Simplifying the taxation of offshore interest: HMRC consultation

Personal tax | Management of taxes



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CIOT, LITRG and ATT have responded to a recent HMRC consultation which considers how the taxation of offshore interest can be simplified.

The consultation explores whether the assessing period for non-UK ('offshore') interest should be changed to a calendar year basis, rather than the existing tax year basis, so that the interest taxable in a UK tax year would be the amount received in the calendar year ending in that tax year. The current basis of assessment can cause problems for both HMRC and taxpayers. HMRC usually receive details of offshore investment income on a calendar year basis under international automatic exchange of information (AEOI) agreements, and individuals will often receive details on a calendar year basis as well.

The CIOT's response

The CIOT is cautiously in favour of the proposal to change the assessing period for offshore interest to a calendar year. However, we are not in favour of it only applying to bank interest received from overseas. If introduced, it should apply to all overseas investment income (interest and dividends) and capital gains/losses shared under AEOI.

To mitigate the mismatch issues described in the consultation, and to keep it as simple as possible, the change should probably be mandatory. However, the CIOT also received feedback that calendar year reporting should be optional, as that will provide taxpayers with the flexibility to choose the option that best suits their personal circumstances.

We note that changing the basis of assessment could lead to confusion for taxpayers with offshore interest income and other sources of income being taxed on different bases, so any change must be clearly communicated. It will be important that HMRC factor in planned changes such as Making Tax Digital in deciding on any wider extension.

The CIOT suggests that the better solution would be to align the UK tax year to the calendar year, albeit the one-off costs of change would be significant, as highlighted in the 2023 report by the Office of Tax Simplification (tinyurl.com/4ua74n77). But we encourage the government to look again at this as it could potentially simplify the UK tax system in the long term and make compliance easier, particularly since more and more data is being shared internationally as new exchange of information agreements are developed, for example through the OECD.

LITRG's response

LITRG's response also acknowledges the benefits of aligning offshore interest reporting to the calendar year, aiding HMRC in data reconciliation and potentially simplifying processes for some taxpayers. However, we raise concerns about added complexity for taxpayers who receive interest from countries with non-calendar fiscal years.

Though the possibility of pre-populating tax returns or PAYE tax codes with overseas interest income might seem helpful, taxpayers still have an obligation to check and confirm that any pre-populated data is correct, so the complexity faced by those

who receive offshore interest from non-calendar year countries will persist (and perhaps be exacerbated).

LITRG's comments also highlight the potential confusion around the personal savings allowance when assessing it against a combination of UK and offshore interest, suggesting the exploration of a separate foreign savings allowance to mitigate the problems that a move away from a tax-year assessment basis might otherwise present. Finally, LITRG took the opportunity to press HMRC for clarity generally on self-assessment requirements for foreign interest recipients where no tax is due.

The ATT's response

The ATT also recognises the potential benefits for both HMRC and taxpayers in assessing offshore interest based on the calendar year ending in a tax year. We suggest an alternative option would be taxing offshore income based on the relevant overseas fiscal year which ends in a UK tax year. In most cases, this would still be 31 December, but some jurisdictions' fiscal years do not align with the calendar year, as LITRG also noted. In such instances, reporting based on the overseas fiscal year would allow taxpayers to use figures provided by offshore investment institutions and should make it easier for HMRC to utilise AEOI data which is provided on a non-calendar year basis.

Above all, the ATT would like an 'opt-out' option for self-assessment taxpayers to depart from whatever reporting basis for offshore income becomes the default – for instance, to continue reporting based on the UK tax year if their investment institute summarises offshore income on that basis. This 'opt out' should be applied consistently and be properly disclosed to HMRC.

The ATT recommends that any change of reporting basis should be considered upfront for all overseas income, rather than introducing piecemeal changes for different income types.

Finally, the ATT expresses concern about proposals to pre-populate PAYE codes based on AEOI data to collect tax on offshore interest from taxpayers who do not otherwise need to be in self-assessment. Doubts remain as to the reliability of matching bank accounts with individual taxpayers, and agents still cannot digitally amend PAYE coding adjustments. The ATT says these issues need to be resolved

before PAYE coding adjustments can be expanded to cover overseas interest.

The full CIOT response can be found here: www.tax.org.uk/ref1403

The full LITRG response can be found here: www.litrg.org.uk/11011

The full ATT response can be found here: www.att.org.uk/ref469

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