

How to fill in the Trust and Estate Tax Return

 ***This Guide has step by step
instructions to help you fill in the
Trust and Estate Tax Return.***

***The notes are numbered to match
the boxes in the Tax Return.***

***We hope we can answer most of
your questions here. If you need
more help, please telephone the
Inland Revenue office or the Helpline
on 0845 9000 444.***

***Contact the Orderline on
0845 9000 404 (fax 0845 9000 604)
for any supplementary Pages,
leaflets or Help Sheets mentioned
in this Guide (see page 2).***

***Or you can go to our website
<http://www.inlandrevenue.gov.uk>***



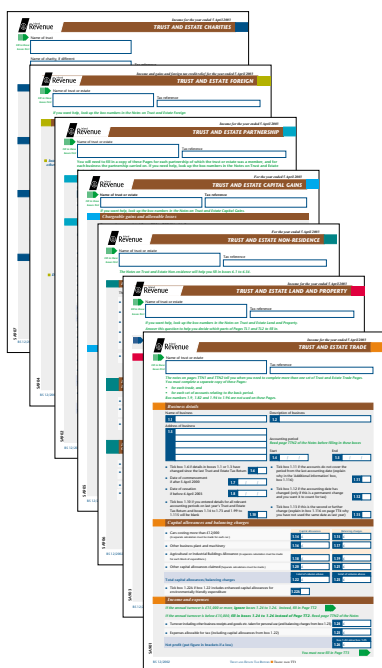
The Trust and Estate Tax Return asks for details of income and capital gains. With it I have sent two guides; this one to help you fill in the Tax Return, and another to help you calculate the Trust or Estate's tax bill (if you want to).

All trustees and personal representatives get the first 12 pages of the Tax Return. There are other 'supplementary' Pages for some types of income and gains. For example, there are Pages for trade income, and for foreign income. From the information I already have I will have included any Pages, if I think you need them, after page 12 of the Return.

But it is your responsibility, whether or not there are supplementary Pages after page 12, to make sure that you complete the right ones.

You must send the ones you need to complete back to me on time with the rest of your Tax Return. Otherwise you will be liable to an initial automatic penalty of £100, and further penalties for continued delay.

If you have a tax adviser, you may be able to send the Tax Return electronically using the Electronic Lodgement Service. Ask your tax adviser for details.



Supplementary Pages are illustrated on pages 8 and 9 of this Guide.

 A screenshot of the 'INCOME AND CAPITAL GAINS' section of the Trust and Estate Tax Return form. It shows a list of boxes for different types of income and gains, with instructions on how to fill them in.

 A screenshot of the 'Trust and estate trade' section of the Trust and Estate Tax Return form. It shows a box for 'Trust and estate trade' with a 'Yes' or 'No' option.

The Orderline is open every day (except Christmas Day, Boxing Day and New Year's Day) on 0845 9000 404. Calls are charged at the local rate. You can also order by fax on 0845 9000 604, or by e-mail (saorderline.ir@gtnet.gov.uk), or in writing to PO Box 37, St Austell, PL25 SYN. Visit our website for the Internet service at <http://www.inlandrevenue.gov.uk>

First, fill in page 2 of the Trust and Estate Tax Return. This tells you which supplementary Pages you should complete. Pages 8 and 9 of this Guide will help.

Next, if you need any supplementary Pages phone the Orderline. Or go to our website at <http://www.inlandrevenue.gov.uk>

They can provide any of the supplementary Pages, leaflets or Help Sheets mentioned in this Guide.

If you ask me to calculate the trust or estate's tax, make sure the completed Tax Return reaches me by 30 September 2003.

If I receive the Return after 30 September and you haven't worked out the tax, I will do it for you but I can't guarantee to tell you what to pay by 31 January 2004.

So, if you don't know what to pay, make an estimate and pay that. If you don't pay enough, you will have to pay interest, as well, and you may have to pay a surcharge.

If you miss the deadline of 30 September you must make sure the completed Tax Return reaches me by 31 January 2004 or you will be liable to an automatic penalty of £100. You must also make sure payment of any tax reaches me by 31 January 2004. Otherwise you will have to pay interest and perhaps a surcharge.

Do not delay doing the Tax Return. You do not have to wait for the deadline shown on the front of the Tax Return. Tackling it earlier means you will have more time to get help if you need it. Sending it earlier does not mean you have to pay the tax any sooner.

If you are not sure what to do, please ask for help before you start to fill in the Trust and Estate Tax Return.

Company X
Dividend

BUILDING SOCIETY Statement

Gather together information about the financial circumstances of the trust or estate for 2002-03, such as dividend vouchers and other financial records. Do not send these with the Trust and Estate Tax Return; keep them safe. If you are a trustee you need to decide:

- if you are resident in the UK, **and**
- at what rate you are taxable.

To do this you must work through the guidance for Question 8 on pages 10 and 11 of this Guide.

Personal representatives should refer to the section 'Basis of taxation for personal representatives' on page 10 of this Guide.

You are now ready to fill in the Trust and Estate Tax Return. Pages 4 and 5 of this Guide tell you what to do, and the rest of the Guide will help you fill in the boxes. If you need more help ask your Inland Revenue office or tax adviser.

If you have a disability that makes filling in the Return difficult we will be able to help you complete the form. Please contact your Inland Revenue office or Enquiry Centre.

If, after sending me the Trust and Estate Tax Return, you find that you have made a mistake, or any details have changed, then let me know at once. You must provide final figures to replace any provisional amounts as soon as you can. You will only be penalised if the Tax Return is incorrect through fraud or negligence or if there is unreasonable delay in providing corrected figures once they are known to you. The penalties can be up to 100% of the difference between the correct tax due and the amount that would have been due on the basis of the figures you returned. You could also be prosecuted.

When the Inland Revenue office is closed, phone the Helpline on 0845 9000 444 for general advice (text phone is available). It is open every day (except Christmas Day, Boxing Day and New Year's Day). Calls are charged at the local rate.

You are responsible for the accuracy of the Trust and Estate Tax Return.

If we cannot agree with the information you provide, or we differ on a point of law, you have right of access to an independent tribunal, the Appeal Commissioners. Leaflet IR37: Appeals against Tax, National Insurance Contributions, Statutory Sick Pay and Statutory Maternity Pay, available from the Orderline, tells you about this process.

When I get the completed Trust and Estate Tax Return I will process it using your figures, to work out how much the trust or estate owes, or how much the Inland Revenue owes it. If I see any obvious mistakes - for example in the arithmetic - I may put them right and tell you what I have done. If I'm not sure about a figure you've entered on your Return, I may want to contact you to make sure I've understood what you meant. It would be helpful if you enter a daytime telephone number in box 19.1. When I process the Return I shall only be looking at the Return and documents I have requested.

I will send you my calculation of the trust or estate tax if you have asked the Inland Revenue to do it. If you have calculated the trust or estate's tax, I will let you know if it is wrong.

Later, I will send you a statement of the trust or estate's account with the Inland Revenue. This will explain how to pay any tax due - see the notes on page 28 of this Guide.

Once the Trust and Estate Tax Return has been processed it may be checked. I have until 31 January 2005 to do this (later if you send the Tax Return late). I may make enquiries about the figures and ask you to send me the records from which you took them. I may also check the figures against any details received from other sources, such as banks.

In its dealings with you, the Inland Revenue is governed by the service commitment set out on page 29 of this Guide. Page 29 also explains how to complain if you are dissatisfied with the way the Inland Revenue handles the trust or estate's tax affairs.

Read page 28 of this Guide if the Trust and Estate Tax Return was delivered to you after 31 July 2003.

KEY DATES AND SUMMARY

2002

You must, by law, have kept all records.

- Failure to do so could give rise to penalties.

April 2003

You receive the Trust and Estate Tax Return:

- check to see you have the right Pages
- find the trust or estate's records
- fill in the Trust and Estate Tax Return.

30 September 2003

I must have received the completed Trust and Estate Tax Return if you want me to:

- calculate the trust or estate's tax
- tell you what to pay by 31 January 2004.

31 January 2004

This date is important for three reasons. This is the date by which you must:

- make sure I have received the completed Trust and Estate Tax Return
- pay the balance of any tax the trust or estate owes for 2002-03
- pay the first payment on account for the 2003-04 tax year, if appropriate.

You must send me the Trust and Estate Tax Return *and* pay what is owed by this date to avoid automatic penalties and interest.

Answer all the applicable questions and fill in the appropriate Pages and boxes.

- Write clearly using blue or black ink and only in the spaces provided.
- Use numbers only, when you are asked for amounts.
- Please do not include pence - round down income and gains, to the nearest pound, and round up tax credits and tax deductions - for example, if National Savings & Investments interest is £3,500.87, enter £3,500 in box 9.8. Round all the boxes, not just totals, so, for example, if you need to fill in boxes 9.12 to 9.14, round down boxes 9.12 and 9.14, and round up box 9.13. (This may mean that box 9.14 doesn't exactly equal box 9.12 plus box 9.13.)
- Do not delay sending the Trust and Estate Tax Return just because you do not have all the information you need - see the notes for box 21.5 on page 25 of this Guide.

Taxable amount	
9.8	£ 3,500

<input checked="" type="radio"/> National Savir
box 9.8 Enter
<input type="radio"/> Ordinary accou <input type="radio"/> Investment acco

If you need help, look up the Question or box number in the Notes. The first part of each number shows which Question it relates to, for example, box 9.8 is the eighth numbered box of Question 9.

You may find that in some parts of the Trust and Estate Tax Return you are asked to put a loss in brackets. Remember that when you are asked to **add** a number to a loss, you should deduct one from the other (for example $60 + (40) = 20$).

Step 1

Read the first part of page 2 of the Trust and Estate Tax Return to find out if you can ignore some of the Questions (there is a flow-chart on pages 6 and 7 of this Guide that will help you decide).

Although there is no requirement on bare trustees to make a Return, you do have the right to complete the Return and account for any basic or lower rate tax due on income received gross provided this is acceptable to all beneficiaries. However, bare trustees cannot return any capital gains or gains on life insurance policies, life annuities or capital redemption policies; these continue to be the beneficiaries' responsibility only.

Beneficiaries will also be required to enter all trust income received (either net or gross) on any Return, or claim form, they are required to complete.

If you are the trustee of a charitable trust read Step 1 on page 2 of the trust and Estate Tax Return to see if you can ignore some of the Questions in the Trust and Estate Tax Return.

Step 2

Answer Questions Q1 to Q8 (unless Step 1 has instructed you otherwise) on page 3 of the Trust and Estate Tax Return.

or estate make any profit or loss or have come from a partnership?

Yes ☒

Page 3 of the Trust and Estate Tax Return

If you tick the 'Yes' box phone the Orderline for any supplementary Pages you need.

Step 3

Fill in the supplementary Pages that apply to you.

If you use photocopies, please enter the trust or estate's name and tax reference on each copy.

Example of filling in boxes on Page TL2 of the supplementary Trust and Estate Land and Property Pages

Enter in these boxes the expenses you want to claim.

If you want to calculate the trust or estate's tax, you will have to include this figure in the calculation. The Trust and Estate Tax Calculation Guide I have sent you will help you work it out.

Then fill in Questions Q9 to Q21, as directed by the Return.

Example of filling in page 4 of the Trust and Estate Tax Return

Enter in these boxes the total building society interest which has had tax deducted. If you want to calculate the trust or estate's tax, include the relevant figures in the calculation. The Trust and Estate Tax Calculation Guide tells you what to do.

If the trust or estate received any other income tick the 'Yes' box and fill in boxes 9.1 to 9.40, as appropriate.

Fill in Question 17 if you have calculated the trust or estate's tax bill.

Finally, sign and date the Declaration and send the completed Tax Return back to me. Do not include the trust or estate's financial records. Keep them safe.

WHAT IS IN THE REST OF YOUR TAX RETURN GUIDE

Pages 8 and 9 will help you fill in page 3 of the Trust and Estate Tax Return.

