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A.F.O. 6462/42

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ADMIRALTY FLEET ORDER

INCOME TAX CIRCULAR, 1942–43.

ADMIRALTY, S.W.1,
31st December, 1942.

The following Order having been approved by My Lords Commissioners of the Admiralty is hereby promulgated for information and guidance and necessary action.

By Command of their Lordships.

H. V. Markham

To all Commanders-in-Chief, Flag Officers, Senior Naval Officers, Captains and Commanding Officers of H.M. Ships and Vessels, Superintendents or Officers in Charge of H.M. Naval Establishments, and Admiralty Overseers concerned.

NOTE :—The scale of distribution is shown in the Admiralty Fleet Order Volume, 1941, Instructions, paragraph 10.

Awards

*6462.—Income Tax Circular, 1942–43

(D.N.A. 14269/42.—31.12.1942.)

The following regulations govern the assessment and collection of Income Tax for the financial year 1942–43 chargeable on the official emoluments of Naval personnel (including personnel engaged under T.124 and T.124X Agreements) and Civilian Employees of the Admiralty, but excepting Manual Wage Earners, R.F.A. Personnel, Admiralty Civil Police and Personnel on "Eng. 6 "Agreements unless otherwise stated.

Tax on official emoluments is deductible in accordance with the "Rules applicable to Schedule E" in the Income Tax Act, 1918, Rule 11 of which requires that such tax "shall be deducted out of the official pay . . .".

Note.—The main alterations as compared with the Circular for 1941–42 are contained in paragraphs 2, 2B, 6, 8B, 13A, 13B, 14, 19, 20, 40, App. I, II and IV.

SECTION 1.

Basis of Assessment.

(1) The basis of assessment to Income Tax under Schedule E is normally the amount of the taxable emoluments for the year *preceding* the year of assessment.

In practice the emoluments of the financial year ending 31st March are adopted as the basis of assessment for the income tax year commencing on the subsequent 6th April. In certain circumstances, however, e.g., in the first year of employment or in the year of retirement, it is necessary to have regard to the emoluments of the income tax year.

(2) In cases of (*a*) entry or re-entry into the Service, (*b*) appointment as a member of the Board of Admiralty, or (*c*) reversion to Naval emoluments after service on the Board of Admiralty, the basis of liability is as follows :—

Year 1 (i.e., year of entry, etc.). Emoluments for Year 1.

Year 2. Emoluments for Year 2. If, however, the date of entry, re-entry, appointment, or reversion was the 6th April in year 1, the assessment is to be made on the emoluments for year 1, but in such a case the taxpayer may give notice to the Chief Inspector of Taxes (*see* paragraph (6A)) within twelve months after the end of year 2 requiring the assessment to be based on the emoluments for year 2.

Year 3. Emoluments for Year 2. If, however, the date of entry, re-entry, appointment, or reversion was some date in year 1, other than 6th April, the taxpayer may give notice to the Chief Inspector of Taxes within twelve months after the end of year 3, requiring the assessment to be made on the emoluments for year 3.

Year 4, and succeeding years. } Emoluments for the preceding year.

Note.—Modifications of the above basis of liability are permitted as a war-time concession in certain cases of persons leaving whole-time civil employment for service in the Naval Forces of the Crown and where such modification is advantageous to the individual, it is automatically applied by the Chief Inspector of Taxes.

The practice as regards provisional assessments is laid down in paragraph 16, and the Note following paragraph 33.

When an office or employment ceases, e.g., by reason of appointment to the Board of Admiralty, reversion to Naval emoluments after service on the Board of Admiralty, final discharge from Naval service, etc., the basis of liability for the year of cessation is the actual emoluments for that year.

The assessment for the year preceding the year of cessation will be increased where necessary to the amount of the actual emoluments for the year except where the taxpayer ceases to hold an office or employment by reason of his death or disablement through war operations. (As regards assessment for the year of retirement and the year preceding that year, *see* paragraph (4).)

A Service Pension—other than a wound, disability or disablement pension—is assessable as a new source of income as from the date the pension arises. The Basis of Assessment is as follows :—

First year in which the pension is granted.	On the amount of the pension payable from the date it is granted to the following 5th April.
Second year of pension	On the amount of the pension for the current year unless the pension was granted on 6th April in preceding year when the preceding year basis applies.
Third and succeeding years ...	On the amount of the pension payable in the preceding year.

When a pension ceases the basis of liability for the year of cessation is the actual amount of pension for that year. The basis of assessment for the year preceding the year of cessation will be increased where necessary to the amount of the actual pension for that year.

The Naval pay continues to be assessable on the appropriate basis—normally on the emoluments of the previous year.

(2A) Section 26 of the Finance Act, 1935, provides that a person who on entering upon any new office or employment ceases to hold any other office and whose average monthly net emoluments arising from this new office for the first twelve months of his tenure thereof, or for such shorter period as his tenure thereof endures, do not exceed by more than 20 per cent. his average monthly net emoluments from his old office for the last twelve months of his tenure thereof, or for such shorter period as his tenure thereof endured, shall, on giving notice to the Chief Inspector of Taxes (*see* paragraph (6A)), not later than eighteen months after the end of the year of assessment within which he entered upon the new office, be entitled to require that all his emoluments arising from the new office as well as from the old office shall be assessed as if they had arisen from one and the same office and shall be entitled to claim that any assessment already raised be adjusted accordingly.

Pensions and any income other than that from the office concerned should be excluded in computing the emoluments of the new office.

(2B) Section 25 of the Finance Act, 1942, provides for the continuance for the year 1942–43 of the relief granted by Section 11 of the Finance Act (No. 2), 1939. Under this Act any person who proves that owing to circumstances directly or indirectly connected with the present war his actual earned income *from all sources* for 1942–43 is not more than four-fifths of the earned income as assessed for 1942–43 (i.e., normally on the income of the preceding year) may claim relief so that the amount of tax payable for 1942–43 shall be the tax chargeable on his actual earned income for that year instead of tax on his earned income as assessed.

Provided that if the actual earned income of the person for the year 1941–42 exceeded the earned income assessed for that year, the relief due for 1942–43 shall be reduced by the additional tax which would be chargeable if the assessment for 1941–42 were made on the actual earned income for that year.

Where the taxpayer's actual earned income *from all sources* for 1942–43 only slightly exceeds four-fifths of his earned income as assessed for that year, he may claim a measure of relief equal to the relief he would have obtained if his actual earned income had been four-fifths of his earned income as assessed, reduced by the excess of his actual earned income over four-fifths of his earned income as assessed.

Claims for relief under this Section must be forwarded to Chief Inspector of Taxes, Departmental Claims Branch, The Hydro, Llandudno, not later than 5th April, 1944. The file number should be shown on the claim.

(3) *Procedure for the assessment of Naval and Marine officers discharged to half pay or to unemployed pay at a rate other than the full pay rate.*

(*a*) In rendering their Income Tax returns all such officers should insert the amounts of their taxable emoluments for the preceding year, as provided for upon the prescribed form.

(*b*) Where it happens that tax based on the remuneration of a year which is wholly or mainly at a full pay rate, will normally be deductible from the remuneration of a year in which the half pay element predominates.

the Assessor, on receipt of an application from the officer concerned and provided that the circumstances are held to justify such a course will be prepared, in the manner considered to be most suitable, to deal with cases of hardship by varying the rate of deduction of tax so as to meet the particular circumstances of each case. It must be clearly understood that a condition of any such postponement of collection is that arrears of tax will be collectible as soon as increased income due to an appointment on full pay admits.

(c) Officers discharged to unemployed pay at a rate other than the full pay rate will be dealt with similarly.

(d) Applications by officers for the concessions referred to at (b) and (c) are to be addressed to the Assessors of Income Tax, Admiralty, Bath.

(e) An officer on half pay who does not revert to employment before retirement will be regarded as having ceased permanently to be employed on the date of his discharge to half pay, and accordingly without application on his part, arrangements will be made to ensure that the tax chargeable for the year in which he is placed on half pay shall be based on his actual official taxable emoluments for that year in the same manner as if he had then been retired. This concession will be applied retrospectively, if necessary, to meet the cases of officers who may be unaware during the year in which they are placed on half pay that they will not subsequently be employed. Where an officer goes to half pay in such circumstances, and the assessment upon him is adjusted to the actual emoluments of the year as indicated above, an additional assessment will be made on the excess of the actual emoluments of the preceding year over the amount on which tax was charged for that year.

The arrangements indicated have reference to emoluments drawn from official sources only and not to private income.

(4) *Assessment of officers on retirement.*—When an officer retires the normal basis of assessment is, or may be, subject to alteration pursuant to Section 45 of the Finance Act, 1927, in respect of the year (*see* paragraph (*f*) below) in which retirement takes place, the year immediately preceding, and the two years succeeding such year. The procedure adopted for giving effect to the provisions of Section 45 is as follows :—

(a) In rendering his Income Tax return for the year in which he will retire an officer should insert the amount of his taxable emoluments for the *preceding* year, as provided upon the form.

