

Calculating Foreign Tax Credit Relief on income

i Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to

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What is Foreign Tax Credit Relief?

If you have paid foreign tax on an item of income, that tax cannot be refunded by HMRC. If you are resident in the United Kingdom (UK), Isle of Man or the Channel Islands and that item of income is also chargeable to UK tax, you can claim a credit (Foreign Tax Credit Relief) for all or part of the foreign tax to be set against the UK tax due. Please note that if you are dual resident and a Double Taxation Agreement (DTA) resolves that dual residence in favour of the other territory, you cannot claim Foreign Tax Credit Relief in the UK as it will be for the other territory to provide relief.

For some types of income no foreign tax will be allowed by treaty at all as the treaty will oblige the other country to exempt the income from tax altogether. If this is the case, you should claim the exemption from tax in the other country and no FTCR will be due in the UK, whether or not the claim for exemption is actually made. For example, almost all foreign pensions other than government pensions are exempted from tax in the country where they are paid under the terms of a DTA between the UK and that country. It will be very unusual for any credit for foreign tax to be due in the UK in respect of foreign pensions and you should instead claim relief from tax in the country where the pension is paid.

What follows only applies to circumstances where both countries are allowed to tax the income under any DTA and does not apply to any situation where one of the countries is obliged by a double taxation treaty to exempt the income from tax or where you do not meet the residency requirements set out above.

The amount of Foreign Tax Credit Relief (FTCR) that can be claimed on an item of income is always the smaller of:

- the amount of foreign tax paid, or allowed by treaty, and
- the amount of the UK tax chargeable on that item of income.

Example 1

Heather had £15 foreign tax deducted from £100 foreign interest. She calculates the amount of the UK tax chargeable on that item of income (see below) as £20. As the foreign tax paid is less than the UK tax chargeable the amount of FTCR on that item is £15.

If Heather had calculated the amount of the UK tax chargeable on that item as £10, then the FTCR would be £10 because it is less than the foreign tax paid.

The amount of foreign tax paid or allowed by treaty

It may be that not all of the foreign tax paid can be claimed for FTCR. The amount that can be claimed may be restricted by the double taxation treaty with the overseas country. The restrictions vary from country to country and type of income.

The Digest of Double Taxation Treaties contains a list of countries and the restrictions that apply. To find this go to www.hmrc.gov.uk and look for *DT Digest* within the *Search* facility.

Always use the amount of foreign income before any foreign tax was taken off. For interest and dividends this is usually the amount shown in column B of page F 2 of the *Foreign* pages. Multiply this figure by the percentage rate shown for that type of income for the appropriate country in the Digest of Double Taxation Treaties. Use this figure to work out FTCR if it is less than the actual foreign tax deducted (usually the amount shown in column C on page F 2).

Example 2

Brian receives £100 Spanish dividend income, before any foreign tax was taken off. In the DT digest, the allowable rate for Spanish dividends is 15%.

The maximum amount of foreign tax that can be considered for FTCR is (£100 x 15%) £15.

If £20 foreign tax was deducted then Brian would only be able to claim £15 against FTCR.

If £10 foreign tax was deducted then Brian would be able to claim the full £10 against FTCR.

See also the section on 'Foreign dividends' on page 2 of this helpsheet.

The amount of the UK tax chargeable on that item of income

The amount of the UK tax chargeable on that item of income is the difference between:

- the tax due on your income including the item subject to the FTCR claim
- the tax due on your remaining income after the item, subject to the FTCR claim, is removed.

Example 3

Dawn's total income is £18,000. The tax due on all of Dawn's income is £2,400. She claims FTCR on a £200 item of foreign interest. The remaining income, when this £200 is removed, is £17,800. The tax due on the remaining income is £2,360.

The UK tax chargeable on the £200 foreign interest is (£2,400 minus £2,360) £40.

Calculating Foreign Tax Credit Relief on income

You must calculate relief separately for each item of your overseas income. You must make multiple calculations when more than one item is claimed for, each one starting with the income as reduced by the previous item(s) claimed.

Example 4

In example 3 Dawn claimed FTCR on a £200 item of foreign interest. When this was removed she had £17,800 income remaining, and the tax due on this was £2,360.

If she makes a claim for another item of £100 foreign interest, the remaining income becomes (£17,800 minus £100) £17,700. If the tax due on this is £2,340 then the UK tax chargeable on the second item is (£2,360 minus £2,340) £20.

