HMRC - CFM95680 - x-Interest: Double Taxation Relief

TIOPA10/S388

When income arises in a foreign country to a UK resident company, and that income is taxed in that foreign country, the UK may give relief for the foreign tax suffered by crediting the foreign tax against the UK tax charged on that income. Where a credit is given under TIOPA10/S18, an adjustment should also be made to the amount included in tax-interest to take account of the foreign tax charge.

This adjustment is calculated by dividing the TIOPA10/S18 credit amount by the rate of corporation tax payable by the UK company. This gives the notional untaxed income amount which is then excluded from tax-interest.

Example

A Ltd earns interest of £10m in Country X with tax of £1.2m levied on this by the Xanadu Revenue Agency in the year ended 31 March 2018. A Ltd pays UK corporation tax at 19% but a credit for the foreign tax of £1.2m is given by virtue of TIOPA10/S18.

The notional untaxed income amount will be £6.3m arrived at by dividing the TIOPA10/S18 credit (£1.2m) by the rate of corporation tax payable (19%). The total interest income figure is then reduced by this amount resulting in a £3.7m credit being taken to tax-interest.

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