(b) During the period of the year for which he is on the active list he will be taxed on the basis of that return.

(c) On his retirement, and without application on his part, arrangements will be made so as to ensure that the tax chargeable for the year in which he retires shall be based on his actual official emoluments (full pay, retired pay, etc.) for that year.

(d) If his emoluments for the year *preceding the year of retirement* exceeded those upon which the assessment for that year was made on the normal basis, an additional assessment will be made in order that the amount of tax charged for that preceding year shall be the amount chargeable upon the emoluments actually received for that year, except where retirement resulted from disablement through war operations, which should be reported to the Chief Inspector of Taxes. No adjustments can, however, be allowed under the Act where the emoluments for the preceding year in question are *less* than those upon which tax was actually charged.

(e) For the year immediately following the year of retirement, the assessment will be based on the actual emoluments for the year. For the year next succeeding, the assessment will be based on the emoluments for the preceding year, but the taxpayer may give notice to the Chief Inspector of Taxes (*see* paragraph 6A), within twelve months after the end of the year of assessment requiring the assessment to be based upon the actual emoluments for that year. Thereafter, the assessments will be based upon the emoluments for the preceding year in the normal way. (Where, exceptionally, retirement has effect on 6th April in any year, the assessment for that year will be based upon the actual emoluments for that year. For the next year, the assessment will be based upon the emoluments for the preceding year, but the taxpayer has the option to have the assessment reduced to the actual emoluments for the year on giving notice to the Chief Inspector within twelve months after the end of the year of assessment. Thereafter, the assessments will be based upon the emoluments for the preceding year in the normal way.)

(f) For the purpose of determining the year in which retirement takes place, the year taken is the income tax year commencing on 6th April and ending on the following 5th April.

The arrangements indicated have reference to emoluments drawn from official sources only and not to private income.

(5) .....

DEFINITIONS.

(6) .....

" Total income " is the aggregate amount of income from every source, computed in accordance with the Income Tax Acts, less any charges thereon, and includes :—

(a) Official income, less allowances in respect of cost of upkeep of uniform or maintenance of tools and additional travelling expenses between residence and place of work in certain circumstances (*see* Section IV).

(b) Money allowances and other additions to pay which are liable to tax (*see* Appendix I).

(c) The value of official residences or quarters occupied by civil personnel (*see* Appendix II).

(d) Retired Pay or Long Service Pensions (Wounds, Disability and Disablement Pensions and Gratuities and Injury Allowances are not assessable to Income Tax, and should not be included in statements of " total income "—*see* Appendix I).

(e) Private income, whether taxed before receipt or not.

(f) Wife's income.

" Charges on income " include ground rent, interest on mortgage or loan (whether secured on property, life assurance policy, reversion or otherwise), payments under court orders and Deeds of Separation, annuities, patent royalties, or other annual payments.

" Investment income " is the income derived from property, dividends, etc.

" Earned income " is normally to be taken as total Naval pay and taxable allowances, *less* the allowances for uniform expenses and tools and any allowance for additional travelling expenses, under Section IV of this circular.

" Taxable income " is such part of the net income (remaining after deducting from the gross income the amount of any charges) as is not relieved from tax by allowances specified in paragraphs 8(A) to 8(E).

(6A) The expression " Chief Inspector of Taxes " is to be regarded as referring to the Chief Inspector of Taxes (Departmental Claims Branch), The Hydro Hotel, Llandudno.

(6B) " United Kingdom."—The expression " United Kingdom " means Great Britain and Northern Ireland only, and does not include Eire.

" United Kingdom Income Tax " means the Income Tax of Great Britain and Northern Ireland.

(6C) " Accountant Officer."—The term " Accountant Officer " is to be read as including Cashiers of Establishments.

SECTION II.

RATE OF TAX.

(7) The standard rate of tax is 10*s*. in the £ for 1942–43.

RELIEFS AND ALLOWANCES TO AN INDIVIDUAL RESIDENT IN GREAT BRITAIN OR NORTHERN IRELAND.

(8) From the tax chargeable at the standard rate on the net income after deducting any annual charges such as ground rent and interest on mortgages or loans, the undermentioned reliefs at the standard rate (except where otherwise specified) may be claimed by individuals, provided the conditions indicated below are satisfied.

A. *Earned Income Allowance.*—A deduction of the tax on one-tenth of the net amount of any earned income will be allowed, subject to a maximum of the tax on £150.

B. *Personal Allowance.*—A taxpayer—

(*a*) who has his wife living with him, or

(*b*) who proves that his wife, although not living with him, is wholly maintained by him during the year of assessment, and that he is not entitled in computing his total income for the purposes of Income Tax to make any deduction for any sums paid for the maintenance of his wife,

is entitled to a deduction of tax on £140.

Note.—If an officer or man marries or becomes a widower during the course of the Income Tax year to 5th April, the full allowance of tax on £140 is allowable for that year.

Where a taxpayer's total income includes any earned income of his wife, the personal allowance of tax on £140 is increased by a sum equal to tax on *nine-tenths of the amount of the wife's earned income subject to a maximum increase of tax on* £80. In these cases, therefore, the maximum personal allowance will be tax on £220. The additional allowance will, as a general rule, be made from the assessment on the wife's earned income.

For purposes of this increased personal allowance any earned income of the claimant's wife arising in respect of any pension, superannuation or other allowance, deferred pay, or compensation for loss of office, given in respect of his past services in any office or employment of profit, shall be deemed not to be earned income of his wife.

In any other case, e.g., a single taxpayer or a widower, a deduction can be claimed of tax on £80.

Note.—Any total income not exceeding £110 is now exempt from tax, and the tax payable on incomes a little in excess of £110 is not to be more than three-quarters of the amount by which the total income exceeds £110. This limitation ceases to operate at £123 10*s.* where the income is wholly earned.

C. *Housekeeper Allowance.*—A deduction of tax on £50 can be claimed by—

(*a*) A widower who

(i) has resident with him a female relative* of his or of his deceased wife, for the purpose of having charge or care of any child or adopted child of his, or in the capacity of housekeeper, or

(ii) has employed some other female person resident with him for that purpose, provided he proves that he has no female relative* of his, or of his deceased wife, who is able or willing to take such charge or to act in such capacity.

(*b*) A widow who, for the like purpose, has a female relative* of hers or of her deceased husband resident with her or, under the conditions mentioned in (ii) above, employs some other female person.

(*c*) An unmarried taxpayer who has living with him and maintains at his own expense his mother (being a widow or living apart from her husband), or some other female relative* for the purpose of having the charge or care of any brother or sister of his in respect of whom the deduction for children or adopted children (*see* (D) below) is given.

The taxpayer must show that no other person is entitled to claim for the female relative or that such person, if entitled, has relinquished his claim for the year.

Not more than one deduction under (*a*) or (*b*) is allowable to an individual in any year and only one deduction in respect of the same female relative is allowable under (*c*).

D. *Children Allowance.*—Where the taxpayer has any children, step-children, or, under certain conditions, adopted children, who are living at any time within the year of assessment and (1) under the age of 16 years at the commencement of the year of assessment; or (2) over the age of 16 years and receiving full time instruction at any university, college, school or other educational establishment, he can claim a deduction of tax on £50 in respect of each such child, subject to the provisions of the Finance Act, 1940, Section 24, as explained below.

Child allowance may be claimed in respect of a naval cadet (including a "Special Entry" naval cadet) at the Royal Naval College, Dartmouth, on H.M.S. "Vindictive," H.M.S. "Frobisher" or H.M.S. "Excellent".

* The expression "relative" here includes any person of whom the taxpayer had the custody and whom he maintained at his own expense while that person was under the age of 16 years i.e., an adopted child.

Finance Act, 1940, Section 24, provides, in effect, that not more than the equivalent of one allowance is to be given in respect of the same child for the same year, and that where two or more persons are entitled to claim relief in respect of the same child (e.g. divorced persons), the single allowance is to be apportioned between them. The allowance is to be apportioned among the claimants either as they agree, or, if they do not agree, in proportion to the amount or value of the provision made by them respectively (otherwise than by way of payments which are deductible in computing their respective total incomes for Income Tax purposes) for the child's maintenance and education for the year of assessment.

Note.—The allowance for a child is permissible for the Income Tax year in which the child is born.

No deduction is, however, allowed for any child or adopted child who has an income in his or her own right exceeding £50 a year, but in computing this income no account is to be taken of any income derived from a scholarship, bursary or other similar educational endowment.

Finance Act, 1938, Section 20, extends the deduction to a child over 16 years of age and undergoing training by any person for any trade, profession or vocation, in such circumstances that—

(*a*) the child is required to devote the whole of his time to the training for a period of not less than two years; and

(*b*) while the child is undergoing the training, the emoluments, if any, receivable by the child, or payable by the employer in respect of the child, do not exceed thirteen pounds a year, exclusive of any emoluments receivable or payable by way of return of any premium paid in respect of the training.

