Low Incomes Tax Reform Group.
A voice for the unrepresented

20 January 2025

Via email: consult.nosafehavens@hmrc.gov.uk

Dear Sir/Madam,

Consultation: Simplifying the Taxation of Offshore Interest

We are writing to set out some brief thoughts on the above consultation, which was published as part of the 2024 Budget. Our colleagues in the Chartered Institute of Taxation (CIOT) are making a separate formal submission to this consultation from the viewpoint of the tax profession generally.

Our considerations below seek to draw upon some areas that we see as most relevant from the perspective of unrepresented taxpayers who are unable to afford advice.

Data matching

We understand HMRC's concerns regarding the matching of data received under information exchange agreements (typically for the calendar year) to information about offshore interest reported on self assessment tax returns (typically for the UK tax year). We agree that the proposed move to calendar-year reporting would help HMRC reconcile these two data sets. While in some cases, we see this can also be a simplification for the taxpayer – we are concerned that this will not be the case for everyone.

In particular, the change – especially if made mandatory – will introduce additional complexity for taxpayers with offshore interest in a jurisdiction which does not have a calendar year as their tax year. For instance, Australia has a tax year to the 30 June. An Australian citizen who has moved to the UK and needs to file a tax return for Australian investment income would find it very odd to have to report Australian bank interest (and only bank interest) for the calendar year and not the UK or Australian tax years. Even an optional change will introduce complexity for these taxpayers, as they will need to consider which option is best for them. From both perspectives, this would be contrary to the simplification intent.

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Pre-population of data

We recognise that calendar-year reporting may represent a simplification for taxpayers where HMRC are able to pre-populate tax returns with figures received under information exchange agreements. However, taxpayers will still need to be able to independently verify the figure in order to provide confirmation that their return is complete and correct to the best of their knowledge and belief – so the extent that pre-population is a simplification would need to be considered in balance with this.

Pre-populated figures also present a risk that the taxpayer simply trusts the information and does not check it – potentially leading to inadvertent non-compliance if the data is not reliable.

Interaction with the personal savings allowance

Lower-income, unrepresented taxpayers are more likely to have small amounts of foreign interest, as well as perhaps taxable sources of interest arising in the UK. In such cases, the question of whether the combined interest exceeds the personal savings allowance becomes pertinent, as this can determine whether the taxpayer has a legal obligation to notify HMRC of a charge to tax (though note our comments further down in respect of the self assessment criteria and the uncertainty that persists in that context). It will be confusing for these taxpayers to test UK interest and offshore interest against the personal savings allowance if they must look at different assessment periods for each.

One approach to addressing the above problem may be to consider introducing a separate foreign savings allowance, which would be aligned to the assessment period on which foreign savings are taxed. Taking the idea even further, if other sources of offshore investment income are brought within scope of these proposals (as we believe they should), then a new allowance might be considered to cover all of those sources.

However, we recognise that introducing a specific foreign investment income allowance, separate for the existing personal savings allowance and/or dividend allowance, may have the unwanted consequences in terms of fairness and potential for behavioural change. A radical policy change such as this would require an in-depth costing, feasibility and impact analysis.[1]

The first step in assessing if there is value in providing separate foreign investment allowance is likely to include understanding what population is potentially affected. In particular, HMRC should seek to understand how many taxpayers have a combination of UK and overseas interest that is usually on or around the level of the personal savings allowance (and the same for dividends and the dividend allowance if a similar shift to calendar year is considered appropriate for such offshore income). This is the population most likely to face additional complexity as a result of any divergence in reporting

[1] An alternative solution to the personal savings allowance problem would be to change the basis on which UK interest is taxed to the calendar year, too – though this is likely to cause more complexity overall and would not be desirable unless the longer-term objective is alignment of the UK year with the calendar year.

assessment periods for offshore investment income and tax year reporting basis for UK investment income.

Aside from simplification in understanding reporting requirements, providing a separate foreign investment income allowance may also offer some kind of protection to individuals who currently rely on offshore income being excluded from UK tax under the automatic remittance basis.[2] These taxpayers face becoming inadvertently non-compliant under the new rules which will apply from April 2025, under which the remittance basis will be abolished.

We would be happy to discuss this idea with you further if you would like to explore it with us.

Self assessment requirement

As part of this review, HMRC should also provide clarity on the issue of whether someone with offshore interest within the personal savings allowance should be in self assessment at all, as well as ensuring they are operationally consistent on this point.[3] For those with no tax to pay on their sources of worldwide interest (because in total they fall within their personal savings allowance), we do not feel a self assessment tax return should be required, assuming there is no other reason to file. Where such taxpayers are excused from the need to report their offshore interest to HMRC on an annual basis, the issue of the basis of how that interest is reported falls away, and the impact of the potential complexity of these proposals would be reduced.

Final thoughts

Our CIOT colleagues make the point in their submission that a better, long-term solution would be to change the UK tax year to the calendar year. We agree. We appreciate the challenges involved in such a change, but if HMRC were to commit to that in the longer term, the proposed change to the taxation of offshore interest could be viewed more favourably as a sensible stepping stone towards that goal.

We hope the above comments are useful in considering whether, and how, to take these proposals forward.

We should be grateful if you would acknowledge receipt of this letter and include the Low Incomes Tax Reform Group in the list of respondents to the consultation. For further information about our organisation, please see overleaf.

[2] s809D, ITA 2007

[3] HMRC's 'Check if you need to send a Self Assessment tax return' tool (https://www.gov.uk/check-if-you-need-tax-return) suggests that a tax return is only required for foreign income if there is tax due. However, HMRC's Self Assessment Manual at SAM100050 and SAM100060 suggests that any amount of foreign income or gains triggers a need to file a return (unless it is solely dividends which fall within the dividend allowance).

Yours faithfully

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Tom Henderson
Technical Officer, Low Incomes Tax Reform Group

About Us

The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.