

## FOREIGN TAX CREDIT RELIEF: CAPITAL GAINS

If you want to calculate your tax, use this Help Sheet to work out the foreign tax credit relief available against your capital gains. You will need the **Comprehensive Tax Calculation Guide**, available from the Orderline.

Under the terms of a Double Taxation Agreement, or unilaterally, relief by way of credit for foreign tax paid ('foreign tax credit relief') is available against UK Capital Gains Tax on the same gains.

Alternatively, the foreign tax may be deducted in calculating the gain or loss on a particular disposal (see page CGN19 of the Notes to the Capital Gains Pages). However, this will only usually be to your advantage where no UK tax is chargeable on a disposal, for example, when a loss results in there being no UK tax against which the foreign tax can be set off.

This Help Sheet will enable you to work out the amount of foreign tax credit relief you can claim. **You will also need to obtain and complete the Foreign Pages.** Ask the Orderline for a copy if you do not already have these.

### General principles

- The amount of credit for foreign tax is not to exceed the lesser of the foreign tax charged on the gain, and the UK tax on the doubly taxed part of the gain - see below.
- If the foreign tax paid exceeds the UK tax on the gain, the excess can neither be deducted from the amount of the gain chargeable to Capital Gains Tax nor can it be repaid.
- The foreign tax is not increased by any indexation allowance.
- **The amount of credit must be calculated separately for each gain.** An excess of foreign tax over the UK tax on a particular gain cannot be credited against UK tax on any other gain.

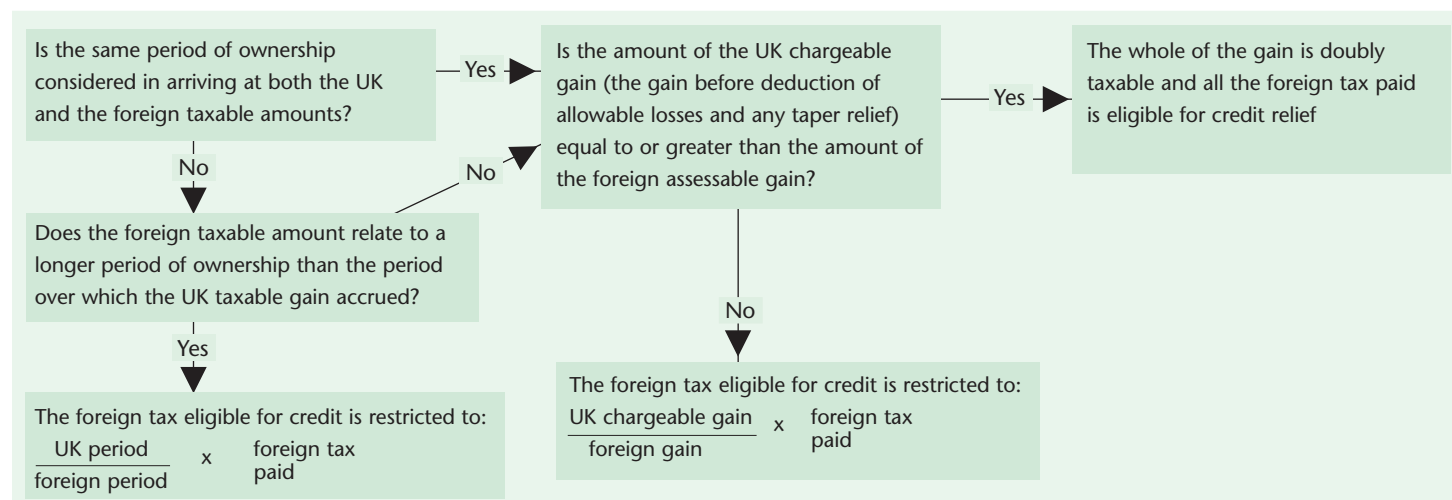
### Whether a gain is doubly taxed

Because different countries have different rules for determining the amount of a taxable capital gain, the amount chargeable to UK Capital Gains Tax will often be different from the amount of the gain charged to tax in the foreign country. It might therefore be the case that only part of a particular gain is regarded as doubly taxed in the UK and the foreign country. In those circumstances, the amount of foreign tax eligible for relief needs to be restricted. The flowchart on page 2 of this Help Sheet will help you to calculate the amount of foreign tax eligible for foreign tax credit relief.

### Method

- Step 1** Make sure that you have completed pages CG1 or CG2 to CG6, and CG8 of the Capital Gains Pages and boxes c14.13 to c14.22 in the Comprehensive Tax Calculation Guide.
- Step 2** Complete Page F3 of the Foreign Pages to show the amount of each gain in respect of which you are claiming foreign tax credit relief; the period over which the UK chargeable gain accrued; the amount of the gain under the foreign country's tax rules; the period over which the foreign gain accrued and the amount of the foreign tax paid.
- Step 3** Use the flowchart on page 2 of this Help Sheet to calculate the amount of foreign tax paid that is available for credit against your UK Capital Gains Tax liability.
- Step 4** Calculate separately the UK Capital Gains Tax chargeable for each gain on which you have paid foreign tax and for which you are claiming credit. Use the Working Sheet on page 3 of this Help Sheet to help you do this.
- Step 5** Compare the UK Capital Gains Tax chargeable on each gain with the amount of foreign tax eligible for credit. The relief you can claim is the **lower** of the two amounts. Copy the total relief due to box 6.10 of the Foreign Pages and box c14.23 in the Comprehensive Tax Calculation Guide.