For the purpose of paragraph (*b*) of this subsection, where a premium has been paid in respect of the training of a child, all emoluments at any time receivable by the child, or payable by the employer in respect of the child, shall be deemed to be receivable or payable by way of return of the premium, unless and except to the extent that the amount thereof exceeds in the aggregate the amount of the premium.

In this section the expression "emoluments" means any salary, fees, wages, perquisites, or profits or gains whatsoever, and includes the value of free board, lodging or clothing.

For the purpose of a claim in respect of a child undergoing training, the Inspector may require the employer to furnish particulars with respect to the training and the emoluments of the child in such form as may be prescribed by the Commissioners of Inland Revenue.

E. *Dependent Relative Allowance.*—A deduction of tax on £25 may be claimed in respect of any person whom the taxpayer maintains at his own expense and who is—

(*a*) a relative of his or of his wife, and unable to maintain himself or herself by reason of old age or infirmity,

(*b*) his or his wife's widowed mother, whether incapacitated or not, or

(*c*) a daughter resident with him and upon whose services he or his wife is compelled to depend by reason of old age or infirmity.

The deduction under (*a*) or (*b*) cannot be allowed if the income of the dependent relative exceeds £50 a year.

The allowance is due to a female taxpayer under the same conditions with the substitution of "husband" for "wife" above.

Where two or more persons jointly maintain the dependent relative the deduction is apportioned between them in proportion to the amount or value of their respective contributions.

Finance Act, 1938, Section 21, provides for relief to any person who proves that during any year of assessment, he has a relative living with him—

(*a*) who in that year has been denied wholly or in part unemployment allowance under Part II of the Unemployment Act, 1934, or public assistance, on the ground that the relative was being maintained wholly or partly by him; and

(*b*) in respect of whom he is entitled to no deduction for that year under section twenty-two of the Finance Act, 1920.

The deduction due under this Section is such an amount of tax as is equal to tax at the standard rate on the amount deemed to have been paid by him in that year towards such maintenance, but not exceeding tax on £25.

F. *Reduced Rate of Tax on an amount of Income not exceeding* £165.—After deduction of above allowances, the balance of income up to a maximum of £165 is chargeable at 6*s*. 6*d*. in the £, and any balance in excess of £165 is chargeable at 10*s*. in the £.

G. *Life Assurance and Pensions contributions.*—From the tax remaining chargeable after the foregoing allowances appropriate to the taxpayer's claim have been deducted an allowance of Income Tax is authorised in respect of premiums paid by the claimant or his wife on policies on his or her life, subject to the following limitations :—

(*a*) The total amount of premiums in respect of which allowance is to be made (exclusive of any additional premium paid to cover risks arising from war or war service abroad) must not in any case exceed one-sixth of the claimant's *total income* from all sources for the year of claim, or for the year 1938/39 whichever is the higher.

(*b*) In the case of any policy securing a capital sum at death (whether in conjunction with any other benefit or not) the amount of premium to be allowed (exclusive of any premium paid to cover risks arising from war or war service abroad) must not exceed 7 per cent. of that capital sum, exclusive of any additional benefit by way of bonus or otherwise.

(*c*) In the case of policies or contracts which do not secure a capital sum on death, the total amount of premiums to be allowed (exclusive of any premiums paid to cover risks arising from war or war service abroad) must not exceed £100, and the policies must have been taken out not later than 22nd June, 1916. In the case of such policies or contracts effected after that date, no relief is to be allowed, except where they were made in connection with certain superannuation or pension schemes.

(*d*) In the case of a deferred assurance made after 22nd June, 1916, no relief is to be allowed in respect of premiums payable during the period of deferment, except where the assurance was made in connection with certain superannuation or pension schemes.

It should be noted that, subject to the foregoing restrictions, allowance can be made for premiums which are not annual premiums, e.g., a lump sum paid in respect of a single premium policy, and that the allowance is also extended to premiums paid by a wife out of her separate income for assurance on her own life or the life of her husband.

Subject to the above restrictions, the allowance for premiums paid for life assurance or contracts for deferred annuities is as follows :—

Assurances effected after 22.6.1916. Assurances effected before 23.6.1916, where the total income does not exceed £1,000.	At 3*s*. 6*d*. in the £, subject to the restriction that the amount of allowable premiums shall not exceed the amount of taxable income.

Assurances effected before 23rd June, 1916 :—

Where the total income exceeds £1,000 but does not exceed £2,000—at 5*s*. 3*d*. in the £.

Where the total income exceeds £2,000—7*s*. in the £.

Under this scheme the changes in the rate of allowance at the points where the total income exceeds the prescribed limits of £1,000 and £2,000 respectively would give rise to a number of cases where the taxpayer with an income slightly under the limit of £1,000 or £2,000, as the case may be, would pay in all more tax than would be the case if his income were actually above these limits. To obviate this anomaly there is a " marginal relief " provision, under which the allowance for life assurance effected before 23rd June, 1916, is to be increased in such cases by an amount of tax arrived at by deducting—

(*a*) tax at the standard rate of 7*s*. on the amount by which the total income falls short of the limit of £1,000 or £2,000, as the case may be, from

(*b*) tax at one-fourth of the standard rate of 7*s*. on the amount of the premiums allowable.

A preliminary condition of " marginal " relief is that the tax payable exceeds the tax which would be payable if the total income exceeded £1,000 or £2,000, as the case may be.

Relief is allowed at 5/- in the £ on the annual amount (i.e. £1) of Pensions contribution made by a *compulsory* contributor under the Widows', Orphans' and Old Age Contributory Pensions Act, 1925.

Note.

Post-war Credits.—Under Section 7, Finance Act, 1941, the amount of tax ultimately borne by an individual for 1941–42 or any subsequent year, which is attributable to the alterations made by Section 6, Finance Act, 1941, in the earned income and age reliefs, the personal allowance and the exemption provisions shall be ascertained and recorded. The amount shall be notified to the individual as soon as possible and credited to him after the war on a date to be fixed by the Treasury. A Certificate showing the amount to be credited on the date fixed will normally be issued by the C.I. (D.C.B.) at the same time as the notice of assessment for the following year is issued. Thus, the Post-war Credit Certificate for 1941–42 will be issued with the notice of assessment for 1942–43.

SECTION III.

Officers and Other Persons on Foreign Service.

(9) *Income from Foreign and Dominion sources and from British Government Securities.*—The United Kingdom Income Tax Law (*see* paragraph 6B) provides that a person who is *not resident* in the United Kingdom may claim total exemption from United Kingdom Income Tax on income from foreign and Dominion sources, and that a person who is *not ordinarily resident* in the United Kingdom may claim total exemption on income from certain British Government securities.*

An officer or other person *serving at a foreign station*, whether on shore or afloat, *who does not maintain a residence in the United Kingdom*, and whose period of foreign service includes a complete Income Tax year (ending 5th April) may claim to be regarded as not resident and not ordinarily resident in the United Kingdom for the purpose of these exemptions. In such a case the practice of the Board of Inland Revenue is to repay British tax on Foreign and Dominion dividends and the British Government Securities referred to above, received subsequent to the date of going abroad and prior to the date of return to the United Kingdom. (*See*, however, paragraph 10.)

Where he does maintain a residence in the United Kingdom he may claim to be regarded, during a period of foreign service as above, as *not resident* in the United Kingdom and as entitled to exemption from United Kingdom Income Tax accordingly on income from Foreign or Dominion sources, subject to the condition that exemption is lost for any complete Income Tax year, or part of an Income Tax year (i.e., the period after departure in the year of departure or before return in the year of return) during which he visits the United Kingdom, however short the visit may be. (*See*, however, paragraph 10.) It should be noted that, although *not resident*, he is still regarded as *ordinarily resident* in the United Kingdom, unless the foreign service extends over a period of three years or more, and is therefore liable to United Kingdom Income Tax on any income from the British Government securities referred to above.

(10) *Income Tax Allowances, Deductions and Reliefs.*—Where the officer has no income from Foreign or Dominion sources or from British Government Securities, he is entitled to the full allowances, deductions and reliefs granted to residents in the United Kingdom (*see* Section II).

Where, however, the officer has such income the position in relation to these allowances is as follows :—

(i) *For the year in which he departs from (or arrives in) the United Kingdom on (or from) foreign service.*—He is entitled to the full allowances, deductions and reliefs granted to residents in the United Kingdom.

(ii) *For any intervening year during which he is not resident in the United Kingdom* (see *paragraph* 9).—The tax payable is required to be calculated by the following method which has the effect of limiting the allowances, etc., to a proportion of the full allowances, etc.

* The securities to which this exemption applies are as follows:—3½ per cent. War Loan, 4 per cent. Funding Loan, 1960–90 ; 4 per cent. Victory Bonds ; 3 per cent. Defence Bonds ; 3 per cent. War Loan, 1955–59 ; 2½ per cent. National War Bonds, 1945–47 ; 3 per cent. Saving Bonds, 1955–65 ; 2½ per cent. National War Bonds, 1946–48 ; 2½ per cent. War Bonds, 1949–51 ; 3 per cent. Savings Bonds, 1960–70 ; 3 per cent. Savings Bonds, 1960–70, Series A.

