

CONTENTS

Filling in the Trusts etc. Pages	TN1
Income from trusts and settlements	TN1
■ Beneficiaries	TN1
■ Settlors	TN1
Income from estates of deceased persons	TN2
■ Legacies	TN2
■ Residuary beneficiaries	TN2
● Limited interests	TN2
● Absolute interests	TN2
● Discretionary interests	TN2
● Successive interests	TN2
● Foreign estates	TN3
● Foreign tax paid	TN3

HELP SHEETS AND LEAFLETS

Help Sheets and leaflets giving more detailed information about particular tax rules are available from the Orderline. There is one for trusts.

- *IR270: Trusts and settlements - income treated as the settlor's*

Filling in the Trusts etc. Pages

Fill in the Trusts etc. Pages if you received any income in 1999-2000 from a trust, settlement or the estate of a deceased person. These Notes tell you what to do.

Gather together the material you need, such as statements of amounts paid from the estate of a deceased person (prepared by the personal representative).

Income from trusts and settlements

■ **Beneficiaries**

boxes 7.1 to 7.6A If you are the beneficiary of a bare trust, that is one where you have an absolute right to the income and capital from the trust or settlement, do not include this income on the Trusts etc. Pages. This income is treated as belonging to you and not to the trustees, and should be included in the pages of your Tax Return that deal with the type of income concerned.

If you had an absolute right to income but not capital from a trust or settlement:

- do not enter any scrip dividends. These should be included in boxes 10.21 to 10.23 on page 3 of your Tax Return
- do not enter income from foreign sources. This should be included on the Foreign Pages if you are resident in the UK
- exclude any trust income that you received gross, such as income from property. This income should be included in the pages of your Tax Return dealing with that particular source of income
- enter in boxes 7.1A to 7.3A income on which tax has been paid at the basic (23%) rate. Enter in box 7.1A the actual income to which you are entitled, in box 7.2A the Income Tax deducted, and in box 7.3A the income before tax (the 'taxable amount')

- enter in boxes 7.4 to 7.6 income from which tax has been deducted, or which has a tax credit, at the lower (20%) rate. Enter in box 7.4 the actual income to which you are entitled, enter in box 7.5 the tax deducted or the tax credit and enter in box 7.6 the income before tax (the 'taxable amount')
- enter in boxes 7.4A to 7.6A income which has a tax credit at the dividend (10%) rate. Enter in box 7.4A the actual income to which you are entitled, enter in box 7.5A the tax credit, and enter in box 7.6A the income before tax (the 'taxable amount').

The trustee will be able to tell you which types of income have been received on your behalf.

If you did not have an absolute right to income from a trust or settlement and the trustees **are resident** in the UK for tax purposes, enter in box 7.1 the actual income you received, enter in box 7.2 the Income Tax deducted and enter in box 7.3 the income before tax. You can get these figures from the tax voucher provided by the trustees. If you wish to claim relief under Extra Statutory Concession B18, contact:

Financial Intermediaries and Claims Office (FICO)
 St John's House
 Merton Road
 Bootle, Merseyside,
 England
 L69 9BB.
 Telephone 0151 472 6000

If you did not have an absolute right to income from a trust or settlement, and the trustees **are not resident** in the UK for Income Tax purposes, no entry should be made on the Trusts etc. Pages. Instead, fill in the Foreign Pages. The exception to this is if you wish to claim relief under Extra Statutory Concession B18. In this case contact the Financial Intermediaries and Claims Office (FICO) at the address in the preceding paragraph.

■ **Settlors**

boxes 7.1 to 7.6A A settlement includes a trust, covenant, disposition, arrangement or transfer of assets. If you have directly or indirectly provided funds for a settlement, its income may be treated as yours for tax purposes. This may apply if:

- you or your spouse can benefit immediately or in the future from the capital or income of the settlement, **or**
- capital or income of the settlement is paid to, or for the benefit of, your unmarried child or stepchild while that child is under the age of 18, **or**
- the settlement is a covenant for payments to charity (this covenant must not be for longer than three years), **or**
- you or your spouse have received a loan or repayment of a loan from the trustees of the settlement.