If you have a number of items, for which you want to claim FTCR, the order in which the claims are considered can make a difference to the amount of FTCR due. The order can vary with individual circumstances but usually working out the FTCR on the item with the highest allowable rate of foreign tax first, and the lowest last, produces the best results.

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Start by calculating the tax due on all your income. You can do this by filling in the *Tax calculation summary notes* up to and including box A203, in Section 8.

Check each item, in the Digest of Double Taxation Treaties, and apply any restriction to the foreign tax paid.

Fill in a separate FTCT Working Sheet (on pages 7 to 11 of this helpsheet) for each item of income. Please take as many copies as you need of the FTCT Working Sheet before you start.

Once all FTCT Working Sheets have been completed, add up the FTCT due on each item and transfer the total to box 2 on the *Foreign* pages.

Foreign dividends

The majority of foreign dividends paid after 5 April 2008 qualify for UK dividend tax credits. The UK tax credit is added to the amount of the foreign dividend when charged to UK tax.

When working out the amount of the UK tax chargeable on a dividend that qualifies for UK tax credits, increase the total income by the amount of the dividend received $\times \frac{100}{90}$.

Example 5

Phil has foreign dividends of £90. These are included in his total income of £48,000. Phil wishes to claim FCTR on the foreign dividends of £90, which qualify for UK tax credits. Thus, Phil increases his foreign dividends by $(£90 \times 100/90)$ to £100. As a result, Phil's total income is now increased to £48,010 and Phil works out the UK tax due on that amount.

Please note the dividend is only multiplied by $\frac{100}{90}$ when considering the amount of the UK tax chargeable on that item of income. When working out the amount of foreign tax that can be considered for FTCT, the actual figure of dividends paid before tax is taken off is used.

Example 6

In example 2, Brian worked out that only £15 foreign tax paid on his £100 Spanish dividend income can be considered for FTCT. This is 15% of the dividends paid before tax is taken off. Only when working out the amount of the UK tax chargeable on the Spanish dividends does Brian multiply this income by $\frac{100}{90}$ to £111.

The total of the UK tax credit plus FTCT cannot exceed the UK tax chargeable on the dividend.

Example 7

Phil calculates that he has been charged £32.50 UK tax on his £90 item of foreign dividends. He also calculates his UK dividend tax credit is $(£90 \times \frac{100}{90} \times 10\%)$ £10. The amount of FTCT cannot exceed (£32.50 minus £10) £22.50.

If you have no income charged to higher rates of tax then, for most, there is no benefit in claiming FTCT. The tax charged on dividends below the higher rate threshold is 10%. The tax credit on dividends is also 10%. These cancel each other, so the UK tax chargeable on dividends is zero and no FTCT is due.

If you have any income, not necessarily dividends, charged to higher rates of tax then there may be FTCT due.

Shortcuts

A Working Sheet is provided on pages 7 to 11 to help work out FTCR.

If your total income less deductions (box A59 minus box A76) is less than £100,000, in certain circumstances detailed below, the allowable foreign tax (restricted as necessary) can be given as FTCR. These are:

- all your foreign income is non-savings income and the figure in box A116 exceeds the total of the foreign income for which Foreign Tax Credit Relief is claimed and the allowable foreign tax is at a rate of 40% or less, or
- all your foreign income is savings income (other than dividends) and the figure in box A126 exceeds the total of the foreign income for which credit relief for foreign tax is claimed and the allowable foreign tax is at a rate of 40% or less, or
- all your foreign income is dividend income and the figure in box A136 for grossed-up dividends exceeds the total of the foreign income for which credit relief for foreign tax is claimed and the allowable foreign tax is at a rate of 22.5% or less.

Relief against Capital Gains Tax

If you are calculating your tax and want to claim relief for foreign tax by way of credit against your UK Capital Gains Tax liability, ask the SA Orderline for Helpsheet 261 *Foreign Tax Credit Relief: capital gains*. Foreign tax eligible for relief against UK Capital Gains Tax includes any foreign tax, not necessarily foreign Capital Gains Tax, paid on gains which are chargeable to UK tax.

For example, some countries do not have a separate Capital Gains Tax; instead individuals pay Income Tax on their gains. This Income Tax will usually qualify for credit relief against UK Capital Gains Tax.

Filling in the Foreign Tax Credit Relief Working Sheet (FTCRWS)

These instructions tell you how to fill in the Foreign Tax Credit Relief Working Sheet. The Working Sheet begins on page 7.

