

## TAX CREDIT RELIEF: LUMP SUMS AND CAPITAL GAINS

If you want to calculate your tax use this Help Sheet to work out the tax credit relief available against your income and your capital gains.

It is divided into 2 parts:

- PART A:** contains instructions and a working sheet to tell you what figure to put in box 6.9 on your Foreign Pages.
- PART B:** provides guidance, instructions and a working sheet to help you decide the figure to put in box 6.10 on your Foreign Pages.

Boxes 6.9 and 6.10 both feed into the working sheet in your Tax Calculation Guide (including Capital Gains and Lump Sums etc.).

### **PART A: TAX CREDIT RELIEF WORKING SHEET (TCRWS): INCOME**

Use the Working Sheet on page 4 to work out tax credit relief on your income. The instructions on page 2 tell you what to do.

### **PART B: TAX CREDIT RELIEF WORKING SHEET (TCRWS): CAPITAL GAINS**

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

Alternatively, the foreign tax may be deducted in calculating the gain or loss on a particular disposal (see page CGN15 of the Notes to the Capital Gains Pages). This will only usually be to your advantage, however, where no UK tax is chargeable on a disposal, for example, when a loss results so that there is no UK tax against which the foreign tax can be set off.

This Help Sheet will enable you to work out the amount of 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 chargeable on the doubly taxed (see below) part of the gain;
- 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 chargeable on a particular gain cannot be credited against UK tax chargeable 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 which is 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 7 of this Help Sheet will help you to calculate the amount of foreign tax eligible for credit relief.

#### **Method**

- Step 1** Make sure that you have completed boxes 8.1 to 8.21 of the Capital Gains Pages and boxes F1 to F59 of the Tax Calculation Working Sheet.
- Step 2** Complete Page F3 of the Foreign Pages to show the amount of each gain in respect of which you are claiming 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 7 of this Help Sheet to calculate the amount of foreign tax paid which is available for credit against your UK Capital Gains Tax liability.
- Step 4** Calculate separately the UK Capital Gains Tax chargeable in respect of each gain on which you have paid foreign tax and for which you are claiming credit. Use the working sheet on page 8 of this Help Sheet to allocate allowable losses and the annual exempt amount in the most beneficial way.
- 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 F60B of the Tax Calculation Working Sheet.

**PART A: TAX CREDIT RELIEF WORKING SHEET (TCRWS) (LUMP SUMS AND CAPITAL GAINS): INCOME**

These instructions tell you how to fill in the Tax Credit Relief Working Sheet on pages 4 and 5. References in the following notes are to the Working Sheet in the Tax Calculation Guide (including Capital Gain and Lump Sum etc).

You only need to complete the Tax Credit Relief Working Sheet if you want to work out your own tax.

Complete a separate Tax Credit Relief Working Sheet for each item of foreign income on which you have paid foreign tax and want to claim relief by way of credit. Ask the Orderline for additional copies or take photocopies of the Working Sheet on pages 4 and 5.

Before beginning to fill in the Tax Credit Relief Working Sheet make sure that you have completed the Tax Calculation Working Sheet as far as box F66.

**box TC1** If you are completing your first TCRWS, enter in box TC1 the figure from box F21 in your Tax Calculation Working Sheet. Otherwise, copy the figure from box TC5 of the last TCRWS (including Capital Gain and Lump Sum etc) that you completed.

**box TC2** From your Foreign Pages, select the item of income which has suffered the highest rate of foreign tax and for which you have yet to calculate tax credit relief. For that item, enter in box TC2 the amount of income chargeable to UK tax, as shown in column E.

**box TC4** Look at boxes F13 to F19 in your Tax Calculation Working Sheet. If any of the deductions from income which you have claimed there relate specifically to, and depend upon the amount of, the item of income shown at box TC2, enter in box TC4 the amount of the deductions which are attributable to that item of income.

**Example**

Pat is 34 and his business profits of £12,000 include £4,000 which has suffered foreign tax. Pat has paid personal pension contributions of £1,800. On the income of £12,000, relief as a deduction is due for the whole £1,800. If the £4,000 foreign profits are excluded, however, the relief for pension contributions is limited to £1,400 (being 17.5% of the remaining 'net relevant earnings' - £8,000). So the amount of the deduction which is attributable to the foreign profits is £1,800 less £1,400 = £400. This is the figure to enter in box TC4.

