



Income Tax Act 2007

2007 CHAPTER 3

PART 2

BASIC PROVISIONS

CHAPTER 3

CALCULATION OF INCOME TAX LIABILITY

22 Overview of Chapter

- (1) This Chapter deals with the calculation of a person's income tax liability for a tax year.
- (2) But it does not deal with any income tax liability mentioned in section 32.
- (3) This Chapter needs to be read with Chapter 1 of Part 14 (limits on liability to income tax of non-UK residents).

23 The calculation of income tax liability

To find the liability of a person (“the taxpayer”) to income tax for a tax year, take the following steps. *Step 1*

Identify the amounts of income on which the taxpayer is charged to income tax for the tax year.

The sum of those amounts is “total income”.

Each of those amounts is a “component” of total income.

Step 2

Deduct from the components the amount of any relief under a provision listed in relation to the taxpayer in section 24 to which the taxpayer is entitled for the tax year.

See section 25 for further provision about the deduction of those reliefs.

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The sum of the amounts of the components left after this step is “net income”.

Step 3

Deduct from the amounts of the components left after Step 2 any allowances to which the taxpayer is entitled for the tax year under Chapter 2 of Part 3 of this Act or section 257 or 265 of ICTA (individuals: personal allowance and blind person's allowance).

See section 25 for further provision about the deduction of those allowances.

Step 4

Calculate tax at each applicable rate on the amounts of the components left after Step 3.

See Chapter 2 of this Part for the rates at which income tax is charged and the income charged at particular rates.

If the taxpayer is a trustee, see also Chapters 3 to 6 and 10 of Part 9 (special rules about settlements and trustees) for further provision about the income charged at particular rates.

Step 5

Add together the amounts of tax calculated at Step 4.

Step 6

Deduct from the amount of tax calculated at Step 5 any tax reductions to which the taxpayer is entitled for the tax year under a provision listed in relation to the taxpayer in section 26.

See sections 27 to 29 for further provision about the deduction of those tax reductions.

Step 7

Add to the amount of tax left after Step 6 any amounts of tax for which the taxpayer is liable for the tax year under any provision listed in relation to the taxpayer in section 30.

The result is the taxpayer's liability to income tax for the tax year.

Modifications etc. (not altering text)

- C1** S. 23 applied (N.I.) (6.4.2009) by [The Education \(Student Loans\) \(Repayment\) Regulations \(Northern Ireland\) 2009 \(S.R. 2009/128\)](#), regs. 1(1), **24(3)**

24 Reliefs deductible at Step 2

- (1) If the taxpayer is an individual, the provisions referred to at Step 2 of the calculation in section 23 are—
- (a) the following—
- section 72 (early trade losses relief),
Chapter 6 of Part 4 (share loss relief),

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Chapter 3 of Part 8 (gifts of shares, securities and real property to charities etc),
sections 457 and 458 of this Act or section 266(7) of ICTA (payments to trade unions or police organisations),
section 193(4) of FA 2004 (pension schemes: relief under net pay arrangement: excess relief), and
section 194(1) of FA 2004 (pension schemes: relief on making of claim),
and

- (b) the following—
- section 64 (trade loss relief against general income),
 - section 83 (carry-forward trade loss relief),
 - section 89 (terminal trade loss relief),
 - section 96 (post-cessation trade relief),
 - section 118 (carry-forward property loss relief),
 - section 120 (property loss relief against general income),
 - section 125 (post-cessation property relief),
 - section 128 (employment loss relief against general income),
 - section 152 (loss relief against miscellaneous income),
 - Chapter 1 of Part 8 (interest payments),
 - Chapter 4 of Part 8 (annual payments and patent royalties),
 - section 574 (manufactured dividends on UK shares: payments by non-companies),
 - section 579 (manufactured interest on UK securities: payments not otherwise deductible),
 - Part 2 of CAA 2001 (plant and machinery allowances), in a case where the allowance is to be given effect under section 258 of that Act (special leasing of plant and machinery),
F1
...
 - Part 8 of CAA 2001 (patent allowances), in a case where the allowance is to be given effect under section 479 of that Act (persons having qualifying non-trade expenditure),
 - section 555 of ITEPA 2003 (deduction for liabilities related to former employment),
 - section 446 of ITTOIA 2005 (strips of government securities: relief for losses),
 - section 454(4) of ITTOIA 2005 (listed securities held since 26 March 2003: relief for losses: persons other than trustees), and
 - section 600 of ITTOIA 2005 (relief for patent expenses).

