

i These notes will help you complete the *Partnership Foreign* pages of your Partnership Tax Return

i Helpsheets

The helpsheets listed below give more detailed information about the tax rules for *Partnership Foreign* pages and are available from our website. Go to www.hmrc.gov.uk and look for:

- Helpsheet 252 *Capital allowances and balancing charges*
- Helpsheet 380 *Partnerships: Foreign aspects*

within the Search facility.

Need help?

Go to our website at www.hmrc.gov.uk

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**The number
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tax return**

SA Helpline

0845 9000 444

SA Orderline

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Filling in the *Partnership Foreign* pages

Gather together the material you need, such as:

- overseas dividend vouchers
- bank statements for overseas accounts.

These notes tell you how to complete the *Partnership Foreign* pages. Fill in pages PF1 to PF4 to give details of foreign income and gains:

- page PF1 is for foreign savings (including income from offshore funds)
- page PF2 is for income from land and property, chargeable premiums and disposals of holdings in offshore funds
- pages PF3 and PF4 are for foreign let property except for furnished holiday lettings in the European Economic Area (EEA). Summarise the income on page PF2
- page PF4 is also for any additional information.

If you are a 'CT Partnership' please read page PTRG 5 of the Partnership Tax Return Guide.

These notes are only a simple introduction to the rules about the taxation of foreign income. If you are in any doubt about the information you need to provide, ask us or your tax adviser.

You may need to allocate shares of foreign income to the partners on an item by item basis before you can complete the Partnership Statement. Even if you do not need to do this to complete the Partnership Statement, the partners will need this additional information so that they can complete their own tax returns. This will be the case if any partner wants to claim relief by way of credit for foreign tax paid ('Foreign Tax Credit Relief'), or if the partner has a share in any foreign income that the partnership has been unable to remit to the UK.

Example 1

Jim is a member of a partnership and is entitled to 40% of the profits. The partnership receives two dividends, as follows:

	Gross	Foreign tax
Country A	£5,000	£1,000
Country B	£2,500	£250
Totals	£7,500	£1,250

To claim Foreign Tax Credit Relief Jim will need to know details of his share of the partnership's foreign income on an item by item basis, as follows:

	Share of gross	Share of foreign tax
Country A	£2,000	£400
Country B	£1,000	£100
Totals	£3,000	£500

See the notes on pages PTRG 22 to PTRG 25 of the Partnership Tax Return Guide for further details, including another example.

Boxes 2.4 and 2.5 *Return period – trading or professional partnerships*

For all partnerships (except investment partnerships other than 'CT Partnerships' – see below) the *Partnership Foreign* pages PF1 and PF2 should be filled in to show details of the partnership's foreign untaxed income of the accounting period(s) ended in the tax year 2010–11. In these circumstances the dates shown in boxes 2.4 and 2.5 should be the same as those you have entered in boxes 3.4 and 3.5 on page 2 of your Partnership Tax Return.

Where there is more than one such accounting period you may have to complete more than one set of *Partnership Foreign* pages (read the notes on page PTRG 10 of the Partnership Tax Return Guide).

Where there is no such accounting period you need only complete the 'Partnership details' and 'Foreign savings' sections on page PF1 (read the notes on page PTRG 10 of the Partnership Tax Return Guide).

Boxes 2.4 and 2.5 *Return period – investment partnerships*

Where, exceptionally, a partnership does not carry on a trade or profession, pages PF1 and PF2 should in all cases be filled in for the profits in the period 6 April 2010 to 5 April 2011. Enter '6/4/2010' in box 2.4 and '5/4/2011' in box 2.5. If you are a 'CT Partnership' see page PTRG 5 of the Partnership Tax Return Guide.

If accounts are made up for any other period, you should apportion figures in the sets of accounts that between them cover the period 6 April 2010 to 5 April 2011.

Returning foreign income

You should enter the full amount of income arising from overseas sources on the *Partnership Foreign* pages. For overseas rental income this means the gross income minus allowable expenses. For all other income it is simply gross income before tax.

Unremittable income

If the partnership has income arising outside the UK that it is unable to remit to the UK because of exchange controls or a shortage of foreign currency in the overseas country, then the members of the partnership can claim that the unremittable income should not be taxed for 2010–11.

If you think this applies to the partnership, see below for guidance on how to enter details of the unremittable income.

