



# Income and Corporation Taxes Act 1988

## 1988 CHAPTER 1

### PART XVIII

#### DOUBLE TAXATION RELIEF

#### CHAPTER II

#### RULES GOVERNING RELIEF BY WAY OF CREDIT

##### *General*

#### **792 Interpretation of credit code.**

<sup>M1</sup>(1) In this Chapter, except where the context otherwise requires—

“arrangements” means any arrangements having effect by virtue of section 788;

“foreign tax” means, in relation to any territory, arrangements with the government of which have effect by virtue of section 788, 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 of that dividend directly or by deduction; and

“unilateral relief” means relief under section 790.

(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.

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#### Marginal Citations

**M1** Source—1970 s.500

### 793 Reduction of United Kingdom taxes by amount of credit due.

<sup>M2</sup>(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 or chargeable gain, 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.

#### Modifications etc. (not altering text)

**C16** [Ss. 793-795A](#) applied (31.12.2006 with effect in accordance with reg. 1(2) of the amending S.I.) by [The Lloyd's Underwriters \(Double Taxation Relief\) \(Corporate Members\) Regulations 2006 \(S.I. 2006/3262\)](#), [reg. 4](#)

#### Marginal Citations

**M2** Source—1970 s.501; 1972 s.100 (1).

### [<sup>F1</sup>793A No double relief etc.

- (1) Where relief in respect of an amount of tax that would otherwise be payable under the law of a territory outside the United Kingdom may be allowed—
  - (a) under arrangements made with the government of that territory, or
  - (b) under the law of that territory in consequence of any such arrangements,
 credit may not be allowed in respect of that tax, whether the relief has been used or not.
- (2) Where, under arrangements having effect by virtue of section 788, credit may be allowed in respect of an amount of tax, credit by way of unilateral relief may not be allowed in respect of that tax.
- (3) Where arrangements made with the government of a territory outside the United Kingdom contain express provision to the effect that relief by way of credit shall not be given under the arrangements in cases or circumstances specified or described in the arrangements, then neither shall credit by way of unilateral relief be allowed in those cases or circumstances.]

#### Textual Amendments

**F1** [S. 793A](#) inserted (with effect in accordance with [Sch. 30 para. 5\(2\)\(3\)](#) of the amending Act) by [Finance Act 2000 \(c. 17\)](#), [Sch. 30 para. 5\(1\)](#)

### 794 Requirement as to residence.

<sup>M3</sup>(1) Subject to subsection (2) below, credit shall not be allowed under any arrangements against any of the United Kingdom taxes for any chargeable period unless the person

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in respect of whose income or chargeable gains the United Kingdom tax is chargeable is resident in the United Kingdom for that period.

- (2) 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 any of the Channel Islands, as the case may be;
  - (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 that territory; and
  - [<sup>F2</sup>(bb) for tax paid under the law of any territory outside the United Kingdom in respect of the income or chargeable gains of a branch or agency in the United Kingdom of a person who is not resident in the United Kingdom, where the following conditions are fulfilled, namely—
    - (i) that the territory under whose law the tax was paid is not one in which the person is liable to tax by reason of domicile, residence or place of management; and
    - (ii) that the amount of relief claimed does not exceed (or is by the claim expressly limited to) that which would have been available if the branch or agency had been a person resident in the United Kingdom and the income or gains in question had been income or gains of that person.]
  - (c) <sup>F3</sup> .....

#### Textual Amendments

**F2** S. 794(2)(bb) inserted (with effect in accordance with Sch. 30 para. 4(14) of the amending Act) by Finance Act 2000 (c. 17), Sch. 30 para. 4(5)

**F3** S. 794(2)(c) repealed (with effect in accordance with Sch. 30 para. 4(14) of the repealing Act) by Finance Act 2000 (c. 17), Sch. 30 para. 4(6), Sch. 40 Pt. 2(13)

#### Marginal Citations

**M3** Source—1970 s.502; 1982 s.67; 1972 s.100(1).

## 795 Computation of income subject to foreign tax.

<sup>M4</sup>(1) Where credit for foreign tax falls under any arrangements to be allowed in respect of any income and income 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 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 or gain and subsection (1) above does not apply, then, in computing the amount of the income or gain for the purposes of income tax or corporation tax—

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- (a) no deduction shall be made for foreign tax, whether in respect of the same or any other income or gain; and
  - (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 or gain 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 section 788(5).
- [<sup>F4</sup>(4) Subsections (2) and (3) above have effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).]