- (2) In any other case, the provisions referred to at Step 2 of the calculation in section 23 are—
- (a) the provisions listed in subsection (1)(b), and
 - (b) section 505 (relief for trustees of unauthorised unit trust).

Textual Amendments

- F1** S. 24(1)(b) entry omitted (21.7.2008 with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 27 para. 27\(2\)](#)

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25 Reliefs and allowances deductible at Steps 2 and 3: supplementary

- (1) This section supplements the provisions about reliefs and allowances in Steps 2 and 3 of the calculation in section 23.
- (2) At Steps 2 and 3, deduct the reliefs and allowances in the way which will result in the greatest reduction in the taxpayer's liability to income tax.
- (3) Subsection (2) is subject to—
 - section 65(2) to (4) (priority rule in relation to trade loss relief against general income),
 - section 80(2) (ring fence income),
 - section 83(3) and (4) (carry-forward trade loss relief against trade profits),
 - section 89(3) (terminal trade loss relief against trade profits),
 - section 93(2) (terminal trade loss relief and mineral extraction trade),
 - section 95(2) (foreign trades etc reliefs only against qualifying foreign income),
 - section 115(2) (restrictions on reliefs for firms exploiting films),
 - section 118(3) and (4) (carry-forward property loss relief against property business profits),
 - section 121(2) and (3) (priority rule in relation to property loss relief against general income),
 - section 129(2) to (4) (priority rule in relation to employment loss relief against general income),
 - section 133(4) (share loss relief against general income),
 - section 152(4) and (7) (loss relief against miscellaneous income),
 - sections 574(3) to (8) and 575 (manufactured dividends on UK shares: restrictions on deductions),
 - section 579(2) to (5) and 580 (manufactured interest on UK securities: restrictions on deductions),
 - section 258 of CAA 2001 (special leasing of plant or machinery),
 - ^{F2} ...
 - section 479 of that Act (persons having qualifying non-trade expenditure),
 - section 601 of ITTOIA 2005 (how relief for patent expenses is given), and
 - any other provision of the Income Tax Acts under which reliefs or allowances deductible at Step 2 or 3 are not permitted to be deducted from particular components of income or are required to be deducted from particular components of income or in a different order.
- (4) A relief or allowance may be deducted at Step 2 or 3 only so far as there is sufficient income from which to deduct it.
- (5) In deciding whether there is sufficient income from which to deduct a relief or allowance, reliefs and allowances already deducted at Step 2 or 3 must be taken into account.
- (6) Nothing in Step 2 or 3 is to be read as permitting a relief or allowance to be deducted more than once.

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Textual Amendments

- F2** S. 25(3) entry omitted (21.7.2008 with effect in accordance with Sch. 27 para. 30(1) of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 27 para. 27\(3\)](#)

26 Tax reductions

- (1) If the taxpayer is an individual, the provisions referred to at Step 6 of the calculation in section 23 are—
- (a) the following—
 - Chapter 3 of Part 3 of this Act or section 257A, 257AB, 257BA or 257BB of ICTA (tax reductions for married couples and civil partners),
 - Chapter 1 of Part 5 (EIS relief),
 - Chapter 2 of Part 6 (VCT relief),
 - Chapter 1 of Part 7 (community investment tax relief),
 - section 453 (qualifying maintenance payments),
 - section 459 of this Act or section 273 of ICTA (payments for benefit of family members),
 - section 461 (spreading of patent royalty receipts),
 - section 353(1A) of ICTA (relief for interest on loan to buy life annuity),
 - section 535 of ITTOIA 2005 (top slicing relief), and
 - section 539 of ITTOIA 2005 (relief for deficiencies), and
 - (b) the following—
 - section 788 of ICTA (double taxation arrangements: relief by agreement),
 - section 790(1) of ICTA (relief for foreign tax where no double taxation arrangements),
 - section 401 of ITTOIA 2005 (relief: qualifying distribution after linked non-qualifying distribution), and
 - sections 677 and 678 of ITTOIA 2005 (relief where foreign estates have borne UK income tax).
- (2) In any other case, the provisions referred to at Step 6 of the calculation in section 23 are—
- (a) the provisions listed in subsection (1)(b), and
 - (b) section 26 of FA 2005 (trusts with vulnerable beneficiary: income tax relief).