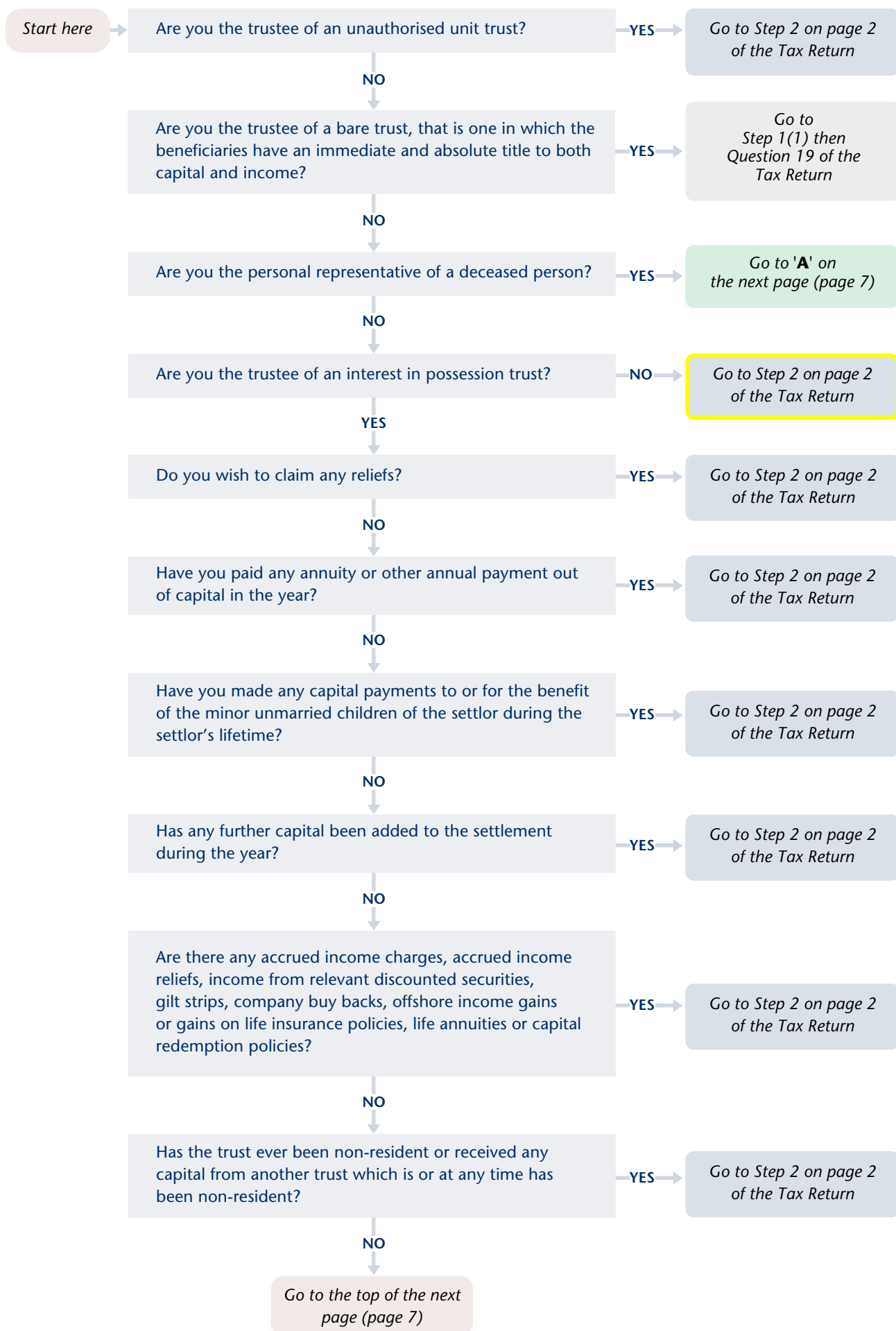
Pages 10 to 26 give you box by box guidance to help you fill in pages 3 to 12 of the Tax Return.

You can use page 27 to add up any figures to be included in the Tax Return.

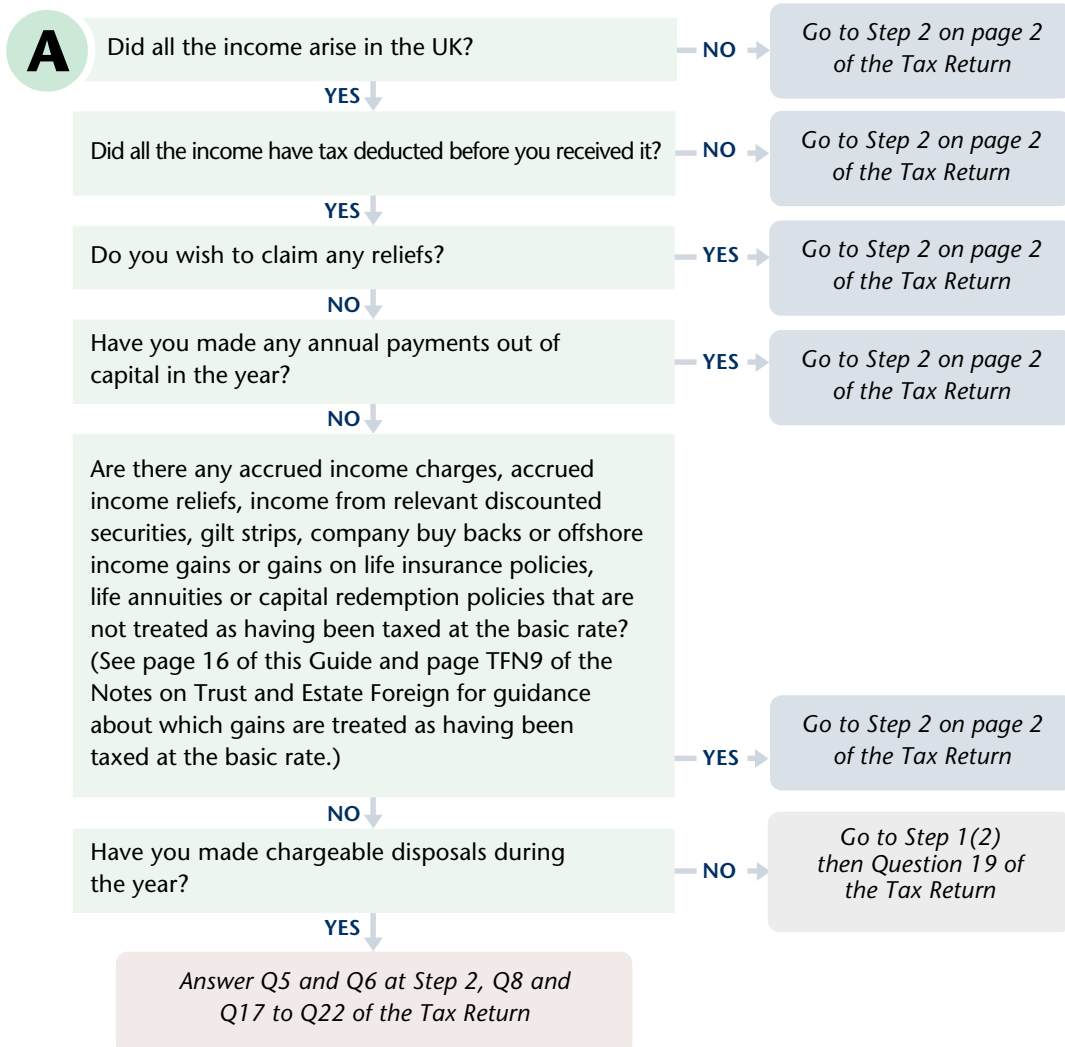
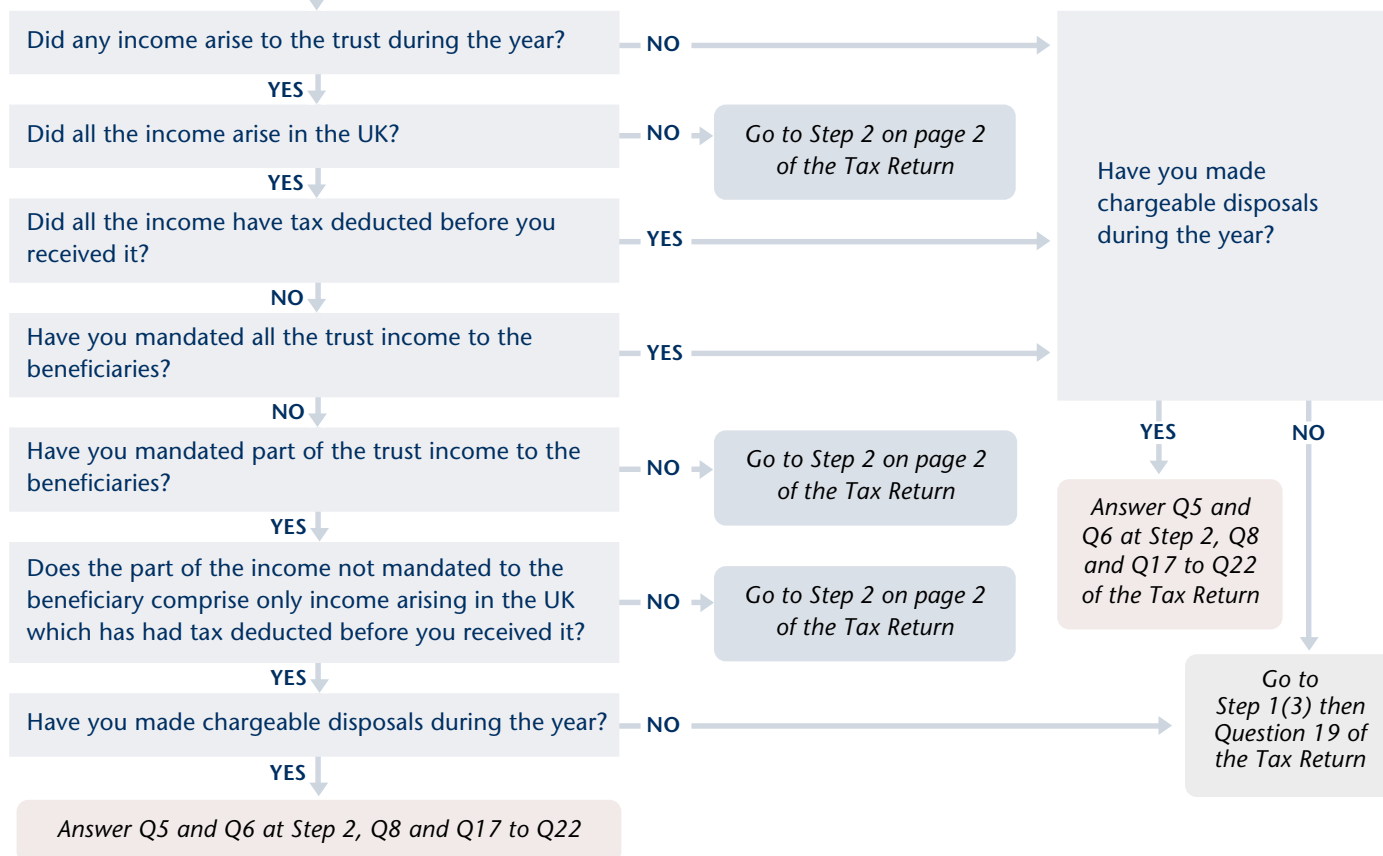
Page 28 includes information about paying the trust or estate's tax.

Notes at the back of this Guide, following page 29, will help you complete any Supplementary Pages I've included in this Return.

You will not need to complete the full Trust and Estate Tax Return if Step 1 on page 2 of the Return applies to you. This flowchart will help you decide if it does and which Questions to complete.



Continued from page 6



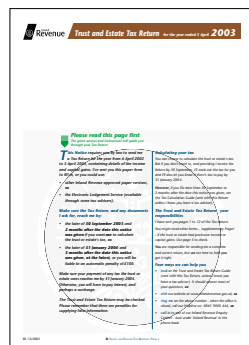
What makes up your Tax Return

TAX RETURN

As a trustee or personal representative you must complete pages 3 to 12, as appropriate, of the Trust and Estate Tax Return if Step 1 does not apply to you.

I have included any supplementary Pages I think you need after page 12 of the Return. Notes to help you complete them are at the back of this Guide. You must make sure you have the right ones. Ask the Orderline for any you need, along with their Notes.

Answer the Questions on page 3 of the Tax Return to find out. These notes will help.



TRADE

Q1

Fill in the Trust and Estate Trade Pages if the trust or estate carried on a trade, profession, or vocation.

If it traded with someone else, in partnership, you need to fill in the Trust and Estate Partnership Pages instead. (If this applies, remember to tick the 'Yes' box in Question 2.)

There are separate Pages for the special circumstances of Lloyd's Underwriters which you will have to complete if you are the personal representative of a Name:

- who died on or after 6 April 1994, and
- whose Lloyd's Deposit had not been repaid by 1 January 2002.

(If the date of death was before 6 April 1994 or the deposit had been repaid before 1 January 2002 please refer to the section headed 'Death' on the Lloyd's Notes for advice on how to report details of Lloyd's income and expenditure arising in 2002 to the deceased Name's estate.)

PARTNERSHIP

Q2

Fill in the Trust and Estate Partnership Pages to give details of the trust or estate's share of income if it carried on a trade, profession, vocation or other business, in partnership.

LAND & PROPERTY

Q3

Fill in the Trust and Estate Land and Property Pages if the trust or estate received income from:

- land and property, or
- furnished holiday lettings in the UK.

Q4

Fill in the Trust and Estate Foreign Pages if the trust or estate received in 2002-03:

- income from foreign companies, or savings institutions, or
- income from offshore funds or trusts abroad, or
- income from land and property abroad, or
- foreign life insurance policy, life annuity, or capital redemption policy gains.

Or you want to claim relief for foreign tax on foreign income or gains.

Q5

Fill in the Trust and Estate Capital Gains Pages if the trust or estate:

- disposed of assets worth more than £15,400 in total, or
- made chargeable gains in excess of the annual exempt amount.

If you are completing this Return - as a trustee of a trust/settlement with separate funds but you are not trustee of all the funds, or - as a trustee of one separate fund within such a trust/settlement

read the section headed Disposals by trusts/settlements with separate funds on page TCN2 of the Notes on Trust and Estate Capital Gains.

If you are the trustee of an unauthorised unit trust, and any gains are not chargeable gains by virtue of S100(2) TCGA 1992, you do not have to fill in the Trust and Estate Capital Gains Pages. Enter 'No' in answer to Question 5 on page 3 of the Trust and Estate Tax Return.

Do not complete these Pages if the trust is a bare trust. Any gains must be returned by the beneficiaries on their personal Tax Returns.

Leaflet CGT1, *Capital Gains Tax An Introduction and Help Sheet IR294: Trusts and Capital Gains Tax*, which explains the annual exempt amount for trusts, are available from the Orderline.

If you have to fill in the Capital Gains Pages you must include all your allowable losses for the year. If you do not have to fill them in, because disposal proceeds and gains were below the limits, you can still complete them if you want to claim a capital loss. If you don't do this, you have to claim any losses for the year ended 5 April 2003 by 31 January 2009 for them to be available to set against future gains.

If you want to make any other claim or election for 2002-03 you should also do this by completing the Capital Gains Pages.

An estate is entitled to the annual exempt amount equal to that of an individual (£7,700 in 2002-03) for the year in which the deceased died, and the next two years. The estate is not entitled to any annual exempt amount for a subsequent year.

In general, trustees are entitled to half the annual exempt amount for an individual.