Income becoming remittable

Where income was not taxed in an earlier year because it was unremittable but it can now be remitted to the UK, it is treated as arising in 2010–11. Income may become remittable if, for example, exchange controls are lifted. Include any income to which this applies whether or not it is actually remitted to the UK. The amount of the income and any foreign tax charged on it should be converted to sterling using the exchange rate prevailing at the time the income becomes remittable.

Foreign income: change to sterling

Income taxable in the UK should be converted to sterling at the rate of exchange prevailing at the time when the income arose. We will be able to help if you are not sure which exchange rate should be applied.

Filling in pages PF1 and PF2 of the *Partnership Foreign* pages

Important: if the partnership has more than one item of income or gains in any particular category (for example, dividends from more than one

overseas company) each such item must be entered separately. **But see below for how to deal with unremittable income.**

For each item:

- **in column A**, enter the country in which the item of income arose
- **in column B**, enter the amount of income **before** deducting any UK or foreign tax but **after** deducting unremittable income
- **in column D**, enter the amount of foreign tax paid on the income entered in column B.

These notes will help you decide what to put in each column.

Entering unremittable income

Details of unremittable income, and the corresponding tax, should be entered in the *Partnership Foreign* pages in the appropriate foreign currency.

For each item of income (excluding income from land and property abroad – see the note on page PFN 5) that cannot be remitted to the UK in the tax year 2010–11:

- **in column A**, enter the country in which the item of income arose
- tick the box between columns A and B
- **in column B**, enter the amount of the unremittable income, in its foreign currency (delete the £ signs)
- **in column D** enter the amount of the foreign tax, if any, suffered on the unremittable income in its foreign currency (delete the £ signs).

Make sure you exclude details of unremittable income, and the corresponding tax, from the ‘totals’ boxes at the foot of each column.

Foreign savings

Interest and other income from overseas savings and investments

Column A

Enter the name of the country where the income arose.

Columns B to D

Treat each source of interest (including, for example, different accounts with the same bank) separately and enter details of each on a separate line.

Interest from overseas unit trusts and other investment funds

The information you need to put in these columns will be shown on the partnership’s unit trust or fund voucher. If you do not have a tax voucher, ask the unit trust or fund administrator for one. Where the income of the unit trust or fund is automatically reinvested in the fund, you may still have to enter the appropriate income arising to you and any tax deducted. There are some instances where dividend distributions from offshore funds must be returned as interest received – see below.

Interest from other overseas sources

Enter the amounts of interest that the partnership received from foreign bank accounts, or from foreign company loan stocks, or loans to individuals or other organisations outside the UK. If the payer of the interest has deducted foreign withholding tax and accounted for that tax to the overseas tax authority on your behalf, this will normally be shown on a certificate of tax paid. Company partners should see the note ‘Loan relationships etc.’ on page PTRG 5 of the Partnership Tax Return Guide.

Other income from overseas sources

Enter any other income that the partnership received, or was entitled to, from overseas savings and investments. Include gains on life assurance policies, life annuities and capital redemption policies. Do not include income from land and property abroad (see page PFN 5).

Dividends and distributions from overseas sources

Income you should not include in the *Partnership Foreign* pages

Exclude:

- distributions made in the course of the liquidation of a foreign company
- distributions that constitute a return of the partnership's capital interest in a foreign company
- distributions made by a foreign company in the form of its own stocks and shares
- stock dividends from foreign companies
- bonus shares from a stock dividend issue made by a foreign company.

If you are not sure whether distributions the partnership has received fall into any of the above categories, ask us or your tax adviser for advice.

Column A

Enter the name of the country where the dividend or distribution arose.

Columns B to D

Treat each source of income separately and enter details of each on a separate line.

Dividends from foreign companies

Include:

- dividends from foreign companies
- dividends from offshore funds constituted as companies. Your dividend voucher will provide the information needed.

On 22 April 2009 there was an important change to the way dividends from offshore funds which are substantially invested in interest-bearing assets (commonly known as 'bond funds') were treated for tax purposes. Where an offshore fund holds more than 60% of assets in interest-bearing (or economically similar) form, any distribution received by the partnership is treated as a payment of yearly interest. The partnership will not qualify for a dividend tax credit – see 'Dividend tax credits' below – and the rates applying will be those applying to interest. Your fund manager should be able to tell you if the fund is a 'bond fund'.

Other distributions from overseas sources

If the partnership has received a distribution from a foreign company other than in the form of a cash dividend, for example, if the company has released some of its assets (such as shares it holds in another company) to its shareholders, you should enter the currency value of such assets at the date of distribution, unless the assets are released on liquidation or represent a return of capital.