27 Order of deducting tax reductions: individuals

- (1) This section makes provision about the order in which tax reductions are to be deducted at Step 6 of the calculation in section 23, if the taxpayer is an individual.
- (2) Deduct the tax reductions in the order which will result in the greatest reduction in the taxpayer's liability to income tax for the tax year.
- (3) Subsection (2) is subject to subsections (4) to (6).
- (4) If the taxpayer is entitled to tax reductions for the tax year under more than one of the provisions listed in subsection (5), a tax reduction under a provision mentioned

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earlier in the list must be deducted before a tax reduction under a provision mentioned later in the list.

- (5) The provisions are—
- Chapter 2 of Part 6 (VCT relief),
 - Chapter 1 of Part 5 (EIS relief),
 - Chapter 1 of Part 7 (community investment tax relief),
 - section 353(1A) of ICTA (relief for interest on loan to buy life annuity),
 - section 453 (qualifying maintenance payments),
 - section 459 of this Act or section 273 of ICTA (payments for benefit of family members), and
 - Chapter 3 of Part 3 of this Act or section 257A, 257AB, 257BA or 257BB of ICTA (tax reductions for married couples and civil partners).
- (6) If the taxpayer is entitled to a tax reduction under—
- (a) section 788 of ICTA (double taxation arrangements: relief by agreement), or
 - (b) section 790(1) of ICTA (relief for foreign tax where no double taxation arrangements),
- that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year.

28 Order of deducting tax reductions: other persons

- (1) This section makes provision about the order in which tax reductions are to be deducted at Step 6 of the calculation in section 23, if the taxpayer is a person other than an individual.
- (2) Deduct the tax reductions in the order which will result in the greatest reduction in the taxpayer's liability to income tax for the tax year.
- (3) Subsection (2) is subject to subsections (4) and (5).
- (4) If the taxpayer is entitled to a tax reduction under—
- (a) section 788 of ICTA (double taxation arrangements: relief by agreement), or
 - (b) section 790(1) of ICTA (relief for foreign tax where no double taxation arrangements),
- that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year, subject to subsection (5).
- (5) If the taxpayer is a trustee and is entitled to a tax reduction under section 26 of FA 2005 (trusts with vulnerable beneficiary: income tax relief) that tax reduction must be deducted after any other tax reduction to which the taxpayer is entitled for the tax year.

29 Tax reductions: supplementary

- (1) This section supplements the provisions about tax reductions in Step 6 of the calculation in section 23.
- (2) A tax reduction may be deducted at Step 6 only so far as there is sufficient tax calculated at Step 5 of the calculation from which to deduct it.
- (3) In deciding whether there is sufficient tax calculated at Step 5 from which to deduct a tax reduction, tax reductions already deducted at Step 6 must be taken into account.

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- (4) Subsections (2) and (3) apply in addition to—
- (a) ^{F3}section 796(1), (2) and (3) of ICTA] (limits on credit for foreign tax), and
 - (b) any other provision of the Income Tax Acts that limits the amount of a tax reduction.

^{F4}(4A) If the taxpayer is an individual, the total of the tax reductions within subsection (4B) that are deducted at Step 6 must not be greater than—

$$A - B$$

where—

A is the amount of tax calculated at Step 5, and
B is the total amount of the tax treated under section 414 (gift aid) as deducted from gifts made by the taxpayer in the tax year.

- (4B) A tax reduction is within this subsection if it is under—
- Chapter 1 of Part 5 (EIS relief),
 - Chapter 2 of Part 6 (VCT relief), or
 - Chapter 1 of Part 7 (community investment tax relief).

(4C) Subsection (4A) applies in addition to subsections (2) and (3).]

- (5) For the purposes of this Chapter, a person is treated as being entitled to a tax reduction under section 788 of ICTA if the person is entitled to credit against income tax under double taxation arrangements.