You only need to fill in the FTCRWS if you want to work out your tax. Start by completing the *Tax calculation summary notes* to box A203. This will give you the figures to start the first FTCRWS.

Complete a separate FTCRWS for each item of foreign income on which you have paid foreign tax in respect of which you want to claim relief by way of credit. Please take sufficient copies of the Working Sheet in case you need to fill in more than one FTCRWS.

Complete boxes TC1 to TC124 by following the instructions on the FTCRWS. Further guidance on some boxes is provided below.

boxes TC1 to TC5

If you are completing your first FTCRWS, copy into these boxes the figures from boxes A27, A28, A44, A57 and A58 on the *Tax calculation summary notes*. If you are completing your second or subsequent FTCRWS, copy into boxes TC1 to TC5 the figures from boxes TC11 to TC15 of the previous FTCRWS.

boxes TC6 to TC10

Enter one item of income, for which you are claiming Foreign Tax Credit Relief, in one of boxes TC6 to TC10. Enter the taxable amount from column F of the *Foreign* pages. It is usually beneficial to start with the item of income that has the highest rate of foreign tax deducted. If you are entering foreign

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dividends in box TC9 and the dividends qualify for UK tax credits, enter the taxable amount from column F x $\frac{100}{90}\%$.

box TC16

If you are completing your first FTCRWS, copy the figures from box A81 of the *Tax calculation summary notes*.

If you are completing your second or subsequent FTCRWS, copy from box TC16 of the previous FTCRWS.

box TC17

If any of the deductions from income that you have claimed there relate specifically to, and depend upon the amount of, the item of income in boxes TC6 to TC10, enter, in box TC17, the amount of the deductions.

Example

Phil earns £20,000 working for a company in Denmark and pays Danish Income Tax.

He claims £150 for business travel and subsistence expenses in box 17 on the *Employment* page for this employment. He enters this amount in box TC17.

box TC19

If you were born on or after 6 April 1947, and your total income is less than £100,000 enter '0' in box TC19.

If you were born on or before 6 April 1947, or your total income is more than £100,000, you need to work out the Personal Allowance that would be due if your income was that in box A59 of the *Tax calculation summary notes*, as reduced by the item of income in boxes TC6 to TC10. Page TCSN 26 of the *Tax calculation summary notes* explains how to calculate the age-related or reduced Personal Allowance. Complete boxes A to C below.

Revised age-related Personal Allowance

Revised Personal Allowance from box B14 on page TCSN 27 of the *Tax calculation summary notes*

A £

Allowance previously claimed in box A77 on page TCSN 9 of the *Tax calculation summary notes*

B £

Box A minus box B. Copy to box TC19

C £

box TC103

If you have gains on life insurance policies etc. and qualify for Top Slicing Relief, you need to work out the amount that would be due after your income in box E1 on page TCSN 33 of the *Tax calculation summary notes* is reduced by the item of income in boxes TC6 to TC10. Section 16 of the *Tax calculation summary notes* explains how to work out Top Slicing Relief. Enter the revised amount in box TC103.

box TC108

If you, or your spouse or civil partner, were born before 6 April 1935, go to Section 14 on page TCSN 28 of the *Tax calculation summary notes* to work out the allowance that would be due when your income is reduced by the item of income in boxes TC6 to TC10. Section 14 of the *Tax calculation summary notes* explains how to work out Married Couple's Allowance. Enter the revised amount in box TC108.

box TC115

If you are completing your first FTCRWS enter, from the *Tax calculation summary notes*, box A201. Otherwise, enter the figure from box TC117 of the previous FTCRWS.

box TC116

If you are claiming Foreign Tax Credit Relief in respect of foreign dividends entered in box TC9, and the dividend qualifies for UK tax credits, enter amount in box TC9 x 10% in box TC116. Otherwise enter zero (0) in box TC116.

box TC121

If you are completing your first FTCRWS enter, from the *Tax calculation summary notes*, box A181 minus box A203. Otherwise enter the figure from box TC120 of the previous FTCRWS.

box TC122

Subtract the amount in box TC120 from that in box TC121 and enter the result in box TC122. This is the amount of UK Income Tax at your marginal rate on the item of income in boxes TC6 to TC10.

box TC123

Get, from column C of the *Foreign* pages, the amount of foreign tax paid on the item of income in column B. Check, in the appropriate list of countries in the Digest of Double Taxation Treaties to see whether a restriction applies to the amount of foreign tax that can be allowed. Go to www.hmrc.gov.uk and look for *DT Digest* within the *Search* facility. If there is a restriction and the amount of foreign tax, from column C, is greater than the percentage rate allowed, enter in box TC123 the foreign income (from column B of the *Foreign* pages) multiplied by the allowable percentage rate. Otherwise, enter the foreign tax paid in box TC123.