#### Textual Amendments

**F4** S. 795(4) inserted (with effect in accordance with s. 105(1) of the amending Act) by [Finance Act 1996 \(c. 8\)](#), [Sch. 14 para. 41](#) (with [Sch. 15](#))

#### Marginal Citations

**M4** Source—1970 s.503; 1972 s.100(1); 1987 Sch.15 2(18)

#### [<sup>F5</sup>795A Limits on credit: minimisation of the foreign tax.

- (1) The amount of credit for foreign tax which, under any arrangements, is to be allowed against tax in respect of any income or chargeable gain shall not exceed the credit which would be allowed had all reasonable steps been taken—
  - (a) under the law of the territory concerned, and
  - (b) under any arrangements made with the government of that territory,
 to minimise the amount of tax payable in that territory.
- (2) The steps mentioned in subsection (1) above include—
  - (a) claiming, or otherwise securing the benefit of, reliefs, deductions, reductions or allowances; and
  - (b) making elections for tax purposes.
- (3) For the purposes of subsection (1) above, any question as to the steps which it would have been reasonable for a person to take shall be determined on the basis of what the person might reasonably be expected to have done in the absence of relief under this Part against tax in the United Kingdom.]

#### Textual Amendments

**F5** S. 795A inserted (with effect in accordance with [Sch. 30 para. 6\(2\)](#) of the amending Act) by [Finance Act 2000 \(c. 17\)](#), [Sch. 30 para. 6\(1\)](#)

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## 796 Limits on credit: income tax.

- <sup>M5</sup>(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 [<sup>F6</sup>but allowing for the making of any other income tax reduction under the Income Tax Acts])—
- (a) if he were charged to tax on his total income for the year, computed in accordance with section 795; 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 788 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.

### Textual Amendments

- F6** Words in s. 796(1) inserted (with effect in accordance with s. 77(7) of the amending Act) by Finance Act 1994 (c. 9), Sch. 8 para. 12

### Marginal Citations

- M5** Source—1970 s.504

## 797 Limits on credit: corporation tax.

- <sup>M6</sup>(1) The amount of the credit for foreign tax which under any arrangements is to be allowed against corporation tax in respect of any income or chargeable gain (“the relevant income or gain”) shall not exceed the corporation tax attributable to the relevant income or gain, determined in accordance with subsections (2) and (3) below.
- (2) <sup>M7</sup>Subject to subsection (3) below, the amount of corporation tax attributable to the relevant income or gain shall be treated as equal to such proportion of the amount of that income or gain as corresponds to the rate of corporation tax payable by the company (before any credit under this Part) on its income or chargeable gains for the accounting period in which the income arises or the gain accrues (“the relevant accounting period”).
- (3) Where in the relevant accounting period there is any deduction to be made for charges on income, expenses of management or other amounts which can be deducted from or set against or treated as reducing profits of more than one description—
- (a) the company may for the purposes of this section allocate the deduction in such amounts and to such of its profits for that period as it thinks fit; and
  - (b) the amount of the relevant income or gain shall be treated for the purposes of subsection (2) above as reduced or, as the case may be, extinguished by so much (if any) of the deduction as is allocated to it.

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[<sup>F7</sup>(3A) Where, in a case to which section 797A does not apply, a company has a non-trading deficit on its loan relationships for the relevant accounting period, then for the purposes of subsection (3) above that deficit shall be treated, to the extent that it is an amount to which a claim under—

- (a) subsection (2)(a) of section 83 of the Finance Act 1996 (deficit set against current year profits), or
- (b) paragraph 4(2) of Schedule 11 to that Act (set-off of deficits in the case of insurance companies),

relates, as an amount that can in that period be set against profits of any description but can be allocated in accordance with subsection (3) above only to the profits against which it is set off in pursuance of the claim.

(3B) For the purposes of subsection (3) above, where—

- (a) section 797A does not apply in the case of any company, and
- (b) any amount is carried forward to the relevant accounting period in pursuance of a claim under subsection (2)(d) of section 83 of the Finance Act 1996<sup>F8</sup> . . . . ,

then that amount must be allocated to non-trading profits of the company for that period (so far as they are sufficient for the purpose) and cannot be allocated to any other profits.]