**box TC6** Copy the figure from box F23 in your Tax Calculation Guide.

**box TC8** If you were born on or after 6 April 1933, copy the figure from box F25.6 of your Tax Calculation Working Sheet to box TC8.

If you were born before 6 April 1933, you need to work out the personal allowances to which you would be entitled if your income was the amount shown in box TC5 above rather than that shown in box F21 of your Calculation Working Sheet. Refer to page 6 of your Tax Calculation Guide and recalculate the figure of age-related personal allowances due based on the figure in box TC5 above. Enter the result in box TC8.

**box TC10** Enter in box TC10 the lower of box TC9, and boxes  $12.8 + 12.12 + 7.18 + (\text{box } 6.7 \times 100/23)$ . Exclude any amounts which have appeared in box TC2 of this or any previous TCRWS.

**box TC12** Enter in box TC12 the total of boxes 10.23, 10.26, 10.29, 10.32 plus  $(4.78 \times 100/20)$ , 7.15 and 3L.39. Exclude any accounts which have appeared in box TC2 of this or any previous TCRWS.

**box TC15** Enter in box TC15 the total of boxes 10.1, 10.4, 10.7, 10.8, 10.11, 10.14, 10.17, 10.20, 6.2, 7.6, 7.12 and 4.70 **minus**  $(4.78 \times 100/20)$ . Exclude any amounts which have appeared in box TC2 of this or any previous TCRWS.

**box TC18** Enter in box TC18 the total of boxes 12.5, 12.8, 12.12, 1.29, 1M45, 6.8, 7.18, TC12 and TC15. Exclude any amounts which have appeared in box TC2 of this or any previous TCRWS.

**box TC29** Use the following boxes to work out the figure to put in box TC29.

Non savings income (apart from gains on life policies etc. and certain lump sum and compensation payments) from boxes TC21 + TC25 + 7.18 + 12.12.		<b>TC29.1</b> £
Is TC29.1 £4,100 or more?	If YES	
<b>boxes TC21 + TC24 + TC25</b> <b>TC29.2</b> £	<b>box TC24 + £4,100</b> <b>TC29.3</b> £	
Enter at TC29.7 the greater of boxes TC29.2 and TC29.3 and do not complete TC29.4 to TC29.6.		
OTHERWISE add box TC29.1 + savings income	<b>boxes TC29.1+ TC13 + TC16</b> <b>TC29.4</b> £	
Is the figure in box TC29.4 £4,100 or more?	If yes	
enter the figure in box TC29.5 at TC29.7. Leave TC29.6 blank.	<b>box TC24 + £4,100</b> <b>TC29.5</b> £	
If no enter at TC29.7 the figure in TC29.6.	<b>box TC29.4 + F41</b> <b>TC29.6</b> £	
from TC29.2 or TC29.3 or TC29.5 or TC29.6	<b>TC29.7</b> £	
Copy the figure in box TC29.7 to box TC29.		

**box TC44** To complete this box you will need to work out the amount of Top Slicing Relief which would have been due if your total income had been the figure at box TC3 above. Use the Working Sheet attached to the TCRWS for this purpose (ask the Orderline for extra copies if you are claiming tax credit relief in respect of more than one item of foreign income). Enter the reworked amount of Top Slicing Relief (box TSR14) in box TC44.

**box TC48** If this is the first TCRWS (including Capital Gains and Lump Sums etc.) you are completing, enter the figure from box F60 of your Tax Calculation Working Sheet **minus** the total of the amounts at boxes F61, F63, F65 and F66.

Otherwise, enter the figure from box TC47 of the last TCRWS (including Capital Gains and Lump Sum etc) you completed. This is the Income Tax (before tax credit relief) chargeable on the income shown at box TC1 above.

**box TC49** Subtract the figure in box TC47 from that in box TC48 and enter the result in box TC49.

This is the amount of Income Tax at your marginal rate on the item of income entered in box TC2.

**box TC50** Enter the amount of foreign tax paid on the item of income at box TC2 above (from the appropriate line in Column D of the Foreign Pages).

**box TC51** Enter the lower of the figure in boxes TC49 and TC50.

This is the amount of tax credit relief allowable in respect of the income at box TC2 above.

