Change {jc610}: Corporate beneficiaries under trusts: treatment of trustees' expenses: clause {j4151Arm}

This change makes explicit some of the rules about the way expenses incurred by trustees in connection with income to which a corporate beneficiary is entitled reduce the amount of the beneficiary's income for tax purposes.

Clause {j4151Arm} applies sections 500 and 503 ITA to a corporate beneficiary. These sections are concerned with the treatment of trustees' expenses in a case where a beneficiary, liable to income tax, is entitled to trust income as it arises. This is where the beneficiary has an interest in possession (IIP).

Section 689A(2) ICTA, which has been repealed by ITA, made reference to the effect on a beneficiary with an IIP where the trustees incurred expenses. But section 689B was the only provision in ICTA that provided details of the tax treatment of trustees' expenses in relation to IIP income (as well as other income from trusts, for example discretionary payments).

This part of section 689B was rewritten in section 503(2) and (3). Other rules introduced by sections 500 and 503 were based on established practice and case law– see *Change 91* in Annex 1 to the Explanatory Notes accompanying ITA.

There are few, if any, examples of a trust in which there are corporate beneficiaries with an IIP and so this change is very unlikely to have any effect for corporation tax purposes.

This change is in principle adverse to some taxpayers and favourable to others. But it is likely to have no practical effect as it is in line with generally accepted practice.