FOREIGN TAX CREDIT RELIEF WORKING SHEET (FTCRWS): CAPITAL GAINS



COMPLETING THE FOREIGN TAX CREDIT RELIEF WORKING SHEET FOR CAPITAL GAINS

Column A (lines 1-16)

You should enter in rows 1 - 10 of column A details of your tapered chargeable gains and any gains attributed to you as settlor or beneficiary of a settlement. Your tapered gains are those after all allowable losses have been set off and where appropriate taper relief has been applied. You can find details of all of the gains to enter in column M on Page CG3 of your Capital Gains Pages. For information on Taper relief see the Notes to the Capital Gains Pages, page CGN18, and *Help Sheet IR279: Taper relief*.

Enter in rows 13 to 16 the figures as indicated from the appropriate boxes of your Tax Calculation Working Sheet.

Columns B and C (lines 1-16)

Use these columns to analyse the overall figures shown in column A.

Enter in column B the amounts corresponding to gains chargeable to UK Capital Gains Tax for which you are not claiming foreign tax credit relief, that is, any UK gains and any foreign gains that have either not been subject to any foreign tax or where the foreign tax paid has been deducted in computing the amount of the gain that is chargeable to UK tax - see page 1 of the Help Sheet.

Enter in columns C (i) to (viii) individual gains that have been subject to foreign tax for which you are claiming foreign tax credit relief. If you have more than eight such gains, photocopy page 3 before making any entries.

When entering details of the annual exempt amount (line 11) and the amounts chargeable at the different rates of tax (lines 13 to 15), you should allocate the annual exempt amount and rate bands first against any gains in column B and then against gains in column C, beginning with the item that has been subjected to the lowest effective rate of foreign tax.

Column C (line 17)

Enter the respective amounts of foreign tax eligible for foreign tax credit relief from column D of Page F3 of the Foreign Pages.

Column C (line 18)

For each separate column, enter the lower of the figures at lines 16 and 17.

Column A (line 18)

Add up all the figures in column C, line 18, and enter the total in column A. This is the total foreign tax credit relief allowable for the year. Copy this figure to box 6.10 in your Foreign Pages and box c14.23 in the Comprehensive Tax Calculation Guide.

Example 1

You have gains after losses and taper relief of £32,000; consisting of UK gains of £15,000, Country X gains of £10,000 (foreign tax paid at 35%) and Country Y gains of £7,000 (foreign tax paid at 40%). You are liable to Capital Gains Tax, after deducting the annual exempt amount of £8,200, on £24,100 of the gains. Your Tax Calculation Working Sheet shows the gains as being charged partly at the savings rate (20% - £12,000) and partly at the higher rate (40% - £12,100).

To maximize your foreign tax credits you would allocate your gains to the tax rate bands as follows:

	Column A	Column B	Column C(i)	Column C(ii)
Gains	32,000	15,000	10,000	7,000
minus annual exempt amount	8,200	8,200		
<i>equals</i> net taxable gains	23,800	6,800	10,000	7,000
Gains chargeable at:				
20%	12,000	6,800	4,900	-
40%	11,800		5,100	7,000
Capital Gains Tax chargeable	7,120	1,360	3,020	2,800
Foreign tax eligible for credit relief			3,500	2,800
Foreign Tax credit relief allowable	5,760		3,020	2,800

## Foreign Tax Credit Relief Working Sheet for Capital Gains Tax

Insert in rows 1 to 10 below details of tapered gains and attributed gains from column M on Page CG3 of your Capital Gains Pages	Total gains for which no FTCR is claimed	Items of gains in respect of which relief is claimed by way of foreign credit			
		Foreign gain 1 C (i)	Foreign gain 2 C (ii)	Foreign gain 3 C (iii)	
A	B				
1. £					
2. £					
3. £					
4. £					
5. £					
6. £					
7. £					
8. £					
9. £					
10. £					
11. Minus annual exempt amount	£ 8,200	£	£	£	
12. Equals net taxable gains (from box 8.8)	£	£	£	£	
13. Gains chargeable at 10% (from box c14.14)	£	£	£	£	
14. Gains chargeable at 20% (from box c14.17)	£	£	£	£	
15. Gains chargeable at 40% (from box c14.19)	£	£	£	£	
16. Capital Gains Tax chargeable (from box c14.21)	£	£	£	£	
17. Foreign tax eligible for credit relief			£	£	£
18. Foreign Tax Credit Relief allowable.	Copy to boxes 6.10 and c14.23 £		£	£	£

## Foreign Tax Credit Relief Working Sheet for Capital Gains Tax

Totals	Items of gains for which relief is claimed by way of foreign credit				
	Foreign gain 4 C (iv)	Foreign gain 5 C (v)	Foreign gain 6 C (vi)	Foreign gain 7 C (vii)	Foreign gain 8 C (viii)
A					
1. £					
2. £					
3. £					
4. £					
5. £					
6. £					
7. £					
8. £					
9. £					
10. £					
11. £ 8,200	£	£	£	£	£
(from box 8.8)					
12. £	£	£	£	£	£
(from box c14.14)					
13. £	£	£	£	£	£
(from box c14.17)					
14. £	£	£	£	£	£
(from box c14.19)					
15. £	£	£	£	£	£
(from box c14.21)					
16. £	£	£	£	£	£
17. £	£	£	£	£	£
Copy to boxes 6.10 and c14.23					
18. £	£	£	£	£	£

*These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.*