Example

Bill receives £100 Spanish dividends with £20 foreign tax paid. The allowable rate for Spanish dividends is 15%, so the amount Bill enters in box TC123 is (£100 x 15%) £15.

box TC124

Enter the smaller of the figures in box TC122 and box TC123. This is the amount of Foreign Tax Credit Relief due on the item of income in boxes TC6 to TC10 of this FTCRWS.

Now fill in another FTCRWS for your next item of income. Otherwise, add up the figures in box TC124 in each FTCRWS that you have completed and enter the total in box 2 on the *Foreign* pages, and box A204 in the *Tax calculation summary notes*.

Foreign Tax Credit Relief Working Sheet (FTCRWS)

Part 1: Calculate taxable income after an item of foreign income is removed

This section deducts items of foreign income from your total income in the way that is likely to be most beneficial for the vast majority of taxpayers. There may be very rare situations when a better allocation is possible. If you think this may apply to you please ask us or your tax adviser to do the calculation for you.

Total non-savings
income from box A27
or box TC11 of a
previous FTCRWS

TC1 £

Total lump sum
payments from
box A28
or box TC12 of a
previous FTCRWS

TC2 £

Total savings
income from box A44
or box TC13 of a
previous FTCRWS

TC3 £

Total dividends
from box A57 or
box TC14 of a
previous FTCRWS

TC4 £

Total gains on life
policies from box A58
or box TC15 of a
previous FTCRWS

TC5 £

Deduct the item of income in respect of which tax credit relief is being claimed on this Working Sheet (see page 4).

TC6 £

TC7 £

TC8 £

TC9 £

TC10 £

See notes

TC1 minus TC6

TC11 £

TC2 minus TC7

TC12 £

TC3 minus TC8

TC13 £

TC4 minus TC9

TC14 £

TC5 minus TC10

TC15 £

Total deductions
and allowances from
box A81 or box TC16
of a previous FTCRWS

TC16 £

Enter in box TC17
any deductions that
are attributable to the
income entered in
boxes TC6 to TC10

TC17 £

TC16 minus TC17

TC18 £

Additional Personal
Allowance due as a
result of excluding the
item of income in boxes
TC6 to TC10

TC19 £

TC18 + TC19

TC20 £

TC11 minus TC20

TC21 £

Copy to TC30 in Part 2

TC20 minus TC11

TC22 £

TC12 minus TC22

TC23 £

Copy to TC60 in Part 2

TC22 minus TC12

TC24 £

TC13 minus TC24

TC25 £

Copy to TC40 in Part 2

TC24 minus TC13

TC26 £

TC14 minus TC26

TC27 £

Copy to TC50 in Part 2

TC26 minus TC14

TC28 £

TC15 minus TC28

TC29 £

Copy to TC70 in Part 2

If any box on this page is minus amount, substitute zero

Part 2: Allocate remaining income to tax bands

	Allocate taxable non-savings income to tax bands	Allocate taxable savings income to tax bands	Allocate taxable dividend income to tax bands	Allocate taxable lump sum payments to tax bands	Allocated taxable gains on life policies to tax bands
	From TC21	From TC25	From TC27	From TC23	From TC29
	TC30 £	TC40 £	TC50 £	TC60 £	TC70 £
Starting rate band	TC31 £ 2,560	TC31 minus TC32 TC41 £	TC41 minus TC42 TC51 £	TC51 minus TC52 TC61 £	TC61 minus TC62 TC71 £
Savings in starting rate band	Smaller of TC30 and TC31 TC32 £	Smaller of TC40 and TC41 TC42 £	Smaller of TC50 and TC51 TC52 £	Smaller of TC60 and TC61 TC62 £	Smaller of TC70 and TC71 TC72 £
Basic rate band	TC30 minus TC32 TC33 £	TC40 minus TC42 TC43 £	TC50 minus TC52 TC53 £	TC60 minus TC62 TC63 £	TC70 minus TC72 TC73 £
Income in basic rate band	From box A109 TC34 £	TC34 minus TC35 TC44 £	TC44 minus TC45 TC54 £	TC54 minus TC55 TC64 £	TC64 minus TC65 TC74 £
	Smaller of TC33 and TC34 TC35 £	Smaller of TC43 and TC44 TC45 £	Smaller of TC53 and TC54 TC55 £	Smaller of TC63 and TC64 TC65 £	Smaller of TC73 and TC74 TC75 £
Additional rate threshold	TC33 minus TC35 TC36 £	TC43 minus TC45 TC46 £	TC53 minus TC55 TC56 £	TC63 minus TC65 TC66 £	TC73 minus TC75 TC76 £
Income in higher rate band	TC37 £115,000	TC37 minus TC38 TC47 £	TC47 minus TC48 TC57 £	TC57 minus TC58 TC67 £	TC67 minus TC68 TC77 £
Income in additional rate band	Smaller of TC36 and TC37 TC38 £	Smaller of TC46 and TC47 TC48 £	Smaller of TC56 and TC57 TC58 £	Smaller of TC66 and TC67 TC68 £	Smaller of TC76 and TC77 TC78 £
	TC36 minus TC38 TC39 £	TC46 minus TC48 TC49 £	TC56 minus TC58 TC59 £	TC66 minus TC68 TC69 £	TC76 minus TC78 TC79 £