Q6

Make sure you fill in the Trust and Estate Non-residence etc. Pages first if, in the period 6 April 2002 to 5 April 2003, you consider the trust or estate to be any of the following:

- not resident in the UK for Income Tax purposes
- not resident in the UK for Capital Gains Tax purposes
- resident in the UK while also resident in a country with which the UK has a Double Taxation Agreement - there is a list of agreements in the Notes for the Trust and Estate Foreign Pages.

Q7

Fill in the Trust and Estate Charities Pages if the trust is claiming total or partial exemption from tax.

Basis of taxation for personal representatives

The term 'personal representative' of a deceased person is used in England, Wales and Northern Ireland and is used here to include the 'executor' of a deceased person in Scotland and any person having the same administrative responsibilities in any other country or territory.

The personal representatives of a deceased person are liable for any tax chargeable after the deceased's death.

Personal representatives are chargeable to tax at the lower and basic rate. Only fill in Questions 1 to 11, and 17 onwards.

But special rules apply:

- where the deceased died domiciled outside the UK, or
- where one or more of the personal representatives is/are resident outside the UK.

In such circumstances, for further information refer to:

Centre for Non-Residents,
Foreign Estates Group,
St John's House,
Merton Road,
Bootle,
Merseyside
L69 9BB

Telephone: 0151 472 6000.

Basis of taxation for trustees

If any settlor is alive, there is a possibility that the income may be treated as that of the settlor/s. See questions 3 and 4 in the next column. If there is no living settlor, that possibility is excluded and the trust income is taxable on the trustees.

The basis of taxation for trustees depends on the residence status of the trustees and the type of trust.

If you think the trustees as a whole were not resident in the UK for Income Tax and/or Capital Gains Tax purposes, make sure you get and complete the Trust and Estate Non-residence Pages before filling in the rest of the Trust and Estate Tax Return. Notes for the Trust and Estate Non-residence Pages contain special rules for completing the rest of the Trust and Estate Tax Return.

Most trustees will be tax resident in the UK and can ignore the special rules.

Depending on the type of trust, the trustees will either be chargeable to tax:

- at the basic rate (22%), lower rate (20%) or dividend ordinary rate (10%), or
- at the rate applicable to trusts (34%) or the dividend trust rate (25%).

Note: Certain types of income are taxable at the rate applicable to trusts or the dividend trust rate whether or not the notes that follow show that you are taxable at the basic/lower/dividend ordinary rate only. These include items to be entered in boxes 9.29 to 9.31 and 9.38 to 9.40 described on pages 16 and 19 of this Guide and boxes 4.6 to 4.8 described in the Notes on Trust and Estate Foreign Pages. If, apart from this income, you are taxable at the lower/basic rate only, or you are the trustee of an unauthorised unit trust, which is generally taxable at the basic rate only, you should tick box 8.15 and ignore Questions 13 to 15.

Q8 Basis of taxation for trustees (answer all questions)

Trustees: at what rate are you chargeable to Income Tax?

The questions below will help you decide at what rate you are chargeable to Income Tax. But see also notes on specific types of trusts on page 11.

- 1 Are you the trustees of an unauthorised unit trust? **NO** ☐ **YES** ☐

If the answer is 'No', continue to the next question. If 'Yes', you are taxable at the basic rate.

- 2 Is the beneficiary/are all the beneficiaries absolutely entitled to the whole of the trust income as it arises? **NO** ☐ **YES** ☐

If the answer is 'No', continue to the next question. If 'Yes', you are taxable at the lower/basic rate only.

- 3 Can the settlor (or the settlor's spouse) benefit from the capital or income (other than by way of a loan of trust monies) in any circumstances whatsoever? **NO** ☐ **YES** ☐

If the answer is 'No', go to question 5. If 'Yes', continue to the next question.

- 4 If the settlor's (or the settlor's spouse's) benefit is conditional on the happening of certain events, the settlor (or the settlor's spouse) may be treated as not being entitled to benefit. The exceptions are described in *Help Sheet IR270: Trusts and settlements - income treated as the settlor's available from the Orderline*.

Is the settlor's (or the settlor's spouse's) benefit dependent on any of the exceptions? **NO** ☐ **YES** ☐

If the answer is 'No', the trust is 'settlor-interested' and you should tick box 8.12 of Question 8 of the Return. (But if you are the trustees of an approved HMF and make an election, see the note on page 11.) You are chargeable to tax at the lower/basic rate only, except for any part of the trust income paid at your discretion to charity, which is chargeable instead at the rate applicable to trusts (see *Help Sheet IR270*). If you have made discretionary payments to charity, you should also tick box 8.16 of Question 8 of the Return.

If the answer is 'Yes', continue to the next question.

- 5 Do you have power to accumulate income under the terms of the trust? **NO** ☐ **YES** ☐

If the answer is 'No', go to question 7. If 'Yes', continue to question 6.

- 6 Is/are the beneficiary/ies immediately entitled to the accumulated income either as part of the capital or as a separate fund? **NO** ☐ **YES** ☐

If the answer is 'No', you are taxable at the rate applicable to trusts. If 'Yes', you are taxable at the lower/basic rate only.

- 7 Do you have power to pay income at your (or any other person's) discretion? **NO** ☐ **YES** ☐

If the answer is 'No', you are taxable at the lower/basic rate only. If 'Yes', continue to question 8.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

8 Is the discretion limited to the manner in which you apply the income (that is you cannot select between a number of beneficiaries)?

NO ☐

YES ☐

If the answer is 'No', you are taxable at the rate applicable to trusts. If 'Yes', you are taxable at the lower/basic rate only.

Now tick box 8.15 or 8.16 as appropriate.

If you are taxable at the lower/basic rate only ignore Questions 13 to 15.

If you are taxable at the rate applicable to trusts answer all the Questions.

Notes on specific types of trusts

boxes 8.5 and 8.6

An employment related trust is a trust set up by an employer, or by, for example, another trust, for the benefit of employees.

Basis of taxation for trustees of a Heritage Maintenance Fund (HMF)

boxes 8.7 and 8.8

If the settlor is alive and has retained an interest in the trust property, the income of the HMF may be taxable on the settlor:

- if the HMF has not been approved for Inheritance Tax (IHT) purposes by way of a direction from Capital Taxes Office, the settlor will be taxable on the trust income and the trust will be taxable at basic rate/lower/ordinary rate. See Questions 3 and 4 on page 10 of the Guide. Tick box 8.7.
- if the HMF has been approved for IHT purposes, the settlor will be taxable on the trust income as above, unless the trustees make an election for the income to be taxed on the trustees instead. If you do not intend to make such an election, tick box 8.15 on page 3 of the Return. If you have made a valid election, tick box 8.16. If you intend to make such an election but have not done so yet, the settlor is taxable on the income. You should tick box 8.15 on page 3. If you make a valid election later within the time limit (one year after the 31 January limit for submitting this Return), tick box 8.16 on page 3 of the return.

If the settlor is dead, or if the living settlor has not retained an interest in the trust property, the income of the HMF will be taxable on the trustees at the rate applicable to trusts. Tick box 8.16 on page 3 of the Return.

Basis of taxation for trustees of a Funded Unapproved Retirement Benefit Scheme (FURBS)

boxes 8.9 and 8.10

You will not be liable to tax at the rate applicable to trusts (see page 10) provided:

- all your income comes from investments, deposits or other property
- the scheme's sole purpose is to provide certain defined benefits and you have not provided any other benefits.

Help Sheet IR391: *Trusts and relevant benefits*, available from the Orderline, details the benefits which a scheme can provide in order to avoid a charge on the trustees at the rate applicable to trusts.

If you have provided non-relevant benefits to any of the scheme's beneficiaries, you will be liable to tax at the rate applicable to trusts or the dividend trust rate. If so, tick box 8.16.

Share Incentive Plans

The trustee of a Share Incentive Plan will be chargeable at the dividend trust rate on dividends on shares that have not been awarded to participants within two years of being acquired by the trustees. In the case of shares which are not readily convertible into cash this period is extended to five years. (If shares become readily convertible into cash within the five year period, the period is changed to two years beginning on the date on which they became readily convertible into cash, if that ends before the original five year period.) Any additional tax at the dividend trust rate on dividends received during the period will be chargeable in the tax year when it becomes clear that they will not be awarded within the relevant period. Income from other sources (for example, untaxed interest) remains chargeable at the rate applicable to trusts. Tick box 8.16 and enter the income in Question 9 of the Return.

You can get a copy of leaflet *IR152: Trusts - an introduction* from the Orderline or your Inland Revenue office.

Trustees who are participators in an underlying non-resident company

boxes 8.13 and 8.14

An underlying non-resident company is a company that would be classified as a close company if it were resident in the UK. Broadly speaking, a 'close company' is one under the control of either the directors or no more than five participators. A 'participator' is a person having a share or interest in the capital or income of the company.

The **gains** arising to such a company may be chargeable on the trustees, or on the settlor where the settlor can or does benefit from the settlement. See page 3 of *Help Sheet IR294: Trusts and Capital Gains Tax* for an explanation of the circumstances where the gains of resident trustees are charged on the settlor. In the case of non-resident trustees the gains may be charged on the settlor or beneficiaries. There is more information in *Help Sheets IR299* and *IR301*.

The **income** arising to such a company may be chargeable on the settlor or beneficiaries. More information can be found in the Notes on Foreign (for **individuals**) on pages FN10 and FN11 under the headings 'Income received by overseas trusts, companies and other entities' and 'Benefits received from overseas trusts, companies and other entities'.

Q9 Did the trust or estate receive any other income not already included on the supplementary Pages?

If you do not tick the 'Yes' box, go to Question 10.

Otherwise, check the following lists to see whether the trust's or estate's other income should be included in the Trust and Estate Tax Return.

Exclude:

- Premium Bond, National Lottery and gambling prizes
- interest and terminal bonuses under Save As You Earn schemes
- accumulated interest on National Savings Certificates, including index-linked certificates
- interest on National Savings & Investments Children's Bonus Bonds
- interest awarded by a UK court as part of an award of damages for personal injury or death
- dividends on ordinary shares in a Venture Capital Trust
- if you are the trustee** of an interest in possession trust, untaxed income which you have mandated to the beneficiary(ies)
- income from certain government securities in an interest in possession trust where the beneficiary is not ordinarily resident in the UK.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

Include:

- interest from UK banks, building societies or deposit takers and from UK Internet accounts
- interest from savings held at an overseas branch of a UK bank or building society
- income or distributions from UK authorised unit trusts or UK open-ended investment companies
- income from National Savings & Investments, including First Option Bonds and Fixed Rate Savings Bonds
- other savings income, including accrued income charges on disposal of securities, annuities and relevant discounted securities
- any other income not included on supplementary Pages (see page 18)
- income from estates, where that income has been passed to the trustees of discretionary or accumulation trusts.

If the trust or estate has:

- received cash as a result of a merger of two or more building societies, **or**
- received cash, or been issued with shares, or received both cash and shares, as a result of either
 - a conversion of a building society to a company, **or**
 - a take-over of a building society by a company,

there may be liability to either Income Tax or Capital Gains Tax. The building society may be able to tell you whether there is any tax liability. If not, you should ask the Inland Revenue office or your tax adviser.

If the trust or estate has received cash, then

- if the payment is liable to Income Tax (which is likely if it was received following a building society merger) you should enter it in boxes 9.12 to 9.14 in the Trust and Estate Tax Return. If you are not sure whether the amount is liable to Income Tax include it in boxes 9.32 to 9.34, then tick box 21.5 on page 12 of the Trust and Estate Tax Return and give full details of the payment in the 'Additional information' box, box 21.7
- if the payment is liable to Capital Gains Tax (which is likely if it was received following a conversion or take-over of a building society), you should calculate the gain and add it to the other chargeable gains for the year. If the total gains exceed the annual exempt amount, or the total proceeds exceed £15,400, you should ask for and complete the Trust and Estate Capital Gains Pages.

If the trust or estate received shares following a building society take-over or conversion, then you may need to supply details when you dispose of those shares. Ask the Inland Revenue office for details.

If the trust or estate income is in the list of inclusions for this question, **tick the 'Yes' box and fill in the relevant boxes in the Trust and Estate Tax Return.** If not, tick the 'No' box and go to Question 10.

Filling in boxes 9.1 to 9.40

First, collect the information you might need. For example:

- dividend vouchers
- interest statements or tax deduction certificates
- trust vouchers. If the trust or estate is entitled to income of a trust (other than a discretionary trust) the trustee should provide you with a voucher identifying the various sources of income to which you are entitled.

Then, use the following notes to help you fill in the boxes. They ask for totals. You can use page 27 of this Guide to list individual accounts and add them up.

Interest

What to do if there is more than one source of interest to go in a particular box

Add together, for example, interest paid (with tax deducted) by the bank and building society and put total figures in boxes 9.2 to 9.4. Keep details of the separate accounts in case I ask for these later. Use the Working Sheet on page 13 to help you.

Interest from UK banks, building societies and deposit takers

Boxes 9.1 to 9.14 cover interest from savings with banks, building societies and other deposit takers. Full details of how this interest is taxed can be found in our leaflet *IR110: A guide for people with savings*. Ask the Orderline for a copy.

Interest received without tax deducted

box 9.1

The bank or building society or deposit taker's statement will show you the interest received without tax deducted (gross). Add up all the amounts received during 2002-03 from all accounts and enter the total in box 9.1.

National Savings & Investments interest should not be included here but in box 9.8.

Interest received after tax has been deducted

boxes 9.2 to 9.4

Interest is generally paid after tax is deducted. The bank, building society or deposit taker's statement or pass book will usually show the amount of interest after tax (sometimes described as net interest), the amount of tax deducted, and the amount of interest before tax deducted (gross interest). (If you do not have all three figures, the Working Sheet on page 13 will help you work them out.) Add up the amounts for the year from all accounts. Enter the totals in boxes 9.2, 9.3 and 9.4. If you do not have the information you should ask the bank etc., in writing, to provide you with a tax deduction certificate or use the Working Sheet.

