



Income and Corporation Taxes Act 1970

1970 CHAPTER 10

PART XVIII

DOUBLE TAXATION RELIEF

CHAPTER II

RULES GOVERNING RELIEF BY WAY OF CREDIT

General

500 Interpretation of credit code

(1) In this Chapter, except where the context otherwise requires—

" arrangements " means any arrangements having effect by virtue of section 497 above,

" Commonwealth territory " means any of Her Majesty's dominions, any other country for the time being mentioned in section 1(3) of the British Nationality Act 1948, any British protectorate or protected state, and any trust territory administered by the government of any part of Her Majesty's dominions,

" foreign tax " means, in relation to any territory arrangements with the government of which have effect by virtue of section 497 above, any tax chargeable under the laws of that territory for which credit may be allowed under the arrangements,

" the United Kingdom taxes " means income tax and corporation tax,

" underlying tax " means, in relation to any dividend, tax which is not chargeable in respect thereof directly or by deduction, and

" unilateral relief " means relief under section 498 above.

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- (2) For the purposes of this Chapter one company is a subsidiary of another if the other company controls, directly or indirectly, not less than 50 per cent. of the voting power in the first company.
- (3) Any reference in this Chapter to foreign tax shall be construed in relation to credit to be allowed under any arrangements as a reference only to tax chargeable under the laws of the territory with the government of which the arrangements were made.

501 Relief to be given by reducing U.K. taxes by amount of credit due

- (1) Subject to the provisions of this Chapter, where under any arrangements credit is to be allowed against any of the United Kingdom taxes chargeable in respect of any income, the amount of the United Kingdom taxes so chargeable shall be reduced by the amount of the credit.
- (2) Nothing in subsection (1) above authorises the allowance of credit against any United Kingdom tax against which credit is not allowable under the arrangements.

502 Requirement as to residence

Credit shall not be allowed under any arrangements against any of the United Kingdom taxes for any chargeable period unless the person in respect of whose income the United Kingdom tax is chargeable is resident in the United Kingdom for that period:

Provided that credit may be allowed by way of unilateral relief—

- (a) for tax paid under the law of the Isle of Man or any of the Channel Islands, if the person in question is, for the chargeable period in question, resident either in the United Kingdom or in the Isle of Man or the Channel Islands, as the case may be, and
- (b) for tax paid under the law of any territory and computed by reference to income from an office or employment the duties of which are performed wholly or mainly in that territory, against income tax chargeable under Schedule E and computed by reference to that income, if the person in question is for the year of assessment in question resident either in the United Kingdom or in that territory.

503 Computation, for purposes of U.K. taxes, of income subject to foreign tax

- (1) Where credit for foreign tax falls under any arrangements to be allowed in respect of any income, and income tax or corporation tax is payable by reference to the amount received in the United Kingdom, the amount received shall be treated for the purposes of income tax or corporation tax as increased by the amount of the foreign tax in respect of the income, including, in the case of a dividend, any underlying tax which, under the arrangements, is to be taken into account in considering whether any, and if so what, credit is to be allowed in respect of the dividend.
- (2) Where credit for foreign tax falls under any arrangements to be allowed in respect of any income, and subsection (1) above does not apply, then, in computing the amount of the income for the purposes of income tax or corporation tax—
 - (a) no deduction shall be made for foreign tax, whether in respect of the same or any other income, and

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- (b) the amount of the income shall, in the case of a dividend, be treated as increased by any underlying tax which, under the arrangements, is to be taken into account in considering whether any, and if so what, credit is to be allowed in respect of the dividend.
- (3) The amount of any income shall not be treated as increased under this section by reference to any foreign tax which, although not payable, falls to be taken into account for the purposes of credit by virtue of section 497(3) above.

504 Limits on credit: income tax

- (1) The amount of the credit for foreign tax which, under any arrangements, is to be allowed to a person against income tax for any year of assessment shall not exceed the difference between the amounts of income tax which would be borne by him for the year (no credit being allowed for foreign tax)—
 - (a) if he were charged to tax on his total income for the year, computed in accordance with section 503 above, and
 - (b) if he were charged to tax on the same income, computed in the same way, but excluding the income in respect of which the credit is to be allowed.
- (2) Where credit for foreign tax is to be allowed in respect of income from more than one source, subsection (1) above shall be applied successively to the income from each source, but so that, on each successive application, paragraph (a) shall apply to the total income exclusive of the income to which the subsection has already been applied.
- (3) Without prejudice to subsections (1) and (2) above, the total credit for foreign tax to be allowed to a person against income tax for any year of assessment under all arrangements having effect by virtue of section 497 above shall not exceed the total income tax payable by him for that year of assessment, less any income tax which he is entitled to charge against any other person.

505 Limit on credit: corporation tax

The amount of the credit for foreign tax which, under any arrangements, is to be allowed against corporation tax in respect of any income shall not exceed the corporation tax attributable to that income.