(*a*) The amount of tax that would be payable if the "total income" (*see* paragraph 6) chargeable included income which is not liable as well as income which is liable to United Kingdom Income Tax is ascertained, taking into account any of the allowances, etc., set out in Section II.

(*b*) The tax so ascertained is then reduced in the proportion that the income which is liable to United Kingdom Income Tax bears to such "total income" (*see* paragraph 6). For example, if the "liable income" were £300, and the "total income" were £600, the tax actually payable would be one-half of the tax ascertained as in (*a*) above. If the total income is liable, the tax payable is the same amount as would be payable if the individual were resident in the United Kingdom.

(11) Temporary civilian employees (including hired wages personnel serving under agreements) holding subordinate posts at foreign stations, whether recruited in the United Kingdom or at the foreign station, will not be charged Income Tax in respect of the emoluments of their posts, except that when the employee is in the United Kingdom in the year of assessment tax may be chargeable on emoluments remitted to or paid in the United Kingdom.

Where such employees are holding posts at a foreign station which are not of a clearly subordinate character, their liability to assessment of Income Tax will be determined according to the particular facts of their employment.

Note.—Eire is to be regarded as one of His Majesty's Dominions out of the United Kingdom, and any income arising there should be returned for assessment accordingly.

NAVAL PERSONNEL FROM OVERSEAS.

Appendix IV contains instructions concerning persons normally resident abroad who join the Naval Forces of the Crown for service during the war.

SECTION IV.

ALLOWANCES IN RESPECT OF UNIFORM, ANNUAL REGISTRATION FEES AND TOOLS.

(12) Allowances are made to Naval and Marine Officers in respect of uniform expenses as follows :—

(*a*) Officers of Flag Rank, Colonels Commandant and Colonels Second Commandant	£40 per annum.
(*b*) All other Commissioned Officers	£35 ,,
(*c*) Naval and Marine Commissioned Officers from Warrant Rank and Warrant Officers who are required to maintain their uniform at their own expense	£25 ,,
(*d*) Officers of W.R.N.S.	£15 ,,

These allowances are deductible in arriving at "total income" (*see* paragraph (6)).

They are not applicable to officers of the Merchant Navy serving in Royal Fleet Auxiliaries and Hospital Ships, to whom allowances are made in accordance with the scale adopted by the Inland Revenue Department for the Merchant Navy generally. No uniform allowance can be made in the case of Retired Officers serving in Government establishments who are not borne on Ships' Books and are not required to wear uniform during the performance of their official duties.

With the following exceptions the eligibility of an officer for the full relief is not affected by periods during which he is in receipt of unemployed pay or half pay—

(*a*) An officer who is on unemployed pay at full or intermediate rates and/or half pay during the whole of a financial year is not entitled to the uniform allowance relief for that year.

(*b*) An officer placed on half pay with a view to retirement in due course for non-service or placed on half pay for disciplinary reasons never to be employed again, ceases to be eligible for the relief as from the date of ceasing full pay.

(12A) Dental Officers, R.N., are entitled to claim allowances in respect of compulsory annual registration fees payable to the Dental Board of the United Kingdom. No allowance, however, is permissible in respect of subscriptions to professional societies, membership of which is voluntary, nor in respect of the cost of professional literature.

(13) An allowance of £5 per annum may be made from the Naval pay of Shipwright officers and ratings of the Shipwright and Joiner branches, and Engine Room Artificers who are Pattern-makers, Moulders or Coppersmiths, who are required to provide and maintain their own tools.

Note.—Any deductions allowed under the provisions of the Income Tax Acts in respect of the above allowances are to be made by reference to the amount applicable to the year upon the emoluments of which the assessment is based. Where the assessment for any year includes Naval pay for part of a year either on the preceding year basis or actual year basis, the deductions are apportioned on a time basis corresponding to the period during which the Naval pay as assessed arises.

(13A) Where a person, whose place of work or whose residence has changed through circumstances connected with the present war, is obliged in consequence to incur and defray out of the emoluments of the office or employment *additional* expenses in travelling between his residence and his work, the *additional* expense so incurred shall be allowed as a deduction from emoluments in computing the amount of the assessment subject to a maximum deduction of £10 per annum.

SECTION V.

ACCOUNTING ARRANGEMENTS.

PART I.

GENERAL PROCEDURE RELATIVE TO ALL TAXPAYERS IN RECEIPT OF EMOLUMENTS FROM NAVY VOTES EXCEPT WHERE OTHERWISE STATED.

(14) *Income Tax Return Forms* (Form No. 12D).—(A) Return forms are to be issued to and are to be completed by all persons in receipt of £110 per annum (6*s*. a day) or over, except married ratings for whom the limit of £155 per annum or 8*s*. 6*d*. per day may be adopted. Below these rates returns should be rendered if specially called for or if their accounts bear the notations specified in paragraph (20). Returns are not required from the persons referred to in the first sentence of paragraph (11) if there is no claim to reliefs in respect of other assessable income.

In the interests of economy duplicate Forms 12D for retention by the taxpayer cannot be issued.

(*Civil Establishments at Home.*—See paragraph (25) as to restricted use of return forms.)

Except for personnel borne for pay at Civil Establishments at Home, the following details are to be inserted on the title page of the form :—

(*a*) *Before issue*—

(i) D.C.B. file number.

(ii) Date of issue.

(iii) Name, Rank or Rating, Port Division and Official Number, etc.

(iv) The amount of provisional liability to tax for the current year based on the actual charge (or exemption, if applicable) for the prior year.

(*b*) *When the form has been completed by the taxpayer*, the amount entered on page 2, section (*b*), as "Official emoluments" is to be compared with that shown in the "Income Tax notations" column of the ledger or equivalent pay document, and the certificate to that effect, provided on the title page of the return, is to be completed accordingly.

If the taxpayer forwards his form direct to the Assessors of Income Tax as provided in section (C) below, the procedure indicated at (*b*) above will not be operative. The Acct. Officer should therefore prepare and send to the D.N.A. a list of the persons who send in their forms direct, showing the information at (*a*) above and the earnings for the previous year (or in "first year" and "second year" cases an estimate of current year's earnings). The procedure at (*a*) (iv) will not be applicable, and that at (*b*) may not always be practicable, in cases dealt with exceptionally under paragraph (16).

(B) Where a taxpayer claims the reliefs indicated in Section III, he is required to furnish the following information :—

(1) The date of appointment to the Ship or Establishment.
(2) The date when he left the United Kingdom for service abroad.
(3) The Foreign Station to which attached.
(4) Whether he or his wife has a residence in Great Britain or Northern Ireland, and if so, the address of such residence and whether it is being maintained during the period of absence.
(5) Probable date of return to the United Kingdom.
(6) If he is married and his wife has income in her own right, whether his wife has left or intends to leave the United Kingdom.

If so (*a*) the date on which she left or expects to leave the United Kingdom ; (*b*) the probable date of her return.

In order to avoid delay in the settlement of the liability of those entitled to relief as foreign residents, the information required as above should be sent direct to the Chief Inspector of Taxes (*see* paragraph 6A) *at the time of proceeding abroad* and should not be postponed until the next issue of Income Tax return forms.

In all cases in which the claim as a foreign resident is allowed, the taxpayers concerned should similarly notify their return to the United Kingdom to the Chief Inspector.

(C) Income Tax returns should be completed and forwarded with as little delay as possible (so that final assessments may be communicated to enable Income Tax to be adjusted on the correct basis as early in the year as practicable), in two series, marked (*a*) taxable, and (*b*) exempt, to the Assessors of Income Tax, Admiralty, Bath. If preferred, however, the form may be forwarded direct to the Assessors of Income Tax by the taxpayer, but in this event the Accountant Officer should be furnished with such information as he requires to make a provisional assessment (*see* paragraph 16).

When additional forms are needed, application is to be made by Accountant Officers (stating the number required) or, where necessary, by officers on half pay, to the Assessors of Income Tax, Admiralty, Bath.

Surplus forms (after allowing a reasonable margin for contingencies, e.g., amended returns, etc.) should be returned to the Assessors of Income Tax, Admiralty.

Note.—Attention is invited to the fact that Income Tax Returns should be forwarded and requisitions for additional forms made as indicated above, and *not* direct to the Chief Inspector of Taxes (Departmental Claims Branch) except in " Surtax " cases, *see* paragraph 14 E.

(D) Failure to render a completed return within a reasonable time may result in the emoluments being charged at the standard rate of tax without any reliefs. In present circumstances reminders will not be issued.