(4)<sup>F9</sup> . . . . .

(5)<sup>F9</sup> . . . . .

[<sup>F10</sup>(6) In this section “non-trading profits” has the same meaning as in paragraph 4 of Schedule 8 to the Finance Act 1996.]

#### Textual Amendments

**F7** S. 797(3A)(3B) inserted (with effect in accordance with s. 105(1) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 14 para. 42(1)** (with Sch. 15)

**F8** Words in s. 797(3B)(b) repealed (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(a)(4), **Sch. 27 Pt. 3(17)**, Note

**F9** S. 797(4)(5) repealed (with effect in accordance with Sch. 3 para. 35(3) of the repealing Act) by Finance Act 1998 (c. 36), Sch. 3 para. 35(2), **Sch. 27 Pt. 3(2)**, Note

**F10** S. 797(6) inserted (with effect in accordance with s. 105(1) of the amending Act) by Finance Act 1996 (c. 8), **Sch. 14 para. 42(2)** (with Sch. 15)

#### Marginal Citations

**M6** Source—1970 s.505; 1972 s.100(1), (3); 1984 s.53(1)

**M7** Source—1972 s.100(4)-(6A); 1984 s.53(1); 1986 s.49; 1987 (No.2) s.77

[<sup>F12</sup>797A Foreign tax on [<sup>F11</sup>items giving rise to] a non-trading credit.

(1) This section applies for the purposes of any arrangements where, in the case of any company—

- (a) any non-trading credit relating to an [<sup>F13</sup>item] is brought into account for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) for any accounting period (“the applicable accounting period”); and

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- (b) there is in respect of [<sup>F14</sup>that item] an amount of foreign tax for which, under the arrangements, credit is allowable against United Kingdom tax computed by reference to that interest.
- (2) It shall be assumed that tax chargeable under paragraph (a) of Case III of Schedule D on the profits and gains arising for the applicable accounting period from the company's loan relationships falls to be computed on the actual amount of its non-trading credits for that period, and without any deduction in respect of non-trading debits.
- (3) Section 797(3) shall have effect (subject to subsection (7) below) as if—
- (a) there were for the applicable accounting period an amount equal to the adjusted amount of the non-trading debits falling to be brought into account by being set against profits of the company for that period of any description; and
  - (b) different parts of that amount might be set against different profits.
- (4) For the purposes of this section, the adjusted amount of a company's non-trading debits for any accounting period is the amount equal, in the case of that company, to the aggregate of the non-trading debits given for that period for the purposes of Chapter II of Part IV of the Finance Act 1996 (loan relationships) less the aggregate of the amounts specified in subsection (5) below.
- (5) Those amounts are—
- (a) so much of any non-trading deficit for the applicable accounting period as is an amount to which a claim under subsection (2)(b), (c) or (d) of section 83 of the Finance Act 1996 or paragraph 4(3) of Schedule 11 to that Act (group relief and transfer to previous or subsequent period of deficits) relates; [<sup>F15</sup>and]
  - (b) so much of any non-trading deficit for that period as falls to be carried forward to a subsequent period in accordance with subsection (3) of that section or paragraph 4(4) of that Schedule; <sup>F16</sup> . . .
  - (c) <sup>F16</sup> . . . . .
- [<sup>F17</sup>An amount carried forward to the applicable accounting period under section 83(3) of that Act shall not be treated as a non-trading deficit for that period for the purposes of paragraphs (a) and (b).]
- (6) Section 797(3) shall have effect as if any amount [<sup>F18</sup>carried forward to the applicable accounting period in pursuance of a claim under section 83(2)(d) of that Act] were an amount capable of being allocated only to any non-trading profits of the company.
- (7) Where—
- (a) the company has a non-trading deficit for the applicable accounting period,
  - (b) the amount of that deficit exceeds the aggregate of the amounts specified in subsection (5) above, and
  - (c) in pursuance of a claim under—
    - (i) subsection (2)(a) of section 83 of the Finance Act 1996 (deficit set against current year profits), or
    - (ii) paragraph 4(2) of Schedule 11 to that Act (set-off of deficits in the case of insurance companies),the excess falls to be set off against profits of any description,
- section 797(3) shall have effect as if non-trading debits of the company which in aggregate are equal to the amount of the excess were required to be allocated to the profits against which they are set off in pursuance of the claim.

