

Annex V

TAX CREDIT TRANSITIONAL RELIEF (TCTR)

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TAX CREDIT TRANSITIONAL RELIEF

V.1 Introduction

V.1.1 From 6 April 1999 dividends paid by UK companies only carry tax credits of 10%. This tax credit can now only be set off against a shareholder's liability for tax on the dividend. So, charities, which are exempt from tax on the dividend can no longer claim repayment of the tax credit, as they could prior to 6 April 1999. .

V.1.2 In order to compensate charities for the loss of repayable tax credits Section 35 of F(No.2)A 1997 provides for payment out of public funds of amounts calculated as a percentage of the dividend received by the charity.

V.1.3 The payment is available, on their making of a claim to the Inland Revenue, to

- charities
- bodies listed in section 507 ICTA 1988
- scientific research organisations.

The payment is **not** available to pension schemes, including pension schemes of charities.

V.2. When is the payment available?

V.2.1 Payment is due on dividends paid on or after 6th April 1999 and before 6th April 2004 by UK resident companies.

Payment is not due on

- fixed interest payments
- interest distributions from an authorised unit trust

- overseas investments
- estate income
- Bank of England stock (this includes Treasury, Exchequer and Loan Stock)
- enhanced scrip dividends.

V.3 What payment is due?

V.3.1 The payment is a payment from monies provided by Parliament and takes the form of a percentage of the dividend received by the charity.

V.3.2 The percentages are:

- 6 April 1999 to 5 April 2000 21 per cent
- 6 April 2000 to 5 April 2001 17 per cent
- 6 April 2001 to 5 April 2002 13 per cent
- 6 April 2002 to 5 April 2003 8 per cent
- 6 April 2003 to 5 April 2004 4 per cent

V.4 How is the payment calculated?

V.4.1 The following example shows how the transitional relief payment is calculated.

A charity receives the following amounts as dividends from a company resident in the UK:

1 March 2001 £900
 1 March 2002 £850
 1 March 2003 £875

The total payment due will be calculated by the charity as follows:

2000 - 2001	$£900 \times 17\% = £153.00$
2001 - 2002	$£850 \times 13\% = £110.50$
2002 - 2003	$£875 \times 8\% = £70.00$

V.5 What are the time limits for claims?

V.5.1 Charities which are **trusts** must make a claim within 2 years of the end of the tax year in which the dividend is paid.

V.5.2 For charities which are treated as **companies** for tax purposes the time limit is 2 years from the end of the accounting period in which the dividend is paid.

V.6 What form does the claim take?

V.6.1 Details of the charity's claim is made on form R68(TCTR), available from IR Charities. Once the payment due has been calculated the charity enters the total amount claimed on form R68(2000).

V.6.2 The form asks for the name of the company paying the dividend, the date the dividend was paid and the amount of dividend received. The "date dividend paid" is the date shown on the certificate received from the company and not the date it was received by the charity. The dividend voucher should not be sent with the claim, but should be retained in case of further enquiry by IR Charities.

V.7 What about trust income?

V.7.1 In certain circumstances, where a charity is the beneficiary of a trust, it will also be beneficially entitled to the whole of the trust's income. In these cases, the charity is entitled to claim a transitional relief payment on any dividends arising to the trust.

V.7.2 Claims to transitional relief payments in these cases will normally be based on form R185E rather than by a dividend voucher showing a tax credit. This form should not be sent with the claim, but retained in case of further enquiry. The charity's entitlement will depend on the precise wording of the trust deed or will.