(E) With reference to the arrangement whereby certain officers liable to surtax are called upon by the Chief Inspector of Taxes (*see* paragraph 6A) to render their Income Tax returns direct to him, it should be noted that the changes in Income Tax law which necessitated this procedure relate solely to the completion of the return form and not to the assessment or collection of Income Tax. *Income Tax* will accordingly be assessed and *collected by deduction from Naval emoluments as previously.* The provisional collection of tax should proceed on the basis laid down in paragraph (16) of this Circular : except in the case of taxpayers borne for pay on the books of civil establishments at home where the appropriate procedure is that laid down in Part III of this Section. *Surtax* will be assessed by the Special Commissioners of Income Tax, Craigside Hotel, Llandudno, and collected by the Accountant and Comptroller-General of Inland Revenue.

(15) *Amended Claims.*—If, during the course of the financial year, the taxpayer becomes entitled to additional reliefs, e.g., by virtue of his marriage, the birth of a child, etc., an amended claim to reliefs should be rendered on Form No. 12D, duly signed by the claimant. In the case of marriage the amended claim should include a declaration of the wife's income, if any, for the preceding year. The claims should be forwarded to the Admiralty through the usual channels.

No adjustment of a provisional or final assessment is to be made by reference to the additional relief claimed until the necessary authority is received from the Admiralty.

(16) *Provisional Assessments.* (Not applicable to Naval and Civilian officers borne for pay at Civil Establishments at Home. *See* Part III of this Section.)—Pending the receipt of the final assessment (*see* paragraph (19)) the Accountant Officer is invariably to charge tax provisionally. This provisional assessment should be based on the assessment for the preceding year unless it is clear that this would be unsuitable. The details are to be recorded on ships' ledgers, etc., as shown in paragraph (20).

Note.—The above is the normal rule but in cases where it is necessary to depart generally from this procedure, e.g., in connection with Budget statements etc., special directions will be issued by Fleet Order.

Where there was no assessment in the preceding year owing to the taxpayer not having been assessed departmentally, the Accountant Officer is to obtain the Income Tax return of the person concerned as soon as possible and calculate therefrom a provisional assessment, observing the general rules laid down in this Circular, and is immediately to forward the return to the Admiralty with particulars of the case and of the charges being made by him.

Such cases are :—

(*a*) New entries.

(*b*) Officers and men reverting to the R.N. after service in Dominion or Foreign Navies (excepting R.N. officers who have been serving in exchange appointments with the R.A.N.).

(Those in category (*b*) are regarded as new entries for Income Tax purposes.) The assessment in these cases should be based on current income.

Naval or Marine personnel rejoining, or Royal Marines entering the R.M. Police, are also assessable on the current year basis in the year of re-entry or entry and in the following year, and the instructions in sub-paragraph 2 above should be applied in these cases.

In cases coming under category (*a*) and sub-paragraph 4 above, all earnings in any capacity prior to entry or re-entry should be taken into account in calculating the provisional assessment. Returns in these cases should be headed " First Entry " or " Re-entry " to ensure their being given special attention. Particulars of income of the year preceding the year of assessment must be entered in the spaces provided in Section B on page 2 of the return form, and particulars of the estimated income of the year of assessment should be entered in the last space of that Section.

If a taxpayer adduces grounds for objection to the amount of a provisional assessment and agreement upon a suitable figure cannot be reached, the Accountant Officer is to refer his Income Tax return (accompanied by a statement of account to 31st March in cases where ships' ledgers, etc., have not yet been sent to the Admiralty) to the Director of Navy Accounts for instructions without delay. If necessary a provisional alteration of the amount of the tax charges may be made by the Accountant Officer pending receipt of instructions. Any such provisional alteration should be reported.

(17) *Notification of Final Assessments and Appeals.*—Every taxpayer will be notified direct by the Chief Inspector of Taxes (*see* paragraph 6A) of his final assessment to Income Tax for the year and how his liability has been arrived at. Each taxpayer on receipt from the Chief Inspector of Taxes of his final assessment should, if he objects thereto, communicate without unnecessary delay, the nature of his objection to the Chief Inspector of Taxes, except in cases where the objection relates solely to the amount of taxable Naval emoluments on which he has been assessed. In such event he should represent his objection to the Accountant Officer who should communicate it, with any remarks he may have to offer, to the Director of Navy Accounts, Admiralty, Bath.

In the early months of the Income Tax year it may not be practicable to issue the Notices of Assessment at the same time as the Forms 375 referred to in paragraph (19). When a taxpayer from this cause is unable to reconcile any considerable variation in the tax deductions from his pay, and the Accountant Officer from the information at his disposal is unable to furnish an explanation, he should, if necessary, apply direct to the Chief Inspector of Taxes for further details. It will be appreciated, however, that such details will be contained in the Notice of Assessment which will be issued as early as possible.

(18) .....

(19) *Tax Charge.*—Tax charges will be communicated on D.N.A. Form No. 375, (or variants) by the Chief Inspector of Taxes to the Admiralty, when they will be transmitted (in the case of ratings, *via* the Drafting Commander of the taxpayer's Port Division) to the Accountant Officer concerned, who should amend (*a*) of the provisional assessment (*see* paragraph (20)) in accordance therewith and also substitute the word " final " for " provisional " (*see* paragraph (16)). The deductions for the remaining quarters of the year of tax are then to be adjusted with reference to the deductions already made, so as to make the correct total deduction for the year. (*See* A.F.Os. 1203/42 and 3102/42.) A form received too late for action in the fiscal year to which it relates should similarly be regarded as authority for charge, or adjustment of provisional charge already made, and the necessary deduction or refund should be shown separately in the ledger or cash account current at the time the form is received and classified to the year then current, but an indication should always be made (in the Remarks column in the ledger) that these represent adjustments for the previous year.

If when the Admiralty instructions regarding the tax chargeable for the year are received the taxpayer objects thereto, action should be taken as follows :—(*a*) If the objection relates *solely* to the amount of Naval emoluments it should be communicated at once through the Accountant Officer to the Director of Navy Accounts, tax charges on the basis of the provisional assessment being continued meanwhile ; (*b*) otherwise the taxpayer himself should (1) immediately communicate his objection to the Chief Inspector of Taxes direct, and if he wishes to suspend the collection of the charge as notified, in favour of a continuance of the provisional charge, he should (2) notify the Accountant Officer accordingly, who should forthwith notify the Director of Navy Accounts that an objection has been raised and that provisional charges are being continued.

NOTES :—

(*a*) The Income Tax charge (normally one quarter of the total liability) is to be made on the ledger of the ship in which the person is borne for pay on the *last* day of each quarter.

(*b*) When officers are discharged from full pay or unemployed full pay to unemployed pay at the intermediate rate, to half pay or to retired pay, a proportion of the quarterly tax deduction should be debited on the ledger.

(*c*) The quarterly tax deduction against the wages account of a Naval rating or Royal Marine, other than a deserter, discharged during the period 1st April to 30th September (excluding any outstanding amounts brought forward from the previous year) is to be omitted or, if made, is to be recredited prior to discharge. If discharge occurs at a later period the full quarterly tax deduction is to be made in respect of the quarter during which the discharge takes place, unless such charge would result in a debit balance ; in that event the tax is to be limited to the amount required to extinguish the credit balance. In invaliding cases no tax should be deducted from the extension of pay authorised by K.R. & A.I., Art. 1583 (3)—*see* A.F.O. 1357/42. Any necessary adjustment in such cases will be effected by the Department of Inland Revenue. In the case of deserters a tax charge should be made limited by the amount of the credit balance, irrespective of the date of ceasing pay. The charge should be a proportion of the full amount of the normal quarterly charge, based on the number of days on pay during the quarter.

This note is not intended to apply to ratings when it is known that they are to be re-engaged. Income Tax in these cases should continue to be charged pending further instructions.

(*d*) Normally, tax liability is brought to assessment in the fiscal year to which it relates, but subsequently, should further liability be disclosed, it is not separately notified as such (by D.N.A. Form No. 375, or variants), but is included in the form issued in respect of the year then current. The amount and the year to which such liability relates is detailed thereon for (1) the information of the taxpayer, and (2) in order that the Accountant Officer in making the necessary recovery may also be in a position to determine the amount to be provisionally charged in the ensuing year. Classification in all cases is that of the year in which the amount is brought to assessment, as shown on the form,

e.g. 1942/43 Charge ... ... £100 } Gross charge £150 less provisional
1941/42 additional charge £50 } charges made in current year.

Classification of foregoing : £150 1942/43. The provisional charge for 1943/44 will, however, be £100, based on the charge for 1942/43 only (*see* para. (16) Note, Clause 1). It is important in such circumstances that the full amount of £150 should be classified to the year 1942–43, since it will be included in the Charge Duplicate for that year (*see* paragraph 37).

The foregoing paragraph does not apply to final assessments which may be issued too late in the financial year, or soon after its close, for adjustment of charges to be effected in the Lady Quarter ledger or cash account. In such cases the necessary adjustment should be made in the Midsummer Quarter ledger or cash account and dealt with as indicated in sub-paragraph 1 of this paragraph.