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[<sup>F19</sup>An amount carried forward to the applicable accounting period under section 83(3) of the <sup>M8</sup>Finance Act 1996 shall be disregarded for the purposes of paragraphs (a) and (b).]

- (8) In this section “non-trading profits” has the same meaning as in paragraph 4 of Schedule 8 to the Finance Act 1996.]

#### Textual Amendments

- F11** Word in s. 797A sidenote substituted (with effect in accordance with Sch. 30 para. 7(4) of the amending Act) by Finance Act 2000 (c. 17), Sch. 30 para. 7(3)
- F12** S. 797A inserted (with effect in accordance with s. 105(1) of the amending Act) by Finance Act 1996 (c. 8), Sch. 14 para. 43 (with Sch. 15)
- F13** Word in s. 797A(1)(a) substituted (with effect in accordance with Sch. 30 para. 7(4) of the amending Act) by Finance Act 2000 (c. 17), Sch. 30 para. 7(2)(a)
- F14** Words in s. 797A(1)(b) substituted (with effect in accordance with Sch. 30 para. 7(4) of the amending Act) by Finance Act 2000 (c. 17), Sch. 30 para. 7(2)(b)
- F15** Word at the end of s. 797A(5)(a) inserted (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(b)(4)
- F16** S. 797A(5)(c) and preceding word repealed (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(b)(4), Sch. 27 Pt. 3(17), Note
- F17** Words at the end of s. 797A(5) inserted (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(c)(4)
- F18** Words in s. 797A(6) substituted (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(d)(4)
- F19** Words at the end of s. 797A(7) inserted (retrospectively) by Finance Act 1998 (c. 36), s. 82(2)(e)(4)

#### Marginal Citations

- M8** 1996 c. 8.

VALID FROM 24/07/2002

#### [<sup>F20</sup>797B Foreign tax on items giving rise to a non-trading credit: intangible fixed assets

- (1) This section applies for the purposes of any arrangements where, in the case of a company—
- (a) a non-trading credit relating to an item is brought into account for the purposes of Schedule 29 to the Finance Act 2002 (intangible fixed assets) for an accounting period (“the applicable accounting period”), and
  - (b) there is in respect of that item an amount of foreign tax for which, under the arrangements, credit is allowable against United Kingdom tax computed by reference to that item.
- (2) It shall be assumed that tax chargeable under Case VI of Schedule D on the profits and gains arising for the applicable accounting period from the company’s intangible fixed assets falls to be computed on the actual amount of its non-trading credits for that period, and without any deduction in respect of non-trading debits.
- (3) Section 797(3) shall have effect as if—
- (a) there were for the applicable accounting period an amount equal to the adjusted amount of the non-trading debits falling to be brought into account by being set against profits of the company for that period of any description, and



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(b) different parts of that amount might be set against different profits.

(4) For this purpose the adjusted amount of a company's non-trading debits for an accounting period is given by:

## Total Debits – Amount Carried Forward

where—

Total Debits is the aggregate amount of the company's non-trading debits for that accounting period under Schedule 29 to the Finance Act 2002 (intangible fixed assets), and

Amount Carried Forward is the amount (if any) carried forward to the next accounting period of the company under paragraph 35(3) of that Schedule (carry-forward of non-trading loss in respect of which no claim is made for it to be set against total profits of current period).]

### Textual Amendments

**F20** S. 797B inserted (24.7.2002) by [Finance Act 2002 \(c. 23\)](#), [Sch. 30 para. 5\(4\)](#)

### Modifications etc. (not altering text)

**C17** Ss. 797-798C applied (31.12.2006 with effect in accordance with reg. 1(2) of the amending S.I.) by [The Lloyd's Underwriters \(Double Taxation Relief\) \(Corporate Members\) Regulations 2006 \(S.I. 2006/3262\)](#), [reg. 4](#)