Interest distributions from UK authorised unit trusts and open-ended investment companies

boxes 9.5 to 9.7

The information you need to complete these boxes will be shown on the trust or estate's tax voucher. The voucher will show the total interest distribution before the deduction of tax (gross interest), the tax deducted and the amount of the interest distribution paid after tax has been deducted (net interest). It may have accumulation units or shares, that is, the interest distribution is automatically reinvested in the unit trust or open-ended investment company. If so, you must still show the total interest distribution before the deduction of tax, the tax deducted and the amount of the interest distribution after tax has been deducted.

If you do not have a tax voucher, ask the unit trust or open-ended investment company manager for one.

If you have received an interest distribution without tax being deducted, you should include the total interest distribution in box 9.7 and enter '0' in box 9.6.

Do not enter here any amount shown on the tax voucher as 'equalisation'. This amount, if shown, is a repayment of capital paid and is not subject to tax. In calculating capital gains, the amount of equalisation should be deducted from the cost of the units or shares purchased during the year.

Do not include dividend distributions from UK authorised unit trusts or open-ended investment companies in boxes 9.5 to 9.7. They go in boxes 9.18 to 9.20.

Working Sheet for boxes 9.2 to 9.4

- Step 1** In Column A enter the name of the first bank or building society account.
- Step 2** Look at the interest on the statement or passbook. If there are three figures copy the one described as 'before tax' or 'gross' to Column D, the 'tax deducted' to Column C and the 'net interest' to Column B. It may be that the statement only shows 'gross interest' and 'tax deducted', or even just 'net interest'. Copy what's on the statement to the appropriate Columns - Step 4 tells you how to fill in the missing figures.
- Step 3** Repeat Steps 1 and 2 for each of the accounts.
- Step 4** If you're missing figures from any of the Columns work them out as follows:
- If you have entries in Columns C and D, Column B = Column D *minus* Column C
 - If you've only got an entry in Column B, Column C = Column B x 25% and Column D = Column B + Column C.
- Step 5** Total each Column.
- Step 6** Round down to the nearest pound Columns B and D. Round up to the nearest pound Column C. Enter the results in boxes 9.2 to 9.4. This may mean that box 9.4 doesn't exactly equal box 9.2 plus box 9.3 but don't worry. Finally, copy the figures to boxes 9.2 to 9.4 on page 4 of the Trust and Estate Tax Return.

Column A Bank or building society etc. accounts	Column B Amount after tax deducted (Net)	Column C Tax deducted	Column D Amount before tax (Gross)
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
	£ .	£ .	£ .
Totals before rounding	£ .	£ .	£ .
Totals after rounding - copy to boxes 9.2 to 9.4 on page 4 of the Trust and Estate Tax Return			
	9.2 £	9.3 £	9.4 £



How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

• National Savings & Investments

box 9.8

Enter in box 9.8 the total amount from the following:

- Ordinary account
- Investment account
- Deposit bonds
- Income bonds
- Capital bonds (enter the interest added in the year to the capital bonds as shown on your statement)
- Pensioners' Guaranteed Income Bonds.

• National Savings & Investments First Option Bonds and Fixed Rate Savings Bonds

boxes 9.9 to 9.11

This interest is received after deduction of tax. Enter in boxes 9.9 to 9.11:

- the total interest received after deduction of tax
- the total tax deducted
- the total interest received before tax was deducted.

• Other income from UK savings and investments

boxes 9.12 to 9.14

Include totals of the following items of income in boxes 9.12 to 9.14. Keep details of income included in the totals in case I ask for further information later.

Interest not included in boxes 9.1 to 9.11

Include in boxes 9.12 to 9.14 any interest received which is not included in boxes 9.1 to 9.11. For example:

- from certificates of tax deposit when the certificate is applied in payment of a tax liability
- on government stocks (gilts), including those bought through the National Savings & Investments Stock Register
- on other loan stocks
- on loans to an individual or organisation
- from credit unions and friendly societies
- interest from Enterprise Zone Trusts (the rents should be included in the Trust and Estate Land and Property Pages).

Depending on the nature of the interest, it may be paid without tax being deducted (gross), or after tax deducted (net).

If **no tax has been deducted**, enter the interest received in box 9.12 and box 9.14, leave box 9.13 blank.

If **tax has been deducted**, fill in all the boxes. Make sure the figure in box 9.14 includes the tax deducted.

Transfer of income from securities

If you sell or transfer the right to receive dividends or interest but do not dispose of the underlying securities, the income from those securities is treated as your taxable income. If it is interest from which tax has been deducted at source, enter the amounts in boxes 9.12 to 9.14. In all other cases, enter the amounts in boxes 9.32 to 9.34.

Purchased life annuities

The only annuities to be included in boxes 9.12 to 9.14 are purchased life annuities for which a claim to a tax exempt capital element has been accepted by the Inland Revenue. The certificate provided by the payer of the annuity will normally show whether the annuity includes an agreed capital element, but if you cannot tell from the certificate then contact the payer of the annuity. If there is a tax exempt capital element you should deduct it from the amounts of the annuity before and after tax in completing boxes 9.14 and 9.12.

All other annuities, including annuities under personal pension schemes, retirement annuity contracts or retirement annuity trust schemes, should be entered in boxes 9.32 to 9.34.

If you are not sure what to include, contact the Inland Revenue office.

Relevant discounted securities

Relevant discounted securities have replaced those types of securities previously termed deep discount bonds and deep gain securities. Broadly these are securities where the investor's return is mainly made up of a discount or premium payable on redemption of the bond rather than by interest payable over the life of the bond.

The discount or premium is the difference between the price at which the bond was issued and the amount payable on redemption.

The discount or premium must be capable of being more than:

- 15% of the redemption price, or, if smaller
- 0.5% of the redemption price for each year of the bond's life (for example, in the case of a 10 year bond any discount of 5% or more would mean it was a discounted bond).

A security with an uncertain yield, for example linked to the Retail Prices Index, will normally be a relevant discounted security. A security **fully** linked to the value of assets which would be chargeable assets under the Capital Gains Tax rules (for example, a security whose yield is fully linked to the FTSE index, and gives no guaranteed minimum return on your investment) will not normally be a relevant discounted security. If the trust or estate had a relevant discounted security, you will generally be taxable only when you dispose of the security in any way or it is redeemed at that time. You will be taxable on the difference between the amount paid for the security and the amount received when you redeemed or sold it. Tax is not deducted from the payment. Personal representatives should include the gross amount of the discount in box 9.14. Trustees should include it instead at box 9.38 (but see the notes for box 9.38 on page 19).

Losses

Should the actual disposal of any relevant discounted security result in a loss, that loss may be set against any gain from other relevant discounted securities in the same year. Deduct the amount of any loss to arrive at the amount to enter in box 9.38. Any excess losses can be carried forward and set against the same type of income in later years.

Gilt strips

Gilt strips are relevant discounted securities. In contrast to the usual rules there will be a charge on the discount each year even if the securities were not disposed of during the year. The discount is worked out by comparing the market value of the gilt strips on 5 April with their market value a year earlier or with the price paid for them if bought during the tax year. (This is achieved by deeming disposal of the gilt strips on 5 April and reacquisition on 6 April, both the deemed disposal and deemed acquisition taking place at the market value of the gilt strips on 5 April.) The amount of the discount should be entered in box 9.14. Details of 5 April market values are available from the Inland Revenue office.

Personal representatives should include the amount of the discount in box 9.14. Trustees should instead include it in box 9.38 (but see the notes on box 9.38 on page 19).

Accrued income

Accrued income securities include all interest bearing securities, including permanent interest bearing shares in a building society, government loan stock (gilts) and company loan stock, but do not include shares in a company or National Savings Certificates.

No charge arises and no relief is due for 2002-03 if the nominal value of all accrued income securities held on disabled persons' trusts or by a personal representative at any time in 2002-03 or 2001-02 did not exceed £5,000.

You should calculate charges or reliefs for securities you have bought or sold or transferred where the next interest payment after your purchase or sale fell between 6 April 2002 and 5 April 2003.

A charge will arise if the trust or estate purchased securities without accrued interest (ex-dividend) or sold securities with the accrued interest (cum-dividend). The amount of the charge will be the accrued interest not received, that is the amount by which the purchase price was reduced (purchase ex-dividend) or the sale price was increased (sale cum-dividend).

A relief will be due if the trust or estate purchased securities with accrued interest (cum-dividend) or sold securities retaining the right to the next interest payment (ex-dividend). The amount of the relief will be the amount by which the purchase price was increased (purchase cum-dividend) or the sale price was decreased (sale ex-dividend).

Deal with each kind of security separately. On each kind of security combine the charges and reliefs. Where the charges exceed the reliefs for a particular kind of security the net amount is chargeable. The charge is at the rate applicable to trusts for all trustees and at the lower rate for personal representatives.

Add together all the chargeable amounts. Personal representatives should enter the total in box 9.14. Trustees should enter the total in box 9.38 (but see the note for box 9.38 on page 19). Where reliefs exceed charges on a security deduct the net amount from the interest received from that kind of security. Both trustees and personal representatives should enter the reduced amount of interest in box 9.14. Do not change the figure in box 9.13.

If the trust or estate was a partner, it is also chargeable on its **share** of any charges on accrued income securities held by the partnership. Personal representatives should include the amounts in box 9.14 and trustees in box 9.38. Both trustees and personal representatives should use their share of any excess reliefs to reduce income in box 9.14.

■ Dividends

Dividends including scrip dividends, dividend distributions and qualifying distributions carry a tax credit which cannot be repaid:

- if the trust or estate pays tax only at the basic rate or lower rate, the tax credit at the dividend rate meets the tax bill on the distribution
- if the trust or estate pays tax at the rate applicable to trusts, the total of the dividend and the tax credit is taxed at the dividend trust rate (25%) and the tax credit is treated as tax already set against this.

- Dividends and other qualifying distributions from UK companies

Dividends received by trustees of unauthorised unit trusts

From 6 April 1999 the trustees of an unauthorised unit trust are not entitled to a tax credit where they receive a dividend or other qualifying distribution from a UK company (including a dividend distribution received from a UK authorised unit trust or open-ended investment company). This means that the measure of the trustees' income for Income Tax purposes will be the amount of dividend received. Trustees should not make any entries in boxes 9.15 to 9.23 but the notes to those boxes will help in determining what is to go instead in boxes 9.24 and 9.25.

boxes 9.15 to 9.17

Dividends

The dividend voucher shows the amount of the dividend and the tax credit. Add these together to get 'dividend/distribution plus credit' in box 9.17.

Do not include scrip dividends here. These go in boxes 9.21 to 9.23.

Other qualifying distributions

A company makes a distribution when it passes value to a shareholder, for example:

- by selling an asset to a shareholder at less than market value, or
- by paying interest at more than a commercial rate on a loan.

Non-qualifying distributions are defined in the next column and should be put in boxes 9.26 to 9.28. Other distributions are 'qualifying'.

Enter the amounts in boxes 9.15 to 9.17. Please give details in the 'Additional information' box, box 21.7 on page 12 of the Trust and Estate Tax Return explaining the circumstances in which the distribution arose.

- Dividend distributions from UK authorised unit trusts and open-ended investment companies

boxes 9.18 to 9.20

The dividend voucher shows the amount of the dividend and the tax credit. Add these together to get 'dividend/distribution plus credit' in box 9.20.

If the trust or estate has accumulation units or shares the dividend is automatically reinvested in the unit trust or open-ended investment company. You must still show the amount of the dividend, tax credit and dividend/distribution plus credit.

If you do not have a dividend voucher, ask the unit trust or open-ended investment company manager for one.

Do not enter here any amount shown on the dividend voucher as 'equalisation'. This amount, if shown, is a repayment of capital and is not subject to tax. In calculating the capital gains, the amount of equalisation should be deducted from the cost of the units or shares purchased during the year.

- Scrip dividends from UK companies

boxes 9.21 to 9.23

If the trust or estate took up an offer of shares in place of a cash dividend, this is a 'scrip' or 'stock' dividend.

The dividend statement should have 'the appropriate amount in cash' on it - this is the amount you should enter in the dividend box. Ask the company for a statement if you have not already got one. If you have any doubts about what to include, contact the Inland Revenue office or your tax adviser.

Enter in box 9.21 the appropriate amount in cash. Trustees of an unauthorised unit trust should enter this amount in box 9.25 and should not make any entries in boxes 9.21 to 9.23. Enter in box 9.22 the notional tax (this is 1/9 of the appropriate amount in cash). Add together the figures in boxes 9.21 and 9.22 and enter the total in box 9.23.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

- Dividends and other qualifying distributions received by unauthorised unit trusts

box 9.24

Enter in box 9.24 the total of the actual amount of dividends (and other qualifying distributions) received on or after 6 April 2002 from UK companies including dividends from authorised unit trusts and open-ended investment companies. Do **not** add on the amount of the tax credit shown on the dividend voucher.

- Scrip dividends received by unauthorised unit trusts

box 9.25

Enter in box 9.25 the 'appropriate amount in cash' following the notes to boxes 9.21 to 9.23.

- Non-qualifying distributions and loans written off

boxes 9.26 to 9.28

A **non-qualifying** distribution is:

- a bonus issue by a company of securities or **redeemable** shares (except a bonus issue giving rise to a qualifying distribution), or
- the paying on of such a bonus issue by a company which has itself received it.

If the trust or estate receives such a bonus issue of securities or redeemable shares, the amount of the distribution is:

- for redeemable shares, their nominal value plus any premium payable
- for securities, the amount of the principal secured plus any premium payable

minus any new consideration given for that issue.