(*e*) No adjustment of a tax charge is to be made in the pay accounts unless a notification of revision is received from the Director of Navy Accounts.

(*f*) If a Form " 375 " (or variant) has not been issued for the year 1941–42, that issued for the year 1942–43 will cover both years, the tax charge for each year being shown separately for information only. Any provisional charges already made should be set off against the combined assessment for the two years. Any further charge or refund necessary in respect of the earlier year should be brought to account under the current year, i.e. 1942–43, but a note should be made on the Cash Account (or ledger) as indicated in sub-paragraph 1 of this paragraph.

(20) *Tax Notations.*—The following particulars are to be transferred from former accounts and recorded on ships' ledgers or other pay accounts, in respect of all persons in receipt of £110 per annum (6*s*. a day) or over, or £90 or over in the case of a married woman whose husband has an income. In the case of persons who attain this rate at a date during a financial year the notations should not be instituted until 1st April following. On all Transfer Lists and Pay Tickets the details should be shown corrected to the last day on pay.

(*a*) Total tax deductible for the financial year then current or the word " Exempt," if applicable (followed by the word " Provisional " or " Final," as the case may be), prefixed by the letter (*a*).

(*b*) Total amount of tax previously deducted towards the liquidation of (*a*) in the financial year then current, prefixed by the letter (*b*).

(*c*) Total taxable emoluments previously credited in respect of the financial year then current, prefixed by the letter (*c*). Should read "Total emoluments allot. to Admiralty 1942/43"

(*d*) Total taxable emoluments credited in the previous financial year, prefixed by the letter (*d*).

(*e*) The D.C.B. File No. 1/..... derived from the notification of charge when received. (D.N.A. Form No. 375 and variants.)

(*f*) Amount of tax charged for previous financial year, prefixed by the letter (*f*) and indicating whether provisional or final.

Similar information for officers entered on ships' books from unemployed pay at other than full pay rate, or half or retired pay, will be furnished by the Director of Navy Accounts with the instructions for entry for pay.

Where tax exemption is operative in the case of Naval Ratings or Royal Marines, the words " Provisional " or " Final " may be omitted.

Tax notations (*c*) and (*d*) should also be recorded and maintained in the case of persons in receipt of less than £110 per annum (6*s*. a day) :—

(i) In special cases in which instructions are received from the Director of Navy Accounts.

(ii) All Naval pensioner ratings.

(iii) For married women earning £90 or more whose husbands have an income.

The foregoing details, whether relating to an actual assessment of tax or to an exemption, should be reported on each succeeding ledger until superseded by the corresponding particulars relative to the next financial year.

(21) *Transfers.*—Care should be taken to ensure that a sufficient credit balance is transferred to enable the full quarterly tax deduction to be charged at the end of a quarter without bringing the taxpayer into debt.

See *Section V, Part IV, paragraph* (39), *concerning workmen transferred to the United Kingdom from Establishments abroad.*

SECTION V.—PART II.

PERSONNEL OF ROYAL FLEET AUXILIARIES.

(22) Mercantile officers or ratings employed in Royal Fleet Auxiliaries and in the Hospital Ship " Maine " will be assessed to Income Tax locally, and their claims will be dealt with by the Commissioners for the Division in which the officers or ratings reside when ashore. They will be treated in the same way as officers and men of the Mercantile Marine, and all concessions granted to the latter will be given to them. No action, therefore, need be taken on board in regard to the Income Tax of such officers and ratings.

SECTION V.—PART III.

Civil Establishments at Home.

(23) For all Naval and civilian personnel borne for pay at Civil Establishments at home (other than Admiralty Civil Police, "Eng. 6" personnel and industrial staff paid weekly, who are assessed by the local Inspectors of Taxes), the following procedure is applicable.

(24) At a convenient date approaching the beginning of the Income Tax year, Inland Revenue Department forms No. 36A/D.C.B. will be supplied by that Department, for schedules to be prepared for all persons borne for pay on the books of the establishment, whose emoluments for the year preceding the Income Tax year in question exceed £110 (or £90 for a married woman whose husband has an income).

As a first step, only columns 1, 2, 4 and 5 of the schedules should be completed, and the latter returned immediately to the Chief Inspector of Taxes (Departmental Claims Branch), The Hydro Hotel, Llandudno. A statement should be enclosed showing the name, official designation and full postal address of the Accountant Officer forwarding the schedules. In completing these columns the following directions are to be observed, viz. :—

Column 1.—The D.C.B. assessment number should be inserted.

Column 2.—The D.C.B. file number should be inserted.

Column 4.—Surnames should be placed first, followed by initials. Titles and Naval ranks should be given.

Column 5.—The office or position held should be stated.

(25) The Inland Revenue will then return the schedules to the Accountant Officer, with an indication thereon, by the insertion of the letters "N.S." in column 6, of cases where the issue of a return form to the officer is not required. The Accountant Officer should take steps for the early issue of return forms in cases not so marked, and the date of issue of the form should be noted in column 6 of the schedules. The return forms should show the name of the establishment from which they are issued, the date of issue, the Inland Revenue file number on the right-hand top corner, and the assessment number on the left side.

(26) Columns 3 and 7 of the schedules should then be completed according to the following directions, viz. :—

Column 3.—Where there is any system of reference numbers in use, these should be inserted to facilitate identification.

Column 7.—The actual amount of the gross official taxable emoluments from Naval sources for the previous financial year should be inserted. (*See also* paragraph 28.) Where, however, the person entered the Admiralty service on a date subsequent to the 5th April of the previous year, the amount of the estimated emoluments for the current financial year should be entered, if exceeding £110, and the figures for the period in the previous year in addition (£90 in the case of a married woman whose husband has an income.)

(27) Uniform allowance (where allowable) should be shown separately.

(28) Care should be taken to include in column 7 all extraneous taxable allowances, gratuities, overtime payments, etc., paid in respect of the previous financial year. The value of official residences occupied during that year should also be included in the case of civilian officers entitled to civil superannuation, if the residences formed a pensionable emolument of their appointments, but the amount should be entered separately. (*See* paragraph under "Assessment of Official Residences and Quarters," Appendix II.)

(29) Non-taxable allowances should be excluded. The retired pay of Naval Officers should not be included as this is assessed by the Paymaster-General, but in the case of ex-Naval ratings, etc., who draw their pensions in addition to civil pay, the amount of the pensions (other than disability pensions) should be included with a note "Includes Naval (or Marine, etc.) Pension £ : : ."

(30) After action has been taken in accordance with paragraphs (25) to (29), the schedules should at once be returned to the Inland Revenue Department. It is important that this should be done at the *earliest possible date*, and the schedules should not be retained for the completion of isolated items as to which further investigation may be necessary.

(31) At the earliest possible date, the Inland Revenue will again return the schedules to the Accountant Officer, showing thereon the provisional amount of tax chargeable for the year. This provisional figure will form the basis of the quarterly tax charge for the officer concerned, until a notification of the final charge for the year is received from the Inland Revenue Department (*see* paragraph 33). Should, however, a provisional figure not have been supplied on Form 36A/D.C.B. in any case, enquiries should be made of the Departmental Claims Branch, when the required figure will be furnished.

Any amounts outstanding (recoveries or refunds) at the close of the previous year, i.e., 31st March, should be brought to account in the first quarter (Midsummer Quarter) of the current year. They should, however, be classified to the current year, but shown separately in the cash account, and earmarked "Arrears of previous year". These items will be brought forward, but shown separately by the Inland Revenue Department in column 5 of the "Charge Duplicate" for the following year.

(32) After the return of the schedules from the Inland Revenue Department as indicated in paragraph 31, they should be *retained in the establishment*, and the actual amounts of tax deducted quarter by quarter should be recorded in columns 8 to 11 of the form. Notations should also be made on the schedules as to officers entered and discharged during the year (*see* paragraphs (35) and (37) below).

(33) The final tax charge for the year will be communicated to the Accountant Officer under similar arrangements to those set out in paragraph (19).

Note.—In the case of new entries in the current year of assessment where the total gross taxable pay exceeds £110 p.a., Cashiers should obtain the Returns of the persons concerned and calculate therefrom provisional assessments based on current income. All earnings, in whatever capacity, prior to entry should be taken into account in calculating the provisional assessments. The general rules laid down in the Circular should be observed and the Returns should be forwarded immediately to the Admiralty with particulars of the charges being made.

(34) Tax notations on transfer lists, etc., should be in the form set out in paragraph (20). In cases of transfer from one establishment to another, the Inland Revenue "file number" and "assessment number" assigned to the transferee should be given. When transfer takes place during the course of a quarter it may be desirable to make a proportionate tax deduction in effecting payment of the balance of salary to the date of transfer.

(35) The Accountant Officer of the new establishment (if an establishment at home using this system) should enter the name and office of the newly arrived officer, and the Inland Revenue Department file number and the assessment number on his schedule (columns 1, 2, 3, 4 and 5), with a note in the appropriate column as to the establishment from which the transfer was made, and the amount of tax for the current year deducted at that establishment.