If you think one of these situations may apply to you, please ask the Orderline for *Help Sheet IR270: Trusts and settlements - income treated as the settlor's*.

How you include the income on your Tax Return depends on whether or not the trust document gives you an absolute entitlement to the income of the trust. If it does, then only the Trust Management Expenses deducted in arriving at your income have to be deemed to be yours - all the other income is already yours. If it does not, then all the income has to be deemed to be yours.

If the trust document does give you an absolute entitlement to the income (but not capital) of the trust, then follow the instructions for boxes 7.1 to 7.6A under the heading 'Beneficiaries' on page TN1. In addition, you will need to make an entry in boxes 13.1 to 13.3 on page 4 of your Tax Return. The guidance on *Help Sheet IR270* tells you how to calculate the entries for these boxes. If the trust document does not give you an absolute entitlement to the income, enter the actual income without deducting the Trust Management Expenses. Enter in box 7.4A to 7.6A income which has a tax credit at the dividend (10%) rate. Enter in box 7.4A the actual income, enter in box 7.5A the tax credit, and enter in box 7.6A the income before tax (the 'taxable amount'). Enter in boxes 7.1A to 7.3A all other income. Enter in box 7.1A the actual income, in box 7.2A the Income Tax deducted, and in box 7.3A the income before tax (the 'taxable amount').

Income from estates of deceased persons

■ Legacies

If you were left a legacy - a specific sum of money or a specified asset - you do not pay tax on it. Do not include it on the Trusts etc. Pages. If the legacy consisted of an asset which produces income (for example, a shareholding, a bank account or a property which is let) and you are entitled to that income, it should be included in the part of your Tax Return which deals with the type of income concerned. Rent from a property which is let, for example, should be included in the Land and Property Pages of your Tax Return.

If you received interest on your legacy, perhaps because it was paid late, or if you received interest on a legal rights claim in a Scottish estate, you should include that interest in boxes 10.12 to 10.14 on page 3 of your Tax Return.

■ Residuary beneficiaries

The residue of the estate is the amount remaining after the personal representatives have provided for all legacies, debts and expenses. The personal representatives are the executors or administrators of the estate of the deceased person. Residuary beneficiaries are people who are entitled to the whole or part of the residue of an estate. Special tax rules apply to them. If you are a residuary beneficiary you are entitled to get from the personal representatives a statement setting out the amount which is treated as your income for 1999-2000 and the tax treated as paid on it. If you got a payment, whether of income or of capital, in 1999-2000 but have not had a statement, usually given on form R185 (Estate Income), you should ask the personal representatives to supply one.

The information given on the statement will enable you to complete the Trusts etc. Pages as described below. You should enter the name of the estate(s) in the 'Additional information' box on Page T1 or T2.

● Limited interests

If you are entitled to receive from the estate income only (for example, if you are a life tenant or in a Scottish estate, a liferenter) you have what is called a 'limited interest in residue'.

Unless the administration was completed in that year, the amount which you actually received in 1999-2000 is treated as your income for that year. If the administration of the estate was completed in 1999-2000, all of the income due to you which has not already been treated as your income in earlier years, is your income for that year. You should follow the advice given in the next column under the heading 'boxes 7.7 to 7.24'.

● Absolute interests

If you are entitled to receive both the income and the capital of the residue or a share in the residue, you have what is called an 'absolute interest in residue'. If you have an absolute interest you are treated as receiving income from the estate in certain circumstances. Your share of estate income is calculated by deducting expenses chargeable to income from the income received by the personal representatives. If you received a payment or payments from the estate in 1999-2000, your income for that year will be either the amount of the payments you received or the income attributable to you for all the years (if not already treated as your income for earlier years) whichever is the lower amount. If the administration of the estate ended in 1999-2000 you will be treated as receiving both the income of that year and any estate income which has not already been treated as your income for earlier years.