## [<sup>F21</sup>798 Restriction of relief on certain interest and dividends.

- (1) This section applies where—
- (a) in any chargeable period the profits of a trade carried on by a qualifying taxpayer include an amount computed in accordance with section 795 in respect of foreign interest or foreign dividends;
  - (b) the taxpayer is entitled in accordance with this Chapter to credit for foreign tax on the foreign interest or foreign dividends; and
  - (c) in the case of foreign dividends, the foreign tax mentioned in paragraph (b) above is or includes underlying tax.
- (2) The amount of the credit for foreign tax referred to in subsection (1)(b) above which, in accordance with this Chapter, is to be allowed against income tax or corporation tax—
- (a) shall be limited by treating the amount of the foreign interest or foreign dividends (as increased or reduced under section 798A) as reduced (or further reduced) for the purposes of this Chapter by an amount equal to the taxpayer's financial expenditure in relation to the interest or dividends (as determined in accordance with section 798B); and
  - (b) so far as the credit relates to foreign tax on interest or foreign tax on dividends which is not underlying tax, shall not exceed 15 per cent. of the interest or dividends, computed without regard to paragraph (a) above or to any increase or reduction under section 798A.
- (3) In this section and sections 798A and 798B—

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“interest”, in relation to a loan, includes any introductory or other fee or charge which is payable in accordance with the terms on which the loan is made or is otherwise payable in connection with the making of the loan;

“foreign dividends” means dividends payable out of or in respect of the stocks, funds, shares or securities of a body of persons not resident in the United Kingdom;

“foreign interest” means interest payable by a person not resident in the United Kingdom or by a government or public or local authority in a country outside the United Kingdom.

- (4) In this section and section 798B “qualifying taxpayer” means, subject to subsection (5) below, a person carrying on a trade which includes the receipt of interest or dividends and is not an insurance business.
- (5) Where a company which is connected or associated with a qualifying taxpayer is acting in accordance with a scheme or arrangement the purpose, or one of the main purposes, of which is to prevent or restrict the application of this section to the taxpayer—
- (a) the company shall be treated for the purposes of this section as a qualifying taxpayer; and
  - (b) any foreign interest or foreign dividends received in pursuance of the scheme or arrangement shall be treated for those purposes as profits of a trade carried on by the company.
- (6) For the purposes of this section and section 798B—
- (a) section 839 applies; and
  - (b) subsection (10) of section 783 applies as it applies for the purposes of that section.]

#### **Textual Amendments**

**F21** S. 798 substituted (with effect in accordance with s. 103(2)(3) of the amending Act) by Finance Act 1998 (c. 36), s. 103(1)

#### **[<sup>F22</sup>798A Adjustments of interest and dividends for spared tax etc.**

- (1) In a case where section 798 applies—
- (a) subsection (2) below applies if the foreign tax referred to in subsection (1)(b) of that section is or includes an amount of spared tax; and
  - (b) subsection (3) below applies if the foreign tax so referred to is or includes an amount of tax which is not spared tax.
- (2) For the purposes of income tax or corporation tax, the amount which apart from this subsection would be the amount of the foreign interest or foreign dividends shall be treated as increased by so much of the spared tax as does not exceed—
- (a) the amount of the spared tax for which, in accordance with any arrangements applicable to the case in question, credit falls to be given as mentioned in section 798(1)(b); or
  - (b) if it is less, 15 per cent. of the interest or dividends, computed without regard to any increase under this subsection.
- (3) If the amount of tax which is not spared tax exceeds—

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- (a) the amount of the credit which, by virtue of this Chapter (but disregarding subsection (2) of section 798), is allowed for that tax against income tax or corporation tax; or
- (b) if it is less in the case of tax on foreign interest, 15 per cent. of the interest, computed without regard to any increase or reduction under this section or that subsection,

then, for the purposes of income tax or corporation tax, the amount which, apart from this subsection, would be the amount of the foreign interest or foreign dividends shall be treated as reduced by a sum equal to the excess.

- (4) Subsection (2) above has effect for the purposes of corporation tax notwithstanding anything in section 80(5) of the <sup>M9</sup>Finance Act 1996 (matters to be brought into account in the case of loan relationships only under Chapter II of Part IV of that Act).
- (5) Nothing in subsection (2) above prejudices the operation of section 795 in relation to foreign tax which is not spared tax.
- (6) In this section “spared tax” means foreign tax which although not payable falls to be taken into account for the purposes of credit by virtue of section 788(5).]