Where a distribution was not made in shares and you have accepted an option from a foreign company to receive cash instead of shares, the cash is taxable and should be included on page PF1.

Dividend tax credits

If the partnership receives dividends from foreign companies, the partners may be entitled to a dividend tax credit equal to $\frac{1}{9}$ of the dividend in certain circumstances.

From 22 April 2009, to qualify for the tax credit you must pass one of the following tests. These are that:

- the company paying the dividend is not an offshore fund and you own less than 10% of the issued share capital, or any class of share, or
- the company that has paid the dividend to you is an equity based 'offshore fund', or
- the company paying the dividend is not an offshore fund and is resident for tax purposes in a territory with which the UK has a Double Taxation Agreement (DTA) that includes a non-discrimination article and the company is not a 'bond fund'. Go to www.hmrc.gov.uk and look for *DT Digest* within the Search facility for a list of treaty territories.

Further information is available in the *Foreign notes* for the *Foreign* supplementary pages of the tax return for individuals (available from www.hmrc.gov.uk or the SA Orderline).

Box 2.6B

If the partnership has foreign dividend income that does not qualify for the dividend tax credit, you need to complete this box. Leave it blank if all of the partnership's foreign dividends are eligible for the tax credit.

Disposals of holdings in offshore funds

Box 2.9

The partnership may need to make an entry in this box if it has disposed of an interest in an offshore fund. The rules relating to this can be quite complex; HM Revenue & Customs has published guidance in its Offshore Funds Manual and Savings & Investments Manual, which are available from www.hmrc.gov.uk or alternatively you should ask your tax adviser. The following is only a general overview.

The term 'offshore fund' is defined in UK tax legislation; broadly such a fund is an investment scheme of which the trustees or operators are not resident in the UK (for example, unit trusts operated under Jersey laws and Belgian SICAVs are offshore funds). Other than 'open ended' investment companies, non-resident companies generally are not offshore funds but you should check this with the fund manager or your tax adviser.

In certain circumstances, gains on disposals of holdings in offshore funds are charged to tax as income instead of being taxed as capital gains.

Where that is not the case, then any gain or loss on disposal should be returned on the *Partnership Disposal of Chargeable Assets* pages and not in box 2.9. If this applies, you can download those pages from www.hmrc.gov.uk or obtain copies from the SA Orderline.

Any income the partnership receives from the offshore fund should be returned on page PF1 or on page PS1 as appropriate – see under ‘Interest from overseas unit trusts and other investment funds’ on page PFN 3 for help.

Filling in boxes 2.6 to 2.10

Enter in boxes 2.6 to 2.10 the totals of income remittable to the UK (in sterling) and the corresponding UK and foreign tax (also in sterling).

Transfer of information to the Partnership Statement

The partners need to distinguish between the different classes of income and tax credits identified in boxes 2.6 to 2.10 when calculating the tax due on their shares of foreign income.

You should transfer the amounts shown in the totals boxes 2.6 to 2.10 to the appropriate boxes in the Partnership Statement.

Transfer:

- the figure in box 2.6 (total interest and other savings income) to box 14
- the figure in box 2.6A (total dividend income) to box 14A
- the figure in box 2.7 (total overseas letting income and chargeable premiums) to box 17
- the figure in box 2.8 (foreign tax deducted from the income in boxes 2.6, 2.6A and 2.7) to box 28
- the figure in box 2.9 (offshore funds) to box 18
- the figure in box 2.10 (losses on overseas income) to box 21.

Income from land and property abroad Furnished holiday lettings in the European Economic Area (EEA)

On 22 April 2009 there was a change in the treatment of furnished holiday lettings in the EEA. If you have income from the commercial letting of furnished holiday accommodation in the EEA, you can claim the same reliefs that apply to commercially let furnished holiday accommodation in the UK. If you let qualifying holiday accommodation in the EEA and want to claim reliefs currently available under the

furnished holiday lettings rules, you will need to complete the *Partnership UK property* pages. The *notes* for those pages explain how to do this.

If you want to claim Foreign Tax Credit Relief for any foreign tax paid, complete pages PF3 and PF4 of the *Partnership Foreign* pages.

Before you fill in columns A to D on page PF2, complete pages PF3 and PF4. Fill in page PF3 if the partnership had only one overseas let property or if more than one but they are all in the same foreign country, or if more than one but there has been no foreign tax deducted from the income and all the income is remittable.

