

## TAX CREDIT RELIEF: 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 (Capital Gains). If you are using the Tax Calculation Guide (including Capital Gains and Lump Sums etc.), for example because you also have a lump sum, ask the Orderline for **Help Sheet IR263: Tax Credit Relief: lump sums and capital gains** and use that instead.

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

Use the Working Sheet on page 3 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**

Under the terms of a Double Taxation Agreement, or unilaterally, relief by way of credit for foreign tax paid ('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 CGN16 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 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 the next column.
- 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 4 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 Pages CG1, CG2 and CG3 of the Capital Gains Pages and boxes G1 to G54 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 4 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 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 5 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 G55 of the Tax Calculation Working Sheet.

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

Complete a separate TCRWS (see page 3) for each item of foreign income for 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.

**box 1** If you are completing your first TCRWS, enter in box 1 the figure in box G22 in the Calculation Working Sheet of your Tax Calculation Guide (Capital Gains). Otherwise, copy the figure from box 5 of the last TCRWS that you completed.

**box 2** From your Foreign Pages, select the item of income subject to the highest rate of foreign tax, and for which you have yet to calculate tax credit relief. For that item, enter in box 2 the amount of income chargeable to UK tax, as shown in column E.

**box 4** Look at boxes G13 to G19 in the Working Sheet in your Tax Calculation Guide (Capital Gains). If any of the deductions from income that you have claimed in them relate specifically to, and depend upon the amount of, the item of income shown in box 2 above, enter in box 4 the amount of the deductions attributable to that item of income.

**Example 1**

Richard is 34 and his business profits of £12,000 include £4,000 which has been subjected to foreign tax, and he 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. However, if the £4,000 foreign profits are excluded, the personal pension contributions deduction is limited to £1,400 (being 17.5% of the remaining 'net relevant earnings' - £8,000). So the amount of the deduction attributable to the foreign profits is £1,800 *minus* £1,400 = £400. This is the figure to enter in box 4.

**box 6** Copy the figure from box G23 in the Working Sheet of your Tax Calculation Guide (Capital Gains).

**box 8** If you (or if married, either you or your spouse) were born on or after 6 April 1934, copy the figure in box G25 of the Working Sheet in your Tax Calculation Guide (Capital Gains) to box 8.

If you (or, if married, either you or your spouse) were born on or before 5 April 1934, you need to work out the personal allowances that would be due if your income was the amount shown in box 5, rather than that shown in box G22 of the Tax Calculation Guide (Capital Gains). Recalculate the figure of personal allowances due (using the notes on page 4 of your Tax Calculation Guide) based on the figure in box 5 in the TCRWS. Enter the result in box 8.

**box 11** Enter the total of any savings income in box G31 in your Tax Calculation Guide (Capital Gains) excluding the total of any figures in box 2 of this or previous TCRWS.

**box 12** Deduct the figure in box 11 from the figure in box 9 and enter the result in box 12.

**box 14** Deduct the figure in box 13 from the figure in box 12 and enter the result in box 14.

**box 18** See the note after box 16 on the TCRWS. If the figure in box 16 exceeds £27,100, enter in box 18 the figure in box 16 *minus* the figure in box 17.

**box 22** Enter the total of the figures in boxes 10, 15, 19 and 21. This is the amount of tax due on the income shown in box 3.

**box 23** Enter the total of the amounts in boxes G58, G60 and G61 in the Working Sheet of your Tax Calculation Guide (Capital Gains).

**box 24** Deduct the figure in box 23 from the figure in box 22 and enter the result in box 24. If the figure in box 23 exceeds the figure in box 22, enter '0' in box 24.

**box 25** If this is the first TCRWS you are completing, enter in box 25 the figure in box G49 in the Working Sheet of your Tax Calculation Guide (Capital Gains) *minus* the figure in box 23.

Otherwise, enter the figure in box 24 of the last Tax Credit Relief Working Sheet which you completed.

This is the Income Tax (before tax credit relief) on the income shown in box 1.

**box 26** Deduct the figure in box 24 from the figure in box 25 and enter the result in box 26.

This is the amount of Income Tax at your marginal rate on the item of income shown in box 2 above.