**Now complete another TCRWS for your next item of foreign income. Otherwise, add up the figures in box TC51 of each TCRWS and put the total in box 6.9 in your Foreign Pages. Copy that figure to box F67 of your Tax Calculation Working Sheet.**

**Tax Credit Relief Working Sheet (TCRWS) (including Capital Gains and Lump Sums etc.)**

Income less deductions	see notes TC1 £				
Item of income which has suffered the highest rate of foreign tax	see notes TC2 £	box TC1 minus box TC2 TC3 £			
Deductions specifically related to the income at box TC2	see notes TC4 £	box TC3 + box TC4 TC5 £			
Deductions for which tax relief is given at source	see notes TC6 £	box TC5 + box TC6 TC7 £			
		see notes TC8 £	box TC7 minus box TC8 TC9 £	see notes TC10 £	
	box TC9 minus box TC10 TC11 £		<i>If the figure in box TC9 is zero do not complete boxes TC12 to TC27 and enter zero in box TC43</i>		
	see notes TC12 £	lower of box TC11 and TC12 TC13 £	box TC11 minus box TC13 TC14 £	<i>If the figure in box TC14 is zero, enter zero in boxes TC15, TC16, TC21, TC24 and TC25. Do not complete boxes TC15 to TC23</i>	
	see notes for box TC15 aside TC15 £	lower of box TC14 or TC15 TC16 £	box TC14 minus box TC16 TC17 £	<i>If the figure in box TC17 is zero enter zero in boxes TC21, TC24 and TC25. Do not complete boxes TC18 to TC23</i>	
	see notes for box TC18 aside TC18 £	from box TC3 TC19 £	box TC19 minus box TC18 TC20 £	<i>If the figure in box TC20 is zero enter zero in boxes TC21, TC24 and TC25. Do not complete boxes TC22 and TC23</i>	
	smallest of £4,100 or box TC20 or TC17 TC21 £	box TC17 minus box TC21 TC22 £	<i>If the figure in box TC22 is zero enter zero in boxes TC24 and TC25. Do not complete box TC23</i>		
	boxes 1.29 + 1M45 + 12.5 + 6.8 minus (box 6.7 x <sup>100</sup> / <sub>23</sub> ) TC23 £	lower of box TC22 or TC23 TC24 £	box TC22 minus box TC24 TC25 £		
			boxes TC13 + TC16 + TC21 + TC24 + TC25 TC26 £	box TC26 x 20% TC27 £	
			<i>If the figure in box TC9 is £4,100 or less go to box TC43. Do not complete boxes TC29 to TC42</i>		
	see notes TC29 £	box TC29 minus TC30 TC31 £	box TC10 x 23% TC28 £		
	box TC9 minus (box TC6 + box 12.9) TC33 £	TC30 £ 4,100	box TC31 x 3% TC32 £		
	<i>If the figure in box TC33 is £26,100 or less go to box TC43. Do not complete boxes TC35 to TC42.</i>				

**Tax Credit Relief Working Sheet (TCRWS) ( including Capital Gains and Lump Sums etc) – continued**

TC34 £ 26,100

*If the figure in boxes F30 and F33 are Zero go straight to box F60. Do not complete boxes F54 to F59.*

box TC33 minus TC34  
TC35 £

TC35 x 17%  
TC36 £

boxes TC13 + TC16  
TC37 £

boxes TC21 + TC25 + TC37 + 7.18 + 12.12  
TC38 £

£26,100 + box TC6 + box 12.9  
TC39 £

box TC38 minus TC39  
TC40 £

lower of box TC37 or TC40  
TC41 £

TC41 x 3%  
TC42 £

Income Tax due

boxes TC27 + TC28 + TC32 + TC35 + TC42  
TC43 £

Top Slicing Relief see notes  
TC44 £

Other Reliefs (except Tax Credit Relief) allowed in terms of tax boxes F63 + F65 + F66  
TC45 £

boxes TC44 + TC45  
TC46 £ TC43 minus TC46  
TC47 £

Income Tax due (before Tax Credit Relief) on income at box TC1 see notes  
TC48 £

Income Tax due on income at box TC2 box TC48 minus TC47  
TC49 £

Foreign Tax Paid on income at box TC2 from Column D  
TC50 £

Tax Credit Relief Due against UK tax payable on item of income at box TC2 lower of boxes TC49 and TC50  
TC51 £

Now complete another TCRWS for your next item of income. Otherwise, add up the figures in box TC51 in each TCRWS and enter the total at box 6.9 of your Foreign Pages.