Otherwise, fill in a copy of page PF3 for each overseas let property. Either take copies of page PF3 before you start filling it in or ask the SA Orderline for extra copies of the *Partnership Foreign* pages. Please put the partnership’s name and tax reference next to the property address box on each copy of page PF3 you fill in.

Column A

Enter the name of the country where the property is situated.

Column B

Fill in pages PF3 and PF4 of the *Partnership Foreign* pages to calculate the amount to be entered in this column.

Column D

If the partnership has paid foreign tax on rental income arising in the return period, enter the amount in column D. Enter the full amount, in sterling, of foreign tax paid.

Filling in page PF3

First, enter the full address of the property, or if page PF3 is to be used for more than one let property, the address of the first property. Use the ‘Additional information’ box on page PF4 for the addresses of the other properties.

Income

Box 2.11

If the partnership enters into any transaction that produces rents or other receipts from any right or interests it holds in land or property situated abroad, those rents and receipts are taxable.

Enter in box 2.11 the full amount of the receipts from the property in question, but excluding any chargeable premiums.

'Income' includes receipts in cash or in kind. It is taxed when it is earned, even if the partnership does not receive the money or goods until later. Include in box 2.11 any rent the partnership receives (or will receive) after 5 April 2011 that is payment for the year ended 5 April 2011 (because it is paid in arrears). Exclude from box 2.11 any rent received which relates to any period after 5 April 2011 (because it is paid in advance). It must be included in the income for the year to which it relates. Make sure you do not count money received in this year if it was included in an earlier year.

Generally, most income will be rental income from a tenancy, leasing or licensing agreements over the land or property. Rental income from furnished, unfurnished, commercial and domestic accommodation, and from any land, should all be included in the overall total. If the property is let furnished, any sums that a tenant may pay for the use of furniture will be taxed as income of the business. All this income should be added together and entered in box 2.11.

Receipts other than rent

Receipts other than rents are also taxable. Some of the main categories are:

- rent charges, ground rents and feu duties
- income arising from the grant of sporting rights
- income arising from letting others tip waste on the land
- income from letting someone use the land when no lease or licence is created; for example, receipts from a film crew who pay to film on the land.

This list is not comprehensive. If you do not know whether to include a particular sum, ask us or your tax adviser.

Chargeable premiums

Premiums paid for the grant of a lease, certain other lump sum payments and other forms of consideration given in connection with the right to possession of a property, are also taxable but on a special basis.

Broadly, for leases over 50 years the entire premium is treated as a capital receipt and so does not form part of the income of the business. For leases of up to 50 years the premium is treated as partly capital and partly rent, and only the rent is taxed.

Use the Working Sheet below to calculate the taxable amount.

Working Sheet for chargeable premiums - leases up to 50 years

Premium	A	£ <input type="text"/>
Number of complete periods of 12 months in the lease (ignore the first 12 months of the lease)	B	<input type="text"/>
50 minus box B	C	<input type="text"/>
Box C divided by 50	D	<input type="text"/>
Box A multiplied by box D	E	£ <input type="text"/>
Copy figure in box E to the 'Chargeable premiums' row in Column B		

If the partnership paid foreign tax in respect of the premium, apportion the amount of foreign tax as appropriate and enter in column D the amount appropriate to the part of the premium that is taxable in the UK.

If you are in doubt whether any payment you have received constitutes a premium, ask us or your tax adviser. There can be a premium charge where you have assigned a lease but not required the payment of a premium. If you have assigned a lease and are not sure of all the consequences of that assignment, ask us or your tax adviser.

Reverse premiums

If the partnership receives a payment or other benefit as an inducement to take an interest in any property for letting, the receipt will be chargeable as income from property. Include the receipt in box 2.11. If it receives an inducement in respect of premises from which it is to trade, each partner will have to include their share of the inducement on their *Partnership* pages.

If you are in any doubt about the proper tax treatment of a reverse premium, ask us or your tax adviser.

Box 2.11A

Tick box 2.11A if box 2.11 contains income from more than one overseas let property.

Box 2.11B

Tick box 2.11B if box 2.11 contains income that is unremittable. Fill in a separate page PF3 for each property producing unremittable income. Exclude the box 2.26 or box 2.27 figure from the 'Taxable profit or loss' column on page PF4.

