



Income Tax Act 2007

2007 CHAPTER 3

PART 9

SPECIAL RULES ABOUT SETTLEMENTS AND TRUSTEES

CHAPTER 8

TRUSTEES' EXPENSES AND BENEFICIARY'S INCOME

499 Application of Chapter

- (1) This Chapter applies if—
 - (a) in a tax year (“the current tax year”) income arises to the trustees of a settlement, and
 - (b) before being distributed, some or all of that income is income of another person (“the beneficiary”).
- (2) It contains provision about how the beneficiary's income mentioned in subsection (1) (b) (“the beneficiary's income”) can be reduced for income tax purposes by reference to expenses of the trustees.

500 Restrictions on use of trustees' expenses to reduce the beneficiary's income

- (1) Expenses of the trustees can be used to reduce the beneficiary's income for income tax purposes only so far as—
 - (a) the expenses are incurred by the trustees in the current tax year or in an earlier tax year, and
 - (b) as a result of the expenses being chargeable to income as mentioned in subsection (2) or (3), the beneficiary's entitlement to the beneficiary's income is reduced by reference to the expenses.

Status: Point in time view as at 03/02/2009.

Changes to legislation: There are currently no known outstanding effects for the Income Tax Act 2007, Chapter 8. (See end of Document for details)

- (2) Expenses are chargeable to income for the purposes of subsection (1)(b) if they are chargeable to income by the trustees under a term of the settlement (subject to any overriding law which prevents the expenses from being so chargeable).
- (3) Expenses are also chargeable to income for the purposes of subsection (1)(b) if they—
 - (a) are not chargeable to income by the trustees under a term of the settlement, but
 - (b) are chargeable to income by the trustees in accordance with any law (subject to any overriding term of the settlement which prevents the expenses from being so chargeable).
- (4) Expenses cannot be used to reduce the beneficiary's income for income tax purposes so far as they are expenses which have fallen, or may fall, to be taken into account for the purpose of calculating the trustees' liability to income tax for any tax year.

501 Non-UK resident beneficiaries

- (1) This section applies if—
 - (a) expenses of the trustees are to be used to reduce the beneficiary's income for income tax purposes, and
 - (b) a proportion of the beneficiary's income is untaxed income (see section 502).
- (2) A proportion of those expenses is not to be so used.
- (3) That proportion is the same as the proportion of the beneficiary's income which is untaxed income.
- (4) In subsection (3) the references to the beneficiary's income and untaxed income do not, in either case, include so much (if any) of that income as is equal to the amount of income tax, or of any foreign tax, for which the trustees are liable on that income.
- (5) “Foreign tax” means any tax which—
 - (a) is of a similar character to income tax, and
 - (b) is imposed by the laws of a territory outside the United Kingdom.

502 Meaning of “untaxed income” in section 501

- (1) For the purposes of section 501 the beneficiary's income is untaxed income so far as the beneficiary is not liable to income tax on it wholly or partly because the beneficiary—
 - (a) has been non-UK resident, or
 - (b) has been treated as resident in a territory outside the United Kingdom under double taxation arrangements.
- (2) If the income tax charged on the beneficiary for the beneficiary's income is limited under Chapter 1 of Part 14 (limits on liability to income tax of non-UK residents), the untaxed income includes so much of the beneficiary's income which is disregarded income (within the meaning of that Chapter) except so far as the disregarded income is within subsection (3).
- (3) The disregarded income is within this subsection so far as—
 - (a) sums representing income tax have been deducted from the income,
 - (b) sums representing income tax have been treated as deducted from or paid in respect of the income, or
 - (c) there are tax credits in respect of the income.

Status: Point in time view as at 03/02/2009.

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503 How beneficiary's income is reduced

- (1) This section applies if the beneficiary's income is to be reduced for income tax purposes by expenses of the trustees.
- (2) The beneficiary's income is to be reduced in the following order—
 - first, reduce dividend income within subsection (3) (if any),
 - second, reduce dividend income not within that subsection (if any),
 - third, reduce savings income (if any), and
 - fourth, reduce other income (if any).
- (3) Income is within this subsection so far as it is—
 - (a) chargeable under Chapter 3 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies),
 - (b) chargeable under Chapter 5 of that Part (stock dividends from UK resident companies), or
 - (c) chargeable under Chapter 6 of that Part (release of loan to participator in close company).
- (4) If the trustees are liable for income tax charged on a component of the beneficiary's income at a particular rate, then any reduction of that component is to be made in accordance with the steps set out in subsection (5).
- (5) Here are the steps.

Step 1

Deduct from the component the amount of income tax charged on it at the particular rate for which the trustees are liable.

Step 2

Take the result from Step 1 and reduce it (but not below nil) by the amount of the trustees' expenses so far as they have not already been used to reduce other components of the beneficiary's income.

Step 3

Take the result from Step 2 and gross it up by reference to the particular rate.

The result is the reduced amount of the component of the beneficiary's income.

Status:

Point in time view as at 03/02/2009.

Changes to legislation:

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