Textual Amendments

- F3** Words in s. 29(4)(a) substituted (retrospective with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\)](#), [art. 4\(2\)\(a\)](#)
- F4** S. 29(4A)-(4C) inserted (retrospective with effect in accordance with art. 1(2) of the amending S.I.) by [The Income Tax Act 2007 \(Amendment\) \(No. 2\) Order 2009 \(S.I. 2009/2859\)](#), [art. 4\(2\)\(b\)](#)

30 Additional tax

- (1) If the taxpayer is an individual, the provisions referred to at Step 7 of the calculation in section 23 are—
- section 424 (gift aid: charge to tax),
 - section 205 of FA 2004 (pension schemes: the short service refund lump sum charge),
 - section 206 of FA 2004 (pension schemes: the special lump sum death benefits charge),
 - section 208(2)(a) of FA 2004 (pension schemes: the unauthorised payments charge),
 - section 209(3)(a) of FA 2004 (pension schemes: the unauthorised payments surcharge),
 - section 214 of FA 2004 (pension schemes: the lifetime allowance charge),
 - section 227 of FA 2004 (pension schemes: the annual allowance charge), and
 - section 7 of F(No.2)A 2005 (social security pension lump sum).
- (2) If the taxpayer is a trustee, the provision referred to at Step 7 of the calculation in section 23 is section 496 (discretionary payments by trustees: tax pool adjustment).

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31 Total income: supplementary

- (1) This section applies for the purposes of calculating total income.
- (2) Income from which a deduction in respect of income tax is to be made (or treated as made) at the basic ^{F5}... in force for a tax year is treated as income of that tax year.
- (3) If—
 - (a) a dividend is paid, or another distribution is made, in a tax year,
 - (b) a person is entitled to a tax credit in respect of the dividend or other distribution, and
 - (c) the amount or value of the dividend or other distribution is treated under section 398 of ITTOIA 2005 as increased by the amount of the tax credit, the amount or value as increased is treated as income of that tax year.
- (4) Subsections (2) and (3) apply even if all or part of the income, or the dividend or other distribution, accrued or will accrue in a different tax year.
- (5) An assessment that has become final and conclusive for income tax purposes for a tax year is also final and conclusive for the purposes of calculating total income.

Textual Amendments

- F5** Words in s. 31(2) omitted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by virtue of [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 12](#)

32 Liability not dealt with in the calculation

The liabilities referred to in section 22(2) are income tax liability—

- [^{F6}under section 74C(5) (non-active traders: withdrawal of relief),]
- under section 79(1) (capital allowances restrictions: withdrawal of relief),
- under section 81(6) (dealings in commodity futures: withdrawal of relief),
- under [^{F7}section 103B(5)] (non-active partners: withdrawal of relief),
- under section 235 (withdrawal or reduction of EIS relief),
- under sections 266 to 270 (withdrawal or reduction of VCT relief),
- under section 372 (withdrawal or reduction of CITR),
- under section 512 (heritage maintenance settlements: application of property for non-heritage purposes),
- under Chapter 1 of Part 13 (transactions in securities),
- under regulations made under section 918(4) (foreign payers of manufactured dividends: Real Estate Investment Trusts: the reverse charge),
- under section 920 or 923 (foreign payers of manufactured interest or manufactured overseas dividends: the reverse charge),
- under Chapter 15, 16 or 17 of Part 15 (deduction of tax at source: collection mechanisms),
- under section 804(5B)(a) of ICTA (recovery of excess credit for overseas tax),
- under paragraph 11(3) of Schedule 20 to FA 1994 (recovery of excess credit for overseas tax: changes for facilitating self-assessment),

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of the person who is (or persons who are) the responsible person in relation to an employer-financed retirement benefits scheme under section 394(2) of ITEPA 2003,
under Chapter 5 of Part 4 of FA 2004 (registered pension schemes: tax charges), except any liability under a provision mentioned in section 30(1), and
under section 682(4) of ITTOIA 2005 (assessments, adjustments and claims after the administration period), so far as the liability represents a tax reduction given effect at Step 6 of the calculation in section 23.

Textual Amendments

- F6** Words in s. 32 inserted (21.7.2008 with effect in accordance with Sch. 21 paras. 6, 7 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 21 para. 3](#)
- F7** Words in s. 32 substituted (retrospective to 6.4.2007) by [Finance Act 2007 \(c. 11\)](#), [Sch. 4 paras. 5, 21](#)

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