(36) The Inland Revenue file number and assessment number should be quoted on Form D.143 (Return of Discharge) when any person to whom this section applies is finally discharged from the Service from any cause, e.g., death, resignation and superannuation. For salaried officers so discharged, including those transferred to another Department of State, the particulars set out in paragraph (20) should be given in the special notification to Branch 5 of the Directorate of Navy Accounts rendered in accordance with Article 39A, Cash Duties Instructions. (*See also* A.F.O. 3723/42.)

When weekly paid non-industrial staff, whose balances are settled locally, are discharged on account of death or retirement, these particulars should be communicated on Form No. 6A (D.C.B.) to the Chief Inspector of Taxes (Departmental Claims Branch), and the balance due should not be paid until the Income Tax to be charged or credited has been notified by that Branch. In the case of transfers of non-industrial employees paid weekly to another Department of State, any balance of pay or tax remitted to the new department should be excluded from the particulars communicated to the Chief Inspector of Taxes

(D.C.B.) and payment to the new department can be made at once. (*See* Article 39A, Cash Duties Instructions.) In all other cases of discharge of weekly non-industrial staff, the procedure will be as follows :—

(*a*) If deductions (either provisional or final) are being made, the balance of pay is to be released without regard to any further collection of tax other than arrears for a year prior to the year of cessation and a report furnished to the Chief Inspector of Taxes, D.C.B., on Form 6A adapted, of the emoluments and tax deducted to date of cessation.

(*b*) If no deductions have been made and there is sufficient information on which to compute the tax due (on the basis of the actual earnings of the year to the date of cessation), this sum is to be deducted, the balance of pay released and the facts reported to the Chief Inspector of Taxes, D.C.B.

(37) After the end of the financial year, the Inland Revenue Department will send to each establishment a comprehensive statement of the Income Tax charges brought to assessment in the year and notified to the establishment for collection. These statements (called " Charge Duplicates " by the Inland Revenue Department) should be compared with the information noted on the Form 36A/D.C.B., and particulars of all Income Tax recoveries and/or refunds brought to account in the cash accounts for the year ended 31st March should be entered in column 6 of the statement. Any arrears (*vide* paragraph 31) should be shown separately from current year's tax, and a suitable note made in the " Remarks " column. Items outstanding for the year of assessment should be shown in column 8 as hitherto.

Explanation should be furnished of any variations between the amounts notified for recovery and those actually recovered.

In the case of personnel discharged, the date and cause of discharge should be indicated, and in the case of transfers to other establishments, the date of transfer and name of new establishment should be stated.

Particulars should similarly be given concerning personnel borne during the year of assessment but not included by the Inland Revenue Department on the " Charge Duplicate " the date and origin of entry and the amount of tax recovered being stated.

The grand total of column 6 of the statement should be agreed with the total tax brought to account in the cash accounts for the four quarters of the financial year.

The " Charge Duplicate " should be completed and returned to the Inland Revenue Department (Departmental Claims Branch) as soon as completed.

SECTION V.—PART IV.

Establishments Abroad.

(38) At establishments abroad the same procedure should be followed as laid down in Section V, Part I, for Officers of the Fleet.

(39) Wherever possible the Accountant Officer should certify on the Income Tax return forms that the amount of official pay, etc., stated therein is correct.

When a workman is transferred to the United Kingdom from an establishment abroad, an adjustment of his Income Tax assessment for the year in which the transfer takes place is necessary.

For such persons the Cashier of the establishment abroad is to return the Notification of Income Tax Charge (Form No. 377) direct to the Director of Navy Accounts, Branch 5, together with a statement (either endorsed on the form or separately) showing (1) the taxable emoluments and amount of tax deducted for the current year to date of transfer, and (2) the total taxable emoluments for the preceding year. The same action is to be taken if the Notification of Income Tax Charge (Form No. 377) is not received until after the man has left the establishment.

Particulars of the assessment and the amount of tax deducted should continue to be shown on the transfer list (D.135) but the Cashier of the establishment to which the workman is transferred should not adjust the Income Tax charges, but should transmit immediately to the Director of Navy Accounts, Branch 5, any Forms No. 377 that may be erroneously forwarded to him.

The emoluments of a workman (established or hired) subsequent to the date on which he ceases to be borne on the books of the establishment abroad (including the amount paid to him in respect of time spent on passage) should be included in the return rendered by the home establishment to the local Inspector of Taxes in accordance with Article 192 of the Instructions for the Conduct of Cash Duties, 1932. Amounts paid to workmen in respect of the outward passage should be included in the return rendered by the establishment abroad only in the case of established men.

(39A) At the earliest possible date after the beginning of the Income Tax Year a list is to be prepared on Inland Revenue Department Forms No. 36A/D.C.B., which will be supplied by that Department, showing all Established employees (Officers and other grades) borne on the books of the Establishment whose emoluments are in excess of £110 per annum (£90 for a woman whose husband has an income). For this purpose it will only be necessary to complete columns 1 to 7 on the left-hand side of the form. The form should then be forwarded to the Chief Inspector of Taxes, Departmental Claims Branch, The Hydro Hotel, Llandudno.

SECTION VI

General.

(40) It is pointed out that all sources of taxable income, including the annual value of property owned, whether let or occupied by the taxpayer himself, and any investment income not taxed at the source, e.g., Long Service Pensions of serving ratings, Profits as Messman, Band Engagements, Shoemaker's and Master Tailor's pay, interest on Bank Deposits, including deposits with the Naval Savings Bank, War Loan, etc., or from foreign and Dominion sources, should be included in the return of income made by the taxpayer. Particulars of any annual charges (e.g., ground rent, mortgage interest, etc.) should be included in the space provided in the return form.

(41) *Correspondence.*—All correspondence relative to Income Tax is to be returned as soon as dealt with and not retained as enclosures to the ledger or cash account.

(42) *Casual Payments.*—Unless special instructions are received in individual cases Income Tax on casual emoluments, e.g., for pilotage, Colonial allowances, officiating at Courts-Martial, etc., should not be recovered by way of deduction at the time of payment. All such payments, if taxable, are to be carefully noted by the taxpayers who receive them for inclusion in their Income Tax return forms for the year following the year in which they are earned, and they should be included in the total taxable emoluments in the Remarks column of the ledger, prefixed by the letter (c) (*see* paragraph (20)). These payments should normally be made on the ledger. In any exceptional case, where payment is made through the Cash Account, special steps should be taken for the inclusion of the amount in the ledger record of the taxable emoluments.

(43) *Recovery of Tax on Untaxed Income.*—Where the amount of tax due in respect of untaxed interest is appreciable, the taxpayer may, if he so desires, have it recovered in one lump sum, either as a direct payment or by deduction.

If any taxpayer takes exception to the inclusion of items of untaxed interest in the Naval assessment, such interest will in his case be assessed locally.

APPENDIX I

Assessment of Money Allowances and other Additions to Pay.

1.—The following allowances and gratuities are in all cases exempt :—

(*a*) Victualling, Messing, Provision, and Ration allowances payable to officers and men—other than civilians—entitled to rations in kind, and Grog money paid to ratings.

(*b*) Messing allowances to Gunroom and Warrant Officers messing in a superior mess.

(*c*) Table allowances of Flag Officers and Commodores, and entertaining allowances to all officers.

(*d*) Allowances to Overseers in lieu of office accommodation.

(*e*) Vacation allowance to Masters at Dartmouth College.

(*f*) Travelling and other allowances to cover expenses incurred in the discharge of official duties.

(*g*) Field allowances to officers and men employed on Military duties on shore.

(*h*) Climate pay. NOT Tropical allowance (*see* below).

(*i*) Gratuities for wounds and injuries.
(*j*) Gratuities to Naval ratings for specially gallant actions, and to Naval ranks and ratings for the destruction of mines, etc.
(*k*) Retiring gratuities to officers when not entitled to superannuation.
(*l*) Outfit gratuities.
(*m*) Clothing and bedding gratuities on re-engagement.
(*n*) Kit upkeep allowance to Naval ratings.
(*o*) Interpreters' gratuities. (It should be noted that *extra pay* as Interpreter *is* taxable.)
(*p*) Disability and war gratuities.
(*q*) Payments to Civilians under the Workmen's Compensation Acts and Government schemes framed thereunder and payments of compensation for war injuries and injuries to Departmental A.R.P. Volunteers, Home Guards, etc., under the various Personal Injuries Schemes, 1939, *et seq.* Where sick pay is issued as an alternative to such payments the portion representing war injury pay is exempt and the balance taxable.
(*r*) Ratings' marriage allowance, including children's allowances.
(*s*) Special leave allowance—Fleet Air Arm and Submarine Service (A.F.Os. 2609/42 and 4504/42).

II.—Lodging allowances to officers and men—other than civilians—are exempt.

