Tel. Address: "Emarp, Sowest, London."
Tel. No.: VICtoria 6826.

Any communication on the subject of this letter should be addressed to—
THE SECRETARY,
MINISTRY OF HOME SECURITY,
(A.R.P. DEPT.)
HORSEFERRY HOUSE,
THORNEY STREET,
LONDON, S.W.1.
and the following reference quoted—

MINISTRY OF HOME SECURITY,
AIR RAID PRECAUTIONS DEPT.,
HORSEFERRY HOUSE,
THORNEY STREET,
LONDON, S.W.1.

H.S.C.126/40.
J.3.

11th June, 1940.

F.B. 72/40.

Sir,

Home Security Circular No.126/1940.
F.B. Circular No.72/1940.

Income Tax (Schedule A) and Land Tax in respect of Premises taken under Emergency Powers.

1. I am directed by the Minister of Home Security to refer to Circular 1949 issued by the Ministry of Health on the 18th January last, to Home Security Circular No.9/1940 issued on the 19th idem, to F.B. Circular No.6/1940 of the same date, and to previous Circulars on the subject of the taking of premises and to say that questions have arisen in regard to the settlement of Demands (D.N.1) by the Commissioners of Inland Revenue for Income Tax (Schedule A) and Land Tax in respect of such properties.

2. Section 2(2) of the Compensation (Defence) Act provides that for the purposes of the enactments relating to Income Tax and the enactments relating to Land Tax, and in particular for the purposes of such of those enactments as relate to the deduction of tax from rent, any compensation under Section 2(1)(a) of the Act shall be deemed to be rent payable for the land, the Crown shall be deemed to pay it as tenant occupier, and the person receiving it shall be deemed to receive it as landlord.

3. Certain difficulties, however, arise, for example:

(i) where the annual rate of the compensation under Section 2(1)(a) of the Compensation (Defence) Act is much less than the amount on which tax is charged, and there is difficulty as regards the deduction of tax from compensation;

(ii) where lump-sum payments are being made on account not only for compensation under Section 2(1)(a), from which alone tax may be deducted, but also of compensation under Section 2(1)(d) (expenses).

To meet such difficulties the following procedure should be followed by all Local Authorities:-

4. Where part only of a building has been taken for emergency purposes the original occupier remaining in possession of the remainder, or where part only of a building let in different apartments has been taken, tax in respect of the whole of the building will as a general rule be collected from the occupier of the remainder of the premises, or from the owner, and normally no application for payment will be made to the Local Authority.

5. Wherever the possession of properties taken under emergency powers has been given up, or the property was unoccupied when possession was taken, or possession was taken of only part of any premises, any Demand Note which may have been received for Income Tax (Schedule A) or Land Tax, should be referred for instructions to H.M. Inspector of Taxes whose address appears upon the back of the Demand Note.

The Clerk of the County Council,
The County Clerk,
The Town Clerk,
The Clerk of the District Council.

All such references to H.M. Inspector of Taxes should be accompanied by the following particulars:-

(i) Name and address of person entitled to compensation.

(ii) Name and address of any agent acting for such person.

(iii) Date on which possession was taken.

(iv) Date on which possession was given up (if this has occurred).

(v) Whether a claim has been made, and whether payment of or on account of compensation has been authorised (Brief particulars should be given, including those of any amounts authorised for payment, any amounts actually paid, and of the periods covered).

(vi) Date of the next payment (if any).

(vii) If the whole of the property is not occupied, brief particulars shewing the portions occupied.

(viii) In the case of licensed premises, whether the part of the premises ordinarily used for the sale of liquor has been separated off from the remainder of the premises and continues to be occupied by the Licensee for the purpose of his trade.

6. The remaining classes of case in which Demand Notes for Income Tax (Schedule A) or Land Tax are received by an Authority in respect of any property which has been taken in the exercise of emergency powers are those in which the premises were occupied immediately before possession was taken, and were taken in their entirety, and of which possession is still retained for emergency purposes. These cases should be dealt with as follows:-

(i) Where the Authority has not yet been authorised to make any payment of or on account of compensation, or where a payment has already been made and no further payment is in contemplation in the immediate future, the Inspector of Taxes should be informed to that effect.