The trustees of an unauthorised unit trust should calculate the amount of the non-qualifying distribution and include that amount in box 9.25 along with any scrip or stock dividends. The remaining notes in the section do not apply to unauthorised unit trusts. Enter in the 'Additional information' box, box 21.7 on page 12 of the Trust and Estate Tax Return any relevant information about how the amount in box 9.25 is calculated.

If the trust or estate pays tax **only at the basic rate or lower rate**, there is no more tax to pay on the distribution.

If the trust or estate pays tax **at the rate applicable to trusts, or the dividend trust rate** an amount of dividend rate tax is treated as already paid and is set against the tax bill.

Enter the amount of the distribution in box 9.28. Multiply box 9.28 by 10% to arrive at the dividend rate tax which is treated as paid by you. Enter that amount in box 9.27 and in box 9.26 the difference between boxes 9.28 and 9.27.

A **loan or advance** made by a company wholly or partly released or written off, may be taxable. If so, the amount released or written off is treated as a net amount of income received after deduction of tax at the lower rate. If the loan or advance was made to a person who has since died, the income is treated as that of the person from whom the debt is due at the time of release or writing off. (If it is due from the person as personal representative, the amount treated as received by them is included in the income of the estate.)

Include in box 9.26 the amount of the loan released or written off. Multiply this figure by 1/9 and put the result in box 9.27.

Add the figures in boxes 9.26 and 9.27 together and put the result in box 9.28.

If you do not know what to include, contact the Inland Revenue office or your tax adviser.

■ Gains on UK life insurance policies, life annuities and capital redemption policies

boxes 9.29 to 9.31

These boxes are only for gains from life insurance policies, life annuities and capital redemption policies taken out with a UK life insurance company, the UK branch of an overseas insurer or a UK friendly society.

Gains from foreign policies do not go in these boxes. See 'Is your policy a 'foreign policy'?' below for more guidance. Include details of gains on foreign policies on the Trust and Estate Foreign Pages, available from the Orderline or on the internet at www.inlandrevenue.gov.uk.

In these notes, 'gains' are chargeable event gains which are taxable as income. Insurers sometimes call these 'chargeable gains' but they are **not** capital gains. Capital losses and other reliefs allowable in calculating capital gains cannot be set against them. These gains should not be included on the Trust and Estate Capital Gains Tax Pages. **The purpose of these notes is to help you decide whether there is a gain and if so, what to include in the Return.**

Have you received a certificate reporting a gain on a chargeable event?

UK insurers are required by law to issue a certificate if a gain has been made on a life insurance policy, life annuity or capital redemption policy. In most cases therefore, if a gain has arisen, you will have received in your capacity as a personal representative or a trustee a certificate from the insurer reporting the gain. If you have received a certificate from the insurer, go to the sections below headed 'Personal Representatives' and 'Trustees' as appropriate and follow the instructions in those sections and in the section headed 'Completion of boxes 9.29 to 9.31'.

If you have not received a certificate but during the year any of the following applied in connection with a UK life insurance policy, life annuity or capital redemption policy held by the trust or estate then a gain may still have arisen:

- cash or other benefits were received from the policy or life annuity by part-withdrawal or on a surrender, maturity or death
- the whole or part of the policy or life annuity was sold
- a loan was made to you or, at your direction, to someone else, either by the insurer or by arrangement with the insurer
- the policy or life annuity was a Personal Portfolio Bond in the year (even if the insurer has not paid cash or other benefits during the year in connection with that bond).

A certificate may not have been received for a number of reasons. The insurer may not have an up-to-date address, or the insurer does not know about the event giving rise to the gain because, for instance, the policy has been assigned or the person whose life the policy insured has died and the insurer has not been informed.

If this may have happened, you should ask your insurer to tell you what sort of policy or annuity is held on trust or in the estate and whether there has been a chargeable event and a gain. If so, you should also ask for a copy of the chargeable event certificate.

Is your policy a 'foreign policy'?

You may not have received a chargeable event certificate because the policy is a foreign policy taken out before 6 April 2000. A foreign policy is normally one issued by an insurer from outside the UK. Gains on foreign policies go on the Trust and Estate Foreign Pages which you may obtain from the Orderline. (See the notes on boxes 4.6 to 4.8 of the Foreign Pages and *Help Sheet IR321: Gains on Foreign Life Insurance Policies*.)

A UK insurer may also issue a foreign policy as part of its 'Overseas Life Assurance Business'. This is a type of policy sold by a UK insurer to a person, who at the time it was taken out, was residing outside the UK. Gains from this type of policy go on the Foreign pages if the policy was taken out **on or after 17 March 1998**. However, gains from Overseas Life Assurance Business policies which were made before 17 March 1998 are not treated as foreign policies and should be entered in boxes 9.29 to 9.31 according to this guidance. If you think a gain might have been made on one of these policies made before 17 March 1998, but you have not received a certificate, contact your insurer.

Does the gain need to be included on the Trust and Estate Return?

A gain may be taxable on some person other than the trustees or the personal representatives. To determine whether a gain reported by a certificate from the insurer needs to be included on the Trust and Estate Return go below to the section headed 'Personal representatives' or the section headed 'Trustees' as appropriate.

Personal representatives

Many policies and life annuities terminate as a result of the death of their beneficial owner. If so, the gain is treated as income of the deceased taxpayer arising immediately before death. Such a gain arising on death is also treated as income of the deceased taxpayer if the policy is held in a trust that the deceased created or contributed to. The gain is also treated as income of the deceased taxpayer where the policy which is held in trust continues to run after death and is surrendered or matures, after death but before the start of the next tax year on the following 6 April.

However, where the life insurance policy, life annuity or capital redemption policy:

- continues to run after death, **and**
- is not held in trust

any gain arising in connection with the continuing policy or annuity when it matures, is surrendered or sold is treated as income of the Estate.

The personal representatives only have to enter details of the gain in the return when the gain has no tax treated as paid on it. With UK policies this will be the case if:

- the personal representatives have sold or surrendered part or all of a tax-exempt policy sold by a friendly society, **or**
- such a policy has matured, **or**
- the personal representatives have sold or surrendered part or all of certain UK life annuity contracts, **or**
- the personal representatives have agreed to commute future annuity payments in return for a lump sum

while the policy or contract was an asset of the Estate. The chargeable event certificate will confirm that no tax has been treated as being paid. Enter the details in box 9.29.

Gains on all other UK life insurance policies, capital redemption policies and life annuities are treated as if tax at the basic rate has been paid on them. Personal representatives therefore have no further liability to tax on such gains and they should not enter any amount in respect of them in boxes 9.30 and 9.31.

Gains on foreign insurance policies and contracts go in boxes 4.6 to 4.8 of the Trust and Estate Foreign Pages. For more guidance see the notes on the Foreign Pages and *Help Sheet IR321: Gains from Foreign Life Insurance Policies*, which are both available from the Orderline.

Trustees

If the rights under a policy or life annuity are held in trust, any gain is usually treated as income of the person who created the trust, not of the trust itself. **If this is the case, you should send copies of any chargeable event certificates reporting the gain to this person.**

The gain will be treated as income of the trustees if the trust or trusts were created by:

- an individual who is not resident in the UK or dead at the time of the chargeable event, **or**
- a company or other entity that is non-resident, has been dissolved, wound up or has otherwise come to an end.

If any of these apply, the gain is deemed to be income of trustees resident in the UK, including where the rights under a policy or life annuity are held as security for a debt owed by UK trustees. There are two exceptions to this rule. They are described below. If either of the exceptions applies, trustees do not need to include the gain on the Trust and Estate Tax Return. Where a gain is treated as income of UK trustees, it is taxable at the rate applicable to trusts.

The first exception is where the trust is a bare trust. A gain on a policy or life annuity held in a bare trust is treated as income of the beneficiary of the trust, unless the beneficiary is a minor, and should be included in the pages of the beneficiary's Tax Return for chargeable event gains – boxes 12.1 to 12.5 for UK policies and life annuities. **You should send a copy of any certificates which you have received reporting such gains to the relevant beneficiary.**

The second exception is where:

- the policy or life annuity was made before 17 March 1998 **and**
- it has not been 'enhanced' on or after 17 March 1998 by paying additional premiums or in any other way, **and**
- the trust or trusts were created by an individual who died before 17 March 1998, or if created by more than one person, at least one of those persons was an individual who died before this date.

Completion of boxes 9.29 to 9.31

The completion of these boxes will be assisted by information shown on the chargeable event certificates reporting the gains which are treated as income of the personal representatives and trustees. Apart from when there has been a sale or assignment, the certificate will show the following information:

- the policy details
- the type of event giving rise to the gain and the date when it occurred
- the amount of the gain
- whether basic rate tax is treated as paid on the gain and, if so, how much
- the number of years either since you took out the policy or since the last event, whichever is the less (although this information is not relevant for the tax liabilities of personal representatives and trustees).

You should first make sure that the gain is taxable in 2002-03. The certificate may show one date relating to the event giving rise to the gain or it may include two dates.

If the certificate only shows one date then this is the date of the event. If this falls in the year ended 5 April 2003 then the gain must be entered in this year's Tax Return for 2002-03.

If the certificate shows two dates relating to the event then only enter the gain on this year's Tax Return for 2002-03 if the later of these dates falls in the year ended 5 April 2003. This later date is the final day of the 'policy year' in which the event occurred. A 'policy year' is usually a 12-month period beginning on the anniversary of the date on which you took out the policy. For instance, a policy you took out on 1 July 1995 would have a policy year ending on 30 June 2002. If, using the same policy example, you made a part surrender on 31 January 2003, the certificate would show both the date of the part surrender, 31 January 2003, and the end of the policy year, 30 June 2003. The gain would go on **next year's** Tax Return for 2003-04, not this year's Tax Return for 2002-03, because 30 June 2003 falls in the 2003-04 tax year.

If the event is other than a sale or assignment for consideration then the certificate will also show the gain and any basic rate tax treated as paid.

Personal representatives and trustees should enter in box 9.29 the total gains treated as their income which are **not** treated as having been taxed.

Trustees should enter the total gains treated as their income that **are** treated as having been taxed in box 9.31 and the tax treated as paid in box 9.30. The tax treated as paid is 22% of the amount in box 9.31. Personal representatives should not make any entry in boxes 9.30 and 9.31.

If the event is a sale or assignment for consideration then the certificate will show the same information as for other events apart from the amounts of the gain and the tax treated as paid but it will show:

- whether (but not how much) tax is treated as paid on the gain
- the total previous gains, if any
- the premiums or consideration paid
- the amount of relevant capital payments, if any
- the value of parts previously assigned, if any **and**
- for purchased life annuities, the capital elements paid on account of the annuity.

Using this information and the value received for disposing of the policy, you can calculate the gain and tax treated as paid yourself. *Help Sheet IR320* gives you help with the calculation in Example of Calculation 3. It is available through the Orderline. Boxes 9.29 to 9.31 should then be completed as above.

Multiple gains

If in your capacity as personal representative or trustee there is more than one gain to include on the Trust and Estate Tax Return, add together the amounts of the gain and of the tax treated as paid and enter the totals for each in boxes 9.29 to 9.31 as appropriate according to the guidance above.

General guidance for trustees and personal representatives

Help Sheet IR320: Gains on UK life insurance policies contains more information and general guidance about how gains are taxed. In addition it explains how the rules apply to a trust created by more than one person, says more about 'enhancements' and explains about the taxation of personal portfolio bonds. It is available from the Orderline.

Not all payments from, or assignments of life insurance policies or other insurance contracts give rise to gains. There is likely to be no gain in particular but not exclusively, where:

- a payment has been received under a mortgage endowment policy or a Friendly Society tax-exempt policy which has run for more than ten years, **or**
- a payment has been received under a policy for which a single premium was paid and the payment received is less than 5% of the premium, **or**
- all or part of the policy has been gifted to someone else.

Pension annuities also do not give rise to gains.

Other income

There are many types of transaction which produce taxable income. Examples include:

- all casual earnings not declared elsewhere on the Trust and Estate Tax Return, including 'one off' freelance income
- receipts under covenants entered into for genuine commercial reasons which are in connection with the payer's trade, profession or vocation
- profits from isolated literary or artistic activities
- rental from leasing equipment the trust or estate owns
- accrued income scheme charges on the transfer of securities (trustees only)
- underwriting or sub-underwriting commissions
- income received after interest in a business has ceased, or received following a change in the basis on which the profits of that business are calculated. This applies only if the income would not otherwise have been taken into account for tax purposes during the life of the business - for examples see 'Post cessation and similar business receipts' in the next column
- any recoveries of expenses or debts for which you claimed relief as a post cessation expense
- sale of patent rights if a capital sum was received
- annual payments received in the year including annual payments received from UK unauthorised unit trusts, and annual payments paid by former employers which do not constitute the payment of a pension
- sums representing income which arose during the administration period and which were paid over by the personal representatives at the end of that period to trustees of accumulation or discretionary trusts.

The income or losses from transactions relating to an activity which amounts to a trade should be included in the Trust and Estate Trade Pages, Partnership Pages, or Land and Property Pages (furnished holiday lettings) as appropriate. If this income does not arise in the course of a trade, profession or vocation, it should be included in boxes 9.32 to 9.40. Contact the Inland Revenue office if you are in any doubt about this.

Other income

boxes 9.32 to 9.40

Keep a record of the separate items of income, and any relevant expenses relating to each item (see notes below), in case you are asked for details later. *Help Sheet IR325: Other income* has a Working Sheet you can use to arrive at aggregate figures to put in the boxes if the trust or estate had more than one type of 'other income'. Remember that you can only set losses of the year against certain types of 'other income' - see the note on losses on page 19 and *Help Sheet IR325* if you need it. If the trust or estate only had one type of 'other income' during the year, follow the instructions below. Otherwise, ask the Orderline for *Help Sheet IR325: Other income* and complete the Working Sheet.