Part 3: Calculate Income Tax due on remaining income

All the boxes in the left hand column refer to Part 2

Non-savings income and lump sums

TC32 + TC35 + TC62 + TC65

TC80 £

TC38 + TC68

TC82 £

TC39 + TC69

TC84 £

TC80 x 20%

TC81 £

TC82 x 40%

TC83 £

TC84 x 50%

TC85 £

Savings income and gains on life policies

TC42 + TC72

TC86 £

TC45 + TC75

TC88 £

TC48 + TC78

TC90 £

TC49 + TC79

TC92 £

TC86 x 10%

TC87 £

TC88 x 20%

TC89 £

TC90 x 40%

TC91 £

TC92 x 50%

TC93 £

Dividend income

TC52 + TC55

TC94 £

From TC58

TC96 £

From TC59

TC98 £

TC94 x 10%

TC95 £

TC96 x 32.5%

TC97 £

TC98 x 42.5%

TC99 £

Income Tax due

total column above

TC100 £

Copy to TC101 in Part 4

Part 4: Calculate Foreign Tax Credit Relief on this item of income

If any box on this page is minus substitute zero

Income Tax due

	From TC100
TC101	£

Reliefs

Deficiency Relief

	From box A182
TC102	£

Top Slicing Relief only apply to gains on life policies. If you have gains on life policies go to Section 16 of the *Tax calculation summary notes* to calculate any Top Slicing Relief due. Subtract any amount in boxes TC6 to TC10 from A59 in box E1.

Top Slicing Relief

	From box E47
TC103	£

Venture Capital Trust share subscriptions

	From box A185
TC104	£

Enterprise Investment Scheme share subscriptions

	From box A187
TC105	£

Community Investment Trust Tax Relief

	From box A189
TC106	£

Allowances

Maintenance or alimony payments

	From box A191
TC107	£

If you, or your spouse or civil partner, were born before 6 April 1935, go to Section 13 and 14 of the *Tax calculation summary notes* to work out the figure for box TC108. Subtract any amount in boxes TC6 to TC10 from A59 in box B1.

Married Couple's Allowance

	From box C21 or box C20
TC108	£

Married couple's surplus allowance

	From box A193
TC109	£

	TC107 + TC108 + TC109
TC110	£

	TC110 x 10%
TC111	£

Tax treated as paid

On gains on life policies

	From TC70
TC112	£

	TC112 x 20%
TC113	£

On stock dividends

	From box A199
TC114	£

Tax credits on foreign dividends

	From box A201 or from box TC117 of a previous FTRWS
TC115	£

	TC9 x 10%
TC116	£

	TC115 minus TC116
TC117	£

See notes

Widows and Orphans pensions relief

	from box A202
TC118	£

TC102 + TC103 + TC104 + TC105 + TC106
+ TC111 + TC113 + TC114 + TC117 + TC118

TC119 £

TC101 minus TC119

TC120 £

A181 minus A203
or from box TC120 of a previous FTCRWS

TC121 £

TC121 minus TC120

TC122 £

Foreign tax paid on income
entered in boxes TC6 to TC10

TC123 £

Smaller of TC122 and TC123

TC124 £

Income Tax due before Foreign Tax Credit Relief

Now complete another FTCRWS for your next item of income. Otherwise, add up the figures in box TC124 in each FTCRWS and put the total in box 2 on the *Foreign* pages.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at www.hmrc.gov.uk