Expenses

Boxes 2.12 to 2.17

If the total property income in the year before expenses is less than £70,000 annually, you do not have to list expenses separately. Instead, enter the total expenses in box 2.17.

The following guidelines give an indication of the main types of expenses likely to arise in a rental business and what usually can or cannot be claimed as a deduction against income from land and property.

Non-allowable expenses:

- a partner's personal expenses (see the notes about box 2.20 on page PFN 8)
- capital costs, such as expenses relating to the purchase of the land or property that the partnership intends to let, or the cost of buying machinery, furnishings or furniture
- any loss made on the sale of a property.

Allowable expenses:

- in general, any costs you incurred for the sole purpose of earning business profits
- you may be able to claim capital allowances or a renewals deduction on the cost of buying a capital asset, or a wear and tear allowance for furnished lettings.

The expenses must be allocated to the correct return period and it may be necessary to apportion certain expenses to arrive at the correct amount.

Box 2.12 *Rent, rates, insurance, ground rents, etc.*

Any rent paid under a lease of a property let to someone else can be deducted in working out the business profits.

Other expenses connected with the property such as local rates or ground rents are also allowable. Enter in box 2.12 the total of any such expenses incurred in the period for all properties comprised in your business.

Include in box 2.12 any expenses the partnership must incur as landlord insuring any let property and its contents. Insurance against loss of rents is also an allowable cost, but you must include in box 2.11 any income received as a result of taking out such insurance. But insurances that extend beyond the rental business, such as partners' personal policies or those insuring your private belongings, are not allowable costs.

Box 2.13 *Repairs, maintenance and renewals*

Expenses that prevent the property from deteriorating can be deducted as a repair. Examples include exterior and interior painting, stone cleaning, damp treatment, roof repairs, furniture repairs and repairs to lifts and other machines that form part of the property.

Where maintenance and repairs of property are made unnecessary by improvements, additions or alterations, part of the outlay equal to the estimated cost of the maintenance and repairs can be claimed as an expense. No expense can be claimed, however, where:

- the alterations etc, are so extensive as to amount to the reconstruction of the property, or
- there is a change in the use of the property that would have made the maintenance or repairs unnecessary.

If you are in doubt whether any work undertaken on the property constitutes a repair or maintenance, ask us or your tax adviser.

The partnership can claim as an expense the cost of replacing furniture and machinery supplied with the property where capital allowances or 'wear and tear' allowance (see page PFN 9) are not claimed. It includes the renewal of small items such as knives and forks. If the partnership opts for a renewals deduction, you may deduct the cost of replacing any such equipment, but not the cost of the original purchase. Deduct from the replacement cost any sum received for the item scrapped or sold. Also deduct any part of the replacement cost that represents an improvement or addition to the original item.

Enter in box 2.13 the total of any such expenses on renewals (and repairs and maintenance) incurred in the period for all the properties in the business. If you are in doubt about how much to claim as a renewal, ask us or your tax adviser.

Box 2.14 Finance charges, including interest

Include in box 2.14 expenses which relate to the financial side of the rental business. Costs incurred in obtaining a loan or an alternative finance arrangement to buy a property that is let are allowable as a deduction. So is any interest incurred on the loan or alternative finance payments under an alternative finance arrangement. An alternative finance payment is the charge made by your finance provider over and above the original cost of the asset in the alternative finance arrangement. If you are unsure whether any financial cost is allowable as a deduction, ask us or your tax adviser.

Box 2.15 Legal and professional costs

Below are some examples of expenses the partnership cannot deduct and those it can.

Non-allowable expenses:

- expenses in connection with the first letting or subletting of a property for more than one year. These include, for example, legal expenses (such as the cost of drawing up the lease), agents' and surveyors' fees and commission
- any proportion of the legal etc. costs that relate to the payment of a premium on the renewal of a lease
- fees incurred in obtaining planning permission or on the registration of title when buying a property.

Allowable expenses:

- expenses for the let of a year or less
- the normal legal and professional fees you incurred on the renewal of a lease, if the lease is for less than 50 years
- professional fees incurred evicting an unsatisfactory tenant, with a view to reletting, or those on an appeal against a compulsory purchase order
- professional fees in drawing up accounts.

If you are not sure whether any legal or professional fee is allowable as a deduction, ask us or your tax adviser.