box TC33 *minus*  
(boxes 1.29 + 5.22)  
TSR1 £

**Chargeable Event Gains** from boxes 6.8, 12.5 + 12.8  
TSR2 £

box TSR1 *minus* box TSR2  
TSR3 £

*If the figure in box TSR3 is £26,100 or more, no Top Slicing Relief is due. Enter '0' in boxes TC44 and F61. If the figure in box TSR3 is less than £26,100 fill in the boxes below.*

Page 15 of your Tax Return Guide and *Help Sheets: IR320 and IR321* explain when it is necessary to give additional information if you have gains from a number of insurance policies. You need to use a separate line below for each chargeable event gain or total chargeable event gains from a cluster of identical policies.

**Chargeable Event Gains**  
from box 6.8 + 12.5 + 12.8

A


**Number of years**  
from box 6.6 + 12.4 + 12.6  
and 'Additional information'  
box on page 8 of your  
Tax Return

B


A divided by B


box TSR3 + box TSR4  
TSR5 £

TSR6 £ 26,100

TSR5 *minus* TSR6 (enter '0' if  
the amount is negative)  
TSR7 £

Total column above  
TSR4 £

TSR7 x 17%  
TSR8 £

*If you had one chargeable event gain complete box TSR9*

TSR8 x number of years in col B  
TSR9 £

*If you had more than one chargeable event gain complete boxes TSR10 and TSR11*

box TSR8 x box TSR2  
TSR10 £

TSR10 divided by TSR4  
TSR11 £

*Complete boxes TSR12 to TSR14 in all cases*

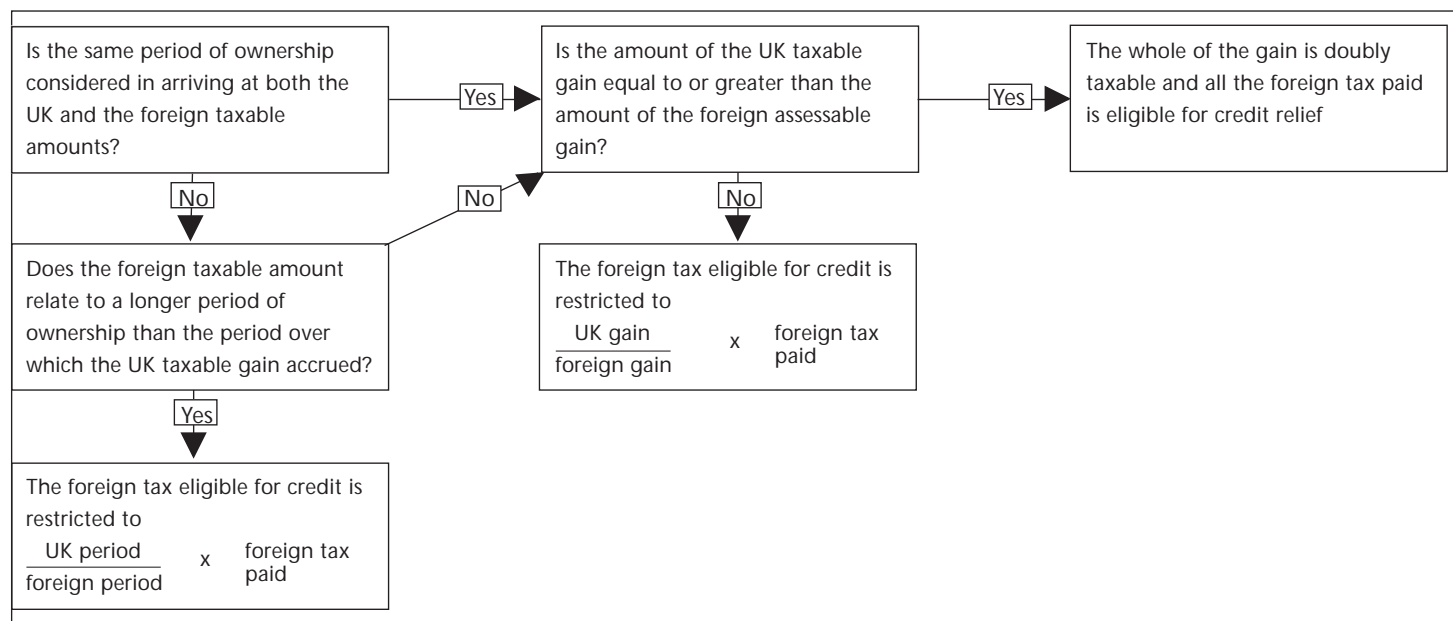
(TSR1 *minus* TSR6) x 17%  
TSR12 £

from box TSR9 or TSR11  
TSR13 £

TSR12 *minus* TSR13  
TSR14 £

Copy to box TC44 of the TCRWS

**PART B: COMPLETING THE TAX CREDIT RELIEF WORKING SHEET FOR CAPITAL GAINS**



**Column A (lines 1-13)**

Copy into this column the figures from the appropriate boxes in the Capital Gains Pages and the Tax Calculation Working Sheet, as indicated.

**Columns B and C (lines 1-11)**

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 in respect of which you are not claiming tax credit relief, that is any UK gains and any foreign gains which have either not suffered any foreign tax or where the foreign tax paid has been deducted in computing the amount of the gain which is chargeable to UK tax - see page 1 of the Help Sheet.

Enter in Column C (i) and (ii) individual items of gains which have suffered foreign tax for which you are claiming tax credit relief. If you have more than two such items, photocopy page 8.

When entering details of losses (lines 2 and 4) and the annual exempt amount (line 6) you should allocate the reliefs first against any gains in column B and then against gains in column C, beginning with the item which has suffered the lowest effective rate of foreign tax.