**box 27** Enter the amount of foreign tax paid on the item of income shown in box 2.

**box 28** Enter the lower of the figures in boxes 26 and 27.

**Now complete another TCRWS for your next item of income. Otherwise, add up the figures in box 28 of each TCRWS and put the total in box 6.9 of your Foreign Pages.**

## Tax Credit Relief Working Sheet (TCRWS) for income

Income less deductions	<input type="text" value="see notes"/>	<input type="text" value="1 £"/>	
Item of income subject to the highest percentage rate of foreign tax	<input type="text" value="see notes"/>	<input type="text" value="2 £"/>	<input type="text" value="box 1 minus box 2"/>
			<input type="text" value="3 £"/>
Deductions specifically related to the income in box 2	<input type="text" value="see notes"/>	<input type="text" value="4 £"/>	<input type="text" value="box 3 + box 4"/>
			<input type="text" value="5 £"/>
Other deductions for which tax relief is given at source	<input type="text" value="see notes"/>	<input type="text" value="6 £"/>	<input type="text" value="box 5 + box 6"/>
			<input type="text" value="7 £"/>
Personal allowances	<input type="text" value="see notes"/>	<input type="text" value="8 £"/>	<input type="text" value="box 7 minus box 8"/>
			<input type="text" value="9 £"/>
			<input type="text" value="box 9 x 20%"/>
			<input type="text" value="10 £"/>

If the figure in box 9 is £4,300 or less, copy the figure in box 10 to box 22. Do not fill in boxes 11 to 21. If the figure in box 9 is more than £4,300, enter in box 11 the total of any savings income in box G31 in the Working Sheet of your Tax Calculation Guide, but excluding the total of any savings shown in box 2 above **and** in box 2 of all previous TCRWSs completed.

<input type="text" value="from Calculation Working Sheet box G31"/>	<input type="text" value="11 £"/>			
<input type="text" value="box 9 minus box 11"/>	<input type="text" value="12 £"/>	<input type="text" value="13 £ 4,300"/>	<input type="text" value="box 12 minus box 13"/>	<input type="text" value="box 14 x 3%"/>
			<input type="text" value="14 £"/>	<input type="text" value="15 £"/>
		<input type="text" value="box 9 minus boxes (6 + 12.9)"/>		
		<input type="text" value="16 £"/>		

If the figure in box 16 is £27,100 or less, go straight to box 22. Do not fill in boxes 18 to 21.

<input type="text" value="17 £ 27,100"/>	<input type="text" value="box 16 minus box 17"/>	<input type="text" value="18 £"/>	<input type="text" value="box 18 x 17%"/>
			<input type="text" value="19 £"/>

You only need to fill in boxes 20 and 21 if there is a figure in box 19 and the figures in boxes 9 and 12 are different.

<input type="text" value="lower of boxes 11 and 18"/>	<input type="text" value="20 £"/>	<input type="text" value="box 20 x 3%"/>
		<input type="text" value="21 £"/>

Total tax due on income in box 3

<input type="text" value="boxes 10 + 15 + 19 + 21"/>	<input type="text" value="22 £"/>
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Reliefs (other than Double Taxation Relief) allowed in terms of tax

<input type="text" value="see notes"/>	<input type="text" value="23 £"/>
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<input type="text" value="box 22 minus box 23"/>	<input type="text" value="24 £"/>
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Income Tax due (before Double Taxation Relief) on income in box 1

<input type="text" value="see notes"/>	<input type="text" value="25 £"/>
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Income Tax due on income in box 2

<input type="text" value="box 25 minus box 24"/>	<input type="text" value="26 £"/>
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Foreign tax paid on income in box 2 above

