



# Income Tax Act 2007

## 2007 CHAPTER 3

### PART 9

#### SPECIAL RULES ABOUT SETTLEMENTS AND TRUSTEES

### CHAPTER 4

#### TRUSTEES' EXPENSES AND SPECIAL RATES FOR TRUSTEES

#### **486 How allowable expenses are to be set against trust rate income**

- (1) Take the following steps to determine how the allowable expenses are to be set against the trustees' trust rate income for the current tax year.

*Step 1*

Reduce the allowable expenses by the proportion of those expenses (if any) which is excluded in accordance with section 487.

References at Steps 3 to 6 below to the allowable expenses are references to the expenses as so reduced.

*Step 2*

Identify the type or types of income which make up the trust rate income.

The possible types are dividend income, savings income and other income.

*Step 3*

If there is dividend income within subsection (2)—

- (a) gross up by reference to the dividend ordinary rate so much of the allowable expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough allowable expenses to give that result, gross them all up by reference to that rate.

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The grossed up amount is set against the dividend income within subsection (2).

*Step 4*

If there are remaining expenses and there is dividend income not within subsection (2)

- (a) gross up by reference to the dividend ordinary rate so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the dividend income not within subsection (2).

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3.

*Step 5*

If there are remaining expenses and there is savings income—

- (a) gross up by reference to the [F1basic rate] so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the savings income.

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3 or 4.

*Step 6*

If there are remaining expenses and there is other income—

- (a) gross up by reference to the basic rate so much of the remaining expenses as is necessary to give a result equal to the amount of that income, or
- (b) if there are not enough remaining expenses to give that result, gross them all up by reference to that rate.

The grossed up amount is set against the other income.

For the purposes of this step “the remaining expenses” are the allowable expenses so far as they have not been grossed up at Step 3, 4 or 5.

- (2) Income is within this subsection so far as it is—
  - (a) chargeable under Chapter 3 of Part 4 of ITTOIA 2005 (dividends etc from UK resident companies),
  - (b) chargeable under Chapter 5 of that Part (stock dividends from UK resident companies), or
  - (c) chargeable under Chapter 6 of that Part (release of loan to participator in close company).
- (3) If income tax would, apart from Chapter 3, be charged on any income mentioned at Steps 3 to 6 at a rate different to the rate mentioned at the step in question, for the purpose of setting any expenses against that income, gross up the expenses by reference to the different rate instead of at the rate mentioned.

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#### **Textual Amendments**

- F1** Words in s. 486(1) substituted (21.7.2008 with effect in accordance with Sch. 1 para. 65 of the amending Act) by [Finance Act 2008 \(c. 9\)](#), [Sch. 1 para. 21](#)

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**Changes and effects yet to be applied to the whole Act associated Parts and Chapters:**

Whole provisions yet to be inserted into this Act (including any effects on those provisions):

- s. 24B inserted by [2023 c. 30 Sch. 2 para. 10\(3\)](#)
- s. 788(7) inserted by [2007 c. 29 Sch. 21 para. 161\(b\)](#) (The amending provision was repealed before coming into force.)