(ii) Where a rate of compensation under Section 2(1)(a) of the Act has been authorised and the annual rate of such compensation is equal to or in excess of the following percentages of the annual amount on which Schedule A tax is charged:

in the case of properties requisitioned before 1st October, 1939 - 80%

in the case of properties requisitioned on or after that date - 75%

the Local Authority should (subject to para. 5 of this Circular) make payment to the Collector of Taxes of the amount of tax demanded, and deduct it (supported by the Collector's receipt) from the next payment of compensation.

(iii) Similar action should be taken where payments on account of compensation have been authorised and are continuing to be made and it is clear that the annual rate of the compensation under Section 2(1)(a) included in such payments is equal to or in excess of the percentages set out in (ii) of this sub-paragraph. But, in these cases the Local Authority should also, in making future payments on account of compensation, notify the payee that a stated portion of the payment is in respect of compensation under Section 2(1)(a) and the remainder in respect of other stated headings. The Schedule A Tax being deducted from the 2(1)(a) portion.

(iv) In any case in which the rate of compensation under Section 2(1)(a) falls below the percentages mentioned the Inspector of Taxes should be asked for instructions.

(v) Where such apportionment as indicated in (iii) is not already clear, the Local Authority should ask the District Valuer to supply it and then take action on the same lines as in (iii) or (iv) of this sub-paragraph as the case may require.

7. Cases may occur in which the next payment of or on account of compensation under Section 2(1)(a) will be insufficient to cover the tax payable. In such cases the Local Authority should make payment on account to the Collector of Taxes of an amount of tax not exceeding the next payment of such compensation and inform the Collector of the reason for payment of less than the full amount. A receipt for the amount paid on account will then be issued by the Collector enabling that amount to be deducted from the next payment of compensation. The balance of the tax should be paid by the Local Authority shortly before the next subsequent payment of compensation falls due, so that it can be deducted from that payment.

8. In all cases dealt with under paragraph 5 or under (iv) or (v) of paragraph 6 any outstanding payment to the owner or occupier of compensation under Section 2(1)(a) should be deferred pending receipt of instructions from the Inspector of Taxes or of information from the District Valuer, as the case may be, but it is important that all cases in which this occurs should specially be indicated in the references made to those officers.

9. H.M. Inspector of Taxes will, in regard to all cases referred to him, indicate to the Authority at the earliest possible date whether

(a) payment of compensation is to be made free of deduction in respect of Income Tax (Schedule A) or Land Tax (if any); or

(b) the tax demanded (or a stated portion of it) is to be paid to the Collector of Taxes and deducted (supported by the Collector's receipt) from the next payment of compensation.

10. This instruction is applicable in cases of premises of which possession was taken in the exercise of emergency powers or by agreement which was not embodied in a formal instrument. Cases in which demands for Income Tax (Schedule A) and Land Tax are made in respect of premises used for civil defence purposes of which the Authority are tenants by formal Agreement will be dealt with according to the terms of agreement.

11. The amount on which tax is charged is shown in the columns in the First Demand Note for tax (D.N.1) headed -

Amount on which Tax is chargeable at 2/4 in the £	Amount chargeable at the standard rate of 7/- in the £

Where an amount is shown in both these columns the total of the two amounts represents the amount on which tax is charged. Tax charged under Schedule B should in no case be met by the Authority.

12. All objections or complaints received from payees or others which cannot at once be dealt with by the Local Authority should be referred to H.M. Inspector of Taxes with copies of the relevant correspondence and such additional particulars as appear to be necessary. H.M. Inspector of Taxes may also be consulted in any case of difficulty.

A copy of this Circular is enclosed for transmission to the Chief Financial Officer.

I am, Sir,

Your obedient Servant,

H E Emmerson.

Issued to all local authorities in England, Wales and Scotland.

Copies sent for information to Chief Officers of Police and Chief Officers of Fire Brigades in England and Wales and to Fire Masters in Scotland.

Gen.149/29/1.