#### Textual Amendments

**F22** S. 798A inserted (with effect in accordance with s. 103(2)(3) of the amending Act) by [Finance Act 1998 \(c. 36\), s. 104](#)

#### Marginal Citations

**M9** 1996 c. 8.

#### [<sup>F23</sup>798B Meaning of “financial expenditure”.

- (1) For the purposes of section 798 “financial expenditure”, in relation to a qualifying taxpayer and any interest or dividends is, subject to the provisions of this section, the aggregate of—
  - (a) so much of the financial expenses (consisting of interest, discounts or similar sums or qualifying losses) incurred by the taxpayer or a person connected or associated with him as—
    - (i) is properly attributable to the earning of the interest or dividends; and
    - (ii) falls to be taken into account in computing the taxpayer’s or person’s liability to income tax or corporation tax; and
  - (b) so much of any other sum paid by the taxpayer or a person connected or associated with him which—
    - (i) falls to be taken into account as mentioned in paragraph (a) above; and
    - (ii) would not, apart from this paragraph, be taken into account in determining the amount of the interest or dividends,as it is reasonable to regard as attributable to the earning of the interest or dividends (whether or not it would fall, in accordance with normal accountancy practice, to be so treated).
- (2) There shall be deducted from the aggregate given by subsection (1) above so much of the qualifying gains and profits accruing to the qualifying taxpayer or a person connected or associated with him as—

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- (a) is properly attributable to the earning of the interest or dividends; and
  - (b) falls to be taken into account in computing the taxpayer's or person's liability to income tax or corporation tax.
- (3) In a case where the amount of a qualifying taxpayer's financial expenditure in relation to the earning of the interest or dividends is not readily ascertainable—
- (a) that amount shall be taken, subject to subsection (4) below, to be such sum as it is just and reasonable to attribute to the earning of the interest or dividends; and
  - (b) in the case of interest, regard shall be had in particular to any market rates of interest by reference to which the rate of the interest is determined.
- (4) The Board may by regulations supplement subsection (3) above—
- (a) by specifying matters to be taken into account in determining such a just and reasonable attribution as is referred to in paragraph (a); and
  - (b) by making provision with respect to the determination of market rates of interest for the purposes of paragraph (b);
- and any such regulations may make different provision for different cases.
- (5) In this section “qualifying losses” means—
- (a) losses falling to be brought into account for the purposes of Chapter II of Part II of the <sup>M10</sup>Finance Act 1993 (exchange gains and losses) in accordance with sections 125 to 127 of that Act; and
  - (b) losses falling to be brought into account for the purposes of Chapter II of Part IV of the <sup>M11</sup>Finance Act 1994 (interest rate and currency contracts) in accordance with sections 155 to 158 of that Act;
- and “qualifying gains” and “qualifying profits” shall be construed accordingly.]

#### Textual Amendments

**F23** S. 798B inserted (with effect in accordance with s. 103(2)(3) of the amending Act) by Finance Act 1998 (c. 36), s. 105

#### Marginal Citations

**M10** 1993 c. 34.

**M11** 1994 c. 9.

VALID FROM 07/04/2005

#### [<sup>F24</sup>798C Disallowed credit: use as deduction

- (1) This section applies where the application of section 796(1) or 797(1) prevents an amount of credit for foreign tax from being allowable against income tax or corporation tax.
- (2) The amount of disallowed credit may be taken into account as a deduction in computing the taxpayer's liability for income tax or corporation tax, but only in so far as it does not exceed the amount of any loss attributable to the income or gain in respect of which the foreign tax was paid (for which purpose payment of the foreign tax is to be taken into account, despite section 795(2)).]

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**Textual Amendments**

**F24** Ss. 798-798C substituted for ss. 798-798B (with effect in accordance with s. 86(3)-(5) of the amending Act) by Finance Act 2005 (c. 7), s. 86(1)

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**Modifications etc. (not altering text)**

**C18** Ss. 797-798C applied (31.12.2006 with effect in accordance with reg. 1(2) of the amending S.I.) by The Lloyd's Underwriters (Double Taxation Relief) (Corporate Members) Regulations 2006 (S.I. 2006/3262), reg. 4

**Status:**

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