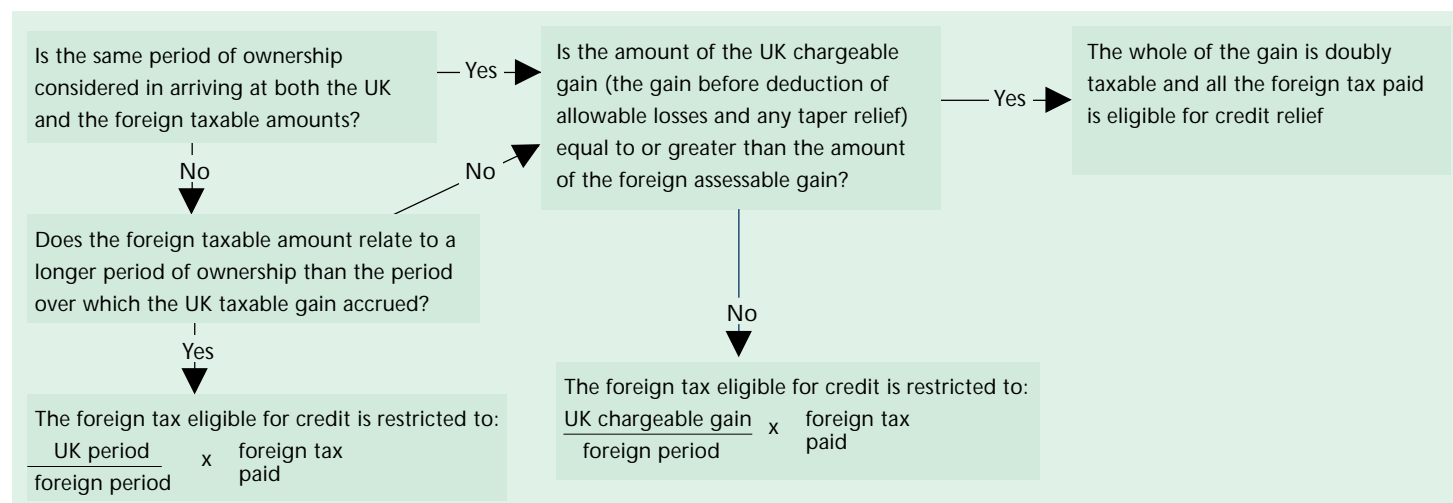
<input type="text" value="27 £"/>
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Total Tax Credit Relief due against UK tax payable on item of income in box 2

<input type="text" value="lower of boxes 26 and 27"/>	<input type="text" value="28 £"/>
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Now complete another TCRWS for your next item of income. Otherwise, add up the figures in box 28 in each TCRWS and put the total in box 6.9 of your Foreign Pages.

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



**COMPLETING THE 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 N on Page CG3 of your Capital Gains Pages. For information on Taper relief see the Notes to the Capital Gains Pages, page CGN15, 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 in respect of which you are not claiming 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 column C (i) to (viii) individual gains that have been subject to foreign tax for which you are claiming tax credit relief. If you have more than eight such gains, photocopy page 6 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 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 tax credit relief allowable for the year. Copy this figure to box 6.10 in your Foreign Pages and box G55 in the Tax Calculation Working Sheet in your Tax Calculation Guide (Capital Gains).

**Example 2**

You have gains after losses and taper relief of £32,000; consisting of UK gains of £15,000, Country A gains of £10,000 (foreign tax paid at 35%) and Country B gains of £7,000 (foreign tax paid at 40%). You are liable to Capital Gains Tax, after deducting the annual exempt amount of £6,800, on £25,200 of the gains. Your Tax Calculation Working Sheet shows the gains as being charged partly at the basic rate (23% - £12,000) and partly at the higher rate (40% - £13,200).

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	6,800	6,800		
<i>equals</i> net taxable gains	25,200	8,200	10,000	7,000
Gains chargeable at:				
20%	-	-	-	-
23%	12,000	8,200	3,800	-
40%	13,200		6,200	7,000
Capital Gains Tax chargeable	8,040		3,354	2,800
Foreign tax eligible for credit relief			3,500	2,800
Tax credit relief allowable	6,154		3,354	2,800

## 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 N on Page CG3 of your Capital Gains Pages	Total gains in respect of which no TCR 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	£ 6,800	£	£	£	£
12. Equals net taxable gains (from box 8.8)	£	£	£	£	£
13. Gains chargeable at 20% (from box G38)	£	£	£	£	£
14. Gains chargeable at 23% (box G28 minus (G38 + G51))	£	£	£	£	£
15. Gains chargeable at 40% (from box G51)	£	£	£	£	£
16. Capital Gains Tax chargeable (from box G53)	£	£	£	£	£
17. Foreign tax eligible for credit relief			£	£	£
18. Tax Credit Relief allowable.	Copy to boxes 6.10 and G55 £		£	£	£

## Tax Credit Relief Working Sheet for Capital Gains Tax, continued

Totals	Items of gains in respect of which relief is claimed by way of foreign credit				
A	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)
1. £					
2. £					
3. £					
4. £					
5. £					
6. £					
7. £					
8. £					
9. £					
10. £					
11. £ <i>6,800</i>	£	£	£	£	£
(from box 8.8)					
12. £	£	£	£	£	£
(from box G38)					
13. £	£	£	£	£	£
(box G28 minus boxes G38 + G51)					
14. £	£	£	£	£	£
(from box G51)					
15. £	£	£	£	£	£
(from box G53)					
16. £	£	£	£	£	£
17.	£	£	£	£	£
Copy to boxes 6.10 and G55					
18. £	£	£	£	£	£

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