Box 2.16 Cost of services provided, including wages

If, in addition to letting a property, the partnership provides any service to the tenant (such as gardening, portage, cleaning or even communal hot water) which requires a degree of maintenance and thus expense, you can claim the cost of these services to the extent that they are

provided wholly and exclusively for the purposes of the letting.

You should include in box 2.16 the total of any such expenses for all properties and their associated services. If the partnership receives any income for any service provided, this should be entered in box 2.11.

Box 2.17 Other expenses

Enter in box 2.17 all expenses incurred wholly and exclusively for the purpose of the rental business that are not already included in boxes 2.12 to 2.16. Examples include the costs of rent collection, advertising for tenants, travelling solely for business purposes, stationery, phone calls and other miscellaneous expenses.

Partners' personal expenses are not allowable. If the partnership spends money on something only partly used for the property, you must enter only the amount expended for business purposes in box 2.17. Alternatively, enter the whole amount and deduct in box 2.20 the proportion of the cost that represents personal use.

Tax adjustments

To arrive at the income (or the allowable loss) for tax purposes, you need to make certain adjustments to the net profit or loss arising in the year in box 2.19. The main adjustments are listed below.

Box 2.20 Private use

Private and personal expenses are not allowable. If the partnership spends money on something only partly used for the rental business and partly for a non-business reason you must either:

- enter the amount expended for business purposes in boxes 2.12 to 2.17, or
- enter the whole expenses in those boxes and deduct in box 2.20 the proportion of the cost that represents your personal use or the non-business element.

For example, if the partnership lets out a property for only eight months in a year and a partner uses it for the other four months, you can put the full annual cost of insuring the property in box 2.12. If you do, you should add back one-third of that cost in box 2.20.

If you are in any doubt whether a particular expense needs to be apportioned between business and private use, ask us or your tax adviser.

Boxes 2.21 and 2.23 *Capital allowances and balancing charges*

In working out the rental business profits you must not deduct:

- the cost of buying, altering, building, installing or improving fixed assets, or
- depreciation or any losses that arise when you sell them. Instead, the partnership may be able to claim capital allowances in box 2.23. These reduce a profit or increase a loss. An adjustment, known as a balancing charge, may arise when it sells an item, gives it away or stops using it in the business. Enter the amount of balancing charges in box 2.21. These increase the profits or reduce a loss.

However, if the partnership lets a dwelling house as furnished accommodation, capital allowances are not available on any machines, furniture or furnishings supplied. See the notes on box 2.24 (on wear and tear).

Your tax adviser, if you have one, will tell you how to calculate capital allowances and balancing charges.

If you do not have a tax adviser, or want to check your calculation, ask the SA Orderline for Helpsheet 252 *Capital allowances and balancing charges*.

Box 2.23A

Tick box 2.23A if box 2.23 includes enhanced capital allowances for spending on designated environmentally beneficial plant and machinery. See Helpsheet 252 *Capital allowances and balancing charges*.

Box 2.23B *Landlord's energy saving allowance*

Enter in box 2.23B the amount the partnership is claiming for installing:

- loft, floor, cavity wall or solid wall insulation
- draught proofing and insulation for hot water systems

in any foreign residential property which it lets. The maximum amount you can claim for the total expenditure on these items is £1,500 for each property. If the partnership has installed the insulation or draught proofing in a single building which only partly comprises let residential property, you should only claim for part of the expenditure incurred (or of £1,500 if the total expenditure exceeded that amount) which relates to the let residential property in the building.

If the partnership owns the building with other persons (or it and other persons have different interests or rights in the same building), you should only claim for the partnership's share of the expenditure which has been incurred for the let residential property in the building (or for its share of the part of the £1,500 maximum which relates to the let residential property in the building).

Box 2.24 *10% wear and tear*

If the partnership lets any furnished residential accommodation (such as a house or flat), capital allowances are not available. Instead, the partnership may claim a deduction for either:

- the net cost of replacing a particular item of furniture or furnishings, but not the cost of the original purchase (see the notes on page PFN 7 about renewals), or
- an allowance amounting to 10% of the rent received minus charges or services that would normally be borne by a tenant but which are, in fact, borne by the partnership. This allowance, which is known as 'wear and tear allowance', is accepted as broadly covering the cost of normal renewals of furniture.

Capital allowances can be claimed if the partnership lets furnished, but not residential, accommodation. If capital allowances can be claimed, you cannot claim the 10% wear and tear allowance.