Trustees

Where a Will sets up a continuing trust, at the end of the administration period the personal representatives will distribute the income which arose during the administration to the trustees of that trust. This income has been taxed in the hands of the personal representatives. If the trustees of a discretionary or accumulation trust have received any such income in the year they should enter the net income, tax deducted and gross income in boxes 9.32 to 9.34, since this income will be chargeable on the trustees at the rate applicable to trusts (34%) less the tax charged on the personal representatives.

box 9.32

Enter the amount of income after any tax deducted, and after any allowable expenses or capital allowances for this year.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

If overall there was a loss for the year enter '0'. There are notes in the next column about expenses, losses and some types of income.

box 9.33

Enter the amount of any tax deducted from the payments received.

box 9.34

Enter in box 9.34 the amount of income *minus* any allowable expenses or capital allowances for the year (box 9.32 *plus* box 9.33). If the result is a loss it can be set against income in a future year - see the notes on losses in the right hand column - enter it in box 9.37.

Cashbacks

You may have to pay tax if the trust or estate has, as an incentive to take out a mortgage or to purchase an asset:

- received cash, **or**
- received an asset, **or**
- had any liabilities waived or paid for.

You may be taxable on the amount or value of what it received, or had waived or paid.

The payer of the incentive may be able to tell you whether there is any tax liability. If not, you should ask the Inland Revenue office or your tax adviser.

If the amount is liable to Income Tax (which is likely only where the cashback consists of payments receivable in more than one year), enter it in box 9.34. (If you are not sure whether the amount is liable to Income Tax, include it in box 9.34 and give full details of the cashback in the 'Additional information' box, box 21.7 on page 12.).

Post cessation and similar business receipts

Include any income received from a business in which the trust or estate's involvement has ceased. If the basis on which the profits of a business are calculated is changed, include here any receipts which, as a result of that change, would not otherwise be taken into account for tax purposes during the life of the business.

Examples include:

- money recovered from a bad debt which had been written off in the business accounts
- royalties arising after the business ceased from contracts made before it ceased
- receipts relating to work completed before the basis on which profits are calculated changed from a cash to an earnings basis.

There are two ways of dealing with this. Either you enter the total in box 9.34 or, alternatively, you can claim to have the income taxed as income of the year in which the business ceased. If you wish to do this do not use box 9.34. Instead enter the amount and the year in which the business ceased in the 'Additional information' box, box 21.7 on page 12 of the Trust and Estate Tax Return.

If you think you may be entitled to claim relief for post cessation expenses ask the Inland Revenue office for help.

Where the income relates to a discontinued business, the amount to be included in boxes 9.32 and 9.34 is net of:

- losses and expenses, not arising from the discontinuance itself, which would have been allowable had the business continued
- any unused losses and unused capital allowances of the discontinued business
- any such expenses brought forward from earlier years which have not previously been relieved against post cessation receipts.

Where the receipts arise from a change in the basis on which the profits of a business are calculated, the amount to be included in boxes 9.32 and 9.34 is net of any expenses not otherwise allowed which would have been deductible but for the change.

Expenses

The amount of taxable income is the gross income the trust or estate is entitled to (whether or not received) in the tax year less allowable expenses incurred in that year. Allowable expenses are those which:

- had to be spent solely to earn the income
- were not spent for private or personal reasons
- were not spent to buy something which the trust or estate intends to keep for a while (such as a computer). But you may be able to claim capital allowances for this expense. Ask the Inland Revenue office for advice.

You cannot set expenses against annual payments.

For guidance on expenses which are allowable in arriving at the taxable amount of receipts from a discontinued business, or arising from a change in the basis on which business profits are calculated, please read the notes on 'Post cessation and similar business receipts'.

Losses

If the allowable expenses are more than the receipts the trust or estate has suffered a loss. Some, but not all, losses can be set against some types of income from other transactions in the 'other income' category.

If there is no such income this year, losses can be carried forward and set against similar income in future years.

You cannot set losses against annual payments.

(If you are in any doubt about which losses you can claim or how to claim them, ask the Orderline for IR325: *Other income*, or contact the Inland Revenue office or your tax adviser.)

box 9.35

Enter any unused allowable losses brought forward from earlier years.

box 9.36

Enter the amount of any loss brought forward which can be set against the income in box 9.34. Include only the amount up to the amount of that income. You cannot set losses against all categories of other income, for example you cannot set losses against annual payments - see the notes below.

box 9.37

Enter the amount of any loss for the year which you are claiming to carry forward to a later year.

- Deemed income, etc.

box 9.38

Enter in box 9.38 the total amount of income of the following types.

Income from offshore funds

An offshore fund is:

- a non-resident company **or**,
- a foreign unit trust **or**,
- any other arrangement which takes effect under the law of a foreign country and creates rights in the nature of co-ownership

in which the trust or estate holds a 'material interest'. Interest in an offshore fund is 'material' if, at the time the trust or estate acquired it, it might reasonably expect to be able to realise the interest, usually by redemption, within the following seven years at about the market value of the fund's assets which the interest represents at that time.

There are special rules for the taxation of **gains** arising in offshore funds. Where an offshore fund qualifies for 'distributor status' Capital Gains Tax will usually apply to gains on disposal of an interest in the fund. If this is relevant, ask the Orderline for the Trust and Estate Capital Gains Pages of the Trust and Estate Tax Return.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

'Distributor status' is granted to funds which regularly distribute the bulk of their income to investors rather than those which roll up the income in the fund until the investor disposes of the holding. To find out whether the offshore fund qualifies for distributor status look at the latest annual report and accounts of the fund or ask the fund manager. Ask the Orderline for the Trust and Estate Foreign Pages if you need them.

If the offshore fund **does not qualify for 'distributor status'**, the un-indexed gain on disposal of an interest in the fund is subject to **Income Tax** and the **amount of the gain must be included in box 9.38**.

If the offshore fund **qualifies for 'distributor status' but operates 'equalisation arrangements'**, part of the gain will be subject to Income Tax. That amount will normally be shown on the redemption voucher given to the trust or estate by its fund manager and must be **entered in box 9.38**.

Trustees of an unauthorised unit trust should also enter offshore income gains in box 9.38 unless the amount of the gain is matched by an equivalent amount of annual payments made included in boxes 10.2 to 10.4 of the Trust and Estate Tax Return. In that case, the amount of the offshore income gains, up to the amount of the annual payments, may be entered in box 9.34. Please give details of any amounts of offshore income gains included in box 9.34 in the 'Additional information' box, box 21.7 on page 12.

Accrued Income Scheme charges, relevant discounted securities and gilt strips (Trustees only)

See pages 14 and 15 (the notes to boxes 9.12 to 9.14) for details of how to calculate Accrued Income Scheme charges and reliefs, discounts on relevant discounted securities and deemed income on gilt strips.

Personal representatives should have entered them at box 9.14.

Trustees of an unauthorised unit trust who treat the accrued income scheme charges, income from relevant discounted securities, income from gilt strips as income in the accounts of the unit trust scheme should include that income in box 9.34. Where such income is not shown as income in the accounts of the unit trust scheme the amounts should be included in box 9.38.

- Company purchase of its own shares

boxes 9.39 and 9.40

Qualifying distributions where a company buys its own shares are taxable at the rate applicable to trusts except where they are treated as the income of the settlor. They are treated as dividends and the associated tax credit is not repayable.

Enter in box 9.39 the amount of any tax credit relating to the payment. The amount to be entered is 10% of the figure in box 9.40.

Enter in box 9.40 the total taxable amount. You calculate this by deducting from the actual (that is, the net) deemed dividend the amount of the deductible trust management expenses and multiplying the result by 10/9.

Note: If the amount of the deemed dividend exceeds the total amount of trust management expenses paid, the amount of deductible management expenses to be entered in box 13.19 will be nil.

If the trust is non-resident in the UK for Income Tax purposes, expenses which are attributable to sources of income not liable to UK Income Tax cannot be deducted from the income from companies buying their own shares. The amount of expenses to be deducted will be the total trust management expenses paid multiplied by the total taxable UK income divided by the total income of the trust.

Q10 Do you want to claim any reliefs?

If you do not tick the 'Yes' box, go to Question 11.

Otherwise, tick the 'Yes' box and fill in boxes 10.1 to 10.4, as appropriate, using the notes starting below.

Trustees of an unauthorised unit trust who made, or are treated as having made, annual payments should tick the 'Yes' box and complete boxes 10.2 to 10.4 following the notes.

- Interest on loans to pay Inheritance Tax

box 10.1

Interest relief is also due to personal representatives in respect of loans to pay Inheritance Tax.

Enter in box 10.1 the amount of interest paid; if you need help ask the Inland Revenue office or your tax adviser.

boxes 10.2 to 10.4

Enter here the amount of any annuity or other annual sum payable out of the trust's income. If the annual payments (box 10.4) exceed the trust income brought into charge the trustees are taxable on the excess.

If unauthorised unit trusts have an excess of annual payments, or amounts treated as annual payments, over trust income brought into charge then again the trustees are taxable on the excess. In such cases, however, the trustees may be entitled to relief for an 'uncredited surplus'. The amount of any such relief is deductible in calculating the excess on which the trustees are taxable. This deduction is limited to the amount of the excess for the year.

Please provide the calculation of the 'uncredited surplus' in the 'Additional information' box, box 21.7 on page 12 of the Trust and Estate Tax Return. Where relief is given for an uncredited surplus the amounts to be returned in boxes 10.2 to 10.4 are those after the relief has been given.

Q11 Were any annual payments made out of capital?

If you do not tick the 'Yes' box, go to Question 12. If you are a personal representative, go to Question 17.

boxes 11.1 to 11.3

For example, if the trustees have received enhanced scrip dividends and made compensatory payment out of capital to beneficiaries, enter the amount of the payment made in box 11.1, the tax deducted in box 11.2 and the gross amount in box 11.3.

Q12 Have any assets or funds been put into the trust?

boxes 12.1 to 12.9

Use boxes 12.1, 12.4 and 12.7 to provide the name and address of any person who made an addition to the trust during the year to 5 April 2003. If the trust was first created after 5 April 2002, please include details of the original settlement.

Describe the asset in boxes 12.2, 12.5 and 12.8, for example, shares, cash, etc.

Enter in boxes 12.3, 12.6 and 12.9 the value of the asset at the date it was added to the settlement funds.

Q13 Is any part of the trust income not liable to tax at the rate applicable to trusts or the dividend trust rate?

If you tick the 'Yes' box fill in boxes 13.1 to 13.22.
If not applicable, fill in boxes 13.13 to 13.22.

Income which is treated as the settlor's should be entered in boxes 13.1, 13.3 and 13.5. But where any such income has been used to make a payment to charity, do not include it in Question 13. See *Help Sheet IR270: Trusts and settlements - income treated as the settlor's*.

Trust management expenses

From which income may expenses be deducted?

If you are liable at the rate applicable to trusts or the dividend trust rate, you can deduct trust management expenses in arriving at the amount of income on which you are taxable at those rates. You cannot deduct trust management expenses in arriving at the amount of income taxable only at the basic rate (22%), lower rate (20%) or dividend rate (10%).

You can only deduct expenses that relate to that part of the income which is taxable at the rate applicable to trusts or the dividend trust rate. For example, you may be the trustee of a trust where one half of the income is taxable at the rate applicable to trusts and one half is not. If the total income is £5,000 and the allowable expenses are £1,000, you can only deduct £500 expenses as the other £500 relates to income which is not taxable at the rate applicable to trusts.

What expenses are deductible?

You can deduct your expenses of managing the trust from trust income provided:

- they are under trust law properly chargeable against income, for example, rates and taxes and interest on charges, and encumbrances, **and**
- they are actually paid out of income of the year.

You cannot deduct costs, charges and expenses which are incurred for the benefit of the whole estate for example, legal expenses, investment advice or the cost of changing trust investments. Under trust law such expenses are properly chargeable to capital.

How expenses are deducted

You must deduct any expenses in order against the following three types of income:

- first**, from income which carries a notional or non-payable dividend rate tax credit of 10%, for example, scrip dividends and dividends from UK companies, **then**
- any excess from income taxable or carrying a tax credit at the lower rate of 20%, for example, interest from a UK bank or building society, **finally**
- any excess from income taxable at the basic rate of 22%.

As you complete the Trust and Estate Tax Return, you may find that a proportion of income is not taxable at the rate applicable to trusts or the dividend trust rate and that you have more than one type of income against which you can allocate expenses. For example, some of the income may not be the subject of any discretion or some may be allocated for specific purposes and the income may be of different types. When this happens you will have to apportion the expenses (between income chargeable at the rate applicable to trusts or the dividend trust rate and that which is not so chargeable) and then allocate expenses against different types of income in the order indicated - see Example 1 below.

Trust expenses and beneficiary's income

If the beneficiary has an absolute interest in both capital and income, the expenses cannot be deducted in arriving at the measure of his or her income.

Although you cannot deduct management expenses in arriving at the measure of your income for tax purposes where you are taxable only at the dividend rate (10%), lower rate (20%) or basic rate (22%), if the beneficiary's interest is limited to being entitled to the income only as it arises, those expenses are deducted in arriving at the measure of their income - see Example 2 aside.

