In Schedule 3, paragraph 2(3) and, in paragraph 2A, – (a) in sub-paragraph (1), the words “, or in accordance with those sub-paragraphs as modified by sub-paragraph (3) of that paragraph,”; (b) in sub-paragraph (3), the words “(with sub-paragraphs (2)(f) of paragraph 2 applying accordingly)”.	20
Finance Act 1983 (c. 28)	Section 38.	
Finance Act 1987 (c. 16)	Section 62(2)(c). In Schedule 11 – (a) paragraph 1(3) to (7); (b) paragraphs 3 to 5.	30
Finance (No. 2) Act 1987 (c. 51)	In section 101 – (a) in subsection (5) the words “, subject to subsection (6) below”; and (b) subsection (6). In Schedule 8, paragraph 5.	35
Finance (No. 2) Act 1992 (c. 48)	In Schedule 15, paragraph 4(1).	
Finance Act 1994 (c. 9)	Section 235(1)(d) and (2).	40

PART 7

STAMP TAXES

(1) STAMP DUTY AND STAMP DUTY LAND TAX: THRESHOLDS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2005 (c. 7)	Section 95.	5

This repeal has effect in accordance with section 162 of this Act.

(2) STAMP DUTY LAND TAX: PARTNERSHIPS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2003 (c. 14)	In Schedule 15 – (a) in paragraph 10(6), the words “(instead of sub-paragraphs (2) to (5))”; (b) in paragraph 18(6), the words “(instead of sub-paragraphs (2) to (5))”.	10

These repeals have effect in relation to any transfer of which the effective date (within the meaning of Part 4 of FA 2003) is on or after the day on which this Act is passed. 15

(3) STAMP DUTY LAND TAX: UNIT TRUST SCHEMES

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2003 (c. 14)	Section 64A. In section 101(7), the words from “section 53” to “companies), or”.	20
Finance Act 2004 (c. 12)	In Schedule 39, paragraph 18.	

These repeals have effect in accordance with section 166 of this Act.

(4) STAMP DUTY LAND TAX: ALTERNATIVE FINANCE

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2003 (c. 14).	Section 71A(6). Section 72(6).	25

(5) STAMP DUTY: RELIEFS FOR CERTAIN COMPANY ACQUISITIONS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 1986 (c. 41)	In section 75(4), the words “that the registered office of the acquiring company is in the United Kingdom and”.	30

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 1986 (c. 41) – cont.	In section 76(3), the words “that the registered office of the acquiring company is in the United Kingdom and”. Section 77(3)(a).	5

These repeals have effect in accordance with section 169 of this Act.

PART 8

MISCELLANEOUS PROVISIONS

(1) CLIMATE CHANGE LEVY: ABOLITION OF HALF-RATE SUPPLIES ETC

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Finance Act 2000 (c. 17)	In Schedule 6 –	10
	(a) in paragraph 34(2), the words “(or, in the case of electricity, consumed)”;	
	(b) in paragraph 37(1)(c), the words “half-rate supplies or”;	15
	(c) in paragraph 38(1)(c), the words “half-rate supplies or”;	
	(d) paragraph 42(1)(b);	
	(e) paragraph 43;	
	(f) in paragraph 62(1), in paragraph (c), the words “half-rate or” and paragraph (d);	20
	(g) paragraph 101(2)(a)(iii);	
	(h) in paragraph 147, the definition of “half-rate supply”.	

These repeals have effect in accordance with section 172 of this Act.

25

(2) INTERNATIONAL TAX ARRANGEMENTS

<i>Short title and chapter</i>	<i>Extent of repeal</i>	
Inheritance Tax Act 1984 (c. 51)	Section 158(1A). Section 220A.	
Finance Act 1987 (c. 16)	Section 70(2).	30
Income and Corporation Taxes Act 1988 (c. 1)	Section 788(2). Section 815C. Section 816(2) and (2ZA).	
Finance Act 2000 (c. 17)	Sections 146 and 147.	
Finance Act 2002 (c. 23)	In section 88(2) –	35
	(a) in paragraph (a), the words “and 815C(1)”,	
	(b) in paragraph (b), the words “and 815C”, and	
	(c) paragraphs (d) and (e).	40
Finance Act 2003 (c. 14)	Section 198.	

<i>Short title and chapter</i>	<i>Extent of repeal</i>
Commissioners for Revenue and Customs Act 2005 (c. 11)	In Schedule 4, in paragraph 37(b), the words “(2), (2ZA) and”.

Finance (No.2) Bill

A

B I L L

[NOT AMENDED IN THE COMMITTEE AND AS AMENDED IN
STANDING COMMITTEE A]

To grant certain duties, to alter other duties, and to amend the law relating to the National Debt and the Public Revenue, and to make further provision in connection with finance.

*Ordered to be brought in by
the Chairman of Ways and Means,
Mr Chancellor of the Exchequer,
Mr Secretary Prescott, Mr Secretary Darling,
Ms Secretary Hewitt, Mr Secretary Clarke,
Secretary Alan Johnson, Secretary Ruth Kelly,
Mr Des Browne, Dawn Primarolo,
John Healey and Mr Ivan Lewis.*

*Ordered, by The House of Commons,
to be Printed, 20th June 2006.*

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