Boxes 2.26 and 2.27 *Adjusted profit or loss*

If you filled in one page PF3

Enter any net profit in box 2.26. If there is a net loss enter '0' in box 2.26 and the amount of the loss in box 2.27. Go on to page PF4.

If you filled in more than one page PF3

Enter any net profit in box 2.26. If there is a net loss enter '0' in box 2.26 and the amount of the loss in box 2.27. Go on to page PF4.

Filling in page PF4

If you completed one page PF3 fill in boxes 2.28 to 2.30. If you completed more than one page PF3 provide details about each let property, using a separate line of the grid for each, and then fill in boxes 2.31 to 2.34.

Taxable profit for the year if you filled in one page PF3

Boxes 2.28 and 2.29

If you completed only one page PF3 and there is more than one let property, the profits and losses of all the rented properties must be pooled in order to calculate the overall result.

Box 2.28

Enter in box 2.28 the taxable profit from box 2.26 on page PF3. Copy box 2.28 to column B on page PF2.

Box 2.29

Enter in box 2.29 any allowable loss from box 2.27 on page PF3. Copy box 2.29 to box 2.10 on page PF2.

Foreign tax paid on the rental income

Box 2.30

If you have paid foreign tax enter the amount of foreign tax paid in box 2.30. Copy box 2.30 to column D on page PF2.

Filling in the columns on page PF2

Column A

Enter the name of the country where the property is situated.

Column B

Enter the amount of profit for the year from box 2.28.

Column D

Enter the amount of any foreign tax paid for income chargeable to UK tax from box 2.30.

Taxable profit for the year if you filled in more than one page PF3

Box 2.31 to 2.33

Profits and losses of all the let properties must be pooled in order to calculate the overall result. Exclude from this pool any unremittable property income.

Normally, the tax authorities of the country where the let property is situated will also charge tax on the letting profits. If no further relief was given this would mean that the partners would pay tax on the same profits both here and abroad. But the double charge is relieved by

deducting the overseas tax paid on the property income from the UK tax due on the same income. This is done either under the terms of a Double Taxation Treaty with the overseas country or, where no treaty exists, under separate UK rules.

If the overseas income has suffered foreign tax and a claim to tax credit relief is made by the partners, it will be necessary to identify the amount of UK tax attributable to income from each particular property. Therefore, where Foreign Tax Credit Relief is to be claimed, separate computations of profits and losses for each property will be required.

For the purposes of calculating Foreign Tax Credit Relief, losses should be deducted in the order most favourable. Normally, this will mean that losses should be allocated first against the source that has suffered the lowest rate of foreign tax. For example:

	Country A	Country B	Country C	Total
Income	6,000	4,000	6,000	
Expenses	1,000	6,000	4,000	
Profit (loss)	5,000	(2,000)	2,000	5,000
The following amounts of foreign tax have been paid				
	Rate of foreign tax		Tax deducted	
Country A	5,000	10%	500	
Country B	Nil			
Country C	2,000	30%	600	
Total foreign tax			1,100	

Assuming that all of the income is wholly chargeable at 20% the Income Tax due will be as follows:

Country A

$$£5,000 \times 20\% = £1,000$$

Allocate all the losses that arose in Country B to Country A as that has suffered the lowest rate of foreign tax:

Profit £5,000

Losses £2,000

Net £3,000 $\times 20\% = £600$

All of the foreign tax paid of £500 is available for Foreign Tax Credit Relief.

Country C

$£2,000 \times 20\% = £400$

Although foreign tax of £600 has been paid, the amount available for Foreign Tax Credit Relief is limited to the amount of UK tax charged on the same income, that is £400.

Summary

Income Tax due	$£600 + £400$	$= £1,000$
Foreign Tax Credit Relief	$£500 + £400$	$= \underline{£900}$
Net UK tax payable		$= £100$

If you need any help in working out the relief due, please contact us or your tax adviser.

If box 2.31 is a profit, copy it to column B on page PF2.

Foreign tax paid on rental income

Box 2.32

Add up the foreign tax deducted and enter the total in box 2.32.

Box 2.33

After allocating any losses in the most favourable way, add up the amounts chargeable and enter the total in box 2.33.

Box 2.34

If the overall result is a loss, enter the loss in box 2.34. Copy box 2.34 to box 2.10 on page PF2.

Filling in the columns on page PF2

Column A

Enter 'see page PF4'.

Column B

Enter the overall amount of profit for the year from box 2.31.

Column D

Enter any foreign tax deducted from box 2.32.

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