Example 1

The total trust income is £5,000, comprising rental income of £4,000 and interest of £800 (lower rate tax of £200 has been deducted). £500 is allocated for specific purposes. You pay allowable expenses of £500. One half of the income is taxable at the rate applicable to trusts. You can calculate the amount of income taxable at the rate applicable to trusts as follows:

	Rent	Interest
Income	4,000	1,000
<i>minus</i>		
Income allocated for specific purposes (apportioned at a ratio of 4:1)	(400)	(100)
	3,600	900
<i>minus</i>		
Income not taxable at the rate applicable to trusts (1/2)	(1,800)	(450)
	1,800	450
Expenses	500	
<i>minus</i>		
Apportioned to income allocated for specific purposes	500 x $\frac{500}{5,000}$	(50)
	450	
<i>minus</i>		
Apportioned to income not taxable at the rate applicable to trusts	450 x $\frac{2,250}{4,500}$	(225)
Allowable against income taxable at the rate applicable to trusts (but primarily against lower rate income)	225 x $\frac{100}{80}$	= - (281)
Amount taxable at rate applicable to trusts	1,800	169

Working Sheet for Question 13

Income treated as that of the settlor as it arises

	Net income	Share of expenses	Tax	Gross income
• Income charged at 10% rate	G1 £	G2 £ <i>copy to 13.2</i>	G3 £	G4 £ <i>copy to 13.1</i>
• Income charged at 20% rate	G5 £	G6 £ <i>copy to 13.4</i>	G7 £	G8 £ <i>copy to 13.3</i>
• Other income	G9 £	G10 £ <i>copy to 13.6</i>	G11 £	G12 £ <i>copy to 13.5</i>

Income of beneficiary(ies) not subject to trustees' discretion

If more than three beneficiaries, photocopy this section and add the totals in boxes G49 to G54 below.

Beneficiary 1	Share of income (% or fraction if appropriate)			<input type="text"/>
	Net income	Share of expenses	Tax	Gross income
Income charged at 10% rate	G13 £	G14 £	G15 £	G16 £
Income charged at 20% rate	G17 £	G18 £	G19 £	G20 £
Other income	G21 £	G22 £	G23 £	G24 £
Beneficiary 2	Share of income (% or fraction if appropriate)			<input type="text"/>
	Net income	Share of expenses	Tax	Gross income
Income charged at 10% rate	G25 £	G26 £	G27 £	G28 £
Income charged at 20% rate	G29 £	G30 £	G31 £	G32 £
Other income	G33 £	G34 £	G35 £	G36 £
Beneficiary 3	Share of income (% or fraction if appropriate)			<input type="text"/>
	Net income	Share of expenses	Tax	Gross income
Income charged at 10% rate	G37 £	G38 £	G39 £	G40 £
Income charged at 20% rate	G41 £	G42 £	G43 £	G44 £
Other income	G45 £	G46 £	G47 £	G48 £
• Income charged at 10% rate	Total G14, G26 + G38	G49 £ <i>copy to 13.8</i>	Total G16, G28 + G40	G50 £ <i>copy to 13.7</i>
• Income charged at 20% rate	Total G18, G30 + G42	G51 £ <i>copy to 13.10</i>	Total G20, G32 + G44	G52 £ <i>copy to 13.9</i>
• Other income	Total G22, G34 + G46	G53 £ <i>copy to 13.12</i>	Total G24, G36 + G48	G54 £ <i>copy to 13.11</i>

Income allocated to specific purposes

	Net income	Share of expenses	Tax	Gross income
• Income charged at 10% rate	G55 £	G56 £ <i>copy to 13.14</i>	G57 £	G58 £ <i>copy to 13.13</i>
• Income charged at 20% rate	G59 £	G60 £ <i>copy to 13.16</i>	G61 £	G62 £ <i>copy to 13.15</i>
• Other income	G63 £	G64 £ <i>copy to 13.18</i>	G65 £	G66 £ <i>copy to 13.17</i>

Example 2

You are trustee of a trust in which the beneficiary has a life interest (the beneficiary is called a 'life tenant'). In 2002-03 you receive rental income of £1,000 and bank interest of £800 (lower rate tax of £200 has been deducted) and pay allowable expenses of £250.

	Rent	Interest
Your gross income is	1,000	1,000
Tax due from you	<u>220</u>	<u>200</u>
Net income	780	800

You will receive credit for the tax deducted at source from the bank interest (£200) so you will have to pay £220 in tax.

The life tenant's income for tax purposes will be:

	Rent	Interest
Net income (as above)	780	800
<i>minus</i>		
management expenses		
(set primarily against lower		
rate income)	<u>-</u>	<u>(250)</u>
	780	550
Grossed	(@22%) 1,000	(@20%) 687

boxes 13.1 to 13.18

If you have ticked the 'Yes' box in Question 13, you will need to complete boxes 13.1 to 13.18. The following notes and the Working Sheet on page 22 will help you to complete these boxes.

boxes 13.1 to 13.6

If only part of the income is treated as that of the settlor, it is only that part which should be included in these boxes. You should treat the appropriate proportion of each type of income as that of the settlor. Complete the working sheet first.

Enter in boxes G1, G5 and G9 the amount of income net of tax or tax credits but without deducting trust management expenses.

Enter in boxes G2, G6 and G10 the share of expenses relevant to each source shown. You must set the expenses against the net income in the order set out under the heading 'How expenses are deducted' on page 21.

Enter in boxes G3, G7 and G11 the amount of tax due from each source of income.

Enter in boxes G4, G8 and G12 the gross amount of income (that is, G1 plus G3, G5 plus G7, G9 plus G11) relevant to each source of income. Copy the amounts in G2, G4, G6, G8, G10 and G12 to boxes 13.1 to 13.6, on the Tax Return, as directed in the Working Sheet.

boxes 13.7 to 13.12

You should complete these boxes if the terms of the trust are such that some part of the income is neither to be accumulated nor is payable at the discretion of any person. For example, a beneficiary may have an irrevocable title to part of the capital and income or may be entitled to part of the income as it arises.

You should normally apportion each type of income that falls under this heading. You will also need to apportion trust management expenses. However, if such a beneficiary's share of the income is not, under the terms of the trust or because the trustees have exercised their power of appropriation, measured as a percentage of each type of income, it is the income to which they are entitled and the trust management expenses relating to that income which should be entered in these boxes.

Enter in boxes G13, G17 and G21 the amount of income (not subject to trustees' discretion) net of tax or tax credits but without deducting trust management expenses.

Enter in boxes G14, G18 and G22 the amount of expenses relevant to each source of income to which the beneficiary is entitled. You must set the expenses as far as possible against the net income in the order set out under the heading 'How expenses are deducted' on page 21.

Enter in boxes G15, G19 and G23 the amount of tax due on each source of income and enter in boxes G16, G20 and G24 the gross amount of income (that is, G13 plus G15, G17 plus G19, G21 plus G23) relevant to each source of income to which the beneficiary is entitled.

Enter similar details in boxes G25 to G36 for any other beneficiary who is entitled to the income of the trust and repeat the process at boxes G37 to G48 for any third beneficiary.

For each of the three categories of income, total the amounts of expenses and the amount of gross income for all the beneficiaries in boxes G49 to G54 and copy the amounts to the appropriate boxes 13.7 to 13.12 on the Tax Return, as directed on the Working Sheet.

(If there are more than three beneficiaries, photocopy this section of the Working Sheet but remember to include totals in boxes G49 to G54.)

boxes 13.13 to 13.18

If the will or settlement directs that income is to be applied for specific purposes, for example, the redemption of a lease or mortgage, you can deduct it in arriving at the amount of income which is to be taxed at more than the basic rate. Income which is applied for the maintenance, etc of beneficiaries should not be included; nor should income used to meet your expenses in collecting income or administering the trust.

Enter in boxes G55, G59 and G63 the amount of net income allocated to specific purposes relevant to each source shown.

Enter in boxes G56, G60 and G64 the amount of expenses relevant to each source of income allocated to specific purposes. You must set the expenses against the net income in the order set out under the heading 'How expenses are deducted' on page 21.

Enter in boxes G57, G61 and G65 the amount of tax due on each source of income.

Enter in boxes G58, G62 and G66 the gross amount of income (that is, G55 plus G57, G59 plus G61, G63 plus G65) relevant to each source of income. Copy the amounts in G56, G58, G60, G62, G64 and G66 to boxes 13.13 to 13.18 on the Tax Return, as directed on the Working Sheet.

box 13.19

Enter the total amount of deductible management expenses - see the notes on 'What expenses are deductible?' on page 21. Do not include expenses which have been taken into account in arriving at the amount of taxable income from companies purchasing their own shares (see the notes to boxes 9.39 and 9.40 on page 20).

If you negligently submit a provisional figure which is either inaccurate, or unnecessary, you may be liable to a penalty.

box 13.21

If the trust is not resident in the UK for Income Tax purposes enter in box 13.21 the amount of income which is not liable to UK Income Tax and which is not therefore included elsewhere in this Trust and Estate Return.

box 13.22

Certain items that are capital in Trust Law are treated as income for tax purposes. Some of them are not charged at rates above the basic rate.

These are:

- premiums treated as rent
- profits on sale of certificates of deposit
- loans written off and items treated as company distributions in boxes 9.26 to 9.28
- gains on transactions in land.

Enter in box 13.22 the total of any such amounts you have included in your total income. The amount you enter in box 13.22 for any premium is the amount after any losses have been set against it and must not exceed the amount in box 3.39 on the Trust and Estate Land and Property Pages.

Q14 Have discretionary payments of income been made to beneficiaries?

If you tick the 'Yes' box, fill in boxes 14.1 to 14.15 as appropriate. If not applicable, fill in box 14.15 only.

Trustees of Heritage Maintenance Funds: the boxes in Question 14 of the Return are only for discretionary payments to individual beneficiaries, which would not normally feature in this type of trust. Do not complete these boxes for expenditure on heritage property, by you or even by way of payment to or reimbursement of a third party who is an individual. If you enter such figures here they may result in an incorrect tax charge on you. If exceptionally you do make discretionary payments to beneficiaries, then you should enter the figures at Question 14.

boxes 14.1 to 14.14

Enter details of all net payments made during the year in exercise of your or any other person's discretion which are income of the beneficiaries.

In general:

- payments out of capital or accumulated income are not to be regarded as the income of a beneficiary irrespective of the purposes for which they are made and should not therefore be included
- payment is regarded as taking place when a beneficiary is legally entitled to require money to be paid over, for example, when it becomes irrevocably their property following the trustees' resolution to allocate or appropriate it to them.

If, exceptionally, the terms of the trust empower the trustees to release monies in order to bring up a beneficiary's income to a certain defined level the total amount of the monies released should be included even if part of it represents capital or accumulated income.

Payments by trustees of employment related trusts made at their or any other person's discretion and which are taxable under Schedule E as emoluments of the beneficiary are not to be included in boxes 14.1 to 14.14 and such payments do not reflect in the calculation of the pool of tax under Section 687 ICTA 1988.

If there is insufficient space on page 8 of the Trust and Estate Tax Return to give full details of payments, please attach a separate sheet giving the additional information in the same format as Question 14.

box 14.15

Enter the amount, if any, of unused tax pool brought forward from last year.

Q15A Have the trustees made any capital payments to, or for the benefit of, minor unmarried children of the settlor during the settlor's lifetime?

If you do not tick the 'Yes' box go to Question 15B.

box 15.1

In this context capital payments include the transfer of assets as well as payments of cash.

Enter in box 15.1 the total amount of payments made in the year.

Q15B Were there capital transactions between the trustees and the settlors?

If you do not tick the 'Yes' box go to Question 16.

boxes 15.2 to 15.13

There may be a tax charge on the settlor where capital sums are paid to them by the trustees either directly or through a company connected with the settlor.

A capital sum is defined as:

- any sum paid by way of loan or repayment of loan
- any other sum paid otherwise than as income being a sum which is not paid for full consideration in money or money's worth.

A company is deemed to be connected with a settlement if it is:

- (a) a close company (or only not a close company because it is not resident in the United Kingdom) and the participators include the trustees of the settlement
- (b) controlled by a company falling within paragraph (a) above.

A capital sum is deemed to have been paid to the settlor if it is:

- paid to them
- paid to their spouse
- paid to a third party at the settlor's direction
- paid to a third party by virtue of an assignment by the settlor of their right to receive it
- otherwise paid to or applied for the benefit of the settlor.

Enter in boxes 15.2 to 15.5 details of any capital sums paid to the settlor or to a company connected with the settlement. If any capital sum has been paid to a company connected with the settlement, enter the name(s) of the company(ies) and its (their) registered office(s) in the appropriate box.

If more than one sum has been paid, give separate details for each one.

Q16 Has the trust at any time been non-resident or received any capital from another trust which is or at any time has been non-resident?

If you do not tick the 'Yes' box, go to Question 17.

boxes 16.1 to 16.23

There may be a tax charge on beneficiaries if they receive capital or other benefits from a trust which has at any time been treated as not resident in the UK for tax purposes or which has received capital from another trust which is or at any time has been treated as non-resident.

How to fill in pages 3 to 12 of the Trust and Estate Tax Return - continued

For the purposes of deciding if you need an entry in box 16.1:

- a capital payment means
 - any payment made which is not chargeable to Income Tax on the beneficiary or in the case of a beneficiary who is neither resident nor ordinarily resident in the United Kingdom any payment received otherwise than as income
 - the transfer of an asset
 - the value of any settled property on the occasion on which the beneficiary becomes absolutely entitled as against the trustees to it.
- But** it does not include a payment under a transaction entered into at arm's length.
- a benefit has its ordinary meaning and will, for example, include a loan to a beneficiary either interest free or at a rate below a normal commercial rate; allowing a beneficiary to live rent free or at a rent below the normal market rent in a property owned by the trust; allowing a beneficiary the use of a trust asset without payment at a market rate.
 - you will be regarded as having made a payment to the beneficiary if:
 - they received it from you directly or indirectly
 - you apply it directly or indirectly in payment of any debt of theirs or otherwise for their benefit
 - you pay it to a third person at the beneficiary's direction.