In this way, the maximum entitlement to tax credit relief is preserved.

**Example 2**

A person with overall gains of £32,000, consisting of UK gains of £15,000, Country A gains of £10,000 (foreign tax paid at 30%) and Country B gains of £7,000 (foreign tax paid at 40%), would allocate losses brought forward of £18,000, as follows:

	Col. A	Col. B	Col. C (i)	C(ii)
Gains	32,000	15,000	10,000	7,000
Losses				
B/F	(18,000)	(15,000)	(3,000)	-
	14,000	Nil	7,000	7,000

**Column C (lines 8-10)**

When entering details of the tax rates at which your capital gains are chargeable, you should allocate the highest rates to the gains which have suffered the *highest rates* of foreign tax in order to maximise the tax credit relief allowable. Continuing the above example, if £5,000 of the gains attract UK tax liability at 40%, allocate £5,000 in line 8 to column C(ii), in priority to columns C(i) and B.

**Column C (line 12)**

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

**Column C (line 13)**

For each separate column, enter the lower of the figures at line 11 and 12.

**Column A (line 13)**

Add up all the figures in Column C, line 13, and enter the total in Column A. This is the total tax credit relief allowable for the year. Copy this figure to box 6.10 in your Foreign Pages and box F60B in the Tax Calculation Working Sheet in your Tax Calculation Guide (including Capital Gains and Lump Sums etc.).

**Capital Gains Tax – Tax Credit Relief Working Sheet (including Capital Gains and Lump Sums etc.)**

	Totals	Total gains in respect of which no TCR is claimed	Items of gains in respect of which relief claimed by way of credit for foreign tax paid		
			A	B	C (i)
1. Chargeable capital gains 1997-98	From box 8.1 £	£	£	£	
2. <i>Minus</i> allowable losses for 1997-98	From box 8.2 £	£	£	£	£
3. <i>Equals</i> net chargeable gains for 1997-98	From box 8.3 £	£	£	£	£
4. <i>Minus</i> other losses (including losses brought forward or expenditure deductible from chargeable gains)	Boxes 8.5 + 8.6 £	£	£	£	£
5. <i>Equals</i> chargeable gains for 1997-98	From box 8.7 £	£	£	£	£
6. <i>Minus</i> annual exempt amount	£ 6,500	£	£	£	£
7. <i>Equals</i> assessable chargeable gains for 1997-98	From box 8.8 £	£	£	£	£
8. Gains chargeable at 40% (see notes)	Box F53B £	£	£	£	£
9. 23% (see notes)	Box F49B - F53B or F49E - F53B £	£	£	£	£
10. 20% (see notes)	F28A minus (line 8 + line 9) £	£	£	£	£
11. Capital Gains Tax chargeable	Line 8 + line 9 + line 10 £	£	£	£	£
12. Foreign tax eligible for credit relief			£		£
13. Tax Credit Relief allowable	Copy to 6.10 £		£		£

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