Income that accrued during the lifetime of the deceased person but which was paid after their death, may have been taken into account both as part of the estate for Inheritance Tax purposes and as estate income for Income Tax purposes. If this happened in the estate from which you are treated as receiving income, and you are liable to tax at the higher rate, there is a special tax relief which may help you. It has the effect of reducing the amount of income which you are treated as receiving from the estate. If the personal representatives have supplied you with a statement which refers to 'Section 699 relief' use those amounts when completing your Tax Return. Otherwise, if you think this might apply to you, contact your Inland Revenue office or your tax adviser.

● Discretionary interests

If you are entitled to income from the residue of an estate only because the personal representatives exercised a discretion in your favour, you should have been supplied with a statement of income which should be entered on your Tax Return.

● Successive interests

If the residuary beneficiary dies during the administration of an estate or if the terms of a will (or of the rules of intestacy) are varied with the consent of the original beneficiary, special rules apply. The original beneficiaries are taxed on any income actually paid to them. New beneficiaries are treated as if they had been residuary beneficiaries from the outset - subject to a deduction for amounts paid to the original beneficiaries and treated as their income. This ensures that each beneficiary is taxed on the share of the estate income that is actually paid to them.

boxes 7.7 to 7.24 If you are treated as receiving income from an estate, you should have received a statement on form R185 (Estate Income) from the personal representatives. Starting with the figures on that statement, enter the net amount of:

- income taxed at the basic rate in box 7.7
- income taxed at the savings rate (or lower rate) in box 7.10
- income taxed at the dividend rate (or described as Schedule F ordinary rate) where the tax is repayable, in box 7.13
- income taxed at the basic rate where the tax is not repayable in box 7.16
- income taxed at the savings (or lower) rate where the tax is not repayable, in box 7.19
- income taxed at the dividend rate (or described as Schedule F ordinary rate) where the tax is not repayable in box 7.22.

Enter the amounts of tax shown on the statement in:

- box 7.8 for basic rate tax
- box 7.11 for savings (lower) rate tax
- box 7.14 for repayable dividend rate tax
- box 7.17 for non repayable basic rate tax
- box 7.20 for non repayable savings rate tax
- box 7.23 for non repayable dividend rate tax.

Enter in boxes 7.9, 7.12, 7.15, 7.18, 7.21 and 7.24 the taxable amounts, that is, the net amounts plus the tax.

• Foreign estates

A foreign estate is one where the income of the estate has not borne full UK tax because the personal representatives are not resident and not ordinarily resident in the UK or because the deceased person died domiciled outside the UK and overseas income arose to the estate. If you have received income from such an estate, you should enter the whole amount both in box 7.7 and in box 7.9. No entry should be made in box 7.8 for tax deducted. However if the foreign estate has been charged to UK Income Tax, the amount of income entered in both boxes 7.7 and 7.9 will need to be reduced proportionately by the following amount:

$$\frac{\text{net amount of income that has borne UK tax}}{\text{total estate income less UK tax}} \times \text{total estate income before UK tax}$$

You should subtract the above amount from the figure to be entered in box 7.7 and 7.9.

• Foreign tax paid

box 7.25 If you have received income that is chargeable to UK tax but which has also been taxed in a foreign country, you may be entitled to claim credit for the foreign tax paid in calculating your UK tax liability. This is known as 'tax credit relief'.

Tax credit relief will usually be beneficial, but if you do **not** want to claim it you can deduct the foreign tax paid on your income instead. **But you cannot claim tax credit relief and a deduction for the same item of income.**

Enter in box 7.25 the total foreign tax paid for which you are **not** claiming tax credit relief.

If you **want** to claim tax credit relief, fill in the Foreign Pages, and leave box 7.25 blank.