III.—(1) The following allowances are exempt only when payable at daily rates for not more than three months (91 days). If payable at annual rates they are liable to tax from the date of payment.

(*a*) Allowances to Civilian Officers in lieu of houses.
(*b*) Lodging money to civilians.

(2) Subsistence allowance payable to Civil personnel, etc., who maintain two homes is not taxable. If two homes are not maintained, subsistence allowance will not be taxable unless the period of payment extends to more than three months, in which event one half the allowance will be taxed.

IV.—Allowances in lieu of servants to officers at home or abroad, whether at annual or daily rates, are only exempt when paid for not more than three months.

V.—Officers' marriage allowance, including children's allowance, is exempt with the following exceptions :—

Old scheme of marriage allowance

(*a*) Children's allowance paid after 31st December, 1941, under the authority of A.F.O. 5607/41, paragraph 3, to married officers residing with their families in married quarters, is taxable.
(*b*) That portion of marriage allowance payable in accordance with A.F.O. 403/39, Schedule B (2), which is in excess of the allowance to which the officer would be entitled under Schedule B (1) is taxable (*see* A.F.O. 5607/41, paragraph 6).
(*c*) Sixpence a day of the marriage allowance payable to childless married officers of the R.N. Shore Signal Service and R.N. Shore Wireless Service in accordance with A.F.O. 1103/39, paragraph 4 (*b*) is taxable (*see* A.F.O. 5607/41, paragraph 6).

New scheme of marriage allowance

(*a*) The "special allowance" paid to certain married officers in accordance with Schedule B and Schedule C of A.F.O. 5608/41 is taxable.

Married Warrant Officers on "special rates" of pay

The portion of the "special rate" which should be regarded as non-taxable marriage allowance is as laid down in A.F.O. 4843/42.

Accounting note.—The amount of officers' marriage allowance shown in the "Miscellaneous Credit" column of the ledger should be divided into two separate items distinguishing between taxable and non-taxable items by the letters "T" and "N.T."

VI.—*All other gratuities, allowances and additions to pay derived from Navy funds, including Tropical allowance and other extra pay, pilotage and bonus are liable to Income Tax.*

It should be particularly noted that the gratuity of £1,000 payable to a medical officer transferred to the permanent list is, in accordance with existing Income Tax law, subject to Income Tax as part of the officer's income.

Non-taxable allowances and emoluments do not form part of the total income and are to be omitted from the return of income in claiming deductions or relief.

APPENDIX II.

Assessment of Official Residences and Quarters.

Persons entitled to civil superannuation, *serving in Great Britain and Northern Ireland*, whose residences or quarters form a pensionable emolument of their appointments, are liable to include in their salary, wages, and other emoluments for Income Tax purposes, the value of such residences or quarters, *see* paragraph 28, according to the following scale, in lieu of local payment under Schedule A, viz. :—

When in receipt of salaries or wages

Of and above £634 19*s.*	£105 (i.e., £75 a year, temporarily increased by 40 per cent.).
Of £396 17*s.* and under £634 19*s.*	£70 (i.e., £50 a year temporarily increased by 40 per cent.), or 1/6th of the total amount of the salary, wages, and other pensionable emoluments, whichever is the less.
Of £289 14*s.* and under £396 17*s.*	£49 (i.e., £35 a year temporarily increased by 40 per cent.), or 1/6th of the total amount of the salary, wages, and other pensionable emoluments, whichever is the less.

Under £289 14*s.*, not more than 1/6th of the total amount of the salary, wages, and other pensionable emoluments.

The value of an official residence or quarters, within *Great Britain and Northern Ireland*, fixed in accordance with the above scale where applicable, is to be declared by civil personnel in all claims in respect of deductions or relief made by the occupants. Relief in respect of earned income (*see* Section II, paragraph (8A)) will be allowed in respect thereof.

Until further notice Naval officers who occupy residences or quarters within *Great Britain and Northern Ireland* belonging to the Crown are not liable to assessment to Income Tax under Schedule A on the value of such residences or quarters.

The value of an official residence or quarters *abroad* is not assessable to Income Tax.

APPENDIX III.

Naval Officers on Loan to Dominion and Colonial Governments.

1. The position with regard to the payment of United Kingdom Tax by British Naval officers serving outside the United Kingdom under Dominion and Colonial Governments is, in general, similar to that of officers on foreign service, which is explained in paragraphs (9) and (10) of Section III of this Circular.

2. Emoluments which are ultimately borne by the Dominion or Colonial Government under which the officer is serving are normally regarded as income from a Dominion or Colonial source.

3. For the year in which the officer ceases to draw emoluments which are ultimately borne by the Imperial Government, the basis of liability set out in Section I of this Circular for cases of cessation of employment is applicable.

4. For the year in which an officer, who has been in receipt of emoluments ultimately borne by the Dominion or Colonial Government reverts to Naval emoluments, the basis of liability set out in Section I as affecting officers entering or re-entering the Service is applicable.

5. For any Income Tax year for which an officer is regarded as not resident in the United Kingdom, his liability will be calculated as explained in sub-paragraph (ii) of paragraph (10) of this Circular, the emoluments which are ultimately borne by the Dominion or Colonial Government being regarded as income not liable to United Kingdom Income Tax.

6. For any Income Tax year for which an officer is regarded as resident in the United Kingdom, liability to United Kingdom Income Tax arises in respect of so much of the emoluments from the Dominion or Colonial Government as is remitted to, brought into, or received in the United Kingdom.

7. Upon the final return to the United Kingdom of an officer who has for the period of his loan service abroad been regarded as not resident in the United Kingdom, liability to United Kingdom Income Tax will arise in respect of any emoluments (including allotments of pay) accruing in the year of return and payable in the United Kingdom by or through any officer or agent of the Dominion or Colonial Government otherwise than out of the public revenue of Great Britain or Northern Ireland. Where, however, the officer did not maintain a home in the United Kingdom prior to his return, liability will not be claimed in respect of that part of the emoluments payable in the United Kingdom which accrued prior to his return. Further, if the officer's arrival is within the period for which he has drawn pay outside the United Kingdom, liability will arise on any sums emanating from such pay which are brought or remitted to or otherwise received in the United Kingdom in the year of his return.

8. An officer becoming liable, under paragraph 6 or 7 above, to United Kingdom tax on any of his Dominion or Colonial emoluments or on his remittances to the United Kingdom out of such emoluments, who can produce evidence that he has been charged to tax in the Dominion or Colony on those emoluments, may be entitled under Section 27 of the Finance Act, 1920, to a measure of relief in respect of the double taxation.

9. If any further information is desired in a particular case, application should be made to the Chief Inspector of Taxes (*see* paragraph (6A) on page 5).

APPENDIX IV.

Naval Personnel from Overseas.

1. Persons normally resident abroad who join the Naval Forces of the Crown direct for service during the war will continue to be exempt from liability to United Kingdom Income Tax on income derived from sources abroad and from British Government securities the interest on which is exempt from United Kingdom tax if the securities are in the beneficial ownership of a person not ordinarily resident in the United Kingdom. They will be required to pay tax only on service pay from Naval funds and on other income from sources in the United Kingdom.

2. Members of Dominion or Colonial Forces who under war-time arrangements are transferred into United Kingdom payment will be chargeable to United Kingdom tax on their service emoluments but the tax will be restricted to the amount which would have been payable at Dominion or Colonial tax rates had they remained in Dominion or Colonial Payment. This treatment does not apply to the case of Dominion or Colonial Nationals entered direct into or permanently transferred to United Kingdom Forces or to British Service Officers returning to United Kingdom Payment from service with or secondment to Dominion or Colonial Forces.

3. In determining the amount of tax payable on the liable income, the full Income Tax personal allowances and reliefs will be admissible and no account will be taken for total income purposes of income from foreign and colonial sources or from the British Government securities referred to in paragraph 1.

4. This treatment applies only to the officers or men mentioned in paragraph 1 and not to their wives; liability to United Kingdom Income Tax in respect of a wife's income will continue to be governed by the ordinary rules.

5. Claims for relief under this instruction should be made on Return Form No. 12D or 38A (F.R.), a note being made in manuscript at the foot of page 2 of the form that exemption is claimed on income from foreign and Colonial sources (particulars of which need not be declared). Page 4 of the form should be completed in respect of the personal and other allowances claimed.

Personnel concerned who have already completed a Return for 1941–42 and 1942–43 should notify their Accountant Officer that they claim the concession.

APPENDIX V

The following A.F.Os. give more detailed information on the points indicated, viz :—

A.F.O. 1203/42—New entrants.

A.F.O. 3102/42—Local assessments and minimum issues of pay.

A.F.Os. 3723/42, 4823/42—Discharge of non-industrial staff.

A.F.Os. 4099/42, 4854/42 and 4973/42—Personnel from overseas.

A.F.O. 6010/42. Ratings discharged, missing or dead.

(*A.F.O. 3898/41*)

(*This Order has been reprinted for posting on Notice Boards.*)

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