Q17 Do you want to calculate the tax?

If you tick the 'Yes' box, please do your Calculation and fill in boxes 17.1 to 17.9.

Calculating your tax is optional but if you do, I need this information so that I can check that you have got it right.

The Trust and Estate Tax Calculation Guide explains what to put in the boxes.

Q18 Do you want to claim a repayment if the trust or estate has paid too much tax?

If you do not tick the 'Yes' box go to Question 19.

If you tick the 'Yes' box to claim a repayment, fill in boxes 18.1 to 18.12 as appropriate.

Note, if you have an amount to pay that is due in the near future (usually within 45 days) then we will generally set off any repayment against this liability. Also, we would prefer not to make repayments of small amounts, because of administrative costs. So if the overpaid tax is below £10 we will normally set it against your next tax bill. But if you do not agree with these set-offs, please contact your Inland Revenue office.

boxes 18.1 to 18.12

Tick box 18.1 if you want the repayment sent to your bank or building society. You'll receive the repayment sooner if we make it direct to your bank or building society, and you won't have to take a cheque to the bank yourself. Tick box 18.8A if you want the repayment to be sent by cheque to you at the address on page 1.

Tick box 18.2 if you want the repayment sent to your nominee's bank or building society account. Tick box 18.8B if you want a cheque sent to your nominee and tick box 18.9A if your nominee is your agent. Fill in boxes 18.3 to 18.7 to give details of your, or if you want the repayment to go to a nominee, that nominee's, account. If you have ticked box 18.2, fill in boxes 18.9 to 18.11 to give details of your nominee. **You must sign box 18.12.**

Please note that the Inland Revenue reserves the right not to make a repayment to your nominee, and will not normally make a repayment to an overseas nominee.

Q19 Please give trustee or personal representative details

boxes 19.1 to 19.4

If convenient, enter your, or your agent's, telephone number in the appropriate box. If you give your agent's number, please also give your agent's name, address and reference for you in the box.

Q20 Have there been any changes to the names and addresses of the trustees or personal representatives?

Give the names and addresses of all new and retiring trustees or personal representatives. If any of the new or retiring trustees are not resident in the UK, please also give the date of their appointment or retirement in the 'Additional information' box, box 21.7 on page 12.

Give details of any change of addresses of existing trustees or personal representatives in boxes 20.9 to 20.12.

Q21 Other information

box 21.1

If you are filling in this Trust and Estate Tax Return as a personal representative please enter in box 21.1 the date of death of the deceased.

box 21.2

If the administration period ceased in the year to 5 April 2003 enter the date of cessation in box 21.2.

box 21.3

If the administration period ceased in the year to 5 April 2003 and there is a continuing trust, please tick box 21.3.

box 21.4

If you are a trustee and the trust was terminated in the year to 5 April 2003 please enter the date of termination in box 21.4 and in the 'Additional information' box, box 21.7, the reason for termination.

Provisional figures

box 21.5

Do not delay sending the Trust and Estate Tax Return just because you do not have all the information you need. You must do your best to obtain the information, but if you cannot provide final figures by the time you need to send the Trust and Estate Tax Return, then provide provisional amounts.

Tick box 21.5 and say in the 'Additional information' box, box 21.7, which figures are provisional (refer to appropriate box numbers in the Trust and Estate Tax Return).

It would also help me if you say in box 21.7:

- why you could not give final figures, **and**
- an approximate date on which you expect to give me your final figures.

If you use provisional figures you must have taken all reasonable steps to get the final figures, and ensure that they are sent as soon as they are available. You could be charged a penalty if you did not have a good reason for using a provisional figure or you did not take sufficient care to calculate the provisional figure in a reasonable amount. I would not regard pressure of work either on you or your tax adviser, or the complexity of the Trust or Estate's affairs, as reasons for accepting a provisional figure.

You must ensure that any provisional figures you do include are reasonable and take account of all the information available to you.

If you negligently submit a provisional figure which is either inaccurate, or unnecessary, you may be liable to a penalty.

Estimates (including valuations)

In some situations you may need to provide an estimated figure or valuation which you do not intend to amend at a later date. Broadly this will be the case where:

- a valuation is required (for example, of an asset at a certain date for the purposes of calculating Capital Gains Tax liability), **or**
- there is inadequate information to enable you to arrive at a reliable figure (for example, where the records concerned have been lost or destroyed), **or**
- while there is inadequate information to arrive at a precise figure, a reliable estimate can be made.

You should identify any valuations you have used, either by ticking the appropriate box in the Trust and Estate Tax Return, where there is one, and providing the details which the notes ask for, or by identifying the figure in the 'Additional information' box, box 21.7 on page 12 of the Trust and Estate Tax Return, and giving details of the valuation. Do not tick box 21.5.

You should also identify any figures in the Trust and Estate Tax Return which may not be very reliable explaining, where appropriate, how the figure has been arrived at. But if you are including an estimate which, while not a precise figure, is sufficiently reliable to enable you to make an accurate Trust and Estate Tax Return there is no need to make specific reference to it.

box 21.6

Enter the amount of any 2002-03 tax refunded by the Inland Revenue office, or, in the case of personal representatives, the Benefits Agency (in Northern Ireland, the Social Security Agency).

Q22 Declaration

Tick the boxes to show which pages of the Trust and Estate Tax Return you have filled in. (Make sure you send back any loose supplementary Pages.)

If you have filled in the Trust and Estate Tax Return

Sign and date the form in box 22.1.

Please print your name in box 22.2 and enter the capacity in which you are signing in box 22.3

If you have had the Trust and Estate Tax Return filled in for you by someone else

If you have had the Trust and Estate Tax Return filled in for you by someone else acting on your behalf you must still sign the Return yourself, to confirm to us that, to the best of your knowledge, it is correct and complete. This applies whether you have paid for the services of an accountant or other tax practitioner, or have had anyone else to help you.

You should always allow sufficient time for checking and signing the Tax Return completed by someone on your behalf (particularly if you are likely to be abroad near the deadline for sending the form back to me). Failure to make appropriate arrangements could mean that you miss the deadline and are charged penalties and interest.

■ Your Statement of Account

If I receive the completed Trust and Estate Tax Return by **30 September 2003**, I will send you a statement showing how much tax you owe us, or we owe the trust and estate, before any final payment is due on 31 January 2004. It will also explain how to pay.

If I receive the completed Trust and Estate Tax Return after **30 September 2003**, I cannot guarantee to process it in time to let you know how much to pay on 31 January 2004.

This might mean that you have to estimate how much to pay. I will send you a payslip with either a Statement of Account or a Reminder.

If you pay too little, you will have to pay interest (and perhaps a surcharge). If you pay too much and have claimed a repayment, I will repay it with any interest due. If you do not claim a repayment I will set the amount due, plus any interest, against your next tax bill.

■ If you make payments on account

Some trustees or personal representatives may have to make 'payments on account'. Each payment will normally equal one half of the previous year's tax liability (after taking off tax deducted at source and tax credits on dividends). The payments are due on 31 January in the tax year and 31 July following the tax year.

If you needed to make payments on account for the year to 5 April 2003, I will already have sent you a statement of the first payment on account due by 31 January 2003. I will send you another statement in June or July with details of the second payment on account.

If the payments on account add up to less than you owe for 2002-03, you must pay the difference by 31 January 2004.

If the payments on account add up to more than the tax bill for 2002-03, I will repay the difference if you have claimed a repayment in Question 18 on your Trust and Estate Tax Return, or if not, I will set it against your next tax bill.

When you settle your tax bill for 2002-03 by 31 January 2004 you must also pay any first payment on account for 2003-04.

If you have asked me to work out your tax, I will tell you how much to pay on account.

If you are working out your tax, the Trust and Tax Calculation Guide explains how to work out your payments on account.

Where you have asked me to work out your tax you will need to include full details of income, which has had tax deducted at source. If details are not included I may calculate that you are due to make payments on account for 2003-04 when they are not required. This can happen if 80% or more of your income has tax deducted at source.

You can make a claim to reduce these payments if you expect your tax bill (net of tax deducted at source and tax credits on dividends) to be lower in 2003-04 than in 2002-03 - see your Tax Calculation Guide for further details.

Interest will be charged on late payments of payments on account. For details see 'If you do not pay your tax on time' in the next column.

■ Ways to pay

Pay to the Accounts Office by one of the following methods.

- Internet or telephone banking.
- At your bank
- Girobank
- At a Post Office
- By post.

The address of the Accounts Office and further details of how to pay are given on the back of the Statement of Account, Reminder or How to Pay leaflet. You can also visit our website at www.inlandrevenue.gov.uk/how to pay

■ If you do not pay your tax on time

I will charge interest on all late payments from the date the tax becomes due until it is paid. You will have to pay a surcharge on any tax for the year ending 5 April 2003, which is due by 31 January 2004, but is not paid by 28 February 2004. This surcharge will be:

- 5% of the tax paid late, and another
- 5% if the tax is paid later than 31 July 2004.

■ If you pay too much tax

If you do not claim a repayment, I will take the amount we owe you, plus any interest due, off your next tax bill.

If you do claim a repayment by ticking the 'Yes' box in Question 18, I will repay it, plus any interest due on the amount overpaid. Note, if you have an amount to pay that is due in the near future then we will generally set off any repayment against this liability. Also, we would prefer not to make repayments of small amounts (below £10) because of administrative costs. But if you do not agree with these set offs, please contact your Inland Revenue office.

■ If your Trust and Estate Tax Return is incorrect

If your Trust and Estate Tax Return is incorrect and

- **the trust and estate has paid too much tax** (see 'If you pay too much tax' above), or
- **the trust and estate has not paid enough tax**, I will ask for further tax. I may charge you interest from the original due date, penalties and a surcharge.

■ If the notice requiring you to make the Trust and Estate Tax Return was given after 31 July 2003

If the notice requiring you to make the Trust and Estate Tax Return was given after 31 July 2003, I must receive it from you:

- within two months of the date the notice was given if you want me to work out your tax, or
- by the later of 31 January 2004 and three months after the date the notice was given if you want to work out your tax.

If the notice requiring you to make the Trust and Estate Tax Return was given after 31 October 2003 and you had notified me by 5 October 2003 of income and gains taxable for the year 2002-03, then the tax is due three months after the date the notice was given. In all other cases, the tax is due on 31 January 2004. I will charge interest on any tax paid after the due date. A surcharge of 5% will also be made on any tax still unpaid more than 28 days after the due date. The notice requiring you to make the Trust and Estate Return Tax Return is 'given' on the day it is delivered to you. I will normally assume, for example, for the purpose of charging automatic penalties for the late submission of your Tax Return, that delivery will have taken place not more than seven days after the date of issue shown on the front of it.

If you have a complaint

Problems can usually be settled most quickly and easily by the office you have been dealing with. You will always be given a contact name or number in any correspondence we send you. This may be the person who has been dealing with your case, or the Area Director of the office or unit concerned.

If you cannot settle a matter with the office you have been dealing with, you can write to:

- the Director with overall responsibility for that office or unit, **or**
- if the problem concerns the service you have been given by an Accounts Office, the Director of that Office.

The Director will look into your case and quickly let you know the outcome. Booklet *COP1: Putting things right when we make mistakes* contains more information, including the names and addresses of Directors. If you do not know which Director to write to please ask your own office.

If you are still not happy

If the Director has not been able to settle your complaint to your satisfaction, you can ask the Adjudicator to look into it and recommend appropriate action. The Adjudicator is an impartial referee whose recommendations are independent.

The Adjudicator's address is:

The Adjudicator's Office
Haymarket House
28 Haymarket
London
SW1Y 4SP

Telephone 020 7930 2292 Fax 020 7930 2298

The Adjudicator's leaflet AO1 (also obtainable from Inland Revenue offices) gives information about complaining to the Adjudicator.

Finally, you can ask your MP to refer your case to the independent Parliamentary Commissioner for Administration (usually known as the Ombudsman). The Ombudsman will accept referral from any MP, but you should approach your own MP first. Further information is available from:

The Parliamentary Commissioner for Administration
Millbank Tower
Millbank
LONDON
SW1P 4QP

Telephone 0845 015 4033 Fax 020 7217 4160

Our service commitment to you

The Inland Revenue and Customs and Excise are committed to serving your needs well by

Acting fairly and impartially

We

- treat your affairs in strict confidence, within the law
- want you to pay or receive only the right amount due.

Communicating effectively with you

We aim to provide

- clear and simple forms and guidance
- accurate and complete information in a helpful and appropriate way.

Providing good quality service

We aim to

- handle your affairs promptly and accurately
- be accessible in ways that are convenient to you
- keep your costs to the minimum necessary
- take reasonable steps to meet special needs
- be courteous and professional.

Taking responsibility for our service

- We publish annually our customer service aims and achievements.
- If you wish to comment, or make a complaint, we want to hear from you so we can improve our service. We advise you how to do this.

We can provide a better service if you help us by

- keeping accurate and up to date records
- letting us know if your personal/business circumstances change
- giving us correct and complete information when we ask for it
- paying on time what you should pay.

Further information on customer service is available at Inland Revenue and Customs and Excise local offices, set out in our Charters, complaints leaflet (IR120 and Notice 1000) and Codes of Practice.

The Inland Revenue is a Data Controller under the Data Protection Act. We hold information for the purposes specified in our notification made to the Data Protection Commissioner, and may use this information for any of them.

We may get information about you from others, or we may give information to them. If we do, it will only be as the law permits, to:

- check accuracy of information
- prevent or detect crime
- protect public funds.

We may check information we receive about you with what is already in our records. This can include information provided by you as well as by others such as other government departments and agencies and overseas tax authorities. We will not give information about you to anyone outside the Inland Revenue unless the law permits us to do so.

These notes are for guidance only, and reflect the position at the time